

Importance and motives of preferential trade agreements in the EU's external trade¹

*Elżbieta Kawecka-Wyrzykowska*²

Abstract: As a result of previous multilateral negotiations tariff rates are generally low and cannot explain the reasons for recent proliferation of preferential trade agreements (PTAs). The aim of the paper is to look for other motivations of EU PTAs and to assess their importance for the EU. The main research methods are statistical, review and assessment of WTO documents and critical analysis of literature.

First, the present level of tariff protection on selected import markets was estimated. This level illustrates the scale of countries' interest in their elimination of the existing tariffs. Also the share of preferential imports in the EU extra-trade was calculated and compared with trade on MFN basis. Next, reasons for PTAs were identified. The conclusions prove that 21st century PTAs are mainly motivated not by a reduction of tariffs but by the willingness to reduce the regulatory barriers (contained in rules on public procurement, environmental protection, etc.). The most dynamic trade nowadays involves flows of accessories and services. In this situation the importance of PTAs results from the fact that they serve as instruments eliminating national regulatory barriers faced by exporters of goods and resources on foreign markets. Thus PTAs support production and sales abroad. In the EU political motivations of PTAs are important as well.

Keywords: preferential trade agreements, unilateral trade preferences, WTO, EU preferences, regulatory barriers, motives of PTAs.

JEL codes: F13, F15.

¹ Article received 21 April 2020, accepted 27 July 2020. The paper is a result of statutory research project No. KGS/S18/10/2018, financed by the Ministry of Science and Higher Education of the Republic of Poland with the funds allocated to Collegium of World Economy, Warsaw School of Economics (SGH). The author wishes to thank Łukasz Ambroziak, PhD, for his valuable remarks and support with regard to statistical data.

² Warsaw School of Economics, Collegium of World Economy, Department of Integration and European Law, al. Niepodległości 162, 02-554 Warszawa, Poland, ekawec@sgh.waw.pl, ORCID: <https://orcid.org/0000-0002-6655-874X>.

Introduction

Trade liberalization in the form of tariff cuts has been the oldest objective and the most visible result of GATT/WTO activities since the creation of this organisation in 1948. Various studies and reports confirm that the present level of import tariffs is rather low—see Table 1. Since the beginning of the 21st century there has been a fast rise of new preferential trade agreements (PTAs).³ PTAs cover nowadays a substantial portion of international trade and involve all members of the World Trade Organization (WTO).⁴ Many new PTAs have been the result of negotiations. Due to important functions they play for a big number of countries, the involvement of key world economies and broad coverage of areas involved, PTAs have become one of the three main pillars of today's world trading system (the other pillars being the WTO and domestic institutions of WTO Members) (Dadush & Wolff, 2019, p. 5).

Thus a question arises: why new preferential agreements are signed when tariffs have become—generally—low? In other words what are the present reasons of these agreements in view of the low average tariffs in international trade (especially on the largest markets)?⁵ This paper tries to answer this question. The second research objective is the assessment of the importance of PTAs for the EU.

The paper contributes to a better understanding of EU PTAs. It stresses the need to recognize the varied motives and objectives underlying PTAs while evaluating the effects of any particular agreement. The underlying thesis is that the traditional approach to assess the PTAs effects focused on commercial dimension (elimination of tariffs and non-tariff barriers) is not sufficient. In each case specific motivations can be more important. The focus is on PTAs negotiated by the EU. As a member of the GATT/WTO system the EU has actively participated in the process of tariff liberalization after World War II and nowa-

³ PTAs are here meant as reciprocal trade agreements between two or more partners which do not necessarily belong to the same region. In WTO language such undertakings are often called Regional Trade Agreements (RTAs), despite the fact that sometimes they relate to very distant partners. In WTO documents PTAs refer to unilateral trade privileges such as the Generalized System of Preferences (GSP). However even the WTO is not consistent in the terminology applied as a very extensive 2011 report of the organization concerning reciprocal trade agreements refers to PTAs rather than to RTAs (WTO, 2011). In order to be compatible with GATT/WTO rules PTAs should be created in form of free trade agreements (FTAs) or customs unions (CUs).

⁴ The number of preferential trade agreements (PTAs) has increased from 50 agreements in force and notified in 1990 to the GATT to around 100 agreements at the beginning of the 21st century and to 303 at the beginning of 2020 (<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>). In 2019 the share of world trade covered by PTAs was estimated at around 60% (Akman et al., 2019, p. 3).

⁵ This analysis has omitted non-tariff measures applied on external EU borders because of difficulties with quantification of the level of protection they ensure. In principle, however, such instruments are usually not the main barrier to EU trade with external partners.

days has the longest list of PTAs with external partners. Thus this analysis well characterizes the vast majority of all PTAs in force (except for PTAs negotiated among the developing countries which reflect specific situation and objectives of these partners). Two research methods have been applied: (a) statistical, (b) review of WTO documents and literature on the issues analyzed.

The starting point is to compare the level of tariffs applied on selected world markets. It allows the determination of the maximum level of the tariff preference margin which would arise as a result of the elimination of all tariffs by countries under analysis.⁶ Indirectly it is a measure of the scale of countries' interest in possible conclusion by them of new PTAs. Next, the role of preferential agreements in the EU-28 trade is assessed. It is done by calculating the share of imports within PTAs in force (as at the beginning of 2020) in the EU's extra imports (based on 2018 data).⁷ Also some information on the importance of EU imports within unilateral preferences is presented due to the fact that these preferences reduce the average level of tariffs of the EU's imports. This section confirms the low level of import tariffs in the EU and on other major markets. Thus it justifies the research question: why does the EU, a major trading partner, seek regional trade agreements? The next section concentrates on the identification of the reasons and motives for the growing importance of PTAs in the EU.

