

# MULTILATERALISM OR BILATERALISM: THE EU TRADE POLICY IN AN AGE OF THE WTO CRISIS

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**Abstract.** *The aim of the study is to analyze the EU trade policy in the age of the World Trade Organization (WTO) crisis. In addition to the WTO membership and a number of international agreements within this organisation, the EU is a party to many bilateral trade agreements and negotiating further. It is the side effect of the protracted negotiations in the WTO under the Doha Development Round. The paper discusses the process of proliferation of bilateral trade agreements in the world economy and its importance for the EU. The article is divided into three parts. Part One identifies the determinants of the WTO crisis. Part Two discusses the process of proliferation of bilateral trade agreements in the world economy. Part Three analyzes the EU trade policy and the system of the EU preferential trade agreements. It also examines trade relations of the EU with the Republic of Korea, India, and the United States of America as an illustration of the new EU trade strategy.*

**Key words:** *bilateralism, European Union, common commercial policy, World Trade Organisation*

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## Introduction

One important side effect of the protracted negotiations in the World Trade Organization (WTO) under the Doha Development Round (DDR) is the proliferation of bilateral trade agreements as an alternative global trade system. Many states, dissatisfied with the course of the Doha Development Round negotiations and striving to deepen the multilateral liberalisation-related commitments adopted in the WTO, express the conviction that the limitation of the number of states participating in the negotiation process would ensure a greater progress in the liberalisation of trade under regional or bilateral negotiations. Another argument is that bilateral talks usually provoke much less interest and opposition from the objectors to free trade and various interest groups, which significantly shortens the period of negotiations and translates into a higher number of such agreements.

The European Union has started using bilateral trade agreements as a tool for achieving their economic goals, mainly as a means of opening new selling markets or improving access to the existing ones. The paper will analyse the new trade strategy of

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the European Union, which is based on the increasing role of bilateralism. It also will identify the main reasons for the process of proliferation of bilateral trade agreements in the world economy and the EU trade policy.

## **1. The crisis of the WTO**

The most basic problem with the functioning of the WTO multilateral trade system is the lack of progress in trade negotiations. The first round of the multilateral trade negotiations on the forum of the World Trade Organisation has been initiated by ministers of the member states during a ministerial conference which took place in Doha, the capital of Qatar (9–13 November 2001). The initial deadline for the discussion was 1 January 2005. Because of numerous difficulties, the negotiations were not finished within the predicted deadline. It has to be emphasised that so far the idea of multilateral trade liberalisation has never met so many difficulties. The aforementioned problems are stressed by the fact that during the whole history of the GATT/WTO multilateral trade system there has never been so long a break in successful trade negotiations as the current one.

The agreements reached in the current negotiation round is a task much more difficult than it was in the previous rounds of negotiations on the GATT forum. One has to consider the reasons behind the current crisis of the World Trade Organisation, related to its inability to meet its most basic function – a negotiation forum in the field of trade policy. Thus, one has to try and answer three questions: 1. Is the number of participants a problem? 2. The scope and organisation of negotiations. 3. Discouragement in the far-reaching compromise in agricultural negotiations.

It is certain that since the ratification of the General Agreement on Tariffs and Trade, which formed the basis for creating the GATT/WTO multilateral trade system, the number of its participants has increased significantly – from 23 in 1947 to 159 as of now<sup>1</sup>. The expansion of WTO membership makes reaching agreements among its members more difficult; however, the problem of inefficiency in trade negotiations is caused not only by the increase of the number of member states. The problem lies rather in a greater consolidation of the opinions of the developing countries which are dissatisfied with the current and past functioning of the multilateral trade system. During the entire period of the GATT-1947 functioning, the process of trade liberalisation has been subjected to executing the of interests of the developed countries (Jones, 2009). Sectors in which the developed countries had comparative advantages have been liberalised. In case of sectors in which the rich countries could not reach a high level of competitiveness, extensive systems of market protections have been upheld. Thus, agriculture and highly labour-demanding textile-clothing manufacturing had remained outside the trade liberalisation

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<sup>1</sup> State as of March 2013.

