The EU’s Trade Policy and the World Market – is the EU a Protectionist Power?

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<td>Ad valorem equivalents</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>TTRI</td>
<td>Tariff Trade Restrictiveness Index</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>VER</td>
<td>Voluntary Export Restraints</td>
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<td>WTO-GATT</td>
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Abstract

Current research evaluates the EU trade policy and investigates the causal mechanism between the integration of the internal market of EU and its trade policy vis-à-vis non-member states. In the course of the research, a number of quantitative and qualitative tools are used to trace the changes in EU’s external trade policy in parallel to the deepening of the internal market due to implementation of Single Market Programme. The research results and findings suggest that closer integration of internal market has facilitated the expansion of extra-EU trade and, contrary to concerns raised by many exporting countries, has become a more liberal and open trader in the past two decades.
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The academic experience accompanied by the process of conducting this research has been truly rewarding and valuable. I feel deeply grateful and indebted to each and every one who made this happen.

My special gratitude is addressed to Professor Andre Schmidt, my thesis supervisor, whose valuable advice and genuine support greatly facilitated the process of study. With his timely responses, comments and constructive feedback he guided me through the process of research allowing me to make my humble contribution to the field of EU trade policy research.

I am also very grateful to my family, friends and colleagues who supported me during the process of my research and were ready to assist me at my first request. Without their heartfelt support and care, this research would not have been concluded.
Chapter 1
Introduction
Chapter 1. Introduction

1.1 Research Background and Significance

Trade is believed to be the engine of growth. Since the end of WWII global trade has more than tripled, and this process went hand in hand with global trade liberalization while it also coincided with the growth and strengthening of EU as a trading bloc (See Chart 1.1; UNCTAD, 2015). EU’s trade policy, is thus said to be “walking on two legs” – multilateral and regional (OECD, 2000:7). In the close of the 20th century, the Single European Act set Europe on a new path of domestic changes and deeper integration both regionally and globally by facilitating more favorable institutional environment and creating ‘systematic bias’ towards liberalization (Hanson, 1998).

At the same time, along with the US, EU has been championing the process of multilateral trade liberalization within the WTO rounds of negotiations, actively negotiating the reduction and binding of tariffs, being committed to various projects beyond traditional scope of GATT/WTO, including aid for trade, environment and labor standards, and ‘Singapore issues’ (investment, competition, procurement, trade facilitation) (Young, 2007; WTO, 2015). Following several rounds of negotiations EU’s the average MFN tariff applied by EU on non-agricultural goods was as low as 4.4% in 2013 and about a quarter of all import tariff lines were duty-free (WTO, 2013:45). In terms of tariff access, this implies that EU pursues an open trade regime towards all WTO member countries.
Against this background, EU has also joined the bandwagon of countries that have been pursuing preferential agreements with their major trade partners coined as “New Regionalism” (Fiorentino et al., 2006). Regional trade agreements involving Europe that have been notified to the WTO and are in force account for roughly a half of all preferential agreements registered, with EU itself representing by far the largest preferential bloc albeit much deeper in coverage and integration (Fiorentino et al., 2006). The share of intra-EU trade in total EU trade comprised an overwhelming 61.83% back in 2012 displaying a closer integration within the region than with the third-countries (UNCTAD, 2015). As contrasted to previous claim that EU’s trade policy is “walking on two legs”, a new agenda has emerged whereby EU’s trade policy shall be “walking on three legs”, the third pillar being preferential trade agreements with major partners (OECD, 2000:13).

However, it is not universally agreed that EU is a ‘free trader’ (Young, 2007). Despite having shown commitment to multilateral liberalization and setting tariffs that are lower than for most other WTO members, EU has been characterized in various ways: as ‘liberal’, ‘nominally liberal’, ‘incidental fortress’ or even ‘protectionist’ (Hanson, 1998; Young, 2004; Young, 2007:790). The major culprit is the EU’s Common Agricultural Policy (CAP) which is an intricate system of protection of domestic producers and has been a reason for several major disputes within WTO (WTO, 2015; Young, 2004). The average MFN tariff rate for agricultural products was reaching up to almost 15% in 2013, yet after a 3% decrease since 2008 (WTO, 2013). Another area of concern is EU protection that is not in the form of ad valorem tariffs, whereby the average of non-ad valorem rates converted in ad valorem equivalents (AVE) is about five times as high as ad valorem tariff average (24.5% vs. 4.8%
respectively) (WTO, 2013). Other areas with considerably high rates are hunting, forestry and fishing, dairy and confectionary (WTO, 2013). Besides these measures, non-tariff barriers in the form of standard requirements and regulations have emerges as a serious challenge for third countries’ market access (Young, 2004).

Obviously, there is room for further liberalization of EU’s trade policy but the process does not seem to be going well. One aspect to this issue is that the latest rounds of negotiations in WTO have met only limited success. A cause or perhaps a consequence of this phenomenon is the predominant shift from multilateralism to regionalism; additionally, due to the recent economic recession, protectionism seems to be on the rise, with countries looking for ways to protect domestic industries and workforce from the external shocks that could cause social and political unrest (Evenett, 2009). In such a context, EU’s trade policy was alleged of ‘threaten[ing] global growth’ via protectionist measures that restrict entry for foreign businesses (NZ Management, 2012). Thus, there seems to be ambiguity and lack of common perception of EU’s external trade policy; some claim it is liberal and open pointing at overall low level of import tariff figures, others argue against, emphasizing the CAP, NTMs, TBTs and a myriad of other issues. With so much being written about EU, research that would help categorize EU into the camp of protectionists or liberal traders needs to be carried out.

1.2 Research Objectives

Taking into account the complexity of the context in which EU’s trade policy evolved and the ambiguity that surrounds the issue of classifying and quantifying EU trade policy, this research aims at achieving several objectives.

The primary focus of the current research is looking into the restrictiveness of EU trade policy. Several measures and indices\(^1\) will be employed in the analysis of trade policy of EU in order to express numerically the combination of tariffs, non-tariff measures, technical standard requirements and other trade policy tools that are currently part of EU’s external trade policy\(^2\). This analysis will be used to evaluate the level of protection offered by these mechanisms to EU’s economy, interest groups or wealth generation.

Further on, after having quantified the overall extent to which EU trade policy is restrictive vis-à-vis third countries, a policy area-based analysis will look at the most controversial areas

\(^1\) For description of available indices see Section 2.3 of Chapter II; Methodology is addressed in Chapter III

\(^2\) EU trade policy tools are addressed in Section 2.4 of Chapter II
of trade policy of EU, categorizing them as traditional, commercial, or social areas\(^3\), and look for evidence for EU being more or less liberal in any of these fields.

Additionally, the research, being focused on the period of about two decades will attempt to identify any changes in EU’s trade policy and trace the causes for the policy shifts. In the period being researched EU has undergone several major and minor political and economic alterations; some internally motivated (e.g. Single Market Programme, introduction of Euro, Lisbon Treaty) others being forced by external shocks (Dotcom bubble, Global Financial Crisis). In the course of analysis it will be possible to identify if the amplitude of such political or economic shifts translated in noticeable trade policy changes and revealed itself in trade figures.

To get a more aggregate picture and to put EU’s trade policy into a comparative perspective, the trade restrictiveness and trade openness of EU will be compared to that of other large traders and trade partners of EU. This will allow for more general answer to the question of how protectionist EU is in fact.

Finally, one of the objectives of the current research is by using and analyzing the latest trade data and thorough investigation of EU trade policy is to estimate and forecast the course of development of EU trade policy in the wake of Euro Crisis. The implications of the financial and economic shock on EU’s external trade policy and policy recommendations will be the last aspect addressed in the current research.

### 1.3 Research Questions and Hypotheses

Current research aspires to answer several questions related to EU’s trade policy, but to avoid too general review of EU’s external trade, the priority will be given to one question, others categorized as sub-questions.

**Main Research Question:**

“To what extent has EU trade policy become more protectionist towards its WTO member trading partners since the implementation of the Single Market Programme?”

There are two main hypotheses that the research is expecting to test, H1 and H2:

**H 1:** The more integrated EU’s internal market has become, the more liberal position has EU taken towards the rest of the world.

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\(^3\) The classification is based on Young (2007). For details, see Section 2.4 of Chapter II
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**H 2:** Expansion of internal market has led to more inward-orientedness of EU trade policy and to the adoption of more protectionist position towards the rest of the world.

**H 3 (dummy):** There is no correlation between the EU’s internal market developments and EU’s liberalization within WTO.

In current research, thus, the author is aiming to investigate the development of EU trade policy towards the rest of the world and to evaluate the extent to which EU is protective of its market since the implementation of the Single Market Programme in 1992 until 2007, when the Global Financial Crisis broke out, followed by a deep economic recession and Euro Crisis. In view of this, after having answered the main research question it would be valuable to investigate, if the scope and the data for this research allow, several additional questions pertaining to the topic.

**Sub-questions:**

1. In which aspect(s) of its trade policy is EU relatively more protectionist (traditional, commercial, or social trade policy)?
2. What impact did the Global Financial Crisis and Euro Crisis have on EU’s external trade policy stance?

**1.4 Research Scope and Delimitations**

The research will be based on theoretical and analytical evaluation of EU’s trade policy while being primarily focused on the research questions posed in previous section. The theoretical part of the research will first discuss the most viable theories of trade policy regimes, and then look into the internal market changes in EU since the implementation of Single Market Programme. The analytical aspect of the paper will rest on the empirical estimation of trade openness of EU as a primary data source, but also use aggregate indices developed by international agencies as a source of secondary data. The methods employed in the process of research will therefore involve both the statistical data analysis and the study of social causal mechanism.

As regards the limits of the study, there are several. Initially, the research period and the statistical data reflecting trade flows and restrictiveness level will be limited to the last two decades due to the problem of accessing outdated figures and indices that have been developed relatively recently. Furthermore, the methods used in the study will be ones developed by other scholars, rather than being individually developed, therefore, in essence
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the research will replicate the methods used previously. Finally, the research will not focus on the effects of trade protection on the welfare, even though the literature review section addressed the previous research work regarding the welfare effects of protection.

1.5 Research Structure and Overview

Current research paper follows basic structure for academic research as suggested by the EUCAIS Online Master’s Programme, the sources and references are organized in accordance with the requirements of Harvard Referencing style. Research is structured into five chapters each subdivided into subsequent sections based on the focus of data.

Chapter I. Introduction

This chapter introduces the basis and recent developments in the area of EU trade policy, it highlights the debate surrounding the issue and poses research objectives and the questions that need to be answered. The chapter also outlines the scope of the study and the limitations to it.

Chapter II. State of the Art

Chapter II is subdivided into several sections all revolving around the issue of trade policy, such as theoretical perspectives on trade policy, overview of analytical tools and focus areas of research, as well as already existing literature on the subject. The last part of the chapter will evaluate the literature on EU trade policy and evaluate the arguments presented by the researchers on both sides of the debate.

Chapter III. Methodology

Research Methodology chapter discusses the methodological tools to be used in the course of research. It will attempt to provide the necessary insights in data analysis and data collection techniques. As the study uses a number of methods that involve both empirical data aggregation as well as tools applied in social studies analysis, the chapter will be broadly divided in two parts.

Chapter IV. Data Collection and Analysis

Collected data and findings derived using the empirical and sociological tools will be presented and evaluated in this section.

Chapter V. Conclusions

See Section 2.2 of Chapter II
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The last chapter will estimate the extent to which initial objectives have been met in the course of research and what areas remain to be addressed. The implication of the link between variables outlined will be derived followed by a few recommendations for further research.
Chapter 2

Literature Review
Chapter 2: Literature Review

Research into the openness of EU as a trading partner and the changes in its trade policy is not a new phenomenon. There exists a substantial body of literature addressing the issue of the EU trade policy; however, there does not seem to be a lot of research that has attempted to trace the changes in EU external trade policy since the Single European Act, the creation of EMU and introduction of a common currency pushed EU’s domestic market towards closer interdependence. The current chapter of this research will offer a brief summary of the most relevant existing research related to the topic of current research. Before the literature overview will discuss the research findings about the EU’s trade openness and protectionism, it will look at the theoretical interpretations of protectionism (Section 2.1), classify the tools that are used in trade policy and evaluate those (Section 2.2) and present an overview of the methodology for measuring the openness of a nation’s trade policy (Section 2.3). Lastly, but most importantly, the paper will look into EU’s external trade policy and will highlight main arguments presented in academic circles with regards to EU’s protectionism along with addressing the issue of methodological focus and relevance of the research undertaken by previous studies (Section 2.4).