Unless indicated otherwise the tariff data are derived from the World Tariff Profiles database published jointly by three organizations: WTO, ITC, UNCTAD, and data on EU trade—from the WITS-Comtrade database.⁸

1. The present level of tariff protection in international trade

Tariff reductions, driven after World War II mostly by successive GATT rounds, have lowered MFN tariffs to quite low levels. The average level of tariffs in developed countries on all products is usually below 5% (bound rate, simple mean, Table 1). The average weighted rates are even lower⁹ as imports are usually dominated by products subject to lower tariff rates. At the same time, however,

⁶ The margin of preference of a PTA is the difference between the tariff applied to imports from PTA partners as opposed to non-PTA partners, i.e. the countries' most favoured nation (MFN) tariffs.

⁷ It is not a precise measure as the value of trade subject to preferential agreements is not the same as the value of trade that is conducted on a preferential basis. The reason is that a substantial portion of trade today is conducted at zero tariff rates or at very low duties.

⁸ In this way the comparability of data of different statistical sources was ensured.

⁹ According to the World Bank data, in 2018 the average applied weighted tariff rates in the main countries amounted to: in the EU 1.69%; in the USA 1.59%; Japan 2.45%; Canada 1.47%; China—3.39%; India—4.88% (https://tcdata360.worldbank.org/indicators/TM.TAX.MRCH.WM.AR.ZS?country=BRA&indicator=1909&viz=line_chart&years=1988,2018#table-link).

Table 1. The average level of tariffs on main import markets and in selected developing countries and share of world imports (2018, in %)

Importing country (access conditions)	Binding coverage	Simple mean		Duty free		Duties > 15%		Maximum duty		% of world imports
		bound	MFN applied	bound	MFN applied	bound	MFN applied	bound	applied	
EU-28	100.0	5.0	5.1	29.2	28.2	4.0	4.2	486	189	32.6
USA	99.9	3.4	3.4	46.5	46.7	2.8	2.8	350	350	13.6
China	100.0	10.0	9.8	6.5	7.1	16.3	15.1	65	65	11.2
Japan	99.7	4.5	4.0	53.0	52.4	3.7	3.4	736	736	3.9
Hong Kong	47.7	0.0	0.0	47.7	100.0	0.0	0.0	0.0	0.0	3.3
Korea	94.9	16.5	13.7	16.2	15.1	20.2	10.7	887	887	3.2
India	74.4	48.5	13.8	2.3	3.0	71.5	19.4	300	150	2.8
Canada	99.7	6.6	4.0	39.1	77.4	7.1	6.5	484	484	2.4
Mexico	100.0	36.2	6.9	0.3	49.6	98.7	11.9	254	175	2.4
Singapore	72.0	9.6	0.0	9.4	100.0	17.3	0.0	1000	85	1.9
Russian Federation	100.0	7.6	6.7	3.4	15.9	1.7	3.2	245	230	1.3
Turkey	50.5	28.9	10.9	2.9	23.4	29.3	14.4	225	225	1.2
Brazil	100.0	31.4	13.3	1.0	5.5	96.4	35.3	55	55	0.9
Argentina	100.0	31.8	13.7	0.0	5.8	97.8	36.4	35	35	0.3
Ghana	15.4	92.5	12.0	0.0	2.7	15.4	38.9	99	35	0.1

Source: WTO ITC UNCTAD (2019, pp. 8–13) and own calculations based on data from WITS-Comtrade database.

extremely high tariffs on individual products happen, e.g. 887% in the Republic of Korea, 736% in Japan, 350% in the USA (Table 1). It could be assumed that such “extremes” apply to agricultural products, usually after exceeding the level of preferential quotas. They are, however, the exception and not the rule.

It should be pointed out that GATT rounds (multilateral negotiations) reduced tariffs first of all in developed countries. Developing countries enjoyed various exceptions to the general rules and they decreased tariffs in subsequent GATT rounds to a lesser extent or only reduced high levels of bound rather than applied tariffs. Only quite recently many developing and emerging economies have decided to substantially reduce their import tariffs (applied level), largely on a unilateral basis, that is outside the GATT/WTO forum (Table 2). The main reason was usually their adoption of strategies to improve economic competitiveness consisting of the inclusion of their economies in international production networks and finding the most advantageous position in global supply chains (Baldwin, 2011, pp. 21–23)—cf. the remarks below in Section 4. For the purpose of retaining flexibility in their internal policies those countries tended not to unilaterally bind reduced tariffs and only in order to decrease applied duties. It usually resulted in significant differences between the levels of bound and applied tariffs. For example in 2018 in India bound tariffs were 48.5% whereas applied tariffs were merely 13.8%; in Ghana the respective levels were: 92.5% and 12.0% (Table 1).

