



THE EUROPEAN UNION AND ITS TRADE PARTNERS

Over the years, the EU has been moving away from the production of labour-intensive, low-value products in order to specialise in higher-value, branded goods. With its open economy, trade is essential to the EU, which is a founder of and key player in the World Trade Organization (WTO). In addition, to overcome barriers to trade and level the playing field for its businesses, the Union negotiates a number of free trade agreements (FTAs).

LEGAL BASIS

Article 207 of the [Treaty on the Functioning of the European Union](#) establishes the common commercial policy as an exclusive competence of the European Union.

THE EU'S CENTRAL POSITION

The EU, China and the United States are the world's [largest economies](#), accounting respectively for about 17.5%, 17% and 25.7% of global gross domestic product (GDP) in 2023. Thanks to its GDP of around EUR 17 trillion and the openness of its market, the EU has played a central role in shaping the global trading system, among other things, by supporting the WTO. Economic openness has brought significant advantages to the EU, given that more than 30 million jobs in the EU depend on external trade and that global economic growth is expected to be generated mainly outside Europe. New economic players and technological innovation, in particular digitalisation, have changed the structure and patterns of international trade. Today's global economy is highly integrated, and global supply chains have largely replaced the traditional trade in finished goods.

Although the 2009 global financial crisis had a negative impact on the EU's economic performance, the EU has been able to preserve a relatively strong position in trade in goods while reinforcing its leading role in trade in services. The COVID-19 pandemic slowed down economic growth, triggering discussion about relocating industries back to Europe (referred to as 'reshoring'). Reshoring is likely to be applied selectively in critical sectors, while global supply chains experience a degree of fragmentation because of increasingly separate providers of goods and services.



ROLE OF THE EUROPEAN COMMISSION AND THE EUROPEAN PARLIAMENT

International trade was one of the first sectors in which Member States agreed to pool their sovereignty. Consequently, they mandated the Commission to handle trade matters, including negotiating international trade agreements, on their behalf. In other words, the EU, acting as a single entity, negotiates, on behalf of all its Member States, both bilateral and multilateral trade agreements. As is demonstrated by its record in the WTO dispute settlement system, the EU has been able to defend its own interests in international trade disputes. The EU has also used international trade tools to promote its values and policies and has been trying to extend its regulatory practices to the rest of the world, traditionally favouring an open and fair international trading system.

In 2009, the Treaty of Lisbon enhanced Parliament's role by making it a co-legislator on matters involving trade and investment on an equal footing with the Council. In addition, the Treaty conferred on Parliament a more active role in the negotiation and ratification of international trade agreements, since its consent is now mandatory. However, some elements of trade policy remain within the remit of the Member States. On 16 May 2017, the Court of Justice of the European Union (CJEU) published an opinion that gave clarity about the division between national and EU competences.

TRADE POLICY AND ORIENTATION

When the multilateral negotiations within the WTO on the Doha Development Agenda stalled in the first decade of the 21st century, the EU had to find alternative ways to guarantee better access to non-EU countries' markets. To this end, a new generation of comprehensive FTAs, which go beyond tariff cuts and trade in goods, was introduced. The first such 'new-generation' FTA was concluded with South Korea and, following ratification by Parliament, formally entered into force in December 2015. The Multiparty Trade Agreement between the EU and Peru, Colombia, and later Ecuador (since 2016), in force since 2013, the Association Agreement with the countries of Central America (Honduras, Nicaragua, Panama, Costa Rica, El Salvador and Guatemala), whose trade pillar has been provisionally applied since 2013, the EU-Canada Comprehensive Economic and Trade Agreement (CETA), provisionally applied since September 2017, the EU-Singapore FTA, in force since the end of 2019, and the EU-Viet Nam FTA, in force since mid-2020, are all testimony to the new policy. An Economic Partnership Agreement with Japan entered into force on 1 February 2019. On 13 December 2023, the Union and Chile signed the modernised EU-Chile Advanced Framework Agreement which was approved by the European Parliament on 29 February 2024. The EU-New Zealand free trade agreement was approved by European Parliament on 22 November 2023.

