

Policy Brief on EU Open Trade Market

Introduction

Trade is a dynamic and vital force in the global economy, contributing to growth and fostering positive relations among nations. It encourages multilateral engagement and helps prevent economic dominance by individual countries. The European Union (EU) and its Member States actively develop trade policies that align with EU membership criteria and promote competitiveness within a free trade framework. This policy brief outlines steps for the EU's open trade market policy in support of the Stability and Association process and negotiations, aiming for constructive convergence of candidate Member States with EU principles. (Lici, 2015)

The EU's common trade policy, driven by its customs union, aims to eliminate international trade barriers through various strategies. It negotiates joint trade deals with non-member countries and incorporates global competition rules to address anti-competitive behavior. Additionally, the EU uses commercial policy tools to combat trade barriers, fostering an open market. The 1992 Single European Act aided integration of goods trade, adapting to global market changes. To remain competitive, the internal market policy continually updates trade instruments to meet external requirements. The EU focuses on continuous trade liberalization, although the specifics can vary. External policies are vital for high-level negotiations, particularly amidst unilateral actions by countries like the U.S. and Japan. Current trade policy tools are critical in addressing global trade distortions and are integrated into the EU's strategy, which includes extensive industry consultations to mitigate impacts on trade sectors. This framework shapes competition and must adapt to new developments while ensuring early notification of initiatives. Policymaking and implementation challenges arise as the EU navigates global macro trends affecting trade. The 15 Member States have adopted a Customs policy encouraging third countries, particularly in the Balkans, to align their trade practices to boost economic growth and stability. Numerous agreements, such as the Stabilization and Association Agreement with the Western Balkans, underscore these partnerships. In 2008, the Western Balkans exported 16.6% of their goods to the EU, while EU imports constituted 76-83% of the Balkans' market, indicating a trade deficit.

Key Trade Agreements

One of the most important aspects of the European Union (EU) is its management of open trade policy, making it an influential international actor. The EU engages in a rule-based multilateral trading system, participating in World Trade Organization (WTO) negotiations and advocating for global trade liberalization through a “grand coalition” with other partners. The EU aims to sustain the dynamic of the Doha Development Round as a framework for global development and trade. The EU-27's GDP is 18.9% of total world GDP, with its global trade comprising 16.3%. In 2016, the EU was the second-largest world exporter at 15.6% and importer at 14.8%, both following China. The EU strives for foreign market openings and seeks transparent, non-discriminatory conditions while playing a significant role in development policy. (Kurzweil et al., 2003)

Trade and partnership agreements between the EU and third countries are crucial for economic growth and reducing poverty in developing nations through increased investment. Preferential agreements significantly impact industries, particularly textiles, which have seen over a 45% export rise from the EU27, amounting to around €72bn. Despite some advancements in innovation, vulnerable economies have faced worsening trade balances. In the last 15 years, the number of free trade agreements (FTAs) and association agreements has grown, with FTAs eliminating tariffs on goods, services, and investment. Association agreements enhance economic relations and help candidates align with EU laws. They also promote integration into the EU market and socio-economic progress. Australia is a significant EU trading partner, underscoring a mutual commitment to a rules-based economic order and investment cooperation. Navigating international trade uncertainties requires fostering dialogue on liberalization principles to ensure transparent, non-discriminatory trade and fair competition through the World Trade Organization.

EU-Canada Comprehensive Economic and Trade Agreement (CETA)

The EU-Canada Comprehensive Economic and Trade Agreement (CETA), signed in 2016, aims to reduce trade barriers and enhance economic integration between Canada and the EU. Temporary application began in 2018 after European Parliament approval. CETA will eliminate 99% of tariffs and enable cooperation in sectors like transport, energy, and workers' rights. It aligns with the EU's external trade agreements, ranking among the highest.

The EU-Canada Comprehensive Economic and Trade Agreement (CETA) aims to significantly reduce trade barriers between Canada and the EU. The agreement was prompted by the increase in EU-Canada bilateral trade from 2005 to 2015. CETA was

signed on October 30, 2016, and provisionally implemented on September 21, 2017. Together with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), it plays a crucial role in Canada's export-oriented economy. Canada aims to boost nominal exports by \$75 billion annually and increase total trade by 50% by 2027. Both CETA and CPTPP are expected to yield a 3.5% average increase in Canada's bilateral trade, with significant gains anticipated in sectors like agri-food (C\$1.5 billion), aerospace (C\$938 million), and manufacturing/automotive (C\$1.2 billion). (Śliwińska, 2018)

Impact of Open Trade on EU Economy

Open trade and investment are vital for world economic development. Both developing and developed countries have prioritized trade liberalization in their policies. Since the 1970s, it has been central to International Monetary Fund (IMF) and World Bank programs, advocating for increased exchange rate flexibility and trade reforms, including the reduction of tariff and non-tariff barriers and removal of export subsidies. (Beltramo, 2010)

Trade liberalization has led to trade growing four times faster than output over recent decades. Global GDP has doubled in 25 years, outpacing the previous period. In trade-focused sectors, output has risen over 6% annually. This has generated new economic opportunities for developing nations and enhanced competition and efficiency through globalization.

