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Economic Impacts of the Free Trade Agreement Between the European Union and Colombia

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Doctoral Dissertation

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DEDICATION

To Olga, Mónica, Isel and Sayri

for their pure and unconditional love.

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List of Abbreviations and Acronyms

AAs	Association Agreements
ALADI	Latin American Integration Association
ANCOM	Andean Common Market
BI	Balassa Index
CAN	Andean Community of Nations
CDI	Core Depth Index
CGEM	Computable General Equilibrium Models
CONFIS	Superior Council of Fiscal Policy
CONPES	Nacional Council of Social and Economic Policy
COMTRADE	United Nations Commodity Trade
CPI	Corruption Perception Index
CS	Civil Society
CSOs	Civil Society Organizations
DAG	Domestic Advisory Group
ITC	International Trade Center
DBI	Doing Business Index
DCI	Development Cooperation Instrument
DI	Democracy Index
DIPI	Development and Integration Perception Index
DNP	National Department of Planning
ECLAC	Economic Commission for Latin America and the Caribbean
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Association
ELN	National Liberation Army
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
EU	European Union
EURATOM	European Atomic Energy Community

FARC	Revolutionary Armed Forces of Colombia
FDI	Foreign Direct Investments
FTA	Free Trade Agreement
GA	Andean Group
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCI	Global Competitiveness Index
GII	Global Innovation Index
GDP	Gross Domestic Product
GEM	General Equilibrium Models
GP	Government Procurement
GSP	Generalised Scheme of Preferences
HCI	Human Capital Index
HDC	Human Development Index
HOS	Hecksher Ohlin Samuelson Theorem
ICA	International Coffee Agreement
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISDS	Investor-state dispute settlement procedures
ITO	International Trade Organization
LAFTA	Latin American Free Trade Association
MFN	Most-Favoured Nation
MIP	Multiannual Indicative Programme
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
OECE	European Organization for Economic Cooperation
PDCA	Political Dialog and Cooperation Agreement
PEM	Partial Equilibrium
PP	Public Procurement
PTA	Preferential Trade Agreement
RTA	Regional Trade Agreement

SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TCI	Trade Complementarity Index
TDI	Total Depth Index
TI	Transparency International
TII	Trade Intensity Index
TNC	Multinational/Transnational companies
TOI	Trade Openness Index
TRAINS	Trade Analysis and Information System
TRIMs	Agreement on Trade-Related Investment Measures
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights
TSD	Trade and Sustainable Development
UEP	European Union for Payments
UN	United Nations
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
UNRRA	United Nations Relief and Rehabilitation Administration
UNSD	United Nation Statistics Division
US	United States
USSR	Union of Soviet Socialist Republics
WB	World Bank
WEF	World Economic Forum
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Chapter 1: Introduction

1.1 Outline

The Free Trade Agreements (FTAs) are a type of Regional Trade Agreements (RTAs) that were established in the 1970s, and its proliferation has been significant especially since the last decade of the 20th century. The propagation of these type of accords was the result of an integration process between the large economies (and economic blocks) and the small economies. As of 15 October 2021, around 350 RTAs were in force according to the World Trade Organization (WTO, 2021). Implementation of the FTAs primarily involves economic and social dimensions. The economic dimensions of an FTA are focused on a variety of trade impacts which can be generally analysed mainly by qualitative and quantitative approaches and methodologies. The social dimensions are specifically related to the effects of the implementation of an FTA on labour rights, mainly from the side of the less developed partner(s). In this regard, it is important to identify the development gaps that affects to achieve the main objectives of the trade agreement.

The European Union (EU) and Colombia signed an FTA in 2012. Before signing the FTA, the EU first tried to negotiate a regional trade agreement with the Andean Community of Nations (CAN) – a regional block integrated by Colombia, Ecuador, Peru, and Bolivia. The two blocks started the negotiations in 2007, with the goal of signing a regional agreement based on three main foundations: political dialogue, political cooperation, and trade. However, in 2008, the negotiations were postponed because of disagreements with Bolivia and Ecuador related to the negotiation's terms, and then in 2009, the parties started to develop multiparty treaties between the EU and individual CAN member states. While, negotiations with Bolivia and Ecuador didn't bring any results at the beginning, negotiations with Colombia and Peru in 2010 led to signing the agreement by the Colombian and Peruvian governments in June 2012. The European Council and the European Parliament ratified the agreement in 2012, and finally it has been provisionally applied, with Peru since 1 March 2013 and with Colombia since 1 August 2013 (Council of Hemispheric Affairs, 2013). While actually Colombia has almost 15 FTAs in force and another 4 agreements being negotiated, the EU has almost 77 agreements in place, 24 agreements being adopted or ratified, 5 agreements being negotiated, and 24 agreements being on hold (SICE, 2015; European Commission, 2017a).

Regarding the EU, Colombia and Peru FTA, there are some studies that include Computable General Equilibrium Models (CGEM) to assess the economic and social impacts of the agreement. One of them is the study developed by Joseph, Narayanan, Norberg, Porto and Walmsley (2012) which is an ex-ante approach that implements a CGEM to simulate the effects of the trade agreement on the partner countries. This report describes the trade flows before the agreement entered into force, and the economic structure of the EU, Colombia and Peru. It also includes a quantitative summary of the trade agreement and the results which show that the EU-Peru and Colombia Free Trade Agreements will have a positive impact on the Gross Domestic Product (GDP) of the partner economies, although, as expected, the gains to the EU are estimated to be very small, i.e., less than 0.05 % across all baselines. The results are most important for Colombia where GDP is expected to increase by around 0.4% as a result of the agreement. The study of Stevens, Kean, Bartles & Woolcock (2012), includes an assessment of the mains possible gains of the EU, Colombia and Peru FTA taking into account the structural productive differences between the signing parties.

Additionally, the study conducted by the European Parliamentary Research Service (2018), presents an assessment of the evolution of the EU, Colombia and Peru FTA after five years of its implementation. The first part of the study describes the process leading to the signature of the trade agreement and also includes a brief description of the Colombia and Peru socio-economic context, as well as a description of the relations between the EU and the Andean Community. The study also examines the bilateral trade of good and services between the parties, international financial flows of foreign direct investment (FDI), sustainable development, intellectual property, and international cooperation. The methodology implemented in this study comprises both quantitative analyses, which includes the explanation and assessment of indicators, and qualitative analysis, based on primary and secondary sources of information.

The institutional reports presented by the European Commission and the Colombian Government, includes information on the main achievements in terms of trade flows and issues presented during the first years of the agreement implementation (European Commission, 2014; European Commission, 2016; European Commission, 2017; European Commission, 2018; Norman-López et al., 2016; MINCIT, 2019).

The implications of the signature and implementation of FTA goes beyond the pure economic impacts and trade effects. There are not only economic, but social and political implications within this type of agreements. The social implications have been analysed from the scope of sustainable development, human and labour rights. Though, there is a lack of empirical evidence of the effects of integrating social, and labour rights provisions within the trade agreements, there are some studies that include the social dimensions and human and labour rights implications of FTAs (ILO, 2015; Rettberg, De Lombarde, Lizarazo, & Ortiz 2012; Bartels, 2012). Studies about social dimensions of the EU, Colombia and Peru FTA are also scare. Nevertheless, Saura Estapà (2013), Marx et al., (2016), and Harrison et al., (2018), analyse the impacts of FTAs on human rights, and the impacts of the integration of labour rights provisions in this type of agreements. There are also reports that refer to the economic and social negative repercussions of the FTA mainly in Colombia, due to its high levels of corruption, low level of competitiveness, instability of its democracy, long and lasting internal conflict, human rights and labour rights violations, drug trafficking, paramilitarism and terrorism (For Human Rghts, 2013; Council of Hemispheric Affairs, 2013).

1.2 Research Design

The EU, Colombia and Peru FTA is a multilateral and intra-regional trade agreement, where the developed region is represented by the EU-28 countries, and the developing region is represented by Colombia and Peru.[1] Taking into account that the agreement has been signed independently and doesn't includes all CAN countries, this research only focuses on the agreement`s economic and social effects on the European and Colombian economies. Considering the theories and methods presented here, the main purpose of this thesis is to provide an answer to the next question: 'How flawed democracies and low deep and strategic negotiations of free trade agreements are related with negative

[1] Ecuador joined the Trade Agreement between the European Union and Colombia and Peru with the signature of the Protocol on 11 November 2016.

trade impacts and unequal distribution of the benefits of free trade agreements?' Accordingly, the hypothesis of the dissertation is:

> H_0: The EU-Colombia FTA does create positive trade impacts for both the EU and the Colombian economies, despite the development and democracy gap between the EU and Colombia.

In order to provide answers to the question and arguments to accept the hypotheses presented above, it is necessary to establish some additional research boundaries and clarifications. Firstly, Colombia was selected as a case study due its particular differences among the other Andean countries related specifically with problems of corruption, long and lasted internal conflict, and drug trafficking. The EU and Colombia FTA represents a case of regional integration between one economic block (the EU) and three developing countries separately (Colombia, Peru and Ecuador). In this sense, this research is only focused on the bilateral impacts on the EU and Colombian economies. Further studies will include the economic and social implications of the FTA on the Peruvian and Ecuadorian states. The period under consideration is 2010-2019 (some information covers until 2020) in order to analyse and compare economic effects of free trade between the EU and Colombia during the pre-agreement and post-agreement periods.

Secondly, it is necessary to establish a theoretical framework on free trade and free trade agreement theories in order to summarise the vast literature on this field and to establish the conceptual limits of this research. This framework is incorporated in the second chapter of this thesis which includes a brief review of the historical evolution of free trade and free trade agreements theories. The theory of free trade which has been built for more than two hundred years aims to demonstrate the benefits of free trade produced by the specialization process and the increase of productivity. The origins of free trade theory were elaborated by the Mercantilists, and then this matter was discussed and transformed by Adam Smith (1776), and, David Ricardo (1817). During the twentieth first century many scholars have been studying the evolution and real applicability of international trade theories by analysing its main assumptions and the historical evolution of free international trade. They have been including new methods and fields of analysis. For example, The Heckscher - Ohlin - Samuelson Theorem (HOS) presented in 1919, and the trade creation and trade diversion effects introduced by Jacob Viner in 1937. Although, the debates on free trade doctrine and protectionism were a part of the Marx agenda, the main critics to the trade doctrine were developed by the well-known Dependency Theory, the Theory of Uneven Development and the arguments presented by John Maynard Keynes in favour of Protectionism.

Thirdly, it is important to describe the context of the FTA by summarising the economic and trading structures of the European and Colombian economies by describing the overall patterns of production, trade and some social indicators. Chapter three, presents a brief overview of the EU Free Trade Agreements and the EU policies related to international trade as well as, some aspects of the Colombian process of economic openness, trade policies and social context. The chapter also summarises the structure, content and economic focus of the agreement.

Fourthly, it is important to define the methodology and to choose the methods in order to develop a multidisciplinary approach that gives an answer to the research question. Many scholars currently have developed several methods for ex-ante and ex-post economic evaluation of FTAs, they seek to understand the trade effects of economic liberalisation and free trade. On the one hand, the ex-ante evaluation includes Partial Equilibrium (PEM) and General Equilibrium Models (GEM), which are based on projections and simulations that show the possible trade effects of implementing an FTA. The ex-ante analysis estimates the effects of trade flows assuming that there was no FTA. On the other hand, the ex-post evaluation includes the Vinerian qualitative analysis of trade creation and trade diversion effects, and also recent Gravity Equation Models (GVEM) which are used to assess the FTAs impacts after they come into force.

The econometric models such as PEM, CGE models and gravity models are useful for analysing the economic impacts of an FTA on the welfare of member countries. However, these models do not pay attention to the social impacts of an FTA, for example, the impacts on labour rights and sustainable development. Plummer, Cheong and Hamanaka (2010) argue that quantitative methods are very useful for measuring the trade and welfare effects of an FTA. The authors argue that despite these methods are simple to compute by using a general equilibrium model, they have limitations in accounting for other causes, besides the FTA, that affect trade, assuming also that trade effects after the FTA are exclusively due to the FTA.

Therefore, taking into consideration that the agreement already entered into force, it is not possible to develop an ex-ante economic evaluation. It is important to take into account that the major part of the theoretical and empirical modelling for assessing the impacts of free trade agreements (FTAs) was produced in the context of developed countries. Consequently, this research implements an ex-post economic evaluation based in a multidisciplinary methodological approach that includes the qualitative analysis proposed by Jacob Viner and additional methods such as the horizontal depth analysis of the free trade agreement and the analysis of several trade indexes. The methodology and data for developing a multidisciplinary approach is presented in chapter fourth, which includes a new multidimensional indicator called Development and Integration Perception Index (DIPI),

Fifthly, in order to present the discussion of the main findings, chapter five presents the results obtained by implementing the multidisciplinary methodological approach described in the previous chapter. The first section of this chapter describes the horizontal depth analysis of the EU, Colombia and Peru FTA, and also summarizes the main features related with the labour provisions included in the FTA. The second section presents the qualitative analysis of the trade effects derived from the FTA. The third section is focused on the trade intensity and trade complementarity effects. Finally, the fifth chapter presents an assessment on the relation among trade, development, democracy and international integration through the new DIPI.

Finally, the conclusions are presented in chapter six. The main conclusions show that despite the EU and Colombia FTA is a relatively high depth agreement, the legal enforceability of social provisions is quite weak into the agreement affecting the implementation of the labour provisions and the achievement of trade and social ambitions. The conclusions also illustrate that expected effects of the FTA implementation are different between developed and developing countries meaning that it is not easy for developing countries such as Colombia to exploit the benefits of FTAs. This research shows that due the persistent development gaps, developing economies with flawed democracies, complex internal conflicts and low level of trade openness cannot exploit the benefits of an FTA in the same way as developed countries do.

Chapter 2: Theories of Free Trade and Free Trade Agreements[2]

2.1 Geneses of the Free Trade Doctrine

2.1.1 The Commercial or Mercantile System

The roots of the theories of free trade goes beyond the theories of foreign trade proposed by Adam Smith later eighteenth century. In his book "*Studies in the Theory of International Trade*", Jacob Viner (1937) characterizes the English ideas regarding trade before Adam Smith where the most important doctrine promoted by the English economic literature was the importance of having an excess of exports over imports. Viner argued that Adam Smith was inspired by the Physiocrats and he introduced the concept of the "commercial" or "mercantile" system, which will later become known as "mercantilism" (Viner, 1937).

Jacob Viner was a Canadian economist, born to a Jewish family, who argued that mercantilism was an economic system represented especially by both, the "bullionist" doctrines of the earlier period that appeared around 1560, the "balance-of-trade" doctrines of the later period that appeared after 1620. During the earlier period, the four main concerns on trade policy were: the importance of having favourable "balance of payments" in each transaction of each merchant, the reduction of the country's stock of bullion, protecting the national currency against exchange depreciation, and close regulation of the transactions of particular individuals in the exchange market, in coin and bullion. After 1620, the "balance of trade" doctrines were emphasized on reaching a positive national or aggregate balance of trade. During this period, the main aim of the trade policy was to collect a greater stock of bullion indirectly by means of regulation of trade rather than directly through restrictions on exchange transactions and on the export of coin and bullion (Viner, 1937).

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[2] A previous version of this chapter was published as "Theories and Methods of Regional Integration and Free Trade Agreements." *Revista de Economía Mundial*. (47) 2017.

The concept of a national balance-of-trade was originated from the idea of having an excess of exports over imports. This concept introduced in the sixteenth century became popular after 1615. Sir James Stewart used the term ‘favourable balance of trade’ in 1767 (Stewart, 1767). The evolution of mercantilist doctrine shows that the balance-of-individual-bargains stage preceded the balance-of-trade stage, the phrase ‘balance-of-bargain’ was introduced by early politicians among which of them was Richard Jones (1847), with this, he wanted to distinguish between means and not ends. The aim of the balance-of-bargain system was the same of the balance-of-trade system, nevertheless, the new complex system wanted to achieve that object by very different means. The early bullionist regulations were set on the transactions in coin and bullion and foreign exchange, whereas the later customs regulations were looking for the same results indirectly through commodity imports and export regulations.

The literature on mercantilism describes three chronological stages in the evolution of the balance-of-trade doctrine: first, the individual bargain; second, the notion of the balance of trade with particular countries (but not the total balance of trade); and, finally, the implementation of the concept of the national or aggregate balance. A historical description about this topic can be found in Viner’s’ words: “In the seventeenth and eighteenth centuries there was much controversy about the state of the balances with particular countries, but always with reference to their bearing on the aggregate-balance.” (Viner, 1937, p. 11).

According to Viner (1937). The mercantilists were criticised for the failure of including many ‘invisible items’ in the international balance different to exports and imports of commodities Most of the invisible items were classified during the seventieth century and some of them includes the remittances, freight earnings, interest payments on foreign loans, diplomatic and military expenditures abroad, travellers’ expenses, marine insurance payments, gains from fisheries, losses at sea of outward and inward shipments of goods, gifts, interest, and life and commodity insurance, absentee incomes and losses from bad debts, the earnings of migratory labour abroad, tourist expenditures. The interest of mercantilists was focused on the ‘balance of payments’ in its strict sense of a net balance of immediate obligations payable in specie, and they were also focused in the inward and outward flows resulting from the balance of payments.

Such as the physiocrats were criticised because they used to believe that the wealth of nations depended on the agricultural sector, the mercantilists were commonly criticized because they used to argue that the wealth of nations depended on the accumulation of precious metals. Viner (1937), explained that the mercantilists were interested in export surplus as a strategy to accumulate more bullion, their main goal was to achieve a favourable balance of trade as a method to obtain bullion for a country without mineral resources such as silver or gold. Many of the mercantilists, argued that foreign trade was the only mean to increase the wealth of nations and that money was not only a passive medium of exchange, but also an instrument for stimulating trade. Finally, they argued that by achieving a favourable balance of trade, a government would improve the level employment of labour.

2.1.2 The Absolute Advantage and the Comparative Advantage

From the mercantilism epoch till the current globalization process, free trade has been studied from the perspective of different economic theories. The mercantilists argued that by achieving a state of autarchy a country would be able to achieve success. In his book "*An Inquiry in to the nature and causes of the wealth of nations*" the Scottish philosopher and economist Adam Smith (1776) criticized the principle of autarchy by observing that countries naturally had specific strengths or *absolute advantages* in particular areas or sectors, that's why the countries should focus on their strengths.

In the 'system of natural liberty' described by Smith the individuals are motivated by their own interests, and the government is responsible for establishing a legal framework to international commerce, the production of public goods (such as roads, in Smith's view), and the creation of a system of justice where the private interests of individuals could be turned toward productive activities, and the public claims were expressed in the marketplace (Irwin, 2020). The main ideas of Smith are analysed by Irwin, (2020):

> Smith envisioned a system that would give people the incentive to better themselves through economic activities, where they would create wealth by serving others through market exchange rather than through political activities,

> where they might seek to redistribute existing wealth through brute force or legal restraints on competition. Under such a system, the powerful motivating force of self-interest could be channelled toward socially beneficial activities that would serve the general interest rather than toward socially unproductive activities that might advance the interests of a select few but would come at the expense of society as a whole. (Irwin, 2020: 36)

Free trade is one of the most important pillars of a system of economic liberty. According to Smith, in a system of natural liberty commerce inside a country is principally free from restraints on competition and commerce is allowed to operate freely between countries. Smith argued that free trade would increase welfare because of the competition of domestic firms. Additionally, the country would gain by putting the best prices of exports and imports in the world market (Smith, 1776).

Smith believed that it was better for individual producers to specialize, become productive and efficient in what they were best in producing. The process of specialization was a result of the division of labour, it allowed entrepreneurs to increases labour productivity and output of their companies (proto-industries). The productivity is understood as the capability to produce more goods with the same resources; this capacity also allows to improve living standards, economic welfare and wealth for the entire society. In order to avoid poverty into the smaller and isolated markets, and taking into account that division of labour is limited by the size of the market, free trade is the solution that allows small countries to extend the effective size of their market. Trade allows such countries to improve the level of division of labour and increase its real income without the artificial limitations established by government policies.

David Ricardo (1817) deepened into the Smith`s arguments in his theory of international trade. In doing so, he introduced the theory of *comparative advantage*. The theory states that a country could find it gainful to *export* some goods that they produce efficiently and could find it advantageous to *import* from other countries the products that they produce less efficiently. This process enables all countries to achieve the benefits from trade. The theory of comparative advantage has three main assumptions: first, the productivity of labour is constant; second, opportunity costs allow to complete specialization; and, third, technological differences between two countries create international trade. According to Ricardo, the theory of comparative advantage has a static approach, but it is also a dynamic concept. The comparative advantage of a product in a given country can be different over time because of the changes in specialization, technology, resource endowments, business practices, demand patterns, and government policies.

The main argument in favour of liberal economists is that free trade allows labour productivity and economic growth. Free trade promotes specialization, division of labour and by following the individual interest, in trade conditions, there is a competence among the industries for producing better goods by maximizing the efficient use of scarce resources and finally creating welfare in the society as a whole.

For example, as the Colombian financial sector is less competitive in comparison with the European financial sector, the Colombian financial sector might be able to achieve the same level of efficiency as the European financial sector, but if Colombian bananas and coffee producers are vastly more efficient than their European counter parts, Colombia will continue to export coffee and bananas to Europe.

Both Adam Smith's principle of 'absolute advantage' and David Ricardo's principle of 'comparative advantage', emphasises the technological capacity as a condition of differentiation between two countries. Absolute advantage means that a country is absolutely more efficient in producing a good compared to another country. Nevertheless, the absolute advantage is not sufficient for mutually beneficial trade.

Besides Smith and Ricardo, one of the most prominent representatives of classic economists is John Stuart Mill, in his book *Principles of Political Economy* (1848) he describes the three principal gains from trade. First, there are "direct economic advantages of foreign trade." Second, there are "indirect effects" of trade, "which must be counted as benefits of a high order." Finally, the economic benefits of commerce are surpassed in importance by those of its effects which are intellectual and moral (Mill, 1848).

The 'direct economical advantages' of trade are the regular gains derived from the process of division of labour and specialization, as described by Smith and Ricardo. By promoting exports and imports among countries, it is possible to achieve benefits from trade; it means that if any country is able to be more productive and efficient, this country will achieve a higher real national income than it could in the absence of trade. Whit a higher real income, consumers are able to purchase more of all goods and services than would be possible without trade (Irwin, 2020).

According to Mill (1848), indirect effects include the tendency of every extension of the market to improve the processes of production. It means that trade promotes productivity growth. Those countries with higher levels of productivity will achieve higher standards of living. There are two main contributions of international trade on productivity: it helps with the transfer of foreign technologies, and it increases competition among industries, pushing them to become more efficient and improve their productivity, as a result, more unproductive firms will disappear while more productive firms will grow and become exporters.

Regarding John Stuart Mill's (1848) third and final claim, trade eliminates the isolation among counties and eliminates the domestic prejudices of people. Competition increases the variety of products and services, and also create an environment where firms are more receptive to customers. It means that quality is the reference that allows producers to compete for attracting consumers. Finally, there is a general consensus that trade promotes peace among nations. There is an assumption that says democracies are more peaceful than autocratic countries, thus, trade must to promote democracies and democracies are more likely to promote free trade. Despite the evidence shows another reality in some countries, it is assumed for some economists that countries that are more open also tend to be less corrupt, and it is expected that trade may reduce crime (Irwin, 2020).

2.1.3 The Heckscher - Ohlin - Samuelson Theorem

At the end of the Second World War, the world economy functioned under totally different conditions from those that would differentiate a free market with free competition. According to Perroux (1970), The three main features of the world economy after the middle of the 20th century were: 1) the world economy was made up of nations that announce their own reality, within groups of countries mainly constituted by internal political procedures. Under the direction of H. B. Wolley *The National Bureau of Economic Research* integrated the international trade matrix which includes the polarized exchanges around central (industrialized) countries. The evidence shows a global trend of consolidating groups or blocks of nations more than free trade zones or customs unions. The process of integration in some groups of nations is diverse and is promoted by the integration of markets, investments and institutions; 2) there are still unconventional forms of competition between the nations such as; the oligopolies and monopolies regimes, heterogeneous and monopolistic competition. The analysis of the impact of these regimes in international trade is very criticised because there are companies with multiple and differentiated productions that concentrate the benefits offered by the governments. That's the reason why the simple or complex units that take advantages of the dimension, the nature of the activity and the bargaining power in their favour, produces asymmetric actions of influences and partial and extensive dominations over the others; and 3) there is increased interest in the different dimensions involved in the relationships between individuals, industries and nations contrasted with a reduction in the interest of achieving internal and external equilibrium. Currently, economists work on the structures in order to modify prices instead of waiting for prices to modify structures. It does not mean that costs and prices have become negligible, but it means that concentration by different forms, the group policies, preferential interventions through credit and the treasury, strategies subject to programs and indicative plans, that is to say, a large number of out-of-market operations are connected everywhere producing impure and imperfect markets.

In this context of unequal competition and market imperfections was created a new theorem better known as the Heckscher Ohlin Samuelson theorem (HOS). Eli Heckscher (1919) was a Swedish economist and politician who introduced the theorem, in his famous article *The effect of foreign trade on the distribution of income* published in the "*Economisk Tidskrift*". Bertil Ohlin (1933) was a Swedish economist who wrote the well-known book: "*Interregional and international trade"*, where he continued developing the theorem without applying complex geometric and mathematical fromulations. Finally, Paul A. Samuelson (1948) was an American economist of Jewish origin from the New Keynesian school who includes to the theorem several geometric and mathematical methods that he presented in his article: "*International Trade and the Equalization of Factor Prices*".

According to Perroux (1970), the HOS theorem summarizes and collects Ricardian interpretations, not only by analysing demand factor (J. S. Mill), but also by obtaining only some consequences due a poorly intelligible and inoperative structure because it is limited to unequal endowments of two factors. Based on the ideas of Ricardo and J. S. Mill the HOS theorem should provide answers to the next three interrelated questions.

1. Why the comparative costs? Because they are not the last elements; they come from the production factors endowments which are uneven in the different countries.
2. What is the cause and size of international trade? Comparative costs are equal to prices; therefore, cost-prices result from the factors relative scarcity.
3. Where does the optimization of global collective advantage come from? By means of the price's equality of exchanged products and factor remunerations; this equalization is the consequence of trade between nations with unequal factor endowments.

Consequently, Perroux, (1970), proposed an answer for all three questions derived from the unequal endowment of factors of production and their unequal relative scarcity among nations, and described that the theorem consists of two propositions:

1. The relative endowments in production factors, determine the relative costs and prices (price = costs) of the products exchanged.
2. Product exchange is the perfect substitute for factor mobility.

The corollaries of the two propositions are the following:

1. The exchange of products is -indirectly- an exchange of relatively abundant factors against relatively rare factors.
2. *Potential welfare* is increased through exchange, (understood as the disposition of larger quantities of material goods at the same price or equal quantities at lower prices). If the "world" is represented by the two countries, its potential level of well-being increases thanks to international trade.
3. The factors price is equalized. Since the products are sold at an equal price-cost, the price of the products is equalized.
4. The international specialization or division of labour is developed thanks to the action of the price, which develops an optimal resources distribution among countries.

Perroux, (1970) argues that by examining the propositions of the theorem it is possible to understand that the theorem is not provable unless all the following (irrefutable) conditions can be satisfied:

1. Factor markets and product markets are in a regime of *complete competition*.
2. Factor mobility is total within a non-existent country, from one country to another.
3. The possible production curve is concave with respect to the origin of the axes. The factors of production are substitutable among them.
4. The *production techniques* for identical goods are the same in each country. The same quantities of material factors, applied to a given production, yield the same quantity of product in all countries.
5. The *production functions* for the two goods are lineal and homogeneous. Thus, factor returns relative to scale are constant.
6. The production functions depend on the intensity of a factor to obtain a specific product; all goods can be classified according of the intensity in the implementation of a factor. Goods are classified in goods that require intensive use of labour or goods that require intensive use of capital. The relative prices of factors should not have any effect on the classification of the goods.
7. The quality of production factors is identical in the two countries.
8. The endowment factor quantities are fixed and fully used.
9. Each country has a different factor endowment.

In order to summarize some critics on HOS model, Perroux (1970), argues that international trade does not result from varied endowment of factors, but from other elements such as: differences between the quality of factors, differences between production techniques, increasing returns to scale, consumer preferences expressed by their demand, the differences in power between private and public groups which generates irreversible asymmetric effects. These phenomena are essential for understanding, analysing and organizing trade between nations and this can only be achieved by applying new instruments of analysis that includes: structure, macrounit, structure preference and structure influence. It is also necessary to note that economic exchanges and all social exchanges are unequal, international exchange is an exchange between unequal countries. In conclusion, the HOS model does not represent the real world, but it is a theoretical abstraction of the factors present in the real world, that prevent the achievement of equality of factor returns, equality that could characterize global economic efficiency.

2.1.4 The Trade Creation and Trade Diversion Effects

During the first half of the twentieth century, the analysis on international trade has been especially developed from the perspective presented by Jacob Viner (1950), who introduced the welfare variable into the international trade theory in general and mainly into the theory of customs unions. Viner introduced the terms *trade creation* and *trade diversion,* and he was the first one who explained the positive relation between welfare and free trade. He also described that the reduction in the level of welfare was the result of the importers behaviour which moved from cheap world resources to expensive priced member country resources after tariffs dropped to zero on intra union trade.

Johnson (1953) concludes that the concept of trade diversion and trade creation introduced by Viner should be well defined in order to differentiate its welfare effects. Thus, when there is *trade creation* the welfare changes are a manifestation of displacement from higher cost domestic production and/or higher cost imports to lower-cost imports, and when there is *trade diversion*, the welfare changes are a result of the movement of imports from a low-cost source by imports from a higher cost source.

In the late of the twentieth century, Paul R. Krugman (1987, p131) said that "[...] *the appreciation that international trade benefits a country whether it is fair or not has been one of the touchstones of professionalism in economics*". In his article, Krugman underlines the substantial developments in international trade theory established in late 70's, describing that the traditional constant returns and perfect competition models of international trade (such as trade models of Ricardo and Heckscher-Ohlin-Samuelson) were being complemented and replaced by new theories focused on imperfect competition and increasing returns.

The existence of imperfect markets paves the way to redefine the theory of free trade. Jagdish Bhagwati (1994), explained two main threats to the world trading system: on the one hand, the idea that the distributional effects of freer trade may affect negatively the employment level and the wages of the unskilled workers in developed countries, and on the other hand, the threat is represented by both regionalism and aggressive unilateralism where the developed countries uses free trade as a selfish hegemony strategy to take advantage on the developing countries.

According to Pomfret (1991), since the 1970s the new trade theories based on imperfect competition have been held on the basis of three arguments used to support for an interventionist trade policy.

1. trade barriers can be welfare improving if there exist economies of scale;
2. with monopolistic competition trade barriers can be first-best; and
3. the issue of rent snatching under imperfect competition.

The weakness of the liberal trading system was evidenced during the financial crisis and the failure of 2008 trade talks in Geneva. On this subject, Salvatore (2009), presents six arguments to avoid access in the free trading system:

1. strategic trade and industrial policies;
2. the deindustrialization of advanced countries;
3. rapid globalization and outsourcing;
4. advanced countries demand for stricter labour and environmental benchmarks in emerging economies;
5. rise of regional trade agreements (RTAs); and
6. rising protectionism to ward off the global financial crisis.

According to Hoekman and Kostechi (2001), the main arguments for implementing an interventionist trade policy can be classified in several groups as follows:

1. taxing trade generates government revenue;
2. mercantilism view that exports are good and imports are bad;
3. barriers are important for agricultural and industrial development; and
4. trade policy can be used to redistribute income.

2.2 Debates about the Free Trade Doctrine

2.2.1 The Marxist Ideas on Protectionism and Free Trade

Reza Ghorashi (1995) in his article *Marx on Free Trade,* identifies the main ideas on Protectionism and Free Trade proposed by Karl Marx where he explains that: "…Marx was neither a 'Free Trader' nor a 'protectionist,' he did consider free trade to be more compatible with industrial capitalism and conducive to general economic development than protectionism, which he associated with the era of merchant capitalism" (p. 38). It is well known among the economist that Marx did not developed a theory of international trade, nevertheless, Marx was leaned far more toward the idea of free trade more than protectionism. According to Marx (1867), foreign commerce is a result of the circulation of capital and capitalist production. Despite, the fact that there is no a big interest of international trade in Marx's discussions, it does not mean that the issue was not properly analysed.

