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FREE TRADE OR PROTECTIONISM?
TRADE BARRIERS AND TRADE POLICY OF THE EU

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Abstract: For years, a number of researchers have questioned whether there is an implicit impulse for protectionism hidden behind the tariff and non-tariff liberalization clauses put forward in all new EU agreements, as well as in the Union's participation in various formats of multilateral trade negotiations. On the other hand, the introduction of protectionist measures implemented by many countries around the world is increasingly being observed. In order to summarize and clarify these trends in the development and restructuring of the global trade system and the EU's place in it, the article first summarizes some insights from economic theory and empirical research on free trade and protectionism, then it examines the pre-pandemic trade barriers vis-à-vis the EU, and finally it assesses the "new framework" of bilateral and multilateral preferential trade agreements in the EU trade policy.

Keywords: liberalization; protectionism; trade barriers; preferential trade agreements; EU

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Introduction

Along with changes in multilateral trade regulation at the global level over the past decades, many of the bilateral and multilateral preferential and free trade arrangements of some of the world's largest players have been transformed, perhaps most notably the change in EU trade policy. The EU's competitiveness is declining, squeezed by American and Asian competition.

For years, a number of researchers have questioned whether there is an implicit impulse for protectionism hidden behind the tariff and non-tariff liberalization clauses put forward in all new EU agreements, as well as in the Union's participation in various formats of multilateral trade negotiations. On the other hand, the introduction of protectionist measures implemented by many countries around the world is increasingly being observed – not only hidden (in the area of non-tariff restrictions), but also direct ones (tariffs introduced by Russia, Ukraine, Ecuador, the EU, Brazil, India, Turkey, Vietnam, etc. after the Global financial crisis; the US trade "war", etc.).

Even before Covid (at the end of 2019), the EU's market access database recorded 438 active trade and investment barriers in 58 third countries. This record value, together with the increasing duration of a number of barriers, is indicative not only of increasing protectionism, but also of the fact that protectionism is becoming structurally embedded in the Union's trade relations with many partners.

In order to summarize and clarify these trends in the development and restructuring of the global trade system and the EU's place in it, the paper first summarizes some insights from economic theory and empirical research on free trade and protectionism, then it examines the pre-pandemic trade barriers vis-à-vis the EU, and finally it assesses the "new framework" of bilateral and multilateral preferential trade agreements in the EU trade policy.

The cost and benefit of free trade and protectionism: some insights from economic theory and empirical research

People trade because it is in their interest to do so – relatively open economies grow faster than relatively closed ones, and wages and working conditions tend to be better in companies that trade rather than in those that do not (OECD, 2012). Global trade and gross domestic product growth are positively correlated – periods of low growth are defined as those in which economic integration slows or reverses (OECD, 2016). In the long run, the increasing openness of economies is also correlated with overall productivity growth (Newfarmer and Sztajerowska, 2012). Participation in global value chains is also associated with economic benefits such as productivity growth and less concentrated and more complex exports (Kowalski et al., 2015). In regions that are catching up in terms of productivity, the sectors that engage in trade have a higher and growing share of the countries' economy. Technological spillover effects are greater for companies which are involved in global value chains and engage in trade. This is particularly true for small and medium-sized enterprises, which benefit from the spread of technology and management know-how, as well as from new opportunities to increase productivity. The more a country trades, the more technology and ideas spread, workers become more productive, and higher productivity leads to higher wages and thus to increased disposable income and wellbeing.

By stimulating growth, trade has helped lift hundreds of millions of people out of poverty – the share of the world's population living on less than USD 1.90 a day has fallen from around 35% in 1990 to less than 11% in 2013 (WB, 2016). Data on the impact of trade on poverty in developing countries during 1993-2008 show that the change in the real income of the poorest 20% of the population is strongly related to the change in the openness of the economy over the same period (IMF et al., 2017). Inequality between countries is also decreasing (Dabla-Norris et al., 2015).

Developing economies play an increasingly important role in world trade. This not only improves lives and opens up new opportunities in poor countries, but it also creates new markets and prospects for advanced economies. Moreover, prosperity and increased opportunities around the world, in turn, are a guarantee of greater stability and security for all.

Trade provides unprecedented access to goods and services, especially for low-income households. The significant reduction of trade barriers, as well as some other factors, leads to a huge drop in the prices of electronic products – between 1980 and 2014 (based on a rough comparison), the price of a TV was reduced by 73%, and the price of a microwave oven dropped by 93% (bearing in mind that the smart TVs and microwave ovens bought today are vastly better than those available in the 1980s).