As regards the depth of liberalization Table 2 suggests that the deepest tariff cuts (by as much as 63%) have taken place in the EU in recent years. However it is a purely statistical approach as tariff reductions were calculated in rela-

Table 2. Tariff cutting despite the Doha Round deadlock

	Tariff rates in %		Change from 2001 to 2012	
	2001	2012	percent point difference	percent cut
South Asia	22	13	-9	-41
Middle East & North Africa (developing only)	19	12	-7	-38
Sub-Saharan Africa (developing only)	14	11	-3	-19
Latin America & Caribbean (developing only)	11	8	-3	-32
East Asia & Pacific (developing only)	11	8	-3	-31
European Union	4	1.5	-2.5	-63
World	10	7	-3	-30

Source: (Baldwin, 2016, p. 96).

tion to an already very low absolute level of tariffs at the beginning of the year concerned (4% in 2001 and 1.5% in 2012). Undoubtedly in economic terms both exporters and importers benefited more, *inter alia*, from 40% tariff reduction in South Asian countries as it was performed on a much higher level, i.e. 22% in 2001. As a result of the above-mentioned reduction of tariffs in international trade the margin of preferences has decreased as well and it does not seem to be an important incentive for new PTAs. Also the econometric evidence suggests that the risk of trade diversion due to regional agreements is not a main concern in the world economy (Acharya, Crawford, Maliszewska, & Renard, 2011, p. 57).

2. EU trade and partners under PTAs

The European Union has the world's highest number of regional preferential agreements with trading partners (around 30 trade agreements with more than 60 partners that were applied at the beginning of 2020, see Appendix).¹⁰ The classification of such agreements may differ depending on the criterion adopted, e.g. the treaty basis, the depth of mutual preferences with partners, the areas covered, etc. The European Commission has recently classified all PTAs into the following categories (European Commission, 2019b):

- a) "First generation" free trade agreements;
- b) "New generation" free trade agreements;
- c) Deep and Comprehensive Free Trade Areas (DCFTAs);
- d) Economic Partnership Agreements.

The coverage of the agreements varies reflecting different historical period of negotiations and changing EU expectations (European Commission, 2019b, pp. 13–29). Also each type of agreement is characterized by different motivations reflecting specific EU objectives (see next point). "First generation" PTAs include mostly agreements negotiated after the EEC creation with regional European partners (EFTA members) and later with the Western Balkan countries (Stabilization and Association Agreements). The customs union with Turkey also belongs to this type of provision. These agreements typically cover only trade in goods and even agricultural products are not fully liberalized. "New generation" FTAs are comprehensive agreements which typically go beyond tariff cuts and trade in goods and also cover services, public procurement, investment protection and other issues. The most important agreements are those negotiated with the Republic of Korea and Canada on account of the role of both partners in EU trade as well as of the very broad scope of

¹⁰ Comprehensive analysis of all EU preferential trade agreements in force in the end of 2018, their trade coverage and provisions is presented in the Commission's Report of 2019 (European Commission, 2019a).

issues governed by those agreements. Deep and Comprehensive Free Trade Areas (DCFTAs) with Georgia, Moldova and Ukraine aim to deepen political association and prepare the partners for gradual economic integration in the framework of the Eastern Partnership as part of the European Neighbourhood Policy. The DCFTAs have two main components: (x) reciprocal market openings for goods with some asymmetry benefitting the Eastern partners; and (xx) far-reaching regulatory approximation to the EU law notably in trade-related areas. Seven Economic Partnership Agreements (EPAs) have been signed with 29 African, Caribbean and Pacific countries (ACPs), former colonies of EU members. Under EPAs the EU grants asymmetrical preferences to products coming from ACP countries (faster market opening by the EU than by partners). Trade-related development assistance is provided under all EPAs.

Table 3. Value and share of PTAs in EU trade by types of agreements as at the end of February 2020 (trade in 2018)

	Value of EU imports, US billions	% of total imports	Value of EU exports, US billions	% of total exports
Total trade with PTAs partners	782.1	12.5	859.5	13.8
Extra-EU trade	2536.1	40.4	2322.2	37.2
PTAs trade as a % of EU extra trade	–	30.8	–	37.0
Total EU trade	6271.8	100.0	6240.6	100.0

Source: The author's own calculations based on data of statistical annex.

It must be added that Table 3 excludes important free trade agreements transformed into EU membership agreements at a later time. The group comprised ten agreements concluded by the EU in the 1990s with the Central and Eastern European countries (the so-called Europe Agreements) and two more entered into with Malta and Cyprus and later also with Croatia. Table 3 shows that the EU's PTAs in force in 2018 were valued at \$ 782 billion in imports, representing 30.8% of EU's extra imports and 12.5% of the EU's total imports from the world. When Vietnam joins this list (most probably by the end of 2020), the share of imports, benefitting EU consumers and producers from PTAs increases to 32.9% of extra imports and 13.3% of EU total imports (it must be stressed once again that the value/share of trade covered by preferential agreements is not the same as the value/share of trade that is conducted on a duty free basis).¹¹ From the point of view of EU firms equally important is

¹¹ These proportions are misleading from the point of view of market access. They do not reveal a number of actual exceptions to tariff cuts in PTAs relating to a many agricultural and

the share of PTAs in EU exports as it reflects the role of partners offering better access to their markets than of partners without preferential access. This share amounted in 2018 to 13.8% of total EU exports and to 37.0% of extra exports.

Given that the EU itself is a preferential trade agreement the inclusion of intra-EU 28 trade provides a more precise picture of trade covered by the EU PTAs. It is important to realize this fact as intra-EU trade is much bigger than extra-EU imports: 59.6% and 40.4% respectively; on the export side the respective figures amount to 62.8% and 37.2%. As already mentioned (Table 3), 30.8% of extra-EU imports and 37.0% of extra exports are covered by PTAs.

