

## NEW TENDENCIES IN EUROPEAN UNION ECONOMIC DEVELOPMENT

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### ABSTRACT

In this research work, Author focus on the analysis of the new tendencies in the European Union economic development. Realistic point is important trends in the trade regime. The decisions taken by the representatives of the governments participating in the World Trade Organisation (WTO) are, to a significant degree, influenced by various lobbies, such as organisations and unions of food producers or other non-governmental organisations, including trade unions.. The main objective of the research task is to give analysis of the new tendency in European Union economic development. The particularity mains concerne the protectionistic pressures, the EU food producer pressures, the level of protectionistic pressures, bilateral tendencies in the common trade policy of the EU and the new challenge for the European Union economic development - Europe 2020.

**KEYWORDS:** Protectionistic Pressures, Level of Protectionistic Pressures, Bilateral Tendencies, Europe 2020

### INTRODUCTION

The decisions taken by the representatives of the governments participating in the World Trade Organisation (WTO) are, to a significant degree, influenced by various lobbies, such as organisations and unions of food producers or other non-governmental organisations, including trade unions. The problems of mutual relations between the representatives of governments and those non-governmental organisations which influence on multilateral trade negotiations conducted on the forum of WTO are also the subject of the analysis in the undertaken research program. Despite the undeniable benefits of the multilateral WTO forum for trade liberalisation, the rapid increase of North-South bilateral and multilateral Free Trade Areas (FTAs) begs a systematic explanation for why some forums are prioritized relative to others.

Europe 2020 and the Innovation Union initiative have clearly signalled the EU's intention to rise to the challenge. Europe 2020 focuses on achieving smart growth, while the Innovation Union sets out measures to contribute to this aim, including increasing investment, refocusing R&D and innovation policy on major societal challenges, and strengthening the links from frontier research right through to commercialisation. The main aim of the article is the presentation of the new tendencies in the European Union economic development. In the article presents the protectionistic pressures, the EU food producer pressures, the level of protectionistic pressures, bilateral tendencies in the common trade policy of the EU and the new challenge for the European Union economic development - Europe 2020.

### RESEARCH AND METHODOLOGY

The main objective of the research task is to give a comprehensive analysis of the new tendencies in the European Union economic development. The particularity mains concerne the protectionistic pressures, the EU food producer

pressures, the level of protectionistic pressures, bilateral tendencies in the common trade policy of the EU and the new challenge for the European Union economic development - Europe 2020.

The analyzed problems were solved with the use of both quantitative and qualitative research methods. The main research method applied in this analysis, was a method of scientific study used for splitting the whole (of individual items, their sets, phenomena) by means of logical abstraction. It was also used the analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method and statistical methods. It were applied the descriptive method, as well as methods of descriptive statistics and forecasting. Additionally, it were used the methods of deductive and inductive forecasting. For the presentation of the problem the level of protectionistic pressures was adapted the mathematical model.

## **DISCUSSIONS**

### **Protectionistic Pressures**

It is important to indicate, that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. The application of democratic rules, on the other hand, may lead to lower productivity of labour force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions like in the European Union.

A different point of view says that government legislation concerning the labour market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labour market policy for gaining the support from pressure groups, the urbanised labour marked elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well functioning democracy, the outside opinions are also taken into account and there occur some limitations which come from the outside, which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong.

There is, however, a number of democracies among the industrialised countries where an effective labour market exists. There is also a number of democracies with effective labour market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labour market is often a priority. It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model (Grossman and Helpman, 1994). This model describes economic development on the basis of two sectors - urbanised, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labour market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labour market.

The sector of regulated employees and also the owners, demand from the government that it leads an economic policy that is favourable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum

wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes (Banerji and Ghanem, 1997).

A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labour market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens - in the societies where the labour market is organised, it may play the important role in mobilising voters.

How can we recognise the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

### **European Union and Food Producers Pressures**

The problem of liberalisation of agricultural products trading is linked to the problem of subsidies application. According to the WTO decisions (art. XVI), exports of the agricultural products, as so-called basic goods, can be subsidised, if this fact does not interfere with the economic interests of other participants of the agreement. Actually, subsidising exports of agricultural products may have many different forms, starting with a direct subsidy, through variable compensatory fees, and finally through various forms of government guarantees and preferential credits. In the ministers declaration we read only about a better discipline among the members of WTO.