Tariffs are regressive taxes. In the US, low- and middle-income households spend a significant share of their income on customs-related costs, with the burden being the greatest for the poorest 10% (Furman et al., 2017). In both the US and the European Union, tariffs are generally higher for cheaper goods (for example, they are higher for shoes made from artificial materials than for shoes made from natural leather).

Tariff increases hurt low-income households in more than just their capacity as consumers. In a world of global value chains, in which goods and services are produced by combining the efforts of many actors in different countries, protectionism hurts producers, and hence jobs. In global value chains, export competitiveness is linked to the ability to access the cheapest and highest quality raw materials, including through imports. Tariffs increase prices for domestic producers, who become not only less competitive as exporters in world markets, but also less able to sustain jobs at home. Imports not only increase the competitiveness of exports, they also make it possible to create more jobs in local production – more than 50% of Germany's imports are intermediate raw materials supporting jobs in the country, and in the USA their share is over 40% (OECD, 2017).

In global value chains, imported raw materials also include intermediate goods (or value) from a number of other countries – for example, over 40% of the value in China's manufacturing exports comes from other countries. A portion of each country's imports also includes goods or services that it previously exported. For example, German imports of goods from Hungary include more than 12% German value added, Chinese imports of goods from Cambodia include more than 16% Chinese value added, and US imports of goods from Mexico include about 15% US value added (OECD, 2017).

In a world of global value chains, the import versus export dilemma no longer makes sense – imports are often integral to the competitiveness of exports and domestic production and most of them contain goods that were part of previous exports. Today, international trade has changed radically – in global value chains, mercantilist views do not hold, and trade is not a game which you win by having fewer imports.

Pressure exerted on trading partners can only have an effect in the short term. (Kostadinov, 2020). Countries that raise trade costs for their partners hurt their own growth, while liberalizing trade benefits everyone who makes it easier and cheaper. In an OECD analysis of a hypothetical scenario where Europe, the US and China raise trade costs for all partners for all goods by 10 percentage points, the expected effects are smaller world GDP (by 1.4%) and weaker world trade (by 6%), with countries imposing trade barriers reducing their own GDP the most (OECD, 2016).

The same goes for jobs. As domestic firms need competitively priced imports, raising tariffs risks destroying jobs, which would put small and medium-sized companies out of business and force large businesses to look for more workers abroad. Not all countries are competitive in every area – wealthier countries with more productive and higher paid labour are less competitive in labour-intensive activities, for example. Thus, when jobs are maintained through high tariffs, these higher costs mean that the jobs that remain are changing – either requiring more enhanced skills or shrinking due to greater use of automation.

Free exchange and access to information lead to the development of a number of technologies such as social networks, the Internet, electronic and virtual shops, artificial intelligence, etc., which change people's way of thinking and, hence, their behaviour as consumers (Dimova, 2021). Even without trade, technology is changing the way many goods and services are produced and the manner in which jobs are organized. In all advanced economies, employment in manufacturing has declined significantly even though manufacturing output has increased due to large productivity growth (Obstfeld, 2016). Trade and technological change also contribute to the spread of wage and job polarization in advanced economies, creating additional opportunities for high-skilled workers while exposing the middle-skilled personnel to the risk of declining employment. Between 1995 and 2015, on average across OECD countries, the share of employment in low- and high-skilled occupations increased by 2.5 and 4.3 percentage points respectively, while in medium-skilled occupations it fell by 6.8 percentage points (OECD, 2017).

In this situation, the solution is to support workers, not to protect jobs. Jobs preserved solely through tariffs are unlikely to be sustainable, nor are supported activities likely to be competitive enough to generate other jobs. Adjustment becomes more difficult when the industry has been too protected. Protecting specific jobs or businesses is an expensive way to help relatively few people, and over time the costs often add up and could lead to job losses in other sectors. In Australia, for example, over the period 1997 – 2012, protectionist measures for the automotive sector supported about 40,000 jobs, but at a cost of about AUD 30 billion, or AUD 2 billion per year. Furthermore, this support was found to have delayed but not prevented the significant structural changes facing the industry (Australian Productivity Commission, 2014). Similarly, additional US tariffs on Chinese automobile tires in 2009 were estimated to cost at least US$900,000 per year for each job saved and were associated with 3 times more job losses in other sectors (Hufbauer and Lowry, 2012). An open economy with higher growth can finance effective social security that provides better support for more people than "buying" individual jobs through trade protections.

