

11 European Union in the Globalised World

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Abstract The European Union (EU) as a regional entity is embedded in the process of globalisation. Since the entry into force of the Lisbon Treaty on 1 December 2009 the EU has increasingly emancipated itself from a "political dwarf" to a political "global player". Although Europe's supremacy in world trade slowly begins to crumble, the EU is still a "world trade superpower." The euro has become the second most important reserve currency since its introduction in 2002. The EU maintains an extensive network of bilateral free trade agreements (EU's "spaghetti bowl"). To shield against the dangers of globalisation, the EU runs several strategies. Firstly, due to the continuing enlargement the EU's internal market is getting larger, which is equivalent to an implicit foreclosure of third countries. This immunisation effect is reinforced by the expansion of the euro zone. Secondly, the EU's competition and anti-dumping policies are very effective in ensuring fair competition in the EU internal market. Losers of the globalisation get support from EU's globalisation fund.

Keywords: European Integration; Globalisation

JEL Classification: F02, F60, F15

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1 Introduction

In an article in the *Neue Zürcher Zeitung* Jonas Graetz (2013) asks the provocative question whether the West does not gradually lose control of globalisation. If this were true, it would also mean that Europe and especially the European Union (EU) is no longer an actor of globalisation but is only passively reacting to it. Economic globalisation seems to be stuck in trade in goods. For many new phenomena of globalisation such as trade in services, intellectual property protection, investment and networking in the financial markets there are inadequate regulations in the World Trade Organization (WTO). In the last decade, the main actors of world trade - the U.S. and the EU - responded increasingly with a strategy of bilateral rather than multilateral free trade agreements and hence focused more on national interests as a reaction to the stalemate in WTO's Doha Round talks.

In this contribution we first work out the EU's economic strengths relative to the U.S., Japan and the rapidly growing economic powers of the BRICS group. Then the EU contribution to world trade and the various forms of globalisation on trade and direct investment are discussed. Today, globalisation takes place through multiple channels in the form of complex "value added chains". The EU commands over a vast trading network with all major partners in the world (EU's "spaghetti bowl" of bilateral trade). Still being economically a "super power", particularly in world trade, since the Lisbon Treaty the EU - even though there are still strong national ambitions - has emancipated politically from a "dwarf" to a "global player".

The EU delivers opinions to all major world conflicts in the context of its External Action and via the High Representative of the Union for Foreign Affairs and Security Policy it speaks with one voice in international fora. In trade issues, the EU has always spoken with one voice, formerly in the GATT and now in WTO negotiations.

Besides the global trading network, the EU has several strategies for the immunisation against the dangers of globalisation. Most important is the growing internal (or single) market by the ongoing EU enlargement, which allows handling a growing volume of trade without barriers. Then there are the powerful legal tools to ensure fair competition in the internal market (common competition policy) and protection against unfair trade practices by third countries (the anti-dumping policy). Losers are protected as good as possible by the European Globalisation Adjustment Fund (EGF) by helping them to get a new job.

2 EU's economic strength in the world

During the first Iraq war in 1991, the EU has been termed "economic giant, political dwarf and a military worm" by the then Belgian Foreign Minister Mark Eysken. This assessment of the EU has also been confirmed by then Commission President Jacques Delors. EU's position has not changed since then regarding the economic strength, but very well since the inception of the Lisbon Treaty with regard to the political perception in the world.

2.1 International comparisons with GDP and beyond GDP

In a nutshell one can summarize the EU's economic position as follows: the EU is the largest "world producer" and is also relatively rich.

Comparison with population and GDP: With 504 million inhabitants, the enlarged EU is already bigger than the U.S. and Japan. Of course, China dominates with 1.3 billion people in this category. With a gross national income (GNI) of \$ 17,115 billion (purchasing power parity, PPP), the EU produces far more than the U.S. and other countries compared. The populous China produces only slightly more than 1/3 of the EU. If one measures "wealth" or the level of development with the GNI per capita, the U.S. and Japan still lead before the EU/euro zone. China's current income level amounts only 1/10 that of the USA and 1/7 of that of the EU (see Table 1).

Table 1: The size of nations in the world economy: EU in perspective

	Population	Gross National Income	Gross National Income Per capita
	Mio.	PPP, bn USD	PPP, USD
EU-27	504	17115	33982
Euro Area	333	12844	38573
USA	315	15097	48450
Japan	128	5744	45180
China	1344	6644	4940

Gross National Income (GNI) = Gross National Product (GDP) plus primary income from/to world; PPP = Purchasing Power Parity.

Source: The World Bank (2013); European Commission (Ameco Data base). The data refer to the year 2012.

But even within the EU there is a clear income gap¹. The GDP per capita of the old EU Member States is, with few exceptions (Italy, Index 98; Spain, 97; Greece, 75; and Portugal, 75) above the average of EU-27. All new EU Member States that joined the EU either in 2004, 2007 or in 2013 (Croatia became the 28th EU member as of 1 July 2013) of the EU are "poor", i.e. their GDP per capita is well below the EU average. Whereas in the group of the old EU Member States especially the southern European countries in the periphery are "poor", but still hold more than 75% of the EU average GDP per capita the "poorest" new EU members Bulgaria and Romania have only a GDP per capita below 50% of the EU average.

Global wealth: " According to a study by Credit Suisse (2013), the total financial assets of the world in 2013 amounted to USD 240 881 billion. North America accounted for USD 78 898 billion and Europe for USD 76 254 billion. Less wealthy is Asia and the Pacific with USD 48 075 billion (China USD 22 191 billion; India USD 3 613 billion. Latin America is little wealthy with only USD 9139 billion; Africa must be called "poor" concerning financial wealth (on average USD 2711 billion).

Beyond GDP: Among economists there is a long discussion of what is probably the right measure of prosperity and development. Usually, one uses GDP per capita at purchasing power parity (or GNI). In recent times, there are new attempts to capture wealth, welfare or development of a country in a wider perspective.

Although there were many precursors to a widening of the measurement of welfare beyond GDP (such as the report of the "Club of Rome" about

¹ See Eurostat, Press release, 98/2013, 19 June 2013.

the limits to growth, see Meadows et al., 1972; for a follow-up, see Randers, 2012), a concrete implementation has occurred only since the "Great Recession" in 2009. One of the most influential studies is that of the "Commission on the Measurement of Economic Performance and Social Progress" (CMEPSP), referred to by their leaders Stiglitz-Sen-Fitoussi Commission (see Stiglitz, Sen and Fitoussi, 2009). It was set up on behalf of the French government under Nicolas Sarkozy and examined, how to measure prosperity and social progress without having to rely on gross domestic product (GDP)². The Commission's recommendation (see European Commission, 2009) is that one should rely on a variety of indicators in order to obtain a comprehensive picture (material welfare: GDP per capita; social inclusion: education, employment; ecological progress: greenhouse gas emissions, etc.). Their suggestions were taken up by the European the Committee of the European Statistical System (2011³), as well as by the Enquete Commission by the German Parliament⁴ and other EU projects, like WWWforEurope (2012)⁵.

Based on the aforementioned commission reports on the development of indicators of wealth as an alternative to GDP, the OECD has developed an interactive system to compare countries according to OECD's Better Life

² Building on the Stiglitz -Sen-Fitoussi Commission report, the Franco-German Council of Ministers commissioned the German Council of Economic Experts and the Conseil d'Analyse Economique to develop a comprehensive system of indicators (see CAE/SVR – Report, 2010).

³ For this purpose the "Sponsoring Group on Measuring Progress, Well-Being and Sustainable Development" was founded. See:

http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp_ess/about_ess/measuring_progress

⁴ See: <http://www.bundestag.de/bundestag/gremien/enquete/wachstum/>

⁵ WWWforEurope (Welfare, Wealth and Work) is a EU project funded by the 7th Framework Programme of the European Commission, lead by WIFO (Austrian Institute of Economic Research, Vienna): <http://www.foreurope.eu/>

Index⁶, measured by 11 indicators (housing, income, jobs, community, education, environment, civic engagement, health, life satisfaction, safety, work-life balance). However, country comparisons are difficult because each country has different preferences and therefore probably the weighting of the 11 indicators is not uniform.

Europe is "happy": Recently, there are several approaches to the measurement of "happiness". Even a new branch of economics, the "Happiness Economics" developed in the last years. One of the most prominent representatives of this type of research is Richard Layard (2005). According to his "happiness curve"⁷ "happiness" increasing in relation to per capita income, at low income levels rapidly and then flattens when an average level of income is reached. "Rich" countries are generally happier than "poors". 12 out of 28 EU Member States – the rich ones (as measured by GDP per capita) – one finds at the top position of the curve. The top happiness league is led by the United States, followed by Switzerland and Norway. China and India - as well as the new EU Member States – are located only on the ascending branch of the happiness curve.

2.2 Europe's share in world output: high but fading

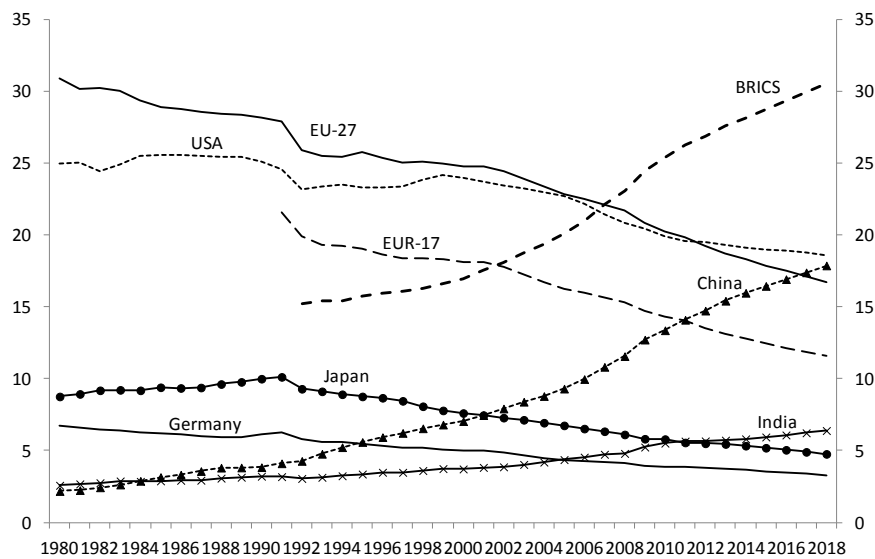
World production: Although the EU and the U.S. are still the largest overall world producers (in terms of absolute GDP), their shares of world GDP is shrinking rapidly (see Figure 1).

⁶ See: <http://www.oecdbetterlifeindex.org/>

⁷ Recently, The Earth Institute at Columbia University, New York, published, together with the United Nations, the first "World Happiness Report" (see Helliwell, Sachs and Layard, 2013).

In contrast, the new emergent powers are China and India which are also part of the BRICS group (Brazil, Russia, India, China and South Africa). Not only the EU and the U.S., also Japan and Germany are on the declining part of the branch of world production.

