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THE EU TRADE REGIME AND THE GLOBAL SOUTH

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In recent years, international trade, and in particular TTIP, the Transatlantic Trade and Partnership agreement between the European Union (EU) and the United States (US), has become a hotly debated policy field and put the EU trade regime back into the public spotlight. In February 2016, the Austrian Foundation for Development Research (ÖFSE) hosted the international conference “EU Trade Policy at the Crossroads: Between Economic Liberalism and Democratic Challenges” in cooperation with the European Association for Evolutionary Political Economy (EAEPE) and the EuroMemo Group, and with financial support from Rosa Luxemburg Foundation Brussels and Arbeiterkammer Wien. Comprehensive documentation of this conference is available online.1 This issue is based on selected contributions to this conference, with the specific focus on the impact of the EU trade regime upon the Global South.

Trade is among the European Community’s oldest spheres of competence. The Treaty of Rome in 1957 included the Common Commercial Policy (CCP) as a core element in the economic dimension of European integration, along with the common agricultural policy, the internal market, and competition policy. Two key attributes of the common European trade regime were established from the very beginning: firstly, the complementarity of the internal and external agendas in the context of the European integration process, and secondly, the creation of collective market power via common trade policies. Both core elements have been deepened and intensified in the course of interrelated trends, among them the implementation of the Single European Market (SEM), the enlargement of the EU, and the changing nature of international trade in terms of content and process.
During the 1990s the CCP became to be seen as an important vehicle for promoting the interests of EU businesses, aiming at an intensification of their international operations. The growth contribution to be derived from exports and international investment in the context of the strong expansion of world trade in the 1990s became a prime motivation for the EU to engage more actively in international trade diplomacy. With the Lisbon Agenda of 2000 establishing competitiveness as an overarching economic policy goal of the EU, trade became increasingly seen as a critical component of growth policies. By opening international markets and doing away with trade barriers, EU trade policy was to provide an environment which would stimulate EU businesses to increase their external competitiveness. Since the onset of the financial crisis in 2007, the external orientation of EU policy makers has, if anything, increased. With austerity imposed as the general orientation of EU crisis policies, growth could not be achieved via increases in domestic demand. This left export promotion as the only option. And indeed, the shining example of Germany as the export champion of the EU with a current account surplus that showed a constant tendency to rise over the last 15 years, reaching some 8.5 per cent in 2015, became the blueprint for successful economic policy throughout the EU. While the Eurozone achieved a current account surplus as early as in 2009, and the EU-28 in 2013, these surpluses grew to 3.7 per cent and 1.1 per cent of GDP, respectively, in 2015. The surplus was mostly the result of demand deflation in the EU crisis economies, which translated into EU imports basically remaining flat during the last five to six years. Although it is hard to argue that the trade surplus has reinvigorated economic growth in the EU, which throughout the same period of time has remained sluggish at best, the austerity pundits have firmly entrenched export orientation as a primary objective of the CCP, thus rendering the orientation of the current EU trade policy regime increasingly neo-mercantilist.

Neo-mercantilist strategies require a mode of regulation that goes beyond traditional trade policies (Becker/Raza 2007, Becker 2006, Raza 2007). In general, a neo-mercantilist strategy is focused on the maximisation of national or regional trade surpluses. Traditional mercantilist strategies are associated with protectionist trade policies. Since dominant economies are able to achieve a trade surplus under the conditions of free trade, the promotion of free trade might be part of a neo-mercantilist strategy,
since bilateral and multilateral free-trade agreements open economies and limit the policy space of (semi-)peripheral economies. There are, however, economic sectors within dominant economies that are more vulnerable (e.g. agriculture, textile) and in favour of more protectionist measures. A neo-mercantilist trade regime might thus maintain selective import restrictions, or aim at concluding bilateral or multilateral free trade agreements (FTA) where the trade-off between import liberalisation and export promotion is favourable.

The EU trade regime has gone through significant changes in terms of content, coverage and institutional framework. Starting in the 1980s, external trade policies expanded the scope of the regime from goods to services, intellectual property rights (IPR) and investment. Even though these issues touched upon domestic regulations of EU member states, the establishment of the SEM, with its liberal approach towards intra-EU markets, increased the coherence of the EU trade agenda and its negotiating power, for instance in the Uruguay Round (1986 to 1994; Young/Peterson 2006). However, it was not until the Treaty of Lisbon (ratified in 2009), that the EU was entrusted with the exclusive competences on services, IPR and foreign direct investment (FDI).