Ghorashi (1995) explains that Marx was not very interested in the discussion of "free trade vs. protectionism", he was not interested in the working-class of a particular country but he was interested in the integration and conditions of the international working class. On the issue of protectionism Marx affirms: "The preservation, the conservation of the present state of affairs is accordingly the best results the protectionist can achieve in the most favourable circumstances. Good, but the problem for the working class is not to preserve the present state of affairs, but to transform it into its opposite" (MECW, 1976-6: 280). About free trade Marx wrote the next:

> To sum up, what is Free Trade under the present conditions of society? Freedom of Capital. ... So long as you let the relation of wages-labour to capital exist, no matter how favourable the conditions under which you accomplish the exchange of commodities, there will always be a class which exploits and a class which is exploited. (MECW, 1976-6: 463)

According to Marx, protectionism belongs to the pre-industrial era (merchant-capital), while free trade is a state of industrial capitalism. In Marx's view, protectionism was an outdated system aimed at maintaining the status quo by patriotism and nationalism. Marx also describes the two main schools of protectionism being against to both of them. The first school named “Protectionist Proper” led by Friedrich List, in Marx´s view, wish to enrich the big industrial capitalists, it means, the domestic bourgeois by allowing him to exploit his fellow-countrymen than by foreigners (Ghorashi, 1995). The second school proposes a set of prohibitive measures to protect national labour and handicraft production. Marx considered that more that avoiding the entry of foreign industrial products, these measures hinder the progress of national industry. Nevertheless, Marx´s also underlines some benefits of protectionism as is shown in the next paragraph:

> Manufacture could not be carried on without protectionism, since, if the slightest change takes place in other countries, it can lose its market and be ruined. ... At the same time ... it is to such extent interwoven with the conditions of life of a great many individuals, that no country dares jeopardize their existence by permitting free competition. (MECW, 1976-5: 71)

Finally, Marx was a pioneer in recognizing that protectionism enables the existence of several kinds of hostility among nations such as trade wars and the potential for retaliation:

> We regard such a [protective] system much more as the organization of a state of war in time of peace, a state of war which, aimed in the first place against foreign countries, necessarily turns in its implementation against the country which organizes it. ...But in any case an individual country, however much it may recognize the principle of Free Trade, is dependent on the state of the world in general, and therefore the question can be decided only by a congress of nations, and not by an individual government. (MECW, 1975-1: 286)

Marx views on free trade underlined that industrial capitalists and free traders are no friends of proletariat (working-class). He did not believe in the free trade assumptions of improving workers' living conditions and workers’ wages. The main concern of workers was low wages, in this regard Marx says:

> Doubtless, if the prices of all commodities fall - and this is the necessary consequence of Free Trade - I can buy far more for a franc than before. And the workingman's franc is as good as any other man's. Therefore, the Free Trade must be advantageous to the workingman. There is only one little difficulty in this, namely that the workingman, before he exchanges his franc for other commodities, has first to exchange his labour for the money of the capitalist. ... If all commodities are cheaper, labour, which is a commodity too, will also fall in price (MECW, 1976-6: 458).

According to Ghorashi (1995), Marx was not impressed by the principle of comparative advantages, mainly the version suggesting that nations have comparative advantages based on their "natural endowment" which argues that: those who are rich in natural resources should export raw materials; and that those who are rich in labour force should export manufactured goods. Those assumptions explain the colonial pattern of trade, where colonies and ex-colonies must produce and export raw materials (low value-added products) and the industrialized countries export finished goods (high value-added products), which is an evidence of the victory of the bourgeois (big industrial capitalists) over the proletariats (working class). A famous critique of Marx in this regard underlines: "You believe perhaps, gentlemen, that the production of coffee and sugar is the natural destiny of the West Indies... Two centuries ago, nature, which does not trouble itself about commerce, had planted neither sugar-cane nor coffee trees there" (MECW, 1976-6: 464).

Finally, Marx showed his preference of free trade over protectionism; he explained that by expanding the free trade around the world, the creation of the conditions for a global union of workers will be possible, which allows an international movement that promotes the emancipation of working class. In this regard Marx says:

> Thus you have to choose: Either you must disavow the whole of political economy as it exists at present, or you must allow that under the freedom of trade the whole severity of the laws of political economy will be applied to the working classes. Is that to say we are against Free Trade? No, we are for Free Trade, because by Free Trade all economic laws, with their most astounding contradictions, will act

> upon a larger scale, upon a greater extent of territory, upon the territory of the whole earth; and because from the uniting of all these contradictions into a single group, where they stand face to face, will result the struggle which will itself eventuate in the emancipation of the proletariat. (MECW, 1976-6: 290).

Marx supports the free trade assumption that explains:

> Free Trade increases the productive forces. When manufactures keep advancing, when wealth, productive forces -in a word, productive capital- increases, the demand for labour, and consequently the wage rate, will rise also.
>
> The most favourable condition for the workingman is the growth of capital. This must be admitted: When capital remains stationary, commerce and manufacture are not merely stationary but decline, and in this case the workingman is the first victim (MECW, 1976-6: 459).

Marx argues that the growing of capital also affects negatively and increases the number of proletariats. Economic crises will appear if capitalists push capital to produce more. He is optimistic about the idea that the contradictions of capitalism will allow the conditions for its collapse and replacement by socialism. While protectionism is an obstacle to capitalist development, free trade enhances it (Ghorashi, 1995). Marx position can be synthesized in the next paragraph:

> But, generally speaking, the Protective system in these days is conservative, while the Free Trade system works destructively. It breaks up old nationalities and carries the antagonism of proletariat and bourgeoisie to the uttermost point. In a word, the Free Trade system hastens the Social Revolution. In this revolutionary sense alone, gentlemen, I am in favour of Free Trade (MECW, 1976-6: 465).

The method of historic materialism proposed by Marx's contains the idea of progress. From an historical point of view, capitalism is progressive in comparison with the precapitalist era. Thus, it is possible to say “precapitalist” and “capitalist” instead of “protectionism” and “free trade,” respectively. Consequently, Marx links protectionism with mercantile capitalism, and free trade with industrial capitalism (Ghorashi, 1995). Currently, it is hard to conclude that in the present days Marx would support free trade on protectionism, in other words, that Marx would be a defender of the NAFTA, the EFTA or any kind of free trade Agreement, but what is possible to say is that free trade will allow the conditions to the collapse of industrial capitalism and the rise of a kind of progressive socialism. The interpretations of the Marx ideas have been in the middle of the debate of his main followers, disciples and critics.

According to Jagdish Bhagwati, (2007) the main argument in favour of free trade is its capability to promote labour productivity and economic growth. Thanks trade firms can compete and promotes division of labour and specialization in order to maximize the efficient use of scarce resources and economic welfare which can be difficult to achieve by the ways of protectionism or autarky. Nevertheless, during the 20th century, prominent Marxists such as Lenin, Kautsky, Bukharin and Rosa Luxemburg were involved in a debate on the colonial pattern of international trade. Following the Marx's ideas, criticizers of liberalism affirm that free trade under the conditions of capital international markets promotes unfair trade and also creates power inequalities, mostly derived from the market failures such as the imperfect competition, the monopolies and the establishment of the capitalist market relationships both into and between the states.

According to Strange, (2020): "Such power inequalities—which include uneven levels of economic development between states, power imbalances between global corporations and the workers they employ, and power imbalances between global corporations and weak states—create what critics of free trade regard as *unfair* trade" (Strange, 2020: p. 28). Criticizers argue that free trade is mostly focused on aggregate and global outcomes and the capitalist international market generates inter-class and inter-state inequalities which improve the conditions of income and wealth of a minority while others are affected by low incomes and poverty.

Gerard Strange, (2020) describes that during the 20th century free trade theory has been in the hearth of the discussions among trade defenders and critics. Opponents argue that free trade has generated and reproduced inequalities in the international distribution of wealth, especially between developed OECD economies and developing economies of Asia, Africa and Latin America. Most of the critics came from the so-called dependency school of development studies, which is focused on the causes of inequality and development gap between developing and developed countries. Critical scholars from the so-called dependency school of development studies developed to two theories in order to analyse the classic free trade theory in contrast with the relation of free trade, international inequality and development: the theory of unequal exchange, and the theory of combined but uneven development.

2.2.2 Dependency Theory and Unequal Exchange

According Strange, (2020), there are asymmetric and interdependent relations between the developed and developing countries (the global north and the rest of the world), this means that the economic international relations are characterized by "unequal international exchange". On one hand, developed countries are characterized by high skilled and specialized labour force, specialized manufacturing production, high levels of investments in research, and development, production of goods and services in relatively high-value-added sectors, the existence of monopolies over the production of goods and services and balance of payments surpluses derived from free international trade. On the other hand, the main features of developing countries are low skilled workers, low levels of productivity and specialization in the production and export of relatively low-value-added commodities and manufactured goods. Those goods are commonly produced with labour-intensive methods of manufacture.

According to dependency school theorists, the theory of comparative advantage involves an unequal international exchange. In absence of equal exchange, the specialization capacity of developing countries is limited to the low-value-added sectors, their trade balance is commonly negative, which means that they will not perceive most of the positive benefits of international trade (Strange, 2020). The former director of the Economic Commission for Latin America and the Caribbean (ECLAC) Raul Prebisch, (1950), described that underdeveloped countries suffer from a long-term "diminishing terms of trade" as a result of the two main factors: 1) the growing levels of productivity in the production of primary commodities and low level of productivity in the production of manufactured goods; and 2) the prices of exports associated with underdeveloped countries are more volatile than the prices of the goods they import from the rich countries. Consequently, unequal exchange and diminishing terms of trade are two obstacles to achieve an equal distribution of the benefits of international trade which mainly affect developing countries.

Prebisch (1981) argues that the crisis of capitalist system is the result of social changes derived from the evolution of technology. The disequilibria produced by these changes affect the internal economies of both the central and the peripheral countries on the one hand, and the centre-periphery relations on the other. In order to correct the external disequilibrium in the periphery, it is necessary to promote trade and financial openness, the implementation of a model of import substitution at the sub-regional and regional levels, as well as the renegotiation of the external debt, which implies the extension of maturity periods and reduction of interest rates. In order to overcome the internal disequilibrium, the global surplus should be regulated democratically including the active participation of all the social groups and actors involved.

Strange, (2020), argues that under a scenario of unequal exchange, free trade is an obstacle to the development in poor countries, contributing to continuity of internal economic, political and social problems such as persistent international debt, low levels of investments in the innovation and development sector, destruction of large segments of the rural economy and small businesses, unemployment, corruption, crime and violence.

2.2.3 The National Economy, Protectionism, and Uneven Development

The theory of "combined and uneven development, initially linked with the Marxist ideas was developed by Friedrich List, (1841) in his classic critique of free international trade, *The National System of Political Economy*. Starting from the classical theory of comparative advantages, division of labour, international specialization and economic growth, List's critique of free trade argues that international trade occurs among counties with different levels of labour productivity and economic development. Within this perspective, the benefits of free international trade will be concentrated by the more competitive and advanced economies at the expense of the less productive and developed economies.

List was a defender of a policy of extensive state-led protectionism focused on the improvement of international competitiveness among nations. His theory assumes that protectionist measures as a national development strategy were key for the industrialization and subsequent competitive success of developed economies in open markets (List, 1841). During the twentieth century until the present, List's protectionist ideas have been inspired the design and implementation of several protectionist measures, implemented by several developing regions such as Latin America where the "import-substitution industrialization" policy unfortunately failed as a development policy. Nowadays, China is implementing the post-Listian strategies in its process of integration into the global capitalist trading system (Strange, 2020).

From the point of view of the core-periphery process of integration, Wallerstein (1976) explains that in the capitalist world-economy, the international relations of semi-peripheral states is supported by the Marxist idea of class division (bourgeois-proletarian) and the division of labour (core-periphery). The core-periphery analysis characterizes those regions with high-profit, high-technology, high-wage, diversified production is concentrated (the core countries) from those characterized by low-profit, low-technology, low-wage, less diversified production (the peripheral countries). Thus, around this asymmetric scenario most of the profits will be always on the side of core producers.

Tamás Szentes (2003) presents an analysis of the asymmetrical interdependences involved in the structure, behaviour and relations among the developed and underdeveloped countries. Szentes describes how the dichotomy between development and underdevelopment within the world economy has evolved during the last centuries as a concomitant, on the one hand, of the rise, in only a certain part of the world, of modern industrial capitalism in the form of national market economy, and, on the other hand, of the gradual unfolding of a capitalist world economy which is uneven. Therefore, the Centre-Periphery relations with asymmetrical interdependences allow understanding the international development gap and causes of underdevelopment.

According to Szentes (2003), in order to study the manifestations and consequences of the unequal international conditions, it is necessary to observe the manifestations and effects of the disintegrated internal structure of economy. These manifestations can be mainly characterized by six types of asymmetrical interdependences: 1. Asymmetrical patterns of international trade of products and services; 2. Asymmetrical ownerships relations stemming from FDIs; 3. Asymmetrical relations resulting for labour migration and technical assistance; 4. Asymmetrical interdependence in international financial and monetary relations; 5. Asymmetrical interdependence in technology transfers; 6. Asymmetrical interdependence in information flows.

2.2.4 Keynes and the Protectionism

The third decade of the twentieth century was a period characterized by high unemployment rate around the industrialized countries. In the context of the Great Depression of 1929, John Maynard Keynes (1934) wrote his book *The General Theory of Employment, Interest and Money* where he developed the ideas that changed the basis of the economic discipline by introducing the macroeconomic analysis of variables such as: aggregate income and output, the price level, and total employment. Regarding free trade, Keynes was a defender of abandoning free trade and promoting protectionism due to the specific circumstances of Britain's' economy illustrated by: downwardly inflexible wages, a government commitment to maintain a fixed exchange rate, and a large pool of unemployed labour. Under these conditions, Keynes advocated the use of tariffs to help expand output and increase employment (Irwin, 1996). Nevertheless, in the 1923s at the beginning of his career, Keynes used to be a strong defender of free trade:

> We must hold to Free Trade, in its widest interpretation, as an inflexible dogma, to which no exception is admitted, wherever the decision rests with us. We must hold to this even where we receive no reciprocity of treatment and even in those rare cases where by infringing it, we could in fact obtain a direct economic advantage. We should hold to Free Trade as a principle of international morals, ad not merely as a doctrine of economic advantage (Keynes, 1978a: 451).

Keynes (1978b) argued that a policy of tariffs on manufactured goods were a fraud and would never help to solve the unemployment conditions. By analysing the high rates of unemployment in the 1920s in Great Britain, Keynes argued that import tariffs could help to improve aggregate output and employment (Irwin, 1996). Keynes argued that the war inflation diminished the value of the sterling pound and affirmed that the overvaluation of sterling relative to other currencies could boost Britain's foreign direct investments

(FDI) affecting negatively the balance of trade surplus. May be here is the point where Keynes started to change his theoretical framework by adverting that because the British government's gold reserves were limited, the outflow of gold eventually had to be stopped either by increasing the export surplus or by reducing foreign investment. Keynes argued that the fell in prices of British goods would increase exports (and employment and output) until the balance of trade would be able to restore external balance and remove the gold outflow. In this sense, a deflationary monetary policy would increase unemployment due the price reduction will not reduce wage costs leading business losses, this situation in a world of organized with strong proletarian electorate and trade unions will create tensions into the social and political forces of any country (Irwin, 1996).

Irwin (1996) summarizes the seventh recommended solutions presented at the beginning of the Great Depression in 1930 by Keynes as an adviser of the British government:

> First, Britain could change the price at which sterling was pegged to gold (devaluing sterling and revaluing gold) and thereby pursue a more expansionary monetary policy. …Second, there could be a general agreement to reduce money wages, facilitating the operation of the classical adjustment mechanism. …Third, industry could be subsidised in order to restore business profitability without entailing any cut in money wages, but this encountered practical (mainly fiscal) difficulties and its adoption was "very unlikely." Fourth, industry could enhance its productivity (rationalize production), producing more output at the same wage costs, but this uncertain method operated too slowly and could actually exacerbate unemployment in the short run. …Fifth, as suggested in the Treatise, import tariffs could be imposed in an effort to increase domestic output and employment while improving the trade balance. Sixth, domestic investment could be indirectly subsidized to increase domestic output and reduce foreign lending. Seventh, major central banks could act jointly to pursue a more inflationary monetary policy, thereby expanding their economies and relieving unemployment without violating balance of payments constraints or requiring exchange rate adjustments. (p. 291)

Keynes most favourite solutions were the import tariffs and home investments, he saw tariffs as a mitigation rather than a solution to unemployment. In the middle of the crisis of 1930, when no government was regulating the economy totally the idea of observing the benefits of a general tariff became attractive to him. Consequently, Keynes started to be convinced that may be some protectionist policies could create some benefits, and he started to present his views more openly (Keynes, 1978c). Keynes argued that a tariff was not the best method but it could promote economic recovering and resolve the imbalances of money costs and the exchange by increasing domestic prices and reducing real wages until their equilibrium value without affecting negatively nominal wages. In addition, the implementation of tariffs can create a favourable climate for new investment. To sum up, Keynes presented three policy options to increase employment and rejuvenate business activity: nominal wage reductions, devaluation, and import tariffs. In 1930, Keynes's argument for tariffs was based on the two critical assumptions: nominal wage rigidity and fixed exchange rates (Keynes, 1978c).

Free trade defenders argue that a tariff can dissuade employment from one industry to another but cannot raise employment. Keynes started to criticize free trade underlining the failure of wage flexibility to operate effectively as an equilibrium mechanism. Keynes rejected the idea that the effect of tariffs on aggregate employment is null because there is more than only a movement of workers from one industry to another. Keynes strongly believed that tariffs could be removed after the economy were restored; he also believed that there is no any direct relationship between the volume of imports and exports. Nevertheless, many economists were sceptic about the success of protectionism measures as a solution to unemployment because many protectionist countries with tariff barriers were suffering for high unemployment levels which were even higher than in Britain (Irwin, 1996).

The debate on tariffs was postponed by the great depression and Keynes dropped his call for a tariff and proposed to analyse and discuss other solutions to stimulate economic recovery. Then he started to propose the reduction of interest rates in order to stimulate the economy instead of the exchange rate objective. Keynes was not a great defender of free trade but he did much more than defending protectionism in extreme circumstances. He showed the problems of free trade related to factor mobility and factor price flexibility, and he also understood the factor immobility as a problem of insufficient aggregate demand. Nevertheless, Keynes always defended import restrictions as a good strategy to achieve the domestic objective of full employment and the external objective of balance of payment equilibrium under fixed exchange rates (Irwin, 1996).

Currency devaluation was another proposal offered by the Keynes in 1920`s and 1930`s, but the Keynes of 1940's was an open defender of protectionism. He believed that devaluation would create the tendency to deteriorate the terms of trade, he was not totally convinced of the efficacy of devaluation on the economic stabilization. It is possible to say that Keynes started to stop believing in free trade after observing the incapability of older liberalism doctrine to reduce the growing levels of England unemployment. Finally, the dilemma presented is whether a nation can achieve full employment by implementing protectionism or promoting free trade with unemployment.

2.3 Globalization, International Integration and Trade Agreements

Currently, scholars still debate about the origins, scope, and dimensions of the process of globalization. Some of them claim that globalization is a contemporary phenomenon, while others described globalization as a historical process. There are also several groups of globalization advocates, those who propose alternatives and finally those who are against of it. For these reasons, it is necessary to study this phenomenon from different angles in order to find the differences and correlations between economic globalization, global integration, regional integration and free trade agreements.

Held, McGrew, Goldblatt, & Perraton, (1999) argue that the four main stages of globalization are: pre-modern globalisation (9-11 millennia); early modern globalisation (1500-1850), modern globalisation (1850-1945); and contemporary globalisation (after 1945). Globalization is in the middle of intense debates among the groups who support it (the hyperglobalists), the sceptics and those who seek alternative solutions (the alter-globalists) and to those who strictly reject and deny the process (the anti-globalists).

According to the International Monetary Fund, when a historical process results in human innovation and technological progress, this process is called economic globalization and: "It refers to the increasing integration of national economies around the world, particularly through the movement of goods, services, and capital across borders. This process of economic international integration, also refers to the movement of labour and knowledge across international borders" (IMF Staff et al., 2008, p8).

István Benczes, (2010), characterizes economic globalization as a phenomenon with several inter-connected dimensions, such as: (1) the globalization of trade of goods and services; (2) the globalization of financial and capital markets; (3) the globalization of technology and communication; and (4) the globalization of production. This concept only shows the economic dimension of globalization; however, globalization is a complex process that includes cultural, political, and environmental aspects. Thus, from an economic perspective, economic globalization in its current stage is a process stimulated by the international economic integration of the nations, which in turn is possible through different types of regional integration agreements.

Nowadays, some scholars describe the process of globalization as an international process (or a paradigm) led by the core (industrialized or developed) countries, who support the hypothesis that international integration is a necessary condition for allowing peripheral countries also enjoying the profits of globalization, principally the integration that facilitates the free movement of goods, services, and capital across borders, including movement of labour and knowledge across international borders, (Rodrik, 2011) (Wallerstein, 1976), (Prebisch, 1981). Nevertheless, there is a development gap into the world economy which is evidenced in the centre-periphery relations with asymmetrical interdependences in which the centre exploits the periphery (Szentes, 2003).

In connection with this, Rodrik (2011) draws attention to the rights of democracies of protecting their own social pacts which need to be independent from the requirements of the global economy. That is to say, that the over-expanding of markets should be controlled, in order to avoid the negative direct impacts upon national well-being. Rodrik (2011) explains that globalization has the capability to diminish poverty and inequality. In contrast to the doctrine that the powers of globalization can only be assimilated when there is a complete free flow of capital with low levels of regulation, Rodrik describes that the paradox of globalization is to bring economic benefits for its equal distribution among the entire society, which means that in order to achieve this goal national democracies needs to be strengthened and international law need to be focused on the protection of all actors involved.

According to Tibor Palánkai (2014), international integration has changed the world economy after the World War II, as a result, the development and operation of national economies are determined by global conditions when the process of global integration is consolidated by regional integrations. The global and regional integrations together represent international integration; thus, international integration is a new type of international cooperation; it creates new frameworks and structures of organization and the working of the economy. "A distinction should be made between globalisation and global integration. The former is a long and complex process, while the latter is only one but important dimension of globalisation. Global integration is a phenomenon only of recent decades" (Palánkai, 2014: 13).[3]

Particularly, the process of international integration is characterized by the global and regional integration. Currently, regional integration is promoted especially through the signature of Regional Trade Agreements (RTAs), which were integrated in the economic agendas of most of the western capitalist countries after Second World War. The Bretton Woods Agreement signed in 1944 and the creation of the General Agreement on Tariffs and Trade (GATT) paved the way to the signature of more than one hundred of regional agreements and free trade agreements worldwide. This represents a very important research field to the scholars interested in the theories and effects of the regional integration on the globalization process.

The globalization of production in its current stage of expansion, is led by multinational/transnational companies (TNCs) and global corporations. These TNCs are predominantly private companies that controls the world economy and the production of wealth. Its origins lie in the Dutch and British East Indian Companies established in the 16th and 17th century respectively. These corporations also promote Foreign Direct Investments (FDI) to the so-called developing countries. Nowadays, there is a reduction in the participation of the USA and European corporations in the global production, in contrast many Asian corporations, including state-owned Chinese corporations are challenging the two centuries of hegemony of the western and free market oriented economies (Strange, 2020).

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[3] Palánkai (2014), highlights two important aspects of globalisation process: "*1) The present stage of globalisation is a certain qualitative turning point in the history of mankind, and 2) One of the main features of present stage of globalisation is that it is largely based on global integration*" (p.14).

Orthodox and neoliberal economists (during the last five decades) have defended the growth and international consolidation of TNCs arguing that free trade will reduce inequality and poverty, despite the increase of population in developing countries. By contrast, alter-globalist groups and critical economists, especially Marxist economists, argue that despite there are some improvements in the levels of structural inequalities between so-called developed and developing states in the current process of globalization, they maintain that, free international trade has negatively affected the well-being and economic prosperity for most people globally and there are two main factors to explain this (Strange, 2020).

First, there is a trend of free international trade to benefit global corporations at the direct expense of states and their capacity of creates welfare and economic development. That is to say, the increase of the global corporations under free trade has negatively affected the Keynesian welfare state. Thus, in the current growing conditions of international trade the role of the states is focused in to facilitate the conditions to capitalist corporations to trade at expense of the sovereignty of the state and the welfare of its citizens. As a result of the decline of the welfare state, there is a rise of the (pro-market, pro-corporation) “competition state”. In order to minimize costs and maximize profit, global corporations have been growing its levels of FDI (especially in developing countries) in the form of “off-shoring” and international “out- sourcing” which have negative effects in the labour rights and labour conditions mostly around the developing countries.

Second, taking in to account that the neoliberal economists and politics promotes free trade in a context where the state must to be reduced in size but also in economic and political power (economic deregulation). As a result, in the reduction of state’s power to control and regulate capital there is an increase in the level of economic inequality within both developed and developing capitalist states during the last fourth decades, while, liberals and neoliberals argues that inequality between developed and developing states has diminished. In developed countries, deregulation of labour markets and the movement to capital in form of FDI from developed to developing countries have increased unemployment and pushed down wages. As some Marxists says, the new abundance of wage labour in the developing world are the new proletariats who will create the wealth of the global companies in the current conditions of globalization of production (Strange, 2020).

According to Strange, (2020), Marxists argues that FDI benefits in developing countries are limited. Due that the poor countries are characterized by having low-skilled labour force, low wages, and weakly organized trade unions within a context of emerging new wage markets where labour is abundant. Under such conditions of "primitive accumulation," decent work conditions and labour rights of workers are been negatively affected by the TNCs and their new ways of labour exploitation. It means that there is a capitalism exploitation problem where the national states allow TNCs to take advantage of cheap labour and deregulated markets (characterized by improper labour conditions) in order to reduce its production and transaction costs. According to Marxists, the free movement of labour and capital represented by wages and the wage relation creates economic inequalities in the production process due that the surplus value and wealth is created by workers but exclusively appropriated by capitalist industries through new ways of exploitation which is only possible thanks to the current conditions of free trade, and where the process of capital accumulation can never be fair.

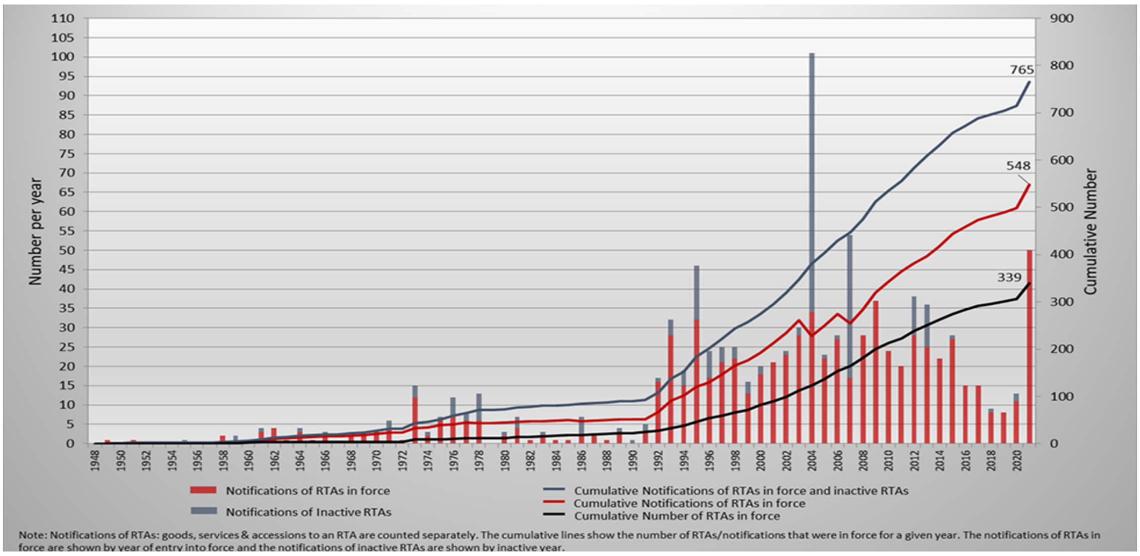
2.3.1 Free Trade and Free Trade Agreements

Nowadays, there is a debate without consensus regarding the gains or losses produced by Preferential Trade Agreements (PTAs). Paul Krugman (1989, 1993), suggests that by establishing PTAs between natural trading partners would generate positive trade impacts. Bhagwati and Panagariya (1996) believe that there are big differences in bargaining power of the different members of any trade agreement (which is evidenced in the political influence of developed countries over developing countries) and calls the attention on the multilateral effect of PTAs to the extent that multilateral trade negotiations move forward.

PTAs were originated after the first half of the twentieth century but it was only until the 1990s that the Free Trade Agreements (FTAs) emerged as an alternative to traditional trade agreements, since then, they have been growing very rapidly. In this scenario, the economic integration is also possible through regional trade agreements such as the FTAs. According to the World Trade Organization (WTO), around 339 Regional

Trade Agreements (RTAs) were in force as of 1 February 2021 (Figure 1). Contemporary FTAs have been led by high-income countries to promote regional integration and welfare through free trade between nation-states. Taking into account that these agreements involve the world economic powers, the forecast is that these agreements will considerably transforms the functioning mechanisms of the whole world economy (Bonciu and Moldoveanu, 2014).

Figure 1. Evolution of Regional Trade Agreements in the World, 1948-2021



Source: RTA Section, WTO Secretariat (2021).

On one hand, Plummer et al. (2010) describes some of the most important long-term cumulative effects (i.e., dynamic effects) in the context of FTAs such as: a) economies of scale and variety, which are a result of the capability to manage transaction costs, and of improved technical efficiency in large-scale production; b) technology transfer and foreign direct investment (FDI), where the TNCs corporations enjoy the benefits of the creation of new markets because of regional division of labour with low transaction costs and exploit economies of scale, it is necessary take in to account that the multinationals have preferential access to the FTA market; c) structural policy change and reform, which means the harmonization of the national economic policies of members; and, d) competitiveness and long-run growth effects, which occur when the improvements of productivity and efficiency helps to increase FTA members' long-run growth prospects.

On the other, Dany Rodrik (2018) describes that after the II World War trade agreements were mainly about import tariffs and quotas. But in the latest 80's trade agreements started to focus on domestic rules and regulations. These changes have made it difficult to understand trade agreements in real-world from the perspective of "optimal tariff" theory, becoming harder to fit into the most accepted economic theories. Rodrik explains that contemporary trade agreements go beyond free trade because this new generation of agreements includes health and safety rules, banking and finance, investment, intellectual property rights, labour rights, the environment, and other regulatory standards, that were not included in traditional trade restrictions at the border.

This new set of regulatory standards was synthetized in the data base developed by Hofmann, Osnago and Ruta (2017), This data base presents a total of 52 policy areas covered by the WTO and outside of the current mandate of the WTO. The data show that around 74% of the trade agreements studied in the database includes competition policies and harmonization of regulatory standards, around 55 % of the trade agreements have included investor-state dispute settlement procedures (ISDS), approximately 53% of them included areas related with movement of capital and 47% of the trade agreements concerned whit the area of intellectual property rights (IPRs).

Rodrik (2018) suggest to free trade defenders to study these new features in order to understand the politics behind the contemporary free trade agreements and to build an alternative political economy perspective. Rodrik describes that contemporary trade agreements are highly influenced by new well-connected international institutions and corporations, such as TNCs and international banks. Nonetheless, on the one hand the contemporary trade agreements may promote free trade, and on the other, they can reduce welfare among the signing countries if they are mainly manipulated by particular interest than by the common interest.

Rodrik (2018) underlines the need to study the issues that appear in four common areas of modern trade agreements such as: trade-related intellectual property rights (TRIPs), rules about cross-border capital flows, investor-state dispute settlement procedures (ISDS), and harmonization of regulatory standards. According to Rodrik, despite free trade supposed to be win-win and to create benefit for both parties, in TRIPs, the developed countries' gains are basically the developing countries' losses, because the developed countries have monopoly restrictions for their firms in the markets located in developing countries. Rodrik argues that the most important effect of high elasticity of global innovation to developing countries' patents is a transfer of rents from poor to rich countries, which created opinions against the integration of TRIPs in the FTAs (Bhagwati, Krishna, and Panagariya, 2016).

As for the rules on cross-border capital flows, Rodrik (2018) explains that capital account liberalization became a norm in trade agreements. Nevertheless, the latest financial crisis associated with financial globalization have shown that direct restrictions on the capital account is not the best tool to complement prudential regulation during financial crisis times.

On ISDS procedures, Rodrik (2018) says that ISDS also have their own problems, for example ISDS operates outside accepted legal regimes, gives arbitrators too much power, does not follow or set precedents, and allows no appeal. These provisions were copied from bilateral investment treaties and allow to foreign investors to demand host governments in special arbitration tribunals when there are policy changes that reduce their profits.