Figure 1: The share in world output: Asia takes the lead
(Share of GDP in % of world GDP, in PPP)



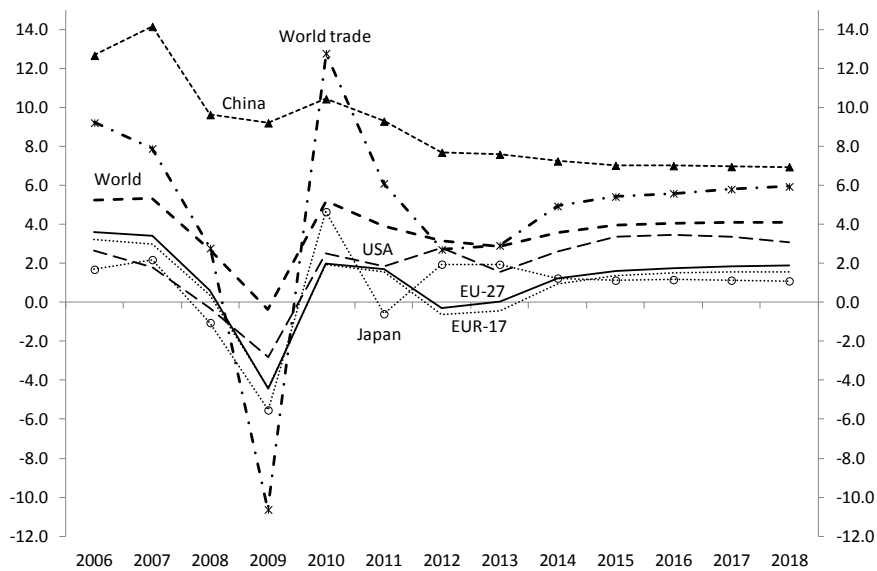
Source: IMF (2013A); EUR-17 is the Euro zone of 17 member states; BRICS = Brazil, Russia, India, China and South Africa.

The "Great Recession" 2009 and its consequences: The global financial and economic crisis (GFC) – starting in the United States⁸ - in 2009 sparked the "Great Recession". It caused the deepest slump in real GDP

⁸ According to a study by the IMF a recession in the U.S. still causes a strong recession in Europe but not so much the other way round. (see: "Dancing together? Spillovers, Common Shocks, and the Role of Financial and Trade Linkages", Chapter 3, in IMF, 2013A, 81-111).

growth, particularly in international trade since World War II (see Figure 2).

Figure 2: Moderate growth prospects of the world economy
(GDP and world trade, real; annual percentage changes)



Source: IMF (2013A); World trade = volume of goods and services.

Many countries had problems to overcome this most severe recession since the "Great Depression" in the 30s. The collateral damages were evident in exploding national debt and in some countries, in a dramatic increase in unemployment. In addition, in 2010 the GFC sparked a so-called "Euro crisis" in the euro zone. It started with the threat of sovereign default in Greece and was followed by banking and sovereign debt problems in Ireland. The latter also happened in Portugal and banking problems arose in Spain and Cyprus. All of these countries are since then under the euro rescue programme, conditioned with the task to restructure and fis-

cal consolidation. The euro crisis made it necessary to redesign the institutional and legal EMU architecture in a “New economic governance” (see Breuss, 2013A).

While the U.S. economy developed steadily upwards since the crisis in 2009, Europe (EU-27 and the euro area) suffered a “double-dip” recession in 2012 and 2013. Also the short (see European Commission, 2013B; OECD, 2013) and medium-term perspectives (see IMF, 2013A) are gloomy, mainly in Europe. Only the U.S. and Japan are expected to grow faster in the post-crisis period 2010-2018 (+2.7%) than in the pre-crisis period 1999-2008 (+2.6%). In the EU-27 (+1.3%) and in the euro area (+1.0%) the growth perspectives until 2018 are diminished to half the size of the pre-crisis period⁹.

Growth potentials: The potential of an economy to grow in the medium and long term can be derived by a production function. Output of goods and services is a function of technical progress (or total factor productivity), capital, labour, energy and other resources inputs. In the future one could also add problems with the ageing of population and climate change. In a globalised world investment in capital is no longer restricted by national borders but is spread over the globe via foreign direct investments of multinational companies.

Concerning population growth Europe will fall behind Asia, Africa and North America until 2050 (see United Nations, 2013). Additionally to a declining population in Europe there is the costly problem of ageing. An

⁹ The European Central Bank (2013, 79-94) explains the much weaker economic (GDP and potential output) growth of the EU compared to that of the U.S. by a much subdued growth of the total factor productivity.

ageing population will rather slow technical progress. Nevertheless, Europe along with the United States remains the leaders in technical progress. China is lagging behind, but gets steadily on (see OECD, 2011, 2012; Eurostat, 2013).

There are undeniable signs of climate change: the world temperature is increasing and the sea level is rising (see IPCC, 2013). Stern (2006) in a study on behalf of the British government came to the conclusion that the benefits of a vigorous and timely climate policy (avoidance of greenhouse gas emissions) will outperform by far the economic costs of not acting.

On 1 January 2005 the EU introduced the *European Union Emission Trading System* (EU ETS¹⁰). The ETS is the first cross-border and world's largest emissions trading system. The European ETS acts also as a pioneer of a possible global system. Currently EU ETS limits the carbon dioxide emissions of around 11,000 plants in 31 European countries (EU-28 plus Liechtenstein, Iceland and Norway). In the medium term (up to 2020) the EU follows a "20-20-20" strategy. That means a reduction of CO₂ emissions by 20% relative to 1990; increase of the share of renewable energies in energy consumption up to 20%; and increase of energy efficiency by 20%. The energy mix (i.e. the composition of the energy generated by different sources, as nuclear and alternative power generation through hydro, solar and wind energy) plays a crucial role for the competitiveness of a modern economy. After the Fukushima nuclear disaster on 11 March 2011 a re-thinking - away from nuclear power and towards alternative energy sources – has taken place worldwide. Germany has made an abrupt swing

¹⁰ See: http://ec.europa.eu/clima/policies/ets/index_en.htm

("energy reversal") from nuclear to wind energy. In contrast, the UK remains committed to its nuclear policy. The reason for this heterogeneity in EU's energy policy is that the decision on the energy mix is still a national competence in the EU. The question is whether the "energy revolution" in Germany and in Europe will not drive up the costs of energy use in Europe much faster than in the USA and hence will make Europe less competitive. In particular the massive application of the new technology of "fracking" (hydraulic fracturing) could make the United States autarky from energy imports and improve their competitiveness (see IEA, 2013). In general, the EU is likely to fill the gap of own supply of raw materials by imports from the African, Caribbean and Pacific (ACP) countries.

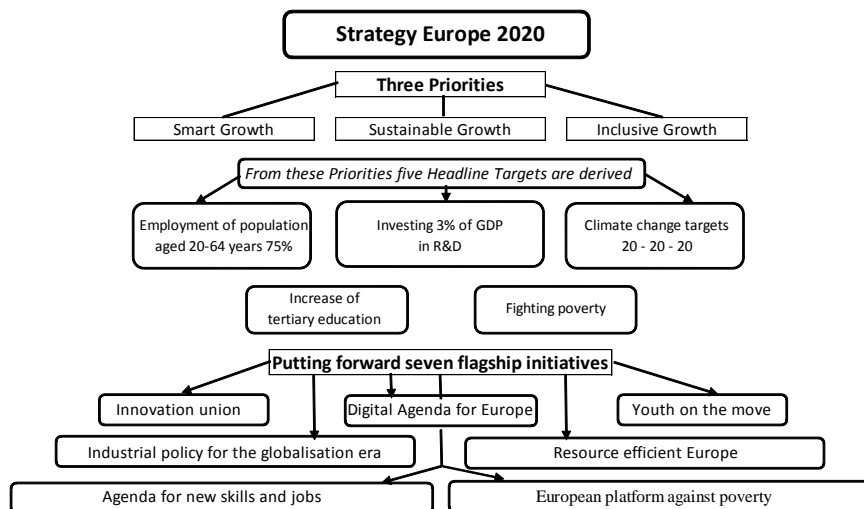
2.3 The Growth Strategy "Europe 2020"

The command-economy like Lisbon Strategy (2000-2010), with which the EU (European Council, 2000) set a new strategic goal for 2010 " .. *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*" has failed miserably. The drastic decline in growth during the "Great Recession" in 2009 made the ambitious goals obsolete.

In a new initiative, the European Commission has given birth to "Europe 2020" (2010) to a new growth strategy, approved by the Heads of State or Governments (European Council, 2010). This new growth strategy aims to bring Europe over the next 10 years in a leading position in the world concerning growth and employment. The launch was marred, however, fundamentally through the "Euro crisis". The objectives are similar to

those of the "Lisbon agenda", but still plugged in wider (for an overview, see Figure 3). Globalisation is quite prominently addressed with one of the seven flagship initiatives "An industrial policy for the globalisation era". One can only hope that the growth strategy "Europe 2020" is more successful than the "Lisbon strategy"¹¹.

Figure 3: Strategy "Europe 2020" – Priorities and targets



Source: Europe 2020 (2010).

2.4 EU in world trade: "Super power" with gloomy prospects

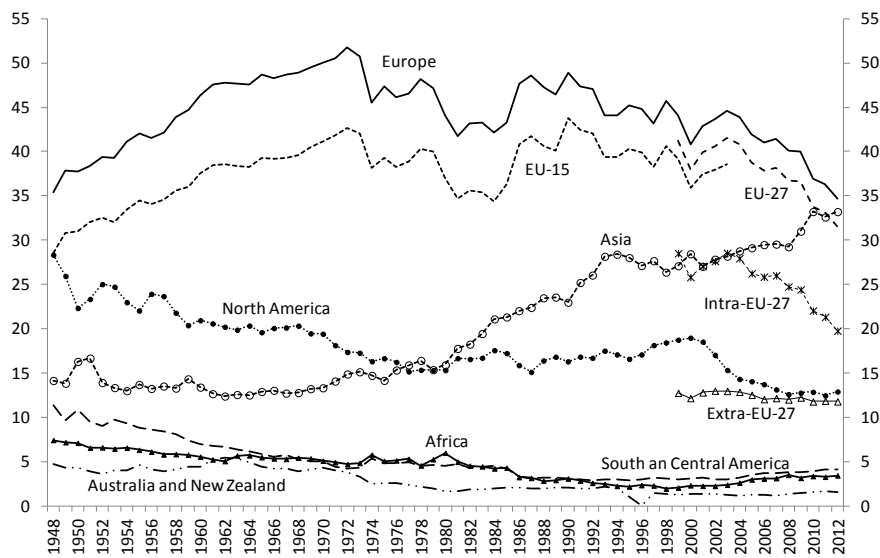
World trade refers to the trading of goods and services. In 2012, the total world trade amounted to 22,670 billion USD, of which 18.325 billion USD (or 81% of total world trade) was goods trade and 4,345 billion USD (19%)

¹¹ Estimates about the possible positive macroeconomic effects of "Europe 2020" were done by Hobza and Mourre (2010). For the "Europe 2020" indicators, see Eurostat (2013).

services (see WTO, 2013). If one excludes the intra-EU trade¹², the world trade volume shrinks to 18.050 billion USD (goods 14.700 billion USD, or 65%; services 3.350 billion or 15%). That means that the intra-EU-27 trade accounts for about 20% of total world trade. The lower proportion of services trade excluding intra-EU trade suggests that a large part of world trade in services is made within the EU.

