

# International Business: a European Perspective

## 3. Regional and Multilateral Trade: Integration or Disintegration?



**José Manuel Alonso**

DEPARTMENT OF ECONOMICS

This material is published under:

[Creative Commons BY-NC-SA 4.0](https://creativecommons.org/licenses/by-nc-sa/4.0/)



Cofinanciado por el  
programa Erasmus+  
de la Unión Europea



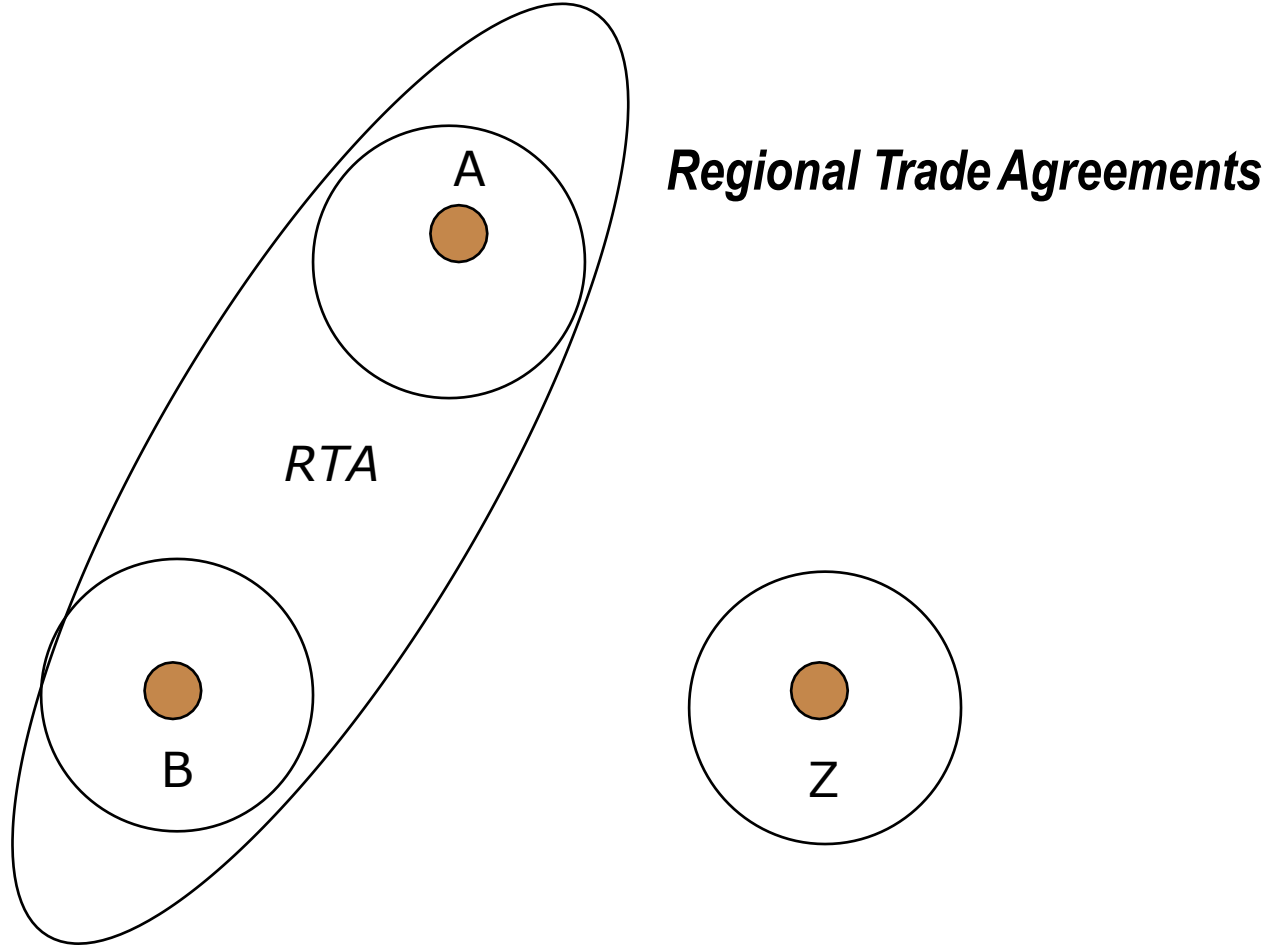
**GOBIERNO  
de  
CANTABRIA**

## Session overview

- Introduction
- Evolution of Regional Trade Agreements (RTAs).
- Levels of economic integration
- Evolution of the European Union
- More integration? Trade for All - New EU Trade and Investment Strategy.
- Or disintegration? Potential EU future scenarios and implications for trade

# Introduction

- Accelerated movement toward regional economic integration in recent years
- Refers to agreements among countries to reduce/remove tariff and non-tariff barriers to the free flow of goods, services, and factors.