Being competitive drives profitability and underpins economic development. This stems from liberalization, adherence to Maastricht criteria, the transition to services, and the technological innovations and production reorganization brought by monetary globalization. However, restructuring for competitiveness can be costly in terms of labor. While high productivity and profits may support its social costs, massive unemployment in local areas, aside from metropolises, presents a significant challenge.

Challenges Facing the EU Open Trade Market

The EU has been a strong advocate for open trade, backing the WTO and GATT negotiations. However, the future of multilateralism is in jeopardy due to the Trump administration's critical stance on the WTO, raising doubts about its effectiveness. The prior US administration exhibited protectionist tendencies, reflecting a broader global trend. Uncharacteristic retaliatory tariffs between the EU and US weakened established trade dispute mechanisms, exacerbating challenges for international trade. The COVID-19 pandemic further disrupted trade, highlighting severe logistical issues and the need for well-functioning, transparent supply chains requiring international coordination. It is

crucial for WTO members to report all ongoing trade policies before the June 2021 ministerial conference. While the EU seeks bilateral agreements, it maintains an open economy, yet the landscape for free and fair trade has changed. Identifying new challenges, particularly regarding sanitary measures, technical barriers, and other restrictions, is essential.

Several challenges to the EU's open trade market can be identified a priori. The flow of goods and services may be obstructed by regulatory barriers despite participants' best intentions. Issues from the “harmonization at 28” approach within the European single market may worsen this situation. Environmental concerns drive demand for sustainable operations across the economy, including trade. Traditional liberalization advocacy has been joined by calls for broader social and environmental policy harmonization. Sustainability policies compare products using a wider range of indicators than price, which poses risks for industries reliant on cost advantages outside their regions. Additionally, the changing global order and the COVID-19 pandemic have shifted focus from supply chain efficiency to the resilience of the entire economic system and its ability to counter unfavorable external events. Given these challenges, the EU's open trade market will likely face significant future obstacles; thus, strategic suggestions for adapting to turbulent exchanges with international partners among member states are proposed. A key theme is to promote further cooperation and develop a more interconnected bloc to enhance community robustness. (Brenton, 2000)

Protectionism and Trade Wars

The EU's open trade policy is a significant achievement, dismantling internal barriers and signing free trade agreements, making it the largest external market and second largest exporter globally. This policy has attracted new members like Croatia in 2013. During the Brexit referendum, polling revealed a generational divide, with 73% of those aged 18 to 24 and 61% of 25 to 34-year-olds supporting EU membership, while only 40% of those 65 and older felt the same. Young people even initiated a judicial challenge against Brexit, motivated by climate change concerns. The open trade market is vital for sustaining peace, a historic endeavor.

1. Definition, Drivers, and Disruption of Global Supply Chains

Efforts by the EU to sustain open trading relations face rising challenges from protectionist countries and increasing trade tensions with key partners. Protectionist measures, such as tariffs, quotas, and non-tariff barriers like sanitary regulations, aim to shield domestic industries and jobs. Consequently, companies encounter higher costs for importing goods

and disruptions in supply chains, leading to increased prices for consumers. Recent trade tensions have adversely affected numerous EU importers and exporters. History shows that trade wars yield no winners, a fact underscored by recent events involving tariffs on EU steel and aluminum, which prompted retaliation on American goods like bourbon and motorcycles. The EU exports parts for large commercial aircraft to the US, facing the risk of increased costs due to potential tariffs, threatening production. The public observes an escalation in trade tensions, exemplified by tariffs on over \$360 billion of goods, impacting various EU industries, including textiles, which struggle with rising procurement costs of US raw materials. Elevated costs for basic materials may lead to reduced capital investment, diminishing competitiveness, especially in the textile sector reliant on high-value raw materials. Trade wars carry a significant risk to global economic growth, with potential losses of 0.8% in global GDP possibly pushing the world into recession. Additionally, Brexit has intensified protectionist sentiments in some member states. Long-term, trade wars could severely undermine the EU economy and market stability. The introduction of tariffs has also eliminated preferential treatment for developing countries, doubling the entry price for raw materials to the EU and diminishing the profitability linked to labor conditions, environmental practices, and overall production quality.