Since negotiations with the United States on the Transatlantic Trade and Investment Partnership (TTIP) were suspended in 2016, the EU has focused on agreements with the United States in specific areas, such as tariffs on industrial goods or conformity assessment. Negotiations on a trade agreement with the founding members of Mercosur were completed in 2019, and the draft agreement is awaiting ratification.



The EU has also opened FTA negotiations with Indonesia, Tunisia, the Philippines and Australia. Negotiations were relaunched with India in 2021 and with Thailand in 2023, and negotiations with Malaysia will be resumed as soon as conditions are favourable.

The COVID-19 pandemic substantially reduced the international trade in goods in 2020 and 2021, including that of the EU with its main trading partners. Russia’s unjustified and unprovoked war against Ukraine has impacted energy and food markets.

In February 2021, the Commission presented its Trade Policy Review (TPR), entitled ‘[An Open, Sustainable and Assertive Trade Policy](#)’, which aims to set the course for trade policy until 2030. The TPR is the successor to the 2015 ‘Trade for All’ strategy and reflects the geopolitical changes that have taken place since then, by introducing terms such as ‘assertiveness’ and ‘resilience’ into the trade vocabulary, in addition to the well-known concepts of ‘fairness’ and ‘sustainability’. It intends to make trade policy meet current challenges and facilitate the green and digital transitions through ‘Open Strategic Autonomy’.

MAIN EU TRADE PARTNERS

Europe is the world’s largest exporter of manufactured goods and services. In 2023, the United States was the top destination for EU goods with a 19.7% share of the total exports, followed by the UK (13%) in second place, overtaking China (8.8%). [Other important trade partners for goods](#) in 2022, in descending order, were Switzerland (7%) and Türkiye (4%).

As regards trade in services, in 2022, [the United States was the EU’s main trading partner](#), followed by the UK and Switzerland.

INVESTMENT

The EU is the world’s largest investor and a major recipient of other countries’ foreign direct investment (FDI). The entry into force of the Treaty of Lisbon in 2009 further extended the EU’s exclusive competences in international trade matters, which now include FDI. To clarify the exact scope of its competences on investment, the Commission asked the CJEU for an opinion on the EU-Singapore FTA. The CJEU’s [Opinion 2/15](#) of 2017 on the EU-Singapore FTA confirmed that most aspects of FDI fall under exclusive EU competence, with some exceptions, in particular dispute settlement^[1].

Share of world FDI in 2022 (in USD billion and % of total)

	Inward stock	Outward stock
World in USD billion	44 252.759 (100%)	39 852.940 (100%)
EU	11 170.459 (25.24 %)	12 726.307 (31.9%)
United States	10 461.684 (23.64 %)	8 048.114 (20.19%)
China	3 822.449 (8.64 %)	2 931.653(7.4%)
Canada	1 439.848 (3.25%)	2 033.032(5.1%)

[1]UNCTAD [World Investment Report 2023](#). Outward and inward stock shown in USD million, changed in this table into USD billion and shares calculated as: (country value/world value)*100.



Japan	225.367 (0.5%)	1 948.555 (4.9%)
UK	2 698.563(6.1%)	2 203.114 (5.5%)

Source: European Parliament Directorate-General for External Policies of the Union calculations based on European Commission/Eurostat figures

The EU concluded in principle the negotiations for a Comprehensive Agreement on Investment (CAI) with China in December 2020, which is awaiting ratification. Investment protection agreements with Singapore and Viet Nam were ratified in 2019 and 2020 respectively. The EU also launched negotiations on investment with Myanmar and will explore the possibility of following suit with Taiwan and Hong Kong. Negotiations with Iran will be considered after the latter's accession to the WTO. In December 2020, the EU also concluded a Trade and Cooperation Agreement (TCA) with the UK, to which Parliament gave its consent in May 2021. The EU-UK agreement provides for zero tariffs on trade in goods and also covers investment and several other policy areas.

[Visit the European Parliament homepage on trade and globalisation.](#)

Wolfgang Iglér
04/2024

