

## Chapter 8 Update: Preferential Trade Agreements

Kenneth A. Reinert, *An Introduction to International Economics: New Perspectives on the World Economy*, Cambridge University Press, 2012.

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Table 8.1 Types of Preferential Trade Agreements

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Type of PTA	Description	Number in Force in 2014
GATT Article XXIV (FTA)	An agreement on the part of a set of countries to <i>eliminate</i> trade restrictions among themselves.	221
GATT Article XXIV (CU)	An agreement on the part of a set of countries to eliminate trade restrictions among themselves and to adopt a <i>common external tariff</i> .	17
Enabling Clause	Allows PTAs in goods trade among developing countries.	37
GATS Article V	An agreement to reduce barriers to trade in services among a set of countries.	131
		Total: 406

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Source: World Trade Organization. Note: Consult the WTO website for current information.

### The European Union

The European Union (EU) is the current name for a set of agreements among 28 (at the time of this writing) European countries in the realms of economics, foreign and security policies, and justice and home affairs. The evolution of the EU is summarized in Table 8.3. Its roots extend back to the Marshall Plan under which the United States aided in the reconstruction of Europe after World War II and promoted the liberalization of trade and payments among the European countries in its zone of influence. These liberalization processes were facilitated by the Organization for European

Economic Cooperation and the European Payments Union.<sup>1</sup> In 1951, the Treaty of Paris was signed, and this led to the formation of the European Coal and Steel Community (ECSC) among Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, countries that became known as The Six. The purpose of the ECSC was to liberalize trade and promote competition in the steel and coal sectors of the Western European economy.

In 1957, the Treaty of Rome was signed. This led to the formation of the European Economic Community (EEC) in 1958. The ultimate goal of the EEC was the creation of a common market. Initially, however, the EEC was a movement towards a FTA in a decade-long transitional period. The EEC took the step to a CU in 1968 with the introduction of a common external tariff. Between 1973 and 1986, its membership increased from six to twelve countries. The year 1992 marked the *official* completion of a common market in which barriers to labor and physical capital were to be removed (the *actual* completion of a common market will always be a work in progress). With the signing of the Maastricht Treaty in 1992, the EEC was joined by initiatives in the areas of foreign and security policy and justice and home affairs under what became known as the European Union. Austria, Finland, and Sweden joined the EU in 1994 bringing the membership to 15. An ambitious enlargement in 2004 added ten more countries as EU members, and an enlargement in 2007 brought the total membership to 27. An enlargement in 2013 brought in Croatia as a 28<sup>th</sup> member.<sup>2</sup>

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<sup>1</sup> The Organization for European Economic Cooperation later became the Paris-based Organization for Economic Cooperation and Development (OECD).

<sup>2</sup> At the time of this writing, candidate countries included Macedonia and Turkey.

Table 8.3. The Evolution of the European Union

<b>Year</b>	<b>Initiative</b>	<b>Treaty</b>	<b>Members Added</b>
1951	European Coal and Steel Community	Treaty of Paris	Belgium France Germany Italy Luxembourg Netherlands
1958	European Economic Community	Treaty of Rome	
1973	Enlargement		Denmark Ireland United Kingdom
1981	Enlargement		Greece
1986	Enlargement		Portugal Spain
1992	European Union	Treaty on European Union (TEU) or the Maastricht Treaty	
1995	Enlargement		Austria Finland Sweden
1999	European Monetary Union		United Kingdom, Sweden, and Denmark not included
2002	Common EMU currency: the euro		United Kingdom, Sweden, and Denmark not included
2004	Enlargement		Cyprus Czech Republic Estonia Hungary Latvia Lithuania Malta Poland Slovakia Slovenia
2007	Enlargement		Bulgaria Romania
2007	EU Constitution	Lisbon Treaty	
2013	Enlargement		Croatia

Sources: Dinan (2010) and [europa.eu](http://europa.eu).