

---

# Introduction: EU trade and external policy in troubled waters

---

**San Bilal and Bernard Hoekman<sup>1</sup>**

ECDPM; European University Institute and CEPR

The international trade scene is in turmoil, with the emergence of trade conflicts among major economies stirred by the US (Evenett and Fritz 2018, Bown and Zhang 2018) and resulting uncertainty for businesses, the weakening of multilateralism, and the inability so far of the global trading system to adapt to the rise of emerging economies. Increasing inequalities within countries and the rise of populism and nationalism have further contributed to put the international trade order into question. Societies confront major challenges in adjusting to rapid technological changes and the growth of the digital economy, responding to global problems such as climate change, and addressing universal values on human rights (including labour, social and gender issues) and attaining a universally shared 2030 Agenda on sustainable development. In this rapidly evolving and uncertain context, the EU has to reposition itself, adapting its trade and external policies to better pursue its economic interests, but also to achieve its political, geostrategic, developmental, environmental and principles-based objectives. Better harnessing its soft power to achieve its various external policy goals is a prerequisite, which in turn implies enhancing the coherence of the disparate policy instruments that are available to the EU and to its member states.

Trade policy is a major instrument of EU soft power. The EU has been very active in promoting its strategic interests, standards, values, as well as development objectives, by negotiating trade agreements with a wide range of partners and by providing unilateral trade preferences. Trade agreements and trade preferences for developing countries are central features of EU external policy. Although the EU is a strong proponent of multilateral trade cooperation in the World Trade Organization (WTO), a central plank of EU external policy has long been a strategy of negotiating bilateral and regional trade agreements. In recent years it has increasingly linked its trade policy to the pursuit

<sup>1</sup> This essay and the preparation of the eBook to which it is an introduction has been supported by funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 770680 (RESPECT: Revitalizing Europe's Soft Power and External Cooperation and Trade).

of non-trade external policy goals and values established in the Lisbon Treaty. This is reflected in conditioning preferential access to the EU market – whether through nonreciprocal trade preferences for developing countries or through reciprocal trade agreements – to respect for human rights and fundamental freedoms (Borchert et al. 2018).

The EU Generalised System of Preferences (GSP) is conditional on the level of development, with least developed countries getting free access to its market under the Everything But Arms regime, and on the respect of a number of core human rights and labour standards, with better market access to developing countries meeting higher commitments in this respect under the GSP+. EU trade agreements have also increasingly aimed at addressing a more comprehensive set of market access and regulatory constraints, as well as social, labour and environmental principles, notably with the systematic inclusion of trade and sustainable development chapters. With African, Caribbean and Pacific (ACP) countries, the EU has also been negotiating so-called economic partnership agreements (EPAs) with sustainable development objectives at their core.

While the EU has always pursued non-trade objectives in parallel with its trade policy, the 2015 ‘Trade for all’ strategy aimed to both strengthen the relevance of EU trade policy to pursue EU economic interests (thus also paying greater attention to the effective implementation of trade agreement to benefit European economic actors) and to bolster the values and principle-based approach to its external policy. Ensuring that trade benefits all, including developing countries and poorer people, is a central dimension of the EU strategy. The EU is also the lead provider of aid for trade and more generally of official development assistance (ODA), which can accompany developing countries endeavours in their own trade policies or in relation to the EU. Having set in place a comprehensive strategy, the challenge for the EU is to implement it in a coherent manner, which, given the multi-purpose nature of its trade policy, is not straightforward.

Trade has become a much higher profile policy area for the EU following the decision by the Trump administration to revert to “aggressive unilateralism” and pursue a more protectionist trade policy (Vangrasstek 2018). The resort to protectionist measures by the US and the tit-for-tat responses by targeted countries, including the EU, undercut the open, rules-based multilateral trading system. Trade policy is also a core dimension of the rising concern in the EU regarding the competitive implications of China’s industrial policies. Designing appropriate responses to international trade conflicts and tensions is one of the key tasks confronting the new Commission. Doing so is complicated by the increasing complexity of the trade and external policy agenda given that these policies increasingly include dimensions of domestic regulation of product

and factor markets that are of interest to many groups in society that are less concerned with traditional trade policy.

