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**TRADE POLICY OF THE EUROPEAN UNION AND  
REGIONAL NETWORKS**

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## **1. The European Union's multilateral stance and its system of preferences: the challenges ahead**

The position of the European Union (EU) as the world's leading exporter of goods - and the second largest importer - confirms both the importance of trade to the European consumers and producers, and the significance of the Union as a major market for most WTO Members, notably developing countries<sup>1</sup>.

The interdependence between the EU and the rest of the world is the result of a longstanding commitment to the multilateral trading system, as well as European's pledge to an extensive network of Regional and Preferential Trade Agreements (PTAs). Partly by necessity and partly by design, since its early days the EU's trade policy has been 'walking on two legs': multilateral liberalisation and regional or preferential integration. Indeed, the trade liberalisation effort has been carried out: reducing trade barriers internally, striking regional trade agreements, and participating actively in multilateral trade negotiations (OECD, 2000).

At the multilateral level, the European Union played a fundamental role in the last four GATT Rounds and more recently has committed to adopt sensible actions in the new trade Round launched in November 2001 with the Doha Development Agenda, (DDA). The DDA figures as a top trade policy priority of the EU, and is a clear confirmation of the strong support of the Union towards multilateralism and the rule of law in international trade relations. At the same time, the EU negotiated a vast network of preferential agreements with its neighbours in the Eastern Europe and Mediterranean and with many other countries in Latin America, East Asia, and the Middle East. The complex system of preferences that the EU established with third countries and regions, demonstrates the importance that the Union has always attached to the preferential integration option.

The European system of preferences generated longstanding criticism at the economic level because, it was argued, discrimination infringes the principles and obligations accepted in the multilateral context. Additionally, it was stressed that the complex pyramid built by the EU brought ambiguous benefits to the countries involved and that these countries and regions did not represent strong economic partners for the Union. Hence, European preference schemes cause discrimination and doesn't seem to be justified on economic grounds.

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<sup>1</sup> According to the data of WTO, the figures indicate that in 2000 the EU was the principal world merchandise exporter (17%, equivalent to US \$ 859 billion), and the second largest importer (18% of world imports, with US \$ 966 billion). While, in the same year European Union's external trade exports in services amounted to € 291 billion, and the imports to € 286 billion. The same relevance is attested by outflows and inflows of Foreign Direct Investments (FDI) (WTO, June 2002).

Nevertheless, there is widespread agreement on the fact that a regional approach to trade liberalisation should serve as a complementary instrument which increases the scope of countries to benefit from the multilateral trading system.

More recently, however, old concerns on the effects of the proliferation of EU's system of preferences flared up again, since other major global actors, first and foremost the US, are now actively pursuing the regional route. The greatest fear is that the multilateral system crumbles under the pressure of the formation of conflicting trading blocs. On the other hand, we know that regionalism allows to deal with issues that are very difficult to be dealt with in multilateral trade negotiations. The key question is how to guarantee that the regional option serves as a stepping stone towards the creation of a multilevel governance regime.

Looking back to the past, the EU has always maintained a sort of special position combining economic regionalism with multilateralism, and the composite mix of the two worked quite effectively in favouring multilateral liberalisation. So it seems that the system of regional integration agreements constructed by the Union was not in contrast with the multilateral option. But today, with the changes that are occurring on the international scene - the proliferation of the preferential agreements for many WTO Members and the tensions at the multilateral level - the European Union faces an awkward and tougher test: try again the squaring of the circle, reconciling these two different approaches, regionalism and multilateralism. Consequently, new methods and new solutions are demanded. Even though the Union is actively engaged to face the challenge, it won't be easy, the walk seems both complex and delicate, yet it's the only possible way ahead.

In the present paper we will try to highlight the great contribution that Europeans could give to strengthen the global governance of the international trading regime, both through the improvement of the cooperation in the regional and preferential dimensions, and through a sound commitment to the multilateral trade organization principles and practices. Therefore, we first offer a synthetic picture of some of the different layers that form EU's network of preferences, summarising their main features; the aim being to understand what the EU should do to make *old* preferential agreements more effective and coherent, and what lesson could be drawn for new future preferential agreements.

In the second part of the paper our attempt will be to outline the Union's differentiated interests and positions in the Doha Development Agenda. The aim would be to emphasize the decisive role of the EU in the multilateral negotiations underway.

We argue that, at the multilateral level, a fundamental contribution could be given by the EU through the strengthening of the Doha Development Agenda negotiations; since the EU always exercised a leadership role in multilateral talks - together with other major global actors, namely the US - and worked to rebuild confidence and cooperation within the WTO after the debacle in Seattle. The Doha Development Round represents a major stake for three main reasons: i) is *the forum* in which the multilateral framework can be strengthened and improved; ii) is a decisive test for the EU to demonstrate its ability to exercise a influential role in the international trading system - negotiations 'should' end in 2005; iii) only a clear and sound commitment to the multilateral system can guarantee the success of the European regional option. In the light of that we point out that the European Union's trade policy has to face great challenges as well as significant opportunities in the near future.

## 2. The EU's trade policy network

At the world level, over 60% of trade takes place within regional arrangements that have either achieved free trade or have pledged to do so, but each country group has quite different shares. The end of the Cold War entailed the enormous proliferation of PTAs – both with developed and developing countries – as well as a significant geographical increase in European's preferential agreements. EU's regional strategy towards third countries has also been changing radically since 1990s, because non-reciprocal PTAs will gradually be eliminated and substituted by reciprocal agreements, apart few exceptions.

The Union has signed a growing number of inter-regional or bilateral preferential agreements. Free Trade Areas (FTAs) have been negotiated with the EFTA (European Free Trade Association)<sup>2</sup> countries, with the Central and Eastern European Countries and the Baltic states. Customs Unions (CU) have been concluded with Turkey, Cyprus and Malta. Many of these countries are expected to become full members of the EU, and trade policy has therefore paved the way for further integration. The EU is currently negotiating FTAs with the Balkans and discussions are even underway on a possible economic area with Russia. Vis-à-vis its neighbours in the Mediterranean, the EU already has FTAs with: Tunisia, Morocco, Egypt, Jordan, Israel, and the Palestinian Authority. FTAs have been initialled with Algeria and Lebanon and further trade agreements are being negotiated with Syria, Iran and the Gulf Co-operation Council (GCC). Further, PTA have been concluded with MERCOSUR (Mercado Común del Sur, Common Market of the South)<sup>3</sup>, the Andean Pact and CARICOM (Caribbean Community)<sup>4</sup>, as well as with Mexico and Chile, and in East Asia with the ASEAN (Association of Southeast Asian Nations)<sup>5</sup>.