2.1. Theoretical Perspectives on Trade Policy and Protectionism

In order to define trade policy of the EU, it is first necessary to define what trade policy is in itself. According to WTO/UNCTAD definition, “trade policies are the policies that governments adopt toward international trade” (2012:63). Further, Cipollina and Salvatici (2007:4) define trade protection as “[…]a set of government policies imposed in order to protect domestic producers against foreign competition from cheaper imported goods and services”. Commercial policies of nations are very important focus areas for national governments as they can increase or decrease the national welfare while affecting how this wealth is distributed (Das, 2005). Free trade is commonly accepted as the ‘first-best’ approach to global trade and trade economists argue against interventionist trade policies even in cases of domestic market imperfections (Krueger, 1984). Despite significant advances in trade liberalization, protectionism to various extents remains a persistent element in many countries’ trade policies and many question the reasons for countries’ opting for protection and intervention rather than free trade (Staiger and Tabellini, 1987; Das, 2005).
One way in which trade policy and interventionism are explained is through the “Systemic factors” prism (Das, 2005). The scholars that share this perspective believe that world economic and geopolitical system that is driven by a hegemonic power influences the trade policies of nations, with hegemons having the power to stimulate the reduction of tariffs and move towards liberalization (Das, 2005). This is, indeed, an interesting perspective taking into account the fact that the U.S, EU, Japan and other large nations have long been in the “driver’s seat” of multilateral trade liberalization, and if one of those states refused to liberalize, smaller states would resist as well. This proposition is argued against by the neo-liberals, who claim that the hegemony of the U.S has declined considerably, but the multilateral trading system is retained due to the involvement and active role of international organizations, such as GATT/WTO (Das, 2005). While the neo-liberals emphasis on the role of international institutions and agreements does have certain rationale, it is not fully convincing because it does not account for domestic pressures and interests’ role, that could be instrumental in affecting the choice of state’s trade policy (Das, 2005).

Two other theories that try to explain trade policy choice focus more on the role of domestic actors and institutions. ‘Societal’ model interprets the trade policy as the dependent variable which is influenced by domestic power groups that wish to use the trade policy for rent-seeking and improving their own welfare, but not the whole society’s (otherwise, free trade would be their choice) (Das, 2005; Becker, 1983). Becker (1983:374) argued that trade policy instruments are the result of political pressure exercised by the most powerful lobbying groups, thus the trade policy is the outcome of their efforts and serves their welfare and rent-seeking goals. Deardorff (1987) supports this view stating that protectionism is largely used to protect import-competing industries, but stresses that the wage losses, unemployment and bankruptcies are, in fact, the main concern of policy-makers. Lastly, ‘Domestic institutions’ approach maintains that the role of domestic public institutions is to ‘filter’ the pressure and lobby from society and pressure groups in order to develop trade policy that reflects their objectives and public functions (Das, 2005). This last approach is very interesting particularly with regards to EU, where the trade policy is community competence, rather that state-created, and the Commission fully responsible for selecting trade policy tools thus has to isolate itself from interests of individual nation states and pressure groups.

### 2.2. Instruments of Trade Policy

Tools and instruments employed by the states engaged in international trade are multiple, but can generally be broken down into two categories: tariffs and non-tariff measures (also called
non-tariff barriers, thus NTMs/NTBs) (WTO/UNCTAD, 2012:64). Normally, the combination of several tools is used and the impact of the same level of tariff applied to different goods, for example, can be different depending on the type of the good and the amounts of it that are traded (WTO/UNCTAD, 2012:64).

2.2. A: Tariffs

To borrow the WTO/UNCTAD concept of tariffs, “tariff is a tax levied on imports, or more rarely on exports, of a good at the border” (2012:66). The direct effect of tariffs is the increase in the price of the imported commodity as well as increased production of the same commodity domestically (WTO/UNCTAD, 2012). However, rising cost of imported good that is used for production of another good domestically can decrease the production and value-added (WTO/UNCTAD, 2012).

First classification of tariffs is into ad valorem and specific, where the former is quantified in the percentage of value of the commodity and the latter takes the form of a certain amount of money charged on the unit of imported item (Delipalla and O’Donnell, 1998; WTO/UNCTAD, 2012). The first form is more generally used as it is easier to measure and compare, but also research has proven that ad valorem tariffs generate more revenue (more welfare) than the specific tariffs for both monopolistic and oligopolistic markets while increasing the end price to the same level (Helpman and Krugman, 1989; Collie, 2006). Yet, when comparing tariffs to non-tariff measures, Staiger and Tabellini conclude, and support Rodrik (1986) that time-consistent tariff policy can serve a better measure of protection that production or consumption subsidies (subsidies and other NTBs are discussed in the following section) (1987).

Another classification is relevant to the WTO trade liberalization process and differentiates tariffs that are preferential or non-preferential (Most-favored Nation/MFN), bound or applied (WTO/UNCTAD, 2012). Here, non-preferential tariffs are those applied by one nation vis-à-vis all WTO nations without discrimination, unless the country has a preferential agreement of a kind with one or more WTO member states (in this case, preferential tariff would be applied which, as a rule, must be lower than the MFN tariffs) (WTO/UNCTAD, 2012). Bound tariffs in contrast to applied ones are the tariff thresholds negotiated between states in WTO rounds that must not be exceeded, and the applied tariff is then the actual tariff rate which can be either equal to or lower than the bound tariff level (WTO/UNCTAD, 2012).
Despite the fact that tariffs are easier to measure, and thus easier to eliminate, not much is left to be done in this field as the early rounds of WTO negotiations focused exclusively, and very successfully, on tariff binding and capping (WTO/UNCTAD, 2012). With the decrease of use of tariffs as the measure of protection, the role of tariffs in import price has become rather limited (Fath, 1994). From the state’s point of view, the greatest drawback of tariff protection is the fact that WTO member countries are bound by commitment to cut the tariffs, thus the tariff-based trade policy is very inflexible, too transparent and provides little room for maneuvering for a state that seeks protection for domestic industries (WTO/UNCTAD, 2012; Fath, 1994).

2.2. B: Non-tariff Measures

As contrasted to tariffs, NTMs are trade policy tools that distort the free flow of trade between nations by causing changes in trade volumes, prices of goods or fulfill both these goals (WTO/UNCTAD, 2012). The wide term ‘non-tariff measures’ includes a range of policy mechanisms that can be classified using the UNCTAD taxonomy (See Table 2.1):

<table>
<thead>
<tr>
<th>Anti-competitive measures</th>
<th>Finance measures</th>
<th>Pre-shipment inspection and other formalities</th>
<th>Sanitary and phytosanitary measures</th>
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<td>Export-related measures</td>
<td>Licences, quotas, prohibitions and other quantity control measures</td>
<td>Rules of origin</td>
<td>Trade-related investment measures</td>
</tr>
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</table>

Source: UNCTAD, 2010 as quoted in WTO/UNCTAD, 2012: p.71

Walter in his evaluation of export performance of developing countries back in 1971 differentiated the NTMs into three groups: a) ones that are ‘generally used’ as part of commercial policies, e.g. quotas and subsidies, b) ones that are ‘sporadically used’ for trade distortion, e.g. packaging and labeling requirements, SPS, c) ones that are not intended primarily for trade restriction, but have an ‘incidental effect’ on it, e.g. certain consumption taxes (p.196). Nowadays, however, the picture is different from what Walter was observing;
among the NTMs presented in the table (See Table 1. above), some, such as VERs and quotas, are now relatively rarely used, but others are gaining prevalence due to increased concerns about food and product safety, rules of origin and labeling requirements, as well as adherence to environmental norms (WTO/UNCTAD, 2012). A prevalent NTM that has been lately abused is anti-dumping, which instead of being used as a measure against dumping (its original purpose), has now become a persistent protectionist tool itself that can eventually lead to either ‘anti-dumping cold war’ or ‘anti-dumping epidemic’ (Prusa, 2005:684). This view was supported by Das (2005:52) who argued that the Anti-dumping and Safety regulations, referred to as ‘safety valves’, began to be used by a far larger number of traders than initially, the number of countries using them jumping from only 7 in 1990s to 41 in 2003.

As the role of tariffs in trade policy has been diminished by the negotiations in the WTO rounds, the instances of use of NTMs have been growing in number, causing uncertainty in commercial climate due to NTBs invisibility and concealed protection (Fath, 1994; Daly and Kuwahara, 1998). Currently, thus, there is a high interest in stabilizing the trade via so-called ‘tarification of NTBs’ (i.e. converting NTBs into equivalent tariffs that are transparent and can thus be cut) (Fath, 1994; Herrmann et al., 2001; Daly and Kuwahara, 1998). Daly and Kuwahara (1998:208) in their research on the use of NTBs in the US, EU, Canada and Japan stressed the vitality of addressing those “opaque” measures as application of them by the largest traders can significantly affect their smaller trading partners, but more critical is the impact on overall trade liberalization. Importantly, by far the largest area of trade where the quotas or tariff-rate quotas are extensively used is trade in agricultural products, and although the efforts towards tarification of these NTBs were undertaken under Uruguay Round, in some aspects of agricultural trade virtually no tarification took place (Herrmann et al., 2001). Despite the argument that some NTMs are not originally intended as protectionist tools (e.g. export subsidies) or are targeted at dealing with market failures or information asymmetries (which can improve welfare), these tools do have trade-distorting effect which is not easy to calculate (WTO/UNCTAD, 2012).

2.3. Measurement of Trade Policy

As a logical continuation of the previous section of this chapter, we need to consider the ways in which trade policy restrictiveness and the openness of the nation to trade can be evaluated. When trying to calculate the restrictiveness of a trade policy, Cipollina and Salvatici (2007)
warn that one has to consider the two issues that can arise - conversion and aggregation - due to the difficulties associated with the collection of data (on NTBs particularly) and then converting them into measurable units to compare. A number of indices have been developed in attempts to calculate the effects of a trade policy. By far one of the most comprehensive summaries on measuring trade policy effects is the joint publication by WTO and UNCTAD\(^5\) the second chapter of which gives a detailed explanation and discussion of tools used for quantifying trade policy. Cipollina and Salvatici\(^6\) (2007) also provide an excellent overview of the main metric indexes used for trade policy analysis.

Both of the given publications raise criticisms of the most conventional method of analyzing trade policy - trade weighted average tariff that produces the “endogeneity bias” (Cipollina and Salvatici, 2007:13) and seems to produce incomplete picture of protection. In contrast, Kee et al in their empirical study enhance the model developed by Anderson and Neary (1992, 2005) based on the Trade Restrictiveness Index (TRI) and Mercantilist Trade Restrictiveness Index (MTRI) and developed a new index named Overall Trade Restrictiveness Index (OTRI) (2009: 174). The availability of a vast body of literature on how to apply the empirical models makes it possible to use the methodology being aware of potential limits of the model which is the case of bias in trade weighted average tariff, or aggregation issues in case of TRI model that has been overcome by Kee et al (2009:172). The TTRI and OTRI indices for 2000-2009 period are available at the World Bank Trade E-tools database, and thus need not be calculated individually; however, to avoid the bias of obtaining data from various resources, the OTRI for the whole period of research (1995-2012) will be calculated by the researcher. Another important measure is the STRI that World Bank has developed to measure the restrictiveness of trade in services and is also available via the online portal.

As it comes to the measurement of degree of ‘openness’ of an economy, Cipollina and Salvatici suggest that the most widespread method is the calculation of trade to GDP ratio of a state (2007:4). At the same time, they concede that this is not an ideal measurement of ‘protection’ level as openness of an economy simply proves that it is actively engaged in trade, but does not show how restrictive its trade policy is in fact (Cipollina and Salvatici, 2007:4). Thus, this methodology was further extended by Rodriguez (2000) who, in line with

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\(^5\) “A Practical Guide to Trade Policy Analysis” 12\(^{th}\) Ed.

\(^6\) “Measuring protection: mission impossible?” TRADEAG Working Paper 06/07
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Cipollina and Salvatici argumentation, agrees that trade to GDP ratio itself cannot show the full picture of a nation’s trade, due to the role of economy size, GDP and per capita GDP. To receive more precise picture of actual openness of a trading country and protection level that is expected to correlate to it Rodriguez (2000) develops a hypothesis that involves both the GDP and per capita GDP variables and statistically supports the hypothesis. This method and other tools that will be used for data collection and analysis will be discussed in greater depth in Methodology chapter.

2.4. EU Trade Policy

2.4. A: EU Trade Policy Making

Before discussing the EU trade policy and reviewing the literature that has been written about its components, it is necessary to understand the mechanism that lies at the core of trade policy making of such a complex, sui generis, entity like European Union. EU’s trade policy is developed within the framework of the Common Commercial Policy (CCP) of EU that constitutes one of the main pillars of EU’s relations with the outside world (EU, 2015). CCP is the most integrated policy field of EU where the Commission - the supranational institution - enjoys the exclusive competence (EU, 2015).