HSBC (2013) estimates that world trade, with an annual growth rate of 8% per year until 2030 will quadruple, while real GDP will grow just about half as strong.

Figure 4: Europe's contribution to world trade in comparison
(Share of goods exports in % of world exports)

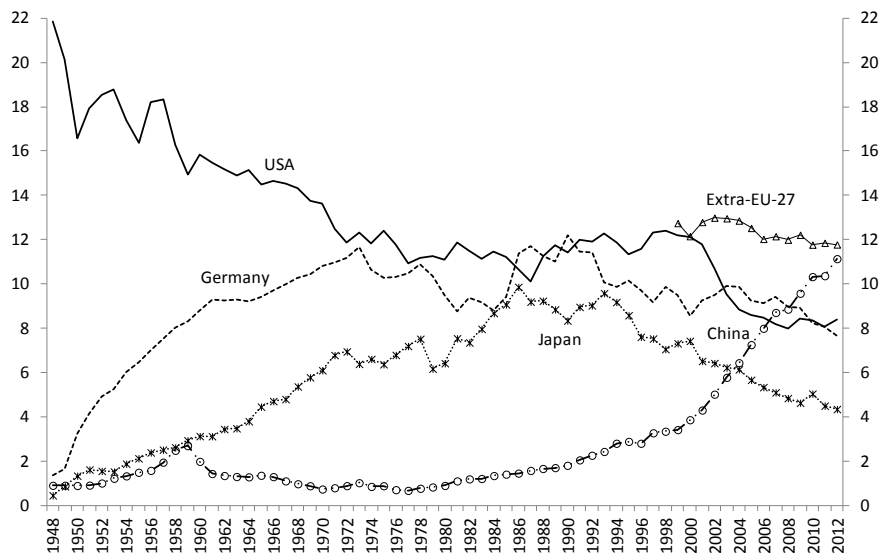


¹² Compared with the U.S., it is fair, if one not counts the bilateral trade relations of the EU Member States (intra-EU trade) as "foreign trade" because trade between EU Member States within the EU's internal market are - just like the trade between U.S. states - only "domestic trade". Therefore, the WTO records in their trade statistics world trade once including and once excluding intra-EU trade.

Source: WTO (2013); data downloaded from the WTO statistics database
(<http://stat.wto.org/Home/WSDBHome.aspx?Language=E>)

Europe, and particularly the enlarged EU is in world trade still a "super-power." However, it is gradually overtaken by Asia and there by the fast-growing emerging economies of China and India. Already in 2012, Europe and in particular the EU, had to cede its world leadership in world trade to Asia (see Figure 4). But also North America with the United States and Canada are on the descending branch of the World Trade participation. Africa with a world trade share below 5% is still playing a minor role (see Breuss, 2009).

Figure 5: Alternating "World Export Champions"
(Share of goods exports in % of world exports)



Source: WTO (2013); data downloaded from the WTO statistics database
(<http://stat.wto.org/Home/WSDBHome.aspx?Language=E>)

Alternating role as "export world champion": The media - like in football - proclaim every year the "export world champion". As can be seen from Figure 5, the role of export champion has alternated several times. By the mid-seventies of the last century, the U.S. was dominant in world trade. As early as 1972 they were almost overtaken by Germany and in 1986 (before the re-unification) Germany outpaced the U.S. After the reunification Germany fell slightly back until 2003, to overtake the U.S. again. Japan managed to break even with Germany in 1984, but since then fell sharply. The rising global trading nation is China. China overtook Japan in 2004, the United States in 2007 and replaced in 2009 Germany as an "export world champion".

EU's most important trading partners: The major export trading partners (outside EU's internal market) are the USA, China, Switzerland and Russia; on the import side China, Russia, the USA and Switzerland. Most of EU's is done with the EFTA and with NAFTA (see Table 2).

According to data from Eurostat in 2012 Germany was leading Europe in China. Of the total EU exports to China in 2012 46% came from Germany and 10% from France. Germany is also the EU's most important direct investor in China. 38% of all EU's foreign direct investment (FDI) in China originate from German companies, only 13% from France, 7% from the UK.

Table 2: EU-27: Merchandise trade by trade partner, 2012
(Excluding intra-EU trade)

Countries										
Rk	EU Imports from ...	million euro	share (%)	Rk	EU Exports to ...	million euro	share (%)	Rk	EU Trade balance	million euro
	EXTRA EU-27	1,792,055	100.0		EXTRA EU-27	1,686,510	100.0		EXTRA EU-27	-105,545
1	China	289,927	16.2	1	USA	291,901	17.3	1	USA	86,107
2	Russia	213,257	11.9	2	China	143,876	8.5	2	China	-146,051
3	USA	205,794	11.5	3	Switzerland	133,342	7.9	3	Russia	-89,991
4	Switzerland	104,544	5.8	4	Russia	123,266	7.3	4	Switzerland	28,798
5	Norway	100,437	5.6	5	Turkey	75,200	4.5	5	Norway	-50,615
6	Japan	63,813	3.6	6	Japan	55,490	3.3	6	Turkey	27,388
7	Turkey	47,812	2.7	7	Norway	49,822	3.0	7	Japan	-8,323
8	South Korea	37,861	2.1	8	Brazil	39,595	2.3	8	Brazil	2,505
9	India	37,295	2.1	9	India	38,469	2.3	9	India	1,174
10	Brazil	37,090	2.1	10	South Korea	37,763	2.2	10	South Korea	-98
Free Trade Areas										
	Mercosur	49,200	2.7		Mercosur	50,300	3.0		Mercosur	1,100
	EFTA	208,700	11.6		EFTA	186,200	11.0		EFTA	-22,500
	NAFTA	255,694	14.3		NAFTA	351,101	20.8		NAFTA	95,407
	ASEAN	100,000	5.6		ASEAN	81,300	4.8		ASEAN	-18,700
	ACP	99,200	5.5		ACP	86,700	5.1		ACP	-12,500
	CACM	9,500	0.5		CACM	5,400	0.3		CACM	-4,100

BRICS (Brazil, Russia, India, China, South Africa): Import share 33.4%, export share 22%. Trade balance with BRICS: -226,287 million euro.

Mercosur: Argentina, Brazil, Paraguay, Uruguay, EFTA: Iceland, Liechtenstein, Norway, Switzerland, NAFTA: Canada, Mexico, USA, ASEAN: Brunei, Cambodia, Indonesia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand, Vietnam; ACP: 79 African, Caribbean and Pacific States; CACM: Honduras, El Salvador, Nicaragua, Costa Rica, Guatemala, Panama.

Source: European Commission, DG Trade: <http://ec.europa.eu/trade/policy/countries-and-regions/statistics/>

2.5 Globalisation – old and new

The term “globalisation”¹³ refers to the “process of international integration arising from the interchange (interdependence) in many areas (economy, politics, culture, environment, communications, etc.) between individuals, companies, institutions and governments via the advances in transportation and telecommunications infrastructure, including the rise of the telegraph and its posterity the Internet.” The term “globalisation” was made popular by the U.S. trend researcher John Naisbitt (1982).

Although the term is comprehensive, from an economic point of view globalisation¹⁴ means the exchange of goods and services via foreign trade (exports and imports) and the internationalisation of production and services by multinational companies via their direct investment abroad (foreign direct investments - FDI). The novelty of globalisation is the increasing integration over complex "value chains" (Global Value (Added) Chains - GVC) of the international production of goods. According to Baldwin (2013), one can distinguish two phases of globalisation. In the "first phase" of globalisation, reducing the cost of transport has led to the internationalisation of production: the production was spatially separated from the consumer. In the first jump, the "old" paradigm of globalisation, the economic weight was concentrated on the major industrial countries. In a "second phase" of globalisation, in which we have entered since the 1980s of the last century, the advances in information and communication technology (ICT) allowed to reduce the expenses for the exchange of ideas dramatically. Now, not only the industrialised countries are involved in the globalisation process, but the whole world, especially the emerging and developing countries.

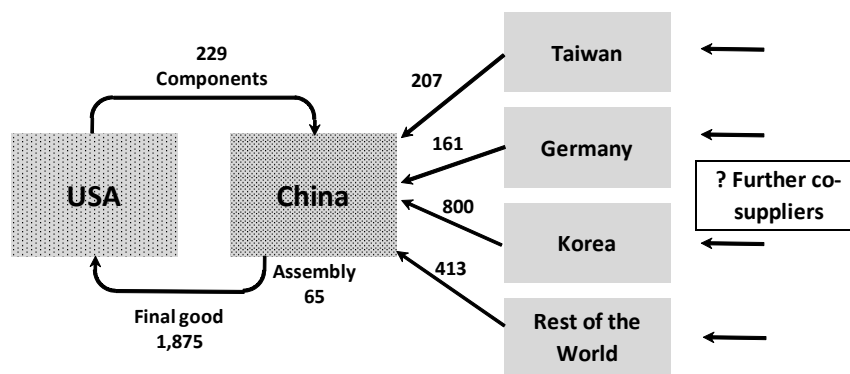
2.5.1 Global Value Added Chains – the iPhone case

The production of the iPhone is a good example to demonstrate the GVC issue (see Figure 6). Suppose that 10 million iPhones are exported from China to the United States. In the traditional foreign trade statistics the U.S. record a deficit in their trade balance against China amounting to

¹³ See Wikipedia: <http://en.wikipedia.org/wiki/Globalization>

1,646 million USD. This is the results of exported components from the U.S. to China worth USD 229 million minus U.S. imports of the finished iPhones from China worth U.S. USD 1,875 million (an iPhone would therefore cost USD 187.5).

Figure 6: International value added chain of the iPhone (Million USD)



Source: OECD-WTO (2012), p. 7

US trade balance in iPhones with:	China	Taiwan	Germany	Korea	ROW	World
Gross	-1,646	0	0	0	0	-1,646
Value added	-65	-207	-161	-800	-413	-1,646

If one measures the trade balance in value-added units (in the diction of OECD WTO (2013) "Trade in Value-Added - TIVA), one gets a different picture in the bilateral trade relations US-China. In fact, China contributes only a small proportion of domestic value added to the final product iPhone, namely only assembly costs of USD 65 million (or USD 6.50 per iPhone). In TIVA units measured thus the trade deficit of the U.S. with China

¹⁴ Globalisation indices (e.g. KOF, 2013; Ernst & Young, 2012) rank countries according to its engagement in globalisation. Small countries are leading this rankings.

amounts to only U.S. \$ 65 million. U.S.'s total trade deficit (USD 1,646 million) with the world is now divided on several countries: Taiwan USD 207 million, Germany USD 161 million, Korea USD 800 million, and the rest of the world (ROW) USD 413 million.