The largest partner not involved in PTAs is China to which the most-favoured-nation (MFN) regime applies in its entirety: 20% of extra EU imports in 2018. Other major partners trading with the EU on an MFN basis include: USA¹², Russian Federation, Brazil, Chinese Taipei and a number of other countries. The share of all partners with MFN status amounted to 55.9% of external imports in 2018. Thus imports covered by PTAs accounted for a much smaller share of extra-EU imports (30.8%) as those governed by the MFN regime (remember, however, that a big share of imports under the MFN status is subject to zero level tariffs). The rest of imports (around 13.3%) was subject to unilateral preferences offered by the EU to less developed partners (see next point).

3. Importance of imports covered by unilateral preferences

According to available detailed calculations in 2012 EU imports from countries enjoying unilateral preferences (GSP, GSP plus, Everything But Arms) represented 52% of total extra-EU imports. The major beneficiary was China (around 17% of EU extra imports). In fact, however, a mere 10.5% of those imports were covered by preferential tariffs in access to the EU market. As much as 68% of imports from the countries in question were subject to the MFN tariff equal to 0%,¹³ whereas another 18%—to the MFN tariff above zero (Ambroziak, 2013, p. 41). In other words in the case of some beneficiaries the EU preferences did not mean much because the majority of products were imported to the EU on a duty free MFN basis.¹⁴ The role of unilateral preferences in EU imports decreased in 2014 when China and many other countries lost all rights to preferential treatment under the modified GSP scheme (Regulation, 2012). The rea-

other sensitive goods (e.g. clothes) and a big share of duty-free imports from countries subject to MFN treatment.

¹² In 2013 negotiations with the USA on comprehensive agreement called The Transatlantic Trade and Investment Partnership (TTIP) started. In 2018 they were blocked by President Trump.

¹³ The share of imports on duty free MFN basis in total extra EU imports amounted to 63.5% in 2012, see (Ambroziak, 2013, p. 41).

¹⁴ See footnote 7.

son was that one year earlier the countries had been classified as high-income or middle-upper income countries for several consecutive years.

As already mentioned in 2012 (when China, Russia and other partners still benefited from the GSP) imports subject to unilateral preferential conditions accounted for 52% of extra-EU imports. At the same time imports governed by mutual preferential agreements represented 23.6% whereas those covered by the MFN regime—20.6% of total extra-EU imports.¹⁵ Since then the share of imports from advanced economies subject to MFN tariffs has dropped on account of the entry into force of the PTAs with Canada, Japan and Singapore but at the same time general rules (MFN treatment) apply to imports from other countries which have lost the entitlement to unilateral preferences under the GSP. In 2020 negotiations are being conducted with some of those countries on the conclusion of preferential trade agreements.¹⁶

4. The reasons and motives for growth in the number of PTAs and for extending their coverage

The EEC (later the EU), a preferential agreement (customs union) in itself, entered into free trade arrangements from its inception. Those were mostly free trade agreements (FTAs) based on the requirements of GATT Article XXIV and covering neighbouring European countries. They aimed to derive standard benefits from trade liberalization. Through reciprocal exchange of concessions on trade barriers improvements in market access were expected from which all parties to the negotiation would benefit in the form of reduced prices, increased competitiveness of goods, economies of scale, bigger trade volume, etc. (see Limao, 2016, pp. 13, 43; Whalley, 1998, pp. 7-71). Such a motivation was dominant first of all in the first years after the EEC creation when the level of tariff protection was high (in FTAs signed in the 1970s with the original EFTA countries). Commercial interests still matter especially in the case of selective sectors but definitely not so much as in the past.

The acceleration in negotiating preferential trade agreements has been evident in the EU since 2006. In this year, in view of the lack of progress in the

¹⁵ The shares do not add up to 100% as they exclude imports from unspecified suppliers.

¹⁶ They include the following countries (in parenthesis—the year of start of negotiations): India (2007); Malaysia (2010); Thailand (2013—halted in 2014 after the military takeover in Thailand); Philippines (2016); Indonesia (2016); Mercosur (resumed in 2016); Chile (2017); Australia (2018); New Zealand (2018), see (European Commission, 2020).

From the point of view of European businesses' access to the huge Chinese market the key obstacles are investment-related restrictions rather than tariff barriers. Therefore in 2013 the EU launched negotiations with China on an Investment Agreement and not on a free trade agreement in trading of goods. The aim is to provide investors on both sides with predictable, long-term access to the EU and Chinese markets and to protect investors and their investments.

Doha negotiation, the EU adopted its more commercially oriented *Global Europe strategy* (European Commission, 2006) and targeted a number of large partners and regions for negotiations including the Republic of Korea, India, Canada and the Association of South East Asian Nations (ASEAN). The Commission placed the new FTA initiative in the context of Europe's increasing concern about global competitiveness. As a result since 2006 there has been an increase in the number of negotiated PTAs in the EU. Their common motivation has been their willingness to enlarge EU economic benefits in view of the new situation: low chance of multilateral trade liberalization on the one hand and on the other—intensified globalization which created new chances for deeper specialization (fragmentation of production) and new challenges (greater role of regulatory barriers for trade in intermediate products, technology intensive products, services trade, etc.). The other common characteristic of “the new generation” PTAs is that all of them go significantly beyond the standard WTO trade regime: in the form of deepening of the existing WTO commitments (the so-called WTO-plus agreements) or extending them to new areas (those are WTO-extra agreements).¹⁷

The important reason for growth in PTAs was undoubtedly the standstill in the Doha Round talks. The negotiations started in 2001 as the eighth round of GATT/WTO talks on reducing trade barriers. Those have been the longest negotiations in the history of the GATT/WTO system with no apparent chances of successful conclusion owing to essential differences in the positions of major players. In this situation individual countries and groups of countries decide to implement “regional” preferential solutions allowing them to improve access to the partners' markets and regulate issues of mutual importance.