It's not easy to go through the complex history and purposes of EU's preferentialism, and this is not the aim of the present paper. Box 1 shows the regional or preferential trade agreements between the European Union and third countries, in force in mid 2002, offering a synthetic picture of the different layers of EU's network of preferences. While below our effort will be to describe briefly the main aspects of few PTAs built by the European Union.

*The Europe and the Association Agreements.* The conclusion of the Europe Agreements was followed with: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia. They cover a large number of issues: (i) trade liberalisation and other trade-related issues; (ii) political dialogue; (iii) legal approximation; (iv) co-operation in industrial, environmental, transportation and customs areas. Accession is the next step in enhancing the relationship between the EU and the candidates.

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<sup>2</sup> EFTA Members are: Iceland, Liechtenstein, Norway and Switzerland.

<sup>3</sup> The four MERCOSUR Members are: Argentina, Brazil, Uruguay and Paraguay.

<sup>4</sup> CARICOM Members are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Republic of Suriname and Trinidad and Tobago.

<sup>5</sup> ASEAN members are: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Trade with the countries currently negotiating their accession to the EU multiplied by three between 1993 and 2001. It has been estimated that trade and investment - both within the enlarged Union and with external partners - will greatly benefit from the entry of 105 million consumers coming with the next enlargement. Additional benefits will accrue from the set of harmonised rules on several issues (trade rules, tariffs, and administrative procedures), that will apply not only across the existing Member States but across the Single Market of the enlarged Union. Therefore, dealings for third-country operators within Europe will be simplified, encouraging both investment and trade. Moreover, since the Common External Tariff (CET) of the EU, which will be applied to acceding countries, is on average lower than national tariffs presently applied in the twelve candidates, developing countries enjoying preferential access to the Union will find new markets in the acceding countries.

*The Euro-Mediterranean (EU-MED) Partnership*,<sup>2</sup> launched in 1995 between the EU and 12 Mediterranean partner countries (Algeria, Cyprus, Egypt, Gaza and the West Bank, Israel, Jordan, Lebanon, Malta, Morocco, Tunisia, Turkey and Syria), envisages the creation of a reciprocal FTA in 2010. The Mediterranean countries are required to create, within a time frame of 10-12 years, a FTA between each of them and the EU (such free trade area is limited to non-agricultural products). Financial and technical support measures for the creation of the Euro-Mediterranean free trade area figures prominently in the MEDA programme.

The partnership resulted in weak effects, also due to the fact that the MED countries did not endorse actively a strong integration among themselves. Therefore the South-South dimension of this area needs to be enhanced<sup>6</sup>; indeed the formation of a 'hub and spoke'<sup>7</sup> model between the EU and MED partners has been explained precisely with the lack of horizontal integration. Additionally, since MED countries have not provided to harmonize their rules of origin<sup>8</sup> – a condition for the success of a free trade area – the hub and spoke effect could be even more emphasized, because the rules of origin are a necessary part of any free-trade agreement in order to avoid traffic diversion.

The Gulf Cooperation Council (GCC) was established in 1981 by six countries, namely: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The aim was to create a common market, however, while barriers on trade among GCC members have been substantially removed, the common external tariff has been introduced only very recently, on January 2003. The negotiations on the creation

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<sup>6</sup> However, a positive signal came from the conclusions - on January 11<sup>th</sup>, 2003 - of the negotiations of the Agadir agreement for the creation of a regional free trade agreement among its four partner countries: Egypt, Jordan, Morocco and Tunisia, that is expected to be signed next March.

<sup>7</sup> "A hub and spoke system essentially consists of a set of bilateral trade agreements. Because there is discrimination between members of such a system, less liberalization is likely to result than under an FTA. Moreover, it may be more difficult to reduce the extent of sectoral exclusions and loopholes over time. Because a hub-and-spoke system involves separate agreements between the hub country and the spoke countries, there is more scope to exclude the sensitive sectors from the coverage of each bilateral agreement. [...] Under a hub-and-spoke system, the potential for maintaining policies that imply an effective reduction in liberalization of internal trade will also be greater. ", Hoekman and Kostecki (2001), pp. 358-9/61.

<sup>8</sup> The EU has created a pan-European system of diagonal origin cumulation, but it covers just EU, EFTA and the CEECs candidates to enter the EU.

of a FTA were initiated in 1990, but rapidly reached a standstill, until 1999 when the GCC gave a significant indication of its willingness to move forwards the process presenting the negotiating mandate, and finally announcing its decision to create a Customs Union by March 2005.

As far as the *Trade agreements between EU and GCC countries* are concerned, in order to refurbish and conclude the negotiations, the Commission proposed a new negotiating mandate including services and other areas - following the more recent FTAs - consistently with WTO commitments. The EU's Council approved the new mandate in July 2001, consequently the negotiations were resumed (in March 2002) and are expected to end up straightforward.

The EU has always been a keen advocate of Latin America regional integration strategy and has actively supported the formation of MERCOSUR<sup>9</sup> and other sub-regional initiatives from their origin. The *EU-MERCOSUR Interregional Framework Cooperation Agreement (IFCA)* was signed in December 1995 and entered into force in 1999 - even though a provisional application was assured by 1996. The agreement has three main pillars: i) political dialogue; ii) technical and financial cooperation; iii) trade and related issues. The main goal of the IFCA is to prepare the negotiations for an Interregional Association Agreement, where it should be reached the full liberalisation of trade in goods, investments, services, public procurement and industrial and intellectual property rights, as well as the strengthening of the political dialogue and cooperation. In 1998, after three years of negotiations, the Commission was able to present to its Member States a proposal for a negotiating mandate on the basis of which both the EU and the MERCOSUR (during the 1999 meeting in Rio de Janeiro) could decide to launch negotiations on a future Interregional Association Agreement. In 1999 the Commission started negotiations with the MERCOSUR on non-tariff issues, began negotiation on tariff and services on July 2001, and is promoting intense consultations with MERCOSUR with regard to multilateral trade negotiations in the WTO (World Trade Organisation), since negotiations among the two partners can be concluded only after the end of the WTO current Round<sup>10</sup>.

Another important aspect that should be underlined when speaking about EU and MERCOSUR relations is that EU's effort is paralleled by United States' negotiations for the creation of the Free Trade Area of the Americas (FTAA). Therefore the MERCOSUR-EU process appear to the Union member countries as the best route to counterbalance possible losses of market shares in the region<sup>11</sup>.