Table 3: Export flows and bilateral trade balances, 2009
(Gross and TiVA method)

USA	<i>Exports to:</i>	USA	Germany	France	Austria	Switzerland	China
				<i>Export shares (%)</i>			
Gross		-	4.10	2.56	0.24	1.66	6.58
TiVA		-	5.24	3.70	0.50	0.78	6.23
				<i>Trade balance (USD, bn)</i>			
Gross		-	-29.34	-7.63	-3.97	1.13	-239.98
TiVA		-	-32.48	-1.66	-5.19	-15.48	-126.54
Germany							
				<i>Export shares (%)</i>			
Gross		6.73	-	10.11	5.67	4.46	4.66
TiVA		11.69	-	7.96	3.25	3.55	5.00
				<i>Trade balance (USD, bn)</i>			
Gross		36.45	-	36.92	23.05	12.01	-10.82
TiVA		32.48	-	16.80	25.43	5.69	-5.30
Austria							
				<i>Export shares (%)</i>			
Gross		4.01	31.03	3.94	-	5.02	1.96
TiVA		10.04	21.47	4.50	-	3.28	3.95
				<i>Trade balance (USD, bn)</i>			
Gross		3.22	-22.13	1.12	-	-2.83	-0.85
TiVA		5.19	-2.54	1.28	-	0.38	-0.29

Sources: OECD-WTO (2013); IMF, DOT – Direction of Trade Statistics; FIW (Research Centre International Economics); TiVA = Trade in Value-Added.

Trade in Value-Added (TiVA) changes bilateral trade balances: Table 3 shows the trade flows and bilateral trade balances (with the gross and the TiVA method) of three countries (USA, Germany and Austria) with six countries (USA, Germany, France, Austria, Switzerland and China). Significant differences arise. For example, the trade balance of the United States with Switzerland using the normal gross method active, however,

strongly passive after the TiVA method. With China, the U.S. trade deficit by the TiVA method is only half as high as measured by the traditional (gross) method. Similar differences arise for Germany in trade with Switzerland and China as well as for Austria with Germany and Switzerland and China¹⁵.

2.5.2 Foreign Direct Investment

Besides the exchange of goods and services via direct trade, globalisation mainly takes place via the internationalisation of production and services. As the main players and hence the drivers of globalisation multinational companies (MNCs) come into play.

Being relatively moderate before, since the mid-eighties of the last century Foreign Direct Investments (FDIs) gained momentum world-wide (see UNCTAD, 2013). Although FDI activities are still primarily concentrated in the developed world, globalisation - during the "second phase" - has in the meantime also very strongly spread to developing economies, somewhat less to transition economies.

The largest part of direct investment is still directed to the developed economies (62.3%; see Table 4). Hence, globalisation takes still place between the most developed industrialised countries in the world. However, nearly 34% of world's FDI stocks are already invested in developing countries.

¹⁵ For a similar exercise, see UNCTAD (2013) and for the Austrian case, see Stehrer and Stöllinger (2013). In a comprehensive OECD study, De Backer and Miroudot (2013) extend the GVA analysis to many specific GVA cases: agriculture and food products; chemical products; motor vehicles; electronics; business services; financial services. And the authors develop several indicators on Global Value Chains.

Table 4: Foreign Direct Investment (FDI: Stocks, 2012)
(Shares in % of World Inward-FDI stocks)

Developing economies	33.9
Transformation economies	3.7
Developed economies	62.3
<i>America</i>	20.0
NAFTA	21.4
Central and South America and Caribbean	10.1
<i>Europe</i>	38.4
EU-276	34.2
Euro zone	23.4
EFTA	3.8
<i>Africa</i>	2.8
Africa (excl. South Africa)	2.2
Northern Africa	1.0
GCC	1.6
Major Petroleum/gas exporters	6.0
<i>Asia</i>	21.0
Eastern Asia	10.9

Source: UNCTAD FDI database; GCC = Gulf Cooperation Council.

The dark side of globalisation: Globalisation knows not only winners. Although it is likely that welfare has improved world-wide via overall free trade and opening up of the world market for FDI activities, but the gains are not evenly distributed. The unequal distribution of the "gains from globalisation" is reflected firstly in a declining wage share (see Breuss, 2010) and secondly, in the increase in income inequality in the world¹⁶.

¹⁶ See the OECD website: „Income Distribution and Poverty at the OECD“:
<http://www.oecd.org/social/inequality.htm>

Globalisation of tax optimisation: The opening of world markets has not only stimulated the world trade and cross-border investment (FDIs), and thus accelerated the growth of the companies which participated in this process, but it also created new opportunities to “optimise” tax-friendly the profits derived from the participation. Due to the disparity of tax legislation which in some countries (also within the EU) has been strategically implemented to increase competitiveness, it is possible - especially U.S. American multinationals - to massively save on taxes through complicated tax model via Ireland. U.S. companies - especially the technology giants Apple, General Electric, Microsoft, IBM, Google, etc. - are in the top league of the utilisation of such tax loopholes (see Gratwohl, 2013). At the international level (G20, OECD, and European Commission) has long been trying to put an end to the mischief of the international tax optimisation. On behalf of G-20 countries, the OECD wants to introduce the most sweeping reform of corporate taxation since the 1920s. For this purpose it has worked out the action plan Base Erosion and Profit Shifting (Beps) prepared with 15 measures, approved at the St. Petersburg G-20 summit on 5 to 6 September 2013.

2.5.3 Competitiveness and rebalancing the global economy

The success of the economies involved in globalisation, of course, depends on their competitiveness. Some economists such as Paul Krugman argue that countries cannot be competitive, but only companies. The term "competitiveness of states" is really just a "dangerous obsession". Nevertheless, there are numerous attempts to measure the competitiveness of countries and make them comparable. In the following the competitiveness of European countries and thus that of the whole European

Union is analysed with the most well-known indicator of the Global Competitiveness Index (GCI), released annually by the World Economic Forum¹⁷.

The Global Competitiveness Index GCI 2013-2014: The recent report of the World Economic Forum (WEF, 2013) examines the competitiveness for 148 countries participating in globalisation. Europe does quite well. 11 EU Member States can be found within the 30 most competitive economies in the world. However, the most competitive country (rank 1) is Switzerland. Second is Singapore. Finland follows at third and Germany at fourth place. Fifth are the United States, Sweden is at sixth place, the Netherlands at 8th and United Kingdom is in rank 10. Japan ranks at place 9. The new EU Member States are all ranked far behind place 32.

The comprehensive GCI is calculated based on 12 pillars: institutions infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. Competitiveness, measured by the GCI is highly correlated ($R^2 = 0.8$) with the power of innovation, as measured by the Global Innovation Index (GII) of WIPO (2013).

Exchange rates and price competitiveness: Beside non-price factors (such as product quality, innovativeness, productivity and efficiency, etc.) the relative prices play a major role in the competitiveness of countries. Relative prices are determined essentially by supply and demand of the prod-

¹⁷ For alternative concepts to measure and compare international competitiveness, see: Aiginger, Bärenthaler-Sieber, and Vogel (2013).

ucts traded; additionally exchange rates – politically or market-oriented determined - play an important role.

Price competitiveness of a country relative to the main trading partners is measured by the so-called real effective exchange rate (REER). The REER measures the development of the currency of the exporting country to that of the weighted average of the main trading partners, each corrected for the relative prices (prices of the exporter relative to the weighted average of the main trading partners). The REER, calculated by the European Commission¹⁸ shows that while China and Japan have appreciated substantially in real terms since 2008 - i.e. have lost in price competitiveness - the development in the U.S. and in the EU/Euro zone was the other way round: both regions have devalued relatively strong in real terms since 2008, and thus have improved heavily their price competitiveness compared to the 42 main trading partners.

Euro is second major world currency: Since its introduction, the euro has risen to the second most important world foreign exchange (see IMF, 2013B). At the turn of the century the share of the USD in total world foreign currency reserves amounted to 72%; since then it dropped to 61% in 2012. In the same period, the share of the euro increased from 18% in 1999 to 24% in 2012. Recently, Chinese leaders consider a stronger diversification of their currency reserves. They want to gradually reduce the

¹⁸ See the Commissions "Prices and Cost Competitiveness Indicators":
http://ec.europa.eu/economy_finance/db_indicators/competitiveness/index_en.htm

dominance of the U.S. dollar in the composition of their reserves and possibly use more Euros or other currencies¹⁹.

Global and intra-European current account imbalances: Economies engaged in globalisation develop at different speeds. This implies inherent imbalances in the current accounts. The current account of a country reveals their international competitiveness. The main influencing factors of the development of the current account of a country are the relative development of economic growth (income effect) and the relative movement of prices between home and abroad (price competitiveness). The mirror image of the current account balances are the capital flows. Countries with high current account surplus (e.g. Germany) are capital exporters, countries with current account deficits (e.g. the United States or the peripheral countries of the euro zone) are capital importers.

Whereas up to the turn of the millennium, the current account balances exhibited only minor disequilibria, since then the different course of the world economy (rapid growth in Asia, moderate growth in Europe and the United States) contributed to the genesis of huge global imbalances, measured by the current account balances of the major "players" of globalisation (China, Germany and Japan with growing surpluses; USA with growing deficits until 2006; Europe - EU/euro zone – exhibit a balanced current account; see IMF, 2013A).

Since the introduction of the euro in 2002 the balances of the current account drifted apart within the euro zone. In particular the countries in the

¹⁹ The economic impact of such a diversification of the portfolio of world currency reserves (from dollars to euros) - especially in China - has been simulated by Breuss, int'Veld, and Roeger (2009) using

periphery, the PIIGS (Portugal, Ireland, Italy, Greece and Spain) lost heavily in competitiveness which is reflected in the increasing deficit of their current accounts. Since the GFC in 2008 /09 and after the austerity policy imposed by the Troika (European Commission, ECB and IMF) in the program countries Greece, Ireland, Portugal and Spain there are signs of a convergence, i.e. a reduction in the current account imbalances.

In the process of reforming EU's economic governance after the "Euro crisis" – besides stronger rules for the surveillance of national budgets - the macroeconomic imbalance procedure (MIP) has been introduced in the context of the "Six pack", in force since 13 December 2011 (see Breuss, 2013A²⁰).

3 EU's global trade relations

Trade policy is one of the EU's core competencies. The EU is a customs union with a common customs tariff (CCT) and a "Common Commercial Policy" (CCP) and therefore represents its Member States with one voice in international fora in trade talks (e.g. at the World Trade Organization, WTO). Insofar it is perceived as a "state". Trade issues are regulated in Article 207 of the Lisbon Treaty (Treaty on the Functioning of the European Union - TFEU). The Council authorised the Commission to enter into international negotiations to conclude either multilateral agreement to liberalise world trade under the WTO (the last one was the conclusion of the

the QUEST model of the European Commission. This would lead to an appreciation of the Euro against the USD with the corresponding consequences in export and import flows.