Simultaneously PTAs have proved to be a more efficient instrument of promoting cooperation with partners than WTO multilateral agreements. A smaller group of countries are more likely to arrive at a satisfactory arrangement faster than the over 160 WTO members with naturally more differentiated interests. In particular it concerns new issues beyond the WTO mandate. According to Horn, Mavroidis and Sapir (2009, pp. 25-26), the WTO-extra commitments negotiated with partners by the EU primarily concern five areas: competition, intellectual property rights, movement of capital, investment, social matters. They all deal with regulatory issues and as such “effectively serve as a means for the two hubs to export their own regulatory approaches to their PTA partners” (Horn et al., 2009, p. 43). Such commitments improve the external environment for EU's companies and in this way support domestic exports on foreign markets. The European Union's increased interest in PTAs after 2006 was also motivated by a desire to match what the United States and other countries had already achieved (Heydon & Woolcock, 2009, pp. 163, 165-166). Examples are

¹⁷ This classification, very useful to compare the coverage of individual PTAs, has been introduced to the literature by Horn and others (2009).

the FTA with Mexico (FTA with the EU entered into force in 2000 while FTA with USA and Canada in 1994), with Korea (negotiations on FTA with EU and USA started in 2007).

As already mentioned the need for new PTAs and for extension of their provisions (beyond standard tariffs- and non-tariff barriers reduction) in the EU has intensified as a result of fast globalization and growing competition to European undertakings from foreign businesses. The 1990s witnessed increasing fragmentation of production (referred to also as unbundling, off-shoring or just production sharing), which means that production processes are organized within networks across countries. It is accompanied by rising specialization in parts, components and accessories which sometimes cross a country's borders several times. Around 60% of world trade is estimated to be in intermediate goods. The shortest description of this phenomenon is as follows: "World production is now structured into global value chains (GVCs) in which firms source parts, components and services from producers in several countries and in turn sell their output to firms and consumers worldwide" (World Bank Group, 2017, p. v).

This phenomenon has plenty of consequences for the measurement of international trade flows, to the concept of international competitiveness as well as to the design of trade policies of individual countries. First of all as noticed by Baldwin, "The competitiveness of GVC-produced goods depends upon a multinational bundle of labour, capital and technology" (Baldwin, 2014, p. 5). The competitiveness is not national any more as it depends nowadays on resources offered by various countries. Thus one of the important implications of the increasing role of GVCs is that governments have become interested in negotiating PTAs with countries with which their domestic firms have developed GVCs. In this way countries wish to secure the best possible trading conditions for their undertakings in the partners' markets including strong protection of intellectual property rights, the rule of law, as well as unimpeded flow of goods, services, investment, activities of key personnel, etc. (Baldwin, 2016, pp. 95–116).¹⁸ "Deep" trade agreements that go beyond simple tariff cutting and which involve legal commitments on laws and regulations are an instrument to achieve these goals. "New generation" free trade agreements of the EU are good examples of such instruments.¹⁹ Developing and emerging countries

¹⁸ It should be noted that more and more PTAs include provisions on trade in services which contributes to a deeper integration of participating partners and goes beyond what could be achieved simply by elimination of market access restrictions specific for this area of trade (such restrictions are mostly of regulatory character). As a result also trade in goods is supported taking into account close interrelations between trade in goods and in services (the so-called *servitization*). Possible ways to address regulatory divergences in services included in 23 PTAs entered into by China, the EU, Japan, and the USA have been analyzed by Gari (2020).

¹⁹ A positive relationship between deeper integration within PTAs and GVCs has been recognized by Hofmann, Osnago and Ruta (2018, pp. 372, 391), see also (World Bank Group, 2017, chapter 7).

involved in GVCs also realize these e benefits and are interested in negotiating such agreements.²⁰

Attempts have been made to negotiate multilateral regulations relating to issues beyond traditional border barriers during the Uruguay Round (1986–1994). Their objective was to ensure that international flows of goods and also of services, investment and people were not distorted by differentiated national rules on investment, property rights, etc. However the results proved to be limited as the WTO provisions on those issues are modest. As a consequence interested countries have taken measures to mitigate barriers in preferential arrangements.

The EPAs with Caribbean, African and Pacific states reflect relationships with more developed partners of this group which are required to offer greater reciprocity in market access (previously they benefitted from EU unilateral preferences). These agreements are driven mainly „by a general desire to promote development in countries that are linked to Europe through the legacy of colonialism” (Heydon & Woolcock, 2009, p. 162). This motivation has been confirmed by the financial support offered to ACP countries and channelled through the European Development Fund with disbursements for social (e.g. education, health and water) and economic (e.g. transport, communication and energy) infrastructure. Expected economic benefits are not very important as “few of the ACP markets are significant for EU exporters and although there are sensitive sectors in agriculture, there is no significant, general (i.e. outside of a few narrow sectors) competition from the ACP exporters in industrial products, with the possible exception of South Africa” (Heydon & Woolcock, 2009, p. 162).

