THE ROLE OF THE EUROPEAN UNION IN THE WORLD TRADE

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Abstract

Thesis offers an analysis of the current position of the EU in the world trade based on the economic indicators like the GDP growth, FDI flows, competitiveness or innovation capability for the last accessible year 2012 and in some cases also for 2013. Moreover, the position of the EU is compared with the countries of TRIAD and BRIC. Based on information from statistical databases such as World bank, WTO and Eurostat as well as on information from reports and scholarly books and papers concerning the role of the world actors in the area of the world trade nowadays, the thesis argues that EU has the dominant position in the world trade, but the trend is that the EU will not be able to maintain this position for the future without proper crucial actions. The reason is mainly current skepticism and distrust in the EU and the rapid emergence of new economies. Furthermore, the thesis also offers assessment of EU's potential and limitations in the world trade as well as some possible recommendations for EU for the future in order to enhance its position of the global leader in the world trade.

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List of Abbreviations

ASEAN - Association of South East Asian Nation

BRIC – Brazil, Russian Federation, India, China

CCP – Common Commercial Policy of the EU

EEC – European Economic Communities

EFTA – European Free Trade Area

ESCS - European Coal and Steel Community

EU – European Union

EUR – euro currency

FDI – Foreign Direct Investments

FTA – Free Trade Agreement

GDP – Gross Domestic Product

MERCOSUR - Southern Common Market

OECD – Organization for Economic Cooperation and Development

TFEU – Treaty on the functioning of the European Union

TTIP – Transatlantic Trade and Investment Partnership

USA – United States of America

USD – American dollar

WTO – World Trade Organization

INTRODUCTION

Globalization, interdependence as well as liberalization and integration processes are essential parts of the world economy today. States and other actors of the world economy decide strengthen their cooperation in order to become more competitive in todays world. This cooperation occurs mainly in the area of trade, while the trade is a crucial part of nations wellbeing contributing to the GDP growth as a significant indicator of state's position in the international relations. Every single actor in the world economy is trying to boost the level of foreign trade in order to gain stronger position and become the dominant actor in the world trade.

The European Union is a special entity in the world economy. Dealing with trade, the EU is centralized unit what makes it the largest economy in the world and one of the most important players in the international scene. But also the EU had to deal with consequences of the global and financial crises as well as other challenges as the rapid emergence of new economies mainly from Asia.

The main goal of this thesis is to analyze the current role of the EU in the world trade focusing on defining the potential for its dominance in the world trade as well as limitations the EU has to face on its way of strengthening the position in the world trade. The analysis is aimed also on comparison of the position of the EU with other countries defined as emerging ones and the biggest competitors in the world scene nowadays: United States, China, Japan, Russian Federation, India and Brazil. Areas of examination of the position of countries in the world trade are basic economic indicators as growth of the GDP, innovation capability, competitiveness, flows of foreign direct investment and more.

Added value of this analysis is the fact that topic is very current. As it will be able to see in the following Chapters, the position of actors in the current world environment is changing dramatically from year to year. The missing gap is the analysis based on numbers for the last accessible year of 2012, in some cases 2013, what makes the whole thesis very up-to date.

In order to offer a complex view of the topic there are certain bases for examination. For the purposes of this thesis the European Union is considered as one unit. It is because of the character of the Common Commercial Policy of the EU as the exclusive competence of the Union. This is followed also by statistical surveys where are examined values of chosen indicators for the EU as one unit. Also the data for extra EU trade is taken for examination.

Thesis is divided into four Chapters. Chapter one offers a theoretical framework for the whole analysis of the position of the EU and defines the terms most used like international relations, world economy, world trade, globalization or integration. In the last part of this Chapter there are some basic information about current volumes of the world trade and shares in the world trade by its actors.

Chapter two continues in theoretical definitions but the focus is aimed on the nature of the European Union. The first part is a brief characteristic of the development of the EU in order to become a leading actor in the world economy and the second part discusses the Common Commercial Policy as the prerequisite of EU's position in the world trade.

Chapter three and four are crucial for this thesis. Chapter three incorporates examinations of the position of the EU in the world trade from two points of view. The first one is potential of the EU where the attention is paid to the advantages or strengths of the EU supported by statistical data. The second point of view is assessment of limitations for the EU as problems on the way of being dominant actor in the world trade.

Chapter four offers the assessment of the EU's position as well as based on data from previous Chapter the last Chapter four also formulates some basic "recommendations" for the EU how to enhance its position in the world trade. Recommendations are firstly focusing on the EU and its internal politics and secondly on the relationships of the EU with other countries and its main trading partners.

RESEARCH QUESTION

The research question is stated as following: Has the EU dominate position in current reality of the world trade? Does it achieve stronger position than countries currently considered as biggest actors in the world economy based on basic economic indicators such as innovation capability or competitiveness?

LITERATURE REVIEW

There is an amount of literature dealing with this topic varying from the official documents published by the EU, governmental papers, books, university papers to opinions of scholars and studies published by number of researchers. There were three most used sources in this thesis. The first one was the official page of the European Commission's Directorate General on Trade. One part of the website is called "*The position of the EU in the world trade*" and offers a variety of materials and statistical data supported mainly from Eurostat. The second most important source was the book published in 2011 by Daniel S. Hamilton called *Europe 2020: Competitive or Complacent? Daniel* Hamilton offers in his publication a complex view on the topic in a very understandable and interesting way. And the third most important source were the publications from World Trade Organization called *World Trade Report 2013* and *World Trade Statistics 2013*. Another important sources were also reports published within the EU like report called M*odern Trade Policy for the EU* or *Trade: Key source of growth and jobs for the EU*. The significant sources of data were also the statistical database of Eurostat and World Bank.

The topic is very current so the thesis is in a large scale supported by data from web sources, mainly in the third and fourth Chapter dealing with the position of the EU. The first and second Chapter can be characterized as more theoretical and with the sources most used based mainly on books and publications such as the piece called *Global Political Economy* from Robert Gilpin or *The economics of International Integration* by Peter Robson. Relevant one were also *Political Integration and Disintegration in the Global Economy* by Michael J.Hiscox and book from Slovak author and the professor from the University of Economics in Bratislava Mr. Peter Baláž called *International Business: on the Wave of Globalizing World Economy*.

DATA

The primary used method in this thesis is comparative analysis. This method is used mainly in the third Chapter when comparing the position of the European Union in the world trade with countries of TRIADE and BRIC. The first Chapter contains method of empirical observation, which is present in the process of analyzing and understanding the crucial processes and determinants of the reality of the world trade and the world economy. The understanding of these trends presents the basic prerequisites of an in-depth analysis in order to answer the stated research question. Observation is also used in defining the potential and limitations of the EU's position in the world trade. In order to fulfill the goal of the comparative analysis as a key method used in presented work, one should gain access and work with the relevant data with a proper way to examine their significance. This is provided by the punctual examination methods of statistical measurement and surveys, which is also considered as a core of the whole methodology.

CHAPTER 1: WORLD ECONOMY IN THE THEORETICAL FRAMEWORK

In order to deeply explore the nature and substance of the world economy it is necessary to begin with the characteristics of the international relations as part of the global environment and the world economy. Essential part of the international relations is nation state as their primary subject. Single nation states cooperate with other states in various areas, while in this thesis the focus will be aimed on the cooperation in the area of trade as an economic aspect of international relations. But in order to offer complex view it is necessary to stress that international economic relations are just one part of the global environment, which includes also other aspects as international political or legal relations, while all parts are complementary to each other. That means it is not possible to separate just one part of the global environment, which is also in the last couple of years labeled as the phenomena of globalization.

1.1 Definition of the Relevant Terms

Together with the progress in the development of society, which resulted into the emergence of the market capitalism and the international division of labor, also international economic relations were systematically originating. International economic relations include directly, in addition to international trade, international monetary and financial cooperation and activities, such as capital movements and foreign investment. More indirectly, almost any international activity can have an economic aspect or effect.[1]

One significant component of international economic relations is the international trade. The direct result of the international trade is the creation of the global market, which can be currently classified as the fundamental starting point of the existence of a global

[1] "International Economic Relations," Dictionary of trade policy terms, accessed April 3, 2014,http://ctrc.sice.oas.org/trc/WTO/Documents/Dictionary%20of%20trade%20%20policy%20terms.pdf

economy. According to Gottfried W. Haberler [2] the only systematic theory of international trade is the classical theory, which is based on practically all the parts worked out by Hume, Adam Smith and Ricardo and is characterized by the doctrine of comparative costs and the principle that prices, exchange rates and money flows provide a mechanism that links monetary systems of different countries together and ensures the automatic adjustment of the balance of payments. The theory starts from the fact that in international trade as well as in all other economic activities it is the individual economic subjects who buys and sells, grants and receives and carries all the activities, which constitute international trade.

According to the OECD international trade is characterized as "*imports of goods, which measures the value of goods that enter the domestic territory of a country irrespective of their final destination and exports of goods, which similarly measures the value of goods which leave the domestic territory of a country, irrespective of whether they have been processed in the domestic territory or not together with the imports (and exports) of services, which reflect the value of services provided to residents of other countries (or received by residents of the domestic territory).*"[3]

International trade is part of the much bigger unit called the world economy or international economics, which are considered as substitute terms. According to Kumar the world economy "*deals with the economic interdependence among countries and includes the effects of such interdependence and the factors which affect it. It deals with those international forces, which influence the domestic economic conditions as well as those, which shape the economic relationship between countries, world economic integration and transition.*"[4]

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[2] Gottfried W. Haberler, *International Trade*, Vienna: 1935, reprinted 1999, accessed April 5, 2014, http://mises.org/books/Theory_Of_International_Trade_Haberler.pdf
[3] "International Trade, " OECD Glossary of Statistical Terms, accessed April 8, 2014, http://stats.oecd.org/glossary/detail.asp?ID=1405
[4] Rai Kumar: *International Economics*, (New Delhi: Anurag Jain for Excel Books, 2008), 2.

Crucial part of international relations is movement, which divides the international relations into 3 areas: international movement of goods and services, international movement of capital and international movement of labor.[5] The area of international movement of goods and services also called the world trade is probably the oldest part of the international economic relations. Nowadays through the share of the world trade on the world GDP it is possible to measure the importance of the world trade. For example in 2012 the total volume of world trade identified as the volume of the world exports of goods was in the dollar value 18.3 trillion USD what represents approximately 25,2 % of worlds GDP. The total value of world commercial services exports was 4.3 trillion USD what is again approximately 6 % of the worlds GDP.[6] So together the trade with goods and services created one third of the total world's GDP. International movement of capital has the biggest rates of mobility, because there are no limits form the physical side and can be divided into three parts: foreign direct investment, portfolio investment and foreign loans and deposits.[7] The third area is international movement of labor also marked as migration, which can also influence the position of the actors in the world trade through availability of labor, changes on the labor markets, changes in the wages or the brain-drain.

1.1.1 Actors in the world economy

Most powerful actors of the world economy are states, multinational firms and international organizations. Nation states are still the primary actors of the world economy and the world trade, but in the last couple of decades there were many new entities, which significantly influenced the world economy. Robert Gilpin in his books *Global Political Economy: Understanding the International Economic Order* defines among other important

[5] Martin Grančay, Nora Szikorová: *Medzinárodné hospodárske vzťahy: Teórie, príklady, grafy*. [International Economic relations: Theories, Examples, Figures] (Bratislava: Ekonom, 2012), 12-15.
[6] "*Real GDP and merchandise trade volume growth by region*," World trade report 2013, accessed May 3, 2014, http://www.wto.org/english/res_e/booksp_e/world_trade_report13_e.pdf, 26.
[7] Kristyna Slezakova, "*International movement of Capital*", (paper presented at Electronic International Interdisciplinary Conference 2012, Technical University of Liberec, Czech Republic, September 3. -7. 2012).

actors except of state as multinational firms, international institutions, and nongovernmental organizations. Among the international institutions it is especially the World Bank, the International Monetary Fund or the European Commission. [8] Multinational firms or multinational corporations are very important actors in the world economy nowadays. They are defined as business organizations whose activities are located in more than two countries and are dealing with foreign direct investment. A large multinational corporation can operate in more than a 100 countries.[9] All the actors in the world economy are interacting with each other.