## Introduction to RTAs

### RTAs ARE AGREEMENTS

RTAs are negotiated and signed by the authorities of countries / territories. In that regard, an RTA is not fundamentally different from the WTO Agreement(s), which also establishes legally binding obligations between the governments parties to the agreement.

### ... on TRADE

RTAs are regulating TRADE matters, initially in relation to trade in goods, but increasingly also in relation to trade in services. More recent RTAs also contain provisions on other trade-related aspects. However, the core of RTAs remains trade liberalization.

The traditional objective of an RTA is to eliminate or reduce tariffs in relation to trade in goods. In the case of trade in services, RTAs aim at eliminating or reducing restrictions to trade in services.

A number of RTAs however stretch well beyond to areas such as standards, intellectual property, competition, environment or even labour law.

Source: World Trade Organization, 2013. [ecampus.wto.org](http://ecampus.wto.org)

# Introduction to RTAs

- RTAs are PREFERENTIAL:
- By agreeing to grant each other preferential treatment to goods and/or services traded between the parties to the RTA, an element of discrimination is introduced into international trade.
- This is in contradiction with one of the cornerstones of the WTO.

# Introduction to RTAs

## RTAs ARE RECIPROCAL

Reciprocity is intrinsic to, and constitutes an important feature of, RTAs (as defined in the WTO context).

As “reciprocal” trade agreements, RTAs result from a “give-and-take” NEGOTIATION between the RTA partners (Parties). In order to enter into an RTA (whatever form the RTA may take), each Party grants some preferential treatment to the other. For Parties that are WTO Members, this means that they agree to introduce a specific trade regime inconsistent, by nature, with the MFN principle.

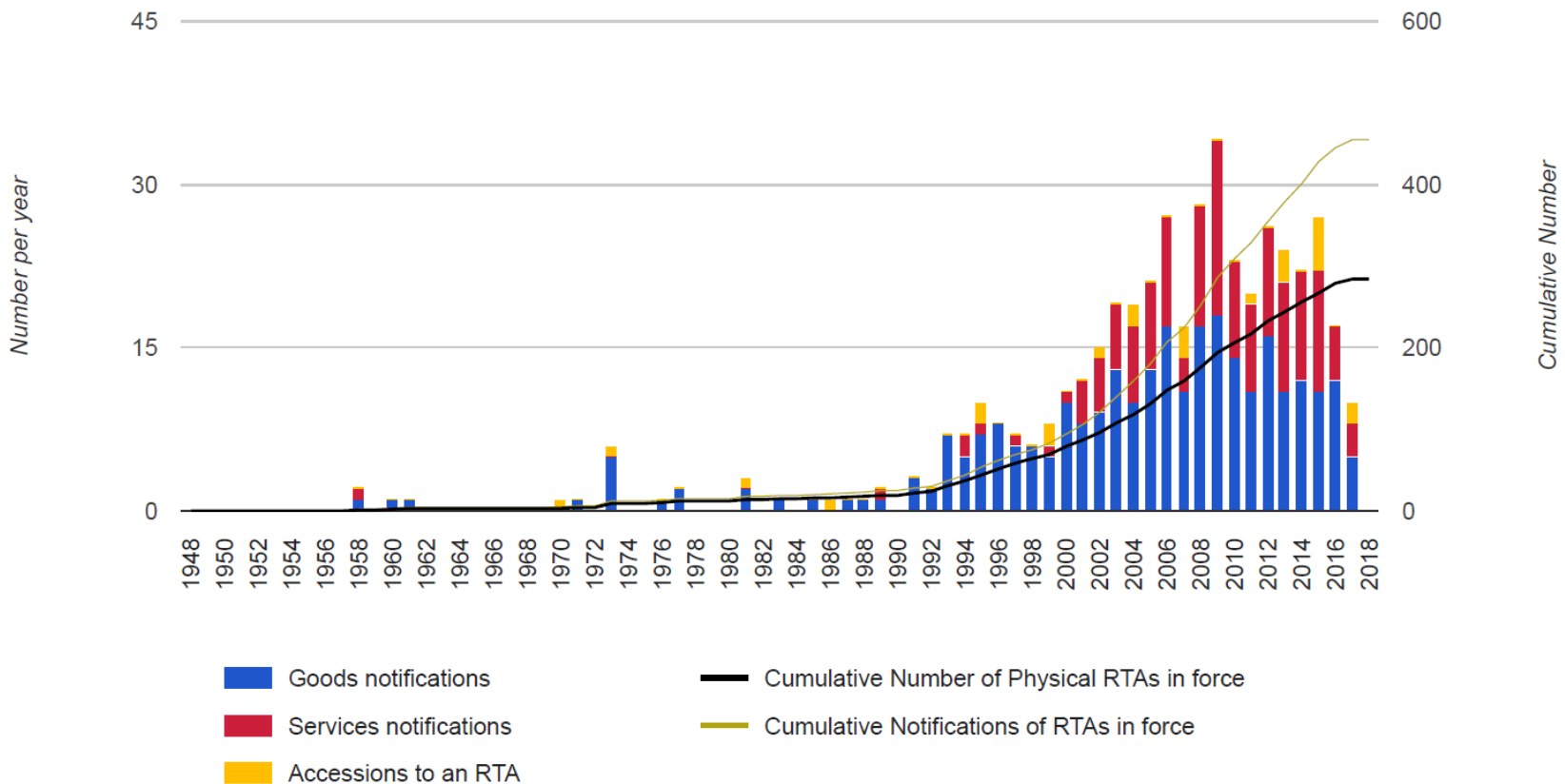
The nature of the reciprocity may vary from one RTA to another.