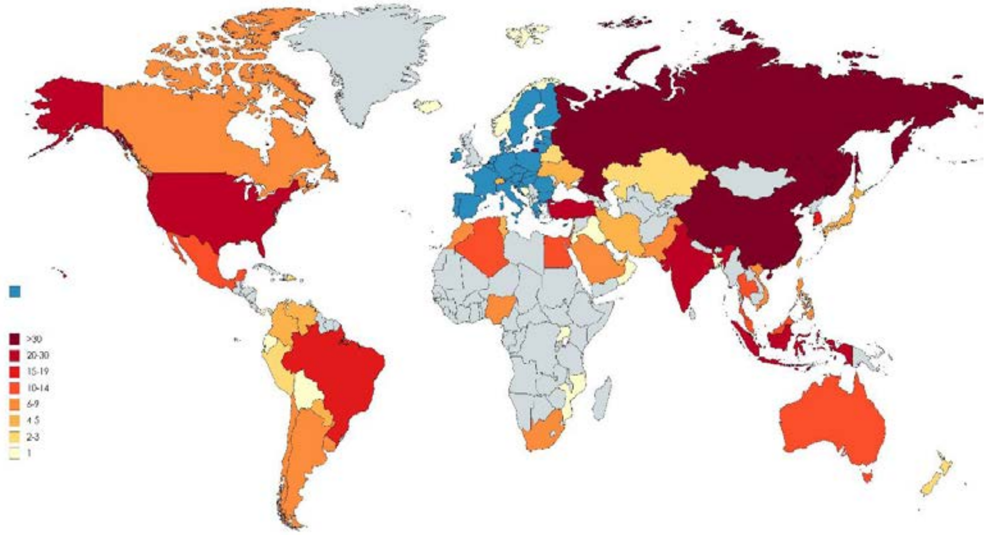
In reality, trade is not the cause of all the problems, but it is not the only possible solution either. Countries must work in many directions, taking into account the impact of global trade on people – both through national policies and through various forms of international cooperation. Unfortunately, however, in recent years we have witnessed an ever-increasing wave of protectionist measures (overt and covert), which, together with the already discussed failures of multilateralism and the desire of the big players to gain as much profit as possible for themselves, reduce the benefits that the world in general can derive.

Existing trade barriers to the EU

At the end of 2019, the EU market access database recorded 438 active trade and investment barriers in 58 third countries. This record value, together with the increasing duration of a number of barriers, is indicative not only of increasing protectionism, but also of the fact that protectionism is becoming structurally embedded in the Union's trade relations with many partners. At the same time, it also reveals the growing success of the EU Market Access Partnership as a forum which stakeholders can turn to in order to identify and overcome trade barriers.

From a regional perspective, in 2019 the largest number of new trade restrictive measures were introduced by the Asia and Southern Mediterranean regions, applying 26 new barriers and confirming the negative trend from 2017. Compared to 2017, the top ten countries with the largest number of obstacles are the same, although in a slightly different order. China remains in first place with 38 registered existing barriers that hinder the EU's export and investment opportunities. In second place is Russia (now with 31 obstacles present), followed by Indonesia (25) and the United States (24). India and Turkey share fifth place with 23 reported barriers each. Other third countries with ten or more trade barriers are Brazil (19), South Korea (19), Australia (14), Algeria

(12), Thailand (12), Mexico (11), Egypt (10) and Malaysia (10). A detailed breakdown of barriers worldwide is presented in Figure 1.



Source: European Commission, 2020, p. 7.

Figure 1. Geographical distribution of trade and investment barriers to trade

In the area of trade and investment, the highest number of new barriers was reported in the EU's relations with Saudi Arabia and Lebanon, each of which registered 5 new barriers. Immediately after them are China and Algeria, with 4 and 3 registered new barriers, respectively. Two obstacles each were reported in Singapore, South Korea, Malaysia, Kazakhstan, Egypt, Morocco, Turkey and Australia. The remaining ten obstacles are registered for other third countries. In terms of regional trends, most of the new obstacles in 2019 were imposed in the Mediterranean and Middle East region (20) and in Asia (17). Compared to the situation in 2018, two facts stand out: a ripple effect in the Mediterranean and Middle East region and the continued presence of China at the top of the list, which are a sign of a negative trend in the long term.