mainstream until the Uruguay Round. This situation was supposed to be changed by the Uruguay Round which, far more than previous rounds, according to stipulations of the Punta del Este Declaration, should focus on the needs of the developing countries (Finger, 2001). Initially, the modest effects within liberalisation of trade in agricultural products and a number of disciplines inconvenient for developing countries which had been accepted back then (in particular the TRIPS agreement) did not change the situation of the developing countries in the world trade system. For this reason, the developing countries want to execute more efficiently their interests in the current round of trade negotiations. It is facilitated by consolidation of the opinions of developing countries forming the G-20 Group<sup>2</sup>, which have become a significant force able to stand against the negotiation position of the highly developed countries. An example of efficient action of the member states of the group is the fiasco of the Cancún ministerial conference. The Doha Development Round, started in the capital of Qatar, according to initial assumptions was supposed to end with taking appropriate obligations during the Mexican summit in Cancún. Developing countries, which had permanently joined their forces, lead to the fiasco of the conference by rejecting liberalisation proposals of the rich countries. The G-20 Group member states refused to open their market until farmers from the developed countries stop being subsidised by their countries (Costantini, Crescezi, De Filippis, Salvatici, 2007). These countries firmly demanded a change in the politics of the rich countries related to agriculture and the market of agricultural products. Significant limitation of agricultural subsidies was demanded for a change in customs politics and decreasing import limits for this group of goods. According to the G-20 Group member states, stopping subsidies for agriculture would lead to its much faster integration with the world trade system (Horlick, Clarke 2010).

Reaching an agreement between the North and the South on the WTO forum is also made more difficult by the specific situation in which the economic interests of the United States and the European Union, on one side, are crossing the political interests of Brasil, India, and China. These three countries pay attention not only to reaching favourable conditions of market access, but they also want to gain political prestige and recognition on the international arena as “economic powers” growing in power.

The evolution of the multilateral trade system involved not only an increase of the number of members of the multilateral negotiations, but mainly also the scope of the negotiations increased. Except for the trade of goods, during the Uruguay Round the scope of the multilateral system was expanded with services, trade aspects of intellectual

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<sup>2</sup> The G-20 Group is a group of developing WTO member states. Currently, the group has 23 members: Argentina, Bolivia, Brasil, Chile, China, Cuba, Egypt, Ecuador, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philipines, RPA, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe. This group was formed before the Cancun summit. Its goal is limiting all forms of agricultural subsidies, including, first and foremost, agricultural export subsidies and trade-distorting domestic support.

property rights, and trade aspects of investments. The programme of the multilateral negotiations of the Doha Development Round initially encompassed the following subjects: implementation of existing agreements, agriculture, Non-agriculture Market Access (NAMA), services, intellectual property protection (geographical indications, TRIPS, TRIPS and public health), Singapore issues (investments, competition policy, transparency in government procurement, trade facilitations), the WTO rules (related to anti-dumping, subsidies and countervailing measures, trade agreements, settling of trade disputes), environment protection, electronic commerce, problems of small economies, technical cooperation and capacity building, problems of the least-developed countries, special and differential treatment, debts and financial matters as well as relations between trade and technology flow (Finger, 2002). Currently, there are suggestions on the necessity of the WTO undertaking problems related to work standards.

Except for the expansion of scope, the slow progress in the DDR negotiations is also blamed on the very formula of the proceeding, according to which “nothing is agreed upon until everything is agreed upon (the rule of “single undertaking”, Wolfe, 2009)”. Despite the fact that in many important matters a similar opinion of the participants has been reached, the lack of agreement on one matter excludes an agreement on the matters agreed upon. In contrast to the previous negotiation rounds, in the current round, at its start, no quantifiable negotiation goals have been decided upon. In all previous cases, the usual practice was to determine at the outset the scale of tariff reduction. During the Doha Round, the manner and scope of liberalisation have been left to be agreed upon during the negotiations themselves.

A very important problem which significantly influences the disfunctionality of the multilateral trade system is unwillingness towards a far-reaching compromise in the agricultural negotiations. Currently, agricultural negotiations are one of the basic obstacles that make the finishing of the DDR negotiations difficult. Trade in agricultural products, comprising only slightly above 7% of the international trade exchange, has been one of the central problems and challenges for the members of the GATT/WTO multilateral trade system for decades. The reason for such a situation is the range of protectionism used in agriculture by developed countries. Because of domestic interventions in the agricultural sector of these countries, significant deformations negatively influencing the state of the world market and the market share of agricultural producers from developing countries have arisen (Tokarick, 2008). The nature of the problem is supported by the fact that different positions related to agricultural problems led the multilateral negotiations within the GATT/WTO system to the edge of fiasco. An example, except for the discussed Doha Round, is also the Uruguay Round where disagreements related to liberalisation of agricultural trade almost lead to a break in the proceeding and delayed the end of the negotiations.

