


# The EU in the Global Economy

## Online learning

Document identifier				
Lesson	Title	How to proceed?	Time need	
#6	Institutions of international trade	1) Video (GATT, WTO) 2) <b><u>Reading material</u></b> 3) Home assignment (mind map)	cc. 15 mins.	





# 1 INTRODUCTION

The European Union is a significant trading partner in the world with having close trade relations with many countries in the world. As a WTO-member, the external trade of the European Union must be in line with the rules laid down in the framework of the General Agreement on Tariffs and Trade and World Trade Organization. Meeting these rules, the EU's trade relations are mainly based on non-discrimination, but there are also preferential and discriminative treatment depending



In 2018, the EU accounted for 33% of the world total exports, while the share of the USA in world exports was 8%, and that of China was 12%. The import side is similar: the EU accounted for one-third of the total world imports, while the US and China 13% and 10%, respectively. (Data: UNCTADStat)

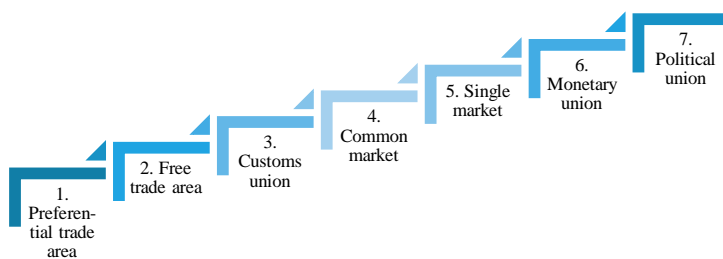
*GATT/WTO:*  
*Watch the related video!*



on the development level of the partner country. In this chapter we detail the basics of the trade relations of the EU, introducing some agreements which are essential for developing countries to trade with the EU.

# 2 BACKGROUND

The trade system and trade policy of the European Union (and other integrations) is determined by the stage at which the integration is currently standing. There are seven stages of



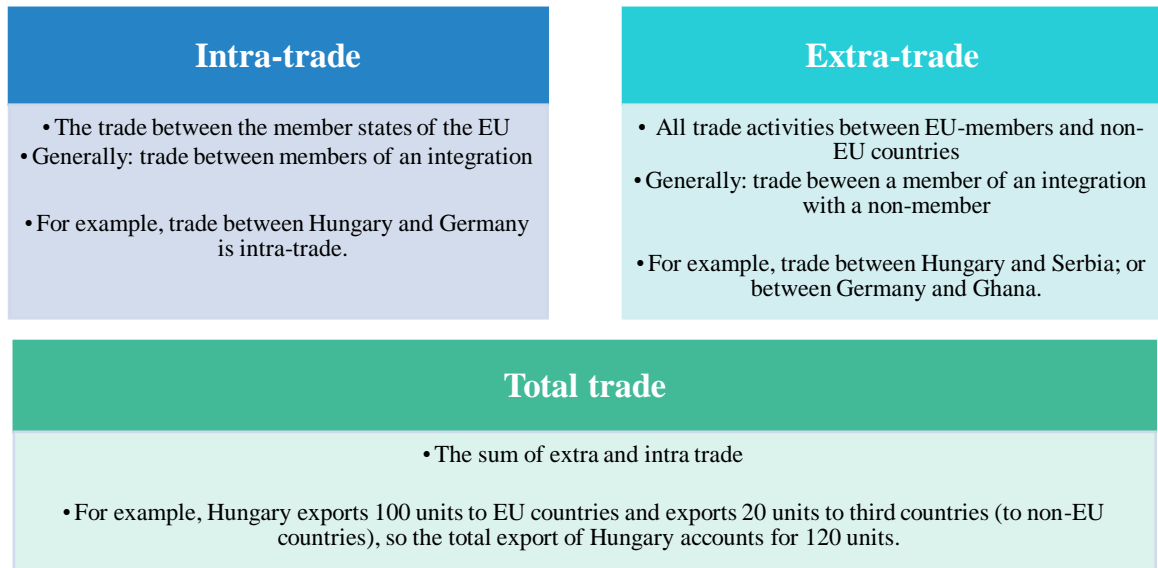
integrations. The European Union became a customs union in 1968, so there is not tariff and trade restriction among the member states of the EU any more, and the

member states use the same trade policy towards third countries (that is, towards countries which are not members of the European Union).

Currently, the EU is a single market and 19 countries belong to the monetary union. As a result, we need to speak about trade within the EU and outside of the EU.

*Characteristics of integrations:*  
*Watch/read the previous lesson*

So, we need to distinguish two kinds of trade in relation to the European Union: intra- and extra trade.



The trade relations becoming more and more intense between countries are the basis of a good integration. As a result, the higher the intra-trade is, the more successful an integration can be considered.