The foundations of the CCP were laid back in 1957 by the Treaty of Rome when the competences in trade policy were transferred to the supranational level, and then by 1968 the Common External Tariff was introduced by the member states vis-à-vis the rest of the world and all the tariffs among member states were eliminated (Conconi, 2008). The road towards uniform trade policy was long and complicated by member-states’ priorities and interests (Gstöhl, 2013). Yet until today the EU’s trade policy has developed in two important ways: it encompasses 28 member states and represents their interests to the world and it covers a wider range of aspects relating to trade policy (Conconi, 2008).

Despite the fact that EU is represented by the Commission in international trade agreements, the European Parliament and the Council have their role to play (Europedia, 2011). The Commission has the power of initiative and thus can submit a proposal on trade agreements, regulations and amendments in terms of external trade, as well as this is the Commission’s task to negotiate the agreements (Gstöhl, 2013). However, the negotiation of agreements has to be preceded by a stage where the European Parliament and the Council step in: the
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proposal by Commission has to be approved by the Council and the Parliament via co-decision procedure, also called as Ordinary Legislative Procedure (OLP) (Woolcock, 2010). The three institutional players that are involved in EU trade policy making are characterized by various interest and sometimes interest - particularly those of EP and the Council- clash, with the Commission being a mediator or a conciliator (Richardson, 2012). Even though the involvement of the European Parliament in trade policy making was an important step towards “filling democratic legitimacy gap characterized EU CCP since its inception”, Parliament is often claimed to display more protectionist moods and its decisions are more reliant on issues not directly related to trade, e.g. environmental or human rights concerns (Kleinmann, 2011:30; Gstöhl, 2013). The Commission, however, is characterized by a more liberal stance towards trade, yet there are internal disagreements between Commission’s Directorates-General (DGs) and the attitudes towards free trade vary depending on area of concern, DG Development, for instance, being more free-trade oriented, whereas DG Agriculture is said to be far more protectionist (Gstöhl, 2013). The Council, often named as the “last bastion” of member states in EU trade policy” advocates interests of member states in certain sectors via the requirement for unanimity voting, as contrasted to QMV in areas of EU competence (such sectors include, for example, trade in cultural, audiovisual, educational, and social and human health services) (Leczykiewicz, 2005; Woolcock, 2010).

Finally, the EU CCP is not completely politics-free, and thus is influenced not only by institutional players, but also non-state actors (Gstöhl, 2013). The non-state actors’ pressure varies depends on the area of trade policy and the instruments used (Gstöhl, 2013). On EU level, the numerous access points are DG Trade, the cabinet of the Commissioner for Trade, and International Trade (INTA) in the European Parliament (Woll, 2009 as cited in Gstöhl, 2013). In the course of the Civil Society Dialogue, DG conducts meetings with wider audience where the people are kept informed, views are exchanged and civil society organizations can express their concerns (Dür and De Bièvre, 2007 as cited in Gstöhl, 2013). Another channel is the European Economic and Social Committee that joins trade union representatives, employers, civil societies and interest groups; the Committee addressed issues of interest and expresses opinions to the Commission (Gstöhl, 2013). For instance, the producers can petition the DGs of the Commission to impose antidumping procedures or initiate market access investigations in the non-member countries (Gstöhl, 2013). Additionally, since the more proactive involvement of the EP into decision-making procedure, it has also become a channel through which domestic actors can lobby their interests (Gstöhl, 2013; Richardson, 2012). Even though the role of EP in trade policy making is weaker than
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that of the Council or the Commission, the interest groups find it attractive for lobbying as EP is easier to access (Richardson, 2012). Thus, in the course of negotiating the EU-Korea FTA the lobbying by the national car manufacturers proved to be so efficient, that the EP threatened the Commission of using its veto power and stalling the trade deal; consequently, the Commission had to include ‘safeguard clause’ in the text of the agreement to protect domestic small car manufacturers (Richardson, 2012:11). Yet, as Richardson claims, the Council is considered the “best friend” of industry lobbyists (2012:16). This brief look at the EU policy making, actors involved and interest representation by various groups together with the review if trade policy theories in Section 2.1 would allow for drawing parallels between domestic politics and EU’s external trade policy later in data analysis part of the research.

2.4. B: EU as a Protectionist Trader

A body of literature that discusses EU’s trade policy is vast; however, not many of the studies follow an empirical analysis and engage into calculations of the restrictiveness of EU’s trade policy. This is mainly caused by the difficulty of attaching a single value to trade protection due to a variety of measures and trade policy tools used by the EU, of which tariffs are the easiest to measure but in fact the least prevalent means of protection.

To support this point, Bilal (1998:20) states that tariffs have become “obsolete” as an instrument of protection, whereas the number of non-tariff barriers introduced in EU has been increasing and not being effectively addressed. The main argument of the author is that despite the effort of WTO to make customs unions a stepping stone towards more liberal trade, it, in fact, allows the trading bloc to obtain more bargaining power, adopt more aggressive commercial policies, suffer from internal lobbying via supranational institutions and become more protectionist towards the rest of the world (Bilal, 1998:20). In a similar line of argument, Sarfati (1998:2) claims that EU as a whole (and EU member states) continuously use industrial policy as a non-tariff barrier even after the implementation of the Single Market Program. To be more precise, Sarfati brings in the data showing that in two years since 1992 as many as 1136 proposals for technical rules have been put forward by EU 12, and the figure is even higher for EU 15 (Sarfati, 1998:5). The use of non-tariff barriers is more frequent on EU external trade policy level, Sarfati argues, including measures like new standards, environment and anti-dumping rules; all these come in addition to VERs, biased rules on public procurement, ecolabeling, and limitations on ownership (Sarfati, 1998:7). The Economic Outlook report of 2006 echoes the idea presented by Sarfati that the extra-European
trade is much more restricted than the intra-European (2006:13). According to the data presented in the report, in 2004 only Iceland, Norway and Poland had more tariff quotas than the EU did. Additionally, Das (2005:56) claims that EU trade policy being shaped EU’s concern for cohesion, employment and Common Agricultural Policy used antidumping as a mechanism for protection. The author continues further to argue that EU institutional structure is weak and thus makes lobbying possible, and therefore despite the pressure to liberalize, EU still keeps some sectors of trade protected (Das, 2005:57). Both the Economic Outlook report (2006) and the research by Nowak-Lehmann et al. (2005) stress the importance of liberalizing the agricultural sector, that is claimed to be the major culprit, by running simulation models of various liberalization scenarios. Additionally, Nowak-Lehmann et al. predictably conclude that the scenario of complete liberalization (tariff and non-tariff measures) would accrue more welfare (2005:60). An interesting view is presented by Breibarth et al (2009:250) who state that EU’s requirements for Corporate Social Responsibility (CSR) can emerge as a ‘soft’ trade barrier creating more favorable environment for European companies to comply. Even though this ‘soft’ barrier cannot be addressed by any computational model, it gives an additional weight to those arguing that EU is a protectionist power.

2.4. C: EU as a Liberal Trader

Yet, there is another body of literature, presenting EU in a more positive light in terms of its external trade policy. Hanson in his “What Happened to Fortress Europe?” insists that those, who predicted that Europe would eventually become a “fortress” and erect a wall of tariffs and barriers towards the world, were completely wrong (1998:56). In Hanson’s logic, the development of an internal market produced the reverse effect of the expected due to the increased strength of supranational institutions and inability of member states to protect their sensitive industries (1998:56). The creation of a common market and single trade policy (Common Commercial Policy) vis-à-vis the rest of the world, he says, deprived national trade policies of tools to protect their producers, while on community level the lobbying power of members who favored liberal trade was stronger, causing a more liberal trade policy overall (Hanson, 1998:68). This argument is partly supported by Woll (2007:28) who came to a conclusion that lobbying for liberalization occurs at supranational level, as illustrated by the case of financial services. At the same time, protectionism, or lobbying against liberalization, is better achieved through domestic lobbying, and, for Woll, agriculture is a case in point (2007:28).
A similar dichotomy in EU’s trading regime is highlighted by Young (2004), who contended that Single European Market program had a liberalizing effect in some areas, but this was not the case universally. Notably, Young’s perspective is principally different from works of Hanson (1998), Woll (2007) and Bilal (1998) because he claims there is a “disconnection” between the EU’s internal and external trade regimes (2004:394). According to Young, this asymmetry between domestic and external trade interests results into so-called “regulatory peaks” when EU fails to comply with WTO regulations (2004:395). Still, the overall argument presented in Young’s research is that the Single Market Programme has been beneficial to third countries despite an increase in EU’s regulatory barriers (2004:395). As regards the methodological approach, the author identified regulatory peaks by using data on cases when EU has been addressed by third countries in WTO’s Dispute Settlement Mechanism and then explained the cases from the perspective of EU’s domestic trade policy regime. Even though an interesting and compelling study, Young’s research does not explicitly answer the question of how far liberal or protectionist EU is, and this is the gap that should be filled by the given research paper.

An even more interesting research by Young is his “Trade Politics Ain’t What It Used to Be: The European Union in the Doha Round” where the author classifies EU’s external trade agenda into three aspects, namely traditional trade policy, commercial trade policy and social trade policy (2007:790). This classification of the aspects of the EU’s trade policy allows Young to look into the level of involvement of individual member states in each aspect and thus explain the variance of liberal position of EU in multilateral trading system in these three aspects.

<table>
<thead>
<tr>
<th>Focus of measure</th>
<th>Location of Measure</th>
<th>Traditional trade policy</th>
<th>Commercial policy</th>
<th>Social trade policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>At-the-border</td>
<td>Tariffs</td>
<td>Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quantitative restrictions</td>
<td>Intellectual property rights</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade facilitation</td>
<td>Subsidies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Agriculture (export subsidies, levies)</td>
<td>Trade-related investment measures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Behind-the-border</td>
<td></td>
<td>Investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Competition policy</td>
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<td></td>
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<td></td>
<td>Government procurement</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Agriculture (subsidies)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>[discriminatory import bans]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2 Typology of Trade Policies in Multilateral Trade Negotiations
The conclusion that Young reaches in his research is that in traditional and commercial policy areas EU’s position is mainly liberal; however, social trade policy has been causing much pressure for protectionists, thus EU’s position is rather conservative in this policy area (2007:794-7). The value of the given work by Young is that the classification employed by him might allow for a better interpretation of the results of the forthcoming research.

2.4. D: EU’s Trade Policy after Lisbon and Global Recession

During the last decade, the trade policy of EU was affected by two events of great importance: Lisbon Treaty adoption and the Global Recession. Both events have shaped the direction of EU trade policy to a certain extent, even though the Lisbon Treaty introduced changes that were perceived internally, while the Crisis has affected EU’s trade policy due to its close integration in global market.

One perhaps important change to the EU Commercial Policy is the involvement of the EU Parliament in the process of signing preferential trade agreements, whereby the European Parliament now has a power to reject or give consent to a trade deal (Woolcock, 2010:23). The major implication of this change is that European Parliament is an institution that is more open to lobbying by power groups, environmentalist and trade unions, thus the EU trade policy is not any more isolated from the pressure of interest groups (Richardson, 2012). Hoffmeister (2011:90) brings in the example of Korea-EU FTA where the lobbying from domestic car manufacturers has shaped the coverage of the agreement. Another aspect of EU CCP that Lisbon Treaty addressed, or better say, failed to address, is the decision-making in liberalization of trade in audio-visual, health, education and social services, where unanimity voting has been enabled, giving a veto power to the national Parliaments regarding foreign access to these sensitive areas (Woolcock, 2010:22). On the bright side, the powers of the Commission have been enhanced with regards to the use of contingency protection trade policy tools, such as anti-dumping, safeguards, etc. making Commission responsible for calculating dumping margin, damage to Community interest, charging preliminary anti-
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dumping duties thus giving the Commission more room for maneuver independent of the Council (Hoffmeister, 2011:94; Woolcock, 2010:25).

While the Lisbon Treaty has affected the power mechanism and the competences of Commission in exercising Common Commercial Policy, the Global Recession has made unwanted changes both on the trade policy of EU and the trade volumes. Most importantly, of course, is to evaluate whether the crisis has pushed the EU trade policy towards more protectionism. Chapman (2012) based on research findings of a group of MBA students concluded that EU protectionism in times of recession undermined already shaky global market. He (Chapman) claims that the nature of protectionist behavior in EU is rooted not only in political and economic goals, but also cultural and EU citizen rights. Despite quite serious claims, there is no evidence in Chapman’s work on the rise of protectionism in EU. In contrast, Fojtikova (2010) presents evidence citing WTO that the protection measures implemented by all WTO members accounted for 1% of total merchandise trade, while the members of G20 committed to non-increase of protectionism in times of crisis (2010: 40). Similarly, Evenett argues that there seem to be no incidence of tariff increase during the recession, but he also admits that this is due to tariff binding within WTO, therefore EU together with other nations felt limited by international commitments (2009:15). However, Evenett continues to criticize the use of financial assistance by EU as a policy instrument to provide support to domestic producers (2009).