During the Doha Round, agricultural negotiations divided the WTO member states, not only along the North–South lines, into developing countries demanding a change in the politics of the rich countries related to agricultural production and agricultural market, including a significant reduction of agricultural subsidies, change in tariff policy and decreasing import limits for this group of goods, and developed countries trying to maintain the wide protection of their own agricultural production. Significant differences in the opinions are also noticeable within the developed countries. On the one hand, there are countries which belong to the Cairns Group<sup>3</sup> (Australia, Canada, New Zealand) and, just as the G-20 member states, they postulate the elimination of all forms of agricultural export support. On the other hand, there are the European Union and the United States having extensive programs of protection and support for the agricultural market. It should also be stressed that countries aiming at maintaining certain levels of protection in agricultural trade have a different vision of the concessions that should be made to the developing countries, which is illustrated by different negotiation opinions of the EU and the USA.

Another reason behind the difficulties with finishing the negotiations of the Doha Development Round is a decrease of expected benefits resulting from the implementation of its agreements. Developing countries are also afraid of high adaptation costs. The global economic crisis, too, does not favour the multilateral trade liberalisation (Bussière, Pérez-Barreiro, Straub, Taglioni, 2011). During the crisis, countries favour protectionist tools rather than the free market policy. According to the data of the World Bank, in the period from October 2008 to February 2009, governments of some countries have implemented 47 restrictive tools of trade politics in total (Gamberoni, Newfarmer, 2009). Together with the increasing economic crisis, a deepening decrease of world trade revenues was observed. For example, the total export of the European Union in the fourth quarter of 2008 decreased by 16% in comparison with the analogous period of 2007. The response of the World Trade Organisation to the increasing crisis of the global economy was a decision to expand the WTO work, i.e. by monitoring the trade measures taken during the current financial and economic crisis, intensification of works within the Aid for Trade programme, and trade funding (Godlewska, 2009).

Thus, what is the World Trade Organisation without an effective execution of its function as a negotiation forum? The World Trade Organisation still has the function of the code of conduct in the trade policy on the basis of current agreements and rules agreed upon within them, as well as provides a mechanism of following these regulations as a system of trade dispute settlements and a trade policy review mechanism.

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<sup>3</sup> The Cairns Group is a coalition of 18 countries representing one third of the world agricultural export (Argentina, Australia, Bolivia, Brasil, Chile, Guatemala, Indonesia, Canada, Colombia, Costa Rica, Malaysia, New Zealand, Paraguay, Philippines, RPA, Fiji, Thailand, and Uruguay). It supports the elimination of all forms of support of agricultural export. The name of the group is based on Cairns in Australia, where the first meeting of representatives of these countries took place in 1986. The Group has contributed to introducing the agricultural problems into multilateral negotiations on the GATT forums. Some of its members belong also to the G-20 group (Brasil, India).

## **2. Proliferation of bilateral trade agreements in the world economy**

Initially, the progress of trade liberalisation under the preferential trade groupings was relatively slow, but since the mid 1990s it has been particularly intensive. In the whole period of the GATT functioning (1948–1994), the parties to the Agreement notified 124 various preferential trade agreements. In 1995–2006, over 130 new notifications concerning agreements liberalising the trade exchange of the states being parties to these agreements were filed with the World Trade Organization (Cieslik, 2001). In 2009, the WTO was notified of 20 new preferential agreements. In 2010, the further 13 agreements of this type were submitted (Baldwin, 2011). At present, approximately 300 various preferential trade agreements are in force. Each member of the WTO (except Mongolia) is a party to at least one preferential trade agreement. On the average, there are 13 preferential agreements per one member of the WTO (WTO, 2011). The European Union is the leader in this respect (30 agreements), but we should also mention Chile (26), Mexico (21), the European Free Trade Association (20–22), Singapore (19), Egypt (18), Turkey (17), as well as Brazil (13), India (12), and China (10).

It is rather hard to identify one main reason for the process of proliferation of bilateral trade agreements. To explain this phenomenon, we could mention the traditional arguments for free trade. Furthermore, academic literature on the subject also identifies many reasons, specific to particular states, for concluding bilateral trade agreements.