1.2 Globalization

Based on its impact on the world economy the question of globalization is particularly important. The process of globalization changed very significantly the present form of the economy in a various technological, economical, social or political matters. That means that this issue is very diversified what subsequently leads to diversity of its definition. OECD defines the term globalization as "*the term generally used to describe an increasing internationalization of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries. Amongst other things this gives rise to increased mobility of capital, faster propagation of technological innovations and an increasing interdependency and uniformity of national markets*."[10]

To the important means of globalization belong mainly the processes of trade liberalization, transnationalism and integration. Liberalization, especially trade liberalization is generally characterized as the major driving force behind globalization and understood as

[8] Robert Gilpin, *Global Political Economy*: *Understanding the International Economic Order*, (Princeton: University Press, 2001), accessed May 5, 2014, http://press.princeton.edu/chapters/s7093.pdf, 17,18
[9] B. Kogut, *Multinational Corporations*, International Encyclopedia of the Social and Behavioral Sciences, accessed May 6, 2014, http://www0.gsb.columbia.edu/faculty/bkogut/files/Chapter_in_smelser-Baltes_2001.pdf
[10] "Globalization," OECD, Glossary of statistical terms, accessed May 2, 2014, stats.oecd.org/glossary/detail.asp?ID=1121

"*move towards freer trade through the reduction of tariff and other barriers*".[11] Mainly the liberalization in the sense of rapid increase of merchandise and service transnationally had been the most important feature of the integration in the global economy in the recent history. Liberalization is connected to the transnationalism, which is defined as "*multiple ties and interactions linking people and institutions across the borders of nation-states.*" [12] This definition again shows close relationship to globalization while pointing on the fact, that nation state frontiers are becoming less relevant in the rapid expansion of transactions and networks across borders. The pattern of transnationalism is also visible in the recent phenomenon of economic integration.

Globalization has except of its advantages for the world economy and the world trade also some negative sides. The one is spillover effect of crises. When crisis occurs in the certain part of the world, nowadays because of cooperation and interdependence of all the actors in the world trade, the crisis can rapidly spillover through the world. This was possible to observe in the recent history, when crisis in the US transformed into crisis in Europe and affected significantly the whole world. Another negative could be establishing of the common world power, which could creates inequalities, emergence of new diseases or labor exploitation.

Globalization is thus necessary to understand not only in terms of positive impact on global economic growth, but also in terms of the risks, which this phenomenon poses for the world economy.

[11] Eddy Lee: *Trade Liberalization and Employment, (working paper at the* United Nations: Economic and Social Affairs, 2005), accessed May 5, 2014, http://www.un.org/esa/desa/papers/2005/wp5_2005.pdf
[12] "Trans-nationalism," United Nations Educational, Scientific and Cultural Organization: Social and Human Science, accessed May 7, 2014, http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/trans-nationalism/

1.3 Integration

Integration processes fells within the scope of globalization. Actors of the world economy in their cooperation and elaborating on their relations decided to create institutions, to which they transferred competences in certain areas. They basically created new actors in the world economy and the world trade – integration groupings.

International economic integration has in general 7 theoretical types, which according to Jovanovic are[13]:

1. Preferential tariff agreement – tariffs on trade between the signatory member states are lower than tariffs charged on trade with third countries
2. Partial customs union – members states of the custom union retain their tariffs on their mutual trade and introduce a common external tariff on trade with third countries
3. Free trade area – member states of the free trade area decide to eliminate all tariffs and quantitative restrictions on their mutual trade and retain their own tariff and other regulation of trade.
4. Customs union – member states not just retain their tariff and quantitative restrictions on their mutual trade but also introduce a common external tariff on trade with third countries. Member states are also part of international negotiations about trade and tariffs as one unit.
5. Common market – the same conditions as in the custom union but also a free mobility of factors of production. The common restrictions on the movement of factors of production are introduced.

[13] Miroslav Jovanovič: *The Economics of International Integration*, (United Kingdom: Edward Elgar Publishing Limited, 2006), 21

6. Economic union – include all the previous types of integration together with the harmonization of fiscal, monetary, regional, transport, industrial and other policies.
7. Total economic union – union with a single economic policy and a supranational government with a relevant economic authority. There are no barriers to the movements of goods, services and factors.

It is necessary to mention that the process of integration need not to follow gradually from one type to another, it depends only on the agreements between the participating countries.

During the last couple of decades many international economic blocs have been established. Between the most relevant one belong the MERCOSUR in Latin America or the Association of South East Asian Nation (ASEAN) in Asia. According to Peter Robson is the most important of these and the largest regional block in the world the European union, on which is focus set in the second chapter of this thesis.[14]

Europe is currently part of the very impressive deeply rooted integration in the political, economic and also cultural areas than any major union of states or regional bloc what will be shown in the beginning of the second Chapter. But Europe is still affected by the process of disintegration as well. According to Robert Bideleux and Richard Taylor[15] the typical feature of European policies and societies was for a long time continuous tensions between the forces of integration (promoting cooperation, cohesion, prosperity, interdependence, division of labor) and the forces of disintegration (inter-ethnic or sectarian strife, fostering inter-state and internal friction and warfare, protectionism) both at national and supranational levels.

[14] Peter Robson: *The economics of International Integration*, (London: Taylor Francis Library, 1998)
[15] Robert Bideleus and Richard Taylor, *European Integration and Disintegration*, (London: TJ Press, 1996), 5

1.4 The World trade

As already mentioned in the previous subchapter, the world trade is the crucial part of the world economy creating about one third of the world GDP. World trade is affected with many factors. The most fundamental according to the WTO World Trade report 2013 are:[16]

a) Demography – for the last decades the world is experiencing significant changes in the size and composition of the population. Especially remarkable are differences among countries. Development in demography is influenced by various trade patters and the level of demand in import. To the notable changes in recent years also belong the increase in the educated workers and female labor force participation. Another important issues are migration, urbanization and agglomeration effects.

b) Investment – in the form of capital usually leads to the appearance of new subjects in international trade mainly in the form of change in the comparative advantage of countries already engaged in trade. In regard of investment and trade as complementary units, investment rules globally can insure more efficient allocation of resources internationally, which could help trade.

c) Technology – it is possible to observe changing geography in technological progress nowadays. Between the countries driving technological progress are emerging new players and transfer of technology is becoming more regional. In explaining trade is the technological progress the major factor, because technology affects trade by shaping comparative advantages and reducing trade costs.

d) Energy and other natural resources – energy, land and water resources and their disposition are crucial for the volume, growth and pattern of the international

[16] "Fundamental economic factors affecting international trade," World Trade Report 2013, accessed May 2, 2014,http://www.wto.org/english/res_e/booksp_e/world_trade_report13_e.pdf, 7-13

trade. The most important factors are increases in prices and price volatility of natural resources, substitution possibilities and technological change. According to research projects, energy need should rise by the year of 2035, mainly with the demand from the emerging countries. Another issue, which could be mark as a challenge is the development of the shale gas in the United States, which could possibly create a change in the international energy flows.

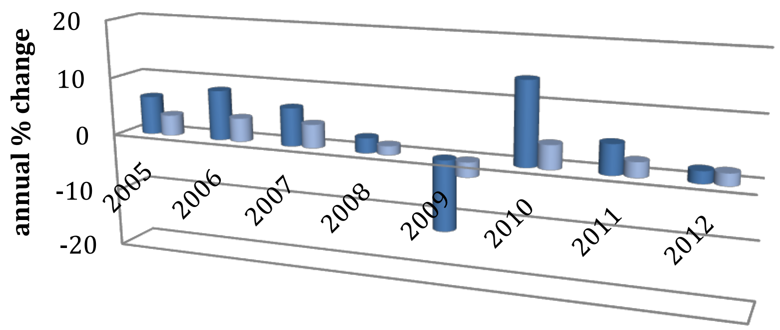
e) Transportation costs – the volume, direction and the composition of the international trade are affected by transportation costs. Delays can be created through customs and border procedures governing the control of the movement of merchandise internationally.

f) Institutions – that means social norms, regulations, laws, international treaties, which constitute policies. Challenging issues here are political borders, which can hold back global trade but on the other hand can effectively react to the trading environment and its changes.

The contribution of the world trade for the world economy can be seen on the statement in economy defined as Keynesian foreign-trade multiplier, which can be demonstrated in the assumption, that the world trade is growing faster that the growth of the world GDP. In this sense Keynesian foreign-trade multiplier means that with the rise of net exports in the country, total increase in income of the exporting country is always multiple times the increase in net exports.[17] The development of dependence of world trade and world GDP since 2005 till 2012 is shown in the following figure.

[17] Rai Kumar: *International Economics*, (New Delhi: Anurag Jain for Excel Books, 2008), 266

Figure no.1: Development of the World Trade and World GDP 2005-2012 (annual % change)



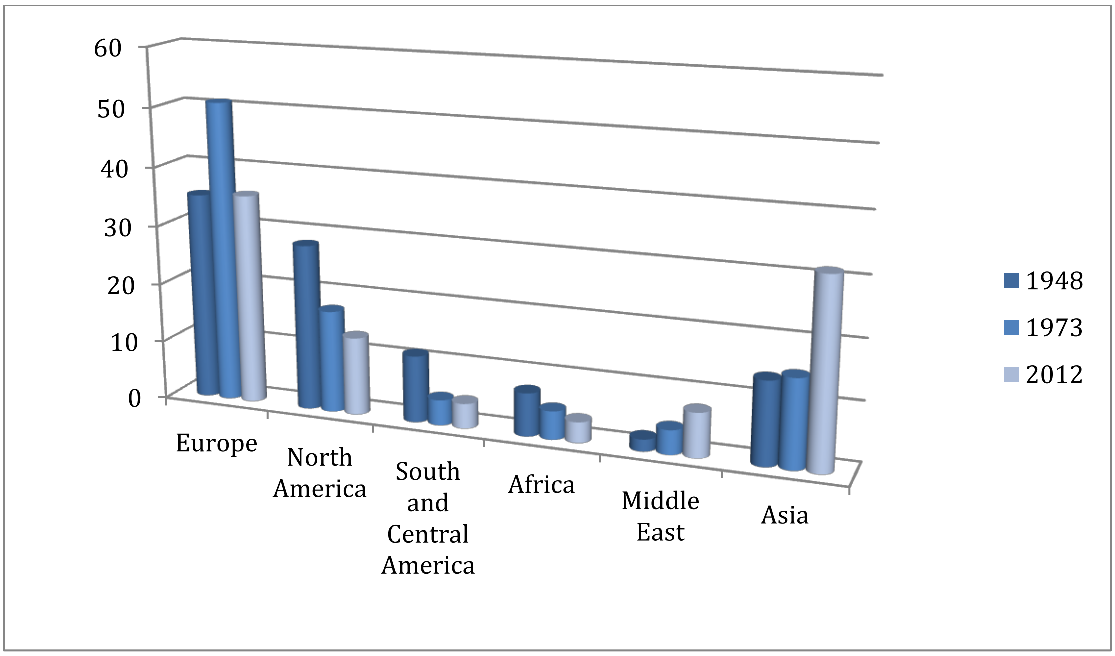
	2005	2006	2007	2008	2009	2010	2011	2012
Volume of World Trade	6,5	8,5	6,5	2,5	-12	14	5	2
GDP	3,5	4	4	1,5	-2,5	4	2,5	2

Source: WTO, International Trade Statistics 2013, accessed May 5, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 14

The *Figure no. 1* shows that development or changes in the volume of world trade cope with corresponding changes in the development of the world GDP. The data also shows that both indicators are evolving in the same direction. Another important observation is that the volume of the world trade seems to grow faster than GDP for a long period, when GDP is positive. On the other hand, if there is a recession or cyclical downturn in world economy, the volume of world trade slows down much faster. Therefore one can conclude that the world trade is significantly sensitive to cyclical changes and developments in the world economy, which is supported by the data of recent development in the period of 2005-2012.