²⁰ To kick off the "European Semester 2014" – as part of the "Europe 2020" strategy - the European Commission has presented three documents on 13 November 2013: a) the annual economic report,

Uruguay Round in 1995) or bilateral free trade agreements to enhance bilateral trade relations. Since 1995 the EU is - in addition to its Member States - one of the 160 members of the WTO.

Bilateralism versus Multilateralism or the end of Globalisation?

Bad economic times provoke always new forms of protectionism. Also the crisis in the wake of the GFC 2008/09 has awakened the desire for protectionism or at least national encapsulation or a “silent return of protectionism²¹” (Pascal Lamy, former Secretary General of the WTO). Some experts speak already of “the end of globalisation”. The Economist (October 12th, 2013) devoted a special issue to this topic under the title "The gated globe".

The new instruments and rules on free trade of the Uruguay Round of 1995 (in particular the strong dispute settlement ruling), however, make direct protectionism not easily possible any more. Nevertheless, the new avenue of nationalisation of trade policy is done via bilateral trade agreements in contrast to multilateral ones. This trend is followed primarily by the major trade players EU and United States. The reason is that the Doha Development Round (with the Doha Development Agenda, DDA), initiated in Doha on 9-13 November 2001 in Doha (Qatar) until now was unable to reach a comprehensive agreement.

The 9th WTO Ministerial Conference in Bali (Indonesia) on 3-7 December 2013 reached for the first time since 1995 an agreement on a series of is-

b) the third Alert Mechanism Report, and c) a draft Joint Employment Report. See: http://ec.europa.eu/europe2020/index_en.htm.

²¹ The "Global Trade Alert" (<http://www.globaltradealert.org/>) annually since 2009 lists 400 national protectionist "safeguards". Even Germany is mentioned with 155 protectionist measures. Russia (317) and India (244) stand out as protectionist sinners, while in China only 135 measures are counted.

sues that would constitute a first step towards the conclusion of the stalled Doha Round (DDA). The three main pillars of agreements – the “Bali package” - are²²: a) Trade facilitation (improves customs procedure and transparency with a view to accelerate the cross-border movement of goods); b) Agriculture (including food security, export competition, and other tariff-related issues – “Tariff Rate Quota” (TRQ) administration); c) Development (including several provisions beneficial, in particular, for Least Developed Countries (LDCs) in areas such as rules of origin, services etc.). The Bali Conference also approved the accession of Yemen to the WTO. Yemen is the 160th Member of the organisation.

Instead of a comprehensive DDA – and hence “first-best” - solution, the world's leading trade powers, the U.S. and EU are going ahead with the “second-best” solution of bilateral free trade agreements, tailored for them. Small and less developed countries must accept the terms dictated by the strong countries (USA, EU). This policy of bilateralism leads to a confusing network (“spaghetti bowl”) with - as opposed to WTO agreements - very limited rights in dispute settlement cases for small partner of such FTAs (see Senti, 2013).

Besides the major players (EU and U.S.) in this game of “re-nationalising” their trade policy, also Asian countries are infected by this trend. The ASEAN²³ group tries a stronger regional integration since 46 years but did not reach more than the status of an economic community. The huge dif-

²² For more information about the results of the WTO “Bali package”, see the EU-Website: <http://trade.ec.europa.eu/doclib/events/index.cfm?id=995>; and the WTO Website: http://www.wto.org/english/news_e/archive_e/mc9_arc_e.htm

²³ Member States of the Association of South East Asian Nations (ASEAN), established in 1967 are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

ferences (politically, culturally and economically) between its Members are the major handicap for closer integration.

The Asia-Pacific Economic Cooperation (APEC²⁴) consists of 21 members (with U.S., China and Japan as trade policy “heavyweights”) and was founded in 1989. Since 2007, APEC is pushing forward its regional economic integration (Regional Economic Integration - REI) which should result in a regional free trade area in Asia and the Pacific (Free Trade Area of the Asia Pacific - FTAAP).

The U.S. are shifting their political and trade interests more and more into the dynamic space of Southeast Asia. In addition to their engagement in the APEC group, the United States are pushing a Trans-Pacific Partnership (TPP) with eight partner countries since 2011: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam. Besides their Asia engagement the U.S. is also interested to improve its trade relations with Europe via a comprehensive Transatlantic Trade and Investment Partnership (TTIP).

3.1 The EU as “Global Player” in “Global Europe”

Back in 2006, the EU has already met the challenge of globalisation on several levels (see Breuss, 2008). In the multiannual financial framework 2007-2013 for the first time the position “The EU as a global partner” has been budgeted at € 56.8 billion; in the new multiannual financial framework for EU-28 for the period 2014-2020 the position “Global Europe” amounts to € 58.7 billion. After the stalled Doha Round of the WTO, the

²⁴ For more details about APEC, see: <http://www.apec.org/>

European Commission, in 2006, has developed a trade policy strategy that would combine "trade policy with the Lisbon Strategy²⁵". This strategy ran under the slogan "Global Europe: competing in the world". With the strategy of "Global Europe" the European Commission postulated the following objectives (see European Commission, 2006B): Trade policy should improve international competitiveness of the EU. A precondition is competitiveness in EU's Single Market. Global free trade and hence the strengthening of the position of the WTO is a target. Besides the commitment to multilateralism the Commission suggested a new generation of bilateral FTAs with the most important trading partners (already concluded with South Korea in 2011 and with Canada in 2013). Protection of intellectual property rights and strengthening anti-dumping policy were seen as important ingredients.

After evaluating the "Global Europe" strategy 2006-2010 (see European Commission, 2010A) the Commission with "Trade, Growth and World Affairs" proposed a new trade policy agenda for the next five years (2010-2015; see European Commission, 2010B). This strategy is part of the new growth strategy "Europe 2020" in which trade will be considered as a key growth driver.

3.2 EU's "Spaghetti bowl"

The EU is certainly the largest free trade area (customs union and single market between 28 member states plus customs union with Turkey and the free trade agreement with EFTA) in the world (see Breuss, 2008). Al-

²⁵ Cohen-Tanugi (2008) even suggested as a second dimension of the Lisbon strategy after 2010 a "European Globalisation Strategy - Euro World 2015".

most $\frac{3}{4}$ of EU's total trade is duty-free. In addition the EU has developed an extensive network of bilateral Free Trade Agreements (FTAs), which was nicknamed by Bhagwati (1995) for the first time as a "spaghetti bowl"²⁶ (see Figure 7). And the trend towards such FTAs will increase as long as the multilateral avenue via WTO agreements is long in coming (see Baldwin, 2008).

3.2.1 European trade network

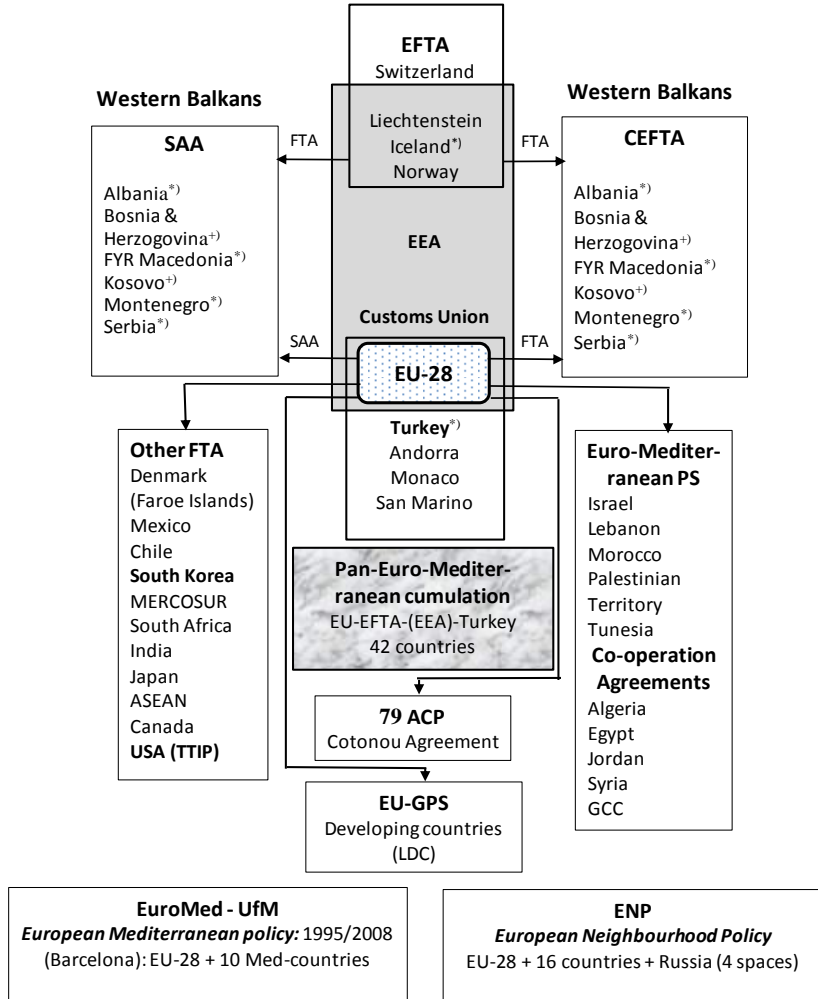
EU-EFTA: The EU has a free trade regime with the four remaining states in the EFTA (European Free Trade Association) on the one hand by the Free Trade Agreement of 1972 and the EEA (European Economic Area) Agreement since 1994. Only Iceland, Liechtenstein and Norway joined the EEA Agreement. With Switzerland, the EU has concluded two bilateral agreements, emulating most of the contents of the EEA Agreement.

EU Customs Union: Due to the framework of the common commercial policy (CCP) all 28 members of the EU are also members of the customs union with a common customs tariff (CCT). In addition, the EU maintains customs unions with Turkey (since 1996), Andorra, Monaco, San Marino and French Guiana.

Western Balkans: After the disintegration of Yugoslavia the EU's Balkan policy aims to include all successor states to the EU as full members.

²⁶ A detailed overview about the current status of existing FTAs and ongoing trade negotiations of the EU can be found on the website of the European Commission, DG Trade: http://ec.europa.eu/trade/index_en.htm; in particular a list of FTAs in: http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf; and about preferential agreements of the EU with third countries: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_779_en.htm

Figure 7: The global trade network of the EU – “EU’s spaghetti bowl”



AA = Association Agreement; ACP = Africa, Caribbean; Pacific; CEFTA = Central European Free Trade Agreement; EEA = European Economic Area; EFTA = European Free Trade Association; FTA = Free Trade Agreement; GCC = Gulf Cooperation Council; GPS = General System of Preferences; PS = Partnership; SAA = Stabilisation and Association Agreement; UfM = Union for the Mediterranean. *) EU Candidate countries; *) Potential candidates for EU enlargement.