Apart from bilateral preferential agreements, the process of trade liberalisation includes also activities implemented on a regional scale (Lee, 2011). The main reason behind the regional integration agreements is to increase the mutual trade turnover (trade creation effect) and thus to benefit from the scale of production. Economic integration within the framework of these structures also creates favourable conditions for the expansion of distribution networks, for diverting supply to the members of the preferential agreement (trade diversion effect), as well as for attracting additional investments (Freund, 2011; Fink, Molinuevo, 2008). Despite the rather widespread belief that, in comparison with global regulations, benefits from regional liberalisation are easier to internalise, the practice in this respect indicates a different level of the progress of trade liberalisation in this system (Feaver, Wilson, 2007). The far-reaching liberalisation-related commitments concerning the movement of goods and capital are usually accompanied by more modest commitments concerning the opening of the market in services (Park, Park, 2011). At this point, it should also be stressed that the scope of trade liberalisation under integration agreements has undergone an extensive evolution. The numerous integration groups established in the 1990s, in the period of the so-called second wave of global economy regionalization, were focusing mainly on reducing the customs barriers. Nowadays, the fundamental goal of regional structures is to eliminate non-tariff barriers. Apart from the already mentioned trade in services, other subjects of interest

of preferential trade agreements include government purchases, competition policy, the commercial aspects of investments, technical barriers, and protection measures.

The reasons behind economic integration under bilateral or regional agreements are gradually changing as well. Initially, it was all about exchanging access to the market through reducing customs tariffs. Nowadays, the goal of creating favourable conditions for the internationalization of the entrepreneurs' activities and providing an opportunity to run a business in other markets is increasingly dominant. The states are trying to support the activity of their enterprises abroad, and this requires an entirely new approach to the trade policy implementation. Therefore, more and more often, the aim of external economic policy is not the exchange of customs concessions, but striving to balance the interests of domestic enterprises and industries through concessions granted to foreign entities (Halizak, 1995). As a result, the process of economic integration not only creates favourable conditions for the intensification of trade flow, but also facilitates the flow of production factors and the development of international production networks.

While analysing the reasons for the development of bilateral trade agreements and regional integration structures, we should also consider the so-called 'domino effect'. Not wanting to be left behind with respect to the changes taking place in the world economy, states copy the behaviour of others and try to participate in the ongoing processes, as proven by the constantly growing number of preferential trade agreements (Abbott, 2007).

Considering the large number of bilateral trade agreements, they should be analysed according to several criteria. The WTO reports on the role of preferential trade agreements characterized these structures using the following factors: the level of economic development of the parties to the agreement, the geographical coverage, type, degree of market integration, and the substantive scope of the agreement (WTO, 2011).

Bilateral trade agreements are concluded by states with a similar level of economic development (North–North or South–South relations), as well as between economies which differ in this respect (North–South relations). In the last years, the number of agreements concluded by developing countries has been systematically growing. This is proven by the change in the share of South–South agreements in the overall number of preferential agreements.

With regard to geographical coverage, bilateral trade agreements can be divided into intraregional and interregional. The number of agreements of both types is systematically growing. The highest number of intraregional agreements has been concluded by European countries, followed by the CIS states and African countries. In interregional agreements, the dominant position is held by South America, followed by Europe and North America.

Academic literature on the subject identifies three types of preferential trade agreements: bilateral, plurilateral and those concluded by the already existing PTAs. In the last

years, we have observed a particularly intensive development of bilateral trade agreements. Bilateral agreements are concluded by both economies from the same region and countries geographically distant from each other. An analysis of agreements concluded in the recent years shows that bilateral interregional relations tend to dominate. For instance, the United States signed free trade agreements with Israel (1985), Jordan (2000), Singapore (2003), Chile (2003), Morocco (2004), Bahrain (2004), Oman (2006), Peru (2006), Columbia (2006), Panama (2007), and the Republic of Korea (2007). It is also worth stressing that the countries that until recently have based their trade policy on multilateral commitments within the framework of the WTO, nowadays complement their multilateral commitments with bilateral agreements. A good example is the Republic of Korea which, in contrast to the United States, does not have a long tradition regarding bilateral free trade agreements. South Korea has started undertaking efforts aimed at strengthening the economic relations with its main trade partners relatively late. Until the infamous fiasco of the WTO conference in Seattle, Korea, just like Japan, limited itself to participating in multilateral negotiations within the framework of the GATT/WTO international trade system. Both countries, dissatisfied with the functioning of that system and faced with difficulties in starting the next round of negotiations, undertook efforts aimed at the liberalisation of trade under the agreements concluded with important economic partners (Scott, Bradford, Moll, 2006). At present, the Republic of Korea has a free trade area with Chile, Singapore, the European Free Trade Association (EFTA), the EU, the USA, Peru, the Association of South East Asian Nations (ASEAN), India, and it is conducting negotiations with Mexico, Canada, Japan, Australia, the countries of the Gulf Cooperation Council (Wróbel, 2011).