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<sup>9</sup> The EU represents the principal trading partner for the MERCOSUR (accounting for 27% of its total external trade), both in terms of exports and imports, and trade in services accounts for almost 1/4 of all bilateral trade among EU and MERCOSUR (given the dynamism of the service sector, the scope for potential growth is substantial). MERCOSUR is for the EU a minor trading partner, representing just 3% of extra-EU trade, but these countries represent the most important partner in Latin America and the Caribbean, accounting for almost 50% of EU's trade.

<sup>10</sup> Negotiations among MERCOSUR and the EU had been carried out in 8 Rounds up to now (the first was in April 2000 in Buenos Aires, and the last in Brasilia in November 2002).

<sup>11</sup> Moreover, apart the EU-Mexico Agreement signed in March 2000, in November 2002 the Union concluded an Association Agreement with Chile, which establishes a free trade area that goes well beyond both parties' WTO commitments, since it covers: goods, services, government procurement, liberalisation on investment of capital flows, the protection of Intellectual Property Rights (IPRs), cooperation on competition and a binding dispute settlement mechanism. The completion of a free trade agreement between Chile and the US, instead, is scheduled for the end of this year.

The relations between the *EU and the Africa-Caribbean-Pacific (ACP) Group*<sup>12</sup>, are governed by the Cotonou Agreement (signed in 2000), which replaced the Lomé IV *bis* Convention<sup>13</sup> in the regulation of commercial, technical and financial cooperation between the EU and the ACP countries, whose number enormously increased since the first inception of the cooperation between the EC and its former colonies. Basing the Cotonou Agreement on the principle of reciprocity, the Union intended to make the relations with ACPs consistent with WTO regulations<sup>14</sup>. Between 2002 and 2008 the partners have engaged themselves to sign Economic Partnership Agreements (EPAs), which provide the gradual openness of ACP markets to the goods coming from the EU. On 27 September 2002, trade Ministers from the European Union and ACP Group of States have actually started negotiations on EPAs. Such agreements are not only complementary but also strengthen negotiations under the DDA, since *development* is at the heart of the multilateral trading system negotiations.

The objectives and principles of negotiations on the EPAs will focus on: i) fostering regional integration among the ACPs; ii) building up institutional capacities; iii) promoting the progressive liberalisation of trade in goods and services; and iv) establishing simple and transparent rules for doing business. The core negotiations with individual ACP regions will begin next year.

*The EU Generalized System of Preferences (GSP)* provides tariff preferences to 64 countries<sup>15</sup>, the unique characteristic being the one-way nature of the concessions, since these countries are not required to grant reciprocal tariff concessions for EU products.

The share of GSP on total preferential trade has significantly declined during 1988-1997 period, and probably this system does not seem any more the most efficient instrument to foster to Less Developed Countries (LDCs) economic development, not

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<sup>12</sup> ACP Member countries are: Angola, Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Bissau, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo Democratic Republic, Cook Islands, Côte d'Ivoire, Djibouti, Dominica, Dominican Republic, Equatorial Guinea, Eritrea, Ethiopia, Federated States of Micronesia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Marshall Islands, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Niue, Papua New Guinea, Republic of Nauru, Republic of Palau, Rwanda, Samoa, Sao, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, St Christopher and Nevis, St Lucia, St Vincent and the Grenadines, Sudan, Suriname, Swaziland, Tanzania, Togo, Tomé and Príncipe, Tonga, Trinidad and Tobago, Tuvalu, Uganda, Vanuatu, Zambia, Zimbabwe.

<sup>13</sup> Lomé I (1975-80), Lomé II (1980-85), Lomé III (1985-90), Lomé IV (1990-95), Lomé IV *bis* (1995-2000).

<sup>14</sup> The longstanding disputes raised by the preferences granted to ACPs, brought in 1993 the EU to ask a GATT commission to evaluate Lomé Agreement consistency with GATT's Art. XXIV. The commission was supposed to declare if: a) preferences in favour of ACPs could be reported to Art. XXIV, paragraph 7; b) EU and ACP could be considered as a Free Trade Area. Both EU claims were rejected in 1994.

<sup>15</sup> Afghanistan, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Belarus, Bhutan, Bolivia, Brunei, Brunei Darussalam, Cambodia, Chile, People's Republic of India, Indonesia, Iran, Iraq, Kazakhstan, Kyrgyzstan, Kuwait, Lao People's Dem. Republic, Libyan Arab Jamahiriya, Malaysia, Maldives, Moldova, Mongolia, Myanmar, Nepal, Nicaragua, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Russian Federation, Saudi Arabia, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Ukraine United Arab Emirates (UAE), Uruguay, Uzbekistan, Venezuela, Viet Nam, Yemen; American Samoa, Bermuda, Bouvet Island, Cocos Islands, Cook Islands, Gibraltar, Guam, Heard and Mc Donald Islands, Macao, Norfolk Islands, Northern Mariana Islands, United States Minor Outlying Islands, Tokelau Islands, Virgin Islands (USA).

fully including these countries in the international trading system - that is trying not to harm them with the disadvantages coming from liberalisation - they could also be excluded by the benefits stemming from liberalisation. Moreover, even though the EU does offer the developing countries preferential access in the form of the GSP, products such as textiles and clothing, which are defined as 'very sensitive', benefit of only a 15% duty reduction from Most Favoured Nation (MFN) rate. In addition, administrative rules ensure that only a fraction of imports from developing countries actually benefit from GSP treatment. Sapir (1998) reports that 79% of dutiable import from GSP beneficiaries in 1994 qualified for preferential access to the EU market, yet only 38% actually entered the EU market with a duty less than the MFN rate. The reasons for this incredible difference being the effects of rules of origin and tariff quotas for certain products, which set limits on the amount of imports which can receive beneficial access to the European market (Brenton, 2000).

A revised GSP scheme is in effect for the period 1 January 2002 to 31 December 2004<sup>16</sup>. The new regime integrated the Everything But Arms (EBA) Initiative for LDCs, which took effect on 5 March 2001 and grants duty-free treatment and quota free market access to all products (except for arms and ammunitions), with certain exceptions (i.e. rice, bananas, sugar), for the 49 Least Developed Countries (LLDCs), 39 of which are also part of the ACP group<sup>17</sup>.

### **3. The reasons why the EU continues to maintain its pyramid of preferences and the 'relative' importance of such system**

The EU system of preferences has generated longstanding controversies due to the fear that it could cause severe impacts on excluded countries and discrimination even among those countries who were favoured. According to Pelkmans, often "trade policies are seen as a reflection of mercantilism or of otherwise undesirable politicisation of world trade, which goes against the very rationale of having exposure to world competition (that is not only to some, but to any)" (Pelkmans 2001, p. 261). From an economic point of view many stressed that the EU created a very complex system which Article I of the GATT intended precisely to prevent with the MFN principle<sup>18</sup>.