The predominant motive for the DCFTA signed with partners of the Eastern Neighbourhood Policy (Georgia, Moldova and Ukraine) seems to be political and strategic factors. EU expects these agreements to promote economic development and foster economic and system reforms in countries where reform-oriented forces rise to power and thus contribute to political stability and security for the EU. They also seek to promote EU regulatory mechanisms and thus contribute to good governance in the countries concerned (Heydon & Woolcock, 2009, p. 162). Also the Stabilization and Association Agreements with the western Balkans were motivated mostly by political and security reasons.²¹ In addition many EU agreements signed with developing and emerging

²⁰ At the same time participation in deep preferential trade agreements turns out to be an effective way to expand involvement in GVCs. Especially for developing countries it is a way to concentrate on a specific production process or task, which enables them to undergo faster economic development and industrialization.

²¹ It is important to note that promotion of political stability in the close EU region was also a very important reason for the EU in negotiating free trade agreements (as part of broader Association Agreements) with ten Central and Eastern European countries after the collapse of their planned economy systems. In this way „Association Agreements were seen as contributing

countries go significantly beyond trade-related and economic issues and beyond the multilateral commitments contained in the WTO system (the WTO-extra areas). They cover topics such as migration, combating the flow of illegal drugs, protection of labour laws and human rights, political dialogue, etc. and aim at the protection of EU security and stability. An incentive to achieve the above-mentioned goals within all agreements is the EU's financial aid.

According to Horn and others the EU attempts to achieve those goals „through trade policy because it lacks the political power to do it through foreign policy” (Horn et al., 2009, p. vii). Thus to a certain degree the EU PTAs serve as a substitute for foreign policy still in the domain of the EU Member States' individual governments (see more Kawecka-Wyrzykowska, 2015, pp. 5–25).

Researchers have noticed that a lot of such non-economic provisions are of a general character and do not effectively bind the parties (are not enforceable) as respective laws are „noncommittal or semi-committal”.²² Examples are: the parties “shall strengthen their co-operation in the field of technical regulations” (Hofmann et al., 2018, p. 376) or “Parties may conclude...”, “Parties shall strive (aim) to...” (Horn et al., 2009, p. 17). Such provisions relate to issues as prevention of illegal immigration, protection of human rights, etc. Thus it can be expected that the practical meaning of such “weak” commitments is not very large for the EU and that PTAs are not an effective way to achieve this type of objective. The confirmation of this opinion requires, however, deeper analysis of the enforcement of concrete preferential agreements.

The main conclusion resulting from this review is that individual PTAs negotiated by the EU are motivated by different priority expectations. As a result the evaluation of the importance of each concrete PTA and its effects should take into account those varied motivations. In many cases the main effects expected from PTAs are of broad economic character but in some cases—non-economic expectations are more important.

Conclusions

In 2018 imports within PTAs accounted for around one third of EU extra imports and around 37% of EU extra exports (assuming the coverage of PTAs as of February 2020). The relatively small importance of tariffs as obstacles to imports was also reflected by a low level of import tariffs in the EU (5%, sim-

to the European Union's (and the wider Europe's) security” (Heydon & Woolcock, 2009, p. 162). Economic benefits expected from the free access to these markets for EU goods and services and from deeper specialization were not neglected however.

²² A different approach is applied by the US: “The US, by contrast, includes few additional provisions in their PTAs but makes sure that whatever clause it adds, be it on labour or the environment, serves its perceived interests and is actually enforceable” (Horn et al., 2009, p. vi).

ple mean) and the fact that about 13% of EU extra imports were subject to unilateral preferences offered to weaker partners. EU statistics reveal also that a large proportion of trade conducted on a MFN basis enjoys low tariffs or completely duty free status.

An attempt to lower tariffs (and other border measures) in order to obtain easier access to partners' markets, important in the first years after the creation of the EEC, is no longer the dominant factor of negotiating PTAs. The 21st century PTAs of the EU with important partners are motivated by a search for disciplines that facilitate the operation of broad economic activities with foreign partners often organized within international production networks. The most dynamic trade nowadays involves flows not so much of final goods but of parts and accessories and also of intangible property rights, services, know-how, financial capital, people, etc. Countries wish to ensure that these flows will be unimpeded. As a result PTAs serve as important instruments to eliminate national regulatory barriers faced by EU exporters of goods and resources abroad and to promote domestic production and sales on foreign markets.

EU PTAs are also a response to the social and political changes in neighbouring and nearby countries. Such agreements are supposed to prevent destabilization around EU borders and eliminate national security-related risks (illegal immigration, flow of drugs, etc.). Thus to some extent TAs are a substitute for a foreign affairs policy that is conducted in the EU at the national levels.

The review of motivations has revealed that with time new reasons for PTAs have appeared reflecting changes in the EU economic and political environment and new objectives that the EU is aiming to achieve. Thus the analysis has confirmed that the identification of the specific motives and objectives of individual PTAs is important for the proper evaluation of the agreement's significance for the EU and its partners.

Proper identification of the EU's declared objectives and motives of PTAs can be a good starting point for further studies to see whether the expectations underlying individual PTAs correspond to reality. Further research would also be useful with regard to PTAs' provisions on WTO-plus areas (e.g. technical standards, public procurement, trade in services) to see whether these laws might be useful for a strengthening of the uniform multilateral system and for their application by other partners. Equally interesting would be a deeper analysis of WTO-extra areas (e.g. provisions on competition or protection of the environment) in which the UE and other major trading partners attempt to establish their own rules reflecting their specific priorities. At the root of this question is whether such new rules strengthen the international trading system or, conversely, weaken it.