Apart from the geographical coverage and type of agreement, the description of bilateral trade agreements should take into account the degree of market integration and the substantive scope of the agreement, as these two criteria make it possible to assess the progress of economic integration within the structures in question. The majority of bilateral trade agreements take the form of free trade areas, with many exclusions regarding the preferential treatment of goods specified in the agreements. There are also many agreements in which commitments typical of free trade areas are accompanied by disciplines serving the elimination of barriers in the services sector. Agreements ensuring the liberalisation of the parties' trade turnover as regards specific goods or sectors (partial scope agreement, PSA) are slightly less numerous. While analysing the substantive scope of bilateral trade agreements, it should be stressed that, especially since the 1990s, many of these agreements set ambitious targets for themselves regarding the liberalisation of trade in both goods and services. Nowadays, almost one third of PTAs include commitments concerning the trade liberalisation in services (for example, NAFTA, EU–South Korea FTA, the US–South Korea FTA).



### 3.The EU trade policy

The European Union's trade policy is based on the political conception of a competitive European economy existing in an open system of the world trade, based on multilateral rules supplemented by principles developed within the framework of bilateral and regional trade agreements (Mcguire, Lindeque, 2010). In addition to membership in the WTO and a number of international agreements within this organisation, the EU is a party to many international agreements which cover subjects included in the Common Commercial Policy. The diversity of these agreements makes it difficult to make a clear classification. There are two types of such agreements: 1) trade agreements (including customs agreements), which may be preferential or non-preferential; 2) mixed agreements (mainly association agreements, agreements on trade and economic cooperation and partnership, and economic cooperation agreements), which are more extensive than trade agreements (Adamczyk, Piasecka-Głuszak, 2008).

The European Union has a well-developed system of trade preferences. It concludes preferential trade agreements of two types. The first of these provide for the mutual granting of certain concessions by the partners in the form of tariff reductions and/or reducing other trade barriers. The second type of agreements includes those under which the EU unilaterally grants preferences to its trade partners. The aim of the actions taken by the Union within the WTO and under bilateral trade agreements is to promote solutions favourable for building prosperity by ensuring the internal stability and economic development of countries in different regions (Grącik-Zajączkowska, 2010).

Since the founding of the EEC, many preferential agreements have been concluded with trade partners. These agreements vary in nature, i.e. in the scope of preferences granted. On the basis of the criterion of declining trade preferences (mainly customs duties), trade agreements concluded by the EU can be presented in the form of the so-called 'pyramid of preferences'. Thus, we can distinguish the agreements or unilateral decisions of the European Union, which:

- establish a customs union between the EU and its partners (such as Turkey), which consists in abolishing trade barriers between the parties to the agreement, as well as in setting up a common external tariff (or the equivalent level of customs duties) on imports from outside the EU;
- build a free trade area (for example, with the Republic of Korea), which involves the removal of trade barriers (duties, quantitative restrictions and others) between the parties to the agreement;
- grant unilateral trade preferences (for example, to African, Caribbean and Pacific countries and countries covered by the Generalized System of Preferences – GSP);
- establish no preferences (they guarantee the most favoured nation MFN (clause) based on the WTO agreements; trade agreements often only confirm the rules

applicable in this system). An example of such a contractual relationship is the agreements concluded with the USA, Japan, Australia, New Zealand, Hong Kong, Singapore and other countries not covered by customs preferences;

- partners are treated less favourably in trade relations than the countries subject to the most favoured nation clause (discriminatory treatment). In the past, such agreements were in place, e.g., with the Council for Mutual Economic Assistance (CMEA) (Ambroziak, Kawecka-Wyrzykowska, 2004).

It should be noted that as a consequence of the fact that the unilateral tariff preferences granted to ACP countries by the EU have been challenged at the WTO by other developing countries that could not benefit from such preferences, the unilateral system of trade preferences for developing countries, initiated by the Convention of Lome, will be replaced by Economic Partnership Agreements (EPAs). The departure from unilateral preferences towards the mutual abolition of customs duties specified in EPAs is to ensure that the EU's relations with the ACP countries will comply with the rules of the WTO (Desta, 2006).

