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Non-trade effects of DC-FTAs

The dynamics of costs and benefits of AA/DC-FTAs

Outline

0-Background: why look at non-trade effects?

- EU Trade policy & Lisbon Treaty
- DC-FTAs and AAs
- Comparison to accession process

1-Costs and benefits of association: a typology

2-Comparison of dynamics of AA/DC-FTAs implementation and earlier accession processes (2004)

3-Conclusions

Lisbon Treaty changes in EU trade & investment policy(making)

- In addition to trade in goods: all trade in services, trade related to intellectual property rights (TRIPs), and FDI was brought into exclusive EU competence
- Increased role of EP: trade legislation follows the ordinary legislative procedure (OLP), increased role for EP Committee on International Trade (INTA), all trade agreements have to be ratified by EP
- Unification of objectives and decision-making procedures for all EU external policies: EU trade and investment policy is now explicitly part of the –wider- EU's external action

Article 207 TFEU



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“1. The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action.”

Chapter 1 of Title V of the Treaty on European Union

These goals include:

- general aims such as support for democracy, rule of law and human rights;
- more specific aims:
 - sustainable economic, social and environmental development;
 - integration of all countries into the world economy;
 - the progressive improvement of the environment and sustainable management of global resources;
 - good global governance.

External trade still “resides” in DG Trade, Commission is still the principal negotiator (“in the driving seat”), but

- EP more involved in setting/constraining Commission’s mandate (new ex post veto player role, creates ex ante power)
- HRFSP/EEAS can intervene to ensure policy coherency (confirmed by inter-institutional agreements)

Osteikoetxea (2013): focus on effectiveness of EU trade negotiations (pre-/post-Lisbon)

- New role EP weakens EU negotiation position
- Back-stop role of HFSRP/EEAS strengthens general EU position as it (re-) confirms commitment by Council, and increases coordination between Commission and –individual- MSs

Question remains: does this also mean that non-trade issues have become more important in ENP?

Is this –for example- apparent in the recent DC-FTAs with EaP countries?

EU increasingly uses DC-FTAs (“new generation” FTAs)

DC-FTAs involve

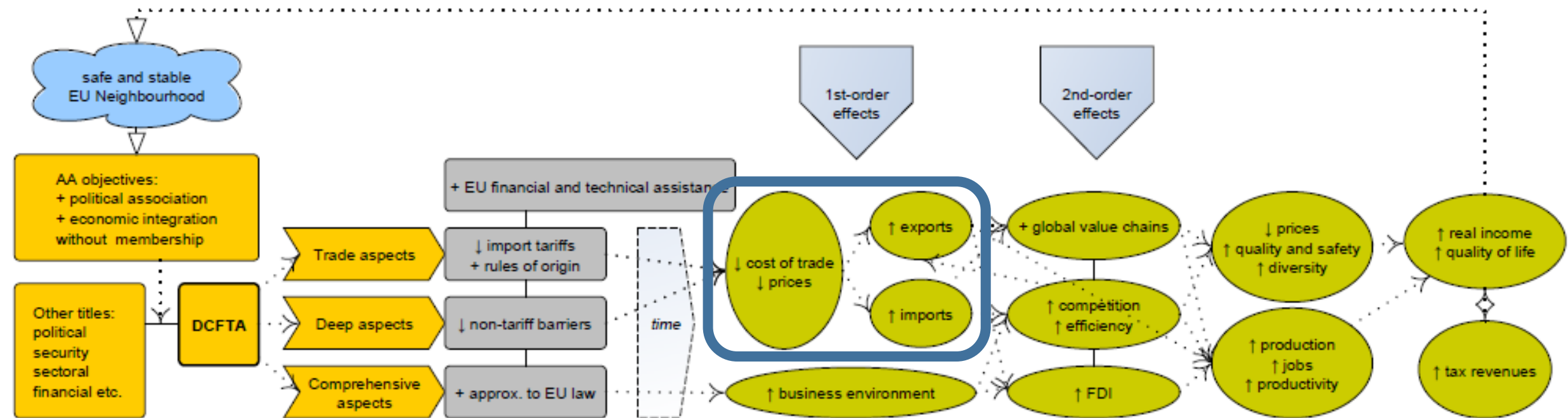
- a. the traditional reduction of (border) trade-barriers (TBs);
- b. the reduction of non-trade barriers (NTBs, i.e. barriers “behind-the-border”: the “deep” aspects (e.g. food safety standards);
- c. legal approximation to EU law in various areas: the “comprehensive” aspects (e.g. public procurement, dispute settlement)