With above analyzes prerequisites can the world trade be considered as the crucial, dynamic and basic part of the world economy. In its existence there were also many important qualitative changes. One of the key elements that led to the process of globalization was the world trade in its liberalized form. Effects of globalization, which are briefly mentioned in the previous part of this Chapter, have important impact on the global environment. The evolution of the world trade is without a doubt visible within its commodity and territorial structure. In terms of territorial structures it is commonly known prerequisite that there is a significant shift in the focus of the world trade from the western regions to the eastern ones. In order to analyze this important statement one can closely look at the data from World Trade Organization.

Figure no.2: Share of regions on world merchandise trade in years 1948, 1973 and 2012



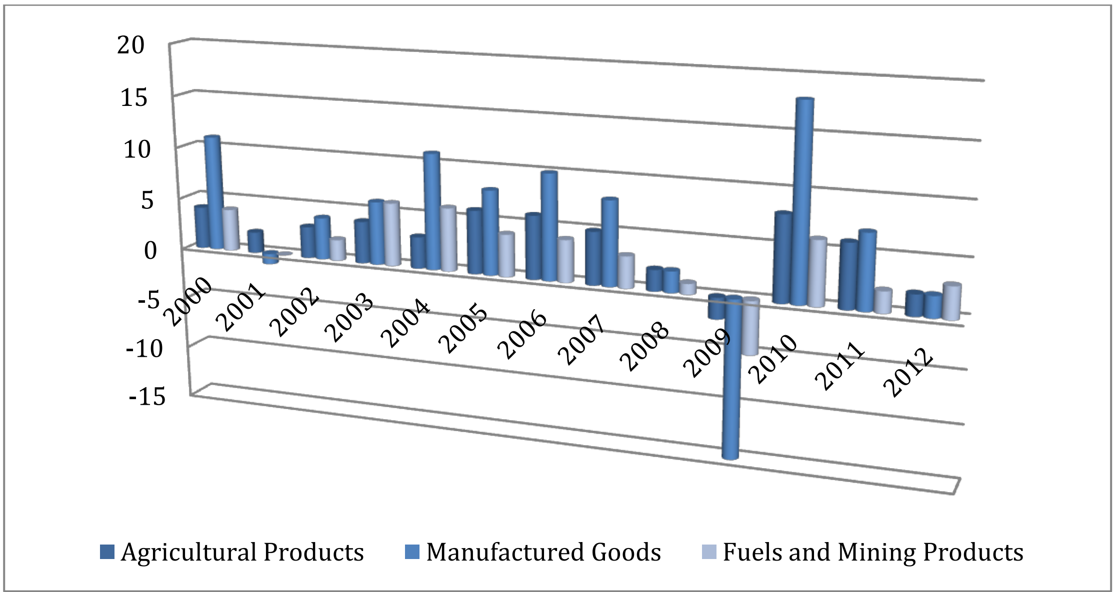
Source: WTO, International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 22

From the *Figure no. 2* is undoubtedly visible historically evolving decrease in the share of world exports of goods in particular from "*American*" regions in favor of Middle East and Asia. In the case of a significant increase in the share of exports in the Asian region with an increase of about 31.5%, this increase is mainly determined by economic growth and expansion in developing countries such as China or India. Furthermore, share of exports in the Middle East region compared with the year of 1948 in global terms grew by 5,5%,[18] mainly under the influence of growing importance of region-abundant energy resources. On the other hand, in the region of Europe one can observe relatively stable rate of share of world

[18] "Growth in volume of world merchandise trade and GDP," WTO International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, p.22

exports, what is primarily due to the characteristics of most European countries as the developed economies, as well as the important role of the European Union. The analyzed data provide us with a crucial partial condition in assessing today's position of the European Union in the world trade. In this context one should focus at the unprecedented growth of trade from Asia, which threatens relatively stable volumes of trade of the Europe region that is somehow stagnating.

Figure no.3: Volume of world merchandise exports by product group, 2000–2012 (commodity structure of world exports – annual percentage share in volume)



Source: WTO, International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 50

What regards the commodity structure of the world trade one can conclude that development of trade with commodities is also highly influenced by the cyclical changes in the world economy. This is supported by the data and outcome of *Figure no. 3* where one can observe the decreases in time of economic downturn (2001, or downturn from 2007-2009). After the crises, however all the product groups re-recorded growth values, while in the case of agricultural products, as well as the fuel increased growth was caused primarily because of their high prices. It is also possible to conclude that during the examining period grew mostly the exports of finished goods.

In the 2012 the highest tradable goods were mainly the fuels and mining products with the 23,1% share in the world merchandise trade (4139 billion USD). Fuels and mining products also recorded a 5% annual growth compared to previous year. The second most tradable were chemicals with 10,9 % share and the third were office and telecom equipment with 9,3%. Relevant share also enjoyed agricultural (9,2%) and automotive products (7,2%).[19]

Value and growth in in world's export of goods and commercial services since 2005 till 2012 is showed in the following table.

Table no. 1: Value and growth of the world's exports of goods and commercial services in the period of years of 2005-2012 (including intra EU 27 trade)

	Value in bl. USD	Annual percentage change in %		
	2012	2005-2012	2011	2012
Goods	17 930	3,5	5,5	2,5
Services	4 350	6	11	2

Source: WTO, International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, p.19, 20, 22, 26, 27 and 143

Based on the numbers in the *Table no. 1* it is obvious that even despite of longtime significant increase of trading with commercial service, their overall share on the world trade is much lower than share with goods. In the year of 2012 the three biggest exporters of commercial services were United States with the 14,3%, United Kingdom with 6,4% and Germany with 5,9% share on world exports of commercial services.[20] On the other hand, in terms of the worlds imports of commercial services, the biggest importer in 2012 was United

[19] "World merchandise exports by major product group," World Trade Statistics 2013, accessed April 25, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 59
[20] "Leading exporters and importers in world trade in commercial services," International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 26

States with 9,9%, followed by Germany with 7,1% and China with 6,7% share on world imports of commercial services.[21]

In the export of commercial services by category in 2012 reached the highest share on the world trade travel with the share of 25,5% (1100 billion USD) and transportation services with the share of 20,5% (890 billion USD). Other commercial services accounted for the rest, 53,9%.[22] In all three categories of services there was the same pattern in the sense of regions: EU27 enjoyed its dominant position followed by Asia and the USA. In transportation services had the European Union 27 the share of 41,8% with Asia on the second place with 28,3 %.[23] In the world trade with travel the situation was very similar, the EU enjoyed the first place as well with the share of 33,2% with Asia the second one with 29,0%. [24] In other commercial services reached the EU share of 43,4 % and Asia share of 23,8%. [25] Other commercial services include communications services, insurance services, financial services, computer and information services, business services and personal, cultural and recreational services. There were only two areas where the EU did not enjoy the dominant position, in the construction the dominant position was taken by Asia with the share of 47,1% to 36,6% of the EU's share[26] and in royalties and license fees by USA with the share of 44,2% to EU's 33,4%.[27]

[21] "Leading exporters and importers in world trade in commercial services," International Trade Statistics 2013, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 26
[22] "World trade in commercial services by category," World Trade Statistics, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 143
[23] *Ibid*, p.144
[24] "World trade in commercial services by category," World Trade Statistics, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 149
[25] "*World trade in commercial services by category*," World Trade Statistics, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 154
[26] "World trade in commercial services by category," World Trade Statistics, accessed April 30, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 162
[27] *Ibid*, p.172

CHAPTER 2: THE EUROPEAN UNION ON ITS WAY TO BECOME A GLOBAL PLAYER

European Union is one of the most important subjects of the world economy and the world trade. In this chapter focus will be aimed on the examination of the position of the EU starting with the short history of the EU. Throughout the history of this integrated bloc it is possible to see the growing relevance of the EU as a subject of the world economy and trade since early beginnings of the integration processes from 1950s till today's 28 member states. The aim is to stress that integration of the European Union is specific in the world context and is crucial for EU's position in the world trade. This position is based on growing number of EU members and on transferring the competences on the supranational level – EU institutions. This transferring is possible through the Common Commercial Policy of the EU as a prerequisite of the position of the EU in the world trade what is elaborated in the next part of the Chapter.

2.1 Brief History of the European Union

The history of the European Union begins in the year of 1950, when the Treaty of Paris was signed in order to create the European Coal and Steel Community (ECSC). There were six founding members of the EU - Belgium, France, Germany, Italy, Luxembourg and the Netherlands.[28] The 1950s were characterized by a Cold war between the West and the East so the aim of this treaty was to unit European countries economically and politically through creation of the common market for coal and steel based on Schuman plan. After the successful work of the ESCS in the sphere of trade cooperation between member states, these states decided to continue in the process of integration and in the year of 1957 the Treaty of

[28] Neil Nugent, *The Government and the Politics of the European union*, (Durham, U.S: Duke University Press, 2006), 23

Rome creating the European Economic Community (EEC) was signed.[29] In the same year European states also established the European Atomic Energy Community (Euratom) with the aim to coordinate the Member States' research programs for the peaceful use of nuclear energy and to create a common market with the nuclear materials.

The establishment of the European Economic Community was a significant move of the integration process because the aim of the Community was according to the Treaty establishing EEC, Article 2: "*It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States.*"[30] Providing the fulfillment of the aim stated in the Article 2 there were many activities, among them also efforts to remove duties and quantitative restrictions in the trade between the signatory states or introduction of the common trade policy to the third states. It is obvious that member states aimed to move to another integration level in the integration process – to the custom union, which was truly established in 1968.[31]

Another aspect of integration was enlargement. In 1973 the EU enlarged for the first time with new members Ireland, Denmark and United Kingdom raising the total number of member states from six states to nine. In the 1980s Greece (1981) and Spain with Portugal (1986) became members. Except of the processes of enlargement in 1980s there were also efforts to create a "Single Market" and in 1986 the Single European Act was signed. This treaty aimed at resolving the problems with the free-flow of trade across EU borders and

[29] "The History of the European Union," Portal Europa.eu, accessed May 7, 2014, http://europa.eu/about-eu/eu-history/index_en.htm
[30] Treaty Establishing the European Economic Community, accessed May 7, 2014, http://www.ab.gov.tr/files/ardb/evt/1_avrupa_birligi/1_3_antlasmalar/1_3_1_kurucu_antlasmalar/1957_treaty_establishing_eec.pdf, 3
[31] Michelle Cini, Nieves Perez-Solorzano Borragan, *European Union Politics*, (United Kingdom: Oxford University press, 2013), 261

creating the Single Market. The core of the single market project was the concept of mutual recognition, which would increase competition within the EU and national regulatory systems.[32] The goal set in the Single European Act was to create the Single Market till the end of the 1992 and reach another, higher integration level, which is economic and monetary union.

Higher integration level was closer after the report of Jacques Delors in 1989 accepted by European leaders. Report proposed a three-stage plan in order to establish economic and monetary union:[33] in Stage 1 it was the completing of the internal market till 1994, in Stage 2 achieving the economic convergence and establishing the European Central Bank and the European System of Central Banks till 1999 and in Stage 3 fixing exchange rates and launching the euro since 1999. In 1993 the Single Market was completed with the idea of "four freedoms": movement of goods, services, labor forces and capital.

The 1990s were also the decade of two important treaties, the Maastricht Treaty from 1993 and the Treaty of Amsterdam from 1999. The Treaty on European Union also called Maastricht Treaty represented "*a new stage in European integration since it opens the way to political integration*."[34] It introduced the concept of three pillars of the EU: the European Communities, Common Foreign and Security Policy and Police and Judicial Cooperation in Criminal Matters. The Treaty also created the concept of the European citizenship, strengthened the powers of the European Parliament and officially launched economic and monetary union according to the Delors Report. European Economic Communities officially changed the name to the European Community.

[32] "The History of the European Union," Portal Europa.eu, accessed May 8, 2014, http://europa.eu/about-eu/eu-history/index_en.htm
[33] "The Road to EMU," European Commission - Economic and Financial Affairs, accessed May 9, 2014, http://ec.europa.eu/economy_finance/euro/emu/road/index_en.htm
[34] "Treaty of Maastricht on the European Union," Portal Europa.eu, accessed May 8, 2014, http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_maastricht_en.htm

In 1994 the Agreement on the European Economic Area entered into force, which connected the EU Member States and the three European Free Trade Area states - Iceland, Liechtenstein and Norway — in a single market, labeled as the “Internal Market,”[35] which enhanced the level of cooperation with positive implications for trade and employment in all member states. In 1995 the EU accepted new members – Sweden, Finland and Austria. Based on this enlargement the EU strengthened its relevance in the world because the members of the EU were basically all highly developed countries of Europe. The Treaty of Amsterdam brought more competences to the European Parliament and introduced the Schengen agreement.