## RECIPROCITY DOES NOT AUTOMATICALLY MEAN SYMMETRY

RTAs may be “symmetrical”, when each Party “gives” as much as the other(s), or “asymmetrical”, when some Parties agree to make substantially more concessions, or liberalize over a shorter transition period, than the other(s). The latter is often (but not systematically) observed where the level of economic development of the Parties differs considerably.

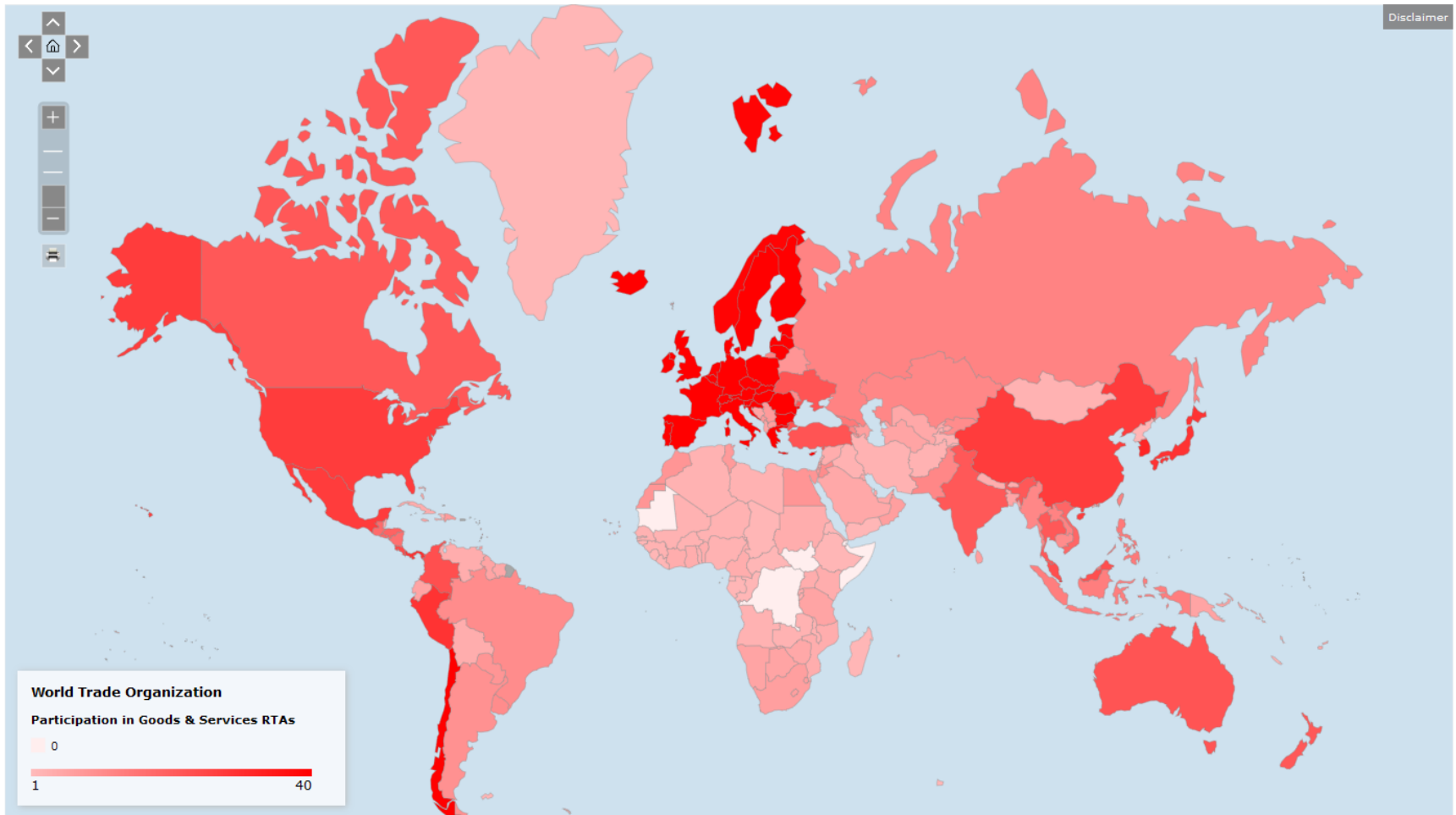
# Evolution of Regional Trade Agreements