Trade policy is used here as a measure of political stability in the Balkans and thus in Europe. Currently, Slovenia and Croatia are members of the EU-28. The remaining Balkan states²⁷ are divided into a) candidate countries: Albania, Montenegro, FYR Macedonia and Serbia; the EFTA country Iceland is also a candidate country, and b) Potential candidates: Bosnia & Herzegovina and Kosovo.

All Western Balkan countries have concluded a Stabilisation and Association Agreement (SAA) with the EU which is a kind of free trade agreement and serves as a precondition for EU accession. It resembles the larger Europe Agreements (EA), as a precursor to the EU accession of the countries of Central and Eastern Europe, which joined the EU in 2004 and 2007. However, the SAAs are not as comprehensive as the EAs and they also contain no "membership option" but only the vague prospect of EU membership in the future.

The Western Balkans (along with Moldova) form the CEFTA (Central European Free Trade Agreement). CEFTA was originally founded in 1992 by Poland, Hungary and the former Czechoslovakia to guarantee free trade between each other. On the one hand the old CEFTA continually expanded to Slovenia, Bulgaria, Romania and Croatia, on the other hand it shrunk when some of its members became EU members after 2004 and 2007.

3.2.2 Non-European trade network

With developed countries:

²⁷ The current progress reports of the European Commission of 16 October 2013 reflect about the current status of the EU suitability of these countries; see: http://ec.europa.eu/enlargement/countries/check-current-status/index_en.htm

The EU has already FTAs and other forms (partnerships, co-operation agreements) to a large number of third countries (see Figure 7). The most recent completed FTAs are those with South Korea (since 1 July 2011; see Breuss and Francois, 2011²⁸) and with Canada (political agreement on Ce-ta - Comprehensive Economic and Trade Agreement – of 18 October 2013²⁹).

With developing countries:

ACP: The EU maintains special trade relations, not least to secure raw materials with 79 African, Caribbean and Pacific states (ACP). In return, the ACP countries get preferential access to the EU market. The EU's relations with the ACP countries have a 25-year-old tradition and have been established in several agreements (Lomé and Yaoundé). On 23 June 2000, the EU-ACP relations were renewed in the so-called Cotonou Agreement (Cotonou, Benin) - a mixture of trade and development policy of the EU - for a period of 20 years (March 2000 to February 2020³⁰).

Later the EU concluded so-called Economic Partnership Agreements (EPAs) as part of the Cotonou Agreement with the ACP States. Since January 2008, 15 EPAs are in force with ACP countries.

Africa: The EU's trade policy is linked to Africa on several levels.

- i) with the "European Neighbourhood Policy" (ENP);
- ii) with the "Barcelona Process" and the UfM (Union for the Mediterranean);

²⁸ See also the EU commissions website of DG trade: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/>

²⁹ See also the EU commissions website of DG trade: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/>

- iii) with the ACP countries;
- iv) with the African Union (AU³¹) to reach the UN Millennium Development Goals (MDGs) to half poverty.

In the wake of the "Arab Spring" a regime change took place in some North African countries: Tunisia (14 January 2011), Libya (23 October 2011) and Egypt (11 February 2011). Although the "Arab Spring" not yet reached its "autumn", the new situation creates new challenges and requires a revision of the previous association and cooperation agreements. The new democratic regimes are far from being consolidated politically and economically. In Syria, there is a civil war.

GSP: The most effective part of the development policy of the EU runs via trade facilitation (tariff concessions or tariff-free imports) for developing countries and least developed countries (LDCs). The legal instrument is the Generalised Scheme of Preferences (GSP³²). Since 2012 there is a new edition, the GSP III. The EU's new (updated) GSP, following UNCTAD recommendations, helps developing countries (DC) by making it easier for them to export their products to the European Union. This is done in the form of reduced tariffs (duty reductions for 66% of all tariff lines; zero duties for product from countries which follow good governance (GSP+); full duty free, quota free access for all products except arms – "Everything

³⁰ For further details about the Cotonou Agreement, see:
<http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/>

³¹ In 2002, the African Union (AU) became the successor to the Organisation of African States (OAU) aiming at cooperating in all fields. Plans include an African Court. AU's headquarters is in Addis Ababa (Ethiopia). Member States are all countries in Africa (currently 53 - except Morocco). The EU is the role model for the AU. The official website of the AU is <http://www.africa-union.org/>.

³² For more details about EU's GSP, see:
http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=160

But Arms” or EBA for Least Developed Countries) for their goods when entering the EU market.

3.2.3 The EU and the Union for the Mediterranean

Pan- Euro-Mediterranean cumulation (PMC³³): The pan-European cumulation system was created in 1997 on the basis of the EEA agreement (1994) between the EC, the EFTA countries, the CEEC countries and the Baltic States. It was then widened to Slovenia and to industrial products originating in Turkey (1999). At present the system is being enlarged to the Faroe Islands and the Mediterranean countries and hence is commonly referred to as Pan-Euro-Mediterranean cumulation.

With the PMC the EU wanted first to create a wider free trade area and second, to protect the textile industry in Europe and in the Mediterranean countries) against the big competitors of Asia. Under the scheme, the PMC allows a diagonal cumulation. That means that products which have obtained originating status in one of the 42 countries of the PMC system may be added to products originating in any other one of the 42 without losing their originating status within the Pan-Euro-Med zone.

EUROMED and UfM, Middle-East & the Gulf: With the Euro-Mediterranean Partnership (EUROMED³⁴), formerly known as the Barcelona Process, since 1995 the EU tries to tie the states of North Africa with free trade, cooperation and partnership agreements to the EU. On 13 July 2008, the cooperation agreements of the Barcelona process were re-

³³ More details about the PMC can be found on:
http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm

³⁴ For more details on the EU’s activity (EUROMED) in this region, see:
http://eeas.europa.eu/euromed/index_en.htm

launched by French President Nicolas Sarkozy as the *Union for the Mediterranean (UfM)*. Some are already talking about a repeat of the "Roman Empire" in the "Mare Nostrum" or "Mare Internum". The re-launch was an opportunity to render relations both more concrete and more visible with the initiation of new regional and sub-regional projects with real relevance for those living in the region. Projects address areas such as economy, environment, energy³⁵, health, migration³⁶ and culture.

Along with the 28 EU member states, 16 Southern Mediterranean, African and Middle Eastern countries are members of the UfM: Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Monaco, Montenegro, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

After the "Arab Spring" previous approaches of the EU have to be checked and replaced. The old Euromed agreements with Algeria (from 2005), Egypt (2004), Israel (2000), Jordan (2002), Lebanon (2003), Morocco (2000), Palestinian Authority (1997 Interim Agreement), Syria (1977), Tunisia (1998) urgently need to be renewed and updated to the current

³⁵ One such private energy project is DESERTEC. It was founded on 20 January 2009: German and French announced with the founding of the Desertec project, together with the southerners (Focus Region: EU-MENA) to develop a plan for "Clean Power from Deserts". The UfM is itself only marginally involved. Foundation founder of the DESERTEC Foundation, the German Association for the Club of Rome eV, members of an international network of scientists and dedicated individuals who have long been committed to the DESERTEC idea (see: <http://www.desertec.org/de/>)

³⁶ In the light of the uncontrolled immigration from Africa the EU has created FRONTEX (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union). It was founded in October 2004 on the protection of external borders (with Council Regulation (EC) 2007/2004). The headquarter of the Agency is in Warsaw (see: <http://www.frontex.europa.eu/>). After the immigration disaster with numerous deaths in summer 2013 in the Mediterranean Sea FRONTEX was amended by EUROSUR. It is thought as a pan-European border surveillance system having three main objectives: - to reduce the number of irregular migrants entering the EU undetected, - to reduce the number of deaths of irregular migrants by saving more lives (see: <http://frontex.europa.eu/eurosur>)

state of political change. The EU also has a region-to-region relationship with the Gulf Cooperation Council" (GCC) made up of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

3.2.4 European Neighbourhood Policy and Eastern Partnership

With the *European Neighbourhood Policy* (ENP³⁷), the EU wants to create a "ring of friends". This idea was first launched by then Commission President Romano Prodi in a speech given in Brussels in December 2002. Through its ENP, the EU works with 16 of its southern (North Africa and Middle East: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia) and eastern neighbours (partly former Soviet Union states: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine) to achieve the closest possible political association and the greatest possible degree of economic integration. The ENP remains clearly separated from the enlargement process, however this does not prejudice – in particular the European neighbours – future deeper relationships with the EU in accordance with the EU Treaty. The ENP is embedded in the "European Security Strategy".

The EU relations with Russia are a special case³⁸. Russia is the EU's biggest neighbour and third biggest trading partner, with Russia supplies of oil and gas making up a large part of its exports to Europe. The current basis for cooperation is the 1994 Partnership and Co-operation Agreement (PCA). The renewed PCA as of 1997 ended in 2007 without a successor. Negotiations on a new, EU-Russia Agreement were launched at the 2008 Khanty-Mansiysk summit with no success. Therefore the old PCA has

³⁷ Details about the ENP can be found on: http://eeas.europa.eu/enp/index_en.htm

been extended. The EU-Russia PCA is based on four common spaces: a) economy & environment; b) freedom, security & justice; c) external security, and d) research & education (including cultural aspects).

Eastern Partnership (EaP): As a subset of the ENP, the Eastern Partnership (Eastern Partnership - EaP³⁹) between the EU and six former Soviet Union countries in Eastern Europe and the Caucasus (Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus) has been launched. The Polish Foreign Minister Radoslaw Sikorski with the Swedish assistance had this idea and presented it at the EU Foreign Affairs Council in Brussels on 26 May 2008. It was decided at the European Council in December 2008. The inaugural Summit was held on 7 May 2009 Prague. The participation in the EaP does not contain any explicit membership perspective, but does not preclude it in the future.

The EaP also supports the regional EU -Strategy "Black Sea Synergy (BSS)". It encompasses five ENP countries, Russia and Turkey, but not Belarus. The BSS will treat problems of the Black Sea region.

At the 3th Eastern Partnership summit in Vilnius (Lithuania) on 29 November 2013 the EU signed an Association Agreements with Georgia and the Republic of Moldova, including provisions establishing Deep and Comprehensive Free Trade Areas (DCFTAs). An already finished negotiated Association and Free Trade Agreement with the Ukraine was suspended by the Ukrainian government, mainly on pressure by Russia. However, both partners underline that the intensive EU-Ukrainian relations are suspended but not dead.

³⁸ See more on: http://eeas.europa.eu/russia/index_en.htm

The Ukrainian case is an example where the “soft power” of the EU is confronted with the “hard power” of Russia. Although the EU emphasises that the EaP is not directed against Russia, the EU with this strategy tries to emancipate from the U.S. as a stand-alone geopolitical player in Eastern Europe (see Speck, 2013). Russia has developed a customs union which should lead to a "Eurasian Union" à la the EU model. So far, only Belarus and Kazakhstan have joined. Armenia has also been under pressure from Moscow. It cannot afford additional tensions with Moscow because of the half frozen conflict with Azerbaijan over Nagorno- Karabakh.

