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The proliferation of free trade agreements in the post-Doha Round period: the position of the European Union

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Abstract

The paper analyses the shift taking place in multilateral approaches to international trade following the de facto failure of Doha Round negotiations. In this new context all significant participants to international trade either already signed or are negotiating free trade agreements as an operational second best to a real multilateral regulation. The paper presents and analyses the position of European Union which is involved in negotiations covering the Atlantic area, the Euro-Mediterranean area and the Pacific area. Based on this research the authors draw a number of conclusions regarding the chances of conclusion of free trade area agreements and the impact of each of these three areas on the competitiveness of European Union in the world economy. At the same time the authors conclude that the current trend towards free trade agreements does not imply a reorientation from multilateralism to bilateralism in the regulation of international trade but an operational solution to the new context determined by the cumulated effects of the failure of Doha Round negotiations and the economic crisis.

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1. Long term trends in world GDP and international trade. Changes in the relative position of major players

The first decade of the 21st century has been marked by the crisis that started in 2008 and even 5 years later the

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ongoing trends are not so positive for a number of major players of the world economy, especially for some member states of the European Union. Despite that, if one looks at the overall global economic picture the situation is far from negative.

A first argument in this respect results from the analysis of the International Monetary Fund data for the world domestic product year on year change during the 1980 – 2013 period. This analysis reveal that during a time span of 34 years in just only one year there was a negative growth: **in 2009**. And even in 2009, at the level of the world economy as a whole the negative growth was of only - 0.59 % in constant prices and a bit higher in market prices: - 2.151% (International Monetary Fund, April 2013). Under such circumstances one can hardly speak about a crisis at the level of the whole system of the world economy. According to the same source, the projections for the period 2014 to 2018 indicate for the world domestic product a continuation of growth in the range of +4.404 to +4.489 % .

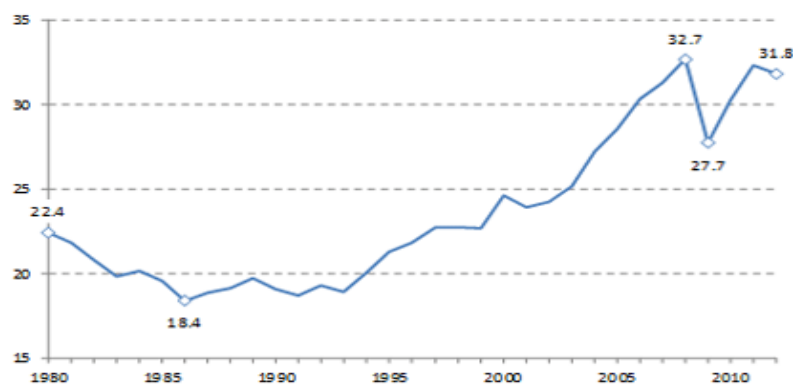
The second argument, which is based on the first one, refers to the rather differentiated economic dynamics of the main groups of countries within the world economy, differentiation that has led to changes at least in the global balance of economic power. This comment is supported by the fact that even in 2009 when the world domestic product expressed in constant prices contracted with 0.59 % the developed countries contracted with 3.47 % and the Euro zone with 4.387 %, while the developing countries registered a growth of 2.668 % (International Monetary Fund, April 2013).

The conclusion based on these two arguments is that in the long run (the last 34 years) and also in perspective (2014 – 2018) the world economy is functioning well, the only fact is just that some of its actors are gradually changing their relative position.

In this context it is noteworthy that in 2010, just at the time border between the first and the second decade of the 21st century, a change took place in the sense that China became the second largest economy, thus replacing Japan that had hold the second position for almost 40 years, since the 1970s (David Barboza, August 2010). The spectacular evolution of China's position in world output has been matched by its position in world exports: from 1 % in 1980 to 11 % in 2011. Also as result of the changes in the economic balance of power of the world, by the end of 2010 China became the 3rd largest member country in the IMF and four emerging economic powers (Brazil, China, India and Russia) are among the top 10 largest shareholders in IMF (International Monetary Fund, March 2013).

The change in the relative importance of global players can also be found in international trade. In 1980 the developing countries represented just 34 % of world exports while in 2011 their share rose to 47 %.

As regards the correlation between the economic output of the world economy (expressed by GDP) and the evolution of international trade one can note that in the past 27 years there was a permanent growing trend of the ratio of world exports to world GDP, trend interrupted only in 2009. After 2009 world trade returned rather fast to the pre-crisis levels. The growing trend of ratio of world exports to world GDP is reflected in Figure 1.



Source: World Trade Organization, World Trade 2012, Prospects For 2013, Press Release PRESS/688, 10 April 2013
Fig 1. Ratio of world exports of merchandise and commercial services to world GDP, 1980-2012 - ratio of current \$ values

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