RTAs currently in force (by year of entry into force), 1948 - 2017





## 3. Regional and Multilateral Trade: Integration or Disintegration?



**Note:** WTO statistics on RTAs are based on notification requirements rather than on physical numbers of RTAs. Thus, for an RTA that includes both goods and services, we count two notifications (one for goods and the other services), even though it is physically one RTA.

Source: World Trade Organization

# Traditional Process: Levels of Economic Integration

- **Free Trade Area**
- **Customs Union**
- **Common Market**
- **Economic Union**
- **Political Union**

# Traditional Process: The Economic Case for Integration + pros

- Stimulates economic growth.
- Increases business abroad: FDI and world production: MNE.
- Countries and firms specialize in those goods and services efficiently produced.
- Additional gains from free trade beyond the international agreements
- Incentives for political cooperation.
- Reduces potential for violent confrontation

# Traditional Process: The Economic Case for Integration - cons

- Integration is hard to achieve and sustain
  - Nation/country may benefit but groups within countries may be hurt.
  - Potential loss of sovereignty and control over domestic issues

# Evolution of the European Union

- Product of two political factors:
  - Devastation of WWI and WWII and desire for peace
  - Desire for European nations to hold their own, politically and economically, on the world stage
- 1951 - European Coal and Steel Community. Belgium, France, West Germany, Italy, the Netherlands and Luxembourg. The ECSC was the first international organisation to be based on the principles of supranationalism, and started the process of formal integration which ultimately led to the European Union.
- 1957- Treaty of Rome establishes the European Community
- 1994 - Treaty of Maastricht changes name to the European Union

Source: European Commission

# The Single European Act

- This act committed member countries to work toward the establishment of a single market by December 31, 1992
- The act was born out of:
  - Frustration among members of the European Community regarding the barriers to the free flow of trade and investment between member countries
  - A need to harmonize the wide range of technical and legal standards for doing business
  - Social and Political Integration

The act was independently ratified by the parliaments of each member country and became law in 1987

# The Single European Act

- Objectives:
  - Remove frontier controls
  - “Mutual recognition” of product standards
  - Open public procurement to non nationals
  - Lift barriers to banking and insurance competition
  - Remove restrictions on foreign exchange transactions
  - Transport, telecommunications, energy

# The Euro

- Benefits:

- Savings from using only one currency
- Easy to compare prices, resulting in lower prices (???)
- Creates liquid capital market
- Increases range of investments for individuals and institutions
- As of 2011, Euro strong against the dollar

- Costs:

- Countries lose monetary policy control
- European Central Bank controls policy for the “Euro zone”
- EU is not an “optimal currency area”: Country economies are different
- Euro puts the economic cart before the political horse
- Strong Euro makes it harder for Euro zone exporters to sell their goods



# Enlargement of the European Union

- To qualify for EU membership applicants must:
  - Deregulate markets
  - Restructure industries
  - Stabilization (Tame inflation and interest rates)
  - Enshrine complex EU laws into their own systems
  - Establish stable democratic governments
  - Respect human rights

# The context

- Following a drawn-out and painful recession, the challenge for the EU is now to boost jobs, growth and investment.
- The Commission has placed this at the top of its political priorities.
- Trade is one important instrument available for boosting the economy.