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<sup>16</sup> "On 27 January the WTO agreed to set up a dispute settlement panel to determine whether provisions under the EU's Generalised System of Preferences (GSP) tariff programme relating to labour rights, the protection of the environment and combating the production and trafficking of illicit drugs is compatible with WTO rules. The panel was approved following the second request by India, which made a first request on 19 December. A second request can only be rejected if all countries in attendance block the establishment of the panel", in Bridges Weakly (2003).

<sup>17</sup> Of the total 48 LLDC, 39 are part of the ACP group: Angola, Bénin, Burkina Faso, Burundi, Center African Republic, Ciad, Cape Verde, Comoros, Congo Democratic Republic, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Djibuti, Guinea, Guinea Bissau, Haiti, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambico, Mauritania, Niger, Ruanda, São Tomé e Príncipe, Sierra Leone, Salomon Islands, Somalia, Sudan, Tanzania, Togo, Tuvalu, Uganda, Vanuatu and Samoa, Zambia. Non-ACP LLDCs being: Afghanistan, Bangladesh, Bhutan, Cambogia, Laos, Maldive, Myanmar, Nepal, Yemen.

<sup>18</sup> The Most Favoured Nation principle states that "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties".



In light of the above criticism it could be pointed out that in quantitative terms the economic impact of EU's system of preference is quite modest.

First, the existence of a RTAs does not imply that products traded among members enter importing country under the preferential regime (Grether and Olarreaga, 1998). As a result, just a part of trade flows between regional partners involve preferential treatment. According to a recent report by the WTO Secretariat (2002) this situation is due to several and different causes: (i) many tariffs are bound to zero - actually, the share of imports entering under MFN zero rates is over 40% in the EU; (ii) even though, according to Article XXIV of GATT (General Agreement on Tariffs and Trade), PTAs should cover 'substantially all trade', most of them exclude certain sectors, i.e. agriculture; (iii) often importers prefer not to take advantage of preferential treatment because the MFN duty results to be less costly compared to the complications of complying with rules of origin and other requirements; and finally (iv) most PTAs include a transitional period, that can last ten years, for the adoption of tariff reductions on their most sensitive products (notably textile and clothing and agricultural ones).

Second, while the vast majority of EU's trading partners qualify for preferential treatment, more than 60% of imports to the Community are not affected by such treatment (OECD, 2000). Moreover, it should be stressed that trade with preferential partners accounts for nearly one-third of the total trade for both the EU and the US (Sapir, 2002). According to the author, even though the Union has established far more agreements compared to the United States - actually 28 *versus* 3 - the weight of regional trade partners is the same for the European Union and the US<sup>19</sup>.

Apart from the limited economic impact, according to many commentators the reason why the EU continues to pursue PTAs along with multilateral liberalisation is that EU's pyramid of preferences is not determined just by economic considerations, but also by geopolitical objectives. Sapir (1998), Brenton and Pelkmans (1999) stress that there are three main reasons why the EU continues to pursue regional and preferential integration agreements: (i) foreign policy concerns; (ii) commercial diplomacy objectives; and (iii) development policy goals. Actually, "trade policy has always been the principal instrument of foreign policy for the EU" (Sapir, 1998), and the European Union has always used integration agreements as an essential element to secure regional stability on its borders. Further, the commercial diplomacy issues were used to improve market access for EU suppliers in third markets; and, finally, development policy objectives have been accomplished for the most part through the four Lomé Conventions, the first generation of MED agreements and the GSP treatment. More recently these objectives were promoted through the Cotonou Agreement and the Everything But Arms (EBA) Initiative<sup>20</sup>.

Therefore, the *raison d'être* of most EU's regional agreements seem to be highly political rather than dictated only by economic and commercial interests, and their relevance from a traditional economic perspective seems to be quite small.

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<sup>19</sup> Farrell points out that: "Extra-community trade is determined by a hierarchy of preferential trading relations, where the highest levels of preference have been granted to countries or regions whose product constitute the smallest share of EU imports. In practice, the largest share of EU foreign trade is with countries where no preferential agreements exist, such as the United States" (Farrell 1999, pp. 3/15-6).

<sup>20</sup> The EBA initiative guarantees the free access to all products originating from least developed countries (LLDCs), apart from arms and ammunitions.

Thus, the preferential agreements of the European Union must not be evaluated solely by economic criteria and impacts, ignoring the fact that most PTAs are concluded for other purposes, such as political and strategic ones. This doesn't mean that PTAs, in general, and those promoted by Europe, in particular, could not be significantly improved from an economic point of view.

The main ways to increase the benefits of PTAs are: first, they should maximise the net trade creation effect; second, they should involve all the areas under negotiation, including agriculture and other sensitive matters, where benefits that could accrue to all parties seem to be still great; third, they should be used to increase pressures upon countries to open and liberalise their domestic markets.

Consequently, if the EU intends to maintain its preferential relations, their effectiveness should be enhanced to grant larger benefits to the countries involved as well as to take better advantage of the preferential system as an engine to promote 'competitive liberalisation'. Even more so since new dimensions were added in the recent wave of trade agreements. In point of fact, such arrangements go far beyond the removal of tariffs and quantitative restrictions and cover a whole range of regulatory issues relating to: technical regulations, standards, rights of establishment, competition policy, and trade in services. Indeed, negotiations are focusing more and more on domestic barriers to trade, such the regulatory issues, which call directly into question the national policies that seem to constitute in many cases an obstacle to the market access. Therefore, regional agreements could be viewed as ideal laboratories where countries conduct experiments in fields often excluded from multilateral talks. As a matter of fact, the main argument in favour of PTAs is that provisions in such agreements frequently differ or 'go beyond' WTO's provisions in all the main issues<sup>21</sup>.

There is another main reason, however, why the EU system of preferences generated everlasting concerns, that is the impact of the current explosion of new PTAs upon the multilateral trading system. Whereas, open PTAs could be an important instrument to promote and reinforce global trade liberalisation, the intense proliferation of bilateral and regional agreements could impede or even derail the WTO and the multilateral regime. Indeed, once the European leadership in regional and preferential trade agreements was unquestioned, whereas more recently it has been progressively challenged by dynamic US regionalism on a global scale. Moreover, the Asian region shows similar trends, and the pursuit of PTAs in Asia, among countries that had previously eschewed preferential arrangements, seem to be in part the response to the regional blocs formed by Europeans and Americans.