In an effort to limit the European Union's budget expense for subsidising agricultural products, it was decided, among other things, that in case of fats, the money will be transferred from the processing sector to the production sector. Instead of compensating the industry for higher costs of purchasing more expensive, local raw materials (the prices paid to the growers of rape or sunflower in the EU are much higher than the world prices), it was decided that subsidies would go directly to farmers, and the size of farms was to be the basis for calculations. At the same time, the Union authorities disclosed that they will be trying to reduce gradually those expenses by reducing guaranteed prices.

This reform was the first in which the attempt was made to eliminate the structural surpluses, the surpluses which had been disorganising the EU agricultural market and the international trade for many years. It is worth pointing out here that the direct result of announced changes in the agricultural policy of the EU may not be favourable in the abroad. The simplest form of compensation for farmers are usually the restrictions for the suppliers from abroad. The agricultural lobby in France is especially active in this area. As a result of its activity and the pressure exerted on the government the

agricultural goods from abroad have been successfully blocked from the EU market. The position taken by that agricultural lobby influenced also the position of the EU representatives in the debates on the agricultural questions during the multilateral trade negotiations also in the framework of the Doha Round.

In spite of the trade conflicts, most clearly visible in the USA - the EU relations, all the countries participating in the international trade were interested in the successful of the international trade negotiations. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

### Level of Protectionistic Pressures

The above arguments show that the policy is defined by political factors (including the type of the government and the burdens resulting from obligations towards employees and capitalists), and by economical factors (wages, prices, the structure of production and consumption). On the basis of the present discussion, we can present two equations, one pertaining to the level of protection, and the second pertaining to the national economy and deformation of wages.

- $\pi = f(e, l, k, R)$
- $\varphi = f_1(\pi, e, l, k, R),$

The level of protection ( $\pi$ ) depends on the economic parameters ( $e$ ), a relative political importance of urbanised employees and capitalists ( $l$  and  $k$ , respectively), and on the type of the government ( $R$ ). Deformation of wages is, on the other hand, the function of  $\pi$  and of  $e, l, k$  and  $R$ . In case of a small economy, economic parameters that can influence  $\pi$  and  $\varphi$  include flexible consumer and producer prices, demand flexibility, wages and the demand for labour force, and also the price of goods on an international market.

One can expect, a priori, that the growth of  $\pi$  is dependant on  $l$  and  $k$ . If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of  $R$ , that is, the influence of a political authoritarianism on the level of protectionism, that is,  $\pi$ , depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratisation, is correct. It is also thought that the increase of the deformation of wages depends on  $\pi$  and  $l$ , while its decrease depends on  $k$ . As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanised employees. An important problem in case of urbanised labour force as an interest group with growing strength is the fact that urbanised employees may gain a big share in the division of incomes but the growth of political importance of the capitalists may cause that the shared incomes, handed over to the labour force in regulated sectors of economy will become smaller (Banerji and Ghanem, 1997).

There is no doubt that it is easier for wealthy rather than poor societies to choose democracy (Helliwel, 1992). Since those wealthier societies at the same time have a tendency to a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research showed also that the level of education plays an important role in this respect. The countries with a higher level of education of labour force are more open.

On the basis of the earlier considerations, one can come to the conclusion that authoritarian systems have a tendency towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions

accompany significant deformations of wages on the labour market. This opinion may be justified on the basis of the observations of the situation in a number of countries.

Freedom of association is one of the elements of good management and the necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labour markets. One cannot state, however, that improper or ineffective policy on the labour market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There is a number of examples of authoritarian countries which do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labour force are not necessary, if one wants to achieve a required economic growth (Fields, 1994; see also Freeman, 1993).

Finally, it should be pointed out that there exists a close relation between democracy and an economic growth. There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms (Devarajan, Ghanem, Thierfelder, 1997). The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions.

The trade unions active on an urbanised labour market had a significant influence on the decisions of governments, in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which, for example, in the European Union were under special trade protection, the position of trade unions was very strong.