Action to sustain the rules-based multilateral trading system is an important element of the challenge confronting the EU (Hoekman 2019). The WTO was intended to be the global forum where countries agree on rules of the game for trade policies and resolve trade disputes. It has failed to perform this function. WTO rules were not designed for a world of global value chains and the digital economy. They were negotiated in a period when developing countries accounted for a much smaller share of global GDP and world trade. The first round of multilateral trade negotiations launched under WTO auspices – the 2001 Doha Development Agenda – provided an opportunity to update the rules, but ended in failure after coming close to a deal in 2008. The negotiating deadlock in the WTO that lasted for much of the past decade meant that it was not possible to engage in cooperative efforts to resolve trade tensions, as many countries took the view that the Doha Round needed to be concluded before new issues could be discussed. The opportunity cost of WTO deadlock has been substantial. Research suggests that foreign trade-distorting measures implemented since 2009 have reduced EU export growth by 10-20 percentage points (Evenett and Fritz 2017). Many of the instruments involved are only partially subject to WTO rules, and lie at the heart of the purported motivation for the unilateral recourse to protectionist trade measures by the US, as well as concerns about the competitive effects of China's economic policies.

In addressing these trade developments, the EU faces internal constraints (Hoekman and Puccio 2019), reflected in differences in trade policy preferences across the member states, as well as opposition to the negotiation of deep trade agreements by some civic interest groups. The underlying concerns vary across groups but often centre on the protection of regulatory standards and social values. Successfully addressing them will be critical, both because of the importance of trade for growth and jobs in the EU and because of the role trade can play in raising real incomes and stimulating sustainable development in neighbouring countries, Europe's partners in Africa and other developing regions.

As a long-standing proponent of multilateralism, the EU has an important role to play in providing leadership to strengthen existing and building new alliances to defend the rules-based trading system. This entails active support for WTO reform, including addressing the stalemate in dispute settlement process and tackling up front a range of critical issues, such as addressing the negative spillover effects of subsidies and the behaviour of state-owned enterprises, climate change (in line with the Paris Agreement), digitalisation and artificial intelligence.

The EU is actively negotiating with the US, including in talks on a bilateral agreement on industrial goods tariffs, revisiting possibilities for sector-specific regulatory cooperation<sup>2</sup> and a trilateral effort with Japan and the US focusing on common concerns regarding China's trade-related policies. The EU is also engaging with the US over WTO reform.<sup>3</sup> In parallel, the EU has ramped up efforts to conclude trade agreements with major economies and developing countries as a means of improving the governance of trade relations and expanding cooperation to policy areas that affect the ability of firms to compete fairly for markets. The successful conclusion by the EU of FTAs with Singapore, Vietnam, Canada, Japan and Mercosur, and the ongoing negotiations of new FTAs with Indonesia, Australia and New Zealand and the revision of existing FTAs with Mexico, Chile and Tunisia, all reflect the active bilateral engagement of the EU.

How well has the EU been able to implement its ambitious multi-purpose trade agenda? Have the expectations been fulfilled? Has the EU managed to effectively pursue its non-trade policy objectives, relative to standards, values, sustainability and development? If so, has it been at the expense of more traditional trade concerns and market opening? How well does the EU use its soft power in the trade policy arena? What are the lessons from recent experiences, and how can these feed into the future EU trade policy agenda? What are the adjustments needed? Which issues require more attention? How broad should the EU trade policy agenda be? And what should the priorities be?

These questions lie at the core of an ongoing research project supported by the EU Horizon 2020 programme – Realizing Europe's Soft Power in External Cooperation and Trade (RESPECT).<sup>4</sup> The essays collected in this eBook are a complement to an anonymous survey questionnaire that was implemented in 2018-19 soliciting views from trade practitioners in the EU and in partner countries on the design and implementation of EU trade and external policies, including development cooperation programmes. The first chapter of the eBook, by Matteo Fiorini, Bernard Hoekman, Nais Ralaison and Aydin Yildirim, summarises some of the responses to the RESPECT expert questionnaire. This survey also provided an opportunity for respondents to volunteer to prepare essays expounding their views or reflecting on their experience with different dimensions of EU external policy. This eBook collects 20 of the essays

2 European Commission, "EU-U.S. Trade Talks: European Commission presents draft negotiating mandates", press release, 18 January 2019.

