

The EU elections: no need to panic just yet

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The European Union is the world's largest economy, accounting for over 20% of global gross domestic product (GDP). Thanks to the size of its GDP (€14.8 trillion) and the openness of its market, which accounts for €2 565 billion of exports and €2 398 billion of imports, the EU has played a central role in shaping the global trading system,¹ and anything which affects this, however slightly, has ramifications across the globe. The recent EU elections which took place from the 23rd to 26th May 2019 are a case in point, and its results will continue to cast a shadow over South Africa's attempts at integration into the global economy for the foreseeable future. It is therefore important to understand the consequences of these elections and in so doing, put in place procedures to mitigate its potentially negative effects.

The European Parliament is the chief legislative body of the European Union and every five years elections are held amongst its 28 member states whose citizens get to decide its immediate future and orientation.² It has a hand in everything from EU business and trade rules to agricultural and infrastructure spending and migration policy³ while the EU's \$150 billion annual budget and vast array of laws and regulations directly affect the daily lives of its five hundred million citizens. Taking place amidst increased political turmoil within the EU, the 50.5% turnout which characterised the 2019 election reversed 40 years of steady decline in voter participation. In 1979, the European Parliament only had nine member states, and the elections that year saw 62% of eligible voters cast their vote. Interestingly enough, as the number of EU members increased over the years to its current level of 28, voter turnout declined with each successive election, and the only 2014 election experienced a turnout of 42%.⁴

There are many reasons for interest in these elections and the massive turn out at the polls. Firstly, it occurred under the shadow of the rise of Eurosceptics and the rapid growth of far-right parties in many European countries which, in the run up to the elections, championed ultra-nationalist or fascist policies couched in anti-immigration and Islamophobia rhetoric. Secondly, under President Trump, trade negotiations between the USA and the EU has faltered, causing consternation amongst many EU states. Similarly, China's Belt and Road Initiative has divided EU members, many of whom also disagree over the issue of sanctions on Russia.⁵ To further complicate matters, there is the spectre of Brexit which will influence the detail of the UK's future WTO membership and its trade with third parties, including with African nations.⁶ on 23 June 2016, the United Kingdom (with its 73 MEPs) voted to leave the European Union, thus terminating a 44 year partnership. By the end of March 2019 an agreement was supposed to have been reached on a future relationship between the UK and the EU⁷ but since this failed to materialise, the UK, like any other member state, was obliged to participate in the European elections. This new development has added immeasurable interest in the EU elections especially for those countries that trade with the EU and by association, the UK.

Today's economy is highly integrated, with global supply chains replacing traditional trade in finished goods. In this regard, the EU's economy has shown notable resilience and its share of

¹ It is this dominance which makes the world's superpowers keen to see the EU project splinter and disintegrate through vehicles such as Brexit.

² If the United Kingdom leaves the European Union, the number of member states will be 27.

³ <https://www.cfr.org/article/why-european-parliament-elections-matter>

⁴ <https://www.straitstimes.com/world/europe/five-key-takeaways-from-the-eu-elections>

⁵ <https://www.cfr.org/article/why-european-parliament-elections-matter>

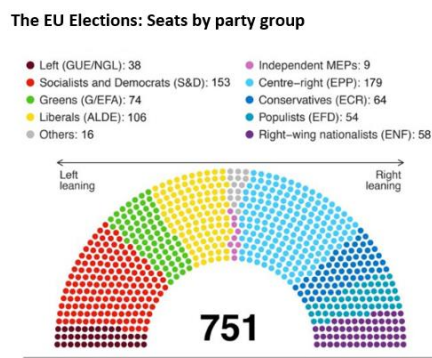
⁶ <https://www.tralac.org/resources/by-region/sadc/sadc-eu-economic-partnership-agreement.html>

⁷ The UK's most important trading partner.

global GDP has declined less rapidly than those of Japan and the USA. Once Brexit comes into effect, the European Parliament will decrease its total seats from 751 to 701, with 27 of the United Kingdom's seats being reallocated among the remaining 27 EU member states. This means that not only would the United States immediately lose its biggest pro-trade and low-regulation ally in the European Union, but half of the reallocated seats would go to France (+5), Spain (+5), and Italy (+3). These countries constitute three of the EU's four largest agricultural producers and as things currently stand, neither Italy nor Spain are likely to be major U.S. allies on trade. Last year the Italians threatened to derail the EU-Canada trade agreement while Spain and the USA are currently in a dispute at the WTO regarding U.S. tariffs on black olives.⁸ France, the EU's largest agricultural producer, receives the greatest amount of subsidies under the EU's Common Agricultural Policy and is currently opposed to beef access that the European Union is offering Mercosur countries in trade negotiations. Furthermore, President Trump's decision on whether to impose Section 232 tariffs on automobiles and parts will form a central plank of current trade talks between the USA and the EU while, the Germans, the largest exporter of European cars destined for the United States, want to conclude a deal quickly to counteract potential automobile tariffs.