#### **Bilateral Tendencies in Common Trade Policy of Eu**

The tendencies in international trade development can create changes in domestic markets, placing pressure on political actors to obtain aid from the government especially during the economic crisis. There are also the groups which want to coordinate activities and change foreign trade policy and in the European Union also common trade policy. European Commission provide the justification for protection of the internal single market to response to global competition. It is important underline that essentially, the government appears to supply protection for affected parties; yet, the overall impact on consumers, producers, and foreign competition is negligible (Thies and Porche, 2007). Significant government ownership of the productive resources of a country has a negative effect on trade liberalisation, while fragmentation of decision-making authority, expressed as fragmentation within the government and pluralism in society, has a positive impact on the liberalization of trade policy (Kennedy, 2007).

In the area of foreign-policy analysis has focused on "three i's": interest groups, international structure, and ideas (Kennedy, 2007). In the interests groups literature, government policy is viewed as the outcome of competition between groups for trade policies that benefit their industry (Nau, 1989; Milner, 1995; Milner and Yoffie, 1989; Schattschneider, 1935). International structure suggests that freer trade was a reflection on U.S. interests and its hegemonic

status after World War II, while a decline in free trade is a reflection of the U.S.'s hegemonic decline (Krasner, 1976). The literature on ideas suggests that policy beliefs are reflected in laws and institutions. These laws and institutions, in turn, carry a type of inertia that continues to influence policy outcomes long after changes in international and internal structure would predict policy change (Goldstein, 1989; Goldstein, 1995). In contrast to these explanations government interests in the economy and in maintaining stability also play a large role in trade policy (Kennedy, 2007) also in common trade policy of the European Union.

At one end, a multilateral forum like World Trade Organisation (WTO) with near universal membership offers maximization of gains from trade and reduced transaction costs. However, a single state also EU cannot expect to have much control over trade partners or liberalisation agendas at the multilateral level. At the other end, a bilateral FTA often yields very small gains from trade and usually increases transaction costs by producing idiosyncratic sets of rules. But at the same time, a large state, also EU, can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs (Pekkanen, Solis, and Katada, 2007). One can contend that industrialized of aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums).

It is important underline that the liberalizing rules on agriculture, and other less competitive sectors, are no longer an acceptable political price for the economic gains bundled across sectors. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive sectors like agriculture and in several cases like for example in European Union and Japan trade officials need to show that they have more concrete control for political reasons-an element more credible in a bilateral setting than a multilateral one (Pekkanen, Solis, and Katada, 2007). This situation may also indicate the back from globalisation to the mercantilist tendencies in the foreign trade policy.

### **New Challenge for European Union Economic Development – Europe 2020**

Despite a rapid response of the European Union to the crisis and advanced reforms, including on financial markets and in economic management, the crisis may have lasting impact on the potential economic growth and unemployment, and thus be considered prejudicial to the living conditions of the Europeans and for their future. In order to solve this problem, the European Union adopted a strategy “Europe 2020” and has set itself ambitious targets for intelligent and sustainable development, inclusive. But these objectives will only be achieved, provided that the Union and the member states shall carry out urgent structural reforms. Priority must be measures which support economic development and employment. It is necessary to pursue in connection with this proactive and a cross-cutting strategy. The aim is to put an end to the market fragmentation, remove the obstacles and barriers hampering the movement of services, innovation and creativity. These actions should reinforce a uniform internal market the EU and outwards to enhance the competitiveness of the global primarily in relation to the USA and Japan as well as emerging markets such as Brazil, Russia, India and China (BRIC). This should be done mainly by an increase in the financial outlay on research and development (R&D) and the development of new knowledge-based economy.

The key driver of the problems is Europe's structural innovation gap: compared to its competitors, Europe's patenting performance is weak and it lags behind in developing new products, new processes and new services. To boost productivity and growth, it is critically important to generate breakthrough technologies and translate them into new products, processes and services. Europe has taken an early technological lead in many key technology areas, but in the face of growing competition its advantage is tenuous, and has not translated into an innovative and competitive lead.

A timely and targeted European policy is needed for bridging the "valley of death" if Europe is to remain competitive (SEC 1428 final 2011).