2.5. Synopsis

As a recapitulation of what has been covered in this chapter, there is a need to highlight the most important areas of concern. Initially, it is clear that trade policy can be motivated by political, economic as well as social forces. Further on, the instruments of trade instruments are diverse, with many of them having lost their importance, while others are being now widely used. As regards EU in particular, the academic research on its trade policy has come to no definite conclusions regarding its openness or protectionism. The fact is that there are several channels through which domestic players can influence external trade policy making and alter the outcomes of negotiations. What is also clear, however, is that the introduction of the Single Market Programme has had a significant impact on EU external liberalization and choice of Non-tariff measures as major instruments of trade policy. Bearing these all in mind, the following chapter will focus on methodology for collecting data for independent analysis of EU trade policy in recent decades.
Chapter 3
Research Methodology
Current chapter will focus on the methodological approach to measuring EU’s trade policy and tracing the changes within it along with the integration of the common internal market of EU. It will also address the operationalization issues, qualitative and quantitative research techniques to be used in the analysis, main theoretical basis applied to interpret data results and the data collection methods and sources. This chapter will introduce the basic notions and concepts, and introduce the preliminary overview of the process of data analysis to be presented in subsequent chapters.

3.1. Research Design

This research paper is aimed at quantifying EU’s trade policy and trace the causal mechanism between the development of internal and external trade relations. Therefore, as the objectives of the given paper suggest, the study will follow a mixed-approach design, incorporating both quantitative and qualitative analysis.

As has been outlined in Section 1.3, the research will revolve around one main research question and test three hypotheses pertaining to it. As the main research question sets the goal of measuring the changes in trade policy, the quantitative techniques will be more applicable in this case. Accordingly, the statistical evaluation followed by interpretation of results is best-fit option for this part of the current research.

The supportive questions, on the contrary, seek to qualify and compare the different areas of EU’s trade policy, and then identify variations in protection levels in various aspects of trade policy. Finally, one of the supportive questions attempts to establish the causal links between external shocks and EU’s trade policy. Attaining all these objectives is only possible if the quantitative tools are supported by qualitative analysis grounded in theoretical basis and empirical evidence.

To provide a coherent and structured explanation of methodological tools, the chapter will first proceed by operationalizing the variables being studied, i.e. expressing them in measurable and tangible terms and turning them from general notions into precise indicators.
3.2. Data Collection

Data collection techniques are determined by the nature of this research, where the past evolution of events will be evaluated. The data collection methodology, thus, will be rooted in mixed-method of primary and secondary (mostly quantitative) data. The data used in this research will originate from a variety of publications:

- Researches by scholars
- Public reports
- News articles
- Other credible publications on the topics relevant to the purpose of present research

3.3. Methodological Framework

Before the description of methodology can be addressed, i.e. prior to answering the question of ‘how to measure’, it is initially important to define variables that are being measured, i.e. address the ‘what to measure’ question. Thus, this section will focus on operationalization of the dependent and independent variables.

3.3. A: Operationalization

Research question has been stated already in the introductory part of current paper\(^7\); however, for the purpose of operationalization of variables and further discussion of the assumptions, it will be repeated below.

**Research Question**

To what extent has EU trade policy become more protectionist towards its WTO member trading partners since the implementation of the Single Market Programme?

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of integration of internal market</td>
<td>Level of protection in EU’s external trade policy</td>
</tr>
</tbody>
</table>

\(^7\) See Section 1.3 of Chapter I
Independent Variable:
Elicited from the given research question, the independent variable in the current research is the level of integration of the internal market of EU since the implementation of the Single Market Programme. The focus of the research is the changes in the external trade policy of the EU, therefore, based on the review of literature regarding the development of the internal market, current research takes it as a basic assumption that the level in integration of the internal market is very high and has been increasing overtime in the period under concern. However, for the purposes of convincing research results better grounded in data, the level of integration of EU’s internal market will be evaluated using two used indicators: IRTS and IRTI.

1) Intra-regional trade share (IRTS)
Based on ADB definition, IRTS Index is “the percentage of intra-regional trade in total trade of the region” (2013). The higher is the percentage rate, the higher is the degree of dependency on regional trade; that is, the relative importance of the intra-regional trade to the total trade of the region (ADB, 2013).

The formula for calculation of IRTS Index is the following:

\[ \frac{T_{ii}}{T_{i}} \]  \hspace{1cm} [1.1]

Here in [1.1] (ADB, 2013):
- \( T_{ii} \) is total volume of trade within the region, i.e. exports of region \( i \) to region \( i \) added to imports of region \( i \) from region \( i \);
- \( T_{i} \) is the total trade of the region with the rest of the world, i.e. exports of region \( i \) to the world added to total imports of region \( i \) from the world.

2) Intra-regional trade intensity index (IRTI)
Based on ADB definition, IRTI Index is “the ratio of intra-regional trade share to the share of world trade with the region”. IRTI measures whether the trade within a region is more or less intense than should be expected given the region’s share in global trade. If the resulting index

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8 See Section 2. of Chapter II
9 Formula retrieved without amendments from ARIC Trade Indicators: ADB
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is above one, then the regions’ internal trade is higher than could be expected at its given value in world trade (ADB, 2013).

The formula for calculation of IRTI Index is the following:

\[ \frac{(T_{ii}/T_i)}{(T_i/T_w)} \]  \[2.1\]

Here in [2.1] (ADB, 2013):

- \( T_{ii} \) is the total trade within the region, i.e. exports of region i to region i added to imports of region i from region i.
- \( T_i \) is the total trade of the region with the rest of the world, i.e. exports of region i to the world added to total imports of region i from the world
- \( T_w \) is total world trade, i.e. world exports added to world imports

Applied to EU’s internal market IRTI, this formula will look like as follows:

\[ \frac{(T_{intra-eu}/T_{total-eu})}{(T_{total-eu}/T_{world})} \] \[2.2\]

If this formula is broken down into two parts, then what is received as a result is a very simple calculation. Ratio of intra-regional trade to total trade of the region \( (T_{intra-eu}/T_{total-eu}) \) is nothing else but intra-regional trade share (IRTS). The second part of the formula indicates the percentage share of EU trade in global trade. The formula for EU IRTI is now self-explanatory: IRTI divided by the ratio of EU trade in world trade.

The resulting formula for EU’s IRTI is, thus, below:

\[ \frac{(% \text{EU intra-regional trade share})}{(% \text{share of EU in global trade})} \] \[2.3\]

The IRTI index can equal to 0 in case of the absence of regional trade, or equal to 1 if the regional trade is as much intense as the trade with external partners; however, when the index is higher than 1 the relative importance of intra-regional trade is higher than the trade with the rest of the world (RIKS, 2008).

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10 Formula retrieved without amendments from ARIC Trade Indicators: ADB
These two indicators (IRTS and IRTI) will allow for tracing the development of internal market in order to draw parallels or find divergence with the external trade developments. In addition to these two tools, the qualitative analysis tools, including theoretical basis, will be also applied to the discussion of internal market developments.

- **Dependent Variable**

**Trade Restrictiveness Index (TRI)**

The dependent variable in the given question is the level of protection vis-à-vis the rest of the world, in other words, the restrictiveness of external trade policy. The problem of measuring and quantifying the restrictiveness of a trade policy has been discussed extensively previously\(^{11}\). The restrictiveness of a trade policy can be measured by various indices, even though the calculations of those are very complex, some of them are already available in the database of World Bank. Current research will use the econometric analysis of trade policy developed by Kee et al. (2009) based on the works of Anderson and Neary (1999). Kee et al. have developed several indices (TRI, OTRI and MA-OTRI), but for the purposes of the given research, the OTRI index that accounts for the tariff structure of a country will be employed in data collection.

OTRI measures the effect of a country’s trade policy on its total imports. As Kee et al. put it, it answers the question, “What is the uniform tariff that if imposed on home imports instead of the existing structure of protection would leave aggregate imports at their current level” (2009). The formula that Kee et al. have derived for calculating OTRI is presented below.

\[
\text{OTRI}_c = \frac{\sum_n m_{n,c}\varepsilon_{n,c} T_{n,c}}{\sum_n m_{n,c}\varepsilon_{n,c}} \tag{3.1}
\]

Here, \(c\) stands for the country whose trade policy is being studied, \(T_{n,c}\) is the tariff that country \(c\) collects on imports of product \(n\); \(m_{n,c}\) are imports of product \(n\) of country \(c\); and \(\varepsilon_{n,c}\) is the import demand elasticity of product \(n\) in country \(c\) (Kee et al., 2009). As Kee et al. in [3.1] suggests, “OTRI is the weighted sum of protection levels, whereby weights are given by the elasticity of import demand and imports” (2009:9).

\(^{11}\) See Section 2.3 of Chapter II
Present research will be thus based on “step-based” estimation of OTRI with a first step at calculating AVE (ad valorem equivalents) for specific tariffs. Babili (2009) suggests two ways for calculating AVEs: first resting on comparison of total customs revenues with value of externally imported commodities (including intermediate goods) \( AVE\% = \frac{(custom\ revenues/commodities’\ values)}{100} \) - this method is referred to as “income method”. Second approach called “unit value method” compares values per each specific imported unit to some specific tariff before any conversion costs on ex-rates are incurred, \( AVE\% = \frac{(specific\ tariff\*100)}{value\ average} \) (Babili, 2009).

Logically, unit value method presents a more accurate picture, unbiased toward external effects of currency rate movements and what is more important seasonality of trade for a certain commodities, both finished goods and intermediate products. However, to attain a general outlook on direction of TTRI movement income method shall be considered enough. AVE being linked to the merchandise value in nature, as in form of tax per ton or liter converted to the percentage of the imported commodities value (Babili, 2009) will be addressed via income method of calculation.

### 3.3. B: Research Hypothesis

To identify the tools that should be used to answer the research question, it is necessary to look at the hypotheses again and seek for the way to test the relationship between internal and external market development.

a) **Hypothesis I**

The more integrated EU’s internal market has become, the more liberal position has EU taken towards the rest of the world.

- The higher is the internal market integration  
- **positive correlation**  
- The higher is the integration with global market
The EU’s trade policy and the world market – is the EU a protectionist power?

If the relationship between the dependent and the independent variables in Hypothesis I are expressed with the help of operationalized variables, the Hypothesis I will sound as follows:

**Hypothesis I**

The higher is the intra-regional trade share (IRTS) and the intra-regional trade intensity (IRTI) in EU, the higher is the integration with global market expressed by lower Tariff Trade Restrictiveness Index (TTRI) and Overall Trade Restrictiveness Index (OTRI) of EU trade policy.

b)

**Hypothesis II**

Expansion of internal market has led to more inward-orientedness of EU trade policy and to the adoption of more protectionist position towards the rest of the world.

Using the same operationalization we can now restate the competing hypothesis in the following manner:

**Hypothesis II**

With the increase in the intra-regional trade share (IRTS) and the intra-regional trade intensity (IRTI) in EU, the EU has become more inward-oriented which is displayed by the higher Tariff...
The EU’s trade policy and the world market – is the EU a protectionist power?

Trade Restrictiveness Index (TTRI) and Overall Trade Restrictiveness Index (OTRI).

c)
Finally, it should not be neglected that the development of internal market could have no impact on the external trade policy of EU. Thus, Hypothesis III has to be tested as well:

Hypothesis III

Internal market integration has had no impact on the external trade policy of EU.

3.3. C: Quantitative Research Methodology

The hypotheses outlined in the previous sections will be tested using two approaches based on the same technique: Ordinary least-squares regression (OLS). OLS regression is a method for testing the relationship between the dependent (Y) and independent (X) variable, and if the relationship is linear, this could be represented mathematically in an equation\(^ {12} \) \( Y = \alpha + \beta X \) (Hutcheson, 2011). In this equation, besides the dependent and independent variables Y and X, \( \alpha \) (intercept) stands for the value of Y when \( X=0 \), and \( \beta \) (regression coefficient) illustrates the change in Y which corresponds to a unit change in X (Hutcheson, 2011).

An important part of interpreting the results of the OLS model is to compare the actual value of Y as compared to the value predicted by the model (Hutcheson, 2011). The deviation (else called residual) between the expected and the actual value of the dependent variable indicates whether the model gives reliable predictions of data (Hutcheson, 2011). If the model is poorly fit, its predicted results will have high deviation from the original input data; on the contrary, in a well-constructed model the deviation will be low or insignificant (ideally, there can be zero deviation between the original and predicted data) (Hutcheson, 2011). After the model has been run, the residuals (deviations) are squared (to avoid negatives) and added up, to produce the residual sum of squares (RSS) (Hutcheson, 2011). Deviation from the actual data

\(^ {12} \) Equation retrieved without amendments from Hutcheson (2011)
is an important indicator of the poor contributing role of the independent variable (x) into the changes of the dependent variable (y); thus, in case of very large deviations (large RSS), by adding another variable (z) to the model one can test the explanatory power of this new variable (z) onto the original dependent variable (y) (Hutcheson, 2011).