Another type of cooperation agreement concluded by the EU is the Partnership and Cooperation Agreement (PCA). The EU has concluded such agreements with Russia, Ukraine, Moldova, Kazakhstan, Armenia, Georgia, Kyrgyzstan, Uzbekistan, Azerbaijan, and Tajikistan.<sup>4</sup> These agreements have been concluded with countries that were not the WTO members, and their aim is to introduce the rules applied to WTO members in mutual trade relations. Upon accession to the WTO, the provisions of these agreements will be replaced by the existing multilateral rules in force within the organization.

Free trade agreements are the key element of the European Union's common trade policy. The rationale behind such agreements is the opportunity they bring to gain better access to current and new markets for European producers, service providers and investors, which also contributes to increasing the competitive potential of the single European market and its member countries. Free trade agreements (FTA) are negotiated with selected trade partners. The European Commission's Communication of 4 October 2006 "Global Europe: Competing in the World" specifies that the economic criteria for new FTA partners should be the market potential and the level of protection against the EU exports, including the potential partners' negotiations with the EU competitors (European Commission, 2006). The fulfilment of both criteria enabled, for example, the launch of trade negotiations between the European Union and the Republic of Korea or India.

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<sup>4</sup> A PCA with Turkmenistan was signed in May 1998; however, it has not entered into force.

### **3.1. The European Union – Republic of Korea FTA**

When considering the reasons behind the European Union's interest in strengthening economic ties with the Republic of Korea, it should be noted that this country is one of the EU's tenth largest trading partners. Taking into account only non-European partners, Korea is the eighth largest trading partner of the EU, behind the US, China, Russia, Turkey, Japan, Brasil, and India. The EU is, in turn, the third largest market for Korean exports. The average annual increase in trade exchange between the EU and Korea in the years 2008 and 2012 was approximately 3.8%, although, as a result of the global economic crisis, the trend slowed down in 2009. In 2012, bilateral trade exchange amounted to 75 billion euros (DG Trade 23 May 2013). Among the EU member states, Korea's largest trading partner is Germany, followed by the Netherlands, the UK, France, and Italy. However, the EU has recorded a trade deficit with Korea, even though trends indicate that the Korean market offers a significant growth potential. Goods and commodities produced by the European Union with the greatest export potential include chemicals, pharmaceuticals, auto parts, industrial machinery, non-ferrous metals, iron and steel, leather and furs, wood, ceramics, and glass. For these categories of goods, the EU maintains a significant trade surplus. In the case of agricultural products, the Republic of Korea is also an attractive export market for European farmers, as the country is one of the world's leading importers of agricultural products, purchasing 1 billion euros worth of produce. The EU has also recorded a considerable surplus in the case of trade in services with Korea. The value of services exported by the EU to the Korean market in 2011 amounted to 9 billion euros, while the EU service imports from Korea totaled 4.5 billion euros. A noteworthy fact is that since 1962 the European Union has been the largest investor in the Korean market. In 2011, the value of the EU direct investment in South Korea amounted to over 2.5 billion euro, while the Korean direct investment in the EU reached only 1.4 billion euro.

As a result of a systematic growth in the importance of the Republic of Korea in the world economy and the growing trade turnover in relations with the European Union, the EU conducted trade negotiations with this country, ending in a free trade agreement in the field of free movement of goods, services, and entrepreneurship.

The negotiations on the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part started in May 2007. So far, mutual economic relations had been regulated by the Framework Agreement for Trade and Cooperation, concluded on 10 March 2001 in Brussels. The negotiations on the new agreement moved forward quickly. According to the original plans, they were to be concluded during the Czech presidency in the EU. In the end, they were initialled in October 2009, and on 16 September 2010 the Council of the European Union gave its consent to the signing of the agreement. The ceremonial signing of the

agreement by the Belgian presidency, the European Union and the Republic of Korea took place in Brussels on 6 October 2010, at the EU–Korea summit.

One of the declared reasons for concluding the agreement was the intention to further strengthen their close economic relationship as part of and in a manner coherent with their overall relations. The parties to the agreement were also convinced that the agreement would create a new climate for the development of trade and investment between them and that it would create an expanded and secure market for goods and services and a stable and predictable environment for investment, thus enhancing the competitiveness of their firms in global markets. In addition, the agreement should become a factor supporting the expansion and development of the world trade under the WTO international trade system and under multilateral, regional and bilateral agreements and arrangements to which they are party. The parties to the agreement reaffirmed their commitment to priorities such as sustainable development, poverty reduction, full and productive employment and decent work for all as well as the protection and preservation of the environment and natural resources.