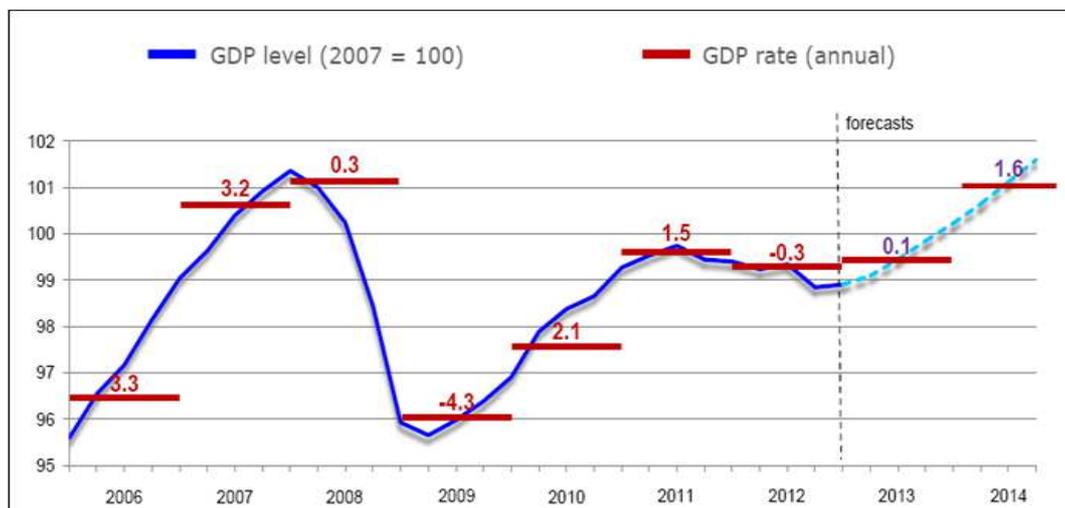
This key driver is underpinned by the following structural problem drivers:

- Insufficient contribution of research and innovation to tackling societal challenges
- Insufficient technological leadership and innovation capability of firms
- The need to strengthen the science base
- Insufficient cross-border coordination

It is important underline that the Innovation Union is one of the seven flagship initiatives of the Europe 2020 strategy for a smart, sustainable and inclusive economy. The Innovation Union plan contains over thirty actions points, with the aim to do three things:

- Make Europe into a world-class science performer;
- Remove obstacles to innovation – like expensive patenting, market fragmentation, slow standard-setting and skills shortages – which currently prevent ideas getting quickly to market; and
- Revolutionise the way public and private sectors work together, notably through Innovation Partnerships between the European institutions, national and regional authorities and business.

Innovation Union is the European Union strategy to create an innovation-friendly environment that makes it easier for great ideas to be turned into products and services that will bring economy growth and jobs (Figure 1, Figure 2). The Annual Growth Survey for 2013 launches the 2013

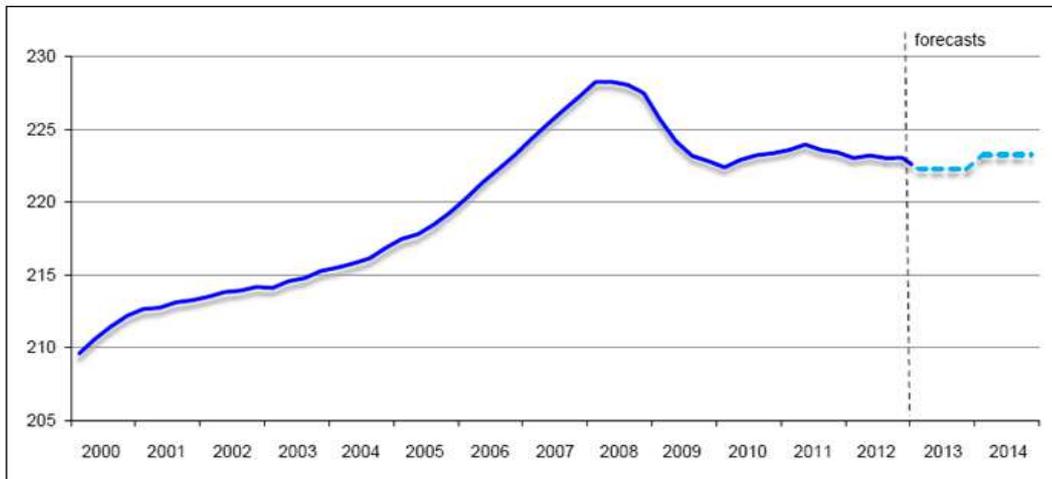


**Source:** Growth, competitiveness and jobs priorities for the European Semester 2013. Presentation of J.M. Barroso, President of the European Commission to the European Council of 14-15 March 2013, [http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu\\_tra-00.pdf](http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu_tra-00.pdf). Access, 24.01.2014.