Despite the effort of the European Commission (EC) to advance a ‘multilateralism first’ policy (Lamy 2002: 1401) in the 1990s, the EU failed to keep major ‘Singapore issues’ (competition policy, public procurement, investment protection) on the multilateral agenda. With the US engagement in ‘competitive interdependence’ vis-à-vis third markets and the fragmentation of trade in global value chain (GVC), as well as the increasing role of ‘non-tariff measures’ (NTMs), the EC used its new competences to actively promote comprehensive bilateral trade agreements with various trading partners and regions. This policy shift was formulated and deepened in the EU trade strategies “Global Europe: Competing in the World” in 2006, its 2010 sequel “Trade, Growth and World Affairs”, and in the latest update “Trade for All” published in October 2015.

The role of the EU as ‘market power Europe’ (see also the contribution of Daniel Schade in this issue), as well as the competitiveness of EU companies within GVCs, are the crucial elements of the current trade strategy: European companies are to increasingly produce high-value products and intermediate inputs (including services) for the internal and global markets.
by means of imported raw materials and components. This is the basis for export growth in the manufacturing and service sector and therefore creates the potential for long-term trade surpluses *vis-à-vis* the rest of the world. Not surprisingly, the EC defines the competitiveness of European companies as the key to success, which requires a combination of internal and external policies. As “globalization collapses distinctions between domestic and international policies” (EC 2006: 2), EU-internal policies need to enhance competitiveness via “structural reforms, less red tape, better access to finance and more investment in infrastructure, skills and research and development” (EC 2015: 9). It is the explicit task of the EC to actively create access for European companies to third markets via bilateral free trade agreements (FTA) which “must provide reciprocal and effective opening” (EC 2015: 15). This requires a comprehensive agenda including the reduction of import tariffs, the liberalisation of public procurement, protection of IPRs, liberalisation and protection of FDI, and the elimination of non-tariff barriers. The EC believes this new agenda to be in the spirit of global welfare-enhancing liberalism, since “trade policy can no longer be approached from a narrow mercantilist angle” (EC 2015: 10). However, the EU’s push for ‘free-trade’ will most likely contribute to a widening of imbalances in international trade relations.

The successful promotion of exports is, for example, reflected in the EU’s export performance since the year 2000, as extra-EU exports in goods more than doubled to almost EUR 1.8 trillion in 2015. The trade surplus with the rest of the world in the manufacturing sector even tripled between 2006 and 2015 (Eurostat data). In contrast to the US and Japan, the EU has been able to maintain its position as the world’s foremost trading power despite the rise of China during that period.

The defensive interests of specific sectors in the EU nonetheless still exist, in particular in the agricultural and food sector. This is reflected in the EU’s tariff regime: the trade-weighted MFN tariffs on agri-food products amounted to 22.3 per cent in 2013, compared to only 2.3 per cent for all other goods (WTO 2015). While least developed countries (LDCs) and other selected developing countries already enjoy preferential or duty-free-quota-free (DFQF) access to the EU, the major trading partners, such as the US, China or Russia face relatively high tariff barriers in these sectors. The high tariffs in the agricultural sector represent an important stake in
bilateral trade negotiations. Furthermore, ‘non-tariff measures’ (NTM), such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), can limit the access to the SEM. Even though the new generation of FTAs, for instance TTIP and CETA, aim to reduce NTMs between the major trading blocs, such restrictions remain of particular importance for developing countries with preferential treatment.

Due to the importance of the EU market within the global accumulation regime, the current EU trade agenda has important implications for the Global South, including:

- A free trade agreement between the EU and the US (TTIP) would potentially create negative trade diversion effects and preference erosion for third countries (see also the contribution of Bernhard Zeilinger in this issue). The overall TTIP effects for developing countries largely depend on the regulatory specifications for the market access to the combined EU-US market, for instance with regard to rules of origin as well as SPS and TBT regulations. As developing countries are not partners in the negotiations, their influence on the outcomes is limited.

- The EU trade strategy demands reciprocal market access. Given the competitiveness of European companies in high-value manufacturing and service sectors, the position of developing countries as exporters of low-value products is being locked in. The specific bilateral trade agreements determine the policy space of developing countries, for instance via rules on infant industry protection and IPRs.

- As the EU seeks unrestricted access to raw materials and energy supply, for instance by tackling local content requirements (EC 2015: 14), strategies on commodity-based industrial development in commodity-exporting countries are potentially limited via new trade agreements.

- The EU as ‘market power’ can create new dependencies and constraints for developing countries via various mechanisms. Most importantly, to fulfil EU-standards and regulations in exports, developing countries rely on EU assistance for capacity building. The same is true for enhanced tax policies in developing countries in order to compensate for foregone income due to tariff reduction in free-trade agreements.

A current example of the impact of the EU trade regime on developing countries are the Economic Partnership Agreements (EPA) that have been
negotiated with, but are not yet fully ratified by, countries and regions of the African, Caribbean and Pacific Group of States (ACP). Therefore, a short assessment of the potential impact of the new regional EPAs with regions in Sub-Saharan Africa is provided in this introduction.

