

Resource package for teachers of GCE 'A' Level Economics
(February 2012)

Globalisation, International Trade & the European Union

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Introduction to international economics, globalisation & free trade

Understanding how trade is conducted between countries is an important aspect of international economics. Singapore, an open and trade-dependent economy, has benefited from the globalisation process that promotes free trade and international economic integration.

Globalisation is a process of deeper international economic integration that involves a rapid expansion of international trade in goods and services between countries, and a huge increase in the value of transfers of financial capital across national boundaries, including the expansion of foreign direct investment (FDI) by transnational companies. The globalisation process in the last decades has accelerated, due in a large part to rapid developments in information and communications technology, resulting in falling transport cost and faster information flows.

For Singapore, an open and free global trading regime is vital for its continued prosperity. It is thus important for Singapore to have a good understanding of the key players in the global trading system and the emerging trends in globalisation.

1. International Trade and the European Union

Why study the European Union?

The European Union (EU) is one of the major actors in international trade and, as such, is very influential in the global trading system. Closer to home, the EU is consistently one of Singapore's largest trading partners and investors. This

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resource package introduces the EU and its role in international trade, both from a global and a Singaporean perspective. In particular, it examines the EU's position on free trade and its relationship with the World Trade Organization (WTO). It also highlights the EU's trade relationship with Singapore and examines the EU-Singapore free trade agreement (FTA) currently being negotiated.

What are the characteristics of the EU as a trading bloc?

The EU is the world's largest trading bloc. It is a union of 27 member states (**see p.3 for the list**), creating a single market of over 500 million consumers.

At least three of the EU's member states are major world economies – Germany and France are the world's fourth and fifth largest economies respectively, while the United Kingdom is ranked either sixth or seventh on most tables compiled by organisations such as the International Monetary Fund (IMF) and the World Bank. Note that some European countries such as Switzerland and Norway are not members of the EU, while others such as Iceland and Turkey are candidate countries currently in the process of negotiations for membership.

The EU's member states share a single market, a single external border, and a single trade policy. This means they can trade freely with one another without paying customs duties or taxes. It also means that in the global market place, they act as one actor with one voice.

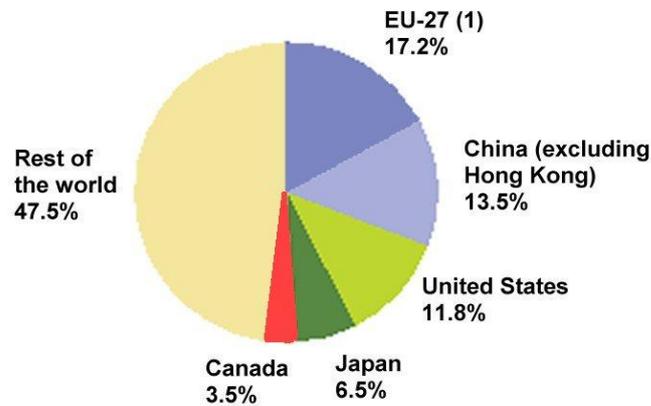
The EU is the world's largest exporter of manufactured goods and services, and the biggest export market for more than 100 countries. It represents almost one-fifth of global trade. The EU has harnessed its international economic position to shape trading rules and regulations, by setting standards for goods and services that are often followed by the rest of the world. The Euro 5 and Euro 6 standards limiting pollutant emissions for light road vehicles is one such example, as is the controversial carbon emissions tax for airlines flying into or out of the EU.

European Union member states (as of February 2012)

- Each country's year of entry into the EU is indicated in brackets.
- As of February 2012, 17 of these countries use the euro as a common currency – these are marked by a €.