The next revision of treaties, the Treaty of Nice signed in 2001 opened the way to the needed institutional reform as part of the preparations for the EU enlargement of countries from eastern and southern Europe. In 2004, 10 new countries acceded the EU: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. There were two other enlargements so far, the 2007 one with the Bulgaria and Romania and the 2013 one with the last member state of the EU – Croatia.

The last and the most important revision of the treaties brought the Treaty of Lisbon, which entered into force in 2009. This treaty amended the Treaty on European Union and the Treaty establishing the European Community by creating the number of novelties. With the idea of “Europe as an actor on the global stage” the Lisbon Treaty introduced the concept of a single legal personality for the Union, which should “*strengthen the Union's negotiating power, making it more effective on the world stage and a more visible partner for third countries and international organizations*.”[36] The EU based on the concept of single legal

[35] “The EEA Agreement,” European Free Trade Area, accessed May 9, 2014, http://www.efta.int/eea/eea-agreement
[36] “The Treaty of Lisbon,” Portal Europa.eu, accessed May 9, 2014, http://ec.europa.eu/archives/lisbon_treaty/glance/index_en.htm

personality is now able to conclude international agreements and join international organizations as a single entity.

In the sphere of competences, there is a new division:

1. Exclusive competences defined in the Article 3 of the Treaty on the Functioning of the European Union (TFEU) in six following areas: customs union; establishing of the competition rules necessary for the functioning of the internal market; monetary policy for the Member States whose currency is the euro; the conservation of marine biological resources under the common fisheries policy, common commercial policy and the conclusion of an international agreement.[37]
2. Shared competences defined in the Article 4 of the TFEU[38]
3. Competences to carry out actions in order to support, coordinate or supplement the actions of the Member States defined in Article 6 of the TFEU[39]

2.2 Common Commercial Policy of the European Union

The common commercial policy (CCP) is one of the only truly centralized policies in the European union, since European union member countries in the year of 1957 decided to transfer their competences in this are on the European union as a supranational body. The essential part of the CCP, the Custom Union was established in 1968 eliminating duties among member states and introducing a Common External Tariff to the third countries.

[37] Treaty on the Functionning of the European union, accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf, 38-40

[38] Treaty on the Functionning of the European union: *Article 4b*: "*Shared competence between the Union and the Member States applies in the following principal areas: (a) internal market; (b) social policy, for the aspects defined in this Treaty; (c) economic, social and territorial cohesion; (d) agriculture and fisheries, excluding the conservation of marine biological resources; (e) environment; (f) consumer protection; (g) transport; (h) trans-European networks; (i) energy; (j) area of freedom, security and justice; (k) common safety concerns in public health matters, for the aspects defined in this*." Accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf, 38-39

[39] Treaty on the Functionning of the European union: *Article 6:*"The Union shall have competence to carry out actions to support, coordinate or supplement the actions of the Member States. The areas of such action shall, at European level, be: (a) protection and improvement of human health; (b) industry; (c) culture; (d) tourism; (e) education, vocational training, youth and sport; (f) civil protection; (g) administrative cooperation." Accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf, 38-40

Custom union has now 28 member states of the EU and three third countries: Andorra, San Marino and Turkey[40]. The Commercial policy now include except of trade in merchandise also trade in services and number of regulatory measures like technical standards or intellectual property rights.[41] Commercial policy is often described as part of the identity of the European Union. Very visibly is CCP demonstrated in the World Trade Organization, where the European Union is a member as a single entity with the member countries represented through the European Commission.

Common Commercial Policy of the EU is part of the Union's foreign policy and has a dual purpose. First one is to define the EU's position towards other countries or international organizations in the way of concluding or amending international agreements and to adopt various measures. Secondly, the commercial policy of the EU is applied to citizens of the Union and those doing businesses with the EU through direct effect[42] of certain agreements. The policy is based on two Articles, 206[43] and 207[44] of the Treaty on the Functioning of the European Union and consists of three pillars:[45]

[40] "Taxation and Customs union," European Commission, accessed May 10, 2014, http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/customs_unions/index_en.htm

[41] Paola Conconi, *The EU Common Commercial Policy and Global/Regional Trade Regulation*, accessed May 10, 2014, http://www.ecares.org/ecare/personal/conconi$/web/EUtrade.pdf, p.3

[42] Europa.eu, the direct effect of European law: "The principle of direct effect (or immediate applicability) enables individuals to immediately invoke a European provision before a national or European court. This principle only relates to certain European acts. Furthermore, it is subject to several conditions." Accessed May 12, 2014, http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/l14547_en.htm

[43] Article 206 TFEU: „*By establishing a customs union in accordance with Articles 28 to 32, the Union shall contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers*." Accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf

[44] Article 207 TFEU: „*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. 2. The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall adopt the measures defining the framework for implementing the common commercial policy.*" Accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf

[45] Thomas Cottier, Toward a Common External Economic Policy of the European union. In the: *European Yearbook of International Economic Law*, (Springer-Verlag, 2013), 4

1. World Trade Organization (WTO) – foundations of the Common commercial policy are set in the General Agreements on Tariffs and Trade (GATT) from 1947.

2. Preferential trade agreements with third countries– the success of the integration processes in preferential trade agreements under the common commercial policy has according to Thomas Cottiter "*offered an important example to the world, which has inspired comparable efforts in other parts of the world offering an alternative model of regional integration*."[46]

3. Domestic regulation addressing third country relations – comes from the law of the EU, more specifically Article 28(2) TFEU about the extension of free movements of goods to imported goods from third countries, provision on the customs union, foundations on the external commercial policy and particular procedural instruments in the domestic law.[47]

Main instruments of the Common Commercial Policy are:[48]

- Tariffs – for a long time main instrument of trade protection, but as a result of multilateral trade negotiations have been reduced
- Non-tariff barriers – as import quotas and voluntary exports restraints, showing decreasing tendency at present
- Antidumping duties – as a tool of restricting imports
- Export subsidies – mostly used in connection with agricultural products
- Technical barriers – for foreign producers in order to comply with regulations of the EU, but restricted by the WTO agreement on Technical Barriers to Trade

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46 *Ibid*, p. 7

47 Article 28 TFEU: "*1. The Union shall comprise a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries. 2. The provisions of Article 30 and of Chapter 2 of this Title shall apply to products originating in Member States and to products coming from third countries, which are in free circulation in Member States.*" Accessed May 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228848/7310.pdf

48 Paola Conconi, *The EU Common Commercial Policy and Global/Regional Trade Regulation*, accessed May 11, 2014, http://www.ecares.org/ecare/personal/conconi$/web/EUtrade.pdf, 6-7

Many changes in the Common Commercial Policy occurred after the Treaty of Lisbon. The treaty of Lisbon re-introduced the doctrine of implied powers – "*to the extent that matter was settled for the purposes of the internal market powers in external relations inherently moved to the Union and its treaty-making powers*"[49] and brought more exclusive competences to the EU in the field of services, intellectual property regulation or regulation of foreign direct investment (FDI). The last one, the transition of powers from member states in the sphere of FDI, what has been exclusive competence of member states before, is very current topic nowadays and subject to many debates. The issue is whether the bilateral investment agreements concluded by member states will have to be now approved by the Union or whether the member states will have to adjust or terminate agreements if inconsistent with the EU law.

The fact is that there are still many areas where prevails majority voting but the EU today has exclusive competence to deal with the development of the WTO law. Treaty of Lisbon also reinforced the role of the European parliament. Now, the European parliament has to express its consent to all trade agreements before ratification by the European Council. But it is still the European Commission who has the power to implement measures in the field of commercial policy.[50] The European Union is performing as one entity also while negotiating bilateral agreements. It is the role of the Commission to negotiate on behalf of the EU with trading partners, keeping member states in the council and Parliament informed.

Many actors influence CCP. On the level of the European Union, representatives may express their interests within the European Commission through DG Trade, the cabinet of the Commissioner for Trade and within the European Parliament through committee members of the Committee on International Trade. On the national level, interests of the states and many

[49] Thomas Cottier, Toward a Common External Economic Policy of the European union. In the: *European Yearbook of International Economic Law*, (Springer-Verlag, 2013), 8
[50] Till Muller-Ibold, Common Commercial Policy After Lisbon: The European Union's Dependence on Secondary Legislation, In the: *European Yearbook of International Economic Law*.(Springer-Verlag, 2013), 155

non-governmental organizations may reach their own member state's permanent representatives in Brussels, their members in the Committee of Permanent Representatives (COREPER), also their members of the Trade Policy Committee and Members of the European Parliament or the responsible ministry in their home capital.[51]

[51] Sieglinge Gstohl, *The European Union's Trade Policy*, (Institute of International Relations and Area Studies, Ritsumeikan University, 2013, accessed May 10, 2014, http://www.ritsumei.ac.jp/acd/re/k-rsc/ras/04_publications/ria_en/11_01.pdf, 8

CHAPTER 3: THE POSITION OF THE EUROPEAN UNION IN THE WORLD TRADE

Trade is crucial source of growth for the EU. According to the European Commission report called *Trade: a key source of growth and jobs for the EU,* boosting trade is "*one of the few ways to bolster economic growth without drawing on constrained public finances, more trade also benefits growth via the supply side of the economy and by operating on both supply and demand and trade is a powerful tool to boost economic growth*."[52] This is also reflected in the area of EU trade policy, which according to DG Trade has plans in the area of external trade and investment that once implemented "*can add around 150 billion € to [EU] economy"* [53] Furthermore, the trade is also the important prerequisite of spreading the innovation ideas, exchanging innovative and high tech products, productivity and employment for the EU.[54] The fact is that more than 36 millions of jobs in the EU is directly or indirectly dependent on trade with the rest of the world and in average every additional export in the value of 1 billion EUR support the creation of additional 15 000 jobs across the EU.[55]

3.1 Potential of the EU in the World Trade

In order to present an in-depth analysis of the potential and the role of the EU in the world trade one should focus at the main factors (that are also presented in the previous chapter of this work). These include prerequisites such as demography, availability of labor force but mainly its economic characteristics and activity in the global reality of the world economy and trade. The main indicators of the EU's performance together with the

[52] European Commission: *Trade: a key source of growth and jobs for the EU,* accessed May 12, 2014, http://ec.europa.eu/commission_2010-2014/president/news/archives/2013/02/pdf/20130205_2_en.pdf,1
[53] European Commission, Trade: *10 benefits of trade*, accessed May 12, 2014, http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146935.pdf
[54] *Ibid*
[55] European Commission: *Trade: a key source of growth and jobs for the EU,* accessed May 12, 2014, http://ec.europa.eu/commission_2010-2014/president/news/archives/2013/02/pdf/20130205_2_en.pdf,2

demographic and land area potentials are presented in the *Table no. 2*. In order to assess the position of the EU in the world trade, it is crucial to compare these indicators and prerequisites with other key actors that have been identified in accordance with a methodology chosen in this type of research.