1. The Economic Partnership Agreements (EPA) – the end of non-reciprocal trade preferences

The trade relationship between the EU and the global periphery has to be understood in the context of the EU’s relationship to its ex-colonies. Development aid and non-reciprocal preferential trade agreements were on the EU trade-agenda from the 1950s (Yaoundé agreements) and in particular from the late 1970s (Lomé agreements). The Cotonou Agreement of 2000 foresaw an end to the non-reciprocal preferential trade agreements between the EU and the ACP states. Therefore, the EU started negotiations for the establishment of EPAs with seven different regions and communities within the ACP-group; DFQF access to the EU-market is only to be granted if the EPA signatories liberalise around 75 per cent of the value of their trade with the EU (EC 2016a, 2016b). The current EPAs focus on the more ‘traditional’ topics of trade (trade in goods, tariffs and quotas, rules of origin, safeguard measures, subsidies, and so on) as well as development cooperation, but the EPAs also include a rendez-vous clause in order to revisit sensitive topics such as investments, services, competition and property rights in the future (e.g. ECOWAS-EPA 2015: Article 106).

Due to frictions in the negotiation processes, so far only the Caribbean Forum EPA (CARIFORUM) has been ratified. That was in 2008. Many other countries have signed so-called Interim EPAs in order to get or maintain DFQF access to the EU-market during the ongoing negotiations of the ‘full’ regional EPAs. Since 2014, negotiations with the Economic Community of West African States (ECOWAS), the East African Community (EAC) and the Southern African Development Community (SADC) have been concluded. As of this time (Sept. 2016), the ratification of the three EPAs has not been secured, due to continuous opposition in various countries. Currently, Nigeria (ECOWAS) and Tanzania (EAC) are the key objectors to the EPAs (Hulse 2016).
The importance of EPAs for ACP countries with regard to the DFQF access to the EU market varies between countries. The General System of Preferences (GSP), as well as its extended version (GSP+), already provide preferential access to the EU markets for EPA countries. Furthermore, LDCs already have DFQF access to the EU within the Everything But Arms (EBA) initiative. The potential export benefits of EPAs thus mainly depend on the LDC status as well as the export-structure of a country (i.e. whether large parts of exports into the EU are covered by GSP or not), and whether or not the EU will reform the preferential access via GSP/EBA in the future. All in all, the tariff-induced export gains via EPAs can thus be expected to be rather limited. The differences with regard to DFQF access to the EU without a regional EPA also give rise to tensions between LDCs and non-LDCs within the regional ACP-blocs, with the EBA initiative effectively undermining the interest of LDCs to conclude an EPA.

EPAs provide three additional key ‘incentives’ besides DFQF access to the EU market, which are of particular importance for LDCs. Firstly, the EU indirectly links potential development aid to the negotiation of the EPAs. Even though the EU does not define specific funds within the EPAs, the EU promises to undertake measures to mitigate the negative adjustment effects of the EPA implementation (e.g. loss in tariff revenue), as well as finance trade-related infrastructure and capacities. The EPAs thus (re-)direct – mostly existing – funds into different channels. It is difficult to assess as to how far countries or regions would lose development aid from the EU if they didn’t sign an EPA, but there is no doubt that the EU linked their development aid to EPA negotiations and that the EPAs strengthen the political commitment for development aid relative to countries without an EPA. In the case of the ECOWAS agreement, for example, the EU pledged Euro 6.5 billion – three billion less than requested by ECOWAS – to an EPA Development Programme between 2014-2020 (mostly financed by existing funds, e.g. the European Development Fund and others; UNECA/ECA-WA 2015).

Secondly, the EPAs include more relaxed Rules of Origin, for example a shift from double to single transformation requirements in the textile and apparel sector. The EPA Rules of Origin also include ‘diagonal cumulation’ and thus broaden the cumulation possibilities for processing steps in the EPA group, the EU, its oversees countries and territories, and other EPA
states, as well as (to a more limited extent) countries with an EU-FTA or GSP status (Asche 2015: 19). A study conducted by the European Commission (EC 2016b: 24ff.) states that these new cumulation rules will increase foreign investments and enhance the integration in global value chains, as well as create new value chains across ACP countries. In contrast, Helmut Asche (2015: 19ff.) argues that more relaxed Rules of Origin might reinforce the existing structure of value chains – with EPA countries in general being at their lower end – and that the rules also do not necessarily privilege regional integration since more relaxed cumulation rules might also reduce the incentive to foster or build regional value chains.