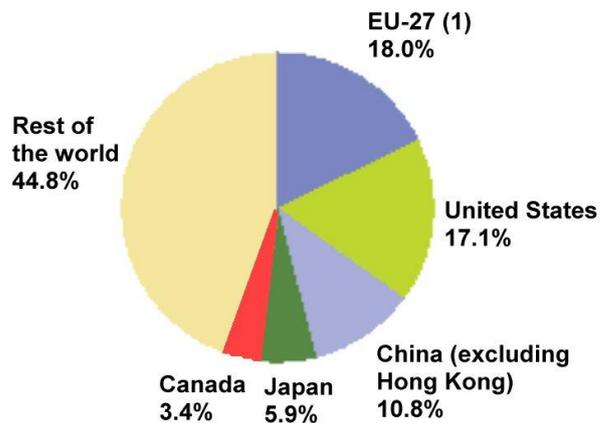
	Austria (1995) €		Latvia (2004)
	Belgium (1952) €		Lithuania (2004)
	Bulgaria (2007)		Luxembourg (1952) €
	Cyprus (2004) €		Malta (2004) €
	Czech Republic (2004)		Netherlands (1952) €
	Denmark (1973)		Poland (2004)
	Estonia (2004) €		Portugal (1986) €
	Finland (1995) €		Romania (2007)
	France (1952) €		Slovakia (2004) €
	Germany (1952) €		Slovenia (2004) €
	Greece (1981) €		Spain (1986) €
	Hungary (2004)		Sweden (1995)
	Ireland (1973) €		United Kingdom (1973)
	Italy (1952) €		

Shares in the world market for exports, 2009 (% share of world exports):



(1) External trade flows with extra EU-27.
 Source: Eurostate (online data code: ext_lt_introle)

Shares in the world market for imports, 2009 (% share of world imports):



(1) External trade flows with extra EU-27.
 Source: Eurostate (online data code: ext_lt_introle)

Why did the EU become a trading bloc?

Given the clout they have in the global market place, large countries have a natural advantage by default when it comes to trade, especially during trade negotiations. To project a more powerful presence on the world stage, European countries have banded together as a bloc. As a single, influential actor, the EU is better placed to shape the rules and norms in the global trading system and influence the standards and regulations.

What is the EU's trade policy?

The EU's trade policy has four main themes:

1. Creating a global system for fair and open trade, to prevent international trade distortions through subsidies or dumping;
2. Creating opportunities for European companies and their workers by increasing opportunities to trade with the rest of the world;
3. Making sure others play by international trade rules;
4. Ensuring trade is a force for sustainable development, in actively helping countries and people around the world to use trade as a tool for development.

The EU also uses its trade policy to promote other goals relating to the environment in the fight against climate change, working conditions, and health and safety standards for all products.

How does the EU conduct external trade negotiations?

The EU speaks with one voice in international trade negotiations. Instead of 27 different sets of trade rules, there is one negotiation, one negotiator, and one agreement.

The European Commission, the EU's executive body, represents the interests of all member states in trade negotiations with other countries, with other regional blocs, and in the World Trade Organization (WTO). The Commission requests authorisation to negotiate a trade agreement from the Council of Ministers. This authorisation provides the guidelines and objectives to be achieved in the negotiation. Once negotiated, the Council and the European Parliament formally agree the outcome. The agreement enters into force once it is fully ratified across the member states.

What about the EU's protectionist practices?

The EU has traditionally been protective of its agriculture sector, limiting agricultural imports from other countries because it wanted to be self-sufficient in agriculture. This protectionism was part of the Common Agricultural Policy (CAP), which has now been reformed. The CAP was criticised for giving

European farmers unfair advantages over their counterparts in developing countries. The EU is now opening its markets to agricultural products from least developed countries and giving them expanded trade preferences, such as in extending duty and quota free access to all products originating from these countries, except for arms and ammunition.

2. The EU and Free Trade Agreements

Why do countries pursue free trade agreements (FTAs)?

FTAs are a popular phenomenon—globally, there are more than 200 FTAs covering a large part of global trade. Countries pursue them primarily because they reduce barriers to trade and enhance the cost-competitiveness of exports.

FTAs are designed to create opportunities by:

- opening new markets for goods and services
- increasing investment opportunities;
- making trade cheaper (by eliminating customs duties);
- making trade faster (by facilitating goods' transit through customs and setting common rules on technical and sanitary standards);
- making the policy environment more predictable (by taking joint commitments on areas that affect trade).

Are bilateral and sub-regional free trade agreements stumbling blocks in the quest for multilateral free trade in the WTO?