Table no. 2: Basic indicators of selected countries in the world economy in 2012

	EU 27	**USA**	**Japan**	**China**	**India**	**Brazil**	**Russia**
Land area (ths. sq.km)	4237, 7	9147,4	364,5	9327,5	2973,2	8459,4	16376,9
Population (thousands)	501,8	313,9	127, 6	1350, 7	1236,7	198,7	143,5
GDP growth (%)	0	3	2	8	3	1	3
GDP (billion current US$)	16, 660	16, 244	5, 959	8, 227	1, 858	2, 252	2, 014
% of the world GDP	22,92	22,35	8,19	11,32	2,56	3,09	2,77
% of the GDP EU	100	97,8	35,9	49,5	11,1	13,6	12,1
Trade to GDP ratio (2010-2012)	33,9	29,5	31,6	53,6	51,7	24	51,5

Source: The World Bank, World Development Indicators, accessed May 12, 2014, http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true# and WTO, Trade Profiles, accessed May 12, 2014, http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=E27,BR,CN,IN,JP,US,RU

Table no. 2 shows that in the land area USA, Russia, China, and Brazil are much bigger countries that EU, but on the other hand when the population inhabiting this area is in question, only China has the higher number than the EU. In the EU the 66 % of the inhabitants are economically active (15-64 years).[56] Both, the economically active inhabitants and internal market are important prerequisites for the relatively high availability of labor force in the EU, which shows considerable quality under the fact that up to 75, 2% of the EU 28 population in 2013 aged 25-64 years completed at least upper secondary education.[57]

[56] "World Development Indicators," World Bank, accessed May 13, 2014, http://databank.worldbank.org/data/views/reports/tableview.aspx#

[57] "Upper secondary or tertiary educational attainment, age group 25-64," Eurostat, accessed May 11, 2014,http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00065&plugin=

In the context of the GDP the assumption about examining economics, which were labeled as the crucial actors of the world economy and the world trade is confirmed because together these countries produced in the year od the 2012 more than 73,2 % of the world GDP[58]. The share of GDP on the world trade in the European Union is the highest among all the examining countries with the value of 22,92% but the share of the GDP of the USA is very close to that of the EU, 22,35%. The percentage growth of the GDP in last year is interesting, when all the examining countries enjoyed growth in their GDP except of the EU. According to the WTO the reason why EU reached a 0% growth and stagnated is the uncertainty in the euro area, financial instability of the Eurozone and depressed economy.[59]

One of the ways in examination the position of the countries in the world trade is their share on trade with merchandise and services and the number of inflows and outflows of foreign direct investment. This all is shown in the *Table no. 3* in the selected countries together with their annual change.

Table no.3: Share on the trade with goods and services and flow of the Foreign Direct Investment (FDI) in 2012 in selected countries (in % and bill. USD)

	EXPORT				**IMPORT**				**FDI**	
	Goods		**Services**		**Goods**		**Services**		**Billion USD**	
	%	% change	%	% change	%	% change	%	% change	inflow	outflow
EU 27	**14,7**	0	**24,8**	0	15,4	- 4	**20,1**	-2	**323,8**	**418,0**
USA	10,5	4	18,6	6	**15,6**	3	12,7	4	174,7	351,4
Japan	5,4	- 3	4,3	0	5,9	4	5,4	5	2,1	122,5
Brazil	1,6	- 5	1,1	5	1,6	- 2	2,4	7	65,3	- 2,8
China	13,9	**8**	5,7	**8**	12,2	4	8,7	18	253,4	62,4
Russia	3,6	1	1,7	7	1,8	2,2	3,2	**19**	31,3	31,0
India	2,0	-3	4,2	3	3,3	**5**	3,9	3	25,3	8,6

Source: WTO, World Trade Statistics 2013, accessed May 12, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, p. 25-27 and OECD: FDI in Figures http://www.oecd.org/daf/inv/FDI%20in%20figures.pdf, 2-3

[58] Based on Table no.8

[59] "Share in world merchandise exports 2012 and Exports of commercial services slow as European trade declines," World Trade Statistics 2013, accessed May 11, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 13 - 16

Based on *Table no.3* there is clearly visible that the European Union has the highest share on the world trade in the value of 14,7%, even when currently stagnating with the 0% growth. As already mentioned in the previous Table no.2, the reasons are uncertainty in the Eurozone, financial instability and depressed economy. In the exports of goods the biggest competitor for the EU is China with the share of 13,9%. The share of China is only 0,8% lower than the EU but there is a significant difference in growth. EU stagnated and China's growth reached 8% in comparison to the previous year. On the other hand, in imports of goods and as the consequence of the financial crises in the Eurozone, what slowed the consumption as well as the GDP in the EU, the leading position was taken over by the USA with the share of 15,6%. The decline in consumption in the EU is visible also in the exports of other examining countries, to which is EU a significant market as Brazil, Japan or India. This confirms its crucial position in the world trade. In the trade with goods the only competitors for the EU based on the numbers from the Table are only China and USA.

In the trade with services it is possible to conclude the dominant share of the EU in the value of 20,1% even despite of decline compared to the previous year. The second largest share has USA, but it is more than 7% lower than in the EU with the value of 12,7%. In this sense China, which is a threat for the EU in the trade with goods is in the trade with services losing with the share only 8,7% on the world trade. Therefore it is possible to assume that even despite of China's enormous growth, in the complex notion of the trade is the EU the most dominant.

Attractiveness and importance of the EU for other economies is visible also with the value of Foreign Direct Investments (FDI). EU was in 2012 the biggest investor as well as the biggest recipient of the FDI in the world. The EU as the recipient got the 323,8 billion of USD, while the second largest recipient was China with the value of 253,4 billion of USD. As the investor EU invested in the amount of 418 billion of USD and the second largest investor was the US with the value of 351,4 billion of USD. This shows the high level of economic activity of the EU as well as positive development and economic stability. Activities of companies from the EU demonstrate mainly from the trade point of view the high scope of application of goods from the EU on the foreign destination markets, which also confirms its dominant position in the world trade.

The United States were according to Eurostat the most important destination for goods exported from the EU 28 in 2012, although the share of EU 28 exports to the United States fell from 28.0 % in 2002 to 17.4 % in 2012. The most important EU 28 exports to the US in 2012 included machinery and transport equipment in value terms. The same group of products was also the main export category to China, which was the second most important destination market for EU 28 exports in 2012 (8.6 % of the EU 28 total). China remained the most important supplier of goods imported into the EU 28 in 2012, even though imports from China fell by 1.1 % between 2011 and 2012.[60]

EU is crucial destination market for many economies. In 2012 the EU was the number one destination market for Russia, where almost half of the total exports (46,8%) of the Russia went to the EU, for Brazil (20,2% of Brazil total export went to the EU) and India (16,8 of India's total exports). The second most important market was the EU in 2012 for the United States (17,2% of the total exports from the US) and China (16,3%). For Japan was the EU in 2012 the third most important market with share of 10,2% of Japan total exports.[61]

After factors like the size of internal market, GDP growth, share on trade with goods and commercial services and flows of the FDI the other important prerequisite of EU's position in the world trade is its integration processes and enlargement. One can assume that with the growing number of EU members, the trade in goods and commercial services will

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[60] "International Trade on Goods," Eurostat, accessed May 13, 2014, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/International_trade_in_goods

[61] Trade Profiles: EU27, Brazil, China, India, Japan, Russian Federation, USA, WTO, accessed May 7, 2014,http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=E27%2cBR%2cCN%2cIN%2cJP%2cRU%2cUS

rise as well. This statement is confirmed by the numbers from Eurostat, when the EU trade grew since the first enlargement till the 2007's one 81 times. EU exports grew from 1,3 billion EUR in 1958 when the EU had 6 members to 1240, 6 billion EUR in 2007, when EU was 27 members entity.[62] Therefore it is possible to conclude that the integration processes were crucial in positioning EU in the world trade.

Another important aspect of analyzing the position of the European Union in the world trade is its trade balance. *Table no.4* shows trade balance of the EU in goods and commercial services. It is necessary to note that the trade balance is highly influenced by the fact of the crucial position of the EU for foreign markets and countries.

Table no. 4: EU-28 trade balance in goods and commercial services by partner (billion EUR)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Extra EU28	-82,8	-143,0	-126,7	-205,2	-59,0	-70,6	-43,8	37,1
China	-106,7	-130,2	-159,5	-165,8	-128,0	-163,9	-151,1	-138,2
India	2,3	3,1	3,8	2,4	3,7	3,5	1,3	2,2
Japan	-23,4	-28,0	-29,4	-30,7	-17,2	-18,5	-15,2	0,1
USA	95,9	104,4	91,2	66,0	46,9	72,6	79,0	100,5
Russia	-54,7	-66,3	-50,7	-68,0	-46,7	-66,0	-82,8	-77,6
Brazil	-7,4	-8,7	-9,6	-5,9	-0,9	2,4	1,8	9,4

Source: European Commission, Trade, accessed May 11, 2014,
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122532.pdf, 10

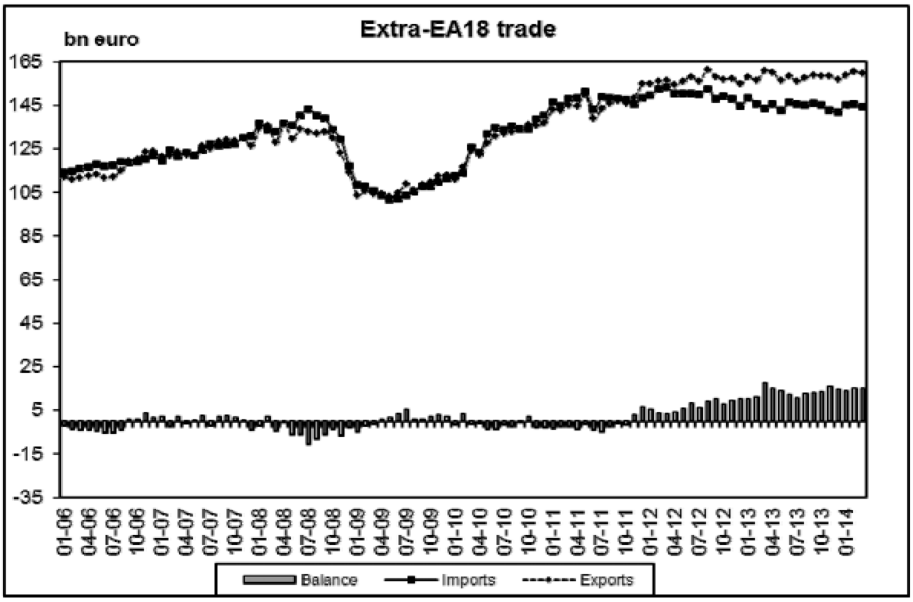
Based on findings in the *Table no. 4* it is possible to conclude that till 2011 European Union had negative trade balance, what means number of exports of goods and commercial services was lower than number of imports, so the EU had to import more than it exported. This trend ended in 2012, when EU reached for the first time in 7 years positive trade balance. The highest negative trade balance for the whole examining period had EU with China in the value of -138,2 billions EUR and the second highest with Russia (-77,6 bill. EUR). This is

[62] "International Trade on Goods," Eurostat, accessed May 11, 2014, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/International_trade_in_goods

mainly due to large amount of cheap production from China coming to EU market, which is somehow supported by the membership of China in the WTO since 2001. Since this date was the growth of Chinese export all over the world steadily rising and it continues to do so. In case of Russia, the negative balance is mainly due to a lack of energy resources in the EU, which are mainly imported from Russia. On the other hand the EU has positive trade balance with the US and India.

Another advantage of the European Union in the world trade is monetary union and common European currency euro. Studies, which analyzed the Euro as common European currency in the connection with trade found out that the introduction of Euro affected trade positively in the Eurozone and intra EMU trade increased by 10-15 % on average. The effect on the world trade occurred very fast, in 1999 and was expected to grow.[63] The following *Figure no. 4* shows extra Eurozone 18[64] trade in billion of EUR since 2006 till January 2014.