**Figure 1: GDP Trends in the EU: Levels and Rates**

European semester for economic policy coordination, which ensures Member States align their budgetary and economic policies with the Stability and Growth Pact and the Europe 2020 strategy. It is the basis for building a common

understanding about the priorities for action at the national and EU level as the EU seeks to return to a path of sustainable growth and job creation.



**Source:** Growth, competitiveness and jobs priorities for the European Semester 2013. Presentation of J.M Barroso, President of the European Commission to the European Council of 14-15 March 2013, [http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu\\_tra-00.pdf](http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu_tra-00.pdf). Access, 24.01.2014.

**Figure 2: Number of People Employed in the EU (In Million)**

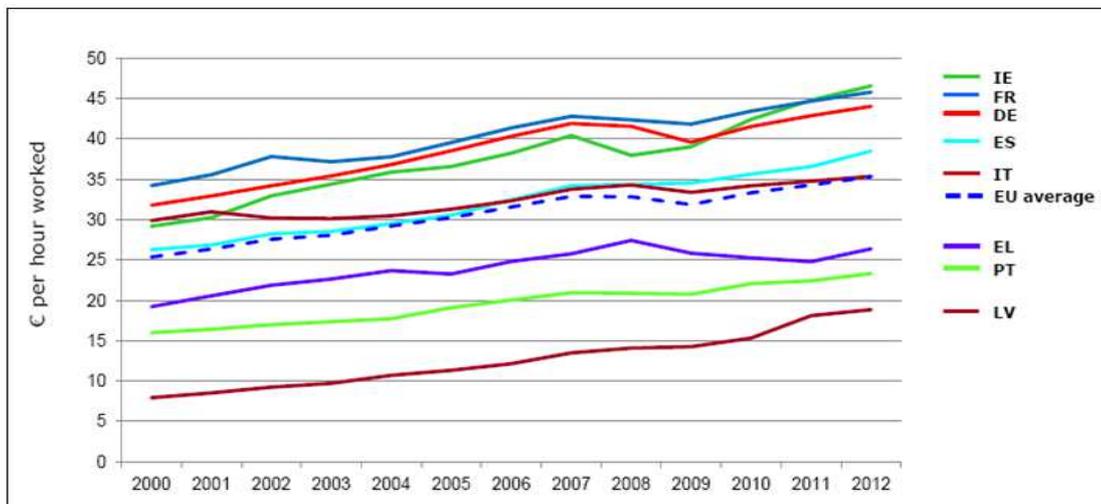
The Annual Growth Survey should feed into national economic and budgetary decisions, which Member States will set out in Stability and Convergence Programmes (under the Stability and Growth Pact) and National Reform Programmes (under the Europe 2020 strategy) in April 2013. These programmes will form the basis for the European Commission's proposals for country-specific recommendations in May 2013. It must be emphasized that the EU economy is slowly starting to emerge from the deepest financial and economic crisis in decades. However, although important action has already been

**Table 1: Global Competitiveness Index 2012-2013**

Rank	Country	Rank	Country
1	Switzerland	36	Spain
2	Singapore	39	Czech Republic
3	Finland	41	Poland
4	Sweden	42	Italy
5	Netherlands	45	Lithuania
6	Germany	47	Malta
7	United States	49	Portugal
8	United Kingdom	55	Latvia
9	Hong Kong SAR	56	Slovenia
10	Japan	58	Cyprus
12	Denmark	60	Hungary
16	Austria	62	Bulgaria
17	Belgium	71	Slovak Republic
21	France	78	Romania
22	Luxembourg	81	Croatia
27	Ireland	96	Greece
34	Estonia		

**Source:** Growth, competitiveness and jobs priorities for the European Semester 2013. Presentation of J.M. Barroso, President of the European Commission to the European Council of 14-15 March 2013, [http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu\\_tra-00.pdf](http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu_tra-00.pdf). Access, 24.01.2014.

