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POLICY REVIEW: EU TRADE POLICY

INTRODUCTION

EU as the bloc is the second largest economy in the world in nominal terms, after the United States, and the third largest at purchasing power parity (PPP), after China and the US. The EU is the largest trading bloc in the world which is committed to promoting free, fair, and sustainable trade. The EU's trade policy is the driving power for the setting of global trade rules, promoting economic growth, and strengthening international partnerships. It's run by the EU's Common Commercial Policy (CCP) and managed by the European Commission on behalf of member states.

OBJECTIVES

This policy review is focused on the analysis and critical evaluation of the European Union (EU) Trade Policy. That provides us with insights into the policy's framework, key aspects, strengths, and weaknesses, highlighting its implications on member states, non-EU members, and global trade partners. It also helps in gaining a comprehensive understanding of the policy's effectiveness, gaps, and potential improvements. With various nations covered in these trade policies, it aims to uphold international labor and environmental norms, that encourage economic growth, and create a level playing field for competition. It also assessed the EU's contribution to international trade and economic stability which requires an understanding of geopolitical dynamics.

HISTORICAL BACKGROUND

The European Union (EU) has one of the world's most developed and complex trade policies, which has expanded from a local alliance to a world-leading trading power. The Treaty of Rome (1957) laid the groundwork for EU trade policy by forming the European Economic Community (EEC) and establishing a Customs Union which was the first step towards unified trade policy. This structure abolished intra-member state tariffs and implemented a Common External Tariff (CET) on imports from the rest of the world. The European Commission (established in 1951) was empowered to negotiate trade treaties on behalf of all member states to ensure a concerted approach to trade. In its first decades, EU trade arrangements concentrated on the old European colonies, especially in Africa, the Caribbean, and the Pacific (ACP states), using the Yaoundé (1963) and Lomé (1975) Conventions.

As economic integration became more profound, the Maastricht Treaty of 1993 transformed the EEC into the European Union, which boosted its common trade policy and expanded its presence in international trade. The EU was instrumental in the formation of the World Trade Organization (WTO) in 1995, promoting multilateral liberalization of trade. In the 2000s, the EU negotiated bilateral partnerships with major partners, such as Mexico (2000), Chile (2002), and South Korea (2011), whereas the Cotonou Agreement of 2000 replaced the Lomé

Conventions, opening Economic Partnership Agreements (EPAs) with developing countries to stimulate sustainable trade.

The Lisbon Treaty (2009) increased democratic control in the modern era by involving the European Parliament in trade negotiations. While talks on the Transatlantic Trade and Investment Partnership (TTIP) with the US were stalled due to regulatory disagreements, the EU did finalize important trade accords such as the Comprehensive Economic and Trade Agreement (CETA) with Canada (2017). The EU's policy direction has been influenced by geopolitical rivalry with the US and China, Brexit, and calls for sustainable trading practices. The European Green Deal has been reflected in recent accords on labor, digital commerce, and climate. Free trade is now combined with sustainability, fair competition, and global reach in EU trade policy. Through a rules-based, strategic, and value-based strategy, the EU continues to influence international commerce even as new economic and geopolitical problems emerge.

Key Elements of the Policy, A common commercial policy promotes uniformity among all member states by taking a single stance in trade talks and accords, Bilateral and multilateral trade agreements with major partners like the US, China, and MERCOSUR are known as free trade agreements, Mechanisms for Trade Defense- Countervailing and anti-dumping actions to protect EU industry from unfair trade. Digital and Services Trade: Expanding digital trade policies to support international services and e-commerce.

POLICY IMPLEMENTATION AND EFFECTIVENESS

The trade policy of the European Union is a complex and dynamic framework that balances geopolitical concerns, sustainability, and economic development. The EU Trade Policy operates on a rules-based framework that seeks to balance economic growth with social responsibility. The policy implementation and regulation is seen by the European Commission which works on the principle of free trade and sustainability with various regulatory enforcement measures. EU trade policy effectiveness has various sectors such as

- **Economic Impact**

As we know EU as the block is the 2nd largest economy in the world which has made them the trade powerhouse in the world economic system which has allowed the EU to have trade surplus in high-value sectors like chemicals (€198 billion) and machinery (€210.6 billion) {European Commission, 2025} these industries have benefitted in bringing economic stability in the EU as these industries benefit from the EU's stable regulatory environment, extensive trade agreements, and advanced industrial base, making them globally competitive. Additionally, Bilateral agreements with economic powerful countries such as South Korea, China, and Japan helped enhance this policies

- **Trade Barriers and Protectionism**

While the EU is known for its free trade, in one area it has faced criticism for protectionist policies that create barriers for non-EU businesses. These policy barriers are seen in sectors such as the Agriculture sector, where subsidies, tariffs, and strict regulatory requirements limit fair competition for external producers. One of the most controversial aspects of EU trade policy is the **Common Agricultural Policy (CAP)**, which provides subsidies to European farmers to maintain stable food production and rural development. While CAP ensures food security and supports the livelihoods of EU farmers, it has been criticized for distorting global trade. Protectionism in the EU has resulted in trade disputes with major partners for example, subsidies granted to aircraft manufacturers in the European Union have led to trade disagreements and reciprocal tariffs with the United States.