# The context

Why should the EU update its trade strategy now?

- Need to respond to the trade debate (more or less integration?)
- Need to adjust to the new realities
- Need to reassess the targets for access to markets
- Need to ensure we get the most out of the existing trade deals

# Aims of “Trade for all” strategy

## 1. Take account of new economic realities:

- Integrated global value chains - importance of imports - international regulatory co-operation - digital economy - energy and raw materials – customs facilitation – servicification - etc.

## 2. Ensure coherence and mutual supportiveness between trade and related policies:

- Sustainable development - mobility of professionals - adjustments in labour markets - etc.

Source: Martin Pilsner (DG Trade). Meeting with European Business Organizations Worldwide

## Aims of “Trade for All” strategy

### 3. Reinforce implementation and enforcement:

- Enhance partnership with Member States, EP and stakeholders

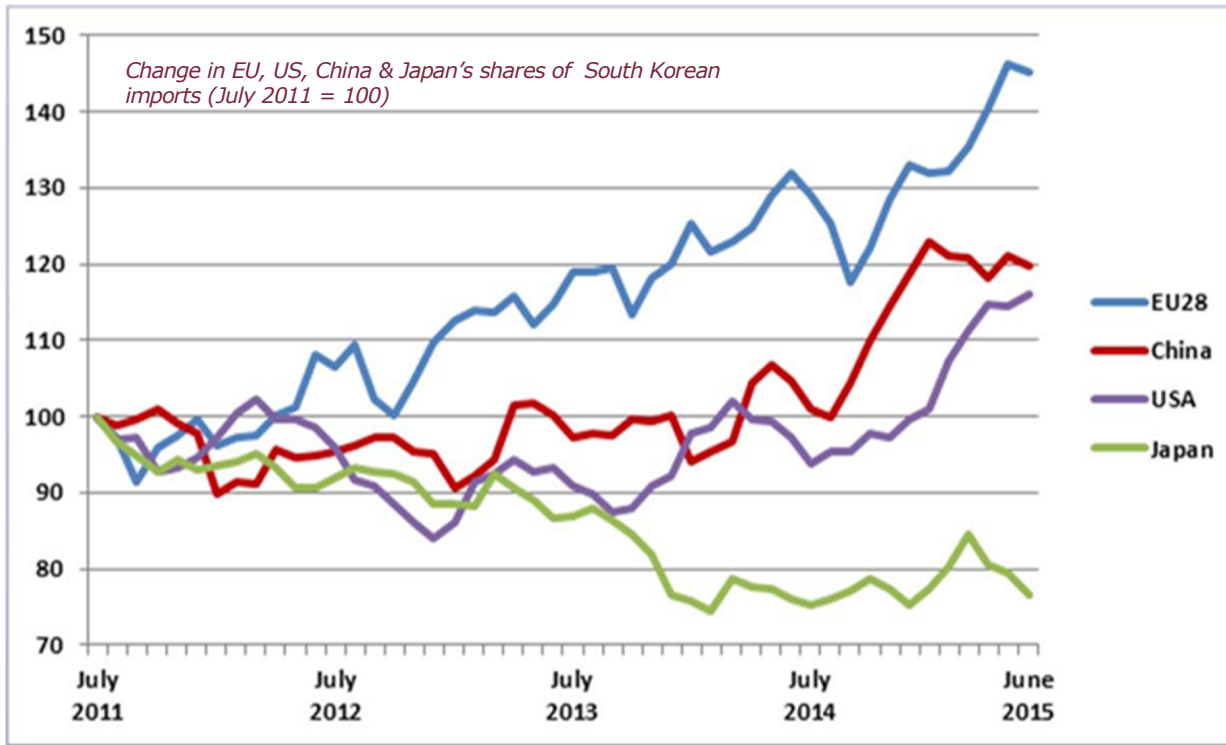
### 4. Address specific needs of SMEs:

- Dedicated SMEs provisions in all FTAs
- Dedicated web-portals
- Regular surveys and closer work with SME representative bodies

## For example...

- The Commission has developed an ambitious bilateral agenda that complements the EU's engagement at the WTO.
- The EU has concluded or is negotiating bilateral free trade agreements (FTAs) with partners across all continents.
- e.g. the EU–South Korea FTA is a prime example of the kind of new generation agreements (includes eliminating 99% of duties on both sides within five years and dealing with non-tariff barriers (NTBs)).