According to the estimates of the European Commission, the agreement will bring the EU around 19 billion euro a year in the form of a new trade exchange. Thus, the effects of the agreement will be felt directly by the EU exporters, as the Korean customs duties of 1.6 billion euro a year will be abolished. However, the final economic effects of the EU–Korea agreement will be there to see only after the gradual implementation of all stages of reducing barriers to trade.

### ***3.2. The European Union – India free trade negotiations***

For many years, India has been stressing the importance of economic relations with the European Union. Mutual relations have been strengthened since the first EU–India summit in Lisbon in 2000. An important factor in intensifying mutual cooperation is the strategic EU–India partnership with the aim of supporting peace, stability, democracy, human rights, rule of law and good governance, cooperation in reducing poverty, inequality, and social exclusion; cooperation in environment protection and climate change as well as increasing economic exchange and ensuring the strengthening of the international economic order. Among the above-mentioned priorities, the most important are economic relations. As Jakub Zajączkowski points out, despite the development of political relations and cooperation in research and education, the main characteristic of the relations between New Delhi and Brussels at the beginning of the 21<sup>st</sup> century is their economisation (Zajączkowski, 2010). After the Cold War, the main dimension of mutual relations is still trade relations. The European Union is India’s largest trading partner, while India is the eighth largest trading partner of the EU (by comparison, in 2000, India was the 17<sup>th</sup> in this respect). In 2012, the value of Indian exports of goods to the

EU amounted to 37.3 billion euro and 11 billion in the case of services. With regard to imports, the respective figures were as follows: 38.5 billion and nearly 11.5 billion euro. Thus, India's trade balance with the European Union is negative. However, the deficit is mitigated by a significant direct investment in this market by European concerns. In 2011, the value of the EU direct investment in India amounted to over 14.2 billion euro, while the Indian direct investment in the EU reached only 1.0 billion euro (DG Trade, 29 May 2013).

The liberalisation of mutual trade is to serve the further development of economic cooperation between India and the EU. To this end, actions were taken towards the creation of a free trade area. In 2005, the EU and India adopted a Joint Action Plan, with the aim of, among others, bringing the two sides closer and developing trade relations. In the second half of June 2007, the European Commission conducted the first round of negotiations with India on a free trade agreement. The result of these negotiations is to be a broad trade and investment agreement which will, however, remain complementary to the priority actions within the framework of the WTO. So far, the talks have been focusing mainly on the negotiation parameters and goals, and they are progressing very slowly. This circumspection results from the fact that both sides have strong offensive and defensive interests. Moreover, the slow pace of the negotiations is not a matter of tactics but rather of India's analysis of benefits from the common free trade area with the EU as compared with the potential results of the ongoing round of multilateral trade negotiations in the World Trade Organization (Gupwell, Gupta, 2009). It is also worth underlining that the establishment of the free trade area will require further changes in India's trade policy, namely in the field of reducing barriers to trade (Gasiorek, Holmes, Robinson, Rollo, Shingal, 2010). A wave of criticism in India against the negotiated agreement was caused by the proposal to abolish customs duties on products from the EU. The opponents of the agreement insist that this decision, with the current subsidising of agricultural production in the EU maintained, would lead to serious negative effects for the Indian agricultural sector and millions of family farms in the country. On the other hand, the proposals to open the EU market to Indian services presented so far are also unsatisfactory. In India's view, access to the EU market in services is hampered by the restrictive visa policy of the EU and barriers concerning employment in European countries.

So far, the greatest differences in opinion have appeared in the issue of opening markets to cars and car parts, wines and spirits, and services. It also seems extremely difficult to reach an understanding in the field of rules of the origin and geographical indications of commodities. For India, one of the most sensitive negotiation problems is the regulations concerning the protection of intellectual property, since social organisations in this country fear that they would harm the pharmaceutical industry by reducing access to

cheap medicines in India and other developing countries. The EU's position in the negotiations, aimed at working out much further-reaching commitments than those adopted by the two sides within the framework of the WTO gives rise to concerns. The EU is also interested in gaining access to the Indian public procurement market. Negotiations in this field are especially important for the EU because India has not adopted the non-obligatory Agreement on Government Procurement worked out under the GATT/WTO, and thus it is not obliged to the non-discrimination of foreign enterprises in public procurement proceedings.