Whit regard to the inclusion of the harmonization of regulatory standards in contemporary free trade agreements, Rodrik (2018) explains that the aim of harmonization policies is to eliminate regulatory differences among nations and reduce the transaction costs associated with international trade. In this sense, it is necessary to explain when a regulatory standard is excessive or protectionist, taking into account that regulatory standards are public goods and nations have different preferences regarding to them.

In Rodrik's view there is a collective tendency to associate "free trade agreements" with "free trade". Rodrik's stated, "protectionist interests are the dominant influence in the determination of trade and other policies. Hence, in the absence of trade agreements, barriers to trade are too high and there is too little trade. Trade agreements are in turn a mechanism through which protectionist interests can be neutralized" (Rodrik, 2018: 9). In other words, if trade agreements represent a counterweight to protectionism, they are doing their job properly, but if they empower the interests of the TNCs and the investors over the general interest, they can affect the level of welfare specially in the developing countries. In synthesis, the main conclusions of Rodrik are the following:

> …Rather than neutralizing the protectionists, trade agreements may empower a different set of rent-seeking interests and politically well-connected firms—international banks, pharmaceutical companies, and multinational firms. They may serve to internationalize the influence of these powerful domestic interests. Trade agreements could still result in freer, mutually beneficial trade, through exchange of market access. They could result in the global upgrading of regulations and standards, for labour, say, or the environment. But they could also produce purely redistributive outcomes under the guise of "freer trade." As trade agreements become less about tariffs and nontariff barriers at the border and more about domestic rules and regulations, economists might do well to worry more about the latter possibility. They may even adopt a stance of rebuttable prejudice against these new-type trade deals—a prejudice against these deals, which should be overturned only with demonstrable evidence of their benefits (Rodrik, 2018: 88).

The debate on the pros and cons of RTAs have been promoted by the economist Jagdish Bhagwati (2008) who argues in his book '*Termites in the Trading System',* that RTAs are discriminatory and they are part of a steep for free trade within a multilateral perspective. The debate is around the benefits from maintaining restrictive policies towards the rest of the world while adopting more open trade policies with neighbours and partners. Thus, it is extremely important to develop new concepts and methods in order to analyse the consequences of RTAs and multilateralism.

According to Gounder and Prasad (2006), the major focus among the regions is on economic integration, and the success of regionalism depends on the capability of countries among the regions to develop trustable and sustainable institutions for democracy and human rights. Regionalism could be affected by donor interests and the key component of the regional economic integration programme is the adoption of RTAs.

RTAs are mainly linked with the international trade theory due its implications on liberalization and welfare. The international economic integration between the economies is stablished through RTAs. There are two main questions presented by the scholars in order to guide the studies on the gains and losses from RTAs: Does the RTAs increase trade and raise welfare, and does the RTAs promote multilateral trade liberalization? The first question is studied through a static analysis while the second question through dynamic approaches (Gounder and Prasad, 2006).

One of the strongest arguments of international trade theories is that intensification of trade between states may produce improvements in the level of welfare among them, this argument have been adopted by the nation's in order to increase the number of accords among different countries during the last three decades (İncekara and Ustaoğlu, 2012). Harry Johnson (1953) argues that without trade agreements, countries would attempt to exploit their international market capacity by taxing trade, and the subsequent balance would not impact positively the involved countries. Maggi & Rodriguez-clare (2007) explain that international trade agreements are very useful to prevent trade wars in situations where governments are a subject to political pressures. According to Gerber (2013), RTAs allow countries to enjoy economic growth, welfare, and other benefits of economic globalization.

Bagwell & Staiger (1999) argue that trade agreements eliminate the inefficiency and high level of transaction costs in international trade; consequently, the member governments may provide higher levels of welfare to their population. He assumes that: a trade agreement must distribute the outcomes for its member governments in an equitable way, it should eliminate the terms-of-trade-driven restrictions in trade, which is a feature when policies are designed and applied unilaterally. Nevertheless, if governments want to increase national income, the manifest political constraints among governments must be overcome.

Some final arguments against FTAs are presented by Grafe & Mauleon (2000). He argues that FTAs between developed and developing countries not only increase the free movements inputs and outputs, but also can produce negative outcomes or externalities. They, consider that the negative externalities are private or depletable externalities. "A private or depletable externality (acid rain, trash dumped on private properties, etc.) as the one in which one victim's consumption of the externality reduces that of others. One example of these externality is, for example, the depletable waste (like trash) emitted by the factories located in each country that is supported by the inhabitants of the emitting country without affecting other countries" (Grafe & Mauleon, 2000: 64). In addition, Ornelas (2005) studies the political viability of FTAs by analysing the "rent destruction" derived by these arrangements. Ornelas (2005) argues that the rent destruction shows the lack of political viability of FTAs in terms of welfare.

2.3.2 Organizing International Trade

At the end of the nineteenth century there was a rise in international trade and the world economy became more integrated. After the First World War the United States of America (USA) started to implement more restrictions. By the end of Second World War many countries started to focused in the consequences of the use of trade restriction measures. In response, the USA started to lead the multilateral cooperation policy in order to liberalize trade and pave the way for a more stable global economy. To achieve this, some supra-national institutions were crated such as the United Nations (UN), the World Bank (WB) and the International Monetary Fund (IMF), and also an inter-governmental treaty known as General Agreement on Tariffs and Trade (GATT) was designed with the aim to promote international dialogue an institutional control of international trade.

According to Gerber (2013), the current process of international integration has its origins in the Bretton Woods conference in 1944, where the three global organizations were established that started to led international economic relations, that is, in international integration: The International Monetary Fund (IMF, 1945), the World Bank (1945), and the International Trade Organization (ITO, 1945). The main functions of ITO were the focused on the regulation of world trade and international investments. The ITO failed in 1948 after the rejection by the US Congress and the idea of an ITO disappeared in 1950. Then, international trade was coordinated through the GATT, until the creation of the World Trade Organization (WTO) in 1994.

Gerber (2013) explains how GATT have been working through a series of trade rounds in which counties periodically negotiated a set of incremental tariff reductions (Table 1). From the Kennedy Round in the 1960s and the Tokyo Round in the 1970s, trade rules, tariffs, the problems of dumping subsidies to industry and non-tariff barriers to trade began to be addressed. The ignored sectors as agriculture, textile, apparel, trade services and the importance of non-tariff trade barriers open the way for a new set of negotiations. The new demands were consigned in the Uruguay Round of trade negotiations that started in 1986 and concluded in 1993. As earlier presented in figure 1, the GATT was successful in eliminating trade barriers gradually and increasing international trade. From the creation of the WTO in 1994 till the Doha Round in 2001, the concerns about the world`s poor and trade of developing countries were included in the Doha Development Agenda with the aim of consolidating the idea of the WTO.[4]

Table 1. The GATT Rounds

Round	Year	Number of Participants
Geneva, I	1947	23
Anneey	1949	13
Torquay	1951	38
Geneva II	1956	26
Dillon	1960-1961	26
Kennedy	1964-1967	26
Tokyo	1973-1979	62
Uruguay	1986-1993	105
Doha (WTO)	2001	153

Source: Gerber, (2013).

Urata (2002) explains how after the Second World War, the global integration was established by the multilateral trade negotiations of the GATT, market deregulation, privatization of national industries, liberalization of trade and investment, and the reduction in the costs of foreign trade as a result of the evolution of the information and communications technologies and transportation systems. At the same time, with this trend towards globalization the phenomena of regional integration also known as regionalism was manifested with creation of the European Economic Community (EEC) in 1958. Other similar attempts were proposed in Africa, Central and South America, but they were more just good intentions than real processes of regional integration.

Almost during the last seventh decades, RTAs have been promoted under the regulation of such arrangements and institutions. Around 239 RTAs were registered by WTO by the end of 2001. Nevertheless, many of these RTAs did not last long, and starting with 2002 only 162 agreements continued to be in force. According to the WTO more than 700 RTAs have been notified to the GATT or WTO, of which 350 were into force in 2021.

In 1995, a new agreement was included, this is the case of the General Agreement on Trade in Services (GATS) that marked the starting point of the liberalization of trade

[4] See more about an economic theory of the GATT in Bagwell & Staiger, (1999).

in services among WTO members. The countries members were negotiating and stablishing the principles that they wanted to apply and the sectors that would be covered. Nevertheless, there was the issue that just some sectors are covered and the selected sectors are different among members. In words of Cole & Guillin:

> For example, in 2005, developed countries had an average of 106 sub-sectors committed, while developing countries had an average of 42 out of 160 possible sub-sectors. In fact, even within country groups, the average number of sub-sectors committed varies significantly; from 87 to 117 for developed countries and from1 to 123 for developing economies. (Cole & Guillin, 2015: 69)

The essence of all WTO, GATT and GATS agreements is the principle of national treatment and non-discrimination. National treatment is the requirement that foreign goods are treated similarly to the same domestic goods once they enter a nation´s market. Non-discriminatory is symbolised in the concept of most-favoured nation (MFN) status. MFN requires all WTO members treat each other as well as they treat their most-favoured trading partner (this is a prohibition against discrimination) (Gerber, 2013).

The regional integration promoted by different trade blocks and trade agreements after the Second World War have developed important contributions to the liberalization of the national economies and global integration. Since the industrial revolution, industrial production has been a special feature of the developed countries and regions such as the United States of America (USA) and the EU respectively. Better production opportunities and cheap labour motivated the relocation of EU and USA production in Eastern countries. While in developing countries competitive advantage in domestic and international markets improved, the developed countries started to implement trade policies and innovation-intense production models. Evidence show that the particular process of industrialization in the Far East countries is associated with the increasing of the investments in the sectors of innovation and technology by developed countries (İncekara & Ustaoğlu, 2012).

2.3.3 Types of Regional Trade Agreements

The development of regional integration and trade liberalization after the second World War has been promoted by the GATT through hundreds of bilateral, multilateral and RTAs. Consequently, RTAs between two or more countries became as another important institution in the international integration process (such as the IMF, WB, or WTO), the more remarkable cases are the North American Free Trade Area (NAFTA) and the European Union (EU). The works of Urata (2002), Gerber (2013) and Palánkai (2014), characterize the basic forms of regional integration in different types of regional trade agreements, as described in Table 2.

Table 2. Types of regional trade agreements.

Type of Agreement	Characteristics
Partial Trade	Free trade in the outputs of one or a few industries.
Free Trade Areas	Free trade of goods and services, removing tariffs and quotas within the group. With a free-trade area, nations usually keep their own health, safety and technical standards, and may reject entry of imports if they do not meet national standards.
Customs Unions	Free-trade area including common tariffs for countries outside the group.
Common Market	Customs unions including a free flow of factors of production (capital and labour).
Single Market	This represents a complete liberalization, that is, 'internal market' conditions, with the removal customs tariffs and quantitative restrictions, on one hand, and all restrictions of a 'non-tariffs' nature on the other.
Economic Union	Common market including the unification and harmonization of economic policy, which, in its final phase, can lead to the unification of domestic economic policies at the community level (community, 'common' or union policies).[5]
Political Union	This implicates the gradual transfer of power and legislative authority (parliament, government, jurisprudence, etc.) to the community level. It assumes the establishment of 'supranational structures' which can make decisions which are mandatories for all the member states.

Source: Urata, (2002), Gerber, (2013) and Palánkai (2014).

[5] Economic and monetary union is the most highly developed form of economic integration, and apart from the common currency, it also requires a common monetary policy and a central bank (Palánkai, 2014).

2.3.4 Types of Free Trade Agreements (FTAs)

As shown in Table 2, in another stage of reginal integration, a customs union seeks to unify tariff regimes. The main aims of a common market are to allow free flows of goods and services as well as factors of production (i.e., labour and capital). A common market with monetary union is called an economic union. Whereas, in a free trade area, signatory members aim to remove tariffs across member states, but maintaining independent tariff regimes on imports from countries outside of the agreement (Plummer et al., 2010).

According to Bonciu & Moldoveanu (2014), after the failure of the Doha Round a partial solution for the problems of international integration was presented into the global arena with the name of Free Trade Agreements (FTAs). The WTO recognizes FTAs in GATT Article 24 and in Article 5 of the GATS. Those kinds of accords are exempt from the most-favoured nation (MFN) rule. Nonetheless, the WTO uses the term regional trade agreements (RTAs) particularly to refer to FTAs and other regional preferential trade agreements (Urata, 2002). Nowadays, we can find bilateral FTAs as well as two types of multilateral FTAs as is described in the Table 3.

Table 3. Most Common types of FTAs

Number of signatories	Parties involved	Example
2	Both are countries	The Japan - Mexico FTA
> 2	All of them are countries	The NAFTA signed by United States, Canada and Mexico.
> 2	One or more are countries, and also at least one of the parties is represented by an organization of economic integration that includes several countries	The FTA China - ASEAN and the FTA European Union - Colombia, Perú, Ecuador.

Source: Urata, (2002).

Chapter 3: Background, Context, Structure and Scope of the EU-Colombia Free Trade Agreement

3.1 Economic and Political Context of Colombia

3.1.1 Transition to an Open Market Economy

Colombia is a country located at the North West of South America (Figure 2). From the point of view of the absolute advantages this country has an important wealth of natural resources and its comparative advantages are mainly related to the commodities sector. The process of industrialization of the Colombian economy has been slowly and more similar to a deindustrialization process. After 1967, Colombia have been integrating its economy into the world economy gradually by the integration of capital, technology, and foreign markets. Following the instructions of the International Monetary Fund (IMF), and the World Bank (WB), Colombia has established strong bilateral relations with both, less-developed and high-income countries. Actually, Colombia has trade relations with several high-income countries, such as the United States, Japan, and Great Britain, also trade relations with some economic unions like the EU. By contrast, economic accords with low- and middle-income countries, constituted a smaller portion of Colombia's trade (Hanratty and Meditz, 1988).

The first attempt to develop a common market in Colombia was in the 1970s, when Colombia joined the Latin American Integration Association (*Asociación Latinoamericana de Integración* - ALADI), formerly the Latin American Free Trade Association (LAFTA).[6] In 1969, Colombia signed the Andean Common Market (Ancom), well known as the Andean Group (*Grupo Andino*), created as a result from LAFTA's weakness and with the aim to encourage economic cooperation within the region (O´Leary, 1984).

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[6] In the 1960 the LAFTA was created by the Treaty of Montevideo signed by Brazil, Argentina, Mexico, Chile, Peru, Paraguay, and Uruguay. The signatories had the initiative of creating a common market in Latin America. In 1980, LAFTA reorganized into the Latin American Integration Association (ALADI) included six new members: Colombia, Bolivia, Cuba, Panama, Ecuador and Venezuela.

In addition, Colombia joined the General Agreement on Tariffs and Trade (GATT) in October of 1981. Colombia is part of the Economic Commission for Latin America and the Caribbean (ECLAC), since 1948 and joined the WTO, in 1995. In 1960, Colombia signed the International Coffee Agreement (ICA). The goals of the agreement were the stabilization of coffee prices at the global level and ensuring the offer of this product to consuming nations (Hanratty and Meditz, 1988). Colombia is also a founding member of the Pacific Alliance regional trade bloc.

Figure 2. Map of Colombia

Source: Edwards (2001).

Since 1970, neoliberal policies were spread across South America driven by military dictatorships, and during the 1980s, through economic adjustment programs led by right win governments and originated by advisers from the IMF. In the late 1980s, the crisis of socialism in Eastern Europe and the Soviet Union does not help to the creation of alternatives to capitalism, while a new stage of the global expansion of the neoliberal political economy model was started (Tejedor-Estupiñan, 2012a).

The implementation of neoliberalist policies in Colombia started with the reforms led by the president Virgilio Barco (1986-1990), accelerated by César Gaviria (1990-1994), developed by Ernesto Samper (1994-1998) and Andrés Pastrana (1998-2002). Then, Álvaro Uribe Velez (2002-2010) followed by Juan Manuel Santos (2010-2018) started a period characterized by the promotion of free trade agreements in the middle of an environment of relative social and political stability created by the signature of peace agreements between the Colombian government and the paramilitary groups and Colombian guerrillas in order to attract foreign direct investments and promote economic growth and development in the country. The reforms implemented during the last fourth decades has been promoting the reduction of the role of the State`s in the economy, the privatization of public institutions, the rise of market power and the strengthening of property and private enterprise. Luis Vallejo Zamudio (1992) describes the four main guidelines for the implementation of the neoliberal model in Colombia:

> 1. The opening of the external sector by means of tariff reduction and the reduction of both subsidies for national production, as well as mechanisms for export diversification.
> 2. The financial liberation that stimulates the creation of banks, financial and trading corporations, and the control of monetary policy through the liberation of interest rates and the control of bank loans.
> 3. The non-intervention of the State on the economy, leaving to it the role of controlling public order, defending private property and preventing social upheaval. Understanding that the market is the best distributor of resources and the State should stimulate privatization, and;
> 4. The elasticity of the labour market promoted from the creation of labour flexibility reforms and implemented by all the presidents since 1991.

According to Jairo Estrada Álvarez (2006), the consolidation of the neoliberal agenda in Colombia was possible by the implementation of a legal-economic order which has the following five main backgrounds:

1. Economic deregulation (1990-1991): design and implementation of structural legal reforms to reduce the government`s role on economy.
2. Consolidation of a legal framework (1991): promulgation of the Political and Economic Constitution of 1991.
3. Continuation of economic deregulation (1992-1998): deepening of economic deregulation through the design and implementation of legal reforms according to constitutional mandate.
4. Fiscal discipline (1999-2004): ordering for crisis management and reinforcement of economic deregulation and fiscal discipline.
5. Integration to the global economy (2000-2012): integration of the Colombian economy to the global economy through the negotiation of free trade agreements.

Estrada Álvarez (2006) describes that the centralization of the Colombian economy is possible thanks an institutional triad that allows the implementation of the neoliberalist principles in the country. The scope of this triad is defined in the constitution and is materialized in the planning, budgeting and central banking regimes. In this sense, the design and implementation of neoliberal policy in Colombia is under the responsibility of the following institutions:

1. Nacional Council of Social and Economic Policy (*Consejo Nacional de Política Económica y Social* 'CONPES'), which includes the Social Conpes.
2. National Department of Planning (*Departamento Nacional de Planeación* 'DNP'), which exercises the secretariat of CONPES.
3. Superior Council of Fiscal Policy (*Consejo Superior de Política Físcal* 'CONFIS') attached to the Ministry of Finance and Public Credit governing fiscal policy and coordinator of the budget system.
4. Ministry of Finance and Public Credit, and;
5. Board of Directors of the Central Bank.

Within the functions of this triad, planning institutions define and implement short-, medium- and long-term economic strategies and policies. The neoliberal assumptions defend the construction of a market order, this leaves planning the role of the mercantile organization of society, the stablishing of new relations between the public and the private sector, the creation of new markets and the promotion of fair competition. Regarding the budget, the function of planning is from a technical nature and it has not political intentions (Estrada Álvarez, 2006).

The institutions responsible for the budget define the principles of fiscal policy and the budget. In the neoliberal model, the main objectives of these institutions are: the translation of plans and programs into budgets, the coordination of monetary and exchange rate policy, the management of the policies designed by the IMF. The fiscal policy has played an important role in restructuring the functions of the state and, in turn, in reshaping the state's revenue and expenditure policy (Estrada Álvarez, 2006).

The 1991 Constitution establishes that the central bank is an institution responsible of regulating currency, international exchange rate and credit; issues the national currency; manage international reserves; be a lender of last resort and banker for credit institutions, and serve as a fiscal agent for the government. These functions seek the technical regulation of money and the exchange rate, which shows the consolidation of a policy of financial deregulation, stimulating a speculative economic model of inflationary control and putting monetary policy at the expense of the free market economy. The economic adjustment programs and projects imposed by the IMF and the WB, the negotiations into the WTO and the negotiation of free trade agreements are the evidence that neoliberal policies are promoted from supranational scenarios (Estrada Álvarez, 2006).

As mentioned above, the period 1990-1991 was characterized by the implementation of structural reforms that seek to integrate the Colombian economy in the global economy by implementing deregulation economic policies. Estrada Álvarez (2006) describes that the Government of Virgilio Barco Vargas (1986-1990) oriented the policy of economic openness of the Colombian economy to international markets. Policies inspired by Keynesian or ECLAC researchers that allowed the capitalist reproduction for several decades were reconsidered by the new economic bloc formed at that time. Likewise, the policies proposed in previous years on import substitution and export promotion were insufficient in a context of transnational capitalism. Estrada Álvarez (2006) mentions that the reorganization of the Colombian economic model was also an outcome derived from the weakening of the economic structure of the coffee sector, the inefficiency of the industrial sector, the backwardness of capitalist agriculture, the birth of the drug trafficking economy and the growing role of monetary-financial activities; likewise, the consolidation of a minority of dominant elites, whom pursued to insert the Colombian economy and, their businesses in the transnational accumulation circuits.

Considering that the Government of Barco was ending, the set of new policies would be implemented by the next president elected. On august 7 of 1990, César Gaviria Trujillo was inaugurated as president of Colombia, his presidential period was characterized for the structural transformation of Colombia`s economic structure: imports were liberalised; exchange controls were abolished; legislation governing ports operations was modified; controls over foreign direct investment were relaxed; the financial sector was deregulated; the insurance industry was liberalised; the tax system was modernized and labour legislation was reformed.

With the promulgation of the Political and Economic Constitution of 1991, the Constitutional Assembly was seeking a negotiated solution to the structural and political crisis and, and also, pave the way to peace agreements with demobilized sectors of the armed insurgency (Movement of April 19 'M-19' and the Popular Army of Liberation 'EPL' mainly), who had rejoined to the civilian life in exchange of participating in the redesign of political institutions. Nevertheless, the peace was not completely achieved due that the other guerrillas such as the Revolutionary Armed Forces of Colombia (FARC-EP for its acronym in Spanish) and the National Liberation Army (ELN for its acronym in Spanish) were not incorporated into the negotiations. Independently of the political forces represented in the constituent, the 1991 Constitution includes conservative, liberal and social-democratic theses, which expressed both the neoliberal transformations underway, as well as the legitimation of a social state of law.

Oscar Mejía Quintana (2003) explains that the Constituent Assembly puts into tension two political projects: one the one hand the neoliberal project and, on the other, the other social democratic project. The first one contained the central aspects of the neoliberal policy that were incorporated into the constitutional text and, the second, a legal framework oriented at guaranteeing the social rule of law but always imposing the neoliberal approach. Nevertheless, some regulations entered in contradiction with the social and economic rights of individuals.

The 1991 Constitution introduced the administrative decentralization through the creation of the sub-national government. The development plans facilitated the economic deregulation process, the creation of new markets and the openness of the economy to the transnational capital. The budget rules allowed a policy of fiscal adjustment that benefited some domestic companies. The Central Bank continued with the financial and monetary deregulation process and with the policy of the inflation control, raising the level of public debt and pushing to the state in the seeking of credits in order to finance the public spent.

The continuation of economic deregulation and the creation of new markets started after the inauguration of the 1991 Constitution. This stage is consolidated in the last two years or the Gaviria's government and is consolidated in the presidential period of Ernesto Samper (1994-1998). His administration wanted to strength the policies due the critics derived from the negative effects of the economic openness. Samper advocated for an economic openness led by the principles of reciprocity and selective treatment, he was a defender of integrating the economic and social programs within the social policy. Nevertheless, the scandal created by the discovery of the relations between Samper and the cartels of drugs led a as result a government with poor economic and social results. Both, the period of Gaviria and Samper were characterized by the creation of new markets through the privatization process of public institutions related with the health, social security, education, telecommunication sectors and public services (Estrada Álvarez, 2006).

The period of 1999-2004 was characterized by the management of the crisis, the enforcement of economic deregulation, and the fiscal discipline. The president Andres Pastrana (1998-2002) received an economy that had been decreasing from 1997. He faced the financial crisis of latest 90's and the fiscal deficit, the rise in inequality unemployment and poverty. The growing of the economy during the 90's was stimulated by the rise of household, investors and state debt leaving as a result a crisis in the economy. During this period the crisis was faced by following the guidelines stablished by the IMF and continuing the process of economic liberalization (Estrada Álvarez, 2006).

In May of 2002, during the first period of the president Alvaro Uribe Vélez (2002-2006) a new agreement with the IMF was established, in this agreement the Government of Colombia granted to the IMF the control of macroeconomic policy until the end of 2006. The Uribe`s government stablishes the labour and pension system reforms, the labour market flexibilization. The last policy was criticized due the negative impact of this reforms on decent work and labour rights. At the end of Álvaro Uribe's first presidential term, in May 2005, in the city of Cartagena starts the negotiation of an FTA with the United States. The signing of the treaty was expected to take place during the second half of the same year; however, this never happened. Later, in his second term, the president and his ambassadors made several attempts to file this agreement in the United States Congress which was denied in several times by different sectors. This was due to the 'para-politic scandals' and the violation of trade union rights in Colombia manifested in the weakening of the decent work conditions and the murder and disappearance of trade union leaders, human right defenders, farmers, students, people with mental illness and poor people during the Uribe administration.

From 2004 until 2010, there is a period featured by the integration of the Colombian economy to the global economy, the contra-insurgency war and the policy of democratic security. During eight years as president of Colombia, Uribe allows the privatization of several public companies such as Bancafe, Telecom, Ecogas, Granahorrar, the electricity stations of the department of the North of Santander and the electricity companies of the departments of Cundinamarca and Santander. For the privatization of these companies, the state received about 13 billion Colombian pesos. These policies were strongly criticized because the companies sold were part of the most important sources of government revenues and with the sale of these public companies many public jobs were eliminated (Estrada Álvarez, 2006).

The fiscal policy was implemented through the Responsibility Fiscal Act, where both, the Colombian Government and the IMF agreed to maintain the surplus in the non-financial public sector and following the budget control through the budget flexibilization. During the second presidential period of Álvaro Uribe (2006-2010) the transfer regime, the pensions system and the administration of justice were reformed. Such projects sought to increase the government savings and to direct these resources to the payment of public debt. This occurred in a context where the war against drug trafficking and terrorism in Colombia (promoted by the United States after the attacks of 9/11/2001) has targeted against the criminal gangs, the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia* 'FARC-EP' for its acronym in Spanish) and the ELN (*Ejercito de Liberación Nacional*), while a peace agreement was signed with the paramilitary groups associated with the government and a few groups of Colombian entrepreneurs (Estrada Álvarez, 2006).

The main achievement of the Juan Manuel Santos government (2010-2018) was the signature of the peace agreement with the guerrilla of FARC-EP. Whit the signature of the peace agreement there was a reactivation of the Colombian economy thanks to the promotion of FTAs, the rise of the levels of FDI, the privatization process and the promotion of the tourist sector due the new security conditions for travellers and investors. Actually, Colombia is involved in at least 16 FTAs (SICE, 2015).

3.1.2 Social and Political Stability

On September 24, 2015 the Colombian government and the FARC-EP announced to the world the entrance in the last stage for the creation of a definitive peace agreement, ending six decades of conflict. The agreement included the direct integration of the guerrilla in the civil society as a political movement. The FARC was founded in 1964 by a movement of peasants inspired by communist ideals, they wanted to achieve an agrarian adjusted to their needs. Since then, this never-ending conflict has maintained the Colombian population within an environment of armed confrontations, bombardments, kidnappings, drugs trafficking and pain, violence and death (Tejedor Estupiñán, 2016).

It is obvious that the armed conflict has negative impacts not only in the development of the society but also in the economic growth. The achievement of the peace in Colombia is possible within the negotiations among the different actors of the Colombian society (government, private sector, armed groups, victims and civil society), that seek to promote economic development and to guarantee welfare, respect for human rights and the protection of the environment in a world threatened by climate change and global warming (Tejedor Estupiñán, 2016).

On August 24, 2016, after four years of negotiation, representatives of the guarantor countries Cuba and Norway, together with the representatives of the FARC-EP and the Colombian government, launched a joint communication in which they announced to the Colombians and to the world the end of the conflict and the signature of the "Final, integral, and definitive agreement on all points of the agenda of the General Agreement to End the Conflict and to Build a Stable and Lasting Peace in Colombia." On October 2, 2016, the agreement was ratified by the Congress of the Republic and after that was submitted to plebiscite, leaving in the Colombian hands the decision on the final approval of the peace agreement (Gobierno Nacional y FARC-EP, 2016). The plebiscite consisted in the next single question: Do you support the final agreement to end the conflict and to build a stable and lasting peace? The results showed that from nearly 34.9 million people entitled to vote, only nearly 13 million of voters (37.46 %) participated in this referendum where the “NO” supporters’ win with a 50.21 % and the “YES” supporters’ losses with 49.78 % of the votes.

The results represented the victory of the opponents of the agreement achieved in the Havana and it was a political defeat for the government and image of President Juan Manuel Santos Calderón and his level of governability. The exit to this situation was the resumption of the dialogues by creating a new Negotiating Table that included the opposition party (which is formed by the Colombian right wing) whom argued that an agreement with a little legitimacy should be changed because there was a risk for the Colombian democracy due to the benefits conceded to the FARC-EP, while at the same time others considered the peace agreement as one of the most complete peace agreements of the history that was inspired by the experience of the peace processes in South Africa and Ireland.

Consequently, this new Negotiating Table presented a new agreement on 22 November, 2016, and finally, on November 30, 2016 the majority of Congress members ratified the new agreement presented by the Government in the middle of debates where the opponents continued expressing their discontent, despite the fact that almost all of their proposals were incorporated in the new agreement. Despite the difficult to concrete the peace agreement with the FARC-EP, the international community awarded to the President Santos with the Nobel Peace Prize for his efforts to achieve the peace agreement, and also as a support for the Colombian people that have been living a history of instability and conflict from its republican origins until the present (Tejedor Estupinan, 2017).

This context shows that achieving peace in Colombia depends on the capability of its institutions, corporations, and citizens of working in two main aspects such as: first, the transformation of a culture historically affected by human rights violations and violence derived by the internal war among the Colombian military forces, the FARC-EP, the ELN, the EPL, and the criminal gangs; and second, by narrowing the development gap regarding to the high income countries which is characterized by high levels of corruption, low productivity and innovation within the industrial sector, high levels of inequality and poverty, and impunity in the justice system. Both, the solution of the armed conflict and the climate change represent two main challenges for achieving development and peace in Colombia, these aspects not only analyses the social phenomena of violence, but also the structural problems society and the failures of the state and the Colombian markets (Tejedor Estupinan, 2017).

Achieving peace and overcoming the armed conflict in Colombia also means the end of the war against the ELN, the paramilitary groups, the criminal gangs and other actors involved in drug traffic and violence in Colombia. According to UNODC (2010), Colombia is recognized during the last decade of the twentieth century and the first decade of the twenty-first century as the first producer of cocaine around the world. In Colombia, the narcotraffic involves politicians, guerrillas, paramilitary groups and criminal gangs whom are linked with the transnational networks of global distribution of drugs.

According to Transparency International (2021), Colombia is one of the most corrupted countries in the Latin American Region. Corruption within the state institutions is one of the most important concerns of the Colombian population and it is a problem that should be ended too, due its negative impacts on the political, social, economic and environmental development. In conclusion there are three main important challenges faced by the Colombians in order to achieve social and political stability. First, the consolidation of a peace agreement which includes all the actors involved in the armed conflict. Second, the reduction and elimination of the corruption within the institutions of the Colombian State. Finally, by ending the war against the drug cartels linked to politicians, entrepreneurs, guerrillas and paramilitary groups and the state regulation of the drugs market.

3.2 Origins and Evolution of the European Union

3.2.1 The European Union a Historical Brief Review

Feliu Gaspar & Carles Sudrià, (2013) describe that Europe was the most affected area after the Second World War, its reconstruction was difficult, but it could be done in few years. In fact, in the early post-war years, the main problem was not monetary or commercial, but specially survival. The danger of starvation or starvation-related diseases was very high, especially in cities. In order to solve that, in June 1943 a first international aid program promoted by the United States, and managed through the United Nations Relief and Rehabilitation Administration (UNRRA) was launched, it served to provide food and other essential aid until they were progressively resumed economic activities.

In the mid 1947's the European economies were collapsed. The recovery of the economy faced insurmountable challenges: the reconstruction of the destroyed factories; the reconversion of the war industries; the restoration of transport infrastructures and the lack of raw materials and food. Ultimately, it was a financial bottleneck. As a consequence of the war exports had decreased, remittances had also experienced a drastic reduction, direct foreign investment from the United States to Europe decreased, especially the investments of US bankers. The reduction of income around European countries could not generate enough savings to finance the recovery and the governments could not able to raise taxes to balance budgets. The result was inflation and financial chaos pushing the European states to reorganize their economies (Feliu and Sudrià, 2013).

Faced with this situation, the US decided to intervene in order to reinforce the Western Europe economy. The aim was to prevent the continuation of the depression and the formation of popular democracies such as those inspired by the communist ideals from Eastern Europe. Consequently, the US government decided to launched a new aid program called the European Recovery Program, but popularly known as the *Marshall Plan* (in honour to the US Secretary of State, who was the one who announced the initiative in June 1947) with the aim of stimulating the European economy. The plan was accepted in the spring of 1948 and its main aim was to support with the necessary goods for the European economies without affecting its balances of payments (Cameron and Neal, 2014).