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<sup>21</sup> A great example is offered by GATS (General Agreements on Trade in Service) negotiations. Since GATS commitments reflect for the most part the existing levels of 'unilaterally determined policy' - indeed negotiations within the GATS are still pending in several important areas (i.e. emergency safeguards, subsidies, government procurement, etc) - the proliferation of regional initiatives in the services sector enabled countries to experiment with various approaches to rule making and market opening, which differ from those emerging at the multilateral level. Numerous useful lessons emerged from the regional experimentation (OECD, 2002, p. 21). Indeed, according to Fink and Mattoo (2002), compared to the *status quo*, at the moment countries seem likely to benefit from preferential liberalisation of services trade - as distinct to the more ambiguous conclusions emerging for goods trade. The main reason being that barriers are "often prohibitive and not revenue generating, so there are few costs of trade diversion. As in the case of goods trade, the scope for increased competition and exploitation of scale economies, as well as the possibility of inducing knowledge spillovers, strengthens the presumption that a country would gain from a preferential agreement in services" (Fink and Mattoo, 2002 p .2).

Therefore the overlapping of PTAs has become an important issue. Additionally, the present uncertainty of the international context, at both the economic and political levels, increases the concern that countries could return to PTAs as a defensive (or offensive) tool, i.e. closed and protectionist regional blocks. The major risk being that we will restore to a protectionist and mercantilist approach.

As we know, is not easy both to promote the consistency of PTAs with the WTO system, and ensure that they will be a complement to the multilateral system. At the same time, is difficult to improve the multilateral surveillance and discipline on PTAs in order to enforce the compliance of these agreements with WTO rules. As a matter of fact, since 1995 the Regional Trade Agreements Committee (RTAC) failed to complete its assessments of whether individual trade agreements conform with WTO provisions or not. The main problem is finding a regime which ensures that economic consequences of a PTA will be automatically welfare improving for member and non-member countries (Winters 1999).

So, although substantially strengthening the WTO rules that govern regional and bilateral agreements remains an important goal, after all the crucial challenge to avoid the negative external effects of the PTAs would be to launch periodic multilateral rule-making negotiations aimed at reducing trade barriers, so that multilateralism can keep up with regional agreements (Bergsten, 1999; Guerrieri, 2000). Only a clear and unconditioned commitment to the WTO principles and obligations will assure that the economic benefits of regional integration effectively combine with the multilateral rules and policies, so as to construct a multilevel system of governance. In 2001, under the Doha Development Agenda new multilateral negotiations have been launched.

The question therefore is what the EU might do to reinforce and infuse vigour to the Doha current negotiations. The European Union was one of the most important actors that worked in building support for the launch of the DDA, and the WTO negotiations certainly represent the principal priority of EU's commercial policy.

#### **4. The EU and multilateralism: the role of the Union in the DDA**

In the context of a continuing slowdown and worsening outlook for the international economy, the successful outcome of the new trade Round - the DDA, launched with the Fourth Ministerial Meeting of the WTO in Doha in November 2001 - remains as crucial as ever for all its partners. A positive result of the DDA is expected to boost world economic growth by further liberalising trade and investment.

The content of the Doha Final Declaration, and of related documents, highlights the attention to the development dimension of the new Round and certainly represents an unique feature of the latter, compared with past multilateral negotiations. Nevertheless, the effort made in such direction was not only notable, but also highly needed, since in the last years the WTO was facing what has been called as a 'development credibility deficit', because of the past unbalanced effects of the trade liberalisation measures and the marginal net benefits accruing to many developing countries (Hoekman, 2002b).

The EU has compelling economic, foreign policy, and systemic interests in the new Round. Further, it is important to emphasize that the European Union played a fundamental role in the last four GATT Rounds (Dillon, Kennedy, Tokyo, Uruguay), and the Union's commitment to the DDA is a decisive test to evaluate EU's support towards multilateralism.

The Doha Agenda is wide and includes a great range of issues on which the European Union has differentiated interests and positions that we will try to outline below.

In the Doha negotiations great relevance will still be given to GATT/WTO traditional issues, on which both developed and developing countries can obtain additional and significant benefits. Therefore, WTO Member countries should seriously engage in promoting further openness on the traditional agenda.

### *Agriculture*

The most important area under discussion in the Round is certainly agriculture, and its relevance is confirmed by the primary position that the issue occupies in the Ministerial Declaration. Actually, the agricultural markets are the most distorted in the world, with both developed and developing countries exhibiting high levels of protection. Therefore, a profound reform of the sector could have positive effects equally for LDCs and developed countries (Winters, 2002)<sup>22</sup>.

At Doha, the liberalisation of farm-trade seemed possible, since the Bush administration called for it and the European Union – even though the agricultural issue is one of the most difficult political questions for several Members – have nonetheless accepted that a radical reforms in this area should be on the Agenda. However, the EU, Japan and the US have different ideas about the best approach to address the problems.

In May 2002 the US Congress approved a Farm Bill to increase - trade distorting - subsidies to domestic producers by \$180 billion over a decade, reversing US efforts over the previous years. The Farm Bill calls into question the credibility of a subsequent US liberalisation proposal made in July, which recommended the complete elimination of farm exports subsidies in WTO trade talks over a five year period (EIU, December 2002)<sup>23</sup>. Still, the US Administration stresses that without the approval of the Farm Bill, the Congress would never granted President George Bush the trade promotion authority, or 'fast-track', a fundamental US negotiating device.

As to the position of the EU, one should recall that Europe has several reasons to reform its Common Agricultural Policy (CAP). CAP reform is an essential condition for the enlargement of the Union to Central and Eastern European Countries (CEECs), which have important interests in the agricultural sector. Moreover, the budget policy is not tenable without a further CAP reform. The expiration at the end of this year of the 'peace clause' have also some influence on the position of Europe in the Round.

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<sup>22</sup> The IMF and The World Bank estimated that, including subsidies, agriculture in OECD countries received support that amounted to 1.3 percent of GDP in 2001 (or US \$ 311 billion). Moreover, much "of this support increases with the level of output, contributing to excess production that competes with developing country farmers for markets. While the need for reforms has been broadly recognised, recently policy signals have been mixed, with, for example, the new US farm Act representing a step back from reform" (IMF and The World Bank, 2002, p. 5).

<sup>23</sup> EIU, Economist Intelligence Unit (10 December, 2002), "Progress in Doha Round in Jeopardy".

On December 16<sup>th</sup> the Commission presented a proposal to reform the agricultural sector that will be discussed in the framework of the WTO negotiations. The key points of this proposal are to reduce: i) import tariffs by 36%<sup>24</sup>; ii) export subsidies by 45%<sup>25</sup>; iii) trade distorting farm support by more than half (55%)<sup>26</sup>. Furthermore, the Commission presented also significant measures in favour of LDCs<sup>27</sup>.