The rationale for the selection of the given method is its simplicity and reliability. With relatively large data set, i.e. trade data (including intra and extra EU trade figures) for the period of roughly two decades being studied, the OLS regression model can be the best option for analysis.

- **Correlation between intra-EU and extra-EU trade**

Considering the propositions of the Hypothesis I and Hypothesis II, there should be a correlation between internal market integration and external trade protection. If there is none, the Hypotheses I and II are falsified.

In order to test the presence of correlation between the internal market integration and the external trade policy stance, we must come up with the measurable indicators that are present in both domestic and external trade. As discussed in Chapter II, internal market of EU is integrated and the tariffs have been eliminated long ago, and the NTBs are not frequent due to harmonized policies of Member States. Therefore, the indices like IRTS, IRTI, TTRI and OTRI can illustrate changes in domestic or external trade policy alone, but not the relationship between them. Therefore, to test the presence of correlation between internal market integration and external trade policy, it is necessary to assume that:

**[Basic Assumption]:** If the correlation between market integration and protection levels is indeed present, the expansion of internal trade flows should translate into corresponding (positive or negative) changes in external trade flows either.

With this in mind, current research will run OLS regression model using trade data from 1995 to 2012 (18 years). All the necessary data for the given period can be obtained from UNCTAD Statistical Database. The model will test the presence of correlation between intra-EU and extra-EU trade volume changes overtime. If the OLS outcome supports the main hypothesis, Hypothesis III proposing the absence of correlation between internal market
integration and external trade will be falsified. In the meantime, research will further proceed to evaluate the relationship between extra and intra-EU trade in qualitative terms.

- **Estimation of Trade Openness**

Having tested the correlation between internal and external trade flows, the research will try to look at EU’s trade from a different angle by concentrating mainly on the changes in the EU’s external trade figures overtime. This will allow the researcher to measure the ‘openness’ of EU as a trading partner vis-à-vis the rest of the world, albeit in a more sophisticated manner than a conventional trade to GDP ratio\(^{13}\).

In the estimation model presented by Rodriguez (2000), the researcher put forward the hypothesis that the trade to GDP ratio (\(TGDP\)) of a country is negatively related to dollar GDP of the given country and positively related to its per capita GDP. This assumption is derived from basic trade economics’ “small country case” whereby the smaller is the country, the more open it should be and the reverse; in this model, GDP is an indicator of size, GDP per capita is an indicator of wealth, i.e; \(TGDP\) (trade openness) is negatively related to the size of an economy, but positively relates to the wealth of it (Rodriguez, 2000). The researcher then ran an OLS regression of the \(TGDP\) ratio basing on the logarithms of GDP and per capita GDP (Rodriguez, 2000). The interpretation of the regression model outcomes supported the initial hypothesis of the author, showing the deviation between the expected and actual level of openness of the countries in the dataset (Rodriguez, 2000).

Current study, with the purpose of evaluating the degree of openness of EU as a way of supporting the main hypothesis, but also in an attempt to trace changes in EU’s external trade overtime, will replicate the method used by Rodriguez (2000). However, whereas Rodriguez was running a model with a cross-country comparison set in 1996 trade data, this research will run a model only with EU but over a period of time from 1992 to 2012 using semi-annual trade figures. The research will base the model on the same assumption to test the relationship between trade to GDP ratio with the GDP per capita, that is:

\[
\text{[Basic Assumption]: \(TGDP\) is positively related to the per capita GDP of EU.}\]

The selected time period (1992-2012) will allow for investigating whether since the implementation of Single Market Programme trade openness data changed in either way. If, in fact, the degree of openness of EU’s economy did not decline while EU’s internal market was

\[^{13}\text{The methodological weaknesses of the conventional approach is discussed in Section 2.3 of Chapter II}\]
integrating, the strength of the main hypothesis about the positive impact of internal market integration would increase. The important methodological value of the give approach is that the results will allow us to compare the actual and expected degree of openness of EU, how far these two converge or diverge, and then draw important conclusions and implications for EU trade policy.

3.3. D: Qualitative Research Methodology

In addition to using statistical OLS models to find correlation between external and internal trade policy and then measuring the degree of openness of EU towards the rest of the world, it will be necessary to involve qualitative analysis to interpret data with more scrutiny. The results of the OLS regression will support/falsify the main hypothesis, but to gain a full explanatory picture of EU trade policy, the research will have to turn to the additional questions, posed earlier in this research. Below, the questions are stated again along with the methodology to be applied to answer each question and a step-by-step explanation of the procedure involved.

Sub-question 1. In which aspect(s) of its trade policy is EU relatively more protectionist?

Having obtained the value of OTRI indices for the given time frame, the research will turn to the comparative analysis of protection levels in selected areas of EU trade from the three fields of EU trade policy based on the classification presented by Young (2007) and described previously in Section 2.4.C of Chapter II. In order to do this, the research will have to collect data for each trade policy area individually, using the database on international trade and development agencies.

Sub-question 2. What impact did the Global Financial Crisis and Euro Crisis have on EU’s external trade policy stance?

In the aftermath of the Global Financial Crisis and the Euro Crisis, a number of concerns rose regarding the impact of the recession on the rise of protectionist measures (NZ Management, 2012). This view, however, is not supported by others, claiming that there was no ‘paradigmatic’ shift in EU’s trade policy from liberal stance towards more protectionist regime (De Ville and Orbie, 2011). The research will try to clarify an answer to this question by addressing the data that will be obtained from the statistical analysis and secondary sources.
Chapter 4
Data Analysis
Chapter 4: Data Analysis

4.1. Integration of Internal Market
As has been discussed in previous parts of the research, the primary focus of the paper is to identify the effect that the internal trade integration of EU has had on the external trade policy and the level of protection towards the rest of the world. For this purpose, it is initially necessary to evaluate the extent to which EU’s internal trade has changed overtime, and if, indeed, there was trade expansion internally. If we consider Viner’s theory of integration, elimination of trade barriers between several countries results in trade diversion and trade creation effects and, according to this logic, there is a possibility that the expansion of EU’s internal market could divert trade from outside countries, causing an increase in intra-EU trade and a decrease in extra-EU trade (Viner, 1950). This part of the current chapter will thus look at the two indicators\(^{14}\) (IRTS and IRTI) that are used to evaluate the change in internal trade of EU in the period under research and the obtained data will be compared to the data on extra-EU trade in subsequent parts of the chapter.

4.1. A: Intra-regional Trade Share (IRTS)
Already in 2007 Ilzkovitz et al. set out to evaluate the impact of market integration on trade flows between EU member states, and the research team acknowledged that after a period of considerable expansion of intra-EU trade, the pace declined (p.31). The results presented by the researchers are based on comparison of intra-EU 12, intra-EU 15 and intra-EU 25 data over a decade from 1995 to 2005; therefore, the data cannot be applied directly to current research. However, some of the conclusions made by the Ilzkovitz et al. research team are still relevant, and will be discussed in relation to the results accumulated by the current research.

Initially, using the formula for calculation of IRTS and the trade statistics obtained from the UNCTAD Statistical Database the research has evaluated the changes in intra-regional trade shares of EU over the period from 1995 to 2012. The resulting shares in percentage terms are presented in the Table 4.1 below and are illustrated for better visualization of overall trend.

<table>
<thead>
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<th>Year</th>
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<tbody>
<tr>
<td>IRTS</td>
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\(^{14}\) Methodology for calculating these indices is addressed in Section 3.3 of Chapter III
As is obvious from the data and the graph, IRTS of EU is generally very high, an evidence of large trade flows within the region. The interesting features of the data are the two peaks observed in late 1990’s and early 2000’s, both of which can be attributed to the introduction of common currency (cashless transactions since 1999 and cash and coins since 2002). In this regard, the data obtained in the current research generally goes in line with the conclusions of Ilzkovitz et. al on the role of single currency as a boost for intra-EU trade (p.33). More importantly, however, is the EU’s enlargement in 2004 that has contributed to internal trade expansion (Ilzkovitz et. al, 2007:33).

Despite the high level of IRTS in EU and the peaks related to internal changes, the overall trend for IRTS in the last decade illustrates a significant decline (from 65% in 2002 to 59% in 2012, See Table 4.1 above). Using Ilzkovitz et. al logic, this can be attributed to the fact that intra-EU trade has always been high, so the potential for intra-EU trade has reached its relative limits (at least in terms of goods) (2007: 34). More importantly, the implications of this initially relatively stable and then declining share of intra-EU trade in total trade of EU are that the trend for trade with extra-EU partners is either largely unaffected by internal trade (1995-2002 period) or is upward (in the last decade), and this, albeit indirectly, refutes the proposition that internal market integration has an adverse impact on the external trade of EU. On the contrary, integration of internal market is positively linked with extra-EU trade integration, as internal integration accelerates the improvement and stabilization of business environment, promotes competition internally and thus enhances the competitiveness of EU businesses overall, creates larger markets and better efficiency (Ilzkovitz et. al, 2007:50).

4.1. B: Intra-regional Trade Intensity (IRTI)

Another index often used to evaluate intra-regional trade as compared to extra-regional trade is the Intra-regional Trade Intensity index. As was previously discussed in Methodology chapter, the index compares the share of trade of a country in global trade to the share of intra-regional trade in the total trade of the same country in order to measure whether the trade is more intensive within the region or with outside states (i.e. (% EU intra-regional trade share)/(% share of EU in global trade)) (ADB, 2013).
Using the IRTS index and the trade data from UNCTAD database, the IRTI index has been calculated for the period 1995-2012. The resulting index is presented in the table and graph below. It should be noted that the IRTI index is not measured in percentage terms, as for instance IRTS or TGDP are, but the intensity is evaluated by its level being higher or lower than 1. Thus, the higher is the index, the higher is the intensity of trade and the importance of intra-regional trade compared to global trade (ADB, 2013).

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<th>'09</th>
<th>'10</th>
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<th>'12</th>
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<tbody>
<tr>
<td>IRTI</td>
<td>1.8</td>
<td>1.9</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.4</td>
<td></td>
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</tr>
</tbody>
</table>

As in the case with IRTS, a glance at the table and graph allow for concluding that trade intensity in EU is quite high and this has been the case during the whole period under research. A more careful scrutiny of the data leads to identification of the same two peaks (as with IRTS) when the intra-regional trade intensity was at its highest level with IRTI equaling to 2, i.e. late 1990’s and early 2000’s. On the downside, the IRTI has been declining since the second peak in 2003 down to a very low 1.4 index that has not been registered in the EU since 1980’s (UNCTAD, 2015).

4.1. C: Internal market trade openness and global Export Performance Index (EPI)

To take a closer look at EU’s internal market and evaluate how its internal openness vis-à-vis each member was changing, we can address secondary data retrieved from Guerrieri and Vergara Caffarelli (2012). In their work, EU trade openness is measured using usual trade openness formula weighing the trade flows of EU member economies to GDP (Guerrieri and Vergara Caffarelli, 2012). The formula used by the researchers is presented below:

\[
\text{Open}_{ij,t} = \sum_{t \in \text{EU}} (X_{ij,t,\text{tot}} + M_{ij,t,\text{tot}}) / Y_{ij}
\]

With \(i\) and \(j\) denoting certain EU Member States, \(t\) denoting quarter, \(X\) and \(M\) standing for exports and imports respectively while \(Y\) is GDP; finally, \(\text{Tot}\) stands for total trade (Guerrieri and Vergara Caffarelli, 2012). The research included data from 2000 till 2009 presented
quarterly, while the sample selection itself may be considered unbiased, since it excludes effects of 2008-2009 financial crisis turmoil (Guerrieri and Vergara Caffarelli, 2012). Guerrieri and Vergara Caffarelli’s (2012) research revealed that smaller-sized countries with larger exports of intermediate goods and services demonstrated relatively greater trade openness than larger EU members in 2000-2009; yet, research challenges the proposition that the degree of actual openness may not be crucially affected by size only (See Figure 4.1).

![Figure 4.1 Intra-EU Trade Openness](source)

Source: Guerrieri and Vergara Caffarelli (2012:16)

Eight of the countries, including Bulgaria, Cyprus, Czech Republic, Lithuania, Netherlands, Poland, Slovenia, Slovakia and much larger Germany show increasing trade openness index during the period of assessment, while other large countries of Western Europe were merely affected by integration (Guerrieri and Vergara Caffarelli, 2012). In the meantime, average trade openness index for Western EU member states was a bit lower than that of Eastern EU, which followed an upward trend during the period under review (See Figure 4.1) (Guerrieri and Vergara Caffarelli, 2012).