The aid was selective and conditional. There were two compromises to fulfil by the European countries' beneficiaries by the plan: the first, to avoid initiatives that could rise to excessive competition; the second, to facilitate multilateral payments. These conditions were criticized by the USSR and its allies' countries whom renounce to the Marshall Plan and accused the US of promoting imperialism. Spain was not included because of the support to the Franco's political regime. Consequently, in 1948, sixteen European states formed the European Organization for Economic Cooperation (OECE)[7] and later the European Union for Payments (UEP) (Feliu and Sudrià, 2013).

The Marshal Plan pave the way to the foundation in 1951 of the European Coal and Steel Community (ECSC) with the signature of the Treaty of Paris. The founding members were France, West Germany, Italy, Luxembourg, the Netherlands and Belgium. The cooperation for the joint management of these two basic products allowed to avoid a war between France and Germany. This group of countries stablished the basis for the creation of the European Economic Community (EEC), generally called during the first years the European Common Market (1958), that is, the germ of what is now the European Union (Feliu and Sudrià, 2013).

After the Second World War, two important trade areas have arisen in Europe, the EEC and the European Free Trade Association (EFTA). While on the one hand, the EEC was created by the countries most affected during the war (Italy, France, Germany, Belgium, Netherlands and Luxembourg). On the other hand, the countries least affected including Switzerland, Sweden, Portugal, Norway, Denmark, Britain and Austria created the EFTA in 1959 (Finland and Iceland joined the EFTA in 1961 and 1970 respectively). The EFTA was promoted by Great Britain which had refused to join the ECSC and therefore the EEC. The EFTA was conceived also as a free trade area for industrial products and only exclusive for its members. The agricultural products and relations with third countries were excluded. The life of the EFTA was short and its operations ended in 1973 with the accession of Great Britain, Ireland and Denmark to the EEC (Feliu and Sudrià, 2013).

The Treaty of Rome (March 25, 1955) signed by Belgium, Netherlands, Luxemburg, Germany, France and Italy creates the EEC and the European Atomic Energy

[7] In 1961, the OECE became the OECD (Organization for Economic Cooperation and Development), which later included to the US, Canada, Australia and New Zealand. Subsequently, other countries have joined.

Community (EURATOM) that joined the ECSC. The UK, Ireland and Denmark joined the EEC in 1973, then Greece in 1981 and subsequently, Spain and Portugal in 1986 (İncekara & Ustaoğlu, 2012). The mission of the EEC was to promote a harmonic development of economic activities through the establishment of a common market based in the free movement of goods, services and factors (capital and workers) and the progressive approximation of the economic policies of the member states, a continuous and balanced expansion, a growing stability, an increasing in the standard of living and closer relations between the member states (European Union, 1957, p80). This implied the elimination of internal tariffs and the adoption of common tariffs and common external economic policies. As a second step, it was necessary to promote the harmonization of the economic policies into the member states in order to create a the most greater integration possible.[8]

In 1979, the President of the European Commission Roy Jenkins proposed to the Member States of the EEC the creation of the European Monetary System (EMS) in order to promote monetary policy cooperation among their Central Banks and with the aim of managing inter-community exchange rates and financing exchange market interventions. The EMS was a multilateral adjustable exchange rate agreement in which most of the EEC members linked their currencies to prevent large fluctuations in relative value. As part of the EMS, the ECC established the first European Exchange Rate Mechanism (ERM) which calculated exchange rates for each currency and a European Currency Unit (ECU): an accounting currency unit that was a weighted average of the currencies of the 12 participating states (Feliu and Sudrià, 2013).

The ERM let exchange rates to fluctuate within fixed margins, allowing for some variation while limiting economic risks and maintaining liquidity. Despite the creation of the EMS and the ERM the monetary policy coordination continued to be an obstacle to achieve a complete economic union. The European Monetary System was implemented from 1979 to 1999, when it was succeeded by the Economic and Monetary Union (EMU) and exchange rates for Eurozone countries were fixed against the new currency the Euro. The ERM was replaced at the same time with the Exchange Rate Mechanism of 1999 (ERM II).

[8] In 1981 Greece joined the European Community; in 1986, Portugal and Spain (EU-12); in 1995, to Sweden, Austria and Finland (EU-15), and, between 2004 and 2007, twelve states of Eastern Europe joined the European Unión (EU-27).

Earlier 1986, after years of transformations within the European Union, under the leadership of the President of the Commission Jacques Delors, a former French government official and a fervent supporter of European unity, the Council of Europe agreed the signature of the "Single European Act" with the aim to promote a greater union. It was signed in February 1986 in Luxembourg and The Hague and entered into force on July 1, 1987. Specifically, the Single Act requested the Community to adopt more than 300 measures to remove the physical, technical and fiscal barriers that hindered the internal market. Notwithstanding the Single European Act was not effective by the end of 1992 as it was planned, it entered into force in 1994 before the inauguration of the English Channel (*Canal de la Mancha*) (Cameron and Neal, 2014).

Despite the difficulties the proponents of European unity were never discouraged. On December 1991, the Council of Europe gathered in the city of Maastricht signed a new treaty in order to create a greater union between the peoples of Europe. After two years that The Maastricht Treaty entered into force, in 1993 the European Community changed his name and became in the European Union. At the same time the powers of the European Parliament were increasing. The members advocated "joint actions" in foreign and defence policy with the purpose of creating a Common Foreign and Security Policy (CFSP), the principle of "subsidiarity" was also included. Another feature of the treaty was the explicit provision of organizing an Interstate Conference in 1996 in order to review the progress of the treaty and to develop the necessary adjustments. The Maastricht Treaty was founded on the basis of three main “pillars”: the European Community, based on existing law, the CFSP, and the Co-operation in Justice and Home Affairs (European Union, 1992). The treaty was later modified by the Treaties of Amsterdam (1997), Nice (2003) and Lisbon (2007).

The common currency (Euro) was introduced in three stages: first, on 1 January 1990, with the liberalisation of capital movements; second, on 1 January 1994, with the convergence of national economic policies and the creation of the European Monetary Institute (EMI); and third, on 1 January 1999, with the creation of a single currency and the transformation of the EMI into the European Central Bank. The Treaty also established the stability conditions regarded levels of inflation, public debt, interest rates and exchange rates that the countries must meet before adopting the euro. The practical application of the treaty had to overcome many obstacles. Finally, when most of the member countries of the Union fulfilled the conditions and requirements established in the Treaty (interest rate, deficit, etc.) and when the value of the respective currencies was fixed, three years later (on January 1, 2002) took place the massive substitution of national currencies for the euro. However, not all the countries of the Union wanted to share the single currency. Significantly, both Great Britain and Denmark and Sweden preferred to remain on the side-lines (Feliu and Sudrià, 2013).

It is important to remember another important development such as the creation of a European Economic Area (EEA) in 1993 by an agreement between the European Community with the majority of the members of the EFTA (except Switzerland), which came into force on January 1, 1994. Later on, January 1, 1995, four EFTA members (Sweden, Norway, Finland and Austria) applied for membership in the now renamed European Union (Cameron and Neal, 2014).

Almost simultaneously, another large free trade area was born on January 1, 1994: The North American Free Trade Area (NAFTA) created by the United States, Canada and Mexico. The NAFTA provided for a transition period of fifteen years for the possible entry of other countries in the Western Hemisphere. In its origins, the NAFTA comprised a population of more than 360 million people, had a combined gross national product of approximately $ 7 trillion. In comparison with the EEA, made up of Norway and Iceland and the 15 members of the European Union with a population of 372 million and a combined gross national product of approximately $ 7.5 trillion (Cameron and Neal, 2014).

It is necessary to highlight the creation of a Common Agricultural Policy instituted at the very time of the creation of the EEC, whose aim was ensuring food supplies and rising the income of European peasants. In the 1980s the Common Agricultural Policy absorbed two thirds of the Community budget (Feliu and Sudrià, 2013). Finally, in recent times, The United Kingdom (UK), after 47 years, since its integration to the European Communities (EC), on 1 January 1973, decided to withdraw from the European Union. UK continued participating in the European Union Customs Union and European Single Market during a transition period that ended on 31 December 2020 at 23:00.

Table 4. The Evolution of the European Union

- 1951 - Treaty of Paris - European Coal and Steel Community (ECSC).
- 1957 - The Treaty of Rome (European Economic Community – EEC, European Atomic Energy Community - Euratom).
- 1979 - The European Monetary System (EMS) and the Exchange Rate Mechanism (ERM).
- 1986 - Single European Act.
- 1992 - The Maastricht Treaty - European Union (Monetary Union - Euro - 2002)
    - 1st Pillar - European Communities (EEC, ECSC, Euratom).
    - 2nd Pillar - Common foreign and security policy (CFSP, 1993)
    - 3rd Pillar - Cooperation on Justice and Home Affairs
    - The Treaty was modified by the Treaties of Amsterdam, Nice and Lisbon.
- 1994 - European Monetary Institute (later became the European Central Bank in 1999).
- 1996 - Interstate Conference.
- 1993 - European Economic Area (EEA – EC and EFTA).
- 1994 - EEUU – North America Free Trade Agreement (NAFTA).
- 1999 - The European Central Bank and the Exchange Rate Mechanism (ERM-II).
- 2002 - Substitution of national currencies for the euro.
- 2020 - Brexit

Source: Cameron & Neal, (2014), Feliu & Sudrià, (2013).

3.2.2 European Union External Trade Relations

According to the European Commission (2013), the EU manages trade relations with third countries in the form of trade agreements. EU's trade policy is considered to be a channel for the promotion of European principles and values, from democracy and human rights to environment and social rights. There are three main types of agreements within the EU: Free Trade Agreements (FTAs), Economic Partnership Agreements (EPAs) and Association Agreements (AAs) (European Commission, 2017a).

Negotiations of agreements between the EU and third countries or international organizations shall be negotiated under the aspects stablished in the Article 218 of the *Treaty of the Functioning of the European Union* (European Union, 2012). The European Union puts its interest in free trade agreements arguing that in the next periods over 90 % of the world demand will be outside its borders. Consequently, EU promotes free trade agreements in order to increase its goods and services exports. Some studies concludes that if the EU could accomplish all free trade agreements currently under negotiation, they would create over 2 million new jobs and insert 2.2 % to the European Union GDP and (European Commission, 2013b). The EU FTAs policy was enhanced through the “Global Europe” strategy published in 2006.

Woolcock (2007), summarizes the three main aspects that motivates promoting FTAs to the EU. First, foreign policy and security interest, in order to promote integration and economic development and eliminating the risk of political tensions and war. Second, commercial motivations mainly related with the enforcement of international trade rules, such as intellectual property rights with the aim to achieve global competition; creating strategic relations with regions or countries experiencing rapid economic growth, such as Mercosur, South East Asia and India; and neutralizing potential trade diversion resulting from FTAs between third countries, such as in the case of the EU-Mexico FTA that was designed to neutralize the trade diversion effects created by the NAFATA. Third, promoting the European model of integration, by promoting region-to-region integration in order to achieve economic development and political stability around the world.

Woolcock (2007) describes that the EU has moved its external trade policy to the side of FTAs due four main factors: First, the failure to achieve the main aims of the WTO agenda due the difficulties in multilateral negotiations. Second, the end of multilateral liberalizations and rulemaking, and the beginning of bilateral negotiations as new developments within US trade policy. Third, the strengthening in the economic growth in Asian economies. Finally, some domestic changes within the EU.

According to Woolcock (2007), there are five main topics in the middle of the debates on the EU FTAs such as: border measures and rules of origin, contingent protection, technical barriers to trade and public procurement, investments and services, and competition and intellectual property rights. Nevertheless, the content of EU FTAs varies from case to case and it depends of the level of economic development of the partner country. In this sense, the EU has four different types of EU neighbours: (a) Developed countries: (b) Emerging upper middle income countries (c) Hydrocarbon countries and (d) Lower middle income countries (Liargovas, 2013). Regarding border measures and rules of origin, the EU has promoted a tariff free trade of 90% of the trade with preferential partners. Nevertheless, the 90 % threshold is not a fixed reference, while the WTO advocates for a higher threshold, some negotiations with developing regions and countries seek a lower threshold, where the EU has accepted less than 90 % coverage for the developing country part (Woolcock, 2007). Provisions on sanitary and phytosanitary (SPS) measures in EU FTAs affects market access of agricultural and food products. The EU PTAs are based in the PanEuro system of rules of origin, initiated in 1993 in order to replace the various incompatible rules of origin in the European Agreements with the countries from Central and Eastern Europe. The EU has considered simplifying rules of origin for less developed preferential trading partners and also propose to expand technical assistance for developing countries in order to increase their capacity in certifying origin (Woolcock, 2007).

Related to contingent protections the EU includes three types of safeguards into its FTAs. Permanent safeguards that prioritizes the cases of the EU into the WTO. There are transition safeguards implemented by the EU (and its preferential partners) in order to impose import controls and to avoid unexpected rapid increase in imports during the implementation of a FTA. While the requirements are similar to those in the WTO (non-discrimination, substantial injury and causality between imports and injury), the EU may interpret these provisions in its favour and according its commercial aims. Finally, special safeguard measures implemented by the EU in sensitive sectors such as agriculture, those measures are offered as special and differential treatment for developing countries (Woolcock, 2007).

Regarding technical barriers to trade (TBTs) and public procurement (PP). The EU does not have significant provisions on TBTs in its FTAs specially in the case of its neighbours whose should progressively adopt the EU standards. This is a policy directed to the developed economies where TBTs are obstacles to market access and PP can be higher than 7 % of GDP. Those measures are less important in terms of EU export interests in developing economies; however, PP is important for EU exporters in emerging markets particularly in sectors such as public services, transport, power, telecommunications, construction etc. The aim of the EU is to promote transparency and to promote more sophisticated regulatory norms and voluntary standards (Woolcock, 2007).

Regarding services and investments, Woolcock (2007) describes that the EU and taking in to account that the first is very important for the EU in terms of comparative advantages. Here, the EU also stablishes different relations depending if the partner is a developed or developing region. The EU approach to services in FTAs follows the principles stablished in the GATS, and includes the four modes of supply in one services chapter. Provisions related to general investments in EU FTAs have been overcoming several obstacles such as the competence for investment within the European Community and the EU Member States. While the EU have been implemented more ambitious provisions on investment, in terms of the EU's FTA partners, the GATS approach is likely more flexible.

Another's important issues of the EU FTAs negotiations are competition and intellectual property rights (IPR). As the EU functions as an integrated market, they developed a domestic competition policy in order to ensure that private limitations do not replace public limitations. The EU argues that promotion of trade and investments liberalization must be accompanied by an international competition policy. The EU approach on IPR standards is based in the requirements stablished by TRIPs and other agreed standards of intellectual property right protection and does not go beyond them (Woolcock, 2007).

In conclusion, Woolcock (2007) explains that in order to promote compatibility between bilateralism (FTAs) and multilateralism, the EU FTAs advocates for a deep integration based in improvements in regulation and competition, due that bilateral measures that promote regulatory best practices and enhanced transparency are coherent with multilateralism. Additionally, the EU is committed with the application of existing international norms or standards rather than introduce specific new standards in the bilateral agreements.

According to Liargovas (2013), the EU's preference for bilateral agreements rather than multilateral can be explained by the following aspects. First, they are quickly to negotiate and easy to conclude which is very attractive for politicians and businessmen. Second, they embrace more areas such as competition, investment, environment provisions, technical standards and labour standards. Third, they are important for the EU political and geopolitical interests due that developing countries wants to negotiate with the EU in order to achieve exclusive preferential benefits and development assistance mainly. Finally, they are implemented as a tool for improving domestic capacity in areas where the multilateral system does not offer great opportunities for development and trade.

Nevertheless, there are some limitations of bilateral trade agreements such as: the discrimination created regarding the countries outside of the agreement. Second, bilateral agreements are not able to solve the issues that involves the rules of origin, antidumping, agricultural and fisheries subsidies. Third, the proliferation of bilateral agreements may produce an incoherent set of rules which may complicate the trading environment. Finally, the negotiation of bilateral agreements between the EU and developing countries means for the former countries, a weaker negotiating position in comparison to multilateral negotiations (Liargovas, 2013).

3.3 Context of the EU-Colombia Free Trade Agreement

3.3.1 Context of the Free Trade Agreement Negotiations

The economic cooperation between the EU and Colombia can be located back with the creation of a Joint European Community-Andean Community Committee established by the Andean Community Cooperation Agreement of 1983 ratified in the Final Declaration of 2005 (European Union, 2005). In 1993, the Framework Cooperation Agreement between the European Communities and the Andean Community (CAN) was designed, and in 1996, the political dialogue between the two Parties was strengthened by the Declaration of Rome (European Union, 1996). In the 1990s, Colombia started the dialog on drugs with the EU and after different agreements and Colombia initiates a campaign to achieve greater access for licit exports in the European Community, the "GSP-Drugs" (Szegedy-Maszák, 2009).

In 2003, the Political Dialog and Cooperation Agreement (PDCA) between the EU and the CAN was adopted. The main aims of the PDCA are the respect for human rights and the rule of law, and the creation of the conditions to rise mutual benefits within the different agreements negotiated, including FTAs. The PDCA also includes cooperation in several areas such as respect for decent work and other core labour standards, indigenous peoples, sustainable mining, sustainable development (European Community - Andean Community, 2003). In 2006, in the framework of the Andean Community Regional Strategy Paper 2007-2013 the EU accepted with the CAN an assistance of €50 million in order to support three main sectors: regional economic integration, social cohesion, and the fight against illicit drugs (European Commission, 2007).

In 2007, a new strategy for promoting region-to-region negotiations with the EU was launched by the Tarija Declaration of the CAN. Negotiations were suspended in 2008 due to disagreements within the Andean Community on the aims of the agreement. Dialogues were restarted in January 2009 and completed in March 2010. As Ecuador and Bolivia suspended its formal participation in the negotiations the final agreement was ratified initially by the EU, Colombia and Peru, leaving the possibility to other members of the CAN to join the agreement in future (Stevens et al., 2012).

In February 2009, the negotiations of a comprehensive Trade Agreement compatible with the WTO principles began with three of the Andean Community countries, Colombia, Ecuador and Peru. Parallelly, Colombia, Ecuador and Peru (as well as Bolivia) were obtaining preferential access to the EU market under the EU's Generalised Scheme of Preferences plus arrangement (GSP+). However, the three countries were expected to no longer be eligible for GSP references from 2014 due the reform of the GSP that stablished that the countries classified by the World Bank as a high-income or an upper-middle income country during three consecutive years would no longer be eligible of having preferential access to EU markets. This means that in the absence of the EU-Colombia and Peru FTA, the three Andean countries were facing Most Favoured Nation (MFN) tariffs instead (European Commission, 2020).

In March 2011, Colombia and Peru concluded their respective trade negotiations with the EU. The agreement was signed in Brussels on June 2012 and has been provisionally applied with Peru since March 2013 and with Colombia since August 2013. In July 2014, negotiations with Ecuador for its accession to the Agreement and were concluded. The Protocol of Accession for Ecuador was signed in November 2016 and has been provisionally applied since 1 January 2017. Full entry into force of the Agreement is pending ratification by all EU Member States (European Commission, 2020).

In June 2016, a joint proposal for a Council decision on the conclusion of a political dialogue and cooperation agreement between the EU and the CAN was implemented. It replaced the 2003 PDCA proposal. Colombia is involved in additional cooperation agreements with the European Union such as the multiannual indicative programme (MIP) for Latin America 2014-2020, with a budget of €805 million (for the continental part) directed to support Latin American countries mainly in five areas: good governance, security, human development, higher education and the environment. The MIP is aligned with the regulation on the financial instrument for development cooperation 2014-2020 (DCI) (European Parliament, 2014).[9] Due that Colombia and Peru were considered recently as 'upper-middle income' countries, they are in the process of phasing out the DCI.

3.3.2 Overview of EU-Colombia, Peru and Ecuador Trade Relations

Table 5, shows some economic and social indicators of the EU-Colombia, Peru and Ecuador FTA. The asymmetries between the EU on one hand and Colombia, Ecuador and Peru on the other are manifested in the levels of population, GDP, growth and inflation. The population of the EU is almost three times higher than the population of the three Andean countries together. The total GDP for Colombia, Peru and Ecuador amounts to less than 4% of the EU GDP. The Colombian economy is about 50% as large as the Peruvian and two times bigger than the Ecuadorian.

Table 5. EU, Colombia and Peru Basic Economic Indicators 2019

Type	Unit	EU	Colombia	Peru	Ecuador
Population[1]	Millions of inhabitants	447	50	32	17
GDP[2]	Billions of euros	16,491	293	205	96
GDP per capita[2]	Euros	32,030	5,813	6,295	5,582
Real GDP growth[2]	%	1.69	3.4	2.6	-0.5
Inflation rate[1]	%	1.6	3.6	2.2	0.4
Unemployment[2]	%	8.5	8.6	6.7	4.7
Current account Balance	% of GDP	2.7	-4.2	-1.9	0.1
Democracy Index Rank[3]		-	53	61	76
Corruption Perception Index[4]		-	96	96	117

Data source: [1] The World Bank (2018), [2] European Commission (2020), [3] The Economist Intelligence Unit, (2018), [4] Transparency International, (2017).

The EU is Colombia’s third main partnership from the point of view of imports. The EU exports to Colombia are mostly products from the manufacturing sector such as machinery and transport equipment. The EU also is the second biggest destination of

[9] The total amount of the MIP budget is €925 million divided in two components 1: The Continental Programme (€805 million), and 2: The Sub-Regional Programme for Central America (€120 million).

Colombian exports. EU imports from Colombian are mainly products from agricultural, mining and fuel sectors. Promoters of the trade agreement argue that Colombia would diversify its exports to the EU having positive impacts mainly in agricultural and manufacturing sectors with the access of a market of around 447 million people.

With regards to the EU's trade with Peru and Ecuador, bilateral trade has almost quadrupled during the period. The EU imports are almost twice the value of exports to Peru and Ecuador respectively. The EU and Colombia, Peru FTA represent a type of agreement signed by one developed economic block (the EU) and three developing countries from the Andean community (Colombia, Peru and Ecuador). According to the DG Trade Statistical Guide Report 2018, the EU has held the first and second place of global production in 2007 and 2017, with a share in the global production of 20.7% and 16.5% respectively (European Commission, 2018a). While, the Colombian, Peruvian and Ecuadorian economies passed from the 33rd, 50th and 58th places in 2010 to 39th, 49th, 63rd places in 2017 respectively (The World Bank, 2018).

Table 6 presents an overview on exports, imports and gross domestic product (GDP in billions of euros) of the members of the agreement before the agreement entered into force (2009), at the time when the agreement entered into force (2013) and four years later that the agreement entered into force (2017). Due the big differences on weight in total trade described above, small impacts on the European economy derived from the trade agreement are expected, while the impact on the Colombian, Peruvian and Ecuadorian economies is expected to be higher. The former forecast is based on the level of productivity, aggregate value and relative size of the economies involved.

Table 7 shows domestic and foreign sectoral value-added contribution to gross exports for 2015. As can be appreciated, production patterns are quite asymmetrical, specifically with respect to production in the primary sector. In 2007, the overall production of agriculture and food products in the EU was 5.5 %, in Colombia 18 % and in Peru 24.9 %. Meanwhile, manufacturing's share of overall production was 18 % for the EU, 28 % for Peru, and only 10 % for Colombia. The economies have evident differences regarding the share of production linked to the services sector. While in Peru the share is less than half (44.7 %), the share of services sector in the EU and Colombia account for three quarters and two thirds of total production, (Joseph et al., 2012).

Table 6. Exports, Imports and Gross Domestic Product, Billions of Euros 2009, 2013, 2017.

	2009			2013			2017		
	X	M	GDP	X	M	GDP	X	M	GDP
EU	1,606	1,665	12,294	2,460	2,231	13,578	2,761	2,557	15,322
Colombia	27	30	206	49	55	286	40	52	274
Peru	21	19	107	36	39	149	46	43	191
Ecuador	11	13	55	21	23	72	19	21	91

Source data: Own calculations based in European Commission, (2018b), (European Commission, 2018c), International Trade Statistics, (2018), The World Bank, (2018), International Monetary Fund, (2015).

Table 7. Domestic and foreign sectoral Value Added contribution to gross exports, 2015*

	Domestic		Foreign	
	Colombia	Peru	Colombia	Peru
Primary	40.3	38.9	2.3	2.0
Manufacturing	21.2	19.8	4.6	3.6
Services	27.0	31.0	4.6	4.6

* Data for Ecuador is not available in WTO.
Source data: WTO (2015).

Table 8 present the dynamics of trade between Ecuador, Peru, Colombia and the EU during the 2002-2017 period. The data show that EU's trade with Colombia grew almost three times during that period. With regards to the EU's trade with Peru and Ecuador, bilateral trade grew almost four times during 2002-2017. Table 8 also show that EU imports are almost twice the value of exports to Ecuador and Peru respectively. Colombia stands as the main economic partner of the EU among the three Andean countries. Nevertheless, Colombia and Peru do not represent major trading partners for the EU. Together they come behind Mexico (1.7% of EU exports) and Chile (0.4% of EU exports)

Table 8. EU imports and exports of goods by source and destination, millions of euros.

	Partner	2002	2005	2008	2010	2013	2015	2017
EU imports	Colombia	2,548	3,554	5,444	4,999	8,032	7,146	6,135
	Peru	2,463	2,341	3,913	5,244	5,511	5,286	6,474
	Ecuador	1,379	1,846	2,426	2,295	2,934	2,935	3,290
EU exports	Colombia	1,861	2,458	3,499	3,884	5,852	6,510	5,882
	Peru	870	1,055	2,190	2,275	3,515	3,693	4,013
	Ecuador	907	877	1,020	1,400	2,255	2,068	2,218

Source: International Trade Statistics, (2018).

3.4 Structure and Scope of the EU-Colombia Free Trade Agreement

The EU and Colombia FTA was initially applied by Peru since 1 March 2013 and by Colombia since 1 August 2013. On 11 November 2016, Ecuador, joined the group and signed the Protocol of Accession to the Trade Agreement with Colombia and Peru. Ecuador ratified the protocol on 21 December 2016. Ecuador joined the trade agreement provisionally since 1 January 2017. Peru ratified the agreement on 23 October 2017 and Colombia on 3 November 2017. At the time of writing the trade agreement had still not been fully ratified. It is projected that the trade agreement will open up markets on both sides as well as it will increase the stability of trade and the investment environment. Bolivia, as a member of the Andean Community, has been invited to join the trade agreement (European Commission, 2016a).

In terms of its content the Trade Agreement is aligned with EU FTA policy. Tariff liberalisation covers almost the total of tariff lines based in the requirements of the GATT Art XXIV. The Agreement also covers most of non-tariff measures, such as SPS and TBT, trade facilitation, investments, competition and government procurement. The agreement also covers different provisions regarding services, intellectual property rights and also the dispositions stablished in the GATS and TRIPs plus.

In summary, the main objectives of the Agreement are: (a) the progressive and gradual liberalisation of trade of goods, services, and capital; (b) to increase the investment flows among the parties on the basis of the principle of non-discrimination; (c) effective and reciprocal opening of government procurement markets of the parties; (d) to promote cooperation for dispute settlement mechanisms among the parties; and (e) to promote international trade in a way that contributes to the objective of sustainable development (European Commision, 2013).

The agreement aims to open up markets for products traded between the EU, Colombia, Peru and Ecuador. At the end of the transition period, the customs duties at all on industrial and fisheries products and trade in agricultural products will be eliminated. Consequently, exporters will save millions of euros in tariffs alone annually. The EU-Colombia and Peru FTA incorporates provisions on the rule of law and effective implementation of international conventions on respect of human and labour rights, and environmental protection.

Table 9. Overview of the EU-Colombia, Peru and Ecuador FTA

Title	*Chapter*
1. Initial Provisions	1. Essential elements.
	2. General Provisions.
	3. Definitions of General Application.
2. Institutional Provisions	-
3. Trade in Goods	1. Market Access for Goods.
	2. Trade Remedies.
	3. Customs and Trade Facilitations.
	4. Technical Barriers to Trade.
	5. Sanitary and Phytosanitary Measures.
	6. Movement of Goods.
	7. Exceptions.
4. Trade in Services, Establishment and Electronic Commerce	1. General provisions.
	2. Establishment.
	3. Cross-border supply of services.
	4. Temporary presence of natural. persons for business purposes.
	5. Regulatory Framework.
	6. Electronic Commerce.
	7. Exceptions.
5. Current Payments and movement of capital	-
6. Government Procurement	-
7. Intellectual Property	1. General Provision.
	2. Protection of Biodiversity and Traditional Knowledge.
	3. Provisions Concerning Intellectual Property Rights.
	4. Enforcement of Intellectual property.
	5. Transfer of Technology.
	6. Cooperation.
8. Competition	-
9. Trade and Sustainable Development	-
10. Transparency and Administrative Proceedings	-
11. General Exceptions	-
12. Dispute Settlement	1. Objectives, Scope of Application and Definitions.
	2. Consultations.
	3. Dispute Settlement Procedures.
	4. General Provisions.
13. Technical Assistance and Trace-Capacity Building	-
14. Final Provisions	-
List of Annexes and Declarations	Annex I. Tariff Elimination Schedules.
	Annex II. Concerning the definition of the concept of “Originating Products” and Methods for Administrative Cooperation.
	Annex III. Special Provisions on Administrative Cooperation.
	Annex IV. Agricultural Safeguard Measures.
	Annex V. Mutual Administrative Assistance in Customs Mathers
	Annex VI. Sanitary and Phytosanitary Measures.
	Annex VII. Lists of Commitments on Establishment.
	Annex VIII. List of Commitments on Cross-borders Supply of Services.
	Annex IX. Reservations Regarding Temporary Presence of Natural Persons for Business Purposes.
	Annex X. Enquiry points regarding Trade in Services, Establishment and Electronic Commerce.
	Annex XI. Understanding Concerning Subparagraph (b) of the Definitions of “Services Supplied in the exercise of Governmental Authority” as referred to in Article 152 of the Agreement.
	Annex XII. Government Procurement
	Annex XIII. List of Geographical indications
	Annex XIV. Mediation Mechanism for Non-tariff Measures.

Source: European Commission, (2012).

The implementation of these commitments includes also the participation of Civil Society Organisations (CSOs) to monitor the agreement. The EU, Colombia and Peru FTA aims to promote regional integration among the Andean countries. As could be seen the last years with the recent accession of Ecuador and current negotiations with Bolivia. Table 9 presents an overview of the EU-Colombia, Peru and Ecuador FTA. The EU, Colombia, Peru and Ecuador FTA is in line with the EU policy for all FTAs and it includes provisions and clauses related to human rights, labour rights and sustainable development.

3.4.1 Trade in Goods

The agreement aims to promote a gradual elimination of all barriers on free trade in goods and services among the signing countries. In order to allow the trade liberalization, the agreements incorporate provisions to safeguard domestic industry from the negative effects. This FTA include strategies to eliminate technical barriers to trade and facilitate trade for products of animal or plant origin. This section compares the proposed FTA tariffs against tariffs before the agreement.

Trade and tariffs before the agreement, and tariff concessions

With the aim to achieve liberalization of trade, the scope of the concessions agreed by the EU, Colombia, Peru and Ecuador is the same that other trade agreements negotiated by the EU. Following the principles of the WTO the final agreement seeks freeing up trade gradually on both sides. According to Joseph et al., (2012) once all the tariff reductions stipulated in the agreement were applied, all EU exporters started to export industrial and fishery products duty free to Peru and Colombia. For 2023, most of products will receive the benefits from tariff free access and hopefully full liberalization will be completed after 17 years of the implementation of the agreement. The elimination of tariffs will produce savings for both suppliers and consumers in the importing countries and it will also provide new possibilities for emerging producers.

EU's exports to Colombia and Peru

The study of Joseph et al., (2012) describes how the concessions agreed by the EU and Colombia have liberalised more than 98 % of tariff lines. The remaining 2 % relate to agricultural products that will be partially liberalised (1.5 % EU and 1.8 % Colombia). Table 10 show the current value of trade, tariffs and the proposed FTA tariffs for goods exports from the EU to Columbia and Peru are presented in.

According to Joseph et al., (2012), while the EU liberalised almost 95 % of its tariff lines at entry into force of the Agreement, Colombia and Ecuador liberalised close to 60 % at entry. Table 10 also show that the current weighted average tariffs on EU's exports are around 6 %, while the weighted average tariff for agricultural and food products is twice bigger 13 %.