## 2.1 INTRA-TRADE OF THE EUROPEAN UNION

In several EU-member countries, the **intra-trade exceeds 80% of their total trade** (Figure 1),

**INTRA-TRADE IN SOME INTEGRATIONS**

In the EU, the average level of intra-export is 63%. It is much higher than in any integration of the world:

- NAFTA (America): 49%
- CIS (Asia): 13%
- ECOWAS (Africa): 8%
- Mercosur (Latin-America): 18%

These data show how strong the trade relations within the EU.

so these EU member countries mainly trade with other EU-members. The Central- and Eastern-European countries dominate the ranking: Hungary, the Czech Republic or Romania are good examples of high intra-exports and low extra-exports. Around 80% of their total exports goes to any of the EU-members, and the remaining part goes to non-EU-countries. However, there are some countries, where the intensity of intra-trade is not so high – Ireland,

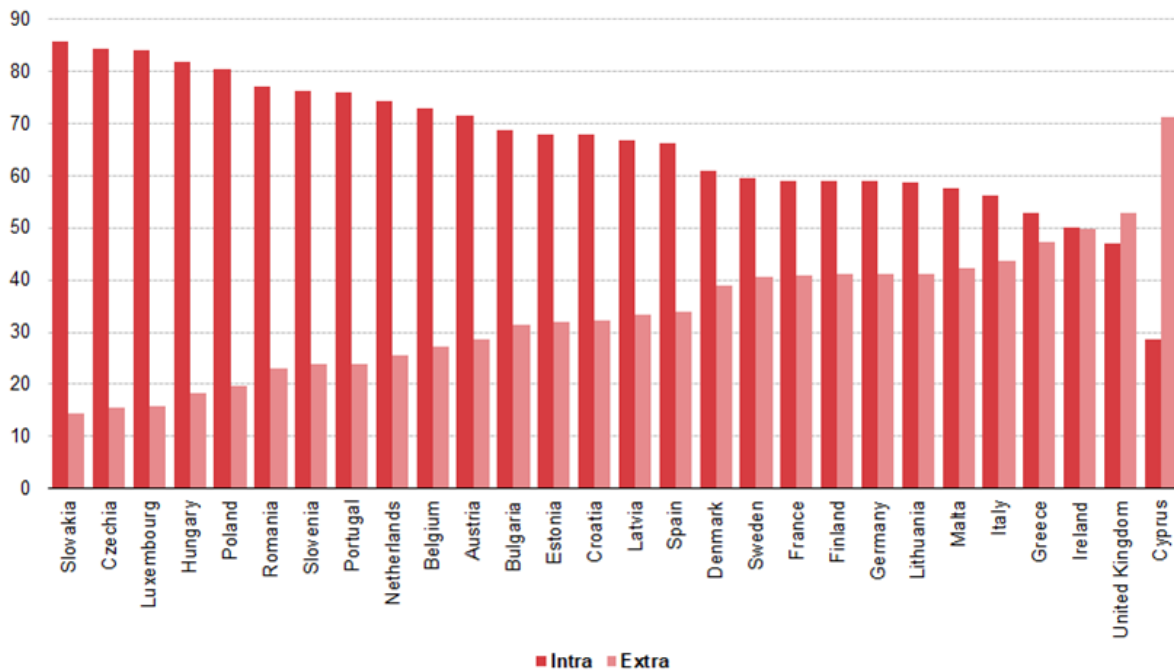
Cyprus and the United Kingdom are good examples. For instance, in the United Kingdom the intra-trade was only 47% in 2018. The reason for this may be the special situation of the country: the UK is an island and has

*In the European Union, the intra-trade is very high.*



special and strong relationship with the United States Regarding the two other countries (Malta and Greece), a possible reason is that they are attractive countries for tourists and tourism sector is dominant in these countries, and tourists arrive not only from EU members but from countries outside of the EU.

Figure 1 Intra- and extra-exports of the EU-members in 2018 (share of total expts)



Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU\\_trade\\_in\\_goods\\_-\\_main\\_features&oldid=452727#Intra-EU\\_trade\\_in\\_goods\\_by\\_Member\\_State](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU_trade_in_goods_-_main_features&oldid=452727#Intra-EU_trade_in_goods_by_Member_State) (Downloaded: March 31, 2020)

Keep in mind that integrations are established in order to enhance trade between the member states. The deeper the integration is, the less trade barriers are settled, therefore the intra-trade

*Drawback of intense and high intra-trade*

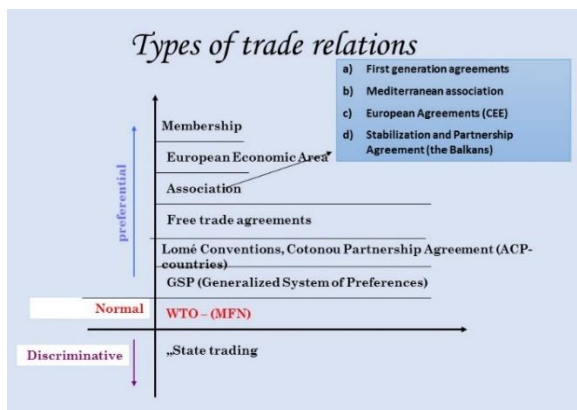
must be higher. The high intra-trade can be a problem if there is an economic crisis in a country and owing to the strong trade ties, the crisis can spread easily.