The researchers further went on to link the obtained data on internal openness to external trade data using Export Performance Index\(^\text{15}\) (Guerrieri and Vergara Caffarelli, 2012). Results of the quarterly study revealed that Germany’s contributes about a quarter to the total outside EU exports (Guerrieri and Vergara Caffarelli, 2012). Moreover, based on Guerrieri and Vergara Caffarelli’s computations, all of the Eastern EU states have also improved their export performance, leaving France, Italy and the UK far behind in growth dynamics (2012). These latter states, like France, Italy and the UK accounting on average around 7-11% to total

---

\(^\text{15}\) More detailed discussion of how EPI is measured can be attained in the original research by the given authors, but was omitted in current discussion to avoid lengthy explanations.
EU exports, showed a negative dynamics and reduced their market shares between 2000 and 2009 on quarterly basis (Guerrieri and Vergara Caffarelli, 2012).

![Figure 4.2 Global Export Performance Index](source)

Source: Guerrieri and Vergara Caffarelli (2012:17)

### 4.1. D: Implications of Patterns of Internal Market Integration

Taking into account the data retrieved via estimations of IRTS and IRTI, a number of conclusions regarding external trade policy can be made. Initially, it is crucial to highlight the fact that both intra-regional trade share and intensity of trade in EU are quite high, and, while the levels of those have not displayed any dramatic increases during the period under study, in the last decade both indices have been experiencing a decline.

One important implication that can be derived from the obtained data is that neither the successive enlargement waves, nor the introduction of common currency have resulted in dramatic shifts in internal trade towards larger inward orientation, albeit an increase by a relatively low margin. This indirectly leads to the conclusion that external trade remained intact or only marginally affected by integration of internal market.

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<th>Year</th>
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<th>’09</th>
<th>’10</th>
<th>’11</th>
<th>’12</th>
</tr>
</thead>
<tbody>
<tr>
<td>T/GDP</td>
<td>57</td>
<td>58</td>
<td>62</td>
<td>62</td>
<td>64</td>
<td>71</td>
<td>71</td>
<td>68</td>
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<td>73</td>
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<td>88</td>
</tr>
</tbody>
</table>
Another conclusion that can be drawn from the data is when we consider the trade openness of EU during the same period presented in Table 4.3. Using the current table, it can be observed that the openness of EU’s trading regime was growing exponentially over the given period, surging with the introduction of Euro in 1999. All in all, global export performance of the EU countries was mainly tied to Germany, significantly increasing extra-EU export share and therefore external openness; thus, trade openness and trade creation advantages within EU itself were peculiarly distributed outside expected bounds of larger EU countries (See Section 4.1. C) (Guerrieri and Vergara Caffarelli, 2012).

4.2. Internal Market Integration Effects on External Trade

The primary approach to test the main hypothesis of the given research, i.e. the effect of internal market integration on the external trade policy and trade volumes of EU, is the correlation test assessment between intra-EU and extra-EU trade developments overtime. Additionally, a T-test was run to identify and exclude any false assumptions which may have been affecting results of the correlation test and therefore influencing Null Hypothesis.

Correlation results were expected based on preliminary graphical comparative analysis of internal and external EU trade developments. Sample covered years from 1995 – 2012 presenting trade values in mln USD on annual basis. Approach to data collection and sample formation for correlation testing was based on difference between total values of internal and external exports and imports for the abovementioned periods. Critical value applied with 99% on n-2 degree of freedom and was set at 26.296 (See Table 4.4).

<table>
<thead>
<tr>
<th>Table 4.4 Intra and Extra EU trade correlation results</th>
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<tbody>
<tr>
<td>Correlation coef. = r = 0.935741215</td>
</tr>
<tr>
<td>H1.1 0: r ≤ 0</td>
</tr>
<tr>
<td>Correlation between (intra and extra)</td>
</tr>
<tr>
<td>EU27 Imports is Positive</td>
</tr>
<tr>
<td>t_{(test)} = \frac{r \sqrt{n - 2}}{\sqrt{n - r^2}}</td>
</tr>
<tr>
<td>Test Statistic(t)= 10.61269904</td>
</tr>
<tr>
<td>n - 2 degree of freedom @ 99%</td>
</tr>
<tr>
<td>(critical value +)</td>
</tr>
<tr>
<td>26,296</td>
</tr>
<tr>
<td>Hypothesis 0 proved (correlation positive)</td>
</tr>
<tr>
<td>Source: Researcher’s calculations, based on UNCTAD data</td>
</tr>
</tbody>
</table>

Source: UNCTAD Data Center, 2015
Once again, results received from correlation testing can signify certain outcomes that seem to be beyond mere correlation (See Figure 4.3 below). Visual analysis of internal and external EU trade, presented in the Figure 4.3 below reveals that not only the patterns are the same and follow a similar trend, yet both are highly sensitive to external, systematic sock factors. Presumably, the introduction of Euro currency for non-cash transactions in 1999 can be seen as external trade downshift in Figure 4.3 and later increase in gap between in intra/extra EU trade volumes (Onaran, 2010); this was followed by heavy downshift effect on both intra and extra EU trade in 2009, most probably caused by US crisis and contagion later spreading to EU. The gap between internal and external trade in USD volumes is obvious; however, it is also clear that EU’s initial goal was based on trade and welfare creation based on common market principle (Acocella, 1992). Therefore, intra EU trade by its nature is logically expected to have had a higher rate of growth in real terms, compared to extra-EU trade. Hence, given the same trend and high correlation between intra and extra trade, it is obvious that the internal market integration has had no restrictive impact on external trade. On the contrary, internal integration facilitated external trade expansion via larger market absorption and fragmentation network, described in preceding section of present research (Guerrieri and Vergara Caffarelli, 2012).
4.3. EU Trade Openness Measurement

Rodriguez (2000) study was used for the purpose of the present research as one of the main sources of assessment of trade openness. Rodriguez challenged that measurement of degree of trade openness depended more on quantitative levels of exports and imports relative to total GDP of a certain economy rather than focus on what country exports and/or imports (2000).

Respectively, a key ratio used for assessment was TGDP, namely calculated by $\text{TGDP} = \frac{(\text{Exports} + \text{Imports})}{\text{GDP}}$ assessing the openness of the economy. For the purpose of present research, choice of TGDP as a valid basis for trade openness assessment is based on Prusa and Skeath (2004) and earlier Bagwell and Staiger (1990) theories of commercial policies suggesting a relationship between the degree of openness and general volumes of trade. However, common false assumption in research lays in comparison of trade volumes to GDP based on exports alone, not accounting to any other subordinate factors of economic degree of openness as imports.

For the purpose of the present research, intra EU trade was deducted from the total trade values approach used by Rodriguez to evade bias on volatilities of intra-EU markets and correctly account only toward the effects of external trade. OLS regression was similarly to Rodriguez (2000) run on logarithms of thousand USD GDP and USD per-capita GDP of EU 27 countries to attain residual differences between actual and predicted values of TGDP. Hence, methodologically, hypothesis on the level of openness of EU economy was addressed by relationship below (See Figure 4.5).

**Figure 4.4 Theoretical Mapping based on Research Assumptions**

- **Lower than or equal to actual** => open
- **Predicted TGDP**
- **Higher than actual** => closed

Source: Developed by researcher
OLS Regression resulted in a confident set of results with a solid correlation and keen cluster concentration of the results on regression line. With an R Squared at 0.79 general result of the regression run is extremely high, yet expected, since general EU27 extra trade was expected to follow same correlative pattern over given period of time. F test significance on independent variable stands far below required (0.05) benchmark; moreover, p-values also support data validity, remaining below maximal (0.005) levels. Interestingly enough, residuals on actual and expected data sets by far do not exceed 6% in any given year, while average arithmetic deviations in residuals received stay within 1.5 – 1.8% range only (See Appendix 1).

Having regression results at hand, it can be directly stated that EU 27 countries were more open than expected all the way through 1992-2013 with only several fluctuations in openness degree in the midst of Global Financial Crisis of 2008-2009 where residuals were beyond standard distribution of residuals (See Figure 4.5).

![Figure 4.5 Actual TGDP vs OLS Reg. Predicted TGDP (1992-2013 semi-annuals)](source: Researcher’s calculations, based on UNCTAD, Eurostat and WTO)

Furthermore, residuals analysis reveals that TGDP fluctuation among predicted and actual values may actually follow a certain pattern in terms of showing EU either on closed or more open end (See Appendix 1). Generally, EU tended to face predictable fluctuations in openness levels with predicted TGDP, measured according to its size and trade capacity. As can be observed in the visual above, several times EU27 actual TGDP values were lower than those expected from it given EU’s size and trade capacity, and those bottom-outs coincided with...
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external shock periods of “mortgage” bubble and sovereign debt crisis in the US and EU respectively.

On the other hand, during 2000-2001, after a burst of “Dotcom” bubble in the US, investors were seeking safe havens and consolidating liquidity, therefore increasing trade with less exposed EU (Onaran, 2010). Moreover, vivid examples of enhancing trade openness are visible on TGDP excessive values compared to predictions during the same 2000-2001 period. Here once again, introduction of common currency in 1999 in EU can obviously be seen to counterbalance bubble burst in US and therefore attracting investors and trade to EU; later same effect is visible starting with 2011 when reduction of interest rates and German safe-haven attracted both trade and investors during “sovereign debt” crisis (Razin and Serechetapongse, 2014) (See Figure 4.5 above).

Finally, the analysis of residual values standard deviations was conducted to test distribution of common deviations of OLS regression based on predicted TDGP values to actual TGDP output of EU27. To remind, negative residual values attained indicate that expected TGDP was higher than actual, thus indicating further potential for trade weighted to size and available trade capacity for a certain country at its economic level and vice versa. Interestingly enough, attained results were skewed to left tails from a standard expected means of 0, where maximal TGDP efficiency and therefore trade openness / restrictiveness balance is attained (See Figure 4.6).

![Figure 4.6 Distribution frequencies of residual values of TDGP regression variables](source: Researcher’s calculations, based on UNCTAD and Eurostat)

Even though, general distribution of residual values ranged from – 4 to +5.8% only, which is not very high deviation by its nature, most of the results attained ranged just between -2% to
0% of residual values; Bin values for distribution are at 0.2%. These results reveal that EU27 obviously operates at close highest trade openness to restrictiveness efficiency margin, implying that EU27 has implemented legislative, economic and trade policy reforms on balancing EU economy from both excessive external trade, which, caused by possible lack and ease of tariff regulation, may in the short and mid-term result in bottleneck effects for the economic output; or, in contrast, restrictiveness of external trade would diminish demand for EU manufactured products, in the long run increasing risks via trade volatility (Razin and Serechetapongse, 2014).

Hence, residuals values distribution revealed that majority of the residual values attained were 6 times attributed to deviation of only - 80 basis points (bps), where actual EU 27 TGDP was below OLS regression maximal forecasted values. Second most frequent set of residual values distribution is at negative 1.4% residual values with 4 times distribution and 0% residuals value with the same set of occurrence (See Figure 4.6). Received results and error deviation boundaries can therefore serve the proof of the openness of EU27 trade and point at its liberal trading policy and structure.

4.4. EU External Overall Trade Restrictiveness Index (OTRI)

To study the restrictiveness, rather than openness of EU trade policy, OTRI index developed by Kee et al (2009) for the period under review has been derived. Following a “step-based” estimation of OTRI, the research initially approached the calculation of AVE’s (ad valorem equivalents) for specific tariffs using income method. Results of AVE tariffs were applied to average over period extra-EU export elasticity inferred on average arithmetic basis at 1.5 level (Imbs and Méjean, 2010).

OTRI results attained follow a predictable pattern, coherent with Kee et al (2009) World Bank research. Although deviations are not far above 10-20 basis points for the year 2009 and 2004 conducted earlier by the same researchers, key peculiarity is an apparent decline in trade restrictiveness comparable and correlative to previously analyzed TGDP estimations and over time results. Namely, upon introduction of common EU currency in 1999 (for non-cash transactions) extra-EU trade turnover has increased sufficiently, consequently boosting trade openness for EU in general (Söhnke et.al., 2006). At the same time, a sharp decline in trade restrictiveness can be observed during 2000-2001 period, where OTRI index has declined by 130 basis points (1.3%) representing the largest shift since 1995 (See Table 4.2).
Moreover, comparable to TGDP shift during turmoil of 2008-2009 global recession, OTRI index has also displayed an upward trend with 20 basis points (0.2%) increase, which was probably caused not by increase in tariffs themselves, yet influenced by a sharp decline in extra-EU trade; both for import, where funds were consolidated to maintain financial sector of economy, and export side, where world’s largest importer US has reduced its demand and therefore elasticity (See Table 4.5) (Imbs and Méjean, 2010).

| Year | '95 | '96 | '97 | '98 | '99 | '00 | '01 | '02 | '03 | '04 | '05 | '06 | '07 | '08 | '09 | '10 | '11 | '12 |
|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| OTRI_T | 4.5 | 4.8 | 4.0 | 3.7 | 3.9 | 3.2 | 2.6 | 2.6 | 2.7 | 2.5 | 2.0 | 1.9 | 1.8 | 1.6 | 1.8 | 1.7 | 1.6 |

Source: Researcher’s calculations based on UNCTAD, Eurostat and Imbs and Méjean, 2010

4.5. Restrictiveness of Selected Trade Policy Areas

After having considered the general trade openness of EU and its overall trade restrictiveness, it is now of interest to direct a closer, yet quite brief, look at the three areas of EU trade policy as classified by Young (2007) and referred to earlier in Chapter II while discussing literature review. It has been already noted by Young (2007) that the traditional, commercial and social trade policy of EU differ in their levels of restrictiveness and the qualitative comparative analysis could shed some light on the relatively more restrictive areas of EU trade. To make the review concise and illustrative, the chapter will focus on the most controversial areas of EU trade policy: agriculture, services and non-tariff measures.