Excepting some food and agricultural products the FTA seek a total reduction of tariffs. Table 10 show that the value of trade is largely concentrated in manufacturing sector. The proposed tariff liberalisation would improve European competitiveness in the Columbian and Peruvian markets for these products (Joseph et al., 2012).

Table 10. Colombia & Peru Tariffs on Exports from EU Current MFN tariffs (trade weighted in %), Proposed FTA tariff Value of Trade (millions of Euros), 2007

Product	*New Tariff*	*MFN tariff*	*Value of Trade*
Agriculture and Food Products	1.34	13.31	209
Minerals and Energy	0.00	4.96	129
Manufacturing	0.01	5.39	4,056
Total	0.07	5.76	4,394

Source: Joseph et al., (2012).

EU's imports from Colombia and Peru

Table 11 presents the MFN, the proposed FTA tariffs and applied tariffs of EU on imports from Colombia and Peru. The data show that the MFN tariff levels are higher in the agriculture and food sector than in the manufacturing sector and the average applied tariffs are zero for most of the sectors, excepting agricultural and food products, where applied tariffs were 7 % in 2007. The expected impact on EU imports of agricultural and food products from Colombia and Peru would increase as consequence of tariff reduction proposed in the FTA (Joseph et al., 2012).

Table 11. EU tariffs on imports from Colombia & Peru Current MFN tariffs (trade weighted in %), proposed FTA tariffs and Value of Trade (millions of euros), 2007

Product	New tariff	Applied tariff	MFN tariff	Imports
Agriculture and Food Products	3.74	7.09	10.92	3,148
Minerals and Energy	0.00	0.00	0.08	3,296
Manufacturing	0.00	0.14	1.63	2,048
Total	1.39	2.66	4.47	8,492

Source: Joseph et al., (2012).

3.4.2 Trade in Services

The commitments included in the EU-Colombia and Peru trade agreement go beyond the commitments made in the WTO - GATS. The agreement is based in the regulatory framework of the EU Member States in order to give the same treatment to Ecuador Colombia and Peru. The Andean countries would benefit from the access to important sectors such as business and financial services, environmental services, telecommunications, distribution services. The agreement establishes the conditions for market access according current legislation, reserving the parties' right to make modifications taking into account their own interests (e.g., establishment of the shape of local labour force in multinational corporations, the auxiliary services used in air transport and the computer services used in cross-border activity).

The liberalisation of trade in services agreed between the EU, Colombia, Ecuador and Peru, include the commitment of improve the opportunities for cross-border supply of services. The agreement is committed with creating the conditions to foreign direct investments (FDI) in the market of the trade partner. The increase of imports of services will create possible gains and improvements to welfare. The production cost for local business could have reductions due the supply of a new set of cheaper services, consequently, the supply of a new set of cheap and high-quality services will benefit the local consumers (Norman-López et al., 2016).

3.4.3 Current Payments and Movement of Capital

Title V focuses on current payments and movement of capital. Title V of the agreement specifies that the member countries shall facilitate the free movement of capital (the Parties may adopt safeguard measures temporarily only in circumstances where payments and capital movements cause complications for the operation of exchange rate policy or monetary policy, or the liquidity of the economy, Article 170) and avoid the imposition of restrictions on payments and transfers between their residents (European Commission, 2012).

3.4.4 Government Procurement (GP)

Title VI on Government procurement, includes the definitions, scope of application, exceptions, publications of procurement information and notices, conditions for participation, selective tendering and all the process of transparency and disclosure of information, as well as the Micro Small and Medium Enterprises (MSME) participation and the presentation of the Sub-committee on Government Procurement (European Commission, 2012).

The trade agreement summaries general principles for ensuring transparency and cooperation with the aim to promote full access to the respective procurement markets above financial thresholds equivalent following the principles described by the WTO Government Procurement Agreement (GPA). These thresholds are Special Drawing Rights (SDR) 5 million for construction, 400 000 for goods/services purchased by utilities and 130,000 for goods and services. The aim of the SDR is to extend the scope of coverage whilst minimising the costs of compliance (Stevens et al., 2012).

The Andean partners will have access to the procurement of EU central and sub-central authorities, for works, goods and services concessions. The agreement ensures the safeguard against any possible negative effect that liberalisation of procurement markets could have and establish the conditions for adjustments to be made.

3.4.5 Intellectual Property Rights (IPRs)

Title VII covers the provisions regarding innovation, creativity and simplification of the production and exchange of innovative products between the parties, as well as the provisions to guarantee the protection and enforcement of intellectual property rights (IPRs) in order to promote technology transfer and improve economic and social welfare and the balance between the rights of the holders and the public interest (European Commission, 2012).

The agreement incorporates the following IPRs: (a) copyright, including copyright in computer programmes and in databases; (b) rights related to copyright; (c) patent rights; (d) trademarks; (e) trade names in so far as these are protected as exclusive property rights in the domestic law concerned; (f) designs; (g) layout-designs (topographies) of integrated circuits; (h) geographical indications; (i) plant varieties; and (j) protection of undisclosed information (European Commission, 2012).

Title VII also includes the commitments of the parties regarding protection of biodiversity and traditional knowledge, trademarks, the protection of a large number of geographical indications, copy rights and related rights, designs, protection of data of certain regulated products, plant varieties, and unfair competition. In the field of IPRs, the agreement is based on two main principles: on the one hand, ensuring to intellectual property right-holders the needed incentives and rewards for investment in research, innovation and cultural creativity, and on the other, respecting other public interests (e.g., regarding to environment, health and education). The rights and duties included in the agreement are in line with the principles set out at the Doha Declaration on the TRIPS *Agreement and Public Health* (Norman-López et al., 2016).

3.4.6 Competition

Title VIII describes the dispositions related competition among the signing countries. This Title stablishes the commitment of maintaining comprehensive competition laws and appropriately equipped competition authorities among the members of the agreement (Article 260). This Title stablishes that the members shall enforce their respective legislation in order to eliminate the most harmful anticompetitive practices such as concerted practices, restrictive agreements, monopolies and abuse of dominance (Articles 259). The Title also stipulates that Ex post evaluation of the implementation of the Trade Agreement between the EU and its Member States and Colombia, Peru and Ecuador – Inception Report with regard to state enterprises and designated monopolies no Party shall adopt or maintain any measure contrary to the provisions of the Title which distorts trade and investment between the Parties (Articles 263) (European Commission, 2012).

3.4.7 Trade and Sustainable Development (TSD)

The trade agreement includes a chapter on trade, sustainable development focused in environmental protection and labour issues. The agreement is aligned with the provisions set out in several declarations and agreements such as: the *Declaration on Environment and Development* and the Agenda 21 adopted by the United Nations Conference on Environment and Development in June 1992, the *Millennium Development Goals* implemented since September 2000, the *Johannesburg Declaration on Sustainable Development and its Plan of Implementation* adopted in September 2002, the *Ministerial Declaration Attainment of Full, Productive Employment and Decent Work* adopted by the United Nations Economic and Social Council in September 2006, and finally with the new trade and investment strategy for the European Union, *Trade for All: Towards a more responsible trade and investment policy*.

Title IX include the provisions about trade and sustainable development and includes the best practices regarding the protection of labour rights and promotion of environment laws. The agreement recognizes the rights of the members to decide their own levels of environmental and employment protection, and to determine when and how implement higher protection standards. Title IX includes provisions aligned with the labour standards set out in the International Labour Organization (ILO) Fundamental Conventions. The commitments include issues such as abolition of child labour, elimination of forced labour, non-discrimination in employment, freedom of association, occupational health and safety and working conditions (European Commission, 2012).

Title IX includes provisions related climate change and migrant workers, and the different mechanisms of monitoring the issues of sustainable development, and includes provisions regarding the conservation of biological diversity, recognizing the role played by indigenous and local communities. The agreement underlines the commitment to cooperate in the areas of sustainable use of biodiversity and its conservation. These provisions are highly important for the three Andean countries, which are recognized as ‘mega biodiverse’ countries.

The Title describes the stages of implementation, the role of the actors involved as governmental institutions, committees and civil society organizations (CSO), which can make recommendations and proposals on the implementation of the chapter. The chapter on sustainable development creates a specific arbitration system to monitor and to address any situation in the implementation of these provisions. The agreement creates an independent group of experts to assess the fulfilment of members obligations. This group must to issue public reports and to implement corrective action plans.

3.4.8 Transparency and Administrative Proceedings

Title X includes several dispositions on transparency and administrative proceedings and establishes that the parties shall be committed mainly with: (i) ensuring that their measures of general application (e.g., procedures, regulations, laws and administrative rulings) relating to the Agreement shall be published and be available to the public; and (ii) providing reasonable opportunities for those interested to comment on proposed measures, and examining such comments, provided they are relevant (Article 288). Article 293 focuses on transparency on subsidies, it establishes that each Party has the commitment to submitting a report every two years to the other Parties regarding the budget, form, legal basis and also inform on the recipient of subsidies conceded by its government or any public body (European Commission, 2012).

3.4.9 Dispute Settlement

Title XII of the agreement deals whit the dispute settlement system which is in line with the EU principles such as transparency and sequencing. This title describes the dispute settlement procedures, incorporates the arbitration proceedings and a mediation mechanism for non-tariff barriers to trade in goods in order to create quick solutions in a conciliatory environment. It also pay attention in related procedures and remedies in case of non-compliance with the arbitration ruling (European Commission, 2012).

3.4.10 Technical Assistance and Trade-Capacity Building

Title XIII covers the topics related to technical assistance and trade-capacity building. The aim of this title is to strengthen cooperation that contributes to the success in the implementation of the agreement mainly by: promoting the trade facilitation and the transfer of technology, the modernisation of production, competitiveness and innovation, and investment opportunities; fostering the MSMEs by improving trade as a tool for jobs creation; promoting fair and equitable trade by giving access to the benefits of the agreement to the weakest sectors; strengthening institutional and commercial capacities; and addressing the issues related to cooperation recognized within the agreement. Finally, Title XIV defines final provisions related not only to the probable accession of new member states to the EU, but also for the accession to the Agreement by other Member countries of the Andean Community (European Commission, 2012).

Chapter 4: Methodology and Data for a Multidisciplinary Approach

4.1 Horizontal Depth Analysis of FTAs

This section describes the methodology developed by Horn, Mavroidis, & Sapir, (2010) and Hofmann, Osnago and Ruta (2017) in order to analyse the depth and content of PTAs. The data base presented by Hofmann et al., (2017) includes information for all PTAs in force and notified to the WTO in 2015. This database contains 52 policy areas and their legal enforceability in 279 preferential trade agreements among 189 countries, where the information of the EU-Colombia FTA was selected and analysed.

> According to HMS, WTO+ stands for those policy areas that fall under the current mandate of the WTO, while WTO-X refers to obligations outside the WTO's mandate. Furthermore, HMS classified provisions as legally enforceable if the legal language is sufficiently clear and the use of dispute settlement under the PTA has not been excluded. Meanwhile, a provision with no reference to dispute settlement procedures under the Agreement or with weak legal language is considered not legally enforceable. (Hofmann et al., 2017: 4)

This methodology presents the PTAs provisions disaggregated into core and non-core, border versus non-border, and preferential versus non-discriminatory provisions. Core provisions are mainly focused on economic aspects and include all WTO+ provisions and four WTO-X areas (intellectual property rights protection, movement of capital, investment and competition policy). The PTAs also includes border provisions, such as anti-dumping duties, and non-border provisions, such as competition policy respectively. According to their application, preferential provisions are those provisions which only applies to members of PTAs, such as the gradual elimination of tariffs; while non-discriminatory provisions are those provisions which only affects both members and non-members, for example limitation in the use of subsidies (Hofmann et al., 2017).

The methodology developed by Hofmann et al., (2017), includes an 'horizontal' depth analysis of the PTAs which allows to study the coverage of policy areas included into these agreements through the lens of three indexes. The first index called '*total depth*' is the sum of legally enforceable provisions integrated in a PTA. The second index called '*core depth*' is the sum of core provisions included and legally enforceable in a PTA. By implementing a Principal Component Analysis (PCA), researchers can obtain the third index called '*PCA depth*', accounts for the variability in the data. As mentioned before, the data base elaborated by Hofmann et al., (2017) covers 52 policy areas, which are divided into two categories of 14 WTO 'plus' (WTO+) and 38 WTO 'extra' (WTO-X) areas as can be observed in Table 12. While WTO+ provisions are related to existing commitments and additional obligations included in PTAs, WTO-X provisions refer to policy areas currently not regulated by the WTO.

Table 12. Categorization of WTO+ and WTO-X provisions

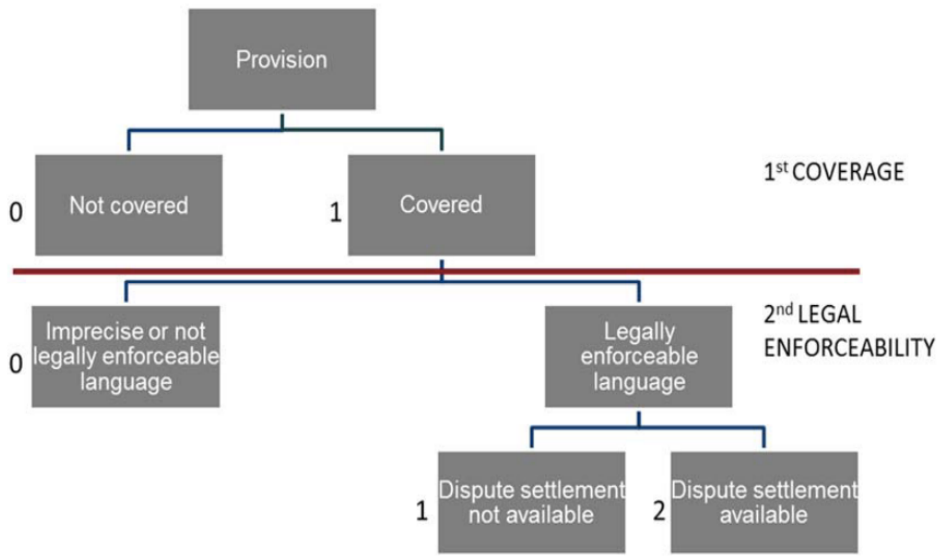
WTO+	WTO-X	
• Tariffs Industrial goods	• Anti-corruption	• Financial assistance
• Tariffs agricultural goods	• Competition policy	• Health
• Customs administration	• Environmental laws	• Human Rights
• Export taxes	• IPR	• Illegal immigration
• SPS measures	• Investment measures	• Illicit drugs
• State trading enterprises	• Labour market regulation	• Industrial cooperation
• TBT measures	• Movement of capital	• Information society
• Countervailing measures	• Consumer protection	• Mining
• Anti-dumping	• Data protection	• Money laundering
• State aid	• Agriculture	• Nuclear safety
• Public procurement	• Approximation of legislation	• Political dialogue
• TRIMs measures	• Audio-visual	• Public administration
• GATS	• Civil protection	• Regional cooperation
• TRIPs	• Innovation policies	• Research and technology
	• Cultural cooperation	• SMEs
	• Economic policy dialogue	• Social Matters
	• Education and training	• Statistics
	• Energy	• Taxation
		• Terrorism
		• Visa and asylum

Source: Hofmann et al., Horizontal Depth: A New Database on the Content of Preferential Trade Agreements (2017).

Particularly, the policy area of TRIMs measures in WTO+ covers all commitments undertaken in the WTO *Agreement on Trade-Related Investment Measures*. These provisions set up the requirements for local content and export performance on foreign direct investment, and applies only to the measures that affect trade in goods. Likewise, the category of TRIPs in WTO+ is aligned to the commitments undertaken in the WTO. These provisions are focused in the enforcement of intellectual property rights, harmonization of standards and most-favoured nation treatment (MFN) in areas of intellectual property included in the agreement (Hofmann et al., 2017).

In order to study the legal consistency of any PTA it is important to analyse and to define the legal content of each commitment. For example, it is important to understand that the unclear or loosely formulated legal language makes it difficult to achieve legal enforceability of an area that is included into the agreement. In general terms, a provision is legally enforceable if the language used is committing and precise and if it has not been excluded from dispute settlement procedures under the PTA (Hofmann et al., 2017). Figure 3 shows the assessment model for the legal enforceability.

Figure 3. Assessment of legal enforceability



Source: Hofmann et al., (2017).

4.1.1 *Social Dimensions and Labour Provisions in FTAs*

In order to complement the horizontal depth analysis, this study is focused on a set of WTO-X provisions such as human rights, labour market regulation, economic policy dialogue, education and training, and health. This set of provisions is directly related with the promotion of labour rights through the inclusion of labour provisions within the FTAs and the improvement of labour standards after its implementation. The inclusion of labour provisions in trade agreements has its origins in the NAFTA Treaty (between the United States, Canada and Mexico) signed in 1994. Since then, several bilateral or regional trade agreements have included provisions linked to labour. According to the International Labour Organization (ILO) a labour provision is understood as: "(i) any labour standard which establishes minimum working conditions, terms of employment or worker rights, (ii) any norm on the protection provided to workers under national labour law and its enforcement, as well as (iii) any framework for cooperation in and/or monitoring of these issues" (ILO, 2015; 6).

The ILO established a framework of specific provisions aligned with the ILO instruments. Therefore, the ILO framework serves as a tool for assessing the inclusion and implementation of labour provisions among the countries involved in an FTA. Especially, those labour provisions related with improving labour standards and decent work have been included in several international declarations and trade agreements. The ILO's '*Declaration on Fundamental Principles and Rights*' (1998) characterised four core standards such as: the recommended minimum age for child workers, the elimination of discrimination in respect of employment and occupation, the elimination of all forms of forced or compulsory labour, and the freedom of association promotion and the right to collective bargaining (ILO, 2015).

In addition to this, the concept of "decent work" has been accepted and adopted by the members of the ILO. The focus presented by the '*Decent Work Agenda*' (2000) is about productive employment and decent work for everyone, at the local, national, regional and global level (ILO, 2018). The agenda proposes the incorporation of four main principles in order to consider a decent work such as: the fundamental principles and labour rights and international labour standards, having a productive job with a fair income, having social protection and safety at work, and social dialogue and tripartism.

Nevertheless, the effects of including social provisions and specifically labour dispositions in FTAs varies depending on the type of labour domestic market, the skills and qualifications of workers, the level of industrialization and the geographical location (Arestoff-Izzo et al., 2008). From a social point of view, the main reason for incorporating labour provisions in free trade agreements, is the conservation of a high quality labour standards, whereas from an economic perspective, labour provisions are useful to prevent unfair competition (ILO, 2015).

A study carried by the ILO argues that the outcomes of trade liberalization on the labour market should include and analyse different variables such as: unemployment, wages, informality and unionization (ILO, 2015). Labour provisions are included in FTAs in order to address the social impacts of the trade agreement itself and to improve the conditions and lives of workers in a context of international free trade of good and services. Labour provisions are also included in order to reduce trade agreements negative impacts on sustainable development (Harrison et al., 2018). Thus, labour provisions contribute to the protection of labour rights among the partners of an FTA (Marx et al., 2016). According to the ILO, during the implementation of an FTA labour provisions can be identified from a conditional or a promotional dimension:

> "…a labour provision is considered to be of conditional character if it links labour standards-related obligations to either economic sanctions or economic incentives. A labour provision is considered to be of promotional character if it does not include economic sanctions or incentives as an implementation mechanism but instead relies on cooperative activities, dialogue, and monitoring. Promotional labour provisions can contain legally binding obligations and sometimes foresee, as is the case of recent EU agreements, a comprehensive institutional and procedural framework to ensure implementation." (ILO, 2015: 21).

According to the ILO (2015), including labour provisions in FTAs serve to improve several aspects such as labour standards and conditions within the signing countries, the cooperation among the signing parties, and the monitoring of the development of the agreement from an integral scope. The cooperation activities among signatory parties include the regulation of multinational conglomerates, improvements in the national practice of occupational safety and health, the enforcement capacity of domestic labour institutions and raise awareness of workers' rights. There are also some aspects such as complaint mechanisms and the role of the civil society that must be included in FTAs.

4.2 Qualitative Analysis of Trade Creation and Trade Diversion

As mentioned in Chapter 2, Jacob Viner developed a conceptual framework for studying the trade effects of an FTA (Viner, 1950). According to Viner's model, a regional trading agreement is favourable (harmful) if the trade creation effect (when preferential tariffs replace inefficient home production with efficient imports from an FTA partner) is larger (smaller) than trade diversion (when preferential tariffs replace efficient imports from the rest of the world with inefficient imports from an FTA partner). Consequently, the model focuses on changes in domestic production derived from intra- and extra-regional trade.

Economic theory provides qualitative conclusions, which are sometimes general and ambiguous. For example, in the case of FTAs, trade creation and trade diversion have opposing effects on welfare, thus, the net effect may be positive or negative. Jacob Viner argued that welfare depends on the level of trade creation and trade diversion caused by a trade agreement. On the one hand, trade creation is considered as a positive impact of a trade agreement. It allows the substitution of goods produced nationally by others that are produced more efficiently by the partner country. On the other hand, trade diversion is considered a negative impact, because it represents the substitution of goods produced more efficiently from other countries by goods that are produced less efficiently by a partner country (Villa et al., 2012).

According to Plummer et al. (2010) a qualitative evaluation of an FTA's trade effects includes an evaluation of production and trade levels before and after an FTA's implementation based in the next assumptions:

a) An increase in imports from FTA partners accompanied by a drop in domestic production indicates trade creation.
b) An increase in imports from FTA partners accompanied by a drop in imports from non-FTA partners indicates trade diversion.
c) A rise in total imports where imports from non-FTA partners are constant or increasing implies that there is no trade diversion, thus indicating a positive welfare effect.

d) A rise in total imports where imports from non-FTA partners and domestic production decrease and
   i) the fall in imports from non-FTA partners is larger than the fall in domestic production, implying that trade diversion exceeds trade creation, thus indicating a negative welfare effect; or
   ii) the fall in imports from non-FTA partners is smaller than the fall in domestic production, implying that trade creation exceeds trade diversion, thus indicating a positive welfare effect.

e) A drop in total imports indicates a negative welfare effect.

Plummer et al. (2010) describes that despite this type of pre–post analysis is relatively easy to apply, there are several limitations to highlight regarding to this method:

> First, the analysis is descriptive and does not quantify the FTA's trade or welfare effects. Second, the analysis assumes that changes in trade and production after the FTA are caused by the FTA, when these could be produced by other reasons, such as changes in import demand, supply of the import substitute, or technological advances. Not accounting for these non-FTA factors provides a misleading impression of how the FTA affects trade and welfare. In other words, assuming that trade and production would remain at their pre-FTA levels in the absence of the FTA—and, therefore, that all changes in trade and production are caused by the FTA—is unrealistic. (Plummer et al., 2010: 81)

Accordingly, this study on trade and production levels of the EU-Colombia FTA will be focused on the intra- and extra regional trade during the period 2010-2019, taking in to account that the agreement entered into force since 2013.

4.3 Trade Indicators

The World Bank, the United Nations Conference on Trade and Development (UNCTAD) and other international organizations created the software named World Integrated Trade Solution (WITS) in order to provide to the researchers, the access to the best-available data and analytical tools for assessing the implications of trade reforms World Bank, 2013). WITS includes a set of very useful Trade Indicators to calculate several Trade Indices by using the UN COMTRADE data (World Bank, 2010).

4.3.1 Trade Intensity Index

The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner and it is calculated as:

$$TII_{ij} = (x_{ij}/X_{it})/(x_{wj}/X_{wt}) \qquad [1]$$

Where x_{ij} and x_{wj} represent the values of country *i*'s exports and of world exports to country *j* and where X_{it} and X_{wt} represent country *i*'s total exports and total world exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade (World Bank, 2010).

4.3.2 Trade Complementarity Index

The trade complementarity index (TCI) offers useful information on intraregional trade by showing how well the structures of a country's imports and exports match. It also has the attraction that its values for countries considering the formation of a regional trade agreement can be compared with others that have formed or tried to form similar arrangements. The TCI between countries *k* and *j* is defined as:

$$TCI_{ij} = 100(1 - \Sigma\ (|m_{ik} - x_{ij}|\ /\ 2)) \qquad [2]$$

Where x_{ij} is the share of good *i* in global exports of country *j* and m_{ik} is the share of good *i* in all imports of country *k*. The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match. There are some strengths of the set of indicators described above, for example: they can offer a quick first impression of an FTA's effects on trade and welfare at any level (regional, national, sectorial, or tariff line) provided that the requisite data is available (World Bank, 2010).

4.3.3 Democracy and Integration Perception Index

The Democracy and Integration Perception Index (DIPI) is a proposal presented by the author of the present thesis, in order to develop a useful tool for identifying and assessing the countries profiles regarding their level of human development, economic integration and democratic stability. There are three main theoretical and political foundations for the creation of the DIPI. Firstly, the impacts of FTAs that goes beyond the economic impacts. For example, the impacts on the level of democracy and international integration derived from the inclusion, implementation and evaluation of social, labour and human right provisions within the FTAs. In this regard, it is important to highlight the commitment of the EU of signing treaties with countries that respects the human rights, the rule of law and the democracy as a whole, which is based on the principles defined in the Universal Declaration of Human Rights of 1948 (Bartels, 2012). As a consequence, this means that a violation of human rights by any country would warrant suspension, although there is no precedent of this. Thus, takin into account that the EU, Colombia and Peru FTA pursues the objectives of sustainable development and the eradication of poverty, the signing members have the obligation of monitoring bilateral implementation of the agreement and assessing the context of its implementation and the impacts not only on the members economy but also on the democracy and the human development (Rettberg et al., 2012). This is because the ILO core labour standards are covered by the human rights clauses; and, the level of respect for human rights is evidenced in level of democratic and human development of a state.

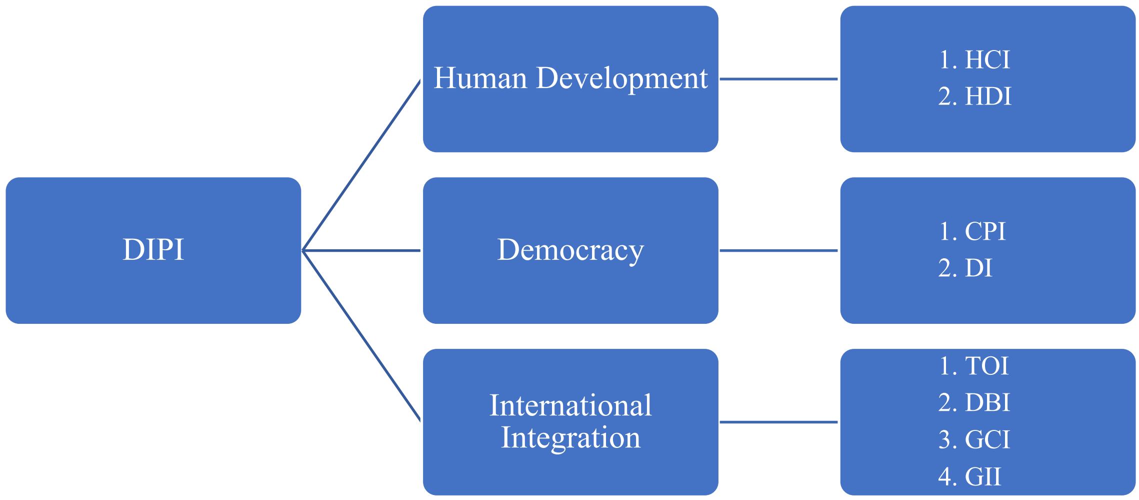
Secondly, as mentioned in Chapter 2, István Benczes, professor at Corvinus University of Budapest, identifies fourth main dimensions of the current process of economic globalization, such as: (1) the globalization of trade of goods and services; (2) the globalization of financial and capital markets; (3) the globalization of technology and communication; and (4) the globalization of production (Benczes, 2010). In its current stage, economic globalization is the result of economic international integration of the nations, which in turn emerges from different types of regional integration, mainly through the increasing number of FTAs signed since the last decade of the twentieth century. Thus, it is possible to analyse the level of international integration of a country by observing its global performance regarding his level of trade openness, competitiveness, innovation and doing business capacity, which are indicators of the globalization and internationalization level of a country.

Thirdly, it is important to mention the framework developed by Tibor Palankai, also from Corvinus University of Budapest, regarding the concept of *integration maturity.* This concept not only means meeting the Maastricht convergence criteria, but also the acceptance and recognition of the political, structural and institutional preparation of the monetary integration participants as a condition of harmonic operation of the system (Palankai, 2010; Palankai, 2015; Palankai, 2017). In words of Palankai: "Integration maturity can be defined as a capability to exploit the benefits of the given form of integration to the maximum, while the costs and drawbacks can be minimised. Integration maturity can be measured by comparing costs and benefits. A country is mature for integration if membership on the whole is advantageous for it" (Palankai, 2010: 9). Accordingly, integration maturity is a concept that can be translated to the FTAs due that this type of accords allows international economic integration. Thus, they can be analysed from their economic, social, political and institutional dimensions by focusing on aspects such as the functioning market economy, macroeconomic stability, competitiveness level, financing and financeability (Palankai, 2010).

On the one hand, the theoretical foundations described above comprise the general framework to create a new agenda in the WTO that includes the creation of a set of mandatory criteria that should be fulfilled by the partners of any FTA in order to establish a normal and harmonic process of trade liberalization and economic integration that allows to exploit the advantages of free trade between the FTA members. On the other hand, this political and theoretical framework can be analysed from the point of view of several global indicators that reveals the levels of human development, international integration and democracy perception of most countries and regions around the world.

The new DIPI is a policymaking tool designed to support countries to identify relevant policies and practices. The DIPI measures the average achievements in a country based in 8 basic indexes grouped in three main dimensions (human development, democracy and international integration): The Human Capital Index (HCI), the Human Development Index (HDI), the Corruption Perception Index (CPI), the Democracy Index (DI), the Trade Openness Index (TOI), the Doing Business Index (DBI), the Global Competitiveness Index (GCI), and the Global Innovation Index (GII) (Figure 4). The DIPI is the geometric mean of normalized indices measuring achievements in each dimension.

Figure 4. Structure of the Democracy and Integration Perception Index



Source: Author own elaboration.

This methodology follows three basic steps:

1. *Selection of source data*: selection of indexes and its classification the three dimensions.
2. *Standardise data sources*: minimum and maximum values need to be set in order to transform the indicators into indices between 0 and 1. An index between 0 and 0.33 represents a low internationalised and democratic country, an index between 0.33 and 0.66 represents a medium internationalised and democratic country and an index between 0.66 and 0.99 represents a high internationalised and democratic country.
3. *Calculate the average*: the DIPI scores are determined by averaging all of the standardized values for each country.

Values for each of the indicators come from publicly available data originally compiled by international organizations such as The World Bank (WB), The United Nations Development Programme (UNDP), The Economist Intelligence, The World Economic Forum (WEF), The Transparency International movement (TI) and The Cornell University, INSEAD, and WIPO (2020). The DIPI provides a useful tool for disaggregating these differences to better understand the strengths and weaknesses of individual countries regarding democracy and economic integration.

The HCI measures the human capital that a child born today can expect to attain by her 18th birthday, given the risks of poor health and poor education prevailing in her country. The index incorporates measures of different dimensions of human capital: health (child survival, stunting and adult survival rates) and the quantity and quality of schooling (expected years of schooling and international test scores). Human capital has intrinsic value that is undeniably important, but difficult to quantify. This in turn makes it challenging to combine its different components into a single measure. The HCI uses global estimates of the economic returns to education and health to create an integrated index that captures the expected productivity of a child born today as a future worker, relative to a benchmark – the same for all countries – of complete education and full health (The World Bank, 2020b; World Economic Forum, 2017).[10]

The HDI is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development: health, education and income. The HDI is the geometric mean of normalized indices measuring achievements in each dimension. The HDI is elaborated by the UNDP and it scored around 189 countries by 2020. For ease of comparability, the average value of achievements in these three dimensions is put on a scale of 0 to 1, where greater is better, and these indicators are aggregated using geometric means (United Nations Development Programme, 2010).

The CPI is an aggregate indicator that ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index drawing on corruption-related data by a variety of independent and reputable institutions. This CPI is elaborated by Transparency International, a global

[10] The Human Capital Index ranges from 0 to 1, thus, an HCI value of, 0.5 implies that a child born today will only be half as productive as a future worker as he would be if he enjoyed complete education and full health (The World Bank, 2020b).

organization with presence in around 100 which main goal is to stop corruption by demanding greater transparency and integrity in all levels of public sector. In 2020, The CPI scored 180 countries and regions by their perceived levels of public sector corruption. The CPI uses a scale from 0 to 100, where 100 is very clean and 0 is highly corrupt (Transparency International, 2021).