- **Sustainability and Labor Standards**

EU integration has positioned itself as the global leader in sustainability and labor rights, it has successfully integrated sustainable norms into its trade policy which ensured that economic growth aligns with ethical and ecological responsibilities. The EU requires its trading partners to comply with **strict environmental regulations**, which include commitments to reducing carbon emissions, protecting biodiversity, and preventing deforestation. These standards are often embedded in **Trade and Sustainable Development (TSD) chapters** within Free Trade Agreements (FTAs). Example: EU-Mercosur Trade Agreement, The EU-Mercosur agreement (covering Brazil, Argentina, Paraguay, and Uruguay) includes provisions to prevent **deforestation in the Amazon** and protect biodiversity.

CHALLENGES AND POLICY GAPS

Geopolitical Tensions: Geopolitical tensions play a critical role in shaping the EU's trade policy, EU has major trade conflicts with major partners such as the US and China. Rising global uncertainties including US-China trade tensions, the war in Ukraine, and Brexit have forced the EU to adapt its trade policies to **secure economic resilience** while managing political complexities. The reduction in EU imports from Russia (-75%) and China (-17.8) (**European Commission, 2025**) due to geopolitical concerns underscores the **vulnerabilities in global supply chains** and highlights the EU's efforts to reduce dependence on politically unstable partners.

Energy Dependence: energy dependence is a significant challenge for the European Union as they import their energy from the non-EU states making it vulnerable to balance energy security, sustainability, and economic stability. The EU's trade deficit in energy €409.4 billion reflects its high reliance on external energy sources, particularly fossil fuels. This dependence has grown even more challenging due to geopolitical tensions, disruptions in supply chains, and the ongoing shift toward renewable energy. Example Before 2022, Russia played a crucial role in meeting the EU's energy needs, supplying nearly 40% of its natural gas, 27% of its crude oil, and 46% of its coal. This heavy reliance on Russian energy made the EU vulnerable to geopolitical shifts, as seen during the Russia-Ukraine war, which forced the region to rethink its energy strategy (European Commission, 2025).

Slow WTO Reforms: The European Union (EU) has been a strong advocate for multilateral trade cooperation, yet WTO reforms have progressed slowly, affecting global trade governance. One major issue is the WTO dispute settlement system, which has been paralyzed since 2019 due to the U.S. blocking the appointment of new judges to the Appellate Body. As a result, over 40 cases remain unresolved, creating legal uncertainty for businesses. Additionally, WTO rules have not been fully updated to address digital trade, sustainability, and unfair subsidies. To strengthen global trade stability, the EU must push for urgent reforms to modernize trade rules (European Commission, 2025).

Critical Analysis and conclusion

The EU Trade Policy Review provides a comprehensive assessment of the EU's role in global trade, it gives us an understanding of its strengths, its weaknesses, and its areas of improvement. The evolution of EU trade policy tells a story of growth, cooperation, and strategic expansion. It all began with the Treaty of Rome in 1957, which laid the foundation for the European Economic Community (EEC) and created a Customs Union,

allowing member states to trade freely while imposing a common external tariff on non-EU imports. This early step set the stage for a unified approach to trade and strengthened Europe's economic ties. By looking at key aspects such as the Common Commercial Policy (CCP), bilateral trade agreements, and the growth of digital trade, it becomes clear that the EU is deeply committed to free trade, sustainability, and fair competition. These policies help strengthen the EU's role in shaping global trade rules, creating economic opportunities, and ensuring ethical business practices. One of the key challenges facing the EU's trade policy is geopolitical tensions, which have significantly disrupted its trade stability. The sharp reduction in imports from Russia (-75%) and China (-17.8%) due to political concerns has exposed weaknesses in the EU's supply chains (European Commission, 2025). While the EU has expanded trade partnerships in Latin America and Asia, it remains heavily reliant on major markets like China and the US, creating economic risks. The document also highlights the EU's energy dependence, with a €409.4 billion trade deficit underscoring its struggles with energy security. Though initiatives like REPowerEU and the European Green Deal aim to address this issue, the slow transition to renewable energy continues to leave the EU vulnerable to external energy shocks.

The report also examines protectionist policies in the agricultural sector, particularly the Common Agricultural Policy (CAP), which has triggered trade disputes with non-EU countries. While CAP plays a vital role in food security and rural development, it distorts global competition and at times contradicts the EU's commitment to free trade. Additionally, slow progress in WTO reforms remains a major obstacle to global trade governance, with the WTO dispute resolution system stalled since 2019, leaving over 40 unresolved cases (European Commission, 2025). The EU must push for faster reforms to ensure a stable and predictable trade environment.

Despite these challenges, the EU remains a dominant force in global trade, thanks to its strategic agreements, strong regulatory framework, and leadership in sustainability and labor rights. However, to maintain its position, it must strengthen energy resilience, push for WTO reforms, and balance trade liberalization with protectionist measures. A more flexible and forward-thinking trade policy will be key to navigating geopolitical risks, securing supply chains, and staying competitive in a rapidly changing global economy.

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