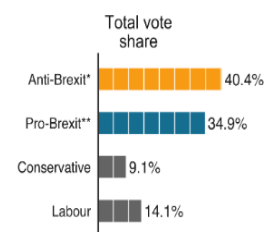
The Election results

For the first time since 1979, the centre-left and the Social Democratic parties have lost their majorities to the Liberals, the environmentally orientated Green Party and parties on the far right. Many of these nationalist and far-right parties will have more representation in the EU Parliament than in any previous period in its history and this will influence how the EU conducts its business globally.



Source: <https://www.bbc.com/news/world-europe-48417191>

Despite being anti-immigration, Italy's far-right government nevertheless argues for the relocation of asylum seekers across the EU, but this finds no favour with Hungary, which advocates closing its borders.⁹ Throughout Europe, Green parties doubled their vote making them key players in any coalition government. While the classic centrist parties did lose ground in some countries such as Germany, the overall picture was that most of the seats have been won by pro-European parties. However, things took a turn for the weird in the UK. The Brexit Party won more votes (32%) than any other party, but since only 37% of registered voters showed up, it can be claimed that only 12% of the population supported them.¹⁰ The Lib Dems were second, while Labour with 14.1% of the vote



*Lib Dems, Greens, SNP, Change UK and Plaid Cymru
 **Brexit Party and UKIP

⁸ <https://www.csis.org/analysis/european-parliament-elections-and-future-transatlantic-trade-relationship>

⁹ <https://www.goldsilverreports.com/live-breaking-news/politics-news/brexit-results-european-elections-results-2019-gold-silver-reports/>

¹⁰ Friedman, S (Business Day 29 May 2019) Start an extremist party to switch the commentariat on

was 3rd, a huge drop from the last European election where they scored 25.4%.¹¹ Although it can be argued that Pro-European parties emerged victorious, the overall result has possibly created a somewhat fragmented European Parliament, which could delay the integration of the region and also severely affect trade with all its traditional partners, including South Africa.¹²

The global significance of the elections

Europe is the world's largest exporter of manufactured goods and services and is itself the biggest export market for around 80 countries. In 2016 the EU's trade in goods with the rest of the world was worth €3 738 billion with the US remained by far the most important destination for goods exported from the EU, followed by China, Switzerland and Russia.¹³

The European Union's main trading partners — Trade in goods in 2018 (million EUR)

Country	Exports	Imports	Total	Trade balance
US	406 372	267 270	673 642	+139 102
China	209 906	394 698	604 604	-184 791
Switzerland	156 484	108 980	265 464	+47 504
World	1 955 746	1 980 361	3 936 107	-24 615

Source: <http://www.europarl.europa.eu/factsheets/en/sheet/160/the-european-union-and-its-trade-partners>

imports in 2017 rose by 8.8% from the previous year's level to €1 858.3 billion. China was the EU's leading supplier of goods in 2017, followed by the US and Russia. The EU is also the world's

largest investor and a major recipient of others' foreign direct investment (FDI). One consequence of these elections is that suddenly the EU is being courted by other economic superpowers and the growing tensions between China and the USA, as a result of the escalating trade dispute has merely served to exacerbate this trend. As the world's largest trading bloc, the EU is a leading trading partner of both China and the US, and is now having to choose sides particularly since the US effectively banned Chinese telecoms giant Huawei from

accessing US supply chains.¹⁴ Not only is China the EU's second-largest trading partner after the US but Europe continues to be the most lucrative and

Share of World FDI in 2016 (%)

Country	Inward stocks	Outward stocks
Country	38.4%	52.0%
EU	35.3%	39.5%
US	7.5%	7.9%
China	5.3%	7.5%
Canada	1.0%	8.7%

Source: European Parliament DG EXPO calculations based on European Commission figures

strategic region for China's two signature initiatives, namely the Made in China 2025 plan and the Belt and Road Initiative. However, despite this, not all EU members are in favour of China's business practices in Europe particularly its role in the Balkans and the threat posed by Chinese companies in Europe's aviation, telecom infrastructure, robotics and solar panel industries.¹⁵ Into this gap has come the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It is one of the world's largest free trade agreements, representing more