The DI is developed by The Economist Intelligence Unit's, this index provides a panoramic overview of the state of democracy in around 165 states. The Democracy Index is based on five categories: civil liberties, political culture, political participation, the functioning of government and electoral process and pluralism. Based on its scores on a range of indicators within these categories, each country is then itself classified as one of four types of regime: 'full democracy', 'flawed democracy', 'hybrid regime' or 'authoritarian regime' (The Economist Intelligence Unit, 2021).

The TOI is the sum of exports and imports of goods and services as a percentage of gross domestic product (GDP). It is a basic indicator of openness to foreign trade and economic integration and indicates the dependence of domestic producers on foreign demand (exports) and of domestic consumers and producers on foreign supply (imports), relative to the country's economic size (GDP) (UNDP, 2020).

The DBI presents results for two aggregate measures: the ease of doing business score and the ease of doing business ranking, which is based on the ease of doing business score. The ease of doing business ranking compares economies with one another; the ease of doing business scores benchmark economies with respect to regulatory best practice, showing the proximity to the best regulatory performance on each Doing Business indicator. When compared across years, the ease of doing business score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, whereas the ease of doing business ranking shows only how much the regulatory environment has changed relative to that in other economies. The DBI develops a ranking that includes around 190 economies. The ranking of economies is determined by sorting the aggregate ease of doing business scores (The World Bank, 2020a).

The GCI is a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness, developed by Professor Xavier Sala-i-Martin and introduced in 2005.

The GCI is based on 12 pillars of competitiveness, providing a comprehensive picture of the competitiveness landscape in countries around the world at different stages of economic development. The Report also contains detailed profiles highlighting competitive strengths and weaknesses for each of the 139 economies featured, as well as an extensive section of data tables displaying relative rankings for more than 100 variables (The World Economic Forum, 2010). (The World Economic Forum, 2019).

The GIN helps to create an environment that evaluates innovation factors continuously. In 2020, the GIN presented detailed innovation indicators for 131 economies that represents 93.5% of the world's population and 97.4% of the world's GDP. The GII is composed of three indices: the overall GII, the Innovation Input Sub-Index, and the Innovation Output Sub- Index: The overall GII score is the average of the scores of the Input and Output Sub-Indices; The Innovation Input Sub-Index is comprised of five pillars that capture elements of the national economy that enable innovative activities: 1) Institutions, 2) Human capital and research, 3) Infrastructure, 4) Market sophistication, and 5) Business sophistication; and The Innovation Output Sub-Index provides information about outputs that are the result of the innovative activities of economies. There are two output pillars: 6) Knowledge and technology outputs and 7) Creative outputs. Each pillar has three sub-pillars, and each sub-pillar is composed of individual indicators, totalling 80 in 2020 (Cornell University., INSEAD., & WIPO, 2020; INSEAD, 2010).

4.4 The Data

The main source of data of this study is the World Bank and the United Nations *Commodity Trade* (COMTRADE) database and the United Nation Statistics Division (UNSD) which provide information about bilateral trade flows. This database includes detailed information on exports, imports, values and quantities traded by the reporting country and by the partner since 1962. This research was also based in collected data from the International Monetary Fund *Direction of Trade Statistics*. Data on GDP in current US dollars, converted at current exchange rates is provided by the International Monetary Fund's *International Financial Statistics*, or by the World Bank's *World Development Indicators*.

The World Bank in collaboration with the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD) and the WTO also collect data on bilateral trade which is available through the *World Integrated Trade Solution* (WITS). WITS also compiles data from several databases provided by partner international organizations such as the World Trade Organization's integrated database (IDB - WTO), the UNCTAD Trade Analysis and Information System (TRAINS) and consolidated tariff schedule (CTS-WTO). The information is defined by different trade classifications. For the year 2020, the indexes were calculated on the basis of the harmonized system at the six-digit level. The calculations and analysis of this study are based on the trade data available for EU and Colombia. The study does not include additional assumptions regarding potential changes in the politic and economic conditions of signatory countries. Table 13 summarises the main data sources implemented in this study.

Table 13. Summary data coverage by database

	Data Type	*Since*	*Countries*	*Details*
UNSD COMTRADE	Imports, Exports, Re-Exports	1962	274	HS 6-digit
UNCTAD TRAINS	Imports	1988	70	NTL*
	Tariffs	1988	157	NTL
	Non-Tariff Barriers	1992	95	NTL
WTO IDB	Imports	1996	77	NTL
	Tariffs	1996	106	NTL
WTO CTS	Final Bound tariffs	1995	127	NTL

* Missing NTL imports are completed with HS 6-digit level imports from UN COMTRADE.

Source: The World Bank (2013).

As explained above, the main sources of data in the elaboration of the new DIPI were The Human Capital Index (HCI), the Human Development Index (HDC), the Corruption Perception Index (CPI), the Democracy Index (DI), the Trade Openness Index (TOI), the Doing Business Index (DBI), the Global Competitiveness Index (GCI), and the Global Innovation Index (GII). In addition, all these indexes are created on the basis of public and private data generated by government institutions, companies, NGOs, interviews, and international and supranational institutions.

Chapter 5: Results and Discussion

5.1 Horizontal Depth Analysis of the EU, Colombia and Peru FTA

5.1.1 The content of the EU, Colombia and Peru FTA

The content of EU-Colombia and Peru FTA can be analysed by observing the WTO+ and WTO-X provisions included within the agreement. This type of information makes it possible to analyse the legal enforceability of the provisions included within the agreement. The "core" provisions are analysed from two different perspectives: on the one hand, if the core provisions are implemented at the border or behind the border, and on the other hand, taking into account the existence of discriminatory or preferential provisions or bilaterally non-discriminatory provisions (or MFN) (Hofmann et al., 2017).

Table 14. WTO+ provisions covering and legally enforceable in the EU, Colombia and Peru FTA

	WTO-+	*Covering*	*Legally enforceable*
1	Tariffs Industrial goods	1	2
2	Tariffs agricultural goods	1	2
3	Customs administration	1	2
4	Export taxes	1	2
5	SPS measures	1	2
6	State trading enterprises	1	2
7	TBT measures	1	2
8	Countervailing measures	1	1
9	Anti-dumping	1	1
10	State aid	1	1
11	Public procurement	1	2
12	TRIMS measures	0	0
13	GATS	1	2
14	TRIPS	1	2

Source: Hofmann et al., (2017).

Table 14 shows the WTO+ provisions included in the EU-Colombia and Peru FTA. The data evidence that the trade agreement includes tariff reductions on manufactured goods, customs, export taxes and anti-dumping provisions, all other WTO+ provisions with the exception of TRIMS are included within the FTA. Moreover, customs, export taxes, technical barriers to trade (TBT) and sanitary and phytosanitary standards (SPS) are legally enforceable, anti-dumping, state-aid provisions and countervailing measures are enforceable but explicitly excluded by dispute settlement provision.

Table 15. WTO-X provisions covering and legally enforceable in the EU, Colombia and Peru FTA

	WTO-X	*Covering*	*Legally enforceable*
1	Anti-corruption	0	0
2	Competition policy	1	1
3	Environmental laws	1	0
4	IPR	1	2
5	Investment measures	1	0
6	Labour market regulation	1	0
7	Movement of capital	1	2
8	Consumer protection	0	0
9	Data protection	1	2
10	Agriculture	1	0
11	Approximation of legislation	0	0
12	Audio-visual	0	0
13	Civil protection	0	0
14	Innovation policies	1	0
15	Cultural cooperation	0	0
16	Economic policy dialogue	0	0
17	Education and training	0	0
18	Energy	1	0
19	Financial assistance	1	0
20	Health	1	2
21	Human Rights	1	0
22	Illegal immigration	0	0
23	Illicit drugs	0	0
24	Industrial cooperation	1	1
25	Information society	1	0
26	Mining	0	0
27	Money laundering	1	0
28	Nuclear safety	0	0
29	Political dialogue	1	0
30	Public administration	1	0
31	Regional cooperation	1	0
32	Research and technology	1	0
33	SMEs	1	0
34	Social Matters	1	0
35	Statistics	0	0
36	Taxation	0	0
37	Terrorism	1	0
38	Visa and asylum	1	2

Source: Hofmann et al., (2017).

Except for a few WTO-X provisions, such as IPR, movement of capital, data protection, health and visa and asylum are included and legally enforceable in the EU, Colombia and Peru FTA. Only competition policy and industrial cooperation are legally enforceable but explicitly excluded by dispute settlement provision. Most of the WTO-X provisions are mentioned in the EU, Colombia and Peru FTA agreement, nevertheless, almost ¾ are not legally enforceable (see Table 15). In the study of Hofmann et al., (2017), core provisions can also be classified as border and behind-the-border provisions:

> …depending on whether the policy that the provision regulates is applied at the border or not. Provisions on tariff reduction in manufacturing and agriculture, anti-dumping, countervailing measures, TRIMS, TRIPS, customs, export taxes, SPS, TBT and movement of capital are mostly border provisions. State enterprise, state aid, competition policy, IPR, investment, public procurement and GATS are to a larger extent behind the border provisions. (p. 13)

Despite that PTAs registered by WTO became deeper by including more policy areas (both MFN and preferential) in the last decades, the provisions included in the EU, Colombia and Peru FTA are predominantly border provisions than behind-the-border provisions. Taking in to account that the language and wording of the agreement is in some way general, abstract and imprecise, the legal enforceability of preferential provisions is quite weak into the agreement.

Although, the EU and Colombia FTA is a relatively high depth agreement, the legal enforceability of social provisions is not one of the strongest features of the agreement, affecting the implementation of the labour provisions and the achievement of trade and social ambitions. For example, if the language used in the agreement is clear, and if the agreement includes the accomplishment of labour standards as a mandatory aspect, or if the language of the agreement is abstract and weak regarding labour right provisions. This is important in multilateral negotiations because if the dispositions included into the agreement are only promotional and not conditional, it will be hard for the institutions to improve the labour standards or labour rights conditions within the signing countries. In turn, it will increase the internal and external economic and political tensions, affecting the efficiency of the international economic integration process.

5.1.2 The Depth of the EU, Colombia and Peru FTA

The database developed by Hofmann et al., (2017), provides information and indicators to calculate synthetic indices that describes the level of depth of the EU, Colombia and Peru FTA. This specific notion of depth is defined as “horizontal”, since the data detail the policy coverage of the trade agreement. Following the methodology developed by Hofmann et al., (2017), this section presents two of the three main indexes. The first index called “total depth” (TDI) is a simple count of provisions included in the FTA, and the second index called “core depth” (CDI) is focused at the subset of economically relevant, or core, provisions, this measure of depth is based on the count of these provisions. Hofmann et al., (2017), developed a third index called “PCA depth” which is obtained by mean of a statistical approach based on a Principal Component Analysis (PCA) that allows to define the more relevant provisions from a statistical point of view, the PCA depth won’t be analysed in this section.

Legal enforceability of preferential provisions is quite weak into the agreement. On the one hand, the TDI for the EU, Colombia and Peru FTA shows that this is a relatively high depth agreement, because the agreement includes 20 legally enforceable provisions as was presented in tables 14 and 15. On the other hand, according the CDI, the trade agreement represents a case of a high depth agreement because it includes the 18 core provisions and just two of them are not legally enforceable (investment and TRIMS).

The main aims of the EU-Colombia and Peru FTA are the progressive and gradual liberalization of trade in goods, services and capital, the promotion of FDI and finally the regional integration. With the aim to achieve trade liberalization, the scope of the concessions agreed by the EU, Colombia, Peru and Ecuador are similar to other trade agreements negotiated by the EU. Nevertheless, when the agreement is analysed from the focus of depth and content by using the methodology developed by Hofmann, the results show some weaknesses into the design that may affect the process of implementation of the agreement.

Finally, the data base shows that European countries are the group of countries with the deepest agreements. European countries are engaged in most of the trade agreements signed at the WTO (Hofmann et al., 2017). At the end of 2019, the EU was immersed in around 84 trade agreements and Colombia in 15 trade agreements. The average total depth of EU agreements is 25. The depth of integration is heterogeneous among the partners of the agreement.

5.1.3 Labour Provisions within the EU, Colombia and Peru FTA

The number of trade agreements that incorporates labour provisions from a conditional dimension passed from 1 in 1995 to 24 in 2013, as well as, the trade agreements that included labour provisions from a promotional character raised from 3 in 1995 to 34 in 2013 respectively. US and Canada have included labour provisions from a conditional perspective while the EU and New Zealand have incorporated labour provisions from a promotional perspective (ILO, 2015 and Harrison et al., 2018). Despite the increase in the number of trade agreements between 1990-2015, only 58 trade agreements (19%) have included any labour standards provisions as of June 2013 (ILO, 2015). The ILO has identified several differences between the US and the EU approaches to labour provisions. The US approach is mainly conditional, where the compliance with labour standards has economic consequences. Whereas, the EU approach is mainly promotional, because provisions 'do not link compliance to economic consequences but provide a framework for dialogue, cooperation, and/or monitoring' (Harrison et al., 2018 & ILO, 2015).

In mid-1990s, the EU's trade agreements have included a 'human rights clause' with the aim of stablishing respect to human rights and democratic principles among the parties (Bartels, 2012). The clause was integrated by a set of labour provisions in its trade policy in the context of the Generalized System of Preferences (GSP) with low- and middle-income countries. First by establishing a sanctioning mechanism (since 1995) and then through special incentives for countries complying with the ILO core labour standards (since 1999). After the Lisbon Summit (2000), the EU established quantitative and qualitative improvements in employment and a social and cohesion policy, evidencing the concern of the EU on improving labour standards and decent work. Since the signing of the EU–South Korea FTA in 2009, Trade and Sustainable Development (TSD) chapters have become a standard component of the EU's FTAs where labour provisions and environmental protection have been included (Harrison et al., 2018).

According to the EU Council, the European social model is a model based on good economic performance, high level of social protection, education and lifelong learning, as well as on social dialogue between management and workers' representatives. The EU Council, has declared the EU's support to the United Nation's resolutions, thus, to the labour dispositions of the ILO's (Arestoff-Izzo et al., 2008). The European Commission developed a study on the implications of including labour provisions along with sustainable development aspects in bilateral and regional Free Trade Agreements. The study proposes four main objectives which should be integrated in trade agreements such as: protect fair trade, prevent undesirable effects on employment, uphold universal values, and promote decent work and sustainable development (Arestoff-Izzo et al., 2008).

The FTA between the EU, Colombia and Peru includes explicit labour provisions from a promotional dimension. Practically, labour standards improvement, as well as civil society dialogue, are not considered essentials for the trade section at the EU Delegation (Arestoff-Izzo et al., 2008), (Harrison et al., 2018). The labour provisions are mainly included in the so-called Trade and Sustainable Development chapters (TSD) of the EU-Colombia FTA. The first article includes the democratic principles' clauses, such as the principle of the rule of law and human rights. (The European Union et al., 2012).

The matter of sustainable development is included in the Article 4(j), while the responsibility to follow the obligations integrated in the agreement are described in the Article 8(1). Nevertheless, there is no sub-committee dedicated to guarantee the accomplishment of the human rights clause. In this sense, the Trade Committee constitute the main institutional mechanism to supervise the human rights and labour provisions (Marx et al., 2016). Consequently, the Sub-committee on Trade and Sustainable Development is responsible for assessing, the impact of the implementation of the agreement on labour and the environment. The Sub-committee must promote transparency and public participation, and it should meet at least once per year, in order to achieve the commitments established on Title IX of the agreement (The European Union et al., 2012).

Title IX describes the aspects concerning to trade and sustainable development (Art. 272), Climate Change (Art. 275), labour protection and decent work for the stakeholders (Art. 269), migrant workers (Art. 276), and the importance of investigation, control and enforcement of domestic environmental and labour regulations and standards (Art. 277-3). Articles 279 and 280, of this chapter underline the commitment of the stakeholders to review, monitor and assess the impact of the implementation of the FTA on labour and environment, through of domestic and participatory mechanisms. Finally, Article 282(k) includes activities related to trade-related aspects of the ILO Decent Work Agenda, and its implications on trade and productive employment, core labour standards, social protection and social dialogue.

The EU-Colombia FTA includes two instruments that allows Civil Society (CS) to monitor the implementation of the labour and environmental provisions under Title IX. The first of these mechanisms is a domestic advisory group (DAG) which includes labour, environmental and business representatives. The second one has a transnational character, it is constituted by Civil Society Organizations (CSO) representatives from the signing countries, whose are invited to discuss sustainability issues during an annual 'Civil Society Dialogue', in the framework of the meeting of the Sub-Committee on Trade and Sustainable Development (Marx et al., 2016).

Table 16 describes the promotional approach taken in the EU, Colombia and Peru FTA which is included mainly in the TDS chapters. This approach includes the references to international minimum labour standards, the commitment with enforcing labour laws. This approach recognises the regular dialogue in the framework of specialized committees, it procures the involvement of civil society actors in the form of optional consultations and promotes regular dialogue in case of differences.

Table 16. Promotional labour provisions in the EU, Colombia and Peru FTA

Reference to international minimum labour standards	*Commitment not to encourage trade or investment through weakening labour laws*	*Cooperation on labour issues*	*Institutional framework*	*Consultation mechanisms in case of differences*
ILO Decent Work Agenda	Yes	Yes	The Trade Committee; The Sub-committee on Trade and Sustainable Development; Domestic advisory group (DAG)	Yes

Source: Author elaboration based on ILO (2015).

On the EU side, there is a scepticism of the interviewees with relation to the improvements of the Colombia's labour situation, arguing that labour provisions under the sustainability chapter have not enough monitoring and enforcement mechanisms, concluding that the sustainability chapter is nothing more than a chapter with generalized concepts. It is important to mention that, on the one hand, systematic violations of ILO standards, the GSP+ allowed the EU to withdraw trade preferences, and on the other, the sustainability chapter does not provide this kind of sanctions, much less offer a necessary mechanism for dispute settlement (Marx et al., 2016). Consequently, the EU officials answered that, "contrary to the GSP+ scheme, the trade agreement in place constitutes a partnership between equals, rather than a preferential market access regime" (Marx et al., 2016, p.11). Their argument was that the signing parties have the responsibility to monitor compliance with labour provisions. Thus, the EU has no obligation to monitor the internal development linked to labour protection in Colombia.

On the Colombian side, the main concerns are: first, the lack of experience of Colombian negotiators, corporations and institutions in promotion and monitoring labour protection; second, about the role of the Ministry of Trade, taking into account other Ministries that are more linked to the labour protection; third, the lack of direct channels of communication between Ministry of Labour and their EU counterparts; and fourth, the Sub-Committee annual meetings among government representatives could hardly constitute a credible monitoring mechanism without including transparency and the participation of civil society (Marx et al., 2016).

After the sub-committee met in Lima in 2014 and in Bogota in 2015, interviewees argued that due the lack of resources the inclusion of the CS has not been possible. Nevertheless, the participants showed their interest to cooperate on topics such as: the prevention and resolution of labour conflicts, promotion of formal work, elimination of child and forced labour, issues related with CSR and the mining sector, as well as methods to assess labour and environmental impacts after the implementation of the Agreement (Marx et al., 2016). The main concerns about the CSOs are lack of clarity on the mechanisms to deal with cases of labour violations related to the implementation of the Trade Agreement, lack of resources, information sharing and integral coordination, in order to provide these CSO the accurate mechanisms to fulfil their obligations, and the lack of clarity on how each party will assess the impact of the trade agreement on environmental and labour situation (Marx et al., 2016).

According to Olivet & Novo, (2011), the discriminatory practices against workers, the level of informality, the violence against labour activists, and consequently, the situation of human and labour rights violations in Colombia has been the main concerns for those who have been against the signature and implementation of the EU-Colombia trade agreement, due the asymmetries between the signing parties which can exacerbate the negative social and economic effects to the underdevelopment part in this case Colombia (Forero, 2016), (Herrera Valencia, 2011), (Joseph et al., 2012), (Vander, 2012) (For Human Rights, 2013). Finally, another preoccupation is the low level of investments and public spending in this key sector compared to the average of the world and even in the region of Latin America (OECD, 2017).

Regarding the right of association, since 2000, the Ministry of Labour has denied the registration of 234 new trade union organizations. Collective bargaining in Colombia is one of the lowest: only 1% of the people who work have the real possibility of collective negotiating their working conditions. The Ministry, by denying the legal recognition of union acts, Colombia violates Conventions 87 and 98 of the ILO (Tejedor-Estupiñan, 2012b). According to Marx et al., (2016), thanks to the simplification in the registration procedures for new trade unions, in the period 2012-2013, 791 trade unions were established in Colombia. This represents an increase of 48% in comparison to the 536 unions founded between 2010-2011, which represents one of the few achievements of the agreement. The number of labour contracts between employers and labour unions passed from 114 (between 2010-2011) to 1582 (between 2012-2013). Nevertheless, some non-governmental organizations (NGOs) argues that the percentage of unionized workers has fallen from 10% of the working population in the early 1980s to 4.4% in 2010. In addition to this, trade unions argued that the tripartite social dialogue mechanisms proposed by the Colombian government is not enough inclusive and it is not independent from governmental structures, which affects the interest of all parties involved.

During the last twenty years, 2,667 trade unionists have been killed, leaving Colombia as the country with the highest number of crimes against this sector of the population (Saura Estapà, 2013). Between January 1, 2000 and December 31, 2007, there were 4,417 violations against the life, liberty or integrity of unionized workers, including

902 murders, 2,117 threats, 107 firearms attacks, 63 forced disappearances, 411 arbitrary detentions, 192 harassment and persecution, 115 kidnappings and 13 cases of torture. Even, since the implementation of the peace agreements in 2017, around 250 social leaders have been killed. Crimes against workers have one of the highest levels of impunity in the country (Tejedor-Estupiñan, 2012b).

The study of Harrison et al., (2018), describes the main concerns of EU regarding to the implementation of TSD chapters and the promotion of labour rights included in the trade agreements signed by the EU and its trade partners. First, they call the attention on the limited role of EU regarding the negotiation and implementation of TSD chapters. Second, on the side of government officials from trading partners, there is no high interest for discussing and improving the labour issues described in the TSD chapters. Third, civil society mechanisms (CSMs) established through TSD chapters face problems such as: lack of independence from government and resourcing; lack of coordination and meetings for debate sharing on issues relevant to the CSMs. Fourth, there is no framework that describes the obligatory responsibility of EU institutions in monitoring and addressing labour issues among the EU's trade partners. Fifth, the dispute resolution mechanisms are insufficient. Sixth, the EU has not a common formulation approach to TSD chapters which allows dealing in an independent way with the labour issues of each trade partner. Seventh, the lack resourcing for monitoring and assessing the 'sustainability' impacts of the agreements itself. Eight, there is a sophisticated unilateralism where more powerful nations have their own agenda regarding labour standards. Ninth, there are limited efforts to strength labour provisions more than trade relationship among trade partners.

Finally, in response to such critics, the EU Commission, presents the following proposals: first, the Commission promises to improve the processes of dialogue and cooperation within current agreements and to promote a more efficient use of the complaints mechanism, and second, the Commission promises to work more closely, with the different actors such as CSOs, NGOs, DAGs, CSFs, and the government institutions, in order to encourage early ratification of core international agreements on labour standards during the negotiation of new trade agreements and to identify and address priorities for each partner country' in relation to TSD issues (Harrison et al., 2018).

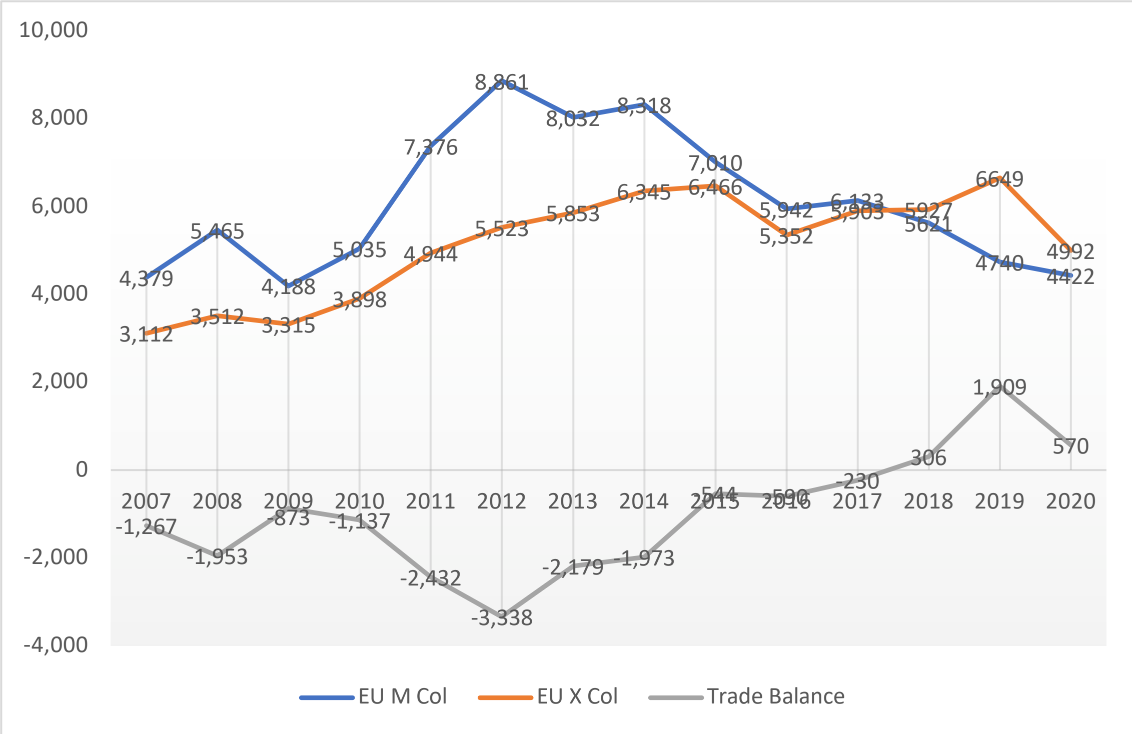
5.2 Bilateral Trade

5.2.1 Trade in Goods

The data shows that EU's trade with Colombia increased almost twice during the period 2002 - 2012. Nevertheless, after eight years that the agreement entered into force, trade between EU and Colombia fell from €14 billion in 2012 to €9 billion in 2020. From 2007 to 2012 (the year prior the Agreement coming into force) the value of goods exported from the EU to Colombia grew 77.5% and it also raised 8.8% in comparison with 2019. The annual growth rate for exports was positive during the period 2013-2017, except in 2016 when the exports fell by 17% in comparison with the value registered in 2015. There was a recovery on exports of around 24% in 2019 in comparison with 2016 and a reduction of exports of around 25% in 2020, produced by the collateral effects on the world economy derived by pandemic of COVID-19. The value of goods imported to the EU from Colombia fell by 50% in the period 2012-2020, passing from EUR 8,861 million to EUR 4,422 million respectively. The period 2013-2020 was characterized by a downwards trend, except in 2014 and 2017 when annual growth was 3,5% and 3.6% respectively. Figure 5 illustrates the uneven performance of exports and imports, bilateral trade between the EU and Colombia has dropped by 34,5% from 2012 to 2020. The figure also show how Colombian exports decreased while the EU exports increased in the same period. Regarding the trade balance, the EU's trade deficit with Colombia passed from EUR 3,338 million in 2012 to a surplus of 570 million in 2020.

The European Parliamentary Research Service (2018) argues that the decline in bilateral trade between the EU and Colombia is related to the decline in bilateral trade between Colombia and the rest of the world, this is a result of the lack of competitiveness and productivity and other structural failures of the Colombian economy and society. The low levels of productivity and the slowly economic growth in Latin American countries are the main reasons behind of this performance. The increase of EU exports to Colombia during the period 2012-2017 contrasts with the fall of Colombian imports from all over the world (9,6% in the same period). In addition, the decrease in EU imports from Colombia is related with the drop in Colombian exports to the rest of the world. Colombian exports to the rest of the world decreased by 28.7% in the period 2012-2017.

Figure 5. Goods: EU-Colombia import, exports and trade balance 2007-2020



Source: Author calculations based on UNCTAD and COMTRADE database.

During the first decades of the twentieth first century the EU has been the second largest trading partner of Colombia's after the United States of America (US) even after the signature of the FTA. In 2017, five years after that the agreement entered into force, the exports from Colombia to the EU grew almost two points, and in 2020 exports fall almost three points returning to the same level of 2008 (Table 17). The main destinations of Colombian exports US, EU and China together purchase more than 50% of Colombian exports. China took the third place of Venezuela since 2012.

Regarding the main countries of origin of Colombian imports, the EU ranked as the third trading partner from 2008-2020, with a share of 14.4% of total imports, there was an increment of 1.8% in comparison with 2012 (12.6%) (Table 18). In 2017, the share of Colombian imports from US was 24.5%, almost the same level of 2012, making the US as the main country of origin of Colombia's total imports, followed by China with a share of 23.9%. Almost two thirds of Colombian imports come from the US, EU and China. At the same time the EU is also one of the main investors partners of Colombia (European Commission, 2013a).

Table 17. Colombia's main export destinations: 2008-2020

	2008		*2012*		*2020*
US	38.0%	US	36.9%	US	30.4%
EU28	12.9%	EU28	15.2%	EU28	12.9%
Venezuela	16.2%	China	5.5%	China	8.6%
Ecuador	4.0%	Panama	4.8%	Panama	4.9%
Peru	2.3%	Venezuela	4.2%	Ecuador	4.7%

Source: Author calculations based on the UNCTAD and COMTRADE database.

Table 18. Main countries of origin of Colombia's imports: 2008-2020

	2008		*2012*		*2020*
US	29.2%	US	24.3%	US	24.5%
China	11.5%	China	16.5%	China	23.9%
EU28	13.5%	EU28	12.6%	EU28	14.4%
Mexico	7.9%	Mexico	11.0%	Mexico	6.7%
Brazil	5.9%	Brazil	4.8%	Brazil	5.6%

Source: Author calculations based on the UNCTAD and COMTRADE database.

5.2.2 Geographical Disaggregation of Trade in Goods

Table 19 shows that in 2020, the main EU supplying markets of Colombian imports were Germany (26.2%), Spain (12.7%), France (15.3%), Italy (10,8%), and United Kingdom (7%), together they represent more than 72% of Colombian imports. The data show that the eight main providers of exports from EU to Colombia account for around 82% which is an evidence of the high level of concentration of EU exports to Colombia by a small group of EU countries. Spain and the Netherlands are the countries whose share of EU exports to Colombia increased significantly since 2012. The share of exports from Germany and Italy fell by almost 3 and 2 percentage points between 2012 and 2020.

Table 19 also shows that the main EU importing countries of Colombian products were Italy (24%), the Netherlands (17.5%), Spain (12.5%), Germany (12.4%) and Belgium (10.6%), they together represent around 77% of total EU imports from Colombia, which is an evidence of the high degree of imports concentration such as in the case of exports. Germany and Italy have the best performance in this category. German imports from Colombia rise by 41,4% compared to 2012. Italian imports raised by 131.4%. In contrast, Spain and the UK imports from Colombia fell noticeably (96,6%

and 62.3% correspondingly between 2012 and 2020). Despite France imports were 3,5% of the total share in 2020, this category fell by 47,3% between 2012 and 2020.

Table 19. EU-Colombia bilateral trade by Member State: 2012-2020

	Exports				*Imports*			
	2020		*2012*		*2020*		*2012*	
	Million EUR	*% EU*	*Million EUR*	*% EU*	*Million EUR*	*% EU*	*Million EUR*	*% EU*
World	38,012.2		45,166.5		27,200.4		46,866.0	
EU 28	5,483.6	100	5,675.7	100	3,500.6	100	7,120.9	100
Germany	1,440.3	26.27	1,741.4	30.68	434.6	12.41	307.3	4.32
Spain	699.2	12.75	603.3	10.63	437.5	12.50	2,285.9	32.10
France	839.8	15.32	897.4	15.81	125.5	3.59	238.2	3.34
Italy	595.0	10.85	737.5	12.99	842.2	24.06	363.9	5.11
United Kingdom	386.5	7.05	435.9	7.68	330.5	9.44	877.5	12.32
Netherlands	219.9	4.01	211.0	3.72	612.4	17.49	1,946.3	27.33
Belgium	206.5	3.77	232.9	4.10	370.6	10.59	379.6	5.33
Austria	102.5	1.87	124.2	2.19	3.9	0.11	0.9	0.01
Ireland	175.8	3.21	108.2	1.91	33	0.09	127.7	1.79
Romania	92.3	1.68	26.2	0.46	9,5	0.27	5.6	0.08
Sweden	155.9	2.84	148.6	2.62	33,1	0.95	35.2	0.49
Finland	71.7	1.31	99.4	1.75	69,3	1.98	43.0	0.60
Denmark	105.1	1.92	73.6	1.30	4,7	0.13	142.0	1.99
Poland	72.7	1.33	29.0	0.51	100,3	2.87	12.7	0.18
Hungary	73.1	1.33	23.0	0.41	1,7	0.05	0.9	0.01
Portugal	54.2	0.99	45.7	0.80	40,0	1.14	254.7	3.58
Czech Republic	65.7	1.20	30.1	0.53	4,4	0.12	2.9	0.04
Croatia	5.4	0.10	0.8	0.01	0,6	0.02	61.0	0.86
Slovenia	14.0	0.26	7.3	0.13	40,6	1.16	16.9	0.24
Slovakia	52.5	0.96	15.1	0.27	0.6	0.02	0.7	0.01
Greece	14.8	0.27	8.4	0.15	13.9	0.40	14.9	0.21
Luxembourg	5.5	0.10	5.8	0.10	0.0	0.00	0.2	0.00
Bulgaria	7.3	0.13	6.6	0.12	0.7	0.02	0.3	0.01
Estonia	2.7	0.05	3.0	0.05	2.7	0.08	0.2	0.00
Lithuania	15.0	0.27	41.3	0.73	3.8	0.11	1.1	0.02
Latvia	4.9	0.09	18.5	0.33	1.7	0.05	0.6	0.01
Malta	1.9	0.03	1.1	0.02	11.6	0.33	0.1	0.00
Cyprus	2.2	0.04	0.5	0.01	1.0	0.03	0.1	0.00

Source: Author calculations based on the UNCTAD, COMTRADE database.