Figure no. 4: Extra Euro area trade in billion EUR



Source: Europa.eu, Trade, *March 2014 Euro area international trade in goods surplus 17.1 billion euro,* accessed May 12, 2014, http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_151969.pdf

[63] Aleksander Aristovnik, Matevz Meze, *The Economic and Monetary Union's Effect on (International) Trade: the Case of Slovenia Before Euro Adoption*, (the William Davidson institute at the University of Michigan) accessed May 13, 2014, http://wdi.umich.edu/files/publications/workingpapers/wp982.pdf, 2-3

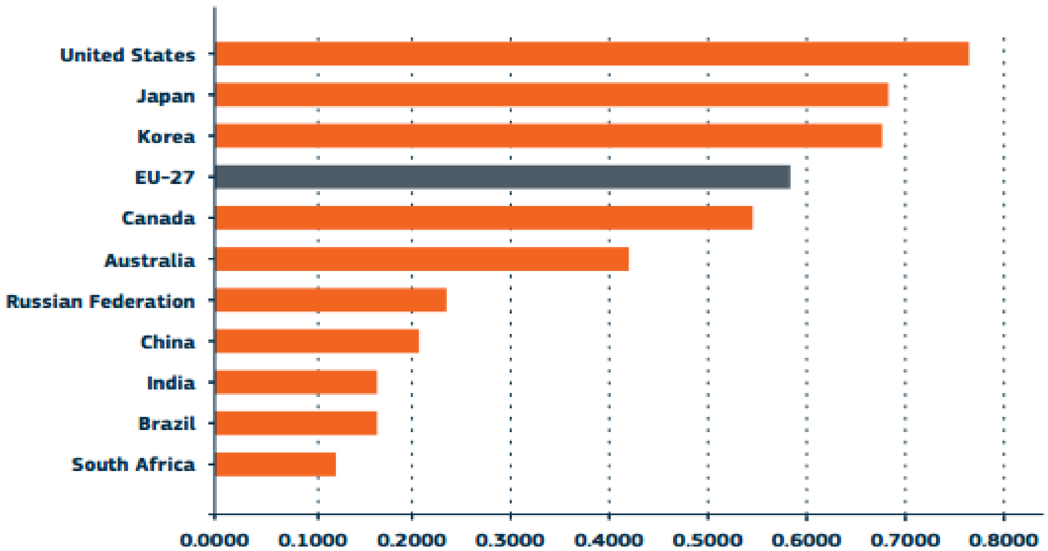
[64] The euro area (EA18) includes Belgium, Germany, Estonia, Ireland, Latvia, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

From the *Figure no. 4* it is possible to observe that except of the global financial and economic crises and crises in the Eurozone the exports of Euro area grew steadily. The highest downfall was recorded during the crisis, in 2009 when trade fell on its lowest number ever. Starting with 2010 trade was again increasing, while in the last years, since 2012 it is possible to see certain stagnation of exports. Imports and exports shared similar pattern till 2012 when countries in the Euro area recorded positive trade balance, the number of exports was higher than number of imports. In concrete numbers, trade balance in goods of the Eurozone in March 2014 amounted surplus of 17.1 billion EUR what is in comparison with the previous year 21,9 billion EUR more.[65]

The innovation capability is another factor, which can't be in these times of knowledge economies leading the world underestimated. Innovation and research are needed the prosperity and driving a long-term growth of the economies. European Union is aware of this and even despite of fact that the EU has currently in many areas of trade dominant position, the emerging countries like China, India and Brazil are growing rapidly. The innovation and the aim o the EU to become a leading knowledge based economy is one way how to enhance its dominant position in the world trade. Innovation is also the way, how to get the depressed economy of the EU out of financial crisis. The following *Figure no.5* shows the performance of EU 27 in innovation in comparison to other world economies.

[65] "March 2014 Euro area international trade in goods surplus 17.1 billion euro," Eurostat, accessed May 13, 2014, http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_151969.pdf, 1

Figure no. 5: Performance of EU 27 in innovation in comparison to other world economies in 2011



Source: European Commission, *Innovation Union, A pocket guide on a Europe 2020 initiative, (Luxembourg: Publications Office of the European Union, 2013),* 3

Based on the *Figure no. 5*, the European Union takes in the sphere of innovation the fourth place. The innovation rate have is higher than the EU's in three countries - United States, Japan and Korea. The EU is aware of its position and is taking appropriate measures in this area to become more competitive. EU created the Innovation Union, the Horizon 2020 as the financial instrument implementing the Innovation Union, Europe 2020 flagship initiative aimed at securing Europe's global competitiveness and established a European Research Area.

In 2012 the first annual study assessing the effectiveness of the measures and initiatives implemented under the Innovation and Research Framework Program was released, which concludes a success in involving Europe's best researchers and institutes, maintaining EU competitiveness in fields, and in setting research agendas, strengthening transnational networks with the European Research Area and enhancing cooperation with industry.[66]

[66] "DG RTD Annual report on Program evaluation activities 2011," European Commission, accessed May 11, 2014,

3.2 Limitations to EU's Position in the World Trade

After offering the view on the potential of the EU in the world trade based on its strengths and prerequisites for its dominant position, it is necessary to stress disadvantages and negatives of the European Union in the world trade. The EU has many negative aspects and the relevant ones for its position in the world trade will be stressed in this subchapter.

Currently the most important threat of the EU's position is still consequences of the world financial and economic crisis together with the Eurozone debt crisis. From the previous Chapter it is obvious that the Eurozone crisis had significant effect reflected in the zero growth of the EU's GDP and decline in its trade performance in almost all areas in comparison to year before. As already mentioned in the *Table no. 2*, all the countries examined in the table and currently the most important world actors (USA, Japan, China, India, Russia and Brazil) enjoyed growth in their GDP except of the EU.[67] According to the WTO, the reason why EU reached zero growth and stagnated is the uncertainty in the euro area, financial instability of the Eurozone and depressed economy. There is an immediate need to act actively, but the problem lies mainly on current Euro-skepticism. The following Table presents more indicators of the EU' performance in the last years.

http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/rtd_annual_report_evaluation_activities_2011.pdf#view=fit&pagemode=none

[67] Page 33 of this thesis

Table no.5: Selected indicators during the crisis period of 2012 in EU 27

	GDP Growth in %	Inflation rate	FDI as % of the GDP	Government deficit and surplus
2010	2,0	2,1	2,5	-6,5
2011	1,7	3,1	3,7	-4,4
2012	-0,4	2,6	2,0	-3,9
2013	0,1	1,5	N/A	-3,3

Source: Eurostat, accessed May 11, 2014, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115,http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tec00118&tableSelection=1&footnotes=yes&labeling=labels&plugin=1,http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00046&plugin=1http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=teina200&tableSelection=1

As it is possible to see from the *Table no. 5* the year of 2012 was for EU significant in the sense of overall economic slowdown. Annual GDP growth felt down, percentage of foreign direct investment declined as well as government deficit increased.

In the sense of the global financial and economic crises, the purpose of this thesis is not to analyze the reasons of the crises, but in order to understand the situation it is necessary at least to name the conclusions from the financial crisis according to Stanley W. Black, emeritus professor of Economics at the University of North Carolina[68]:

- Cautious Eurozone response to Financial Crisis in the way of delayed interest rate policy reaction, concentration on inflation target and muted reaction of the fiscal policy reaction in the form of Stability and Growth Pact;
- Members of the Eurozone avoided large devaluations and foreign currency debt;
- Unsuccessful performance of member states which tried to act together;
- Impact of decreasing exports was limited due to extensive relationships in the internal trade;

[68] Stanley W. Black, *The Eurozone Financial Crisis*, Power-point presentation, 7. 5. 2010, University of North Carolina

- Greece was facing difficult problems of adjustment and European banks were avoiding losses on Greek bonds.

In the context of the Eurozone crisis the immediate fiscal problems are still the insolvency of Greece, fragility of Portugal, Spain and Italy and the capitalizations of European banks. The main problem remains in the macro – economic imbalances inside the member countries of Eurozone. In order to response to crisis many new solutions were adopted on the level of the EU, like bailout programs for fragile European economies and stronger financial stability mechanisms.

The problem is not only in creating the framework but also in the attitudes of EU member states. EU is not united in this area, there are pending question about North versus South and the limits of European solidarity. Except of that, the professor Olaf Cramme from the London School of Economics defines also institutional dilemmas like problematic procedures of decision-making in the EU and the member states or the loss of sovereignty and rise of populist parties across the EU.[69] Another consequences of the crisis are arisen questions about two-speed Europe[70] and the turnover in the position of one of the most important and crucial members of the EU, The United Kingdom, when there are discussion about theoretical leave out of the EU.

The possible solutions could bring the results of the new European Parliament elections. These elections can be marked as crucial for the future of the EU. On the 22 and 23 of May 2014 the whole European Union votes the members of European parliament and based on revision in the Treaty of Lisbon, the Parliament will now vote the president of the European Commission. So basically these elections will be kind of reflection on how the EU

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[69] Olaf Cramme, *Is there a future for the EU after the crisis*? Power-point presentation: London School of Economics

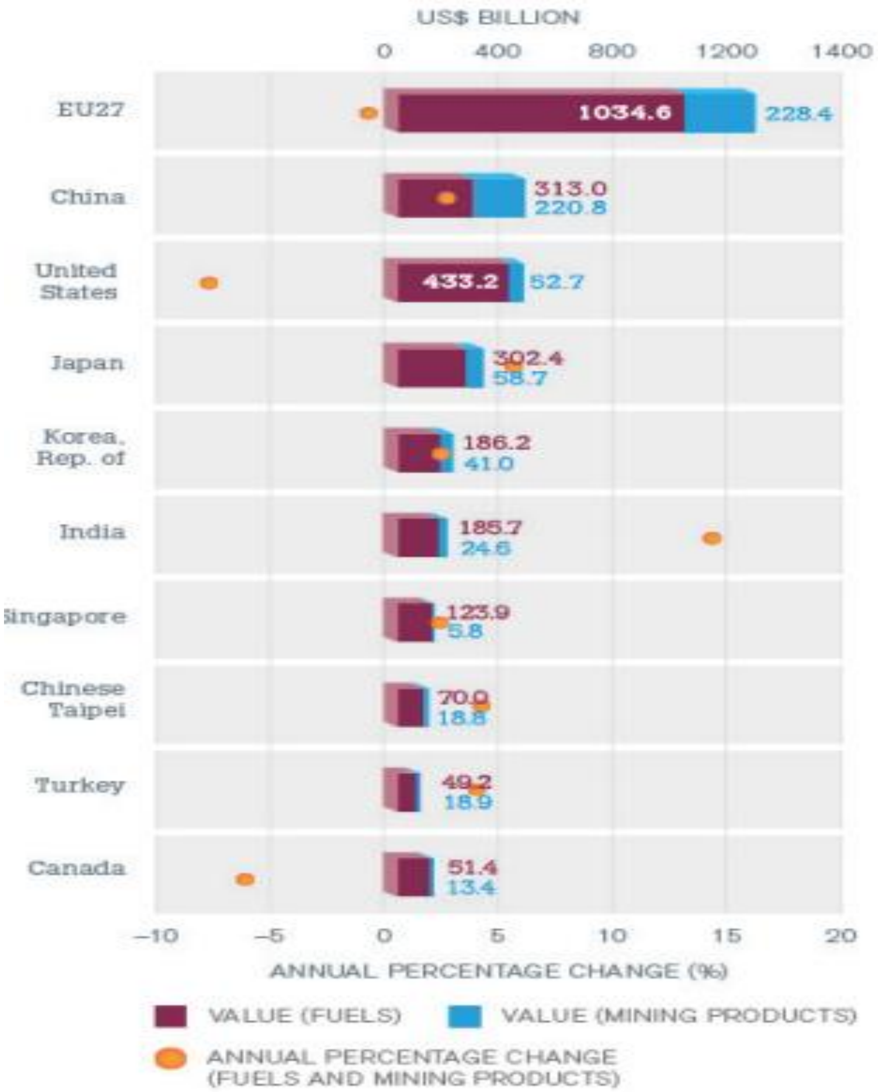
[70] "E*uropeans are now coming to terms with the idea that deeper political and fiscal integration will be needed for the 17 countries that share the euro currency. Implication is that euro area countries will in future answer to a different set of rules than the wider EU-27, creating a two-speed union."* From Euractiv: *EU comes to terms with 'two-speed Europe*', accessed May 15, 2014, http://www.euractiv.com/future-eu/eu-comes-terms-speed-europe-news-508920

dealt with Eurozone crisis, with the plan of the higher level of integration and will decide who will lead the EU for the next five years and its direction.

