



EU trade agreements

WHY ARE THEY IMPORTANT FOR POLISH ENTREPRENEURS?



THINKTANK[®]

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The European Union conducts a trade policy to ensure the best possible opportunities for economic cooperation with third countries. Its elements are free trade and investment agreements. The EU has so far signed 41 such agreements with 72 countries¹.

¹ <https://www.consilium.europa.eu/en/eu-free-trade/>



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Changes in international trade were the subject of a debate organised on 27 May 2021 as part of the "Talks about Europe" series, conducted by the THINKTANK Centre and the European Commission Representation in Poland.

Participants: Hanna Zdanowska – Mayor of Łódź; Andrzej Dycha – former Deputy Minister of Economy and WTO negotiator, Team Europe expert; and Prof. Witold Orłowski – economist, member of the National Development Council, former rector of Vistula University. The discussion was moderated by Dr. Małgorzata Bonikowska, president of THINKTANK.



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1. SUMMARY

Foreign trade has always been the driving force behind economic development. After World War II, the founders of the new international order recognised that multilateral economic cooperation between nations would help rebuild economies and improve relations between states.

Trade stabilises the international order because countries that cooperate with each other in the economic field are less prone to conflicts and are more open to the partner's values. Over time, a model has developed based on the increasingly complex specialisations of national economies and related value chains.

These numerous ties and collaborations create a kind of a common global market, although not as integrated as the European one. There are many different barriers and protection measures in the global market as well as mechanisms of competition. According to economist Witold Orłowski, despite these disruptions, the growth rate of global trade before the pandemic was much higher than the growth of global GDP.



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WTO's AMBIGUOUS ROLE

The World Trade Organisation (WTO), which has existed since 1995 and currently has 164 countries and 25 observers², tries to break down barriers to international trade. The EU countries are also its members. So why does the European Union conclude separate trade treaties with third countries? Andrzej Dycha, former deputy economy minister and WTO negotiator, explains that the reason is internal tensions and divergent interests between countries and blocs of countries. Negotiations to remove these barriers have not progressed for several years, and attempts to fix this situation and reform the organisation have been unsuccessful. Prof. Witold Orłowski adds that the WTO, as a global organisation, tries hard to reconcile the interests of all and seeks the least common denominator for them, i.e. introduces the most basic rules and facilities. However, many countries see the need for deeper trade cooperation, and it is with them that the EU concludes separate treaties.

² https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm



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THE EU AND THE REST OF THE WORLD

Against that backdrop, Europe is the region that has removed the most barriers to the development of international trade. The EU Common Market enables the free movement of goods and services, but also people and capital, between the members of the single market. In addition, the EU works to expand its free trade area with many other regions and countries through trade agreements. They broaden trade and mutual investments, and remove barriers on the way. The EU also concludes agreements that do not deal with preferential trade but are part of wider agreements, such as partnership agreements and cooperation.

Negotiations regarding commercial deals are conducted in accordance with the principles set out in Article 218 of the Treaty on the Functioning of the European Union. In June 2018, the European Council underlined the importance of keeping all stakeholders – including national parliaments and civil society – informed about the progress of negotiations and the content of negotiated agreements.³

³ <https://www.consilium.europa.eu/pl/press/press-releases/2018/05/22/new-approach-on-negotiating-and-concluding-eu-trade-agreements-adopted-by-council/>



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2. COMMENTS OF THE PARTICIPANTS OF THE DEBATE

Prof. Witold Orłowski:

- The WTO, as a global organisation, tries to reconcile the interests of all, and seeks the least common denominator for them, that is, introduces the most basic rules and facilities. Many countries see the need for deeper trade cooperation, and it is with them that the EU concludes separate treaties. Experiences from the pandemic may lead to a slowdown in globalisation, and a reduction in world trade. While protectionism is a false remedy that could lead to economic catastrophe, the number of such barriers is increasing worldwide. These tendencies should be counteracted, because at the end of the day everyone may lose on trade restrictions. An example is the Polish economy, which is rapidly increasing exports, for which trade inhibitions may mean a decline in production and services to foreign markets and, thus, a reduction of its GDP growth.

Andrzej Dycha:

- EU's trade deals respond to the failure of the World Trade Organisation. They are of great importance for Poland, because they enable companies from the developing Central European region to reach out to the world, and not only to firms from the strongest economies, such as Germany or France. It is likely that the pandemic will correct international production and supply chains. Today, the concentration of suppliers in one region is beginning to be perceived as a risk in those areas of the



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economy that are critical to public health and national security. Changes can be expected towards a much greater self-sufficiency of individual countries or blocs such as the EU.

Hanna Zdanowska:

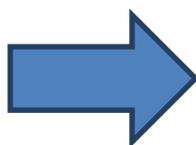
- Before the transformation in Poland, Łódź was a well-known centre of the textile industry, exporting a significant part of its production. After 1989, this activity ceased, and the city and the region fell into stagnation and high unemployment. It was then that, thanks to the opening of the Polish market, foreign investors came. Initially, they launched mainly assembly plants, but also taught employees a new corporate culture, modern work organisation and new technologies. Universities in Łódź responded to these new phenomena by developing study programmes meeting the most urgent needs of the region, and the supply of well-prepared graduates attracted new, more complex investments, including business service centres. Today, Łódź is a thriving production and export centre with good prospects for the future. In recent years, the city has set up modern companies and service centres, and has the need and potential to produce even more and even better. Any restrictions on international trade would be a serious obstacle to these aspirations. The EU should actively work to modernise the WTO and work with international partners to stop trade wars and remove protection barriers. They were a stumbling block to the world before the pandemic, and now they may make the recovery of affected economies much more difficult.



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The number of free trade agreements the European Union has signed so far.

TYPES OF TRADE AGREEMENTS ⁴



- Economic Partnership Agreements – support the development of trade partners from African, Caribbean and Pacific countries;
- Free Trade Agreements – enable the mutual opening of markets by granting preferential access; they are concluded with developed countries and emerging economies;
- Association Agreements – are the embodiment of broader political agreements.

⁴ <https://www.consilium.europa.eu/pl/policies/trade-policy/trade-agreements/>



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CONCLUSIONS FROM THE DEBATE

- **The EU trade agreements should be a tool to promote the EU values:** sustainable development, climate and nature protection, respect for workers' rights, eliminating child labour, stimulating the development of poor countries.
- As part of the Eastern Partnership, co-authored by Poland, the EU concluded trade agreements with its Eastern neighbours: Ukraine, Georgia and Moldova. The economic development of EU's neighbours in the East is in the interest of Poland and the entire EU, and although the value of the EU trade with these countries has increased, the potential of this cooperation is still underestimated. **Therefore, it is worth encouraging European entrepreneurs to expand trade cooperation with the Eastern Partnership countries.**
- Despite the necessary openness to international cooperation, **the interests of the economy and consumers in the EU must be taken care of.** The aim should not be to reach an agreement at any cost. FTA negotiations are difficult and not always successful.
- **Europeans' awareness of the scope of the EU economic agreements should be increased.** In Poland, the role of foreign investments in modernising the economy, and raising the general standard of living of Poles is of particular note.
- **Entrepreneurs should be made aware that owing to the EU trade agreements their markets are expanding, and the prices of raw materials and semi-finished products they buy are lower.**



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BENEFITS OF TRADE AGREEMENTS FOR EU ENTREPRENEURS



- Opening up new markets for European goods and services;
- Greater investment opportunities and better investment protection;
- Lower trade costs through removal of customs duties and reduction of bureaucracy;
- Speeding up trade through easier customs clearance and common standards.