Bilateral¹ and sub-regional² FTAs build on what can be achieved in the WTO. They can go further and faster in promoting openness and integration, by tackling issues that are not ready to be discussed in a multilateral forum. These issues might include investment, public procurement, competition, intellectual property rights, and other regulatory issues.

¹ Bilateral FTA = an FTA signed between two countries.

² Sub-regional FTA = an FTA signed between members of a smaller region such as Southeast Asia. One key example is the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), a trade bloc agreement signed in 1992 by the ASEAN member countries, supporting local manufacturing.

At the same time, these FTAs can challenge the multilateral trading system. They disadvantage countries with weaker economies, which have less negotiating power than they might have in the WTO. They also complicate trade, meaning that flows of goods don't necessarily reflect who can produce things most cheaply.

The EU has argued that to have a positive impact, FTAs must be comprehensive in scope, provide for the liberalisation of substantially all trade, and go beyond the WTO's capabilities. Future FTAs should serve as a stepping stone, not a stumbling block, for multilateral trade liberalisation.

What is the EU's policy on free trade agreements?

In 2006, the EU announced its 'Global Europe Policy'—a new trade agenda aimed at creating jobs and growth in Europe, as well as increasing its external competitiveness. The action plan for increasing competitiveness has two pillars: an internal focus on adopting sound policies to ensure the EU is open to international trade and investments, and an external focus on opening growing foreign markets for the benefit of European businesses.

As part of this external focus, the EU decided to pursue a new generation of comprehensive and ambitious FTAs. These FTAs aim for a far-reaching liberalisation of services and investment. They must also go beyond the scope of multilateral trade agreements to address issues that hamper trade and access to markets, such as non-tariff barriers in areas like intellectual property rights, public procurements, regulatory barriers, and unfair competition.

These new-generation FTAs are carefully selected and prioritised based on their economic value to the EU. There are two main criteria for choosing new FTA partners:

1. market potential (economic size and growth)
2. current level of protection against EU export interests.

Based on these criteria, FTAs with ASEAN, South Korea, and Mercosur are priorities because they combine high levels of protection with large market

potential. The EU is also particularly interested in FTAs with Russia, India, the Gulf Cooperation Council³ and China.

Why has the EU altered its trade policy?

The EU was previously focused on multilateral trade negotiations, but shifted the focus of its trade policy towards bilateral FTAs for a number of reasons.

Negotiations had stalled in the WTO's Doha agenda and the EU had already been forced to drop some important issues that it wanted the agenda to cover: investment, competition, and transparency in government procurement.

Other countries, such as the USA, began to pursue bilateral and regional FTAs. If the EU did not respond in like, it would be left in a relatively less competitive position by missing out on the advantages conferred by a free trade agreement.

Asia's strong economic growth and the growing number of FTAs in the region meant that the EU needed to strengthen its presence in Asian markets. Until its FTA with South Korea, the EU was the only leading power not to have FTAs in Asia.

3. Trade between Singapore and the EU

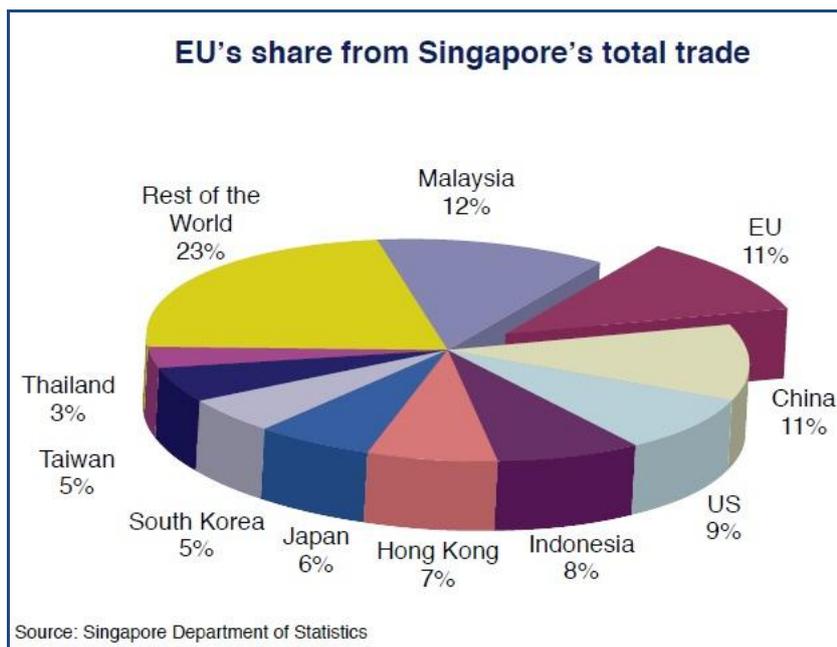
Why is Singapore important to the EU?