4.5. A: Agriculture

Obviously, the traditional trade policy (tariffs, quantitative restrictions, trade facilitation and export subsidies on agriculture) as the area that has been addressed within WTO rounds of negotiations for a long time is relatively liberal compared to the trade-related agenda that is relatively new (Young, 2007). In the previous sections the Overall Trade Restrictiveness Index of EU has been evaluated and accounted for both tariff and non-tariff measures of trade protection; however, whereas the tariffs are the instruments of traditional trade policy, the latter are the aspects that are classified into social and commercial trade policy of EU.
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### Table 4.6 EU-27 Tariff Trade Restrictiveness Index 1999-2009 (TTRI)

<table>
<thead>
<tr>
<th></th>
<th>TTRI (MFN applied tariff) All Goods</th>
<th>TTRI (MFN applied tariff) Agricultural Goods</th>
<th>TTRI (MFN applied tariff) Non-Agricultural Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple average</td>
<td>4.42</td>
<td>17.97</td>
<td>3.24</td>
</tr>
<tr>
<td>Trade-weighted average</td>
<td>4.15</td>
<td>17.83</td>
<td>2.93</td>
</tr>
</tbody>
</table>


To illustrate the wide gap between goods protection and agriculture in the traditional tariff-based trade policy, a look at the data obtained from World Bank WTI database should be taken (See Table 4.6). The data reveals a strikingly high discrepancy between the tariff rates on agricultural and non-agricultural goods, pointing to the fact that agriculture (i.e. social trade policy aspect) remains a highly protected sector despite the declining support to agriculture sector since the 2003 agreement on the reform of Common Agricultural Policy (WTO, 2013:114).

The major form of support to agricultural producers is direct payments decoupled from production and prices and from 2012 onwards the payments have been further restricted (WTO, 2013:114). In the same manner, the use of public intervention (main instrument of maintaining domestic prices) has been decreasing since 2000/01 with the ceilings established for buying certain agricultural produce at intervention price (WTO, 2013). Export subsidies, another aspect of commercial, rather than traditional trade policy, have been declining in use; however, they are still being used in products such as poultry meat, eggs, etc. (WTO, 2013). Therefore, despite relatively high protection in agricultural sector, the trend has been downward rather than upward, as revealed by declining share of ‘Blue’ and ‘Amber’ boxes\(^{16}\) in the Chart 4.5 below. Green box includes environment and regional assistance expenditure, structural adjustment and decoupled income support, and the share of funds under this category has been increasing overtime in contrast to the other areas of domestic support (WTO, 2013).

\(^{16}\) According to WTO classification, ‘Amber box’ includes domestic measures that distort production and trade and must be reduced. The ‘Green box’ subsidies either cause minimal or none distortion to trade and production, and the ‘Blue box’ includes payments ‘directly linked to acreage or animal numbers’, targeted at limiting production and achieving non-trade goals with minimal distortions (WTO, 2015).
4.5. B: Services

Another aspect of EU trade policy that is relatively new and has not been addressed under WTO as extensively as tariffs have been is the trade in services. Trade in services accounts for nearly a fifth of both total imports and exports of EU and in the last few years both imports and exports of services have indicated an upward trend (WTO, 2013).

However, the primary interest of this research is the extent to which services market access in EU is restrictive. To be able to discuss trade in services, Services Trade Restrictiveness Index (STRI) which is an analogue to Trade Restrictiveness Index (TRI) will be used. The Index is constructed in the way that the value can vary between 0 and 100 (0 standing for completely open regime; 25 for virtually open; 50 indicates the presence of major restrictions; 75 denotes a virtually closed service trade regime; and 100 stands for a completely closed market access for services) (World Bank, 2012). Thus, the higher is the index value, the higher is the restrictiveness of services trade.
Using the scaling suggested by the developers of the index, it can be inferred that the overall services trade regime of EU-20 is ‘virtually open’ (overall value being 26.1) (World Bank, 2015). However, category-by-category comparison indicates high policy restrictions in road and rail freight as well as relatively restricted access to professional, legal and accounting services trade (World Bank, 2015). The restrictions in the areas that involve the movement of people and ‘temporary presence of natural persons’ are determined by the requirements regarding EU/EEA nationality or admission to the Bar in an EU member country, education and work experience requirements that are more relaxed for EU/EEA nationals and quota-based system in member states (World Bank, 2015).

4.5. C: Non-tariff Measures

Finally, the methods of protection that are more prevalent than traditional tariffs or quotas are the non-tariff barriers that can take up many forms; however, having addressed the existing literature in the field, it can be concluded that the TBTs and SPSs are the most prevalent measures, with anti-dumping and countervailing also having its share in EU trade policy (WTO, 2013).

Since 2005, the EU has not applied any safeguard mechanisms against foreign imports, but the frequency of application of countervailing measures in the last few years has grown
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slightly (WTO, 2013). Currently, there are 7 countervailing measures in force, with the total of 15 cases when the EU has been a respondent on its countervailing measures complaints from other WTO members (WTO, 2013; WTO, 2015).

As reported by the WTO Trade Policy Review, in 2012 up to 20 trading partners of EU had been affected by EU’s anti-dumping measures, with the obvious targets being Asian exporters (much alike EU’s countervailing measures targets). Chemicals, metals, agricultural produce are the main sectors being affected by EU’s anti-dumping regulations, with a fifth of total AD measures being directed at each of these sectors. Yet, if the frequency of countervailing applications has increased, Figure 4.9 below suggests that EU has addressed WTO’s Dispute Settlement Mechanism more often because of anti-dumping duties being imposed against EU exports in third countries markets, rather than being held as a respondent for applying anti-dumping by importers within its internal market (16 disputes vs. 11). Another feature to be inferred from the data is that the frequency of AD disputes involving EU has declined in the last decade, with perhaps an exception for the period of recession in Europe in 2011-2013 (in 2011 definitive measures applied by EU against third country exports increased to 11 from only 6 in 2010) (WTO, 2013; WTO, 2015).

Figure 4.9 WTO Disputes Involving EU (1995-2013)

Source: WTO, 2015 (Author’s compilations)
The use of SPSs and TBTs as the obstacles to trade is a serious concern for exporters, and in case of EU there seems to have been an increase in developing a more complex system of rules, standards, requirements and conformity assessment tests (WTO, 2013). Despite declaring the desire to approximate its technical and sanitary requirement regime to the international standards, EU develops new requirements that have raised concerns among exporting countries (WTO, 2013). One such instance, allegedly lacking transparency, is the EU’s Rapid Alert System for Food and Feed (RASFF) that uses two basic tools: market notifications and border rejections to inform the member states that potentially risky food has been marketed (in case of market notifications) or prevent the import of potentially harmful food at the border (in case of border rejections) (WTO, 2013).

A large number of tools can be used as a restriction to trade, and due to their variation and different mix of policies, a broader picture can be seen more precisely when the protection levels offered by tariffs and the protection levels offered by tariffs and non-tariff measure are compared. For this purpose, there is a need to refer back to Table 4.6 that presents the OTRI_T index of EU over a decade and compare it with the Table 4.7 below, which depicts the OTRI of EU in the same period and thus accounts for NTBs as well.

<table>
<thead>
<tr>
<th>Table 4.7 EU-27 Overall Tariff Trade Restrictiveness Index 1999-2009 (OTRI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTRI (MFN applied tariff+NTMs)</td>
</tr>
<tr>
<td>Simple average</td>
</tr>
<tr>
<td>Trade-weighted average</td>
</tr>
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</table>


A comparison of the average OTRI_T (TTRI) and OTRI of EU is a telling example of how much the NTBs can increase the restrictiveness of trade, which in case of EU is twice as high when NTBs are included (4.15 vs. 9.46) (World Bank, 2015). The discrepancy in non-agricultural goods is not that striking, but for agricultural trade, NTMs increase the protection levels by three-fold (17.83 vs. 56.45) (World Bank, 2015). Despite the noticeable gap between the TTRI and OTRI of EU, the level of restrictiveness of EU trade policy cannot be considered high. To put this into perspective, the EU’s figures can be compared to those of NAFTA and the US individually (See Table 4.8). This table reveals that restrictiveness in non-agricultural trade in NAFTA and the US is higher than that of EU, while overall trade-
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weighted OTRIs of EU, US and NAFTA are roughly equal (9.46, 10.25, 8.35)(World Bank, 2015).

Table 4.8 NAFTA and US Overall Tariff Trade Restrictiveness Index 1999-2009 (OTRI)

<table>
<thead>
<tr>
<th></th>
<th>OTRI (MFN applied tariff+NTMs) All Goods</th>
<th>OTRI (MFN applied tariff+NTMs) Agricultural Goods</th>
<th>OTRI (MFN applied tariff+NTMs) Non-Agricultural Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAFTA Simple average</td>
<td>14.67</td>
<td>37.73</td>
<td>12.88</td>
</tr>
<tr>
<td>NAFTA Trade-weighted average</td>
<td>10.25</td>
<td>28.19</td>
<td>8.98</td>
</tr>
<tr>
<td>US</td>
<td>8.35</td>
<td>23.24</td>
<td>7.39</td>
</tr>
</tbody>
</table>

Chapter 5
Conclusion
In the course of current research EU’s trade policy has been addressed and reviewed from several angles to address the questions pertaining to the focus of the research. The research was carried out in order to discard once often outspoken myth that EU could become a ‘fortress’ that would practice protectionism and turn to be relatively more closed towards its external partners with increased internal market integration (NZ Management, 2012). Thus, the primary objective of the given research was to investigate the causal link between EU’s external trade policy and internal market changes since the implementation of the Single Market Programme. However, with the aim of seeking the answer to the question whether EU is a protectionist power, the research has implemented other tools for measuring openness and restrictiveness of EU trade policy, and thus one aspect of current research looked at EU’s external trade policy in isolation from internal market. Finally, having critically analyzed the claim in media that EU indeed practices protectionism, the research assumed that the allegation is grounded in the instance of sectoral protection that, in fact, is still present in EU’s trade; therefore, the research could not completely overlook the presence of such sectors and touched upon those in the last part of analysis.

The first objective of the research was approached using quantitative techniques using trade data for the given period of research and testing the correlation between internal and external trade flows. Having run the OLS regression, the research received a set of data that has demonstrated very high positive correlation between internal and external trade flows. The outcome of the analysis revealed that with the increased integration of internal market internal trade expanded; meanwhile, trade with non-EU countries has expanded as well, following a predictable pattern. With such a convincing set of results, the main research hypothesis claiming the positive effect of the Single Market Programme on external trade has been validated. One valuable explanation for such a pattern discussed within the premises of the research was the effect of internal trade expansion and openness on the export performance of member states (Guerrieri and Vergara Caffarelli, 2012). The qualitative analysis of the secondary data obtained from Guerrieri and Vergara Caffarelli17 (2012) supported by the researcher’s OLS regression results present a convincing picture of how internal market integration and thus shifting production fragmentation has impacted the Export Performance Index of EU member states. Interestingly, the effects were variably distributed among the

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17 See Chapter IV: Section 4.1.C
The next goal of the paper that targeted the assessment of EU’s trade policy was approached in two ways. One way of evaluation of EU trade policy was to measure its trade openness over the period under research. Since the trade to GDP measurement of trade openness suffers major methodological drawbacks, the model was amended to account for the per capita GDP of EU to obtain more plausible results. Afterwards, a more precise measurement of trade policy developed recently relatively by Kee et. al (2009) has been used, and the Overall Trade Restrictiveness Index (OTRI) has been calculated for the 1995-2012 period. This two-tier approach was taken in order not only to measure the restrictiveness of EU trade policy in different terms, but also to compare the results obtained to seek for any repeated or predictable patterns. Indeed, the comparison of the TGDP (openness) and OTRI (restrictiveness) of EU trade policy in the period under research has identified similar patterns in both indices, whereby, predictably, the periods of increasing restrictiveness and lower openness were the periods of major internal and external shocks and policy shifts, such as the introduction of common currency, Dotcom bubble, the global recession and EU sovereign debt crisis. The results further validated the initial hypothesis of the study, yet, due to time and research constraints, there are several issues that remained unaddressed by the research. First, the causal mechanism between internal and external shocks and changes in TGDP and OTRI need to be addressed in greater depth in future research. Additionally, the complexity of calculating and converting the non-tariff measures into ad valorem equivalents poses a challenge for future researches on the topic of EU trade policy, but could be a valuable asset adding to the tariff-based Overall Trade Restrictiveness Index derived in the current research.