3.2.5 EU-USA Transatlantic Trade and Investment Partnership

In his State of the Union Address on 2 February 2013, U.S. President Barack Obama announced exploratory talks with the EU regarding a comprehensive Transatlantic Trade and Investment Partnership (TTIP). In times of crisis and weak economic growth of their respective domestic markets a comprehensive free trade agreement would be the right way to stimulate growth and employment on both sides of the Atlantic. For both sides, it would be a "win -win" situation. A finished EU-US agreement would be the largest bilateral trade agreement that has ever been negotiated and the TTIP would contribute to an annual increase of EU GDP by ½%.

On 14 June 2013 the EU the Commission gave the green light for the start of negotiations with the United States to conclude such a TTIP⁴⁰. The kick-

³⁹ See more on the goals of EaP: http://eeas.europa.eu/eastern/index_en.htm

⁴⁰ More details on the negotiations of the Trans-Atlantic Trade and Investment Partnership (TTIP) can be found on the European Commission DG Trade Website: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>. Information from the U.S. perspective can be found on: <http://www.ustr.gov/tpip>

off negotiations have started on 8 July 2013 in Washington. This initiative is based on a report of a High Level Group of 11 March 2013 (HLWG, 2013). On the basis of an interim report of 19 June 2012 the expert group concluded that transatlantic trade and investment are the backbone of the world economy. Together, the EU and the U.S. produce around half of global GDP and contribute 30% to world trade. Goods and services worth EUR 2 billion are traded bilaterally every day, thus contributing to economic growth and create jobs in both economies. The U.S. and the EU do more than EUR 2.8 billion direct investment on both sides of the Atlantic. Transatlantic relations with the United States are manifold (see Breuss, 2008, p. 569). The United States is with a global market share of 10.5% (in terms of extra-EU exports in 2012), an equivalent trade partner to the EU with a global market share of 14.7%. In commercial services, both regions have an even higher world market share (U.S. 18.3 %, EU 24.6%, see WTO, 2013). There have been numerous attempts in the recent past to improve the transatlantic relations. The "Transatlantic Declaration" of November 1990 was followed in December 1995 by the "New Transatlantic Agenda" (NTA). The "Transatlantic Economic Partnership" (TEP) was launched in May 1998, amended by the "EU-US initiative to support economic integration and growth" in June 2005. Since then, the new trade relations between the EU and U.S. ran under the title "Transatlantic Free Trade Area (TAFTA).

Despite all efforts to a better understanding of both trade blocks there has been a series of trade disputes (EU-U.S. "mini trade wars" of bananas, steel, hormones, Foreign Sales Corporations, Airbus-Boeing, and other

cases; see Breuss, 2004, 2007)⁴¹ since the establishment of the “Dispute Settlement Understanding”⁴² of the WTO in 1995.

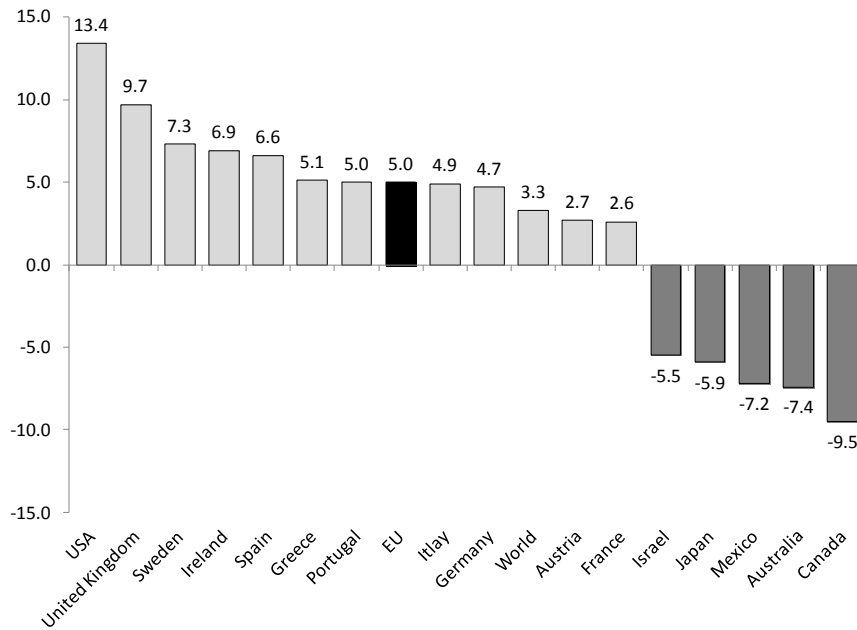
There are already numerous studies to estimate the economic impact of a comprehensive TTIP (see Bertelsmann Foundation, 2013; European Commission, 2013A; Felbermayr et al, 2013; Francois, 2013; Francois and Pindyuk, 2013 for the impact on Austria).

According to the study of the Bertelsmann Foundation (2013) the highest long-term gains (additional GDP per capita in% points) go to the USA (+13.4 %) and to the UK (+9.7 %), while the gains for the EU as a whole would be relatively modest at +5% (see Figure 8). Main losers would be Canada (-9.5 %), as well as Australia and Japan. The gains with respect to the additional income growth (GDP per capita) from a comprehensive TTIP Agreement are quite unevenly distributed both to the two parties to the Agreement, the U.S. and EU, but they are also unequally distributed to the third countries. This inequality of trade gains could make it difficult for the EU to conclude the TTIP politically.

⁴¹ A list of trade conflicts under the dispute settlement understanding of the WTO can be found on the WTO website: http://www.wto.int/english/tratop_e/dispu_e/dispu_subjects_index_e.htm

⁴² The “Dispute Settlement Understanding” was introduced in the Final Act of the Uruguay Round Agreement, which was signed in Marrakech in 1994 ; see the legal basis on the WTO website: http://www.wto.int/english/docs_e/legal_e/legal_e.htm#dispute

Figure 8: Winners and losers of a comprehensive TTIP Agreement
(GDP per capita, change in percentage points)



Source: Bertelsmann Foundation (2013).

Even more unequal are the effects of a comprehensive TTIP on trade creation and trading diversion. According to the study of the Bertelsmann Foundation (2013) the TTIP would induce the greatest trade growth in bilateral trade between the U.S. and Germany (+93.6%) and the U.S. and UK. (+60.6%). The EU (here probably dominated by the strongest economy, Germany) and the GIIPS (Greece, Ireland, Italy, Portugal and Spain) can expect substantial growth in bilateral trade with the U.S. (in each case +80%). On the other hand, there could be a strong reduction of the trade of the United States with third countries, most probably with China (-33.4%) and Russia (-29.4%), but also with the BRICS (-31.8%).

A comprehensive EU-US TTIP Agreement hence would have large trade diversion effects. Whether such a result is still in conformity with GATT or WTO remains to be seen. According to Article XXIV of the GATT, paragraph 4 to 10, which contains the rules for the establishment of free trade areas and customs unions in the area of trade in goods, free trade zones are allowed if non-members are not disadvantaged by it (XXIV: 5b). When China, Russia and India would feel themselves in a worse position by the TTIP, a dispute settlement panel at the WTO would be inevitable.

4 The EU on the way to become a global political player

The EU has become an increasingly more important figure in foreign policy with any treaty change. Already in the Treaty establishing a Constitution for Europe (TCE), which failed at the negative referenda in France and the Netherlands in 2005, the Common Foreign and Security Policy (CFSP) of the EU would have been significantly strengthened. But also the Treaty of Lisbon, putting into force on 1 December 2009 as a compromise, which consists of the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) significantly strengthened the CFSP and upgraded it institutionally by the establishment of the European Union External Action Service (EEAS⁴³).

⁴³ All details about the CFSP and the EEAS can be found at:
http://eeas.europa.eu/countries/index_en.htm

4.1 From a political “dwarf” to a “Global Player”

During the first Iraq war 1990/91 the EU was mocked as a "political dwarf" and "military worm". With the Lisbon Treaty the EU has evolved in foreign policy affairs to a "global player. The Union's external action (the principles) is ruled in Article 21 et seq of the TEU, the specific provisions of the Common Foreign and Security Policy (CFSP) are governed by Article 23 et seq TEU. As an important difference to the real "super power" United States, the EU does internationally not appear as military "superpower", but as a "soft power" (see Nye, 1990, 2004). The EU is engaged as mediator in almost all international conflicts - along with other influential states (e.g. in the Iran talks on atomic energy; in the Syrian conflict). Examples of a non-common acting of the EU and its Member States in international conflicts were the Libyan conflict during the "Arab Spring" time but also in the second Iraq war.

The concrete Union's external action is governed by Article 205 TFEU. The development policy, specifically the development cooperation regulates Article 208 et seq TFEU. Restrictive measures (sanctions) that are used in case of conflict (like in Libya, Iraq, Iran and Syria) are governed by Article 215 TFEU. With the High Representative of the Union for Foreign Affairs and Security Policy the EU has a "Foreign minister", chairing the Council "Foreign Affairs" and acting as Vice- President of the European Commission.

4.2 Representation in international fora

4.2.1 World Trade Organization

Due to the Common Commercial Policy (CCP) the EU performs as a block, like a state⁴⁴. The distribution of competences of the CCP is governed by Article 206 et seq TFEU. Accordingly, the European Commission (the commissioners of DG Trade and DG Agriculture) negotiates in the world trade talks in the Doha DDA Round of the World Trade Organization (WTO) on behalf of the EU Member States. Both the EU Member States and the EU itself are members of the WTO.

4.2.2 Other International Organisations

The EU is represented differently in international organisations⁴⁵. The contractual provisions of the "The Union's Relations with International Organisations and Third Countries and Union Delegations" is enshrined in Article 220 et seq TFEU.

Here we mention only the most important organisations in which the European Commission represents the EU:

- The United Nations (UN): the EU has an observer status.
- North Atlantic Treaty Organisation (NATO) is important for the EU as a partner in its Common Security and Defence Policy (CSDP)⁴⁶. Between the EU and NATO, there is a strategic partnership⁴⁷.

⁴⁴ About the EU's role in international trade policy, see: http://ec.europa.eu/trade/policy/index_en.htm; about the relations EU-WTO, see: <http://ec.europa.eu/trade/policy/eu-and-wto/>

⁴⁵ For details on the external relations of the EU in international organisations, see: http://eeas.europa.eu/organisations/index_en.htm

⁴⁶ The relationship EU-NATO is regulated by the Lisbon Treaty in Article 21 et seq and Article 42(2) TEU.

⁴⁷ Siehe: http://www.nato.int/cps/en/natolive/topics_49217.htm

- International Monetary Fund (IMF) and World Bank: the EU has an observer status (EU Member States are IMF members).
- OECD
- G 7/G 8
- G20

4.2.3 Eurozone's external representation

The European Commission represents the European Union in various international organisations and fora to assist the EMU and the EU's policy priorities⁴⁸. In the case of EMU affairs, the European Commission belongs to various international organisations and fora, such as:

- G/7-G/8, G20
- International Monetary Fund (IMF) and World Bank
- Organisation for Economic Co-operation and Development (OECD).