Singapore is an important partner for the EU. It is the EU's largest trading partner in ASEAN—amounting to one third of EU-ASEAN trade. For more than 7000 European multinational companies, Singapore is a hub to serve the growing ASEAN region. It offers business-friendly regulations and a strategic location.

³ A political and economic alliance among Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

Statistics on EU-Singapore trade

In 2010 the EU was Singapore's second largest trading partner after Malaysia. Singapore was the EU's 12th largest trading partner in the world, its largest trading partner in ASEAN, and its fifth largest trading partner in Asia.



EU's top trading partners in 2010

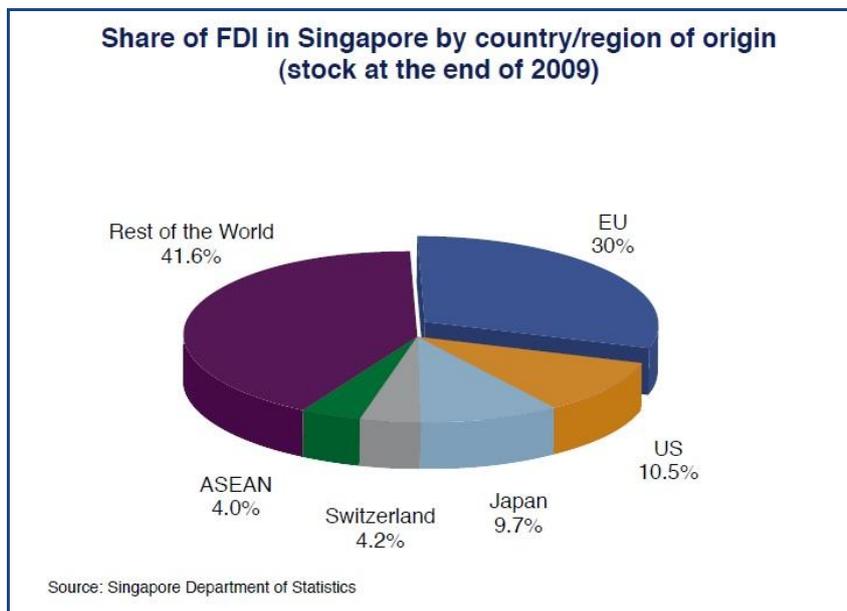
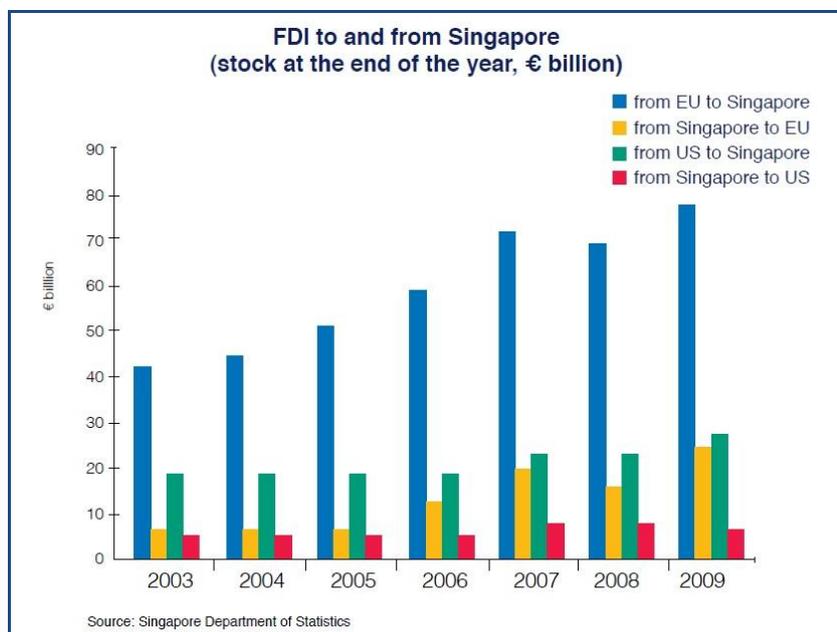
Rank	Country	Volume of trade in goods (€ billion)	Share (%)
1	USA	411.6	14.5
2	China	395.1	13.9
3	Russia	241.4	8.5
4	Switzerland	189.6	6.7
5	Norway	120.9	4.3
:			
12	Singapore	42.6	1.5
23	Malaysia	31.9	1.1
25	Thailand	27.2	1.0
33	Indonesia	20.1	0.7
38	Vietnam	14.1	0.5
45	Philippines	9.1	0.3
102	Cambodia	1.0	0.0
145	Laos	0.3	0.0
148	Brunei	0.2	0.0
149	Myanmar	0.2	0.0
(5)	ASEAN	146.8	5.2