Focus in research is very much on static/short-term trade effects

Understandable given the short period of implementation of AA/DC-FTAs:

- Moldova & Georgia: formally July 2016, provisionally: September 2014;
- Ukraine: provisionally: January 2016

Figure 2.1. Causal chain analysis of the DCFTA impact channels



Focus is less on:

- dynamic/longer-term other **economic economic effects** (GDP, FDI, employment, wages, productivity) (main exception: Adarov & Havlik, 2016);
- **more general (societal) benefits** of –esp.- approximation to EU law in the wider AA context (democracy, rule of law)

In addition: little attention is paid to the **costs** of (implementing) AA/DC-FTAs, i.e. costs that the reduction of TBs, NTBs and –especially- general approximation of EU law bring about ...

And: little attention is paid to the **dynamics of benefits and costs**, and the implications for support of the integration process in EaP countries

Comparison of association process with –earlier- accession processes

Given:

- The embedding of trade policy in the general EU external policy
- Little attention paid to longer-term non-trade effects (benefits and costs) of association

it is interesting to broaden the perspective from trade-related effects to:

- ❖ “benefits and costs of **association**” (of EaP countries Georgia, Moldova, Ukraine)
- ❖ their dynamics, over time

compared to what we know from earlier **accession** processes (esp. 2004)

1-Costs and benefits of association: a typology



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BENEFITS	COSTS
Increased exports due to access to EU markets (and indirectly RoW), but limited in some sectors (e.g. agriculture) Decreased costs of imports/inputs Financial and technical assistance EU to businesses Overall: increased domestic market efficiency, better business environment, higher level of competitiveness, possibilities to be part of global value chains	Compliance costs business sector Re-structuring due to increased competition from EU producers Limits to state-aid Opportunity costs of not-participating in other trade arrangements (Eurasian Union)
Higher FDI inflow Better access to finance, lower costs of capital, but limited to larger companies (not: SMEs)	Higher FDI outflow
Potential access to EU public procurement	Increased competition in public procurement from EU competitors
Potentially: wage increased due to labour mobility (but de facto limited except for brain-drain, accelerated outflow)	Unemployment due to re-structuring (low-skilled labour in inefficient industries)
Lower consumer prices (due to lower import prices)	Higher consumer prices due to higher compliance costs, and removal of state-aid
Higher quality of products, more variety in products	Elimination of some products due to non-compliance with EU standards
Better public governance due to public sector reform Financial and technical support EU for public sector reform	Costs of implementing public sector reform
Higher tax revenues to expanding tax base	Lower import tariff revenues
Higher standards of living (GDPpc, sustainability)	Preference distortion/loss of sovereignty in some policy areas Higher income inequality (personal, regional) Increased regional security problems (frozen/heated conflicts)

Paper:

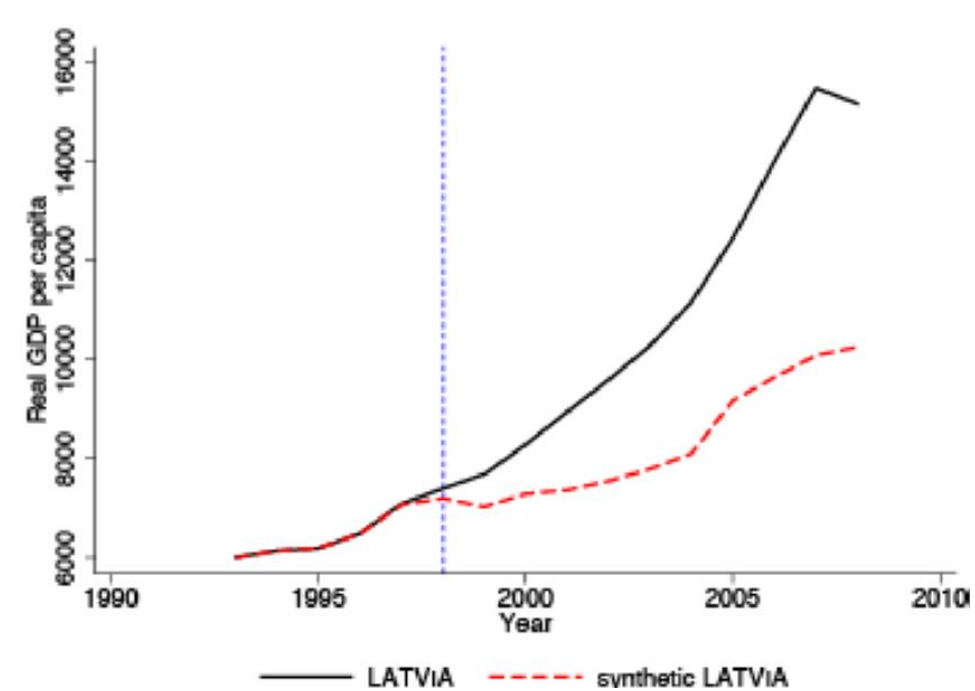
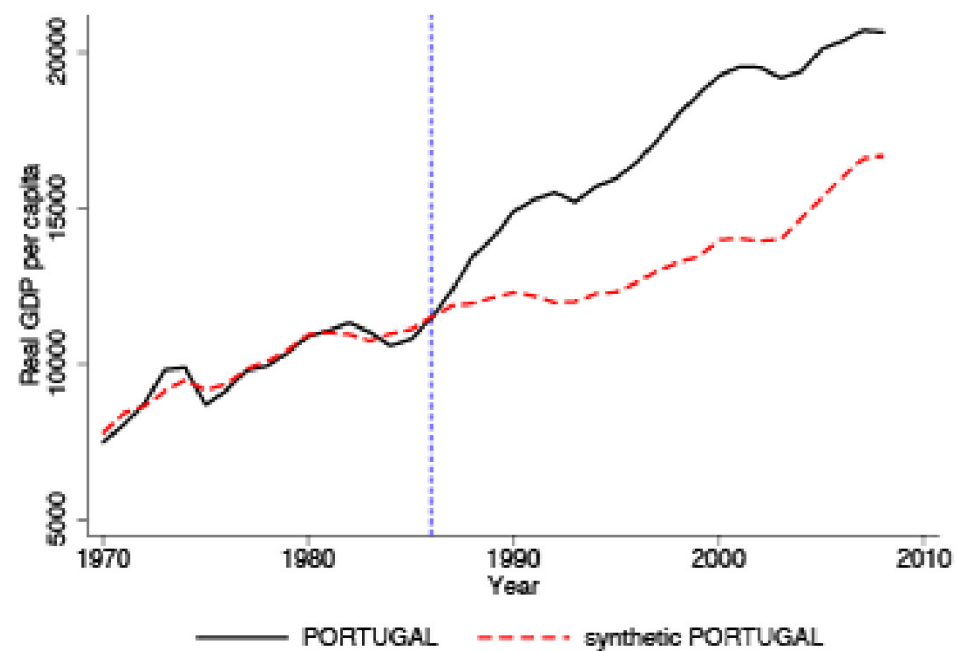
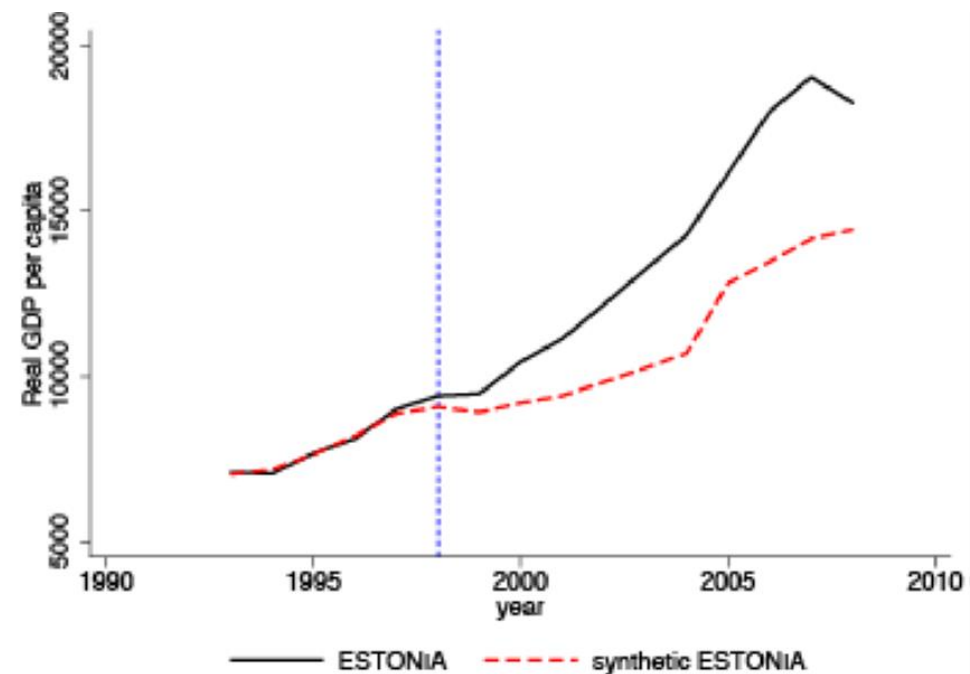
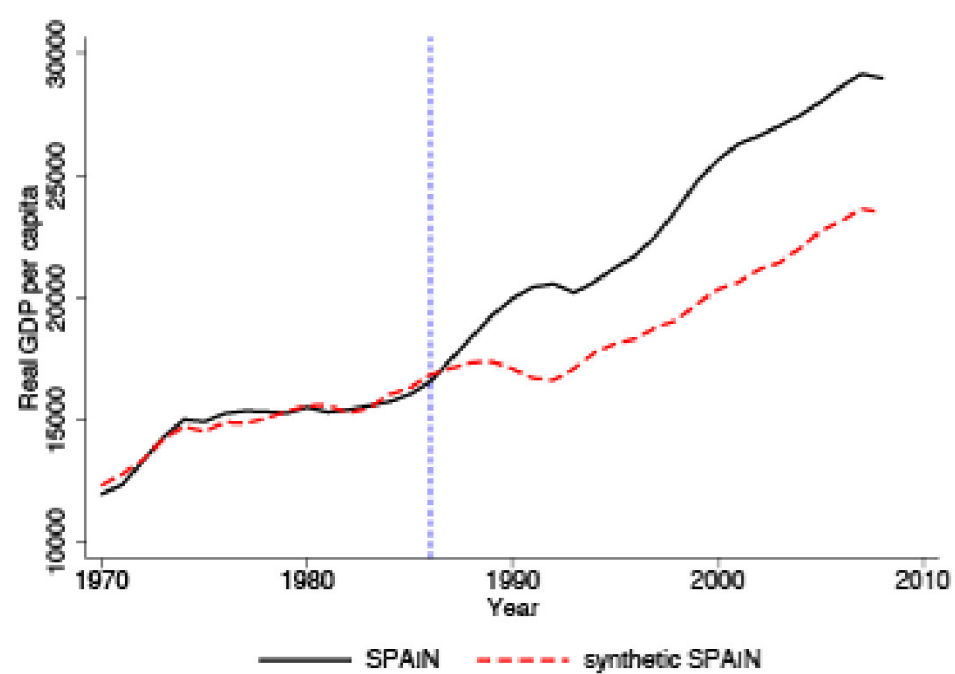
- Classification of these effects in short/medium/long term effects
- Tentative empirical data on these effects
 - Based on other research (mainly: trade-related effects)
 - Analysis of progress reports (Association Implementation Reports) for Georgia, Moldova and Ukraine