Taken and positive trends are beginning to emerge, to remain some distance from a recovery (Table 1). To restore confidence and return to growth, it is essential that Member States maintain the reform



**Source:** Growth, competitiveness and jobs priorities for the European Semester 2013. Presentation of J.M. Barroso, President of the European Commission to the European Council of 14-15 March 2013, [http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu\\_tra-00.pdf](http://ec.europa.eu/news/pdf/sg.2013-00286-01-04-eu_tra-00.pdf). Access, 24.01.2014.

**Figure 3: Productivity Levels and Trends 2000-2012 (Hourly Productivity Levels in Euro per Hour Worked)**

Momentum, and for this reason the Commission recommends focusing on the same five priorities that were identified in last year's Survey Figure 3.

- Pursuing differentiated, growth-friendly fiscal consolidation
- Restoring normal lending to the economy
- Promoting growth and competitiveness for today and tomorrow (Table 1, Figure 3)
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration.

The intensification of regionalising process in the European Union and bilateral tendencies in the years of economic crisis resulted from a certain definite policy of the governments of particular countries. European Union have become a useful institutional basis for the stimulation of economic growth on the territory of a number of thus associated countries, and for a specific preparation of the economies of those countries for a more competitive conditions on the world market. In the conditions of growing influence of international situation on the economic development, less developed countries also perceive the integration with highly developed countries like European Union as a good solution, seeing in it not the threat but the chance for the acceleration of their own economic development.

## RESULTS

What indicates the importance and innovativeness of the research is the presentation of the new protectionistic tendencies and inclination to bilateralism and regionalism in the common trade policy of the European Union and new challenge – Europe 2020. It should be pointed out that there exists a close relation between democracy and an economic growth, There are well known examples of open societies that stimulate the economic growth. This is true mainly in case

of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms. The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions.

The growing interdependence and the decline of USA trade hegemony have led to increased competitiveness and greater temptations to resort to strategic trade policy. Trade policy takes on additional importance in economic battle of “the valiant liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy”. Many of the clientelist policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties.

In spite of the trade conflicts, most clearly visible in the USA - the EU relations, all the countries participating in the international trade were interested in the successful of the international trade negotiations, now in Doha Round WTO. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries. However it should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

Europe 2020 and the Innovation Union initiative have clearly signalled the EU's intention to rise to the challenge. Europe 2020 focuses on achieving smart growth, while the Innovation Union sets out measures to contribute to this aim, including increasing investment, refocusing R&D and innovation policy on major societal challenges, and strengthening the links from frontier research right through to commercialisation. A key challenge for the EU in implementing its strategy will be to build a next-generation expenditure programme which matches this level of ambition in both its budget and its aspirations.

The new trends concern also the common trade policy of the European Union. This has been reflected in the growth of bilateral agreements, for example, between the European Union and ASEAN countries and in the proposals for creating a transatlantic free trade area between the European Union and the United States of America. In such a situation occurs to the liberalisation of trade within the framework of bilateral agreements and in a lesser extent in the framework of the multilateral system of international trade of the WTO.

In financial matters and international trade has increased markedly role and the importance of the G20 group. In the new situation both the WTO and the G20 should jointly take and coordinate the efforts to the principles to promote open international trade, widening access to the global market developing countries. By supporting open trade rules in the global system strengthen will be legitimacy of the functioning of the G20 group.

## CONCLUSIONS

Weakened the impact of multilateral trade agreements on the processes of liberalization of international trade in the framework of the WTO cause increase the importance of bilateral and regional agreements also in the case of the European Union. It must be emphasised that at one end, a multilateral forum with near universal membership offers maximization of

gains from trade and reduced transaction costs. However, a single state cannot expect to have much control over trade partners or liberalization agendas at the multilateral level. At the other end, a bilateral FTA often yields very small gains from trade and usually increases transaction costs by producing idiosyncratic sets of rules. But at the same time, a large state can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs. One can contend that industrialized of aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums).

Science and innovation are key factors that will help Europe to move towards smart, sustainable, inclusive growth, and along the way to tackle its pressing societal challenges. But Europe suffers from a number of critical weaknesses in its science and innovation system which contribute to the above problem. Horizon 2020 is the financial instrument implementing the Innovation Union a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. Running from 2014 to 2020 with a budget of just over €70 billion, the EU's new programme for research and innovation is part of the drive to create new growth and jobs in Europe.

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