Trade in services

The EU is Singapore's largest trading partner in services. Singapore is the EU's 8th largest trading partner in services.

Foreign direct investment

The EU is Singapore's biggest source of FDI. Singapore is the no. 7 external investor in the EU.



4. The EU-Singapore Free Trade Agreement

What is the background to this agreement?

The EU had previously tried to negotiate a regional FTA with ASEAN. Negotiations were launched in 2007, but ended in 2009 after nine rounds of negotiations. Progress had been slow and both sides agreed to put negotiations on hold. They concluded that conditions did not yet exist for a region-to-region FTA that the EU was hoping for. In particular, the significant structural differences among the economies of the ASEAN countries and their varying levels of liberalisation and development made negotiations difficult.

Hence, the EU decided to pursue negotiations with individual ASEAN countries instead, beginning with Singapore. An EU-ASEAN FTA remains an ambition, and it is hoped that the EU-Singapore FTA will be a building block for future deals, both bilateral and regional.

Negotiations between the EU and Singapore began in March 2010. There have been seven rounds of negotiations since then, with the last round in June 2011. The EU-Singapore FTA is expected to come into effect in the second half of 2012.⁴

What does this FTA include?

The EU-Singapore agreement has not yet been concluded; however, last year's Korea-EU FTA is a good indication of its likely content. A summary of its contents is provided below:

- Eliminate virtually all tariffs on manufactured goods.
- Reduce or eliminate most non-tariff barriers, including technical barriers to trade.
- Reform rules of origin (RoO) to reflect modern realities.⁵

⁴ According to Chief EU Negotiator Rupert Schlegelmilch at a news conference in Singapore on 8 June 2011.

⁵ With globalisation of the means of production, the way in which how one determines the country of origin of a manufactured product is prone to dispute and conflict.

- Address regulatory issues such as enforcing intellectual property rights, opening government public procurement to foreign bidders, and addressing anti-competitive practices.
- Introduce high level of liberalisation in most service sectors, above and beyond existing commitments in the WTO's General Agreement on Trade in Services.
- Liberalise foreign direct investments.

The inclusion of services, intellectual property, and government purchasing (that is, public procurement) make this an advanced, up-to-date FTA. It may serve as an example for future FTAs of what a comprehensive, 21st century agreement looks like.

How will this FTA affect Singapore?

Because Singapore already has almost zero tariffs on goods coming into the country, trade is not expected to jump dramatically because of this FTA. The FTA should, nevertheless, further enhance trade and investment links with the EU and give Singaporean businesses greater access to the lucrative European market.

The sector most affected in percentage terms will likely be the services sector, due to its prominence in Singapore's economy. The FTA is expected to increase Singapore's exports and output of financial and professional services.

A study commissioned by the European Commission has suggested that, on the whole, Singapore stands to gain most in terms of increased trade flows and by consolidating its position as a financial centre and a regional hub for logistics and other services.

How will this FTA affect the EU?

Without an FTA, European companies are at a disadvantage in Singapore. Singapore already has FTAs with the United States, Japan, China, South Korea, and India; this FTA will help Europe to remain competitive with these states in the Singaporean market.