## 2.2 EXTRA-TRADE OF THE EU

The external trade relations are determined by the common trade policy of the EU (see: the EU has been a customs union since 1968!). The EU has three main types of trade relations (Figure 2): preferential, normal, discriminative.

Figure 2 Types of trade relations of the EU



Source: own construction

- Basis: principle of **most favored nations** of the WTO.
- There is neither discrimination, nor trade preference.
- Mainly with developed economies: for instance, the US, Japan, Canada, Australia, New Zealand.

Normal relationship

- Countries where **the state has large influence in trade** (called: "state trading") face strong trade barriers.
- Example: former SU states (Uzbekistan, Tajikistan) or North Korea

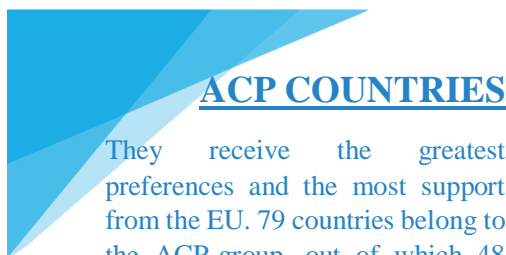
Discriminative relations

- **Reciprocal** or unilateral trade preferences
- Reciprocal means that both partners (the EU and the preferred country) provides preferences to each other.
- **Unilateral** when only the EU provides preferences to a country

Preferential ties

## 3 PREFERENTIAL TRADE RELATIONS

The European Union has been playing a great role in promoting development in the less-



### ACP COUNTRIES

They receive the greatest preferences and the most support from the EU. 79 countries belong to the ACP-group, out of which 48 stays in Africa. The ACP group was officially established by the **Georgetown Agreement** in 1975. The framework of the EU-ACP relationship is based on the Lomé Conventions, which provided different preferences for the ACP countries.

advanced countries. According to the obtained trade preferences we can analyze the relationship and the EU's influence on the developing countries (Figure 3). The **pyramid of beneficiaries** shows that the **ACP (African, Caribbean and Pacific) countries** are standing at the top receiving the greatest preferences and the most support from the European Union. The EU-ACP relationship is based on contracts which ensure high level of security for the contracting parties. Besides, the contracts have a multilateral



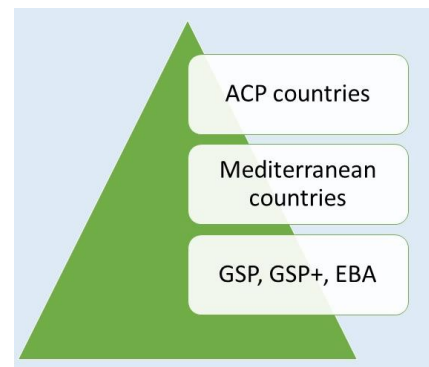
form as they are not signed with only one country but with a country group. The preferences granted by the contracts cover a wide range of products, and there are only few restrictions and exemptions.

At the second level of the pyramid the **Mediterranean countries** are staying – they receive similar preferences to the ACP countries, although the contracts are bilateral and

there are more exemptions and several restricting rules than in the case of the ACP countries. Among the Mediterranean countries we can mention 16 countries with which the EU re-launched the EuroMediterranean Partnership in 2008.

At the lowest level of the pyramid those countries are standing which obtain only preferences under the **GSP-rules**. This system is the oldest tool in the EU's trade preferences. The GSP-

Figure 3 Pyramid of beneficiaries



### GSP

These rules of the generalized, non-reciprocal, non-discriminatory system of preferences in favor of the developing countries were accepted at the UNCTAD conference in 1968 aiming “(a) to increase their export earnings; (b) to promote their industrialization; and (c) to accelerate their rates of economic growth”.

Almost all the developing countries enjoy preferences under the GSP-system.

system provides the less favorable preferences and the EU grants them in an autonomous way: there are several restrictions, the rules on country of origin are extremely strict, besides, and here are several exemptions. The following countries provide preferences to developing countries under the scheme of GSP: Australia, Belarus, Bulgaria, Canada, Estonia, the European Union, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America.

## 4 FURTHER READING

Intra- and extra-trade: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU trade in goods - main features&oldid=452727#Intra-EU trade in goods by Member State](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU_trade_in_goods_-_main_features&oldid=452727#Intra-EU_trade_in_goods_by_Member_State)



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