¹¹ <https://edition.cnn.com/europe/live-news/european-elections-results-intl/index.html>

¹² <https://www.fxstreet.com/analysis/europe-the-election-backlash-201906100919>

¹³ <http://www.europarl.europa.eu/factsheets/en/sheet/160/the-european-union-and-its-trade-partners>

¹⁴ <https://www.scmp.com/news/china/diplomacy/article/3012205/china-or-us-europes-impossible-choice-trade-war>

¹⁵ <https://qz.com/1621047/eu-elections-2019-why-china-cares/>

than 13% of global GDP and there are suggestions amongst its members which comprises Australia, Canada, Japan, Malaysia, Singapore and New Zealand, that membership be extended to the EU. Interestingly, the EU, is by dollar amount, the third-largest importer from and exporter to CPTPP members – behind only the US and China.¹⁶

SADC and SA's trade with the European Union

The summary below shows the total value of South Africa's top six exports to EU members for the first quarter of 2019 and a brief analysis of this could provide vital clues as how the EU election results will possibly play out in global trade relationships.

- Germany: R24 157 352 614
- United Kingdom: R11 644 864 183
- Netherlands: R10 214 552 317
- Belgium: R8 657 110 197
- Spain: R4 351 079 893
- Italy: R2 785 489 331¹⁷

By far South Africa's biggest export to the EU between 2009 and 2016 is precious metals and stones, as it contributes **17.7%** of total exports to that bloc. This is followed by vehicle and related parts which comprises **13.7%** and iron and steel (**8.6%**).¹⁸ Our biggest import from the EU during this same period has been broilers, machinery and equipment and mechanical appliances (**20%**) followed by vehicle and parts (**13.4%**).¹⁹ Germany is the largest contributor of South Africa's imports from the EU, (**37%**) while the UK at **12%** is about a third the size of Germany's contribution. Similarly, the Germans (28.3%) are also the biggest recipients of South African exports to the EU. Interestingly, the contribution of the UK to the overall South African export basket (19.4%) is much larger than it is for imports which is probably as a result of South African built right hand drive cars being exported to the UK.

Overall trade with the EU contributes about 25% of South Africa's total trade while trade with Germany makes up around 7.2%. The contribution of the UK to South Africa's overall trade with the EU is relatively small, especially when compared to Germany. If trade agreements are renegotiated between the EU and the UK and they (the UK) get less trade from the EU as a result of Brexit, then other countries such as South Africa could benefit. However, only 3.2% of South Africa's total trade is with the UK and therefore, based on this, the size of the gains might not be very significant.²⁰

Conclusion

Elections for the European Parliament were concluded less than a month ago and already the reverberations are being felt around the world with tremors being felt here. At the European level and in the short term, there is increased concern that this new scenario will endanger the consensus reached to date in Europe on crucial issues such as Brexit and trade disputes with the United States. The prolonged uncertainty regarding the UK's exit and the possible increase

¹⁶ <https://www.scmp.com/week-asia/geopolitics/article/3013574/amid-us-china-trade-war-could-eu-be-next-join-cptpp>

¹⁷ <https://www.southafricanmi.com/eusa.html>

¹⁸ <https://www.southafricanmi.com/eusa.html>

¹⁹ Largely due to vehicle imports from Germany, France and Italy.

²⁰ Of that about 30% is made up by Germany, and only around 13% is made up by the UK.

of US tariffs for the automotive industry could derail growth in the eurozone, following the slowdown observed since the second half of 2018. The recent election results and in particular the strong showing of the Brexit Party in the UK and the stirrings of far-Right parties in Europe, should be a cause for concern. As is becoming increasingly obvious, the UK will exit the EU without securing a deal (a no-deal Brexit), and the immediate consequence is that our trade with the UK would not be covered by the SA/EU Trade Development and Co-operation Agreement. The UK would have to renegotiate deals with 70 countries and it is to be expected that the immediate consequences would be that the World Trade Organisation's rules would apply, resulting in a 10% tariff being applied to SA car exports to the UK while close onto 35% tariffs would apply to dairy products. The consequences for the SA automobile industry would be severe. In 2018, the UK was the biggest buyer of SA-made vehicles and since we routinely import components from the UK which are used in locally manufactured cars for export to the EU, a no-deal Brexit could result in quite severe damage for our local manufacturing. The fact that this will occur in the aftermath of the EU elections where far-Right movements have made some gains, may present some obstacles for our potential exporters. While it may be too soon to panic it is evident that South Africa generally and KwaZulu-Natal in particular will have to reconsider the way it conducts business in Europe, new alliances would need to be forged and new export destinations considered.