What are some of the contentious issues being debated?

Negotiations have been relatively smooth and quick, partly because the usual contentious agricultural and environmental issues, such as fishing, farming, and forestry, are less relevant in Singapore.

One of the more contentious issues is ‘rules of origin’. FTAs don’t award preferential tariffs to all goods—to qualify, goods must be Singapore-originating. The ‘rules of origin’ help to determine a product’s originating status. If a big share of a product has not been manufactured in Singapore, it may not qualify for favourable treatment under the FTA.

5. The World Trade Organization (WTO) and the EU

What does the WTO do?

The WTO is an international organisation based in Geneva with more than 150 members. Its purpose is to promote free trade by encouraging countries to eliminate tariffs and other barriers to trade; as such, it is closely associated with economic globalisation.

The WTO has four main roles:

1. Oversee the rules of international trade.
2. Ensure the rules of international trade are applied.
3. Settle trade disputes between countries.
4. Organise trade negotiations.

It primarily covers trade in manufactured goods and services (like telecommunications and banking), and other issues like intellectual property rights. Developed countries are keen for the WTO to expand its agenda to cover the so-called “Singapore issues” which include: trade and investment; trade and competition policy; transparency in government procurement; and trade facilitation. However, most developing countries in the WTO oppose the inclusion of these issues.

Why does the EU participate in the WTO?

The WTO creates conditions such as predictability and stability that are essential for global economic growth. Through the WTO, the EU seeks to:

- ensure new markets for European countries;
- observe the rules of international trade and make sure others also play by them;
- promote sustainable development in trade.

How is the EU represented in the WTO?

As the world's largest trading bloc, the EU is a key player in the WTO along with other large economies like the USA and Japan. It is represented at the WTO by the EU's Commissioner for Trade, and by the European Commission (the executive body of the EU).

The Commissioner for Trade sits in the WTO's Ministerial Conference, which is the WTO's highest decision-making body. Underneath the Conference are the General Council and a number of other bodies. The European Commission represents the EU in these forums.

The European Commission coordinates with EU member states through the Trade Policy Committee and is given guidelines for negotiations by member states through the EU's Council of Ministers. The EU's Commissioner for Trade then negotiates on behalf of its 27 member states in the WTO. Once an agreement has been negotiated at the WTO, the European Commission can only sign this agreement on the EU's behalf once it has received authorisation from the Council of Ministers and the European Parliament.

How does a country join the WTO?

Becoming a member of the WTO requires compliance with its rules and negotiations with the existing member states.

When an applicant country submits its request, the WTO will form a working party to determine which of the applicant's economic rules and regulations need to be brought into line with the WTO's requirements. The

applicant country then needs to negotiate bilaterally with each member state to agree on the specific terms of membership. These negotiations are not always quick—China joined the WTO in 2001 after 15 years of negotiations.

In China's case, membership of the WTO promised to reduce discriminatory measures against low-cost Chinese products, attract foreign direct investment, and enhance China's international status. Bilateral negotiations with the EU and the US were the key to China's success in joining the WTO. Negotiations with the EU took a particularly long time. The EU wanted to strengthen its economic presence in Asia, to maintain its leading role in the world economy. It was also concerned about the gains it was securing, relative to other major players like the USA and Japan.

The Doha Development Round

The Doha Development Round is the latest round of trade negotiations, launched in 2001 in Doha, Qatar. It has a broader focus than past rounds and specifically targets the needs of developing countries. In particular, the Doha round focuses on:

- reforming agricultural subsidies;
- improving access to global markets;
- ensuring that new liberalisation in the global economy respects the need for sustainable economic growth in developing countries.

More than a decade after negotiations began, they remain unfinished. Negotiations are very complicated because of the large number of countries involved and the fact that any member can veto a final deal. The main obstacle to completion has been disagreements between key players over agricultural tariffs and subsidies; for example, the USA's subsidy for its cotton farmers. The EU has urged the reform of all rich nations' farm subsidy programmes, in line with its own 2003 reform of its Common Agricultural Policy (CAP). However the USA is not the only country to blame for the collapse of negotiations—despite reforms, European and Japanese agricultural policies have also been cited as problematic.

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