On the one hand, Figure 6 shows that exports from EU to Colombia raised after the agreement entered into force until 2015, then fell in 2016 and the recovery trend was interrupted by the COVID-19 pandemic in 2020 were imports from EU were located almost at the same level of 2012, one year before the agreement were signed. On the other hand, Figure 7 shows that the EU imports from Colombia have been declining by 50.8% since 2014 one year after the agreement entered into force.

Figure 6. Supplying markets from EU-28 for a product imported by Colombia

Source: Author calculations based on the UNCTAD, COMTRADE database.

Figure 7. Importing markets from EU-28 for a product exported by Colombia

Source: Author calculations based on the UNCTAD, COMTRADE database.

5.2.3 Sector Specific Output

Table 20 shows the main EU imports from Colombia in 2020. Near 50% of EU imports are composed by the sectors: fresh or dried bananas (23.3%), gold for non-monetary purposes (13.8%) and coffee (12.1%). In 2020, the EU imports from Colombia represented 16.3% of Colombian exports to world, EU imports from Colombia only represents a 0.9% of the EU imports from world. With the exception of Bituminous coal and Petroleum oils and oils obtained from bituminous minerals, major part of products exported by Colombia are directed to the EU markets than to the rest of the world. It is obvious is that EU imports from Colombia are mainly commodities and products from the primary sector characterized by low levels of aggregate value. The data show that in 2020 EU exports to Colombia represented only around 0.1% of its global exports. As was mentioned above, almost 14% of Colombian global imports came from the EU for the same period.

Table 20. Main EU-28 imports from Colombia in 2020

HS6	*Description*	*Imports from Colombia*	*Colombia's share (%)*	*World share (%)*
080390	Fresh or dried bananas (excluding plantains)	1,015.6	23.0	2.9
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold . . .	610.0	13.8	8.9
090111	Coffee (excluding roasted and decaffeinated)	533.3	12.1	7.9
151110	Crude palm oil	237.9	5.4	1.1
270112	Bituminous coal, whether or not pulverised, non-agglomerated	229.3	5.2	11.4
080440	Fresh or dried avocados	219.3	5.0	0.5
270119	Coal, whether or not pulverised, non-agglomerated (excluding anthracite and bituminous coal)	211.3	4.8	0.0
270900	Petroleum oils and oils obtained from bituminous minerals, crude	144.3	3.3	22.9
270400	Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon	97.1	2.2	2.0
081090	Fresh tamarinds, cashew apples, jackfruit, lychees, sapodillo plums, passion fruit, carambola, . . .	87.4	2.0	0.2
	All other Chapters	1,036.6	23.4	42.1
	Total	4,422.10	100.0	100

* In millions EUR.
Source: Author calculations based on the UNCTAD, COMTRADE database.

The main Colombian imports from EU in 2017 are shown in Table 21. Medicaments for therapeutic or prophylactic purposes (8.2%), motor cars and other motor vehicles (2,6%), Immunological products (2,5%), commodities not specified (2.3%) and Light oils and preparations, of petroleum or bituminous minerals (1.9) are the most traded products by Colombia from the EU. This information is an evidence of the variety of exports that the EU offers to the Colombian economy which also means more positive impacts on the welfare and benefits for the EU. As a developed region, most of the Colombian imports from the EU are composed by manufactured and industrialised products from the secondary sector which are characterized by high levels of aggregate value.

Table 21. Main Colombian imports from EU-28 in 2020

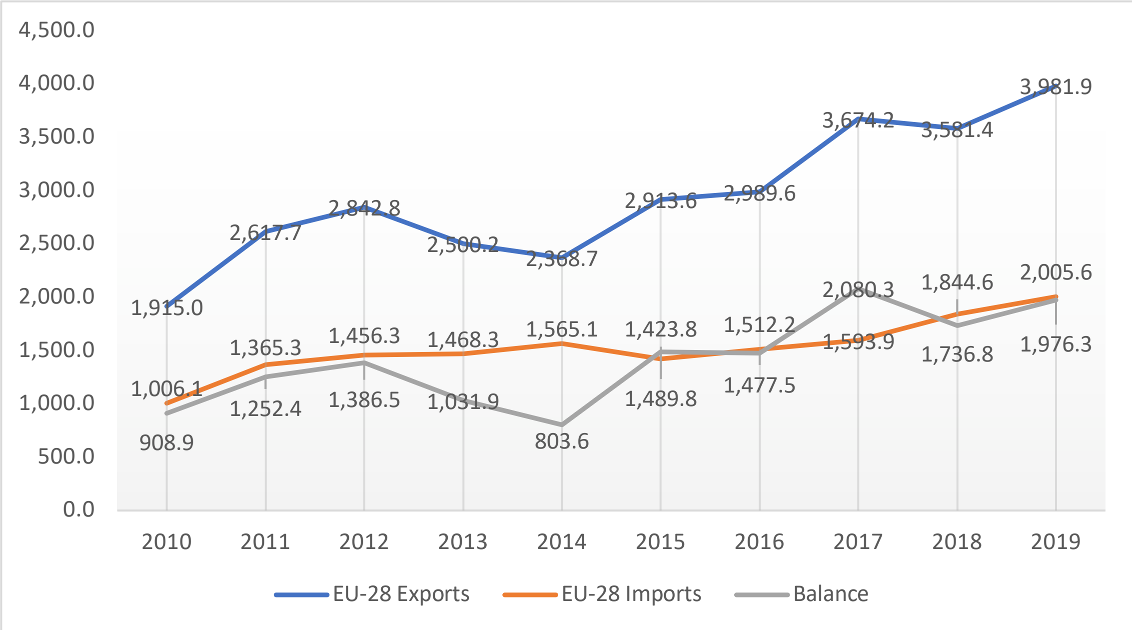
HS6	*Description*	*Imports from EU-28**	*Colombia's share (%)*	*World share (%)*
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, . . .	410,259	8.2	2.7
870323	Motor cars and other motor vehicles principally designed for the transport of persons, incl. . . .	128,672	2.6	1.7
300215	Immunological products, put up in measured doses or in forms or packings for retail sale	123,264	2.5	1.1
999999	Commodities not elsewhere specified	116,102	2.3	1.0
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume "incl. . . .	92,536	1.9	2.7
841112	Turbojets of a thrust > 25 kN	73,041	1.5	0.1
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15000 kg (excluding helicopters . . .	61,767	1.2	1.0
901890	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	55,101	1.1	0.5
210690	Food preparations, n.e.s.	52,082	1.0	0.5
300220	Vaccines for human medicine	51,242	1.0	0.3
	All other chapters	3,828,030	76.7	88.5
	Total	4,992,096	100.0	100.0

* In EUR millions.
Source: Author calculations based on the UNCTAD, COMTRADE database.

5.2.4 Trade in Services

In 2019, the EU exports of services to Colombia reached EUR 3,981 million, it represents an increase of around 59,2% in comparison with 2012, one year before that the FTA came into force (Figure 8). The data shows that Colombia's service exports dropped during the first two years of the Agreement, but there was a recovery since 2015, passing from EUR 1,423.8 million to EUR 2,005.6 million. In contrast to trade in goods, the EU has preserved a positive balance with Colombia in the exchange of services (EUR 1,976 million in 2016). Overall, bilateral trade in services between the EU and Colombia has been growing since the year prior that the agreement came into force and during the first six years of the agreement passing from EUR 4,299 million in 2012 to EUR 5,958 million in 2019, this represents a growth of around 38.6%. This trend contrast with the decline in the import of services from all over the world to Colombia, 11.5% during 2016 (European Parliamentary Research Service, 2018).

Figure 8. Services: EU-Colombia exports, imports and trade balance



Source: Author calculations based on EUROSTAT data (2019).

5.2.5 Geographical Disaggregation of Trade in Services

Regarding trade in services, Table 22 shows that in 2019, the main EU supplying markets of Colombian imports were Germany (12.1%), Netherlands (9.3%), France (8.5%), United Kingdom (6.2%), Ireland and Italy (4,3%). This group represent more than 44.7% of Colombian imports. Unfortunately, data from Spain is confidential, which affects our analysis taking into account that Spain is one of the most important trade partners of Colombia as in the case of trade in goods. The data shows that the eight main providers of exports from EU (without Spain) to Colombia account for around 49%. As in the case of trade of goods, the information shows the high level of concentration of the services exports to Colombia by a small group of EU countries. Germany, France, Italy and Greece are the countries whose share of services exports to Colombia increased significantly since 2012. The share of exports from Netherlands and UK fell by almost 8 and 10 percentage points between 2012 and 2019.

Table 22. EU-Colombia bilateral trade in services by Member State: 2012-2019

	Exports				*Imports*			
	2019		*2012*		*2019*		*2012*	
	Million EUR	%	Million EUR	%	Million EUR	%	Million EUR	%
EU-28 (2013-2020)	3,981.9	100	2,842.8	100	2,005.6	100	1,456.3	100
Germany	481.0	12.1	284.0	10.0	nd	nd	nd	nd
Netherlands	370.3	9.3	505.5	17.8	269.9	13.5	83.2	5.7
France	340.0	8.5	206.0	7.2	276.0	13.8	101.0	6.9
United Kingdom	248.4	6.2	481.0	16.9	225.6	11.2	140.6	9.7
Ireland	172.0	4.3	130.0	4.6	21.0	1.0	29.0	2.0
Italy	170.1	4.3	77.8	2.7	51.9	2.6	75.4	5.2
Greece	104.6	2.6	7.6	0.3	8.5	0.4	3.5	0.2
Denmark	87.6	2.2	99.7	3.5	91.5	4.6	62.7	4.3
Belgium	64.0	1.6	32.0	1.1	43.0	2.1	23.0	1.6
Sweden	56.7	1.4	51.7	1.8	19.2	1.0	21.6	1.5
Luxembourg	55.0	1.4	60.0	2.1	23.0	1.1	9.0	0.6
Portugal	24.0	0.6	10.0	0.4	26.0	1.3	37.0	2.5
Austria	18.0	0.5	7.0	0.2	22.0	1.1	9.0	0.6
Finland	18.0	0.5	nd	nd	16.0	0.8	nd	nd
Poland	11.4	0.3	1.2	0.0	5.1	0.3	1.7	0.1
Hungary	7.1	0.2	0.4	0.0	1.3	0.1	0.3	0.0
Malta	5.0	0.1	2.0	0.1	1.0	0.0	nd	nd
Czechia	3.4	0.1	2.4	0.1	2.5	0.1	1.3	0.1
Slovakia	2.8	0.1	nd	nd	0.9	0.0	nd	nd
Romania	2.3	0.1	nd	nd	1.9	0.1	nd	nd
Bulgaria	2.0	0.1	0.5	0.0	0.4	0.0	0.4	0.0
Croatia	0.8	0.0	0.2	0.0	0.0	0.0	0.4	0.0
Estonia	0.7	0.0	0.1	0.0	1.0	0.0	0.2	0.0
Slovenia	0.5	0.0	0.1	0.0	0.2	0.0	0.1	0.0
Lithuania	0.3	0.0	0.0	0.0	6.7	0.3	0.0	0.0
Cyprus	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Latvia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Spain	nd	nd	nd	nd	nd	nd	nd	nd

Source: Author calculations based on EUROSTAT data (2019).

The data indicate that the main EU importing countries of Colombian products were the France (13.8%), Netherlands (13.5%), UK (11.2%), Denmark (91.5%) and Italy (51.9%), they together represent around 45.6% of total EU services imports from Colombia (Table 22). As in the case of trade in goods, this is an evidence of the high degree of imports concentration such as in the case of exports (data for Germany is confidential). Netherlands, France and the UK were the countries with the best performance in this category during the years observed. Between the 2012 and 2019, the Netherlands, France and UK imports of services from Colombia raised by 224,4%, 173,2% and 60.5% respectively. In contrast, Italian and Belgium services imports from Colombia dropped noticeably.

Access to data on bilateral trade in services between the EU, and Colombia disaggregated by category is very limited and, in some cases, confidential. Nevertheless, the study developed by European Parliamentary Research Service (2018), shows that in 2015, the main EU services exports were located in sectors such as royalties and licencing rights (7.8%), financial services (9%), computer and information services (11.1%), travel services (14.4%), transport services (18.4%), and other business services (30%). The study also shows the distribution of EU services imports by category. The category with the highest weighting was that of other business services, with 31.3%. Also significant are imports of transport services (19.2%), travel services (15%), and royalties and licencing rights (14.8%). The most dynamic type of service imports was royalties and licencing rights, with an increase of 92.3%. It is also important to highlight the increase in computer and information services (26.6%), and other business services (20.6%).

Table 23. External trade in services: Colombia, 2012-2019

	Exported Value				Imported Value			
Service label	2012	%	2019	%	2012	%	2019	%
All services	5013592	100	8873762	100	9789485	100	12165310	100
Travel	2690571	53.7	5048546	56.9	2819334	28.8	4458659	36.7
Transport	1159022	23.1	1705640	19.2	2788854	28.5	2857568	23.5
Other business services	577334	11.5	1282308	14.5	1744909	17.8	1375649	11.3
Telecommunications, computer, and information services	273699	5.5	387050	4.4	363662	3.7	726716	6.0
Government goods and services n.i.e.	73790	1.5	159068	1.8	102482	1.0	109596	0.9
Personal, cultural, and recreational services	65703	1.3	89261	1.0	76900	0.8	84081	0.7
Charges for the use of intellectual property n.i.e.	69824	1.4	88832	1.0	409693	4.2	382756	3.1
Financial services	57617	1.1	80424	0.9	559839	5.7	1174158	9.7
Maintenance and repair services n.i.e.	33746	0.7	20052	0.2	559839	5.7	57173	0.5
Insurance and pension services	12363	0.2	12582	0.1	900486	9.2	936647	7.7

Source: Author calculations based on the UNCTAD, COMTRADE database.

In the case of Colombia, service exports are highly concentrated on three groups in 2019: other business services (14,5%), transport services (19.2%) and travel services (56.9%) (Table 23). These three services sectors represent around than 90% of the total Colombian services exports. The categories with the highest growth from 2012 to 2019 were travel and other business services with an increase of 76.9% and 122.1%. Colombian service imports are mainly concentrated in the same three groups, other business services (17.8%), transport (28.5%) and travel at 28.8%. The most dynamic importing sectors were travel services with a growth of (58.1%), telecommunications, computer and information services (99.8%), and financial services (109.7%).

5.2.6 Foreign Direct Investments

Dynamism of international economic integration depends of the international movement of capital represented in the flows of foreign direct investments (FDI). FDI is associated with exercising control and influence, trade relationships, and the contribution to additional factors such as technology, marketing, management and knowledge. Business represents one of the most important sources of international finances. Therefore, FDI is an indicator of a country's competitiveness and business internationalisation capacity building in a globalised world. Additionally, FDI has the capability to create direct knock-on effects in recipient countries, such as increasing added value and job creation, access to foreign knowledge and new technologies, the promotion of management good practices and qualification of human capital (European Parliamentary Research Service, 2018).

Considering that FDI aims to promote sustainable development, the EU-Colombia trade agreement seeks to guarantee a transparent and consistent legal framework for companies interested in investing and trade by liberalizing current payments and movements of capital related to FDI. Nevertheless, only general provisions on investment were envisaged in the FTA. FDI negotiations are bilateral in nature and in some cases promotion and reciprocal protection of FDI are regulated by several agreements.

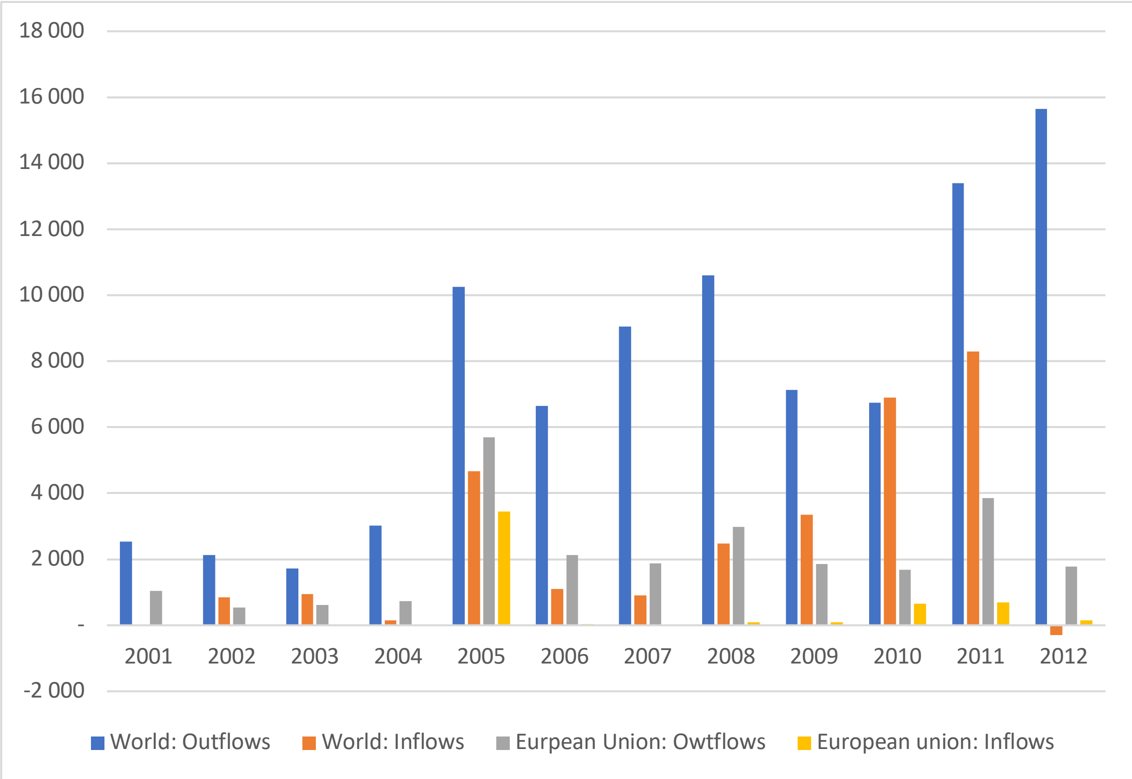
Historically, Colombia has not attracted significant levels of FDI because of the absence of governance and governability derived from the high levels of corruption, drug trafficking and the armed conflict in the country. Nevertheless, since the economic openness promoted by the Constitution of 1991, and the Peace Agreement with the FARC-EP in 2016, Colombia has been creating an attractive environment for FDI, which is evidenced in the increase of investments inflows originated from developed countries including the EU.

The EU has been one of the most important investment partners of Colombia, even since before the Agreement coming into force (Figure 9). The flow of FDI from the EU to Colombia passed from USD 5,691 million in 2005 to approximately USD 3,851 in 2011. The decade before the entry into force of the Agreement was characterised by the instability of FDI from the EU. FDI flows from Colombia to the European Union increased significantly in 2005, even the three years before the FTA came into force. FDI flows from the world reached its highest peaks in 2005 and 2012 with USD10,252 and USD15,650 million respectively. FDI flows from Colombia to the world reach its highest levels in 2005 and 2011 with USD 4,662 and USD 8,304 million dollars respectively. Nevertheless, the political and economic stabilization derived from the economic openness and the peace agreements have created some progress, it seems that the way to achieve a stable and lasting peace in Colombia is still a long, complex and difficult.

Since the FTA came into force, FDI flows from the EU to Colombia rose to USD 0.6 billion in 2015 (Figure 10). Since 2016 until 2018 the balance of FDI flows from the EU to Colombia have been negative passing from EUR 0.4 billion to 0.8 respectively. The EU FDI flows originated in Colombia has trended a volatile trajectory, reaching USD 1.9 billion in 2015. Regarding geographical origin, information shows that only, Spain and the United Kingdom, received Colombian FDI in 2016 (European Parliamentary Research Service, 2018). FDI from Colombia is directed mainly around the Latin American region to countries such as Peru, Chile and Mexico. Because of the low level of development of economic structures and the political instability, the internationalisation process of Colombian companies has been a slow and scarce in the global economy.

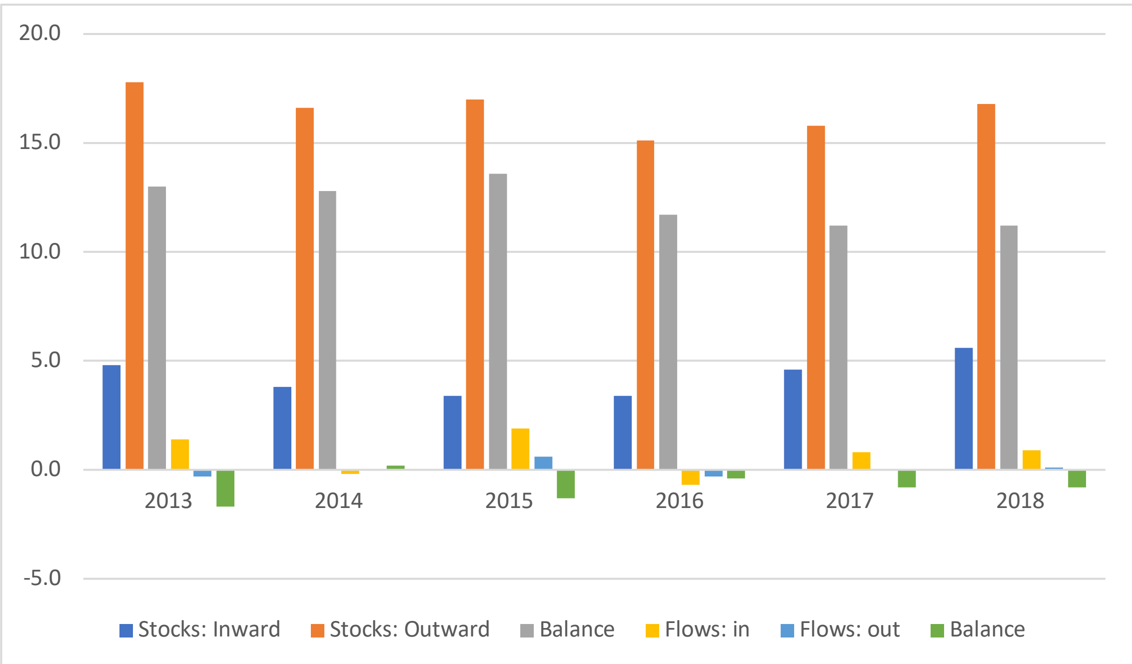
Cumulative FDI stocks from the EU to Colombia grew constantly during the decade prior to the Agreement, from 2001 to 2011 (Table 24). For its part, Colombian FDI stocks located in the EU reached USD 694 million in 2011. Information in the post-FTA period shows the consolidation of a positive trend for bilateral FDI stocks. According to UNCTAD and the European Commission data, the EU's cumulative FDI stocks in Colombia raised the year that the agreement entered into force but they decreased by 1 percentage points between 2013 and 2018, while Colombia's FDI placed in the EU increased by almost 1 percentual point. The European Parliamentary Research Service (2018) describes that from 5 of the 10^{t} main investor countries in Colombia in 2016 were European (Spain, the Netherlands, the United Kingdom, Germany and France).

Figure 9. Colombia FDI flows by geographical origin and destination (in Millions of US dollars)



Source: Author calculations based on the UNCTAD database (2014).

Figure 10. EU FDI with Colombia 2013-2018 (in Billions of US dollars)



Source: Author calculations based on the European Commission (2019).

The Balassa Index (BI) is elaborated by combining, inward and outward stocks, results show that Colombia is a predominantly recipient of investments from the EU. This situation was similar both before and after the Agreement (Table 24). Nevertheless, Colombia has been working in new strategies in order to increase FDI flows to the EU since before the agreement came into force, which is reflected in a good performance of the Balassa Index for 2017 and 2018 (Table 21). Some of the new strategies for foreign investment and increasing the internationalisation of the national economy includes the Ministry of Finance and Public Credit issued Decree 119 on 26 January 2017, which modifies the foreign investment registration system, eliminating the existing deadlines and modalities to register investments, and also an agreement for the promotion and reciprocal protection of investment with two EU Member States: Spain and the United Kingdoms.

Table 24. EU-Colombia bilateral FDI stocks - Balassa Index of FDI

	*Pre-Agreement**				*Post-Agreement***					
	2009	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
Inward Stock	1853	1683	3851	1780	17.8	16.6	17	15.1	15.8	16.8
Outward Stock	85	655	694	145	4.8	3.8	3.4	3.4	4.6	5.6
Balassa Index Colombia	-0.9	-0.4	-0.7	-0.8	-0.6	-0.6	-0.7	-0.6	-0.5	-0.5

(*) USD millions; (**) EUR billions.
Source: Author calculations based on the UNCTAD database (2014) and the European Commission (2019).

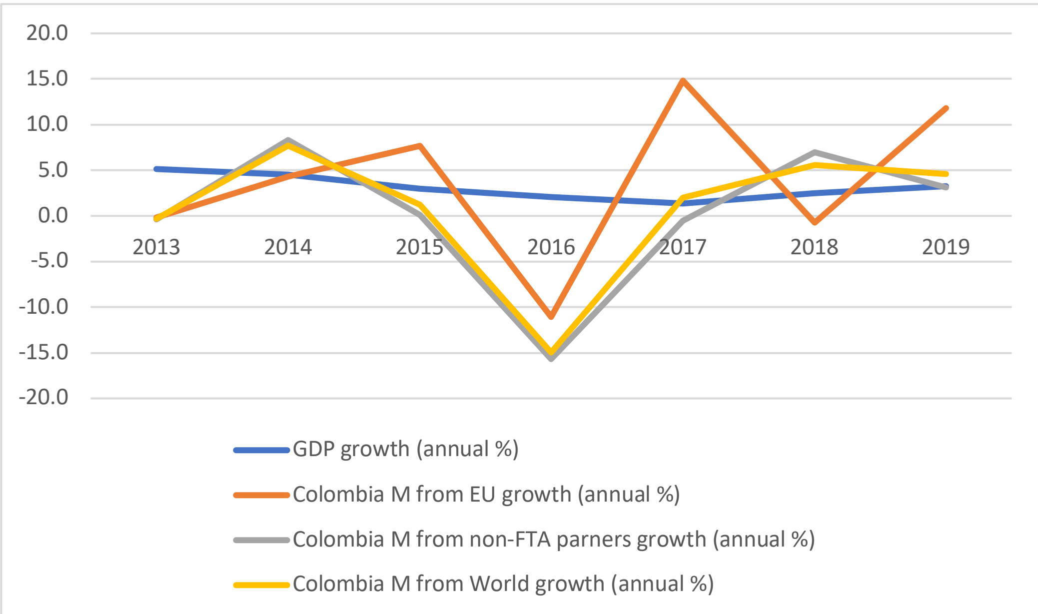
According to the ECLAC (2015), in South America, a large part of the EU FDI is directed to natural resources such as mining, hydrocarbon, oil, gas and gold. Mining is especially important in Chile, Colombia and Peru. The hydrocarbon sector is the largest recipient of FDI in Bolivia (Plurinational State of), Ecuador and Venezuela (Bolivarian Republic of) and, to a lesser extent, in Colombia. FDI directed to natural resources also predominates in the main economies of the Caribbean: in Trinidad and Tobago, investments are concentrated in oil and gas extraction, and in the Dominican Republic they are mainly dedicated to gold mining. In contrast, in Mexico and some Central American and Caribbean economies, many of the foreign investments are used in manufacturing activities for export. The main receptors of the EU FDI in Latin America are mainly Brazil, Chile, Mexico and Colombia. The European Union continues to be the main investor in South America and one of the most important investors in Colombia. In

Colombia, according to the European Parliamentary Research Service (2018), in 2017, FDI from the EU were mainly focused to the mining (30%), transport and communications (24%) and manufacturing sectors (16%).

5.3 Trade Effects of the EU and Colombia FTA

Available data shows the trade creation and trade diversion effects for both, Colombia and the EU, six years after the FTA came into force. From the Colombian side, data shows that imports from the EU grew in an unstable manner, while Colombian domestic production fell from 2013 until 2017, this indicates a trade creation effect that lasted until 2017. Then, the Colombian economy started to grow and to reduce the FTA trade creation effects. Trade diversion effects were detected in the years 2014 and 2018. The unstable growth of both Colombian total imports and Colombian imports from non-FTA indicates that there is trade diversion between 2014 and 2016 and after 2018, thus, this represents a negative welfare effects during these periods. Between 2016 and 2018 there was an increase of imports from non-FTA partners larger than the fall in domestic production, implying that trade creation exceeds trade diversion, thus indicating a positive welfare effect during this period (Figure 11, Appendix 1).

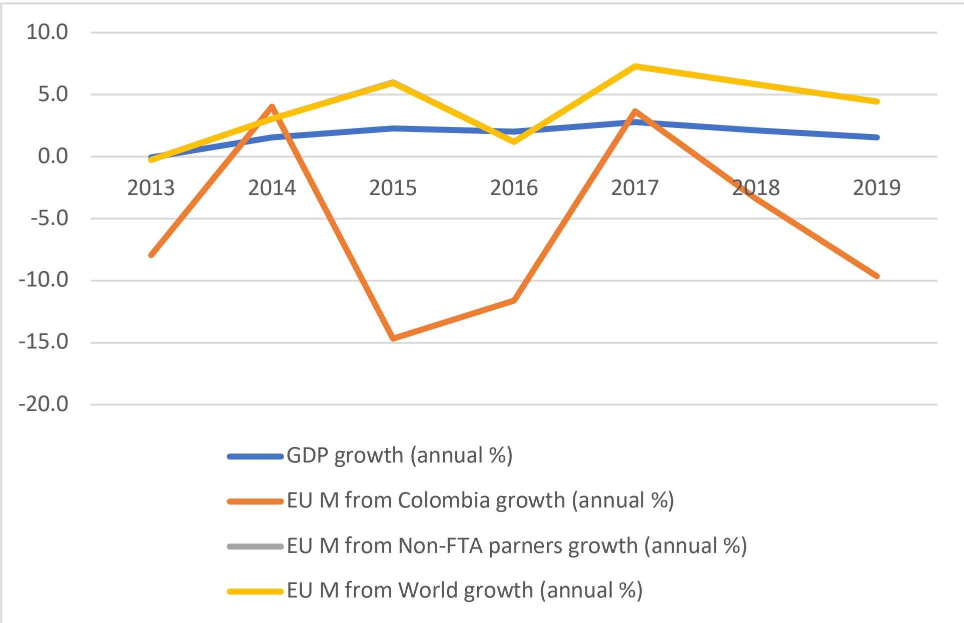
Figure 11. Colombia: Trade Effects of the EU and Colombia FTA



Source: Author calculations based on the UNCTAD, COMTRADE and World Bank databases.

From the EU side, data shows that EU imports growth from Colombia accompanied by a growth in domestic production which indicates trade diversion during the post agreement period. Trade diversion effects were highest in 2015 and 2017 were the EU imports from non-FTA partners fell. Some positive welfare effects were detected in 2013 and 2016. The data shows that the fall in the EU imports from non-FTA partners is larger than the fall in domestic production, implying that trade diversion exceeds trade creation, thus indicating a negative welfare effect (Figure 12, Appendix 1).

Figure 12. EU: Trade Effects of the EU and Colombia FTA



Source: Author calculations based on the UNCTAD, COMTRADE and World Bank databases.