Finally, the research was intending to answer the question of whether EU is a protectionist trader and, even though the statistical and qualitative analysis undertaken in the course of research was yielding results that make the answer firmly negative, the research would not be comprehensive if, having attached an overall value to EU’s trade policy in the form of OTRI the research failed to look, albeit briefly, at the most controversial issues and policy areas of EU’s external trade. Thus, a concise review of EU’s agricultural and services sector protection was implemented, as well an overview of existing non-tariff measures and disputes caused by them was presented in the last part of research. The data analysis highlighted the fact that accusations of protectionism could have been grounded in EU’s relatively high restrictiveness in agricultural and in some areas of services trade; but more importantly, the exporting
countries are alarmed by EU’s framework regulating the technical standards and sanitary requirements. Despite the raised concerns, however, the EU’s implementation of new regulations follows a transparent procedure with prior notification to the WTO and its members, for the sake of avoiding the disputes (WTO, 2013). On the other hand, the comparison of trade restrictiveness indices that account for tariffs only and those that include tariffs and non-tariff measures points at a high discrepancy that should be studied more carefully to compare year-by-year changes to exclude or account for the possibility that the use of non-tariff measures could be rising in EU.

Considering the outcomes gained in the process of the research and the issues that still need to be addressed but fell outside the scope of current research, there are several conclusion and implications that can be drawn. First and foremost, the answer to the question posed in the title of this research “Is the EU a protectionist power?” is “no” since the trade openness index bears out to be high and overall trade restrictiveness in terms of tariff structure is very low. Yet, keeping in mind the pervasiveness of tariffs and the non-tariff measures in agriculture and services, the implications are that sectorial protectionism in EU does exist, thus “no” does not sound firm, but cautious.

On the other hand, protectionism is a relative concept, as, if contrasted to free trade, protectionism is existent in the trade policies of all trading nations. The questions is, therefore, of the degree of protectionism and looking from this perspective, EU, if not a “free trader”, is undoubtedly a “liberal” one. Still, considering EU’s trade policy in isolation from WTO and the aspirations for global free trade, EU’s current level of protection is optimal. Indeed, a constant equilibrium attainment is not possible in nature, deviations occur even in controlled physical experiments. However, present research clearly revealed interconnection of EU external and internal trade developments as strongly positive; whereas, given analyzed EU 27 economic size, growth prospects, currency rates and production possibilities (including intermediate goods), forecasted momentum of EU27 economic growth as single, united body are close to their actual values. Therefore, EU seems to operate just at the brink of its efficiency, with no excessive volatility or deviations to being abundantly protectionist or open. Consequently, research and analysis of the optimum levels of EU trade openness and their comparison to actual values could make a good start for any further research.
References


ADB (2013) Asia Regional Integration Center: Integration Indicators technical notes. Available at: <http://aric.adb.org/integrationindicators/technotes#intra-regional-trade-intensity-index>


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Appendix 1. Trade Openness Estimation

<table>
<thead>
<tr>
<th>Observation</th>
<th>Predicted TGDP</th>
<th>Residuals</th>
<th>Actual TGDP</th>
<th>Percentile</th>
<th>TGDPP</th>
</tr>
</thead>
</table>
| 1992 H1     | 15.63%         | -1.97%    | 17.60%      | 51.13636364 | 0.178612738
| 1992 H2     | 16.40%         | 1.20%     | 17.60%      | 3.405090909 | 0.178473388
| 1993 H1     | 16.50%         | -0.15%    | 17.55%      | 5.681818181 | 0.178473388
| 1993 H2     | 17.26%         | 0.29%     | 17.55%      | 0.178473388
| 1994 H1     | 16.98%         | -0.91%    | 18.89%      | 10.22772727 | 0.17541949
| 1994 H2     | 17.74%         | 1.14%     | 18.89%      | 12.5       | 0.17541949
| 1995 H1     | 17.21%         | -0.07%    | 17.14%      | 14.77727272 | 0.176002766
| 1995 H2     | 17.97%         | -0.84%    | 17.14%      | 0.176002766
| 1996 H1     | 17.52%         | -0.77%    | 16.75%      | 19.31818182 | 0.178612738
| 1996 H2     | 18.28%         | -1.54%    | 16.75%      | 0.178612738
| 1997 H1     | 17.88%         | 0.18%     | 18.06%      | 23.86363636 | 0.188613562
| 1997 H2     | 18.64%         | -0.58%    | 18.06%      | 0.188613562
| 1998 H1     | 18.02%         | 0.16%     | 17.86%      | 26.40909091 | 0.181244412
| 1998 H2     | 18.78%         | 0.92%     | 17.86%      | 0.181244412
| 1999 H1     | 18.33%         | -0.21%    | 18.12%      | 0.188863562
| 1999 H2     | 19.09%         | -0.97%    | 18.12%      | 0.188863562
| 2000 H1     | 18.93%         | 2.87%     | 21.80%      | 0.194141479
| 2000 H2     | 19.69%         | 2.11%     | 21.80%      | 0.194141479
| 2001 H1     | 19.57%         | 2.92%     | 20.39%      | 0.194141479
| 2001 H2     | 20.33%         | 0.96%     | 21.39%      | 0.200522421
| 2002 H1     | 20.22%         | 0.03%     | 20.19%      | 46.59090909 | 0.20191032
| 2002 H2     | 20.98%         | -0.79%    | 20.19%      | 0.20191032
| 2003 H1     | 20.78%         | -1.34%    | 19.44%      | 51.13636364 | 0.212918888
| 2003 H2     | 21.54%         | 2.10%     | 19.44%      | 53.40909091 | 0.212918888
| 2004 H1     | 21.47%         | -1.41%    | 20.05%      | 55.68181818 | 0.213507249
| 2004 H2     | 22.23%         | 2.18%     | 20.05%      | 0.213507249
| 2005 H1     | 22.31%         | 0.81%     | 21.50%      | 60.22772727 | 0.21509752
| 2005 H2     | 23.08%         | 1.57%     | 21.50%      | 0.21509752
| 2006 H1     | 23.08%         | -0.08%    | 23.00%      | 0.21804834
| 2006 H2     | 23.84%         | 0.84%     | 23.00%      | 0.21804834
| 2007 H1     | 23.67%         | -0.73%    | 22.93%      | 69.31818182 | 0.229307954
| 2007 H2     | 24.15%         | -1.50%    | 22.65%      | 71.59090909 | 0.229307954
| 2008 H1     | 24.35%         | 0.22%     | 24.57%      | 73.86363636 | 0.230018686
| 2008 H2     | 25.11%         | -0.54%    | 24.57%      | 76.36363636 | 0.230018686
| 2009 H1     | 25.32%         | -3.97%    | 21.35%      | 78.40909091 | 0.245700876
| 2009 H2     | 26.08%         | -4.73%    | 21.35%      | 0.245700876
| 2010 H1     | 26.04%         | -0.90%    | 25.13%      | 80.68181818 | 0.245700876
| 2010 H2     | 26.80%         | -1.67%    | 25.13%      | 0.25124908
| 2011 H1     | 26.52%         | 1.36%     | 27.88%      | 87.5       | 0.278792049
| 2011 H2     | 27.28%         | 0.60%     | 27.88%      | 0.278792049
| 2012 H1     | 27.19%         | 1.82%     | 29.01%      | 92.04545455 | 0.290283099
| 2012 H2     | 27.95%         | 1.06%     | 29.01%      | 94.31818182 | 0.290283099
| 2013 H1     | 27.60%         | 5.76%     | 33.36%      | 96.50909091 | 0.333628898
| 2013 H2     | 28.37%         | 5.00%     | 33.36%      | 98.86363636 | 0.333628898

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Appendices
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### Appendix 2. Tariff Trade Restrictiveness Index Estimation (TTRI)

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<tbody>
<tr>
<td>Common Customs Tariff duties</td>
<td>597</td>
<td>579</td>
<td>624</td>
<td>746</td>
<td>865</td>
<td>929</td>
<td>903</td>
<td>888</td>
<td>947</td>
<td>1,164</td>
<td>1,300</td>
<td>1,528</td>
<td>1,671</td>
<td>1,548</td>
<td>1,296</td>
<td>1,507</td>
<td>1,554</td>
<td>1,436</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>Custom duties from amounts payable to 31.12.2006</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Custom duties linked to agricultural sector</td>
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<tr>
<td>Custom duties, levies on agricultural products</td>
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<td>157</td>
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<td>175</td>
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<td>152</td>
<td>151</td>
<td>189</td>
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<tr>
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<tr>
<td>Custom duties for alcohol and alcoholic beverages imports</td>
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<tr>
<td>Custom duties for autovehicles imports</td>
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<tr>
<td>Custom duties for coffee imports</td>
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<tr>
<td>Custom duties for other products imports</td>
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<tr>
<td>Custom duties from the import of ethyl alcohol, intermediate products, hotly wine, beer</td>
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<tr>
<td>Customs</td>
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<tr>
<td>Customs for legal persons</td>
<td>104</td>
<td>167</td>
<td>305</td>
<td>577</td>
<td>791</td>
<td>864</td>
<td>859</td>
<td>930</td>
<td>1,283</td>
<td>1,615</td>
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<td>875</td>
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<td>903</td>
<td>543</td>
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<tr>
<td>Customs duties paid by individuals</td>
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</tr>
<tr>
<td>Customs duties received from legal persons for imports from EU</td>
<td>15</td>
<td>18</td>
<td>46</td>
<td>28</td>
<td>28</td>
<td>35</td>
<td>-</td>
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<tr>
<td>Customs duties revenue</td>
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<td>321</td>
<td>206</td>
<td>189</td>
<td>179</td>
<td>151</td>
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<td>56</td>
<td>67</td>
<td>59</td>
<td>62</td>
<td>54</td>
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<tr>
<td>Customs Excise collected from imports of energy products</td>
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<tr>
<td>Customs export duties</td>
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</tr>
<tr>
<td>Other customs gains</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>3</td>
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<td>1</td>
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<td>9</td>
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<td>2</td>
<td>1</td>
<td>5</td>
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<tr>
<td>Quota over the trade price, excluding excises, of fuels and vehicles provided domestically by the producers and over the custom value of imported fuels</td>
<td>-</td>
<td>13</td>
<td>174</td>
<td>148</td>
<td>239</td>
<td>416</td>
<td>717</td>
<td>603</td>
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<tr>
<td>Revenues with special designation from customs services</td>
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<tr>
<td>Special import duties and customs charges</td>
<td>50</td>
<td>34</td>
<td>32</td>
<td>38</td>
<td>20</td>
<td>7</td>
<td>8</td>
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<td>3</td>
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</tr>
<tr>
<td>Special taxes on customs recording</td>
<td>40</td>
<td>4</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Grand Total</td>
<td>23,674</td>
<td>25,665</td>
<td>21,674</td>
<td>29,731</td>
<td>19,279</td>
<td>20,659</td>
<td>17,254</td>
<td>16,198</td>
<td>16,916</td>
<td>17,223</td>
<td>16,125</td>
<td>17,408</td>
<td>17,025</td>
<td>14,744</td>
<td>17,975</td>
<td>19,303</td>
<td>18,623</td>
<td></td>
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</tr>
</tbody>
</table>

| Total external Imports (outside EU) | 801,306 | 798,811 | 815,060 | 853,104 | 742,395 | 592,695 | 879,143 | 950,967 | 935,365 | 1,027,522 | 1,183,213 | 1,303,682 | 1,445,055 | 1,582,032 | 1,234,317 | 1,531,022 | 1,727,740 | 1,767,940 |
| AVE (at Valorem for NTBs) Researcher Estimated | 2.26% | 2.22% | 2.68% | 2.43% | 2.59% | 2.10% | 1.76% | 1.73% | 1.81% | 1.68% | 1.36% | 1.28% | 1.19% | 1.09% | 1.19% | 1.17% | 1.12% | 1.04% |
| Elasticity of imports Average EU-27 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| TTRI ALL | 4.5% | 4.8% | 4.6% | 5.7% | 5.9% | 5.2% | 5.0% | 2.7% | 2.9% | 2.5% | 2.0% | 1.9% | 1.6% | 1.8% | 1.6% | 1.7% | 1.8% | 1.8% | 1.8% |