In 2019, for the first time, border measures (229, or 52%) were more numerous than post-border measures (188, or 43%). This is a sign that partners are resorting to a wider range of types of barriers to achieve protectionist goals. Border measures constitute restrictions that directly affect imports and exports at customs level, whether through sanitary and phytosanitary measures (102 barriers), tariff increases and quantitative restrictions (73), administrative procedures and import licensing (38), fees and restrictions on exports (16), or through trade defence measures inconsistent with international obligations (14). Post-border measures affect products after import through restrictions related to unjustified technical barriers to trade (TBT) in the trade in goods (78), intellectual property rights (34), government procurement (25), services (22 barriers) and investment (15).

The breakdown of the 43 new barriers by types of measures shows a preponderance of new border measures (65%) over post-border measures (28%). Again, it is noticeable that the spectrum of protectionist measures used is getting wider. A key feature in 2019 is that sanitary and phytosanitary measures alone account for a third of all new barriers. A more detailed analysis reveals that the most common reasons are related to animal health (5 barriers), followed by plant health and public health (2 barriers each). In some cases, restrictions through sanitary and phytosanitary measures combine several of these characteristics (4 obstacles). Other border measures are mainly related to increased duties, tariffs and quotas (7 barriers) and administrative procedures (7). A new obstacle was also reported in the area of export restrictions. Post-border measures are mainly technical barriers to trade (9 in number), including some cases of intellectual property rights issues (1), trade defence measures inconsistent with international obligations (1), and access barriers to government procurement for EU enterprises (1).

The new 43 barriers registered in 2019 in 22 third countries are almost equal in number to those reported in 2018 (45 barriers). This continued and significant increase is a sign that protectionism has become part of the very fabric of international trade relations. This new reality could have a profound impact on EU trade flows. The trade flows affected by the obstacles reported in 2019 were for EU-27 exports worth around EUR 35.1 billion. The projected economic impact of barriers in 2019 is significantly greater than in previous years. EU exporters are facing increasingly complex and systemic barriers in relevant markets, confirming once again that there is a trend towards increasing protectionism.

In terms of quantifying potentially affected trade (based on bilateral EU export data for the relevant Harmonized System tariff codes, quantifying the trade that occurs despite the barrier) the analysis of non-tariff barriers and their impact is extremely difficult. The main reason is that non-tariff barriers are characterized by varying degrees of restriction. With the exception of prohibitions, most trade restrictions do not completely eliminate trade, but reduce it. In addition, restrictions on the same products or services may overlap. Therefore, additional barriers do not necessarily imply additional impact, nor is the removal of a barrier automatically associated with improved market access.

The potential impact of barriers on trade flows is greatest for those imposed by China, the United States, India and Algeria (€41.8 billion, or 81%). Asia (primarily China, but also South Korea) and the Mediterranean and Middle East region rank first in terms of both the number of new barriers and the size of trade flows affected in 2019. These two regions account for almost €30 billion of trade affected by new barriers worth €35.1 billion (85% of the total) and 35 barriers (over 80% of all). In third place is Australia with a highly impactful barrier in terms of vehicles.

New barriers reported in 2019 have a negative impact on EU trade in 13 specific sectors of economic activity. The largest number of new barriers were registered in agriculture and fisheries (16), followed by 9 horizontal or multi-sectoral measures. In 2019, three new obstacles appeared in the field of information and communication technologies and in the automotive industry, as well as two each in the field of medicinal products and the production of wood, paper and pulp, respectively. Several other industries were affected by one newly imposed trade barrier each: the mining of mineral products, iron, steel and non-ferrous metals, the production of textiles and leather goods, ceramics and glass, cosmetics, the production of wines and spirits, etc.

Regarding the possible impact of imposed barriers, more than 85% of affected trade flows are in the industrial sectors, while barriers in ICT (€15 billion), automotive (€5.7 billion) and electronics (€2.6 billion) account for two-thirds of all exports to the EU-27 affected by the newly reported barriers. These are the industries that are directly related to the EU's technological sovereignty and strategic autonomy.

It is clear that protectionism is on the rise and that trade barriers affect more countries and interest groups in the EU. In response, the Union is making the creation and implementation of its trade policy a top priority. It not only continues to make full use of, but also further expands its wide range of tools to effectively remove trade barriers, ranging from multilateral and bilateral dispute settlement actions to an ambitious trade negotiation agenda, implementation of free trade agreements, diplomatic visits, as well as launching the comprehensive European economic diplomacy initiative.