According to the Commission, this programme should be implemented in a 6 year period for developed countries, and a 10 year period for developing ones, starting from 2006. This plan, however, is conditional to other developed countries taking the same measures.

### *Market access*

Among the traditional issues, a further commitment emerged for reducing the complex system of tariff and non tariff barriers to trade. The issue was not - as services and agriculture – a mandatory theme in the so-called built-in agenda; however, developed countries have been strongly requested to include it in the Agenda by many LDCs which still face very high tariff for the access of their sensitive products<sup>28</sup>.

The EU advanced a new initiative to improve liberalisation across non-agricultural products, which represent over 70% of developing countries' exports. The European Union intends to give priority to the reduction of all tariff duties compressing them into a 'flatter range', and eliminating tariff peaks and high tariffs. Further, the negotiations should address the problem of tariff escalation - reducing its impact on products of particular interest to LDCs 'by reducing the level of relevant *ad-valorem* and specific tariff protection'.

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<sup>24</sup> Contrary to the 'Swiss formula' approach proposed by the US and the Cairns Group, the EU is convinced that this approach should reach the objective of sharing the burden of the tariff cut between developed countries.

<sup>25</sup> The EU is ready to eliminate completely export subsidies for certain products of particular interest to LDCs (wheat, oil seeds, olive oil and tobacco), on condition that no other WTO member will grant any form of export subsidisation on such products.

<sup>26</sup> The European's proposal intends to separate support for farmers from what they produce: "Mr Fischler wants this separation to start in 2004, before ten new members from central and eastern Europe join the EU. That should boost the Doha round, because in principle it would reduce the trade-distorting nature of Europe's subsidies", *The Economist*, (2003).

<sup>27</sup> In order to guarantee: i) duty and quota free access for all farm exports from the LLDCs; ii) at least 50% of LDCs farm exports to developed countries should benefit of a zero duty; iii) a significant reduction of tariff escalation on products of particular interest of LDCs by reducing the level of tariff protection (both, *ad valorem* and specific); iv) a 'food security box', in order both to facilitate implementation of further tariff reductions, and to meet the developing countries' concerns on sensitive agricultural crops. A Special Safeguard instrument will be extended to developing countries in order to ensure food security; v) LDCs will be authorized to sustain their agricultural sector for developmental needs; vi) abolition of the "de *minimis* clause" for the developed countries

<sup>28</sup> Even though overall tariff rates are certainly lower in developed countries than in LDCs, the former continue to apply residual protection in the form of tariff peaks and tariff escalation. Actually, a joint analysis held by the IMF and the World Bank estimated that between 6 and 14% of the tariff lines of Canada, the EU, Japan and the US are subject to tariff peaks. Whereas in Canada and the United States these peaks are concentrated in the textiles and clothing sector, in the EU and Japan peaks are stronger in agriculture and footwear. Additionally, the impact of tariffs peaks is deepened by three major factors: (i) the subsidies granted by OECD countries in the agricultural sector - which push down world prices of commodities, increasing also their volatility; (ii) the remaining quotas in textiles and clothing trade; (iii) the high barriers remaining on trade among developing countries (IMF and The world Bank, 2002).

Moreover, the EU highlights that all WTO Members should engage in deeper cuts on several important products such as textiles, clothing, and footwear, with a view to bringing these tariffs as close to zero as possible. This would require that non-tariff barriers were considerably reduced and that all export restrictions on raw materials were removed (European Commission, 2002).

The Union is also ready to consider some significant unilateral initiatives as duty-free access - essentially for all products - originating from least developed countries by all developed ones (and even some developing countries) by May 2003. Finally, the EU proposes an increase in the number of products for which the tariff is fixed and cannot be raised.

### *Services*

Important steps have been reached on the base of the built-in agenda of GATS 2000. The guidelines were established by the Council on Trade in Services and were reported in the Doha Final Declaration that has fixed a detailed and compact schedule. The services sector is a low controversial issue, and it has been substantially followed the agreements reached during the Seattle Ministerial Conference. At the same time, however, since GATS commitments reflect for the most part the existing levels of unilaterally determined commitments, on average barriers to services are higher than those on manufactures, that's why many commentators argue that there could be sensible benefits in pursuing the regional route in these negotiations (see note 22).

Services are a very relevant issue since they encompass a vast and disparate range of economic activities and dominate the economies of developed and many developing countries. Access to high-quality services, in particular infrastructure-related services such as telecommunications, transport, and financial services, benefit the whole economy by increasing productivity across sectors and is crucial for economic development. Various entry barriers still hamper trade in services and act as a brake on economic growth.

The EU has important stakes in the current services negotiations, since services both constitute the most dynamic economic activities in the EU - accounting for at least two thirds of GDP and employment – and stand for more than half of the Union's FDI (inflows and outflows). Moreover, the EU is the biggest world exporter and importer of services, with 24% of world trade in services (while covering 19% of world trade in goods). The main services sectors concerned being tourism – in which the EU earns more than € 70 billion a year – consultancy services, transport, information technology, retailing, insurance, banking and telecommunications (WTO, 2002). In addition, the EU perceives that in certain service sectors, such as financial services and telecommunication services, its member countries have a comparative advantage, which has been enhanced by the liberalisation of internal EU trade (Brenton, 2000).

In the context of the on-going negotiations under the Doha Development Agenda the EU has a mandate for obtaining more and better commitments from all WTO members on market access and national treatment<sup>29</sup>. Furthermore with a view to

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<sup>29</sup> Perhaps it should be underlined that the entrance into force of the Treaty of Nice, 1 February 2003, brings into the exclusive Community competence the negotiations of agreements concerning services (with certain exceptions) and the commercial aspects of intellectual property rights.

preparing the EU's initial offer for next March, the Union is now launching a wide public consultation on the requests advanced by other WTO members for improved access to the EU services market. Binding the autonomous levels of liberalization, in place since the GATS became effective, is another important priority for Europe.

The most controversial issues are, on one hand, the liberalisation of the audiovisual, cultural, education and health service sectors – in which US and EU have different and conflicting positions; and on the other hand, the horizontal liberalisation of Mode 4 of supply (which entails the temporary mobility of workers) is certainly an area where developed and developing countries have quite distant views.

### *The new trade issues*

The ambitious goal of the Doha Round is to contribute to improve global governance also expanding the areas of trade related matters subject to WTO rules. Several years ago – during the first WTO Ministerial Meeting in Singapore in 1996 – was discussed the possibility of including the so called 'new trade issues' (investment, competition policy, government procurement, etc.) in WTO agreements. Many countries did not welcome such proposal, particularly developing ones, because they fear the high degree of intrusiveness into domestic sovereignty of the new issues. The decision on the inclusion of these areas in the Doha negotiations has been postponed until after the 5<sup>th</sup> Ministerial Conference in Cancun, next September. However, according to the Doha Declaration the new issues should be obviously included as part of the Single Undertaking, so they should apply to all members without exceptions.