Thirdly, the EPAs forbid direct export subsidies for agricultural exports by the EU (e.g. ECOWAS-EPA 2015: Article 48, §6). Even though this certainly is a positive feature, such provisions will not change the general structure of agricultural subsidies within the EU (e.g. the Common Agricultural Policy). Low-priced agricultural products will thus continue to be exported by the EU against the backdrop of an – at least in some EPA countries – historically grown structural import dependency for certain agricultural products (e.g. cuts of poultry, milk powder, tomato paste, wheat, and so on), due to a combination of liberalisation and price-dumping (Hoering 2013; Fritz 2011).

The potential benefits of the EPAs are contrasted by various potential costs. The prolonged negotiation and ratification process reveals the continuous disagreement between the EU and the EPA states, as well as frictions within the EPA regions and EPA states themselves on how to deal with sensitive issues. At the current state of negotiations, the ‘new’ EPA regions (ECOWAS, EAC and SADC) will have to liberalise three quarters of trade (by value) imported from the EU within 10 (SADC/Mozambique) to 25 (EAC) years (EC 2014, 2015b, 2016b, 2016c). Since many countries and custom unions have already liberalised parts of their tariff regime to different degrees due to various internal and external reasons (e.g. structural adjustment programs, economic strategies, customs union / regional integration, and so on), the actual effect of EPAs will be much lower (e.g. ca. 40 per cent in the case of Ghana; EC 2014). Furthermore, the EPAs succeed in ‘locking in’ neoliberalism due to a limitation of policy space (see Carla Weinzierl’s food regime perspective on EPAs in this issue), even though the EPAs include various exceptions on tariff liberalisation, in particular
within the agricultural and agricultural processing sector. The key issue in this regard is the inclusion of the standstill clause, which prohibits any future increase of affected tariffs above the current status quo. Various safeguard measures are an important tool to counteract potential negative effects of the EPAs, but they are limited in time and often depend on the goodwill of the EU. The MFN clause has important exceptions since it aims at the larger trade partners of the ACP states, but all in all it still has the potential to restrain South-South cooperation. Most importantly, the MFN-clause reduces the interests of other trading partners to conclude trade agreements with the EPA states, since the EU would automatically be able to compete with the same trade preferences (ECDPM 2014).

All in all, the reluctance of various countries to sign a regional EPA is not surprising, given that the potential benefits can hardly keep up with the potential costs of EPAs, in particular in the case of LDCs. If the regional EPAs do not materialise, the EU might reconsider reforming the EBA-initiative, as well as reallocating development funds in order to increase pressure on LDCs and non-signatories. Non LDCs with an export structure that would be negatively affected by falling back to GSP, on the other hand, might seek to ratify a bilateral EPA. Countries that will upgrade from LDC to non-LDC status in the near future also have a greater interest in signing EPAs for fear of losing the preferential treatment under EBA. The recent decision in favour of BREXIT was also a game changer, since the United Kingdom is one of the most important trading partners for many ACP-countries. The perspective of a free trade agreement without the UK thus limits the attractiveness of EPAs and further reduces the probability of successful ratification of the regional EPAs.

2. In this issue

This issue on the EU trade regime and the Global South contains four contributions. Bernhard Zeilinger addresses some of the most pressing issues related to the surge of mega regional Trade Agreements initiated by the US and the EU. The article gives insights into the strategy behind these agreements and discusses potential consequences for the Global South.
Carla Weinzierl analyses the EPAs in the context of the international trade and food regime, as well as in terms of the EU’s geopolitical strategies in order to expose their neoliberal agenda. The contribution is concluded with alternative ways to organise agricultural systems and the agricultural trade regime in order to ensure the human right to food and allow policy space for food sovereignty.

Daniel Schade provides insights on the EU’s trading power in the case of the concluded FTA negotiations with Ecuador. The article puts this bilateral trade agreement in the context of the interregional negotiations between the EU and the Andean Community of Nations, as well as Ecuador’s regional and international trade relations.

As a counter-hegemonic regional integration project, the Bolivarian Alliance of the Peoples of Our America – Peoples Trade Treaty (ALBA-TCP) provides an alternative approach towards trade, as compared to the current EU trade regime. Julia Theresa Eder analyses the current ALBA-TCP agenda with historic development-centred integration approaches, and highlights common features as well as differences.

1 http://www.oefse.at/veranstaltungen/eu-trade-policy-conference/conference-documentation/
2 Timeframe varies by source.
3 The scope of the standstill clause varies, see ECOWAS-EPA (2015: Article 9); SADC-EPA (2015: Article 23); EAC-EPA (2015: Article 12).
4 Including multilateral, bilateral, infant industry, food security and other safeguard measures.
5 See ECOWAS-EPA (2015: Article 22, §§4, §10b; Article 23, §2b, §3); EAC-EPA (2015: Article 50, §6b, §6c, §7b); SADC-EPA (2015: Article 34, §6d, §7b).

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