In 2019, 40 barriers were removed, helping nine different sectors of economic activity – agriculture and fisheries, automotive, textiles and leather, wines and spirits, cosmetics, mineral products, aircraft parts, and ICT. In trade, 17% of the potential benefits are related to agriculture and fisheries, and 83% – to the industrial sector, with the greatest benefit to the automotive industry (32%), wines and spirits (17%), and cosmetics (16%). Taking into account all quantifiable barriers, the value of EU exports affected by trade barriers removed in 2019 amounts to €19.4 billion for the EU-27.

It is estimated that the removal of this subset of barriers would lead to tangible benefits for EU exporters. The EC's preliminary estimates foresee an average increase in exports of around 60% after their removal. This means that, in value terms, the removal of barriers in the period 2014-2018 generated additional exports worth around €8 billion for EU businesses in 2019. Based on the assessment of affected trade flows, information is presented on the economic burden of the obstacles removed in the various sectors. It is highlighted that their removal in 2019 would have a positive effect on EU exports above all in agriculture and fisheries, corresponding to 72% of all potentially affected trade flows, which equates to €14.1 billion. The removal of barriers is also very favourable for the wine and spirits (€2.5 billion) and cosmetics (€1.5 billion) sectors. Actually, the removal of barriers would help the CAP (Common Agricultural policy). The depopulation and lack of young entrepreneurs in agriculture is severe problem which the CAP apparently could not resolve. (Byanov, 2021). The flip side of the success in SPS is the fact that the barriers removed in 2019 in the industrial sector and in the services sector benefit EU exports of a much smaller value. This is also the case for high technologies, which are of fundamental importance for the EU's technological sovereignty and strategic autonomy (EC, 2020). This shows that protectionism in these areas is becoming more widespread and requires a qualitatively different approach on the part of the EU to strengthen its position not only as the world's largest trading bloc, but also as a world leader in technology.

The "new framework" of bilateral preferential trade agreements – EU trade policy

Along with the changes in multilateral trade regulation at the global level, the past decade has also transformed many of the bilateral and multilateral preferential and free trade arrangements of some of the biggest players on the world stage, perhaps most notable is the shift in the trade policy of the EU. The EU's competitiveness is declining, squeezed by American and Asian competition. The deterioration of external competitive positions makes the problem of internal imbalances even more acute, since the positioning of the EU in the global economy must necessarily go first through finding a solution to the internal problems of regional divergence and the different levels of development of the member countries. (Spasova, 2020). For years, a number of researchers (see e.g. Krugman, 2016; Ackerman, 2016) have posed the question whether behind the tariff and non-tariff clauses highlighted in all new EU agreements, as well as in the Union's participation in various formats of multilateral trade negotiations, liberalization is not hiding an implicit impulse for protectionism. In relation to the trends already discussed, this question can be reformulated as follows: have we really not reached the limit of liberalization and are we not heading back to protectionism?

What does the European Union do? First of all, there is a very serious contradiction between what is said and what is done regarding the very process of creating the EU trade policy - although all the institutions dealing with it explicitly emphasize the new trade policy's transparency as one of its biggest advantages, there are few who have had the opportunity of becoming acquainted with any of the trade agreements of the

Union at a time when the structure or any of its most important details may be altered. It is a fact that public discussions are held, but this happens only after the essential elements of the relevant agreement have already been agreed upon.

The next aspect of the "new" trade policy is the expansion of the scope of trade agreements. Perhaps it is indeed good to regulate additional areas that are indirectly related to trade with partners who have reached the same stage of economic development. However, is it possible that behind the inclusion in the new "comprehensive" trade agreements of issues such as the mandatory (unilateral) enforcement of rules in the field of environmental protection, packaging standards, opportunities to participate in public procurement, etc. there is in reality a desire to protect national companies? It is not even necessary to discuss the new investment protection rules and especially the investment dispute settlement mechanism that tend to be placed in every "new" Union free trade agreement. There are also many examples of this, that the new trade agreements for trade liberalization (e.g. the new EU trade framework vis-à-vis developing countries – EPAs, the Free Trade Agreement (FTA) with ASEAN countries, the FTA with Latin America) including quite a few "non-trade" issues (sustainable development, affirmation of democratic values, environmental norms, etc.) in fact, despite the stated reciprocity, put developed countries in a more favourable position in the global economy and strengthen the place of developing countries as "resource sources" and "production workshops" of large multinationals companies in which the capital owners are precisely the developed countries. What is the result? Instead of a more integrated global economy and more (and cheaper for consumers) multilateral trade, we are witnessing a deepening rift between the Global North and Global South, as well as increasingly "closed" regionalization in the supposedly globalizing economy. For decades, the EU has been criticized for the lack of coherence between its individual policies and for their contradictory effects on developing countries (Byanov and Byanova, 2018).