The EU approach is strongly supporting this sort of negotiations, not only because they correspond to European interests, but also since for the EU there is a strong case for the WTO to enlarge its scope of activities so to better correspond to reality and people's needs. And the reality is that there is 'globalization' and new problems to be dealt with. If these new areas do not become an integral part of the WTO talks, then the WTO risks becoming irrelevant (Guerrieri, 2003).

However, the Union showed a new flexibility in its negotiating position in the run up to Doha, particularly on questions like: investment, competition, environment and implementation (WTO, 2002).

As far as *competition policies* are concerned, many countries – and the EU is among these - fear the increasing impact of anticompetitive business practices due to globalization. The point is that competition policies could substantially increase the benefits of liberalisation. The fact that almost 80 WTO Members (of which 50 were developing or transition economies) had adopted some kind of competition laws, seems to confirm this point. Thus, it seems there is the need of a binding framework of multilateral rules on competition policies.

*International investment* is another source of strong debate among developed and developing countries. Many industrial countries continue to stress that present bilateral agreement on the issue - assisted by regional agreements - are not enough to securing a stable and predictable climate for investment worldwide. According to

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The Treaty of Nice amended existing treaties to prepare EU institutions for enlargement, in particular, it changes 27 provisions of the EC Treaty from unanimity to qualified majority vote. However, the great work that is being pursued to device a European Constitution will most probably change further these rules.

advanced countries, an agreement would increase the amount of FDI to LDCs, still developing countries are reluctant to introduce new areas in which they should accept to take on additional commitments. The European Union has long sought a multilateral framework of rules governing international investment, and strongly favours discussing investment rules in the WTO framework. However, the EU also learned the lesson from the MAI (Multilateral Agreement on Investments)/OECD experience, and is convinced that a framework for multilateral rules on this topic should preserve host countries' ability to regulate the economic activity in their territories for legitimate policy objectives, and ensure conditions favourable to sustainable development.

Anyway, a final decision on all these issues will be taken during the Fifth Ministerial.

### *Environment*

The Union has always been a keen proponent of the mutually supportive role of trade and environment in favour of sustainable development. Therefore, Europeans consider highly important to clarify the relationship between WTO rules and trade measures under many respects. But for a long time, it has been argued that the environmental issue should have been left outside WTO talks, due to its controversial nature and, according to several members, to the weak connection with trade. A large part of WTO Members agree on the point that the best way to address global or transnational environmental issues should be through the Multilateral Environmental Agreements (MEAs).

Before the Doha meeting, it was commonly felt that, due to its controversial nature, the environmental issue should have been left out, yet the EU strongly pushed for an intense dialogue on it, believing that trade measures should also be increasingly used for environmental purposes. At the end, Ministers agreed at Doha to launch negotiations on the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements, and supported the work of the Committee on Trade and Environment (CTE)<sup>30</sup>. Therefore, negotiations were launched on certain aspects of the linkages between trade and environment in order to clarify the relationship between the two regimes. During the first meeting of the Trade Negotiations Committee (TNC), on 1 February 2002, it was approved that negotiations on trade and environment would take place in Special Sessions of the CTE.

The EU considers very important to provide observer *status* to Multilateral Environmental Agreement's (MEA) and to the United National Environmental Programme (UNEP), since these organisations have the necessary expertise in the environmental area. Negotiations in the WTO Committee (CTE) should therefore be open to MEAs and UNEP, while the issue of observer *status* in the WTO as a whole has already been resolved.

### *The developing countries' concerns*

The Doha Development Agenda addressed the concerns of developing countries in four main ways: i) considering the difficulties that these countries met on the implementation of the Marrakech agreements; ii) introducing a development dimension

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<sup>30</sup> The CTE was created during the Uruguay Round, its aim being the building of a constructing relationship between trade and environmental concerns.



into each negotiating issue and granting technical assistance; iii) helping LDCs to participate effectively in WTO negotiations, the so-called Special and Differential Treatment (SDT); iv) recognising the relation between public health and Trade Related Aspects of Intellectual Property Rights (TRIPS).

Most significantly, the Doha Declaration recognised the strong relationship between the TRIPS Agreement and public health policies, and defined the flexibility of several relevant provisions of the TRIPS, in particular with regard to patents, showing that the WTO was able to find appropriate solutions to developing countries' concerns. Several important principles had been introduced, for example stating that the WTO Agreement on TRIPS "does not and should not prevent members from taking measures to protect public health"; therefore, each member has both the "right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted", and the right to "determine what constitutes a national emergency" (paragraph 6).

On such issue at Doha Ministers seemed to have reached an important resolution for countries with pharmaceutical manufacturing capacity problems – for which it was been established the right to invoke a compulsory licence to produce medicines. Whereas, at a recent WTO meeting held in Geneva, the US refused to support a draft plan to let developing countries override patent laws and import cheap generic drugs. Indeed, while the other WTO members accepted the proposals, even after protracted negotiations, the US delegation rejected them, saying that the deal failed to protect patents on drugs for non-infectious diseases (such as: asthma, diabetes, and obesity), which the delegation said would undermine research and development<sup>31</sup>.

In the meantime, the European Union presented a proposal (on 10 January) which suggests to include a footnote to paragraph 6, to list 'at least' 22 diseases - mainly endemic to Africa - to be covered. During an informal meeting of WTO members, several delegations took a non-committal position on the European proposal, but the United States repeated that it would wait the reactions of the other Members before deciding on its final position.

Last December the European Union advanced a proposal aimed at strengthening the SDT in favour of LDCs, in particular least developed ones (LLDCs). In practise the

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<sup>31</sup> "The US's lack of support and disagreement on which diseases should be covered by the plan led to failure to meet the Dec 31, 2002, deadline, set in Doha, for agreement in negotiations on special and differential treatment for developing countries and on access to essential medicines for poor countries lacking manufacturing capacity. Modification of Article 31(f) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is being sought to address the problem that production under compulsory licensing (production of medicines by companies other than the patent holder) must be predominantly for the domestic market, which hinders countries unable to make drugs from importing cheap generics. The USA insists that developing countries should only be allowed to import cheap generics for infectious epidemics specified as HIV/AIDS, malaria, tuberculosis, or similar infectious diseases of comparable gravity and scale, including those that may arise in the future. However, the Doha Declaration of November, 2001, adopted by all 144 WTO member countries including the USA, is 'supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all'. Although the only diseases singled out in the Declaration are HIV/AIDS, malaria, and tuberculosis, it is stated that 'other epidemics' 'can represent a national emergency or other circumstances of extreme urgency'. Moreover, the Declaration recognises that each member has the right to determine what constitutes a national emergency and has the freedom to determine on what grounds compulsory licences can be granted", *The Lancet*, (25 January 2003).