Appendix

Statistical annex. Overview of the EU Preferential Trade Agreements as at the end of February 2020 (trade in 2018)

Partner	Applied since	Value of EU imports, US billions	% of total imports	Value of EU exports, US billions	% of total exports
“First generation” Free Trade Agreements					
EU–Turkey Customs Union	Association Agreement signed in 1963; final phase of the customs union completed on 1 January 1996	95.1	1.5	94.3	1.5
EU–Switzerland	1972	128.5	2.0	185.4	3.0
EU–Norway	1 July 1973	87.6	1.4	62.7	1.0
Iceland	1973	4.1	0.1	4.1	0.1
Liechtenstein	1973?	n.a.	n.a.	n.a.	n.a.
EU–Faroes Islands	1991	0.7	0.0	0.9	0.0
EU–Israel	1 January 1996	14.0	0.2	23.5	0.4
EU–Jordan	1 May 2002	0.4	0.0	4.1	0.1
EU–Tunisia	1 March 1998	13.0	0.2	13.7	0.2
EU–Morocco	18 March 2000	20.6	0.3	27.2	0.4
EU–Lebanon	1 March 2003	0.6	0.0	8.4	0.1
EU–Egypt	21 December 2003	10.6	0.2	21.4	0.3
EU–Algeria	1 September 2005	24.8	0.4	22.0	0.4
EU–Mexico Global Agreement	FTA for goods applied since 1 July 2000, services FTA applied since 1 March 2001	33.1	0.5	46.0	0.7
EU–Chile Association Agreement	1 February 2003	9.6	0.2	11.6	0.2
EU–the former Yugoslav Republic of Macedonia SAA	Interim Agreement on trade 1 June 2001	6.4	0.1	6.4	0.1
EU–Albania SAA	Interim Agreement on trade 1 December 2006	2.2	0.0	3.7	0.1
EU–Montenegro SAA	Interim Agreement on trade 1 January 2008	0.2	0.0	1.4	0.0

Partner	Applied since	Value of EU imports, US billions	% of total imports	Value of EU exports, US billions	% of total exports
EU–Serbia SAA	Interim Agreement on trade for Serbia: 1 February 2009; for the EU: 8 December 2009	13.1	0.2	18.1	0.3
EU–Bosnia and Herzegovina SAA	Interim Agreement on trade 1 July 2008	5.3	0.1	6.8	0.1
EU–Kosovo SAA	1 April 2016	n.a.	n.a.	n.a.	n.a.
“New generation” Free Trade Agreements					
EU–South Korea FTA	1 July 2011	65.9	1.1	58.4	0.9
EU–Colombia–Peru–Ecuador FTA	1 March 2013 for Peru. 1 August 2013 for Colombia, since 1 January 2017 for Ecuador	18.3	0.3	14.1	0.2
EU–Central America Association Agreement	1 August 2013 for trade applies with Honduras, Nicaragua and Panama, 1 October 2013 Costa Rica and El Salvador, 1 December 2013 Guatemala	8.2	0.1	7.1	0.1
EU–Canada Comprehensive Economic Trade Agreement	On 21 September 2017, the agreement provisionally entered into force. It will enter into force fully and definitively when all EU Member States’ parliaments have ratified the Agreement	37.0	0.6	48.2	0.8
EU and Japan’s Economic Partnership Agreement	Entered into force on 1 February 2019; it removes the vast majority of tariffs (in Japan—on 97% of goods imported from the EU) and many non-tariff barriers	103.4	1.6	75.3	1.2
EU–Singapore Free Trade Agreement	Trade agreement entered into force on 21 November 2019	26.9	0.4	43.3	0.7

Partner	Applied since	Value of EU imports, US billions	% of total imports	Value of EU exports, US billions	% of total exports
Deep and Comprehensive Free Trade Areas					
EU–Georgia	1 September 2014, entered into force on 1 July 2016	0.8	0.0	2.5	0.0
EU–Moldova	1 September 2014, entered into force on 1 July 2016	2.3	0.0	3.2	0.1
EU–Ukraine	1 January 2016, entered into force on 1 September 2017	22.3	0.4	25.4	0.4
Economic Partnership Agreements (EPAs) with with African, Caribbean and Pacific States					
EU–Pacific	28 July 2014. Fiji; 20 December 2009 Papua New Guinea	1.1	0.0	0.2	0.0
EU–Cariforum	29 December 2008: Antigua & Barbuda; Belize; Bahamas; Barbados; Dominica; Dominican Republic; Grenada; Guyana; Jamaica; St. Kitts & Nevis; Saint Lucia; St. Vincent & the Grenadines; Suriname; and Trinidad & Tobago	5.1	0.1	6.8	0.1
EU–Eastern and Southern African (ESA) sub-region	14 May 2012: Madagascar, Mauritius, Seychelles and Zimbabwe	3.4	0.1	2.6	0.0
EU–Central Africa EPA	4 August 2014: Cameroon	2.2	0.0	1.9	0.0
EU–SADC (Southern African Development Community) EPA	10 October 2016: Botswana, Lesotho, Namibia, South Africa and Swaziland; 4 February 2018: Mozambique	5.8	0.1	1.7	0.0
EU–Ghana Interim EPA	15 December 2016	3.7	0.1	3.3	0.1
EU–Ivory Coast Interim EPA	3 September 2016	5.7	0.1	3.2	0.1
Total of PTAs partners		782.1	12.5	859.5	13.8

Partner	Applied since	Value of EU imports, US billions	% of total imports	Value of EU exports, US billions	% of total exports
Agreement in the process of ratification					
EU-Vietnam Free Trade Agreement	European Parliament gave its consent on 12 February 2020. FTA will eliminate nearly all tariffs (over 99%) and address many non-tariff barriers	53.4	0.9	13.0	0.2

Notes:

- EU-Ukraine DCFTA was provisionally applied since 1 January 2016. DCFTAs with Georgia and Moldova were provisionally applied since 1 September 2014;
- SAA: Stabilization and Association Agreement; EPA: Economic Partnership Agreement;
- The FTA with South Africa has been superseded by the EPA with Southern African Development Community (SADC).