Related to this is the issue of the EU's negotiating power – in some cases the Union, alongside commercial and even wider economic objectives, from a position of power tries (and very often succeeds) to force the inclusion of clauses in agreements whose economic motivation is largely dubious, but on the other hand, they have a rather pronounced political character. Indicative in this sense are whole shares of trade agreements that supposedly deal with the sustainable development of the partners from an ecological, but also from a social point of view (examples can be found in the FTA with Vietnam, in the FTA with Ecuador and above all in the EPA with regions in Africa). In parallel, the Union also binds trade agreements to compliance with its obligations in the field of development aid and to the implementation of certain investment projects. This practice of negotiating from a "position of strength" is clearly becoming more and more a favourite of EU negotiators – in recent years we have witnessed the sluggish negotiation of stated liberalization agreements with the powers (e.g. Japan, India, even TTIP) at the expense of concluding many such agreements with weaker partners (e.g. with Ecuador and the East African Community), or an unequivocal "refusal" of negotiations and even trade with a stronger or threatening partner such as Russia, Turkey, or even South Africa.

Although there are many more such questions pointing to a dual assessment of the "new framework" of EU trade agreements, of which a large number of specific examples can be given to present things more generally in a more global context, let us instead end with a question mark – whether the CETA that came into force, the failed negotiations on TTIP and the observed increasingly serious trade encapsulation of the EU, together with the demonstrated reluctance (in most cases on both sides) to reach reciprocal agreements with the BRICS countries (which also leads to the slowdown of liberalization with other countries gravitating around them) is not a clear and distinct sign of the deepening Global North – Global South dichotomy that has been talked about for so many years? And who benefits more from it?

At the end of this brief analysis of the EU's trade policy, we will also pose another question – this time internal to the Union: which countries benefit the most from the "new framework" of the trade policy and the agreements in it? Analyses of whether Bulgaria as a member country succeeds in realizing the potential provided by the agreements within the framework of the trade policy show that the answer is a firm "no". But this is not the case only for Bulgaria – the benefits, as can be expected, are mostly for the large and developed economies. In other words, precisely from those who take the most active part in making and imposing the new trade policy; and not only in the EU, but also on a global scale.

Conclusion

In the modern global system of international economic relations certain changes and trends are observed, determined both by purely economic factors and by many other factors – social, political, security-related, etc. In some cases, these trends are cross-directional, in others they have very serious economic effects. The international trade framework is being called into question, and uncertainty in trade relations is contributing to global economic uncertainty and dampening economic growth. (Bobeva, 2020).

The analysis shows that protectionism is on the rise and that trade barriers affect more countries and interest groups in the EU. In response, the Union is making the creation and implementation of its trade policy a top priority. It not only continues to make full use of, but also further expands its wide range of tools to effectively remove trade barriers, ranging from multilateral and bilateral dispute settlement actions to an ambitious trade negotiation agenda, the implementation of free trade agreements, diplomatic visits, as well as launching the comprehensive European economic diplomacy initiative. The record value of protectionist measures against the EU, together with the increasing duration of a number of barriers, is indicative not only of increasing protectionism, but also of the fact that protectionism is becoming structurally embedded in the Union's trade relations with many partners.

In reality, trade is not the cause of all problems, but it is not the only possible solution either. Countries must work in many directions, taking into account the impact of global trade on people, both through national policies and through various forms of international cooperation. Unfortunately, however, in recent years we have witnessed an ever-increasing wave of protectionist measures (overt and covert), which, together with the already discussed failures of multilateralism and the desire of the big players to gain as much profit as possible for themselves, reduce the benefits that the world in general can derive.

Trade itself is also changing. Multiple crises and the failure of multilateralism create a more “defensive” attitude towards national industrial or commercial interests. Protectionist measures significantly outnumbered liberalizing measures, and even before the pandemic (in 2019) the total number of barriers continued to increase, which is a sign that protectionism has already taken root in trade relations with many partners. That is why, as protectionism increases abroad, the EU's efforts must be directed towards removing barriers. Today, the introduction and implementation of such a strategy is more important than ever to ensure growth, jobs and competitiveness for the benefit of European companies and citizens.

Conflict of interests

The author has no conflict of interests to declare.

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