Union proposes to: i) simplify procedure for the accession of LDCs and LLDCs to the WTO; ii) adopt measures to support them in meeting sanitary and phytosanitary standards; iii) improve technical assistance in areas such as customs, technical barriers to trade, trade in services; iv) ensure the participation of at least one panellist from an LDCs in disputes between a developing country and a developed country; v) clarify the WTO rules applicable to PTAs when these involve developing countries; vi) make sensible progress on market access. All these measure don't seem to exclude LDCs from the obligation of the multilateral system, rather they aim to create the grounds to allow them to participate fully to the WTO system.

## 5. Conclusive remarks

A key feature of the European Union commercial policy has been that on the one hand the Union has been a leading proponent of multilateral liberalisation, whilst on the other hand it has been extremely active in the diffusion of economic regionalism, confirmed by the increasing number of preferential trade agreements.

The EU played a fundamental role in the last four GATT Rounds, and more recently has committed to adopt sensible actions in the new trade Round launched at Doha. The DDA figures as a top trade policy priority of the European Union and is a clear confirmation of the strong support that the EU intends to assure to the multilateral route, and the rule of law in international trade relations.

At the same time, the European Union has also negotiated a vast network of preferential agreements not only with neighbours, but also with quite far countries (Latin America, South Africa, East Asia). This complex system of preferences that the EU established with third countries and regions demonstrates the importance that the Union has always attached to the regional and preferential integration option.

Looking back to the past decades the EU has always assumed a sort of special position, combining economic regionalism as well as multilateralism, and the composite mix of the two worked quite effectively in favouring multilateral liberalisation. Actually, the EU continues to pursue trade liberalisation through multilateral, regional and bilateral initiatives. However, it must be emphasized that the European goal has never been only to gain - and grant - preferential access in purely commercial terms, on the contrary, its policy has also been driven by non-economic objectives (foreign policy, security and geopolitical purposes). Therefore, any evaluation of the EU's system of preferences should recognize the distinguishing features of European's PTAs and that's why their relevance from a traditional economic perspective seems to be quite small.

But the spreading of preferential agreements around the world – and among countries that once sharply criticised the regional-preferential device, such as the US and many Asian countries – reinvigorates the concerns of those who fear that the multilateral system will not be able to face this new pressure and that it could break up through the pressure of conflicting trade blocs.

In the paper we stressed that a fundamental contribution to avoid the conflicting scenario among trade blocs could come from the strengthening of the multilateral trade negotiations in the DDA. The Doha Round represents a major stake for three main reasons: i) is *the forum* in which the multilateral framework can be strengthened and improved; ii) is a decisive test for the EU to demonstrate its ability to exercise a decisive role in the international trading system in the next two years, when the

negotiations 'should' end; iii) only a clear and sound commitment to the multilateral system can guarantee the success of the EU regional-preferential option.

Thus, the priorities in the Community's future trade agenda should be both to strengthen cooperation on trade related issues with major trading partners and to actively pursue multilateral liberalisation through the DDA. In the light of all that the EU must accept extraordinary responsibility in the near future.

### Box 1

***Parties to regional trade or preferential trade agreements with the European Union, and beneficiaries of EU preferential arrangements, in force as April 2002***

**Europe Agreements:** Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

**Association Agreements:** Cyprus, Malta, Turkey.

**Stabilisation and Association Agreements:** Former Yugoslav Republic of Macedonia (FYROM), Croatia.

**Euro-Mediterranean Association Agreements:** Israel, Morocco, the Palestinian Authority, Tunisia.

**Cooperation Agreements:** Euro-Med Association Agreements concluded but non in effect or under negotiation, Algeria, Egypt, Jordan, Lebanon, Syria.

**Other Free Trade Agreements:** Denmark (Faroe Islands), Iceland, Liechtenstein, Mexico, Norway, South Africa, Switzerland.

**Other Custom Unions:** Andorra, San Marino.

**Association of Overseas Countries and Territories (OCT):** Anguilla, Antarctica, Aruba, British Antarctic Territory, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Falkland Islands, French Polynesia, French Southern and Antarctic Territories, Greenland, Mayotte, Montserrat, Netherlands Antilles, New Caledonia, Pitcairn, Saint Helena, Ascension Island, Tristan and Cunha, South Georgia and the South Sandwich Islands, St. Pierre e Miquelon, Turks and Caicos Islands, Wallis and Fortuna Islands.

**EU-African, Caribbean and Pacific (ACP) Partnership:** Angola, Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Bissau, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo Democratic Republic, Cook Islands, Côte d'Ivoire, Djibouti, Dominica, Dominican Republic, Equatorial Guinea, Eritrea, Ethiopia, Federated States of Micronesia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Marshall Islands, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Niue, Papua New Guinea, Republic of Nauru, Republic of Palau, Rwanda, Samoa., Sao, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, St Christopher and Nevis, St Lucia, St Vincent and the Grenadines, Sudan, Suriname, Swaziland, Tanzania, Togo, Tomé and Príncipe, Tonga, Trinidad and Tobago, Tuvalu, Uganda, Vanuatu, Zambia, Zimbabwe.

**Autonomous Trade Measures for the Western Balkans:** Albania, Bosnia-Herzegovina, the Federal Republic of Yugoslavia, Kosovo.

**Generalised System of Preferences (GSP):** Afghanistan, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Belarus, Bhutan, Bolivia, Brunei, Brunei Darussalam, Cambodia, Chile, People's Republic of India, Indonesia, Iran, Iraq, Kazakhstan, Kyrgyzstan, Kuwait, Lao People's Dem. Republic, Libyan Arab Jamahiriya, Malaysia, Maldives, Moldova, Mongolia, Myanmar, Nepal, Nicaragua, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Russian Federation, Saudi Arabia, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Ukraine United Arab Emirates (UAE), Uruguay, Uzbekistan, Venezuela, Viet Nam, Yemen; American Samoa, Bermuda, Bouvet Island, Cocos Islands, Cook Islands, Gibraltar, Guam, Heard and Mc Donald Islands, Macao, Norfolk Islands, Northern Mariana Islands, United States Minor Outlying Islands, Tokelau Islands, Virgin Islands (USA).

*Source:* WTO Secretariat 2001

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