One of the most important, probably crucial for the EU position in the world trade is very high energy-dependency of the EU on imports of energies from third countries. European Union has a limited number of resources, according to British Petroleum at the end of 2012 EU had in reserves 6,8 thousands million of barrels of oil, which creates only 0,4% of oil world reserves.[71] On the contrary, the consumption of oil in the EU amount to 14,8% of the world consumption.[72] In the area of natural gas, the EU shares in reserves 0,9% (1,7 trillion cubic meters) and consumes 13,4% of the world consumption of natural gas.[73] According to Eurostat, the EU's energy dependency has reached in the 2012 level of 53.4%.[74] Energy prices are very volatile and in the missing internal market member countries negotiate individual agreements with suppliers what makes the position of the EU very difficult in this area. Another risk factor is that there is a high energy-dependency on imports from certain regions, which can be often characterized as unstable. It is clearly visible on the trade balance of EU with Russia, when EU imports from Russia mainly raw materials, mineral fuels, oil and gas, which amounted in 2013 to 77,8 % share on EU's imports from Russia.[75] Moreover, Slovakia as a member state of the EU with the east border of the EU and a transit country is almost 100% dependent of the imports of energies from Russia. This creates pressure on the fast establishment of common market, which is missing in actual situation. Also in the last months it is possible to feel certain tensions in the relationship of EU and Russia.

[71] "BP Statistical Review of World Energy June 2013," British Petroleum, accessed May 14, 2014, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf, 6
[72] *Ibid*, p. 9
[73] "BP Statistical Review of World Energy June 2013," British Petroleum, accessed May 14, 2014, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf, 20 -23
[74] "Energy Dependence", Eurostat, accessed May 14, 2014, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdcc310&plugin=1
[75] Page 58 of this thesis

Figure no. 6: Major world importers of fuels and mining products in 2012



Source: WTO, Trade Statistics, accessed May 15, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 53

Based on finding in *Figure no.6*, the European Union imports of fuels and mining products amounted to 1,034 billion US dollars in 2012 and had approximately the same value as the year before. China increased its imports of fuels and mining products by 3.4 % to 533 billion US dollars and overtook the position of the second largest importer from the United States. US imports of fuel decreased by 7.1 %, the main reason was a rapid increase in domestic production of crude oil. Among the top importers of fuels belongs also India, which increased in 2012 its imports by the most (18 %), followed by China (14 %). China's imports of non-fuel mining products in 2012 decreased by 8 % and the European Union's imports dropped by 17 %. The result is that the value of China's imports (221 billion US dollars) is approaching the European Union's value of imports (228 billion US dollars). In comparison to 2011, the difference was much bigger (241 billion US dollars vs. 274 billion US dollars).[76] These numbers confirm the dependence of the EU on imports of energy resources, what is definitively one of the most important negative aspects of its position in the world trade.

Another important problem EU has to face in present is unemployment, growing differences between the member states and inactivity in relation to research, innovation and competitiveness. Unemployment is currently very important problem in the EU, when the average rate of unemployment in the EU in February 2014 was 10,5% but there are significant differences in single member states. *Table no. 6* shows the unemployment rate in three countries of the EU with the highest rate as well as in three countries of the EU with the lowest. Difference between the highest and the lowest unemployment rate is 21, 7 %.

Table no.6: Unemployment rate in February 2014 in three countries with the highest and the lowest unemployment rate

Country	Unemployment rate February 2014 in %
European Union 27	10,5
Greece	26,5
Spain	25,3
Cyprus	17,4
Luxembourg	6,1
Germany	5,1
Austria	4,8

Source: Eurostat, *Harmonized unemployment rate*, accessed May 19, 2014, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1

[76] "Trade Statistics 2012", WTO, accessed May 18, 2014, http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf, 53

Outstanding issue is unemployment of youth people in the EU, labeled also as the "youth unemployment crisis of the EU." In the European Union 27 was youth unemployment rate for the 2013 in the value of 18,6%, while in Greece it was 48,7% and in Spain 43%.[77] Many 15 to 24 years old people in the EU face problems in finding their jobs and mainly in coping in the new world order, about in which they think they do not have role. To fight with this problem, European governments released 8 billion EUR and introduced new programs offering jobs training and apprenticeships, for example the program called Youth Guarantee.[78] This is an issue, which need to be solved very quickly because there are than remaining questions like: Who is going to produce goods? When there is such unemployment, who is going to buy that goods? Why should produces work when they do not have motivation because people do not have money to buy? But on the other side, this could be a stimulating factor for the development of innovation to find better but cheaper products competitive also in the world markets.

As to the competitiveness, almost half of the member states of the EU ranked in 2012 in the list of the most competitive countries of the world lower than China and some even lower than Russia, India and other emerging countries. According to Global Competitiveness Index 2013-14, 26 countries out of 28 were listed after the United States (5.), 24 member states were listed after the Japan (9.) and 17 countries were listed after China (29.).[79] In the top 10 were only countries in Scandinavia and industrial economies like Germany ant United Kingdom. To conclude, in this report some economies were listed lower than economies in this thesis identified as the biggest EU competitors in relation to the world trade. Reasons

[77] "Youth unemployment by sex, age and educational attainment level," Eurostat, accessed May 18, 2014,http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do;jsessionid=9ea7d07e30e40036bf64449a4e5cafddfad3b1848102.e34OaN8Pc3mMc40Lc3aMaNyTbhuRe0
[78] "Youth unemployment could wreck Europe's economic recovery," The Guardian, accessed May 20, 2014, http://www.theguardian.com/commentisfree/2013/nov/14/youth-unemployment-wreck-europe-economic-recovery
[79] "Global Competitiveness Report 2013-2014," World Forum, accessed May 20, 2014, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf, p. 15

why are weak capability of innovation, lower quality of educational systems and institutions, small expenditures to research and development, where EU fails to meet the goal of 3% GDP for research and development, but also missing centralized patent on the level of the EU or fact that some member countries still prefer exporting technologically low goods. According to Hamilton the EU is "overweight" in the trade with the developed countries even when demand there is relatively static and slowly growing and is "underweight" in the trade with emerging, rapidly growing economies.[80]

Another danger for the EU's position in the world trade is differences in single member states and still more visible fragmentation of the EU. In general there are northern EU states characterized with high level of education, strong innovation, knowledge based economy. In contrary to that there are southern member states facing many problems: problems with the deficit, high debt, with almost no competitiveness. And in the eastern part of the EU, member states could be grouped mainly with problems with catching up old member states. Of course there are exceptions, but this heterogeneity could be a serious threat for the position of the EU in the world economy and the world trade. Heterogeneity of EU member states is visible also in economic specialization and complementarity within the single market. But the specialization of single member states is also specific feature of the EU, because thanks to specialization member states complement each other and make EU diverse.

[80] Daniel Hamilton, *Europe 2020*. *Competitive or Complacement*? (Washington, DC: Center for Transatlantic Relations, 2011) 252

CHAPTER 4: ASSESSMENT OF THE EU'S PERFORMANCE IN THE WORLD TRADE

With a conceptual coherence with our researched and analyzed data one can conclude that nowadays is the position of the EU in the world unprecedented in terms of statistical outcome of the indicators of its economic and trade activity with a significant amount of limitations. These can be summed up into above-mentioned serious threats and limitations: alarming level of unemployment in the EU, the post crisis development in the EU connected with a negative public opinion towards this integration group and political unwillingness to cooperate in supranational terms, high energy dependence, growing role of the emerging economies or the differences between member countries in innovation capability, economic activity or level of education.

In order to address these limitations one should present their possible solutions and recommendations with a certain amount of abstraction. It is because of the numerous possible solutions and measures that can be for example used in order to recover from the EU crisis and stimulate its production and therefore also trade and each separate measure can be a sole topic for research. The goal is therefore to present some key general recommendations in the most crucial areas of interest in order to sustain or even strengthen the position of the EU in the world trade.

The need for adopting new measures is mainly at the level of the EU, e.g. in the area of the Common Commercial Policy but also member states has to takeover an active role. Another crucial manner of strengthening the EU's position in the world trade is its activity on the multilateral level. Through friendly mutual relations of the EU with its main trading partners and enhancing of the mutual trade EU could gain a lot when maintaining its role in the world economy.

4.1 Assessment on the Level of the European Union

Based on scholarly papers, current accessible data and the outcome of the research on this topic presented in the third Chapter of this thesis, it is possible to identify certain areas, in which EU should pay more attention and activities. Because of limited wording requirements for the thesis the focus will be paid only to the most significant:

- *Missing internal market with energies*

The reserves of the EU account for about 0,4 % of the world's oil reserves, 0,9 % of the natural gas reserves.[81]Denmark is only EU member state, which is not a net importer of energy, all EU member states are and some are extremely dependent on foreign sources of energy.

Insufficient reserves of energy resources in the conditions of the EU have negative impact on the trade balance, transparency and effective negotiations with supplier countries. The outcome is also vulnerability of the EU when energy prices are volatile. Creating of internal market with energy would increase transparency and interconnectivity between member states, which could eliminate many problems. It could also lead to lowering of costs for energy inputs and to lower final merchandise prices. EU would gain a competitive advantage in comparison to other countries, which could enhance its position in the world trade.

Table no. 7: EU 27 Energy Import Dependency

Import dependency by Fuel in %	**1995**	**2000**	**2005**	**2010**	**2011**
Total	43,2	46,7	52,4	52,6	53,8
Solid Fuels	21,4	30,5	39,2	39,4	41,4
Petroleum and Products	74,3	75,7	82,2	84,1	84,9
Gas	43,5	48,9	57,7	62,4	67,0

Source: European Commission, *EU energy in figures, Statistical Pocketbook, 2013*, accessed May 23, 2014, http://ec.europa.eu/energy/publications/doc/2013_pocketbook.pdf, 23

[81] "BP Statistical Review of World Energy June 2013," British Petroleum, accessed May 14, 2014, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf, 6-23

In this year there is also certain progress towards the Internal Energy Market visible. In February grid operators and power exchanges from 14 EU member states and Norway initiated a pilot project for joint electricity trading under the surveillance of the European Commission. This project is labeled, as a "milestone on the way towards a European Electricity Market" will take place in North-Western Europe and creates a large integrated market with electricity in the area. The Commission is also in the process of preparing a Regulation, which will make coupling of market binding in all the European Union.[82]

Also according to conclusions from the European council from March 2014 the "*The objectives of completing the internal energy market by 2014 and developing interconnections so as to put an end to any isolation of Member States from European gas and electricity networks by 2015 remain a priority*."[83] According to the European Council efforts to reduce high gas energy dependency rates of the EU should be intensified and also asks for faster implementation of measures and effective application and enforcement of EU rules regarding market integration and energy efficiency.[84]

- *Crisis and skepticism*

European leaders have to find final and durable solution how to get out of crisis. The problem is that already adopted measures are seen as inadequate, insufficient and not leading to EU's recovery. Permanent mechanism for crisis resolution along with many other instruments was adopted with a goal to avoid similar crises in the future, so the future will show how successful it will be. Almost all scholars dealing with EU financial crises also agreed on the need to fiscal politics coordination on the level of the EU, bank regulations and improvement of economic performance of weaker EU member states. This crisis could be a

[82] 14 EU Member States - Belgium, Denmark, Estonia, Finland, France, Germany, Austria, UK, Latvia, Lithuania, Luxembourg, the Netherlands, Poland and Sweden. Europa.eu, *Press release*, accessed May 24, 2014, http://europa.eu/rapid/press-release_MEX-14-0204_en.htm
[83] "Conclusions," European Council, 20/21 march 2014, accessed May 26, 2014, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/141749.pdf, 9
[84] "Conclusions," European Council, 20/21 march 2014, accessed May 26, 2014, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/141749.pdf, 9-10

significant opportunity and ground for reasoning of changes of the functioning of the EU. Changes may be important in order to increase the level of transparency in the monetary union and could lead to the reinforcement of the role of the EU in the global economy. The possible solutions could bring the results of the new European Parliament elections as elections, which will be kind of a reflection on how the EU dealt with Eurozone crisis, with the plan of the higher level of integration and will decide who will lead the EU for the next five years and its direction.

- *Research, design and innovation*

Innovation was also mentioned in the previous Chapter in the sense of how fragmented is EU in relation to its single member states and their expenditures on research and development even when EU as a one unit has quite high number of spending in this area. The fact is that the economic growth is nowadays driven through innovation and the EU should be more proactive in this field, for example via offering new opportunities to start-ups, welcoming highly skilled migrants, finally introducing a unified EU patent or less administratively difficult procedures. It is also possible to be stricter in a process of achieving a certain percentage of expenditures of each member state on research and development by presenting a sanction mechanism for countries not following the crucial strategies of the EU. The penalties could be then used for joint research programs of the European Union. The strengthened innovation capability will be crucial in terms of eliminating the growing role of emerging countries in the world trade with a connection of solving the crisis. Many emerging countries are nowadays less successful in developing high tech products capable to compete at international markets. But for how long?