Source: European Commission (2019b, p. 5), the author's own updates of PTAs and own calculations based on WITS-Comtrade database.

References

- Acharya, R., Crawford, J.-A., Maliszewska, M., & Renard, C. (2011). Landscape. In J.-P. Chauffour & J.-Ch. Maur (Eds.), *Preferential trade agreement policies for development: A handbook* (pp. 37-68). Washington, DC: World Bank. doi:10.1596/978-0-8213-8643-9
- Akman, S. Armstrong, S., Braga, C., Dadush, U., Gonzalez, A., Kimura, F., & Tamura, A. (2019). The crisis in world trade. *Policy Centre for the New South Policy Briefs*, PB-19/15. Retrieved January 15, 2020 from <https://www.policycenter.ma/publications/policy-briefs/2019?page=2>
- Ambroziak, Ł. (2013). Ocena wykorzystania preferencji celnych w przywozie do Unii Europejskiej. *Unia Europejska.pl*, (6), 36-50.
- Baldwin, R. (2011). Trade and industrialisation after globalisation's 2nd unbundling: How building and joining a supply chain are different and why it matters. (NBER Working Paper, No. 17716, 1-38). doi: 10.3386/w17716
- Baldwin, R. (2014). *Multilateralising 21st century regionalism, global forum on trade reconciling regionalism and multilateralism in a post-Bali world*. Paris: OECD. Retrieved December 20, 2019 from <https://repository.graduateinstitute.ch//record/286980>
- Baldwin, R. (2016). The World Trade Organization and the future of multilateralism. *Journal of Economic Perspectives*, 30(1), 95-116. doi:10.1257/jep.30.1.95
- Dadush, U., & Wolff, G. B. (2019). The European Union's response to the trade crisis. *Bruegel Policy Contribution*, (5), 1-13. Retrieved January 16, 2020 from <https://www.bruegel.org/>

- European Commission. (2006). *Global Europe: Competing in the world. A contribution to the EU's growth and jobs strategy*. (Staff Working Document, No. 567 final, 1-18). Retrieved January 16, 2020 from <https://europa.eu/>
- European Commission. (2019a). *Individual reports and info sheets on implementation of EU Free Trade Agreements accompanying the document: Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Implementation of Free Trade Agreements 1 January 2018-31 December 2018*. (Staff Working Document, No. 370 final, 1-316). Retrieved January 1, 2020 from <https://europa.eu/>
- European Commission. (2019b). *2019 Report on implementation of EU Free Trade Agreements 1 January 2018-31 December 2018*. Luxembourg, 1-48. doi:10.2781/93173
- European Commission. (2020). *Overview of FTA and other trade negotiations*. Retrieved April 20, 2020 from http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf
- Gari, G. (2020). Recent preferential trade agreements' disciplines for tackling regulatory divergence in services: How far beyond GATS?. *World Trade Review*, 19(1), 1-29. doi:10.1017/S1474745618000368
- Heydon, K., & Woolcock, S. (2009). *The rise of bilateralism: Comparing American, European and Asian approaches to preferential trade agreements*. Tokyo–New York–Paris: United Nations University Press.
- Hofmann, C., Osnago, A., & Ruta, M. (2019). The content of preferential trade agreements. *World Trade Review*, 18(3), 365-398. doi:10.1017/S1474745618000071
- Horn, H., Mavroidis, P. C., & Sapir, A. (2009). Beyond the WTO? An anatomy of EU and US preferential trade agreements. *Bruegel Blueprint Series*, 7.
- Kawecka-Wyrzykowska, E. (2015). Preferencyjne porozumienia handlowe—znaczenie dla handlu dobrami i innych dziedzin współpracy Unii Europejskiej z partnerami zagranicznymi. *Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie*, (9), 5-25. doi:10.15678/ZNUEK.2015.0945.0901
- Limão, N. (2016). *Preferential trade agreements*. (NBER Working Paper, No. 22138, 1-78).
- Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008, OJ L 303/2012.
- Whalley, J. (1998). *Why do countries seek regional trade agreements?*. In J. A. Frankel (Ed.), *The regionalization of the world economy* (pp. 1-90). Chicago: University of Chicago Press.
- WITS-Comtrade database. Retrieved April 25, 2020 from World Integrated Trade Solution website, <https://wits.worldbank.org/>
- World Bank Group. (2017). *Global value chain development report 2017. Measuring and analyzing the impact of GVCs on economic development*. Washington, DC: World Bank.
- WTO. (2011). *World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence*. Geneva: World Trade Organization.
- WTO ITC UNCTAD. (2019). *World tariff profiles 2019*. Geneva: World Trade Organization.

<https://tcdata360.worldbank.org/indicators/TM.TAX.MRCH.WM.AR.ZS?country=BRA&indicator=1909&viz=1>

<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

http://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/ine_chart&years=1988,2018#table-link