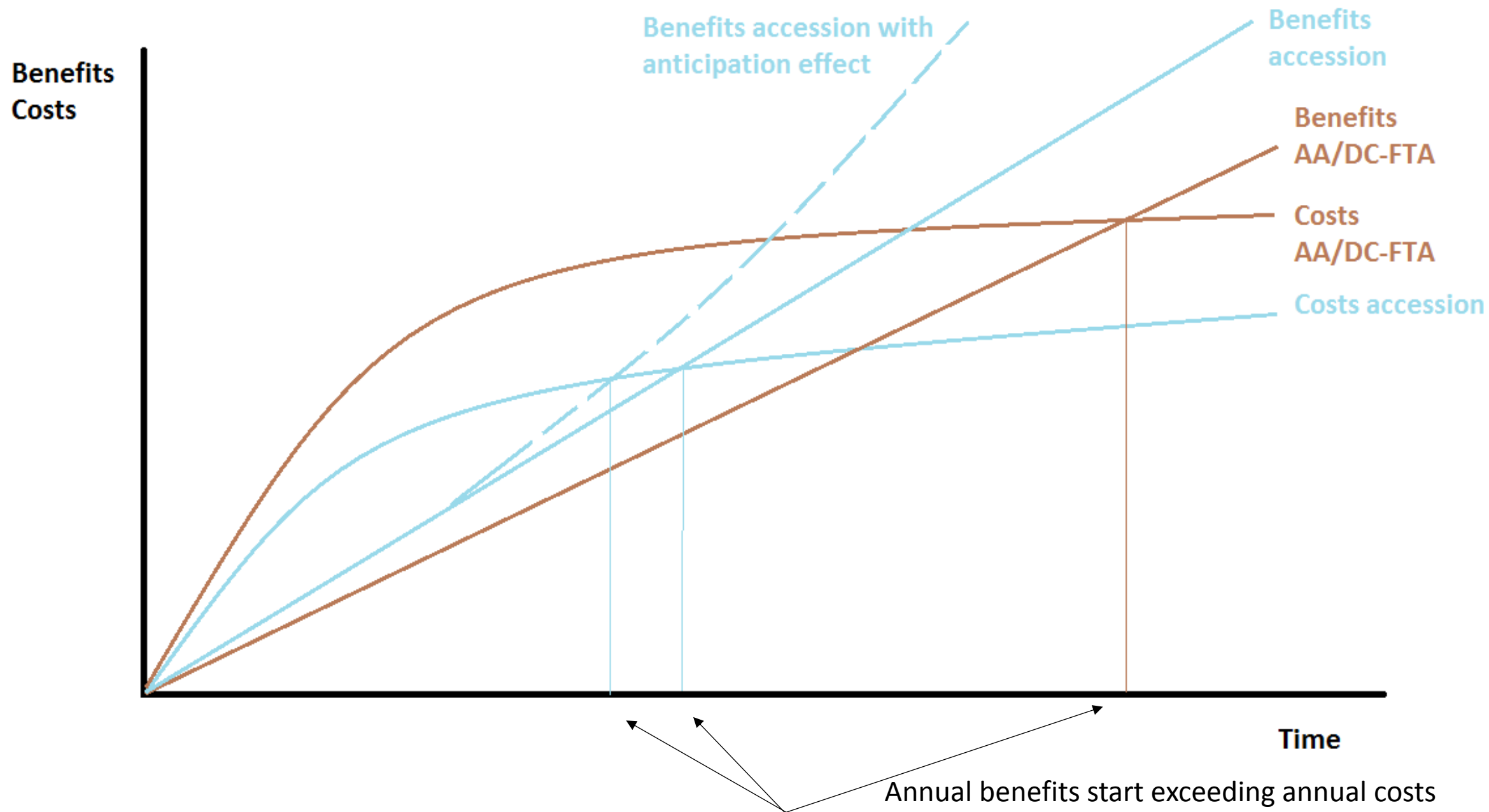
2-Comparison of dynamics of AA/DC-FTAs implementation and earlier accession processes (2004)

Similarity: Long process of frontloading of regulation/approximation to EU law, *acquis communautaire*), starting from Copenhagen summit in 1993, accession negotiations started with most CEE in 1998

Differences:

- AA/FTAs: costs are higher due to larger differentials between G/M/U and current EU-28 than between CEE-8 and EU-15 in 1998 (but differences between G/M/U)
- CEE-8 got (full) EU membership benefits after accession (= more benefits than with association)
- Full EU membership perspective created an anticipation effect (Campos et al., 2014)





3-Conclusions

In research as well as in AA/DC-FTA implementation more attention should be paid to the dynamics of costs and benefits, especially (see also Dreyer, 2012; Havlik, 2014; Kuzio, 2016; Adarov & Havlik, 2016):

- Is all the AA/DC-FTA-acquis needed for reaching the essential benefits of the AA/DC-FTAs?
- Less costly front-loading, more spreading of costs over time
- EU (financial) assistance not only for reforms/compliance, but also to mitigate negative social effects