## 3. Regional and Multilateral Trade: Integration or Disintegration?



Source: Martin Pilsner (DG Trade). Meeting with European Business Organizations Worldwide

# Negotiation agenda

Bilateral agenda:

Complete TTIP (Transatlantic Trade Investment Partnership), EU-Japan FTA, among others

Strengthen EU presence in Asia-Pacific:

- conclude investment negotiations with China
- explore investment negotiations with Hong Kong and Taiwan
- explore investment negotiations with South Korea
- launch negotiations with Australia and New Zealand
- start negotiations with the Philippines and Indonesia

Source: Martin Pilsner (DG Trade). Meeting with European Business Organizations Worldwide



# Negotiation agenda

Bilateral agenda:

- Redefine relationship with Africa deeper relations bilaterally and with the African Union
- Modernise existing agreements with: Turkey, Mexico, and Chile
- Pursue ambitious agenda with Latin America and the Caribbean and the Eastern and Southern Neighbourhood countries

Source: Martin Pilsner (DG Trade). Meeting with European Business Organizations Worldwide

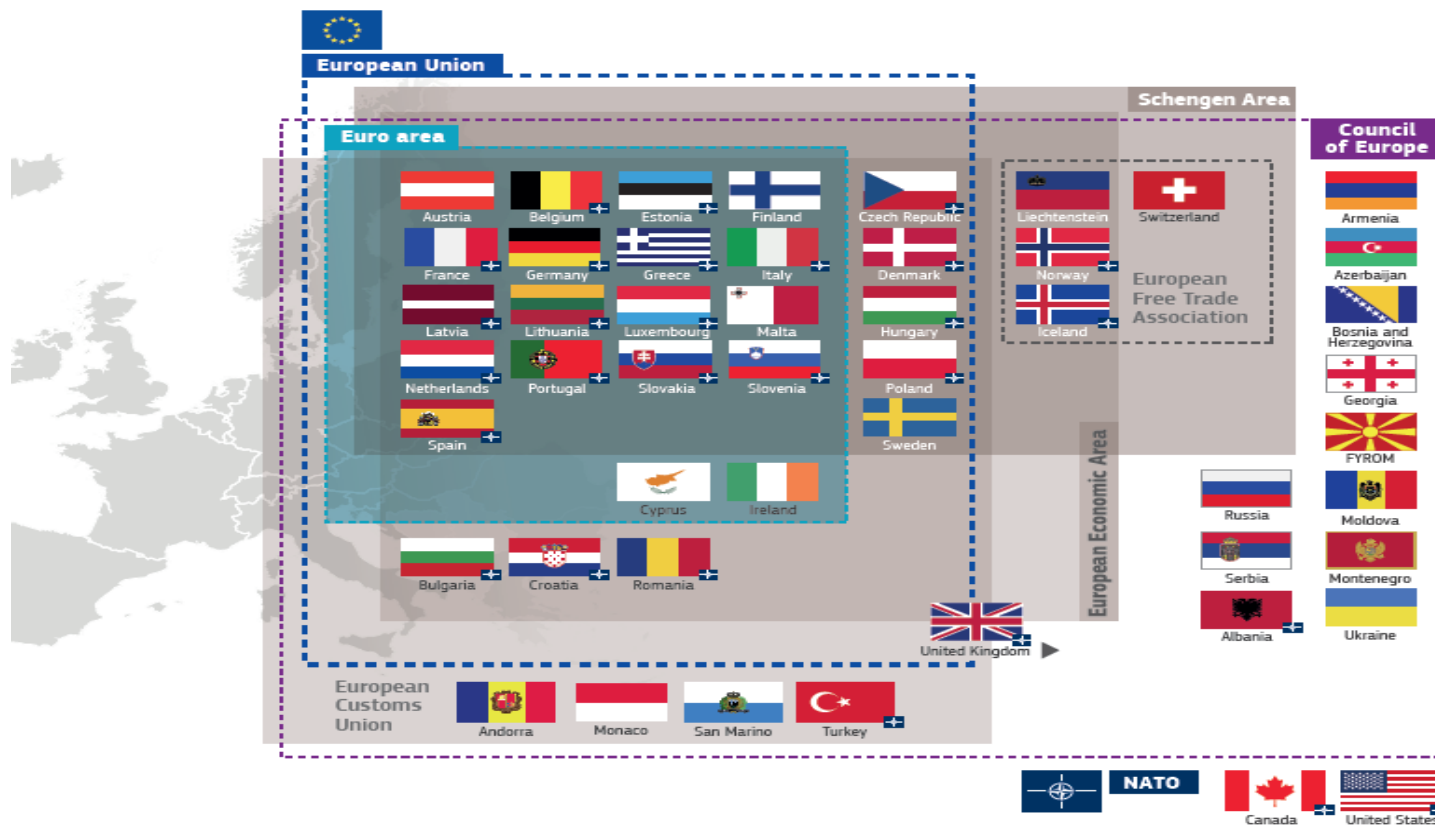
# Or disintegration? Potential EU future scenarios and implications for trade