5 EU's strategies to cope with the challenge of globalisation

The EU knows essentially three strategies plus one rescue instrument to meet with the challenges of globalisation:

- 1) Enlargement of the Single Market
- 2) Competition policy
- 3) Anti-dumping policy
- 4) EU's Globalisation Fund.

⁴⁸ See: http://ec.europa.eu/economy_finance/international/forums/index_en.htm

5.1 The Single Market as a shield against globalisation

The achievements of the European integration since World War II (Customs Union in 1968; Single Market in 1993, EMU with Euro 1999 and 2002; Schengen 1985/1993/1995/2007, EU enlargement 2004-2013⁴⁹) clearly imply "goodies" of the EU. These include the benefits of the customs union and the four freedoms of the Single Market, the passport-free travel in Europe (Schengen) and - at least for citizens of the Euro zone countries - to travel without the hassle of changing money and the exchange rate uncertainty in intra-EU trade with the euro. In addition, with the Lisbon Treaty, the EU has reached its own legal identity⁵⁰.

The philosophy behind the Single Market project rests on the one hand on the creation of a large and unfettered market in Europe with uniform rules of the game (uniform competition policy), on the other hand, to overcome the national market segmentation and thus an increase in competition. Finally, with the creation of the Single Market - based on the four essential freedoms free movement of goods, services, capital and people - Europe has developed its own strategy against the dangers of globalization. Since EU' Single Market is growing in the wake of steady enlargement, the shielding effect is becoming more effective.

⁴⁹ An overview of the quantification of the economic effects of European integration since World War II can be found in Badinger and Breuss (2011). About the positive economic impact of the various EU integration steps (from the Single Market, EMU and EU enlargement) in the case of Austria, see Breuss (2012, 2013E).

⁵⁰ The award of an own legal identity to the European Union (by fusion of the European Community and the European Union, which ended the existence of the European Communities) means that the Union can conclude international agreements in its external competence and that it can join international organisations and international treaties like the The European Convention on Human Rights (ECHR).

Although the Single Market is still not yet fully realised in all areas (there are still large gaps in services; see Breuss, Fink and Griller, 2008; but also a European Banking Union is waiting for realisation; see Breuss, 2013A, 2013C), it has - linked with the concept of EMU with a single currency - the potential shielding effect comparable to those of the U.S. The elimination of all border barriers between Member States (Schengen approach to remove the control of persons⁵¹) creates - supported by the blessings of a single currency - a "borderless" Europe, which comes near in quality to that of the United States. However, it still lacks an important ingredient, namely a common language in Europe⁵²!

Where are the borders of Europe?

The EU is obviously becoming more and more attractive – at least for outsiders (see the protests in Kiev; the (illegal) migration flows from Africa to Europe etc.). After the collapse of communism in Eastern Europe, for all satellite countries of the Soviet Empire the EU (and the NATO) was the first priority.

An end of the EU enlargement process is not in sight. Given the contractual conditions in Article 49 TEU that (*"Any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union."*) and the high attractiveness of the EU, one can easily imagine that the current EU-28 is expected

⁵¹ With the Lisbon Treaty, the "Schengen acquis" (Schengen agreement, signed on 14 June 1985 at Schengen, Luxembourg) has been added in Protocol 19 to the TEU and the TFEU. See also the EU website: http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/index_en.htm.

⁵² An even more far-reaching utopia would be the creation of a United States of Europe (see Breuss, 2013D).

to grow to at least 40 member states in the decades ahead⁵³. Just count the remaining six Balkan countries (Albania, Bosnia & Herzegovina, Montenegro, FYR Macedonia, Kosovo and Serbia) as well as Iceland and Turkey one already reaches at EU-36. If the Eastern European countries (Moldova, Ukraine and Belarus) are fulfilling the Copenhagen accession criteria and when counting the four remaining EFTA States one arrives at EU-43!⁵⁴

However, the EU enlarged in this way could suffer a severe setback if large countries - such as UK – would decide to leave the Union. Even the burgeoning trends towards re-nationalisation and the secession in some EU Member States like Catalonia from Spain or Scotland from the UK could destabilize the current proportions in the EU and its entire political structure.

5.2 Strong competition policy

With the competition and anti-dumping policy, the EU have at hand strong legal instruments to prevent unfair competition of EU firms acting on the enlarged single market, as well as to stop the market abuse of multinationals that operate in the EU internal market. The efficiency of EU's competition policy is underlined by quoting prominent examples such as the imposition of penalties on Microsoft (EUR 561 million fine for unfair business practices with their Internet Explorer) and Google. Against Google an antitrust case is still pending since 2010 (with the threat of a

⁵³ All information on EU enlargement can be found on:
http://ec.europa.eu/enlargement/index_en.htm

⁵⁴ In a communication the European Commission (2006A) clarified the conditions for the capability of the Union to integrate new countries.

multi-billion dollar fine) because of the unfair practices of their search engine. A recent example of a stiff competition policy is the sanction against eight leading banks in Europe who manipulated the LIBOR and EURIBOR with a fine of total of EUR 1.7 billion. The decisions were adopted under the Commission's cartel settlement procedure⁵⁵.

The strict single market competition policy refers to the avoidance of market dominant positions by companies (anti-cartel legislation, based on Article 101 et seq TFEU) and the avoidance of monopolies in the case of company mergers.

The European Commission monitors as part of its competition policy the following areas⁵⁶: cartels, market abuse, mergers, liberalisation (open markets), state aid (subsidies), and international cooperation (at bilateral level and at multilateral level in the International Competition Network (ICN) in the OECD, UNCTAD and WTO)

5.3 Anti-dumping policy

In addition of the effective competition policy with the anti-dumping policy⁵⁷ the EU has also an important mechanism to protect European companies (and the European industry) from unfair foreign competition. A company is "dumping" if it is exporting a product to the EU at prices lower than the normal value of the product (the domestic prices of the product or the cost of production) on its own domestic market.

⁵⁵ For this EIRD cartel case (The cartel in Euro interest rate derivatives), see the EU Commission Website of DG Competition: http://ec.europa.eu/competition/index_en.html

⁵⁶ All information on EU's Competition Policy, see the Website of the EU Commission DG Competition: http://ec.europa.eu/competition/index_en.html

The fundamental legal basis for anti-dumping proceedings of the EU is the Council Regulation (EC) No 1225/2009 of 30 November 2009 (OJ L 343/51 of 22.12.2009) "on protection against dumped imports from countries not members of the European Community", based on Article 207 TFEU (CCP, ex Article 133 TEC). It is consistent with the international obligations of the EU, specifically those by the WTO Anti-dumping Agreement.

An anti-dumping investigation can be initiated in response to a complaint lodged by European manufacturers affected by dumped imports or at the request of an EU country.

The most recent example is the conflict between the EU and China on illegal subsidies and dumping prices of Chinese exports of solar panels. On 6 December 2013, the Commission applied definitive measures against dumped imports of solar panels from China. For the next two years the average anti-dumping duties of 47.7 is applied. Exempted are those Chinese firms which do not dump below the minimum prices (56 cents per watt⁵⁸).

5.4 EU's Globalisation Fund

That globalisation not only knows winners have not been remained hidden to the EU. On the one hand, wages have come under pressure; on the other hand multinationals – to save production costs – shifted their production from one location to another - even within the EU after the large EU enlargement in 2004 and 2007. For the purpose of mitigating the neg-

⁵⁷ More details about the EU anti-dumping policy, see: <http://ec.europa.eu/trade/policy/accessing-markets/trade-defence/actions-against-imports-into-the-eu/anti-dumping/>

ative effects of globalisation (unemployment through plant closures), the EU has set up a separate fund in 2006, the European Globalisation Adjustment Fund - EGF⁵⁸). The EGF was established by Regulation (EC) No 1927/2006 to show solidarity with the unemployed people by plant closures as a result of the structural change in the process of globalisation and to support them financially. The rules were supplemented by Regulation (EC) No 546/ 2009 of 18 June 2009 to take account of people who had lost their jobs due to the GFC in 2008/09. This "crisis rule" also led to an increase in the financing rate (65% instead of 50% of the total budget). The crisis EGF funding was available from 1 May 2009 to 30 December 2011.

With up to € 500 million available each year, the EGF helps workers find new jobs and develop new skills when they have lost their jobs as a result of changing global trade patterns (process of globalisation), e.g. when a large company shuts down or a factory is moved to outside the EU.

6 Conclusions

The European Union is embedded in the globalised world. Although the EU is not (yet) a state, but only a union of states, it is nevertheless perceived in the world - especially with the European symbol "Euro" - more and more as a unit. Of course, the companies in the EU Member States are competing with those of third countries, but also with companies in other EU Member States on EU's Single Market. Since the Lisbon Treaty

⁵⁸ See EU's Anti-dumping Website <http://ec.europa.eu/trade/policy/accessing-markets/trade-defence/actions-against-imports-into-the-eu/anti-dumping/>

⁵⁹ Details about the EGF, see: <http://ec.europa.eu/social/main.jsp?langId=en&catId=326>

which entered into force on 1 December 2009 the EU has become more and more a political heavyweight. While the EU in economic terms has always been a "superpower", especially in terms of its world trade share, it emancipates itself increasingly from a "political dwarf" to a respected political "global player".

Europe's supremacy in world trade, slowly begins to crumble because new dynamic emerging markets - especially China - the place of the "export world champion". Nevertheless, currently the EU is still a "world trade superpower." The euro has become the second most important world reserve currency since its introduction in 2002. The EU is globally well-connected. As a "second-best" solution the EU maintains an extensive network of bilateral free trade agreements, the so-called trade "spaghetti bowl". The reason is that the "first-best" solution of a multilateral liberalisation of world trade in the framework of the Doha Round by the WTO is still not accomplished. The 9th Ministerial Conference of the WTO in Bali on 3-6 December 2013 brought an interim solution of the Doha Round.

To shield against the dangers of globalisation, the EU runs several strategies. Firstly, due to the steady enlargement (currently we stand at EU-28, but EU-40 is achievable in the near future) of the Single Market EU's barrier-free market is getting bigger for EU members. This is equivalent to an implicit protectionism against third countries. This immunisation effect is reinforced by the expansion of the euro zone. Secondly, the EU's competition and anti-dumping policies are very efficient in ensuring fair competition in the EU internal market. Thirdly, the losers of globalisation are helped with EU's globalisation fund.

With the Lisbon Treaty the EU has strengthened its Common Foreign and Security Policy (CFSP). It established the European External Action Service (EEAS) and with the appointment of a High Representative of the Union for Foreign Affairs and Security Policy, it comes very close to the earlier request by then U.S. foreign minister Mr. Kissinger to install a single telephone number in the EU. The EU is represented in many international organisations (partly as an observer; in the WTO it represents the EU as a whole) and plays an active role in almost all international trouble spots.

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