- *Internal market*

EU should increase its productivity and overcome its economic diversity as well as provide adequate model of social welfare. But this is something to address to single member states, for example there are countries, which need to increase utilization of labor like France. Member states situated mainly in the southern and eastern parts of Europe could improve in the areas of infrastructure, skill levels or technological readiness. In this context it would be also necessary to finally conclude its single market. Single Market is the core of the EU's position in the world trade, but the general fact is that it is still not complete. European Commission stated that by "*completing, deepening and making full use of the single market an annual potential growth of 4% of the GDP over the next ten years could be achieved*".[85] Adequate legislation is missing together with many administrative obstacles and low enforcement. Completed single market would lead higher attractiveness of the EU in the world and boost of trade also within European Union. According to European Policy Centre the development of digital Single Market by 2020 will also result in a 4 % increase of the GDP in the EU.[86] Digital Single Market means establishment of single area for online payments and further protecting of EU consumers.

- *More attention to services*

In the previous Chapter was shown that EU has dominant position in the trade with commercial services, but the trade with services is in the EU 20% even when services create 70% of the output of the EU. But the fact is that service sector is struggling with internal market barriers. There is a Services Directive, which if fully implemented would create 600 000 new jobs and consumption will increases of €37 billion representing a growth of the GDP in the value 0.6%.[87]

[85] "Single Market Act," Centrum for European Politics, accessed May 23, 2014, http://www.cep.eu/en/analyses-of-eu-policy/single-market/single-market-act/
[86] "Policy: Making the single market more effective," Government of the United Kingdom, accessed May 25, 2014, https://www.gov.uk/government/policies/making-the-single-market-more-effective
[87] Patrick A. Messerlin, *The Directive on Services: Rent Seekers Strike Back*, Intereconomics, May/June 2005, 125

4.2 Assessment on the Level of the European Union and Third Countries

Through concluding of international agreements of the EU with third countries as one of the instruments of the CCP the EU aims is to liberalize free trade. This influences growth, economic activity, employment and economic performance of member states in the EU. The importance of international agreements can be demonstrated on the Free Trade Agreement with South Korea, which entered into force in July 2011. According to European Commission after decline in trade in 2009 because of financial crisis, trade flows between the EU and South Korea started to show higher volumes again in 2010. In 2011 South Korea reached the important benchmark of 1 trillion US dollars total foreign trade what is close to 100% of the its GDP. Annual average growth of EU exports to South Korea reached the rate of 7% between 2007 and 2011.[88] This agreement noted significant results when in one year from the entry into force of the agreement EU exports to South Korea increased by 32 %, compared to the previous year.[89] Based on the success of this agreement the European Union should focus on concluding agreements with more partners, mainly those crucial for the EU, which are mentioned across the whole thesis. Due to the limited number of words allowed for this thesis, there will briefly mentioned most important remarks in trade relationship of the EU with these countries.

[88] "South Korea," European Commission, accessed May 22, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/
[89] "South Korea, Impact of the Free Trade Agreement," European Commission, accessed May 22, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/

Table no. 8: EU's trading partners in goods 2013

	Partner	Value in mil. EUR	Share in extra EU in %
	World	3, 419, 412	100, 0
1	USA	484, 228	14,2
2	China	428, 324	12,5
3	Russia	326, 253	9,5
4	Switzerland	263, 857	7,7
5	Norway	140, 187	4,1
6	Turkey	128, 133	3,7
7	Japan	110, 570	3,2
8	South Korea	75, 810	2,2
9	Brazil	73, 085	2,1

Source: Europa.eu, Trade, accessed May 20, 2014, Tradehttp://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf

- *United States*

European Union and the United States are currently the most important actors in the world economy. These partnerships without doubt define the global trade, because either the US or the EU is the biggest trade partner for other countries in the world trade. The trade with the US amount to share of 14,2 % of EU total trade in 2013 and USA are ranked as the number 1 EU's partner in trade.[90] For the US' trade is EU's share of 16,9 % in 2012.[91] These states agreed on negotiations of the agreements, which will upgrade their relationship to the higher level – there are pending negotiations about Transatlantic Trade and Investment Partnership. These negotiations will also aim at opening markets for services, investment, and public procurement. In general if this agreement will be concluded it will shape global rules on trade.

[90] "Trade with USA," European Union, accessed May 26, 2014, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113465.pdf, p.2
[91] *Ibid*, p.9

- *China*

China belongs together with the European Union to the two biggest traders in the world. China is the second biggest trading partner of the EU and EU is for China the biggest trading partner. According to European Commission China and Europe trade over 1 billion EUR every day.[92] According to predictions China's importance in the long term as a strategic partner will only increase, 90 % of world economic growth in the following years is expected to be created outside of Europe, out of that a third of it in China alone.[93] In November 2013 China and EU declared the opening of talks of a comprehensive China – EU Investment Agreement in order to liberalize the mutual trade and investment. These talks could last for a long time, because EU asks China to behave the rules of trade, to respect intellectual property and obligations under the WTO. Based on the number of volumes of the mutual trade, potential of the Chinese economy and the pure fact that EU and China are the biggest traders in the world this agreement will influence the world trade significantly.

- *Russia*

The relationship of the EU and Russia has special importance because Russia is crucial partner for the EU in supplying with energy resources. For the EU is Russia the third biggest trading partner with share of 9,5% on EU's total trade[94] while EU is for Russia the partner number one in trade. As already mentioned, EU imports from Russia mainly raw materials, mineral fuels, oil and gas, which amounted in 2013 to 77,8 % share on EU's imports from Russia.[95] Because of that, EU has with Russia negative trade balance for

[92] "Trade, *China*," European Commission, accessed May 26, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/
[93] "*Facts and figures on EU-China trade. Did you know*?" European Commission Trade, accessed May 25, 2014, http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144591.pdf, 1
[94] "Trade with Russia," European Commission, accessed May 21, 2014, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf, 1
[95] "Trade with Russia*,"* European Commission, accessed May 21, 2014, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf, 3

many years already. Formally is the relationship of these two countries based on The Partnership and Cooperation Agreement from 1997, which is a framework for economic and political relations between the two partners.[96] However current geopolitical situation and tension between both partners brings probably no room for negotiating in a short-term period.

- *Japan*

Japan is the seventh largest EU trade partner with the share of 3,2% in 2013 but together with the EU these countries amount to two third of world's GDP.[97] Last year in March started negotiations on a Free Trade Agreement. In April this year the fourth round of negotiations was closed and currently the Commission is working on a report about the progress during the first year of negotiations.[98] In July 2012 there was a report released which was assessing the impact of future trade agreement, in which was stated that the agreement will boost the economy of the EU by 0,8%. The EU exports to Japan could increase by 32,2 % and the Japan exports to EU by 32,7 %. As an output of the agreement additional 420 000 new jobs are expected to create.[99]

- *India*

EU is in the process of negotiating of the Free Trade Agreement with India since 2007. Agreement is aiming to create framework for investment, rules for trade, creates an access to markets and strengthen rights of workers. In 2012 the negotiations reached an important progress and it is expected that the negotiation on the agreement will be

[96] "Trade, Russia," European Commission, accessed May 25, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/
[97] "Trade with Japan," European Commission, accessed May 25, 2014, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf, p.1
[98] *Ibid*
[99] "Commission proposes to open negotiations for a Free Trade deal with Japan," European Commission, accessed May 25, 2014, http://trade.ec.europa.eu/doclib/press/index.cfm?id=823

restarted in near future when new government in India will take its office.[100] India is for EU very important partner as one of the emerging world economies. Number of mutual trade is growing from year to year steadily, when in in 2003 amounted to 28.6 billion EUR and ten year later, in 2013 it was 72.7 billion EUR.[101]

- *Brazil*

Brazil is the eight biggest trading partner with the share of 2,2% of total trade of the EU in 2012 and the biggest trading partner for the EU in Latin America.[102] For Brazil is the EU partner number 1 in trade, because Brazil is the single biggest exporter of agricultural products to the European Union. In general is the Brazilian market highly protected with customs but the EU is leading negotiations on a free trade agreement with Mercosur, which member is Brazil and what could solve the problem of high custom protection. The agreement would be aimed at new opportunities for investment and trade with the EU through removal of barrier to trade and FDI.[103]

[100] "New government should speed up India-EU free trade negotiation," Portal SMETimes.in, accessed May 26, 2014, http://www.smetimes.in/smetimes/face-to-face/2014/Apr/29/new-govt-should-speed-up-indo-eu-free-trade-negotiation630938.html#sthash.HKfmmjhS.dpuf

[101] "Trade, India " European Commission, accessed May 21, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/

[102] "Trade, Brazil," European Commission, accessed May 25, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/

[103] "Trade, Brazil," European Commission, accessed May 25, 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/

CONCLUSION

The position of any current subject in the area of world trade is determined mainly by the outcomes of its economic and trade activity and is influenced by many factors. As presented in this thesis, the European Union by its enlargement, integration and actions currently dispose with all significant prerequisites for dominant position in these terms.

Even when the EU faces many problems it has still one of the most stable economies in the world trade, what is the important factor of further direction of the EU. Economy of the EU can expand not only based on inner means but mainly through the interaction with the outside world. Through this interaction EU could except of dependence on the world economy also increase the importance of the EU's biggest trading partners.

This thesis is not only analyzing and comparing the current position of the EU in the world trade and its impact on the global economy but also is offering some possible opportunities for EU in order to increase the influence of its economy in the future. The most important is energy dependence. EU in order to have a dominant position in the world trade has to find new solutions how to become less dependent on energy imports from third countries. It is important mainly in these days in times of Ukraine crisis and based on the fact that 28 EU member states imports one third of its natural gas from Russia. European Union is forced to look for the ways, how to diversify. Recent news speak about that the EU has sufficient reserves of shale gas to be independent from import from Russia for 28 years.[104] Currently the world leader in shale gas is United States, but the mining of shale gas would increase energy self-sufficiency and security of Europeans.

There are many challenges EU has to face in the future. When EU will act promptly and sophistically these challenges can lead to deeper integration of its member states and

[104] "Únia by bola vďaka bridlicovému plynu sebestačná 28 rokov (The EU would be self-sufficient for 28 years thank to the shale gas)," Portal SME.sk, accessed May 25, 2014, http://ekonomika.sme.sk/c/7209355/unia-by-bola-vdaka-bridlicovemu-plynu-sebestacna-28-rokov.html#ixzz32XxBs2am

enhancing of its position in the world trade. The solution lies in higher interaction of the member states in all the areas of their national economies and through eliminating the differences among member states, which are still great. Except of that maybe these differences will be crucial for the EU when in the future thank to them the EU will be more flexible and adaptive to world economy.

However, in order to answer the research question of this thesis, whether "*Has the EU dominate position in current reality of the world trade? Does it achieve stronger position than countries currently considered as biggest actors in the world economy based on basic economic indicators such as innovation capability or competitiveness?"* one has to look somehow deeper. The outcome of the analysis confirms the statement that the EU has the largest share among other countries in the world trade, or in terms of GDP and due to the fact of integration, common commercial policy or interconnection via single market, the EU has a very strong potential to sustain its position. However in current reality it is seemingly obvious that the negatives and threats are currently prevailing. This contains not only emergence of other rapidly faster-than-EU growing countries fully capable of competing on a world scale, but more problematic negatives in the EU itself starting with a crisis, skepticism and heterogeneity. Therefore one should doubt its capability to achieve success and consensus among members in a variety of fields mentioned in recommendations. It seems that EU is nowadays capable of a common activity only when last resort measures are needed such as those connected with debt crisis of Eurozone.

However it is perhaps only the area of common commercial policy on the multilateral level where could be seen a common position of its members. Here can one see the crucial possibility to improve and to boost trade of the European Union- by signing agreements with other strong and stable actors. This is also the way which can stop the EU from almost certain lose in the area of world trade. Not only it can boost the GDP of the EU countries, but also it would significantly improve the well being of more than 500 million EU inhabitants.

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