Policy Recommendations

Improving the EU's open trade market effectiveness is crucial for enhancing collaboration. Bucharest will undertake strategic steps to strengthen this market, addressing protectionist measures from third countries concerning EU products by signaling the WTO. Concerns about government support in sectors like agriculture, steel, footwear, leather, and textiles will be raised, while demands to reduce bureaucratic hurdles in these countries will be prioritized. Cooperation between the Environment and EU Customs will be encouraged to smooth processes. The use of modern technology will be promoted to expedite export-import flows and ensure compliance. Bucharest aims to foster a fair global trade environment and will pay attention to the legal systems of third countries. Trade equality is essential. The city will advocate for EU member states to establish coherent regulatory and economic frameworks, supporting a level playing field that stimulates foreign trade. Inclusion of the collegiate, legal, and real interests of the trade community, including state stakeholders, in decision-making is imperative for enhancing the economic climate across Europe. Recognizing that 98% of Romanian businesses are SMEs, Bucharest emphasizes that these entities must grasp the rules of engagement upon entering the international market. EU single market integration increases competition with developed nations, presenting technological and financial opportunities. Bucharest will champion European

funding projects to bolster commercial channels and assist Romanian exporters while attracting foreign investors. These initiatives will focus on building trade capacity, anticipating changes in world trade dynamics, and addressing business needs through a participatory approach. Continuous assessment of policy initiatives will ensure efficiency, accuracy, and adaptation to evolving conditions for Romanian and EU exporters, as well as analyzing business environments in third countries.

11.2. Promoting Fair Trade Practices

To ensure equity in trade markets within and outside the EU, promoting fair trade practices is crucial. Common standards must prevent unfair trade and recognize standards from other countries to protect vulnerable sectors. This involves ensuring fair treatment for producers in third countries and promoting transparent supply chains through recognized systems, advancing ethical sourcing and production. Timely mechanisms for verifying counterfeit organic products are essential to maintain consumer confidence in organic production. (Fisher & Sheppard, 2013)

Stakeholders in the supply chain engage in trade to achieve financial, social, and environmental sustainability due to the rising consumer demand for healthy, safe products. This promotes awareness of the benefits stemming from the growth of these markets. It facilitates dialogue on enhancing supply chain governance and compliance through initiatives and coalitions aimed at fostering ethical sourcing and trading frameworks.

It can collaborate to promote the growth of producer organizations, cooperatives, and small-scale farmers through voluntary fair trade or recognized certification schemes. Fair trade relies on partnership, fair pricing, humane working conditions, and long-term goals. Certification enhances credibility and consumer trust. While certification costs pose a challenge, certified businesses benefit from increased promotion and potential higher prices due to consumer trust. Fair Trade improves living standards and local economies in developing countries and has evolved into a successful niche market, fostering trade qualifications and ethical practices.

Strengthening Regulatory Cooperation

Facilitate trade: harmonise regulations. Eliminating border controls required aligned standards to ensure health and safety. The regulation provided a framework for enhanced internal market enforcement. Regulatory cooperation starts with identifying issues, leading to common technical rules. Regulatory inconsistencies could result in trade losses of €75 billion. In 1975, many imported goods faced delays at EU borders due to varying national standards. Four reform strategies show varied effectiveness: a) more veto players yield

limited gains; b) overly optimistic views on the internal market may be wrong; c) a supranational monitoring agency does not guarantee success; d) regions with strong liberal lobbying should drive liberalisation, although not all will gain. The regulation also launched the Internal Market Information System to tackle regulatory challenges.

Conclusion

The open trade market is vital for economic growth and international cooperation. Over the past two decades, the European Union has developed a competitive trading area through agreements with various countries covering trade in goods and services, as well as intellectual property and investment protection. The hypothesis suggests that the open trade market has impacted the EU economy regarding exports, imports, and foreign direct investments.

MATs serve as vital trade policy instruments, emphasizing a theoretical framework and empirical insights from a pilot study on their effectiveness in three cases. The positive outcomes of MAT-supported trade negotiations underline their role in addressing non-tariff barriers while promoting compliance with international standards. Success hinges on well-structured frameworks, sufficient resources, and prompt coordination among members. Improving NTM identification and consultative procedures is also key.

Future research should systematically evaluate the common trade policy to identify shortcomings and enhance the EU's global economic impact. The effects of dispute settlement can be assessed over time, pinpointing areas where the EU frequently takes a defensive stance or employs defensive measures. Additionally, analyzing potential linkages between disputes and other trade policy instruments is essential. Adopting these perspectives aims to improve the effectiveness of common trade policy, supporting EU interests with third countries while maintaining compatibility with the multilateral trading system.

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