5.4 Trade Intensity Index and Trade Complementarity Index

During the pre-agreement period 2010-2012, data shows that total trade between EU and Colombia grew by 57,6%, passing from EUR 11,853 million in 2010 to EUR 18,683 million in 2012 (Table 25). As mentioned earlier, after seven years that the EU, Colombia FTA came into force, total trade between EU and Colombia decreased by 2,7% between 2013 and 2019. During the pre- and post-agreement period, the share of EU imports from Colombia only has represented around 0.1% of its total imports from world. Despite, Colombia is not the main EU importer partner, the EU imports from Colombia decreased by 28,9 during the same period. During the post-agreement period EU purchases from

Colombia only represented 0,15% in average, while Colombian purchases from EU were around 16.7% in average.

Data show that the trade intensity index (TII) for both EU and Colombia was less than one between 2010 and 2019, this indicates that the value of trade between EU and Colombia was smaller than expected, according their respective weight in world trade. During the post-agreement period, the EU TII with Colombia was only 0.5 in average, while the average of this index for Colombia was 0,6 (Table 25).

Taking into account that only a small group of EU countries controlled most of the 50% of the trade with Colombia, the EU-Colombia trade complementarity index (TCI) index was calculated only for Germany, the main Colombian trade partner among the EU countries. During the post-agreement period, the German TCI related was highest than the Colombian TCI. After seven years that the agreement came into force, the EU complementarity index with Colombia fell from 77.1% to 75.5%. Colombia's complementarity index with EU also had a declined tendency passing from 40.5% to 39.6% between 2013 and 2019. Results show that Colombian imports to the EU match better than the EU imports from Colombia. This means, that the expected positive impacts on welfare and profits will be more favourable to the EU than for Colombia. This also means, that EU exports a higher variety of goods to Colombia in comparison to the variety exported from Colombia to the EU (Appendix 2).

Table 25. Bilateral Trade between EU and Colombia (2010-2019)

Reporter	*Partner*	*Indicator*	*Pre-Agreement*		*Post-Agreement*		*Average*
			2010	*2012*	*2013*	*2019*	
EU-28	*Colombia*	*Total Trade**	11,853,9	18,683,0	17,853,1	17,377,3	17,388,0
EU-28	*Colombia*	*Imports**	6,040,8	10,317,3	9,499,9	6,746,0	8,172,9
EU-28	*Colombia*	*Share of imports (%)*	0.12	0.18	0.17	0.09	0.1
EU-28	*Colombia*	*Trade intensity index*	0.43	0.46	0.45	0.52	0.5
EU (Ger)	*Colombia*	*Complementarity index*	77.9	78.5	77.1	75.5	75.2
Colombia	*Germany*	*Complementarity index*	38.8	36.3	37.5	35.4	36.0
Colombia	*EU-28*	*Imports**	5,813,1	8,365,7	8,353,1	10,631,3	9,215,0
Colombia	*EU-28*	*Share of imports (%)*	15.3	15.2	15.3	18.6	16.7
Colombia	*EU-28*	*Trade intensity index*	0.50	0.62	0.60	0.45	0.6
Colombia	*EU-27*	*Complementarity index*	41.9	41.2	40.5	39.6	39.4

* In millions EUR.

Source: Author calculations based on UNCTAD, COMTRADE database.

5.5 Human Development, Democracy and International Integration

Democracy exists where there is human development, there is no human development where there is no democracy, where democracy exists there is fair international integration. The development and democracy gap between the EU on the one hand, and Colombia on the other is evidenced not only in the weight of their economies in global trade, but also in several reports that show the performance of these countries in aspects such as corruption, democracy, human development, competitiveness, innovation capability and effective international integration.

In 2017, the *Global Human Capital Report* presented its *Human Capital Index* 2017, which classified Colombia (68) in the middle of the rank in the region, and Germany (6) in the top of the index.[11] Between 2010 and 2020, the German HCI decrease from 0.76 to 0.75, while the Colombian HCI grew from 0.58 to 0.60. The report scored 174 countries in 2020 (World Economic Forum, 2017; The World Bank, 2020b). The data shows evidence of the poor education and poor health conditions prevailing in the Colombian side specially, which implies that a child born today in Colombia will be only almost half as productive than a German future worker. Regarding the HDI, data for 2010 and 2020 shows an increase in the index in both cases. The German HDI grew from 0.88 to 0.94, while the Colombian HDI grew from 0.68 to 0.76 (United Nations Development Programme, 2010; 2020). This information shows that the health, education and income conditions of the Colombian side still remains far away from the German achievements.

The unstable political situation of the Latin American countries has been affected the positive perception of the Latin American population about their democracy and institutions. According to the *Latinobarómetro* 2018 report, merely 13 % of Latin American citizens expressed satisfaction with politics, a big reduction in comparison with the 30% in 2017, in Colombia only 16% express confidence with political parties in 2018. Trust in parliament/congress was 20% in Colombia, trust in government was around 22%

[11] The Human Capital Index 2017 ranks 130 countries according their human capital development on a scale from 0 (worst) to 100 (best) across four thematic subindexes—Capacity, Deployment, Development and Know-how—and five distinct age groups—0–14 years; 15–24 years; 25–54 years; 55–64 years; and 65 years and over—to capture the full human capital potential profile of a country (World Economic Forum, 2017).

in Colombia. Colombia considers corruption as the biggest social challenge to overcome (Corporación Latinobarómetro, 2018).

The OECD's *Latin American Economic Outlook* 2018 underlines that almost 79% of Latin American population find their government corrupt and believed that their countries were governed by, and for the benefit of, a few, this represents an increase of 12 percentage points compared with 2010 (OECD/CAF/ECLAC, 2018). The *Corruption Perceptions Index* (CPI) developed by Transparency International scores 180 countries and territories by their perceived levels of public sector corruption, the CPI uses a scale from 0 to 100, where 100 is very low corruption and 0 is highly corrupt. In 2020, the score for Germany was 80, while the score for Colombia was 39 (Transparency International, 2021).[12] The *Democracy Index* 2020 (DI-2020) categorises Colombia as a 'flawed democracy'. On a scale of 0 to 10 with 10 being the highest, Colombia's score grew from 6.5 to 7.0 in 2020, while German scored 8.3 in 2010 and 8.6 in 2020. In a global rank of 167 countries, Colombia ranked in the 46th place while Germany in the 14th (The Economist Intelligence Unit, 2021). The information show that Colombia is still needs to overcome many challenges in order to become a full democracy.

The TOI shows that trade and financial flows of Germany grew more and faster than the Colombian sum of exports and imports. In 2020, Germany had a TOI of 88.1%, while the Colombian TOI was only 38.1%. The information shows that despite the gradual openness of the Colombian economy its economic integration level is still low compared with the integration and openness level of the German economy. In a global rank of 189 countries, Colombia ranked in the 83th place, while Germany ranked 6th. It also indicates that German producers depends more than Colombians producers of foreign demand (UNDP, 2020).

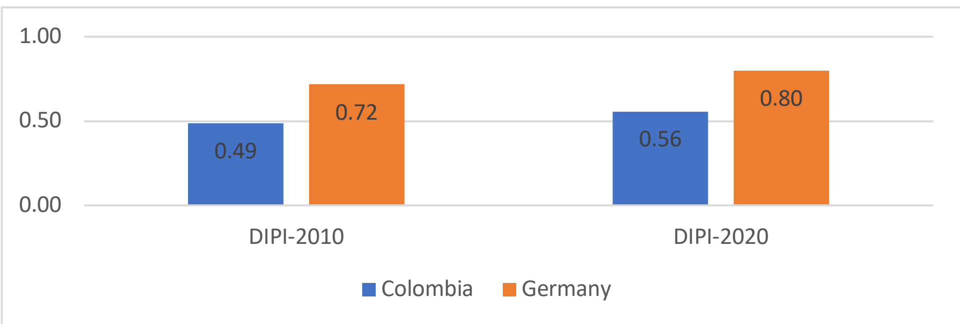
Regarding the DBI, in 2020, the rank placed to Germany in the 22th position (3 positions less compared with 2010) with a score of 79.7, while Colombia was ranked in the 67th position (fell 30 positions compared 2010) with a score of 70.1. The information shows that despite the improvements in the Colombian regulations for doing business, it is still easier to do business in Germany than in Colombia (The World Bank, 2009; The World Bank, 2020a).

[12] From 2014 to 2018 was implemented the EU Anti-Corruption and Transparency for Colombia project (ACTUE) in order to increase integrity and transparency and fight corruption. Objectives included promotion of open government and citizen control over public entities (ACTUE - Colombia, 2018).

Regarding the GCI, Germany was ranked in the 7th place with a score of 81.8 in 2020, falling 3 positions compared with 2010. In 2020, Colombia improves 11 positions compared to 2010 classified in the 57th position with a score of 62.7. EU, Germany's overall competitiveness score was 20 points higher than Colombia, but the Colombia's overall competitiveness score was almost the same than Greece (62.6) in 2020. The index also shows that the weakness of the Colombia in terms of competitiveness are mainly related with areas such as: institutional stability, infrastructure, information and communication technologies adoption, low skilled labour force, domestic and foreign trade, labour market, and innovation capability (The World Economic Forum, 2010; The World Economic Forum, 2019).

With reference to the GII, Colombia was ranked in the 90th position in 2010 with a score of 2.76, while Germany ranked 16th with a score of 4.32 (INSEAD, 2010). In 2020, Germany jumped to the 9th position (score 56.55) and Colombia was located in the place number 68 (score 30.84). The disaggregated data by pillars shows that the weakest areas of the Colombian innovation sector are institutions, infrastructure, market sophistication and business sophistication (Cornell University., INSEAD., & WIPO, 2020). Regarding to the new index of internationalisation and democracy perception DIPI. The German DIPI has been growing faster than the Colombian DIPI for the period 2010-2020, raising from 0.72 to 0.80 and from 0.49 to 0.56. However, the data also shows that Colombia is a medium internationalised and democratic country, in contrast with Germany which has been maintaining its position as a high internationalised and democratic country (Figure 13).

Figure 13. Colombian and German DIPI 2010-2020

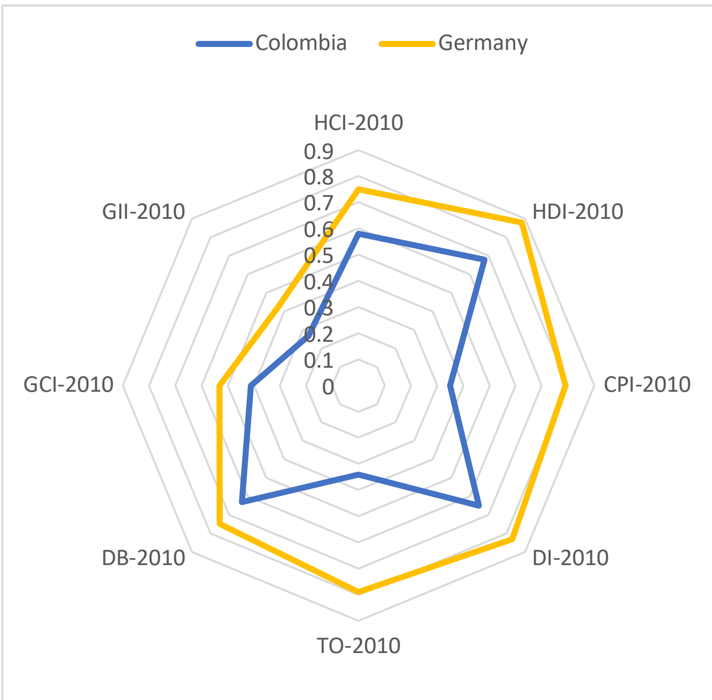


Source: Author calculations based on Transparency International (2021), The Economist Intelligence Unit (2021)., UNDP (2020), The World Bank, 2020a, The World Economic Forum (2019), Cornell University., INSEAD., & WIPO (2020).

Data on DIPI also shows the existing gap between the EU and Colombia in terms of human development, corruption perception and international economic integration. This gap is biggest especially in the sectors of innovation, trade openness and corruption. Despite the Colombian efforts to integrate its economy in the international integration process between 2010 and 2020, the low levels of human development, scare innovation, and the instability of its democracy affects in some way the possibility of accessing to the benefits of free trade and economic globalization (Figure 14 and Figure 15).

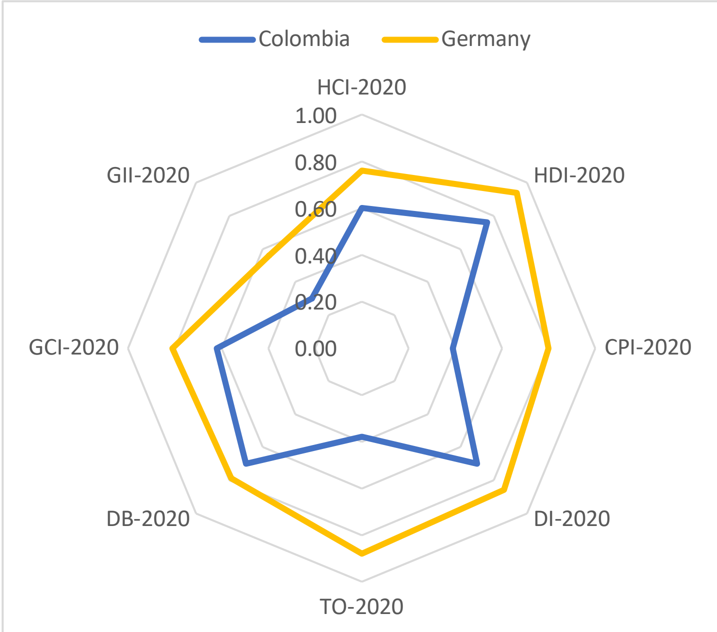
The data shows that despite the increasing of number of free trade agreements signed by Colombia between 2010 and 2020. The share of Colombian total trade as a percentage of its GDP was 38%, compared with 88% of Germany, it means that trade liberalization between asymmetrical doesn't promotes success practices of international economic integration. The Colombian economy is still passing for the first stages of its process of international economic integration where countries are characterized by the low levels of human, economic, structural and institutional development. There is an abysmal gap when we compare the weight of both economies in global trade.

Figure 14. Democracy and Integration Perception Index-2010



Source: Author calculations based on Transparency International (2021), The Economist Intelligence Unit (2021)., UNDP (2020), The World Bank, 2020a, The World Economic Forum (2019), Cornell University., INSEAD., & WIPO (2020).

Figure 15. Democracy and Integration Perception Index-2020



Source: Author calculations based on Transparency International (2021), The Economist Intelligence Unit (2021)., UNDP (2020), The World Bank, 2020a, The World Economic Forum (2019), Cornell University., INSEAD., & WIPO (2020).

This is especially important in a country where the informality rate passed from 47.5% to 62.4% between 2017 and 2021. According to ILO, 8.6% of the Colombian labour force was unemployed in 2017 and 15% fell in this situation in 2020, and 25,8% of the youth population was unemployed in the same year. The combined high rate of unemployment and informality has caused precarious income and lack of access to rights such as social security. This information is an evidence that the right to work regarding the International Labour Organization standards is not fully respected in Colombia. Among this asymmetries, we can identify the wage gap between the EU and Colombian workers where the minimum wage in Germany was 1621 EUR, while in Colombia was 216.8 EUR. In Colombia there are big differences between men and women, which violates the principle of equal remuneration for work of equal value, and discrimination in access to employment by conditions of race, and social origin (OECD, 2017).

According to Bartels (2012), Due to the human rights violations during the Colombian longest and complex internal war, the EU has solicited to improve human rights conditions before the agreement was enforced in order to demonstrate that the EU is committed to promote international integration only with countries that respect civil liberties. This situation shows that the Colombian state is failing in taking actions in order to promote human development and democracy, which also affects the process of integration of the Colombian economy to the regional and global integration process and finally to the economic globalization process. In this case the human and labour rights clauses should be applied in order to authorise the other party to respond by means of unilateral ‘appropriate measures’ such as incentives or sanctions.

It is worth mentioning that the EU, Peru and Colombia FTA underlines that ‘any Party may implement suitable measures in case of violation by another Party of the essential elements referred to in Articles 1 and 2 of this Agreement. According to Bartels (2012), this types of conducts would be subject to a dedicated monitoring mechanism following the precepts described in Article 21 TEU that requires the EU to treat all human rights as indivisible, because if the EU treats human rights from different importance levels, it could be also failing to its own fundamental principles.

The new DIPI is an indicator that shows the importance of budding multidisciplinary policymaking tools. The DIPI allows to understand the development challenges in developing countries such Colombia, with the aim of focusing in the weaknesses of the country in order to create the policies that allow to achieve the maximization of the benefits of its process of international economic integration promoted by the implementation of free trade agreements. The DIPI can express the existing gap between the EU and Colombia in terms of strategical sectors such as human development, corruption perception and international economic integration. Finally, figures 14 and 15 show the behaviour of each sub indicator and also identify fields where the development gaps are evident and where the improvements are urgent to improve the weak functioning of the EU-Colombia FTA.

Chapter 6: Conclusions

Partial equilibrium models, gravity equation models and computable general equilibrium analysis are the most used models for assessing the impacts of FTAs on welfare and trade of signing economies and regions. These models includes both ex-ante and ex-post liberalization trade analysis. Nevertheless, these models do not pay attention to the social impacts of an FTA, for example, the impacts on the labour rights, social protection, welfare systems, among others. With the purpose of expanding the scope of the analysis, this thesis represents a multidisciplinary approach in order to go beyond the only economic impacts.

Legal enforceability of preferential provisions is quite weak into the agreement. The horizontal depth analysis of the content of the EU-Colombia FTA showed some weaknesses present into the design of the agreement that have been affecting the process of redistribution of the benefits derived from the FTA during its first seven years of implementation.

The *Total depth index* for the EU, Colombia and Peru FTA is relatively high, because the agreement includes 20 legally enforceable provisions. The *Core depth index* for the EU, Colombia and Peru FTA is a high because the agreement includes 18 core provisions and just two of them are not legally enforceable such as Investment and TRIMS. Finally, the data base show that European countries are the group of countries with the deepest agreements. European countries are engaged in most of the trade agreements signed at the WTO.

The international community has a set of labour standards expressed in international declarations, some of which must be included in international trade agreements. Nevertheless, despite the proliferation of trade agreements in the last decades, the majority of them does not include social and/or labour provisions as a conditional character. Notwithstanding that Colombia established a fairly robust legal and institutional framework to protect labour rights, the lack of enforcement of its legal-institutional framework is a well-known weakness among its partners. Discussing this compliance gap, the researchers demonstrate the lack of governmental capacity to improve, implement and monitor its legislation, and how labour rights are but one of many human rights challenges in Colombia.

The EU-Colombia FTA, includes labour provisions from a promotional perspective. Despite, the inclusion of some labour provisions in the agreement, a group of scholars and politicians are still against the implementation of the trade agreement, due the situation of democratic instability, high levels of corruption, drug trafficking and labour rights violations in Colombia. They argue that the implementation of the trade agreement with a country with such tremendous problems goes against the values promoted by the foundation treaties of the EU. This thesis proves this assumption and also presents empirical evidence on the abysmal development gaps of the EU and Colombian economic and social structures.

There are evident asymmetries between the EU and Colombia related to the level of development and promotion of the labour sector in the framework of its FTA. Despite that these agreements includes human rights clause and social protection dispositions; these norms are not completely explained and their real importance is not included. The problem of not to include the labour provisions from a conditional perspective is that the treaty does not oblige to the signing parties to improve the human rights and labour conditions especially in Colombia, the less developed partner. This affects negatively the productivity and competitiveness derived from the human capital of the weakest country.

It seems, that the EU commitment with the real situation of labour rights among its trade partners, in this case Colombia is very weak. The role of the actors responsible of the Trade and Sustainable Development chapter has been criticized because of the lack of political disposition, accurate resources, information sharing and integral coordination, which allow designing and implementing the accurate mechanisms to fulfil their obligations, such as the promotion of labour rights and the impact assessment of the trade agreement on environmental and labour situation.

During the first two decades of the twenty first century the EU has been the second preferred destination of Colombian exports and the third country of origin of Colombian imports, consolidating the EU as one of the most important trade partners of Colombia. The EU remains also as one of the largest investors in Colombia. Nevertheless, the post-agreement period shows an uneven performance of bilateral trade between the EU and Colombia. The rise of EU exports was highest contrasted with the decrease of Colombian exports. Some scholars argue that the lack of productivity and the slow economic growth of Latin American countries are the main reasons behind this performance. Nevertheless, the low level of Colombian competitiveness was a big weakness that also contributed with the drop of the EU and Colombian total trade after the FTA entered into force.

The information by product shows that EU imports from Colombia are mainly commodities, while the main products imported by Colombia are specially industrialized goods, which enhance the argument of the colonial and unequal pattern of the international integration process. The data show that more than two thirds of the Colombian imports is concentrated by a group of five EU countries. Also, the main EU buyers of Colombian products account for more than 72% of total EU imports from Colombia evidencing also the high degree of concentration of imports from the EU. Results also show that the level of welfare produced by the entrance of new products to the EU only impacts a third part of the EU countries.

The Vinerian qualitative analysis of the EU and Colombia FTA evidenced that the impact of tariff liberation derived from the EU-Colombia FTA is generating uneven trade creation and trade diversion effects for both the EU and Colombia. The welfare of EU consumers would improve less than the welfare of Colombian consumers because the lack of diversification of products exported by Colombia.

The TII for both EU and Colombia was less than one between 2013 and 2019, in this case the value of trade between EU and Colombia was smaller than expected, compared to their shares of world trade. The results regarding the TCI showed that after the agreement entered into force, both the EU TCI with Colombia, and the Colombia's TCI with EU fell between 2013 and 2019. This means, that EU exports a high variety of goods to Colombia in comparison to the low variety of goods exported from Colombia to the EU. Based on the theories presented, Colombia will receive most of the welfare benefits derived from the FTA because the entrance of diverse set of products and services coming from the members of EU.

The new DIPI presented in this dissertation represents a useful policymaking tool for identifying and assessing the countries profiles regarding their gaps in the level of human development, international integration and democratic stability. Based on previous explanations, the new DIPI is designed to support countries to identify relevant policies and practices. The new DIPI is a useful indicator for identifying these differences to better understand the strengths and weaknesses of individual countries, blocks and regions regarding democracy and economic integration.

The results reported by the new DIPI shows on one hand, that Colombia is a medium internationalised and democratic country, in contrast with Germany which has been maintaining its position as a high internationalised and democratic country. Despite there is a big difference between these two countries in the majority of sub-indicators such as the Human Capital Index (HCI), the Human Development Index (HDC), the Democracy Index (DI), the Doing Business Index (DBI) and the Global Competitiveness Index (GCI), big concerns are mainly focused on the Corruption Perception Index (CPI), the Global Innovation Index (GII) and the Trade Openness Index (TOI) where the gap is significant. Future research will create a global rank and score based on the DIPI for most of the regions and countries around the world.

The pressure for the country to improve in these fields and dimensions is so high. The FTA between Colombia and the European Union has not been effective in both, in demonstrating significant improvements in these fields, and also in the maximization of trade benefits. The lack of productive jobs and competitive wages for men and women negatively affects the Colombian level of competitiveness, preventing a successful integration into the regional and global economy. In recent decades, Colombia have shown reasonably strong rates of economic growth, yet the structural transformation in the country have been slow and uneven. As the exports from EU and the exports from Colombia are composed by industrial products and commodities respectively, the performance of the EU-Colombia FTA has shown limited success in creating jobs in the more productive sectors of the economies specially in Colombia where its exports were located in the less-paid sector of the economy.

The causes of the uneven performance of the balance of trade and distribution of the benefits of the EU-Colombia FTA are explained not only by economic phenomena, but also by the lack of the strictness and commitment of the signing parties during the negotiation period, the asymmetrical interdependences and the structural development gaps among the partners. The differences in the level of specialization of the export structures, and also in the share of global trade between the EU and Colombia are an evidence of the asymmetrical patterns of international trade of products and services. The asymmetrical ownerships relations stemming from FDIs are evidenced in the high differences between the flows of FDI between the EU and Colombia. The asymmetrical interdependence in international financial relations is evidenced in a high offer of financial services from the EU to Colombia. The asymmetrical interdependence in technology transfers is evidenced in the innovation gap between the EU and Colombia. Finally, the asymmetrical interdependence in information flows is evidenced in the big differences of human development, competitiveness and doing business capacity.

This is worth to mention that, not only trade and economic policies, but also social and development policies should be strengthened among the FTA negotiations, because if signing parties do not ensure strong commitment and regulation and joint supervision free of corruption, integration of these asymmetric economies will continue to have negative impacts not only in total trade and economic welfare, but also in human development, international integration and democratic stability.

Colombia has not only many comparative advantages but also some remarkable competitive advantages, mainly in terms of natural resources and commodities. Nevertheless, these advantages cannot be exploited due its social and economic structural failures. Colombia have not been developing the thrusting environment, regulatory mechanisms and supply chain logistics that can be traduced in a success policy of exports promotion directed not only to the EU but also to the world. It is necessary to improve the national and international legal frameworks that ensure the independence of the state institutions, anti-corruption laws, removal of other quantitative restrictions, labour market regulations, reform of public administration and tax laws.

During the last three decades free trade agreements have been part of the strategy of the developed countries to promote the globalisation of production and the globalization of trade of products and services across the world. In this sense, trade agreements are a key piece of the global, regional and international integration process. The EU remains as one of the most developed regions of the world that promotes trade liberalization and international integration through FTAs implementation. Nevertheless, this work presents empirical evidence that demonstrates on one hand, that multilateral FTAs between asymmetrical regions does not increase total trade, and on the other, that multilateral FTAs does not promotes effective systems of regional and global integration where the signing parties can benefit from the international economic integration and free trade.

As well as there are market and state failures (Stiglitz and Rosengard, 2015), there are also failures in the international economic integration process and failures of the supranational institutions that regulates international economic integration that must to be resolved. This work identifies both. The main international economic integration failures are: 1) the unequal international exchange, represented in the imperfect competition and concentration of production and wealth in a few countries, TNCs and entrepreneurs; 2) the global or international public goods, such as global security, global development and environment, that should be guaranteed by both, national governments and supranational institutions; 3) the externalities, such as the trade destruction or pollution; 4) the imperfect information evidenced in the different levels of human, economic, social and environmental development; 5) the asymmetrical and interdependent international relationships; and 6) the international economic disequilibrium evidenced in the most recent global economic crisis effects and global inequality. The main failures of the supranational institutions are: 1) the limited information; 2) the limited control on private companies mainly TNCs; 3) the limited control of international bureaucracy and national institutions; 4) the inefficient global governability; and 5) the limitations imposed by the national and international political processes of integration, all of which result in international integrations agreements with negative economic and social results that were never planned or previously highlighted by the international trade theories.

According to the arguments presented above the hypothesis of this dissertation must be rejected, due that the development and democracy gap between the EU and Colombia and the weaker institutional conditions and frameworks generates low impact free trade agreements which in turn produce an unequal process of international integration where the benefits of free trade cannot be efficiently exploited and the economic and political tensions from the less developed partner worsen over time. In other words, the hypothesis of this dissertation should be rejected because despite the development and democracy gap between the EU and Colombia, there are no positive impacts on the Colombian economy and society after the FTA entered into force.

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APPENDIX

Appendix 1. EU and Colombia Imports and GDP growth (annual %) 2013-2019

	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
Colombia - GDP growth (annual %)	5.1	4.5	3.0	2.1	1.4	2.5	3.3
Colombia M from EU growth (annual %)	-0.1	4.3	7.6	-11.1	14.8	-0.7	11.8
Colombia M from non-FTA parners growth (annual %)	-0.4	8.3	0.1	-15.7	-0.5	7.0	3.1
Colombia M from World growth (annual %)	-0.3	7.7	1.2	-15.0	2.0	5.6	4.6
EU - GDP growth (annual %)	-0.1	1.6	2.3	2.0	2.8	2.1	1.6
EU M from Colombia growth (annual %)	-7.9	4.0	-14.7	-11.6	3.7	-3.4	-9.6
EU M from Non-FTA parners growth (annual %)	-0.2	3.1	6.0	1.2	7.3	5.8	4.5
EU M from World growth (annual %)	-0.3	3.1	5.9	1.2	7.3	5.8	4.4

Source: Author calculations based on the UNCTAD, COMTRADE and World Bank databases.

Appendix 2. World, EU and Colombia Trade Flows, 2010-2019 (Euro thousand)

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
World X Goods	11,367,306,279	12,997,611,076	14,304,262,860	14,210,292,335	14,178,518,795	14,785,018,250	14,389,060,550	15,543,631,291	16,349,819,640	16,711,593,385
World X Services	2,983,703,628	3,200,638,653	3,566,543,202	3,677,142,457	3,938,667,554	4,499,258,280	4,590,059,278	4,881,836,128	5,086,453,654	5,446,957,967
World Total X	14,351,009,907	16,198,249,729	17,870,806,062	17,887,434,792	18,117,186,349	19,284,276,530	18,979,119,828	20,425,467,419	21,436,273,294	22,158,551,352
Colombia X Goods	29,987,133	40,890,353	46,866,006	44,285,071	41,222,442	32,154,003	28,096,703	33,433,797	35,368,784	35,280,367
Colombia X Services	3,856,502	4,051,736	5,013,592	5,286,936	5,383,574	6,690,393	7,021,500	7,489,961	8,135,980	8,873,762
Colombia Total X	33,843,635	44,942,089	51,879,598	49,572,007	46,606,016	38,844,396	35,118,203	40,923,758	43,504,764	44,154,129
EU (28) X Goods	3,824,996,719	4,265,359,681	4,420,406,224	4,513,950,907	4,536,422,791	4,732,493,320	4,732,745,963	5,072,996,488	5,348,171,182	5,456,342,848
EU (28) X Services	1,316,457,825	1,423,745,256	1,530,215,021	1,606,380,579	1,735,498,061	1,926,377,213	1,971,995,053	2,114,636,195	2,228,419,173	2,390,473,182
EU (28) Total X	5,141,454,544	5,689,104,937	5,950,621,245	6,120,331,486	6,271,920,852	6,658,870,533	6,704,741,016	7,187,632,683	7,576,590,355	7,846,816,030
World X to EU Goods	3,953,843,347	4,413,744,544	4,464,194,938	4,395,836,397	4,461,639,176	4,595,459,120	4,629,667,901	4,983,832,087	5,309,141,218	5,416,026,474
World X to EU Services	1,164,372,298	1,221,420,462	1,294,913,574	1,348,257,412	1,457,957,203	1,675,928,727	1,715,570,643	1,823,398,874	1,893,934,547	2,107,307,826
World Total X to EU	5,118,215,645	5,635,165,006	5,759,108,512	5,744,093,809	5,919,596,379	6,271,387,847	6,345,238,544	6,807,230,961	7,203,075,765	7,523,334,300
EU X to Colombia Goods	3,898,118	4,943,926	5,522,915	5,852,968	6,344,682	6,466,167	5,351,832	5,903,465	5,927,415	6,649,401
EU X to Colombia Services	1,915,000	2,617,700	2,842,800	2,500,200	2,368,700	2,913,600	2,989,600	3,674,200	3,581,400	3,981,900
EU Total X to Colombia	5,813,118	7,561,626	8,365,715	8,353,168	8,713,382	9,379,767	8,341,432	9,577,665	9,508,815	10,631,301

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
World X to Colombia Goods	30,637,021	39,254,342	45,166,456	44,706,170	48,168,327	48,700,780	40,560,387	40,785,829	43,381,735	45,031,899
World X to Colombia Services	7,260,406	8,000,948	9,789,485	10,062,676	10,816,725	11,003,838	10,210,898	11,010,191	11,298,871	12,165,310
World Total X to Colombia	37,897,427	47,255,290	54,955,941	54,768,846	58,985,052	59,704,618	50,771,285	51,796,020	54,680,606	57,197,209
Colombia X to EU goods	5,034,776	7,376,309	8,861,027	8,031,690	8,318,460	7,009,762	5,942,278	6,132,931	5,621,446	4,740,472
Colombia X to EU Services	1,006,100	1,365,300	1,456,300	1,468,300	1,565,100	1,423,800	1,512,200	1,593,900	1,844,600	2,005,600
Colombia Total X to EU	6,040,876	8,741,609	10,317,327	9,499,990	9,883,560	8,433,562	7,454,478	7,726,831	7,466,046	6,746,072
Colombian M from non FTA partners	32,084,309	39,693,664	46,590,226	46,415,678	50,271,670	50,324,851	42,429,853	42,218,355	45,171,791	46,565,908
EU M from non FTA partners	5,112,174,769	5,626,423,397	5,748,791,185	5,734,593,819	5,909,712,819	6,262,954,285	6,337,784,066	6,799,504,130	7,195,609,719	7,516,588,228
EU-Colombia Total Trade	11,853,994	16,303,235	18,683,042	17,853,158	18,596,942	17,813,329	15,795,910	17,304,496	16,974,861	17,377,373

Source: Author calculations based on the UNCTAD and COMTRADE databases.