### **3.3. Trade relations between the EU and the USA**

The relations between the European Union and the United States, just as the relations with Japan, are conducted under the WTO rules, although it does not mean that there have been no proposals for developing preferential conditions of trade between these two entities. One initiative of this kind was a proposal for the Transatlantic Free Trade Area (TAFTA). The establishment of the TAFTA was meant to ensure more freedom of action for entrepreneurs and intensification of mutual trade exchange. The idea has not been put into effect due to failure to reach an agreement between both partners. In addition, the initiative to create a free trade area between the USA and the EU raised concerns among third countries. The establishment of such a large and strong economic organism could threaten the states that are outside of it (Jarczewska-Romaniuk, 2009).

The idea of the TAFTA has never been realised; neither was the next proposal contained in the New Transatlantic Agenda of 1995. The proposal concerned the establishment of a Transatlantic Marketplace, which was to contribute to a gradual reduction of barriers in the movement of goods, services, and capital, and as an end result, to the facilitation and intensification of mutual trade and investment relations.

After these two failures, one definitely positive result of the transatlantic cooperation was the establishment of the Transatlantic Economic Partnership (TEP), which followed the 1998 EU–USA summit in London. The actions planned under the partnership included the establishment of a more open and accessible world trade system, as well as the improvement and development of economic cooperation between the EU and the USA. Other effects of the TEP initiative include agreements facilitating mutual trade and the strengthening of cooperation within the framework of transatlantic economic dialogues.

Yet another initiative towards the institutionalisation of transatlantic economic relations was the Positive Economic Agenda (PEA) created as a result of the decisions made at the 2002 EU–USA summit in London, whereas in 2007 the two partners adopted the New Framework or Advancing Transatlantic Economic Integration between the European Union and the United States of America, which was to strengthen cooperation in this field. The objectives contained in this document are realised by the Transatlantic

Economic Council (TEC) which coordinates the work of the parties to achieve a deeper economic integration.

In February 2013, the European Union and the United States of America announced their intention to start negotiations on the Transatlantic Trade and Investment Partnership (TTIP). According to the text of the EU draft mandate, the agreement should provide for the progressive liberalization of trade and investment in goods and services as well as rules on trade and investment-related issues with a particular focus on removing unnecessary regulatory barriers. It is a very ambitious project with an important influence of the multilateral trade system. It would be the biggest bilateral FTA ever negotiated. Both parties are the world's largest economic and trade powers. The EU and the US together account for about half of the world GDP. Their share in the world merchandise export amounts to 25.2%. In 2011, the total share of the EU and the US in the world services export amounted to 43% (WTO, 2012).

## **Conclusions**

The trade policy conducted by the EU and its Member States, under which multilateral actions within the WTO are supplemented by bilateral agreements concluded with the main trade partners, surely strengthens their position in the world economy. Under these bilateral agreements, the EU is gaining a more preferential access to markets. As shown by the examples discussed in this paper, an important element of the EU Common Commercial Policy in the recent years was the negotiations on free trade agreements. The main aim of concluding agreements of this kind is to facilitate access to the existing and new markets for European producers, service providers and investors, thus increasing the competitiveness of the Single European Market, including the economies that make it up. The free trade agreements are negotiated with selected trade partners. The competition strategy "Global Europe: Competing in the World", adopted by the Council on 13 November 2006, stipulates that the partners are selected on the basis of the market potential, the level of protection of the EU products, including also negotiations on free trade areas, initiated between these countries and other countries or regions which compete with the European Union (European Commission, 2006).

An additional factor that justified bilateral trade negotiations between the EU and its key trade partners was the multilateral talks taking place concurrently during the Doha Round. This is because the EU had been carrying out the strategy of gaining access to new markets for its producers through bilateral agreements as a complementing measure to negotiations taking place within the multilateral WTO framework. This follows from the fact that the process of multilateral negotiations does not affect the course of bilateral trade talks which enable the development of partnership and cooperation with countries outside the EU. Thus, bilateral agreements with the key trade partners allow the EU to

establish a favourable competitive position for European enterprises. Currently, the EU's most important partners in negotiations concerning the liberalisation of trade exchange include the United States, India, Japan, Canada as well as the ASEAN and the Mercosur trading blocs. In addition, according to the European Commission, Azerbaijan, Brunei Darussalam, Indonesia, Philippines, Ecuador, and Bolivia are also the countries that satisfy the criteria for entering trade negotiations.

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