Source: Conor Ryan @Ctoonis


## 3. Regional and Multilateral Trade: Integration or Disintegration?

### Europe today



Source: European Commission


# Scenario 1: Carry on

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market is strengthened, including in the energy and digital sectors; the EU27 pursues progressive trade agreements	Incremental progress on improving the functioning of the euro area	Cooperation in the management of external borders stepped up gradually; progress towards a common asylum system; improved coordination on security matters	Progress is made on speaking with one voice on foreign affairs; closer defence cooperation	Partly modernised to reflect the reform agenda agreed at 27	Positive agenda for action yields concrete results; decision-making remains complex to grasp; capacity to deliver does not always match expectations

Source: European Commission

# Scenario 2: Nothing but the single market

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market for goods and capital strengthened; standards continue to differ; free movement of people and services not fully guaranteed	Cooperation in the euro area is limited	No single migration or asylum policy; further coordination on security dealt with bilaterally; internal border controls are more systematic	Some foreign policy issues are increasingly dealt with bilaterally; defence cooperation remains as it is today	Refocused to finance essential functions needed for the single market	Decision-making may be easier to understand but capacity to act collectively is limited; issues of common concern often need to be solved bilaterally

Source: European Commission

# Scenario 3: Those who want more do more

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
As in "Carrying on", single market is strengthened and the EU27 pursues progressive trade agreements	As in "Carrying on" except for a group of countries who deepen cooperation in areas such as taxation and social standards	As in "Carrying on" except for a group of countries who deepen cooperation on security and justice matters	As in "Carrying on" except for a group of countries who deepen cooperation on defence, focusing on military coordination and joint equipment	As in "Carrying on"; additional budgets are made available by some Member States for the areas where they decide to do more	As in "Carrying on", a positive agenda for action at 27 yields results; some groups achieve more together in certain domains; decision-making becomes more complex

Source: European Commission


# Scenario 4: Doing less more efficiently

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Common standards set to a minimum but enforcement is strengthened in areas regulated at EU level; trade exclusively dealt with at EU level	Several steps are taken to consolidate the euro area and ensure its stability; the EU27 does less in some parts of employment and social policy	Cooperation on border management, asylum policies and counter-terrorism matters are systematic	The EU speaks with one voice on all foreign policy issues; a European Defence Union is created	Significantly redesigned to fit the new priorities agreed at the level of the EU27	Initial agreement on tasks to prioritise or give up is challenging; once in place, decision-making may be easier to understand; the EU acts quicker and more decisively where it has a greater role

Source: European Commission

# Scenario 5: Doing much more together

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market strengthened through harmonisation of standards and stronger enforcement; trade exclusively dealt with at EU level	Economic, financial and fiscal Union is achieved as envisioned in the report of the Five Presidents of June 2015	As in "Doing less more efficiently", cooperation on border management, asylum policies and counter-terrorism matters is systematic	As in "Doing less more efficiently", the EU speaks with one voice on all foreign policy issues; a European Defence Union is created	Significantly modernised and increased, backed up by own resources; a euro area fiscal stabilisation function is operational	Decision-making is faster and enforcement is stronger across the board; questions of accountability arise for some who feel that the EU has taken too much power away from the Member States

Source: European Commission