3 The EU and the US have agreed to work together with Japan and other countries to discuss WTO reform. The European Commissioner met with the USTR and the Japanese trade minister to discuss this matter in January 2019. See the [Joint EU-U.S. Statement following President Juncker's visit to the White House on 25 June 2018](#); "U.S. Rejects the EU's Trade Reform Proposal, Putting WTO at Risk", Bloomberg, 12 December 2018; and the [Joint Statement of the Trilateral Meeting of the Trade Ministers of the European Union, Japan and the United States](#), 9 January 2019.

4 <http://respect.eui.eu/>

that were received. They provide perspectives on a range of trade-related issues and offer reflections on some of these questions.

The contributions are organised around four themes:

- 1. Reflections on EU trade policy:** Karl Falkenberg on the tension between bilateral/regional agreements and the need for multilateral rule-making; Katerina Meissner on differences in policies towards different world regions; Patricia Wruuck on the design of trade agreements; Angelos Pangratis on an EU-wide approach towards economic diplomacy; and Roderick Abbott with reflections on the evolution of EU trade policy.
- 2. Specific dimensions of EU trade policy:** Pascal Kerneis on the state of play and importance of improving access to foreign services markets; Steven Woolcock on governing access to public procurement markets; Pramilla Crivelli and Stefano Inama on protection of geographical indications; linkages between trade and innovation policy; and Riccardo Trobbiani on linkages between science and innovation policies and EU trade policy.
- 3. Relations with African, Caribbean and Pacific countries and Economic Partnership Agreements:** Junior Lodge on the EU as a trade and development partner to ACP countries; Mark Pearson on lessons of efforts to pursue regional integration in Africa; Dominique Njinkeu on post-2020 trade and external cooperation between the EU and Africa; David Luke and Heini Suominen on rethinking the EPAs; Rob Floyd on the potential to strengthen EU soft power by better engaging with Africa; Louisa Santos on making the EPAs a central pillar of a comprehensive Africa-Europe alliance; and Peg Murray-Evans on the limits to soft power that are illustrated by the EPAs.
- 4. Trade and non-trade policy objectives:** Christian Bluth on lessons from TTIP for EU-US trade talks; Marco Bronckers and Giovanni Gruni on improving the enforcement of labour standards in EU trade agreements; Alice Sinigaglia and Sergi Corbalan on EU trade and development policies and Fair Trade; and Marc Bungenberg and Angshuman Hazarika on EU trade and development policy in Asia.

The diversity of approaches and views collected reflects the complexity of the EU trade-related policy agenda. Some broad trends tend to emerge, however. The EU has adopted a principle-based, yet pragmatic approach to its trade policy. It continues to see multilateralism as the core of its external policy and remains a lead advocate of the WTO system. Yet, in face of the stalemate of the Doha round, the EU has also increasingly been pursuing preferential trade agreements as a means to forge stronger economic and political relations at a bilateral level. In doing so, it may have contributed to weakening the multilateral rules-based system it supports, by pushing its own rules, standards and

principles. Increasingly, EU trade policy is being harnessed to its strategic and business interests, one reflection of which is the effort to foster its own economic diplomacy. While the framework for EU trade policy is comprehensive, the trade-offs it implies might not always be properly assessed, and the balance struck might be sub-optimal.

Overall, the message of the essays is that the EU should be more ambitious, more assertively using its soft power, in particular to open up its partners' markets (including in key services sectors) and defending core principles, while promoting economic development outcomes based on its partners' priorities rather than its own. The soft power of the EU should be pursued through constructive engagement and dialogue with its partners, linking its trade policy to broader strategic partnerships (such as the new Alliance with Africa and the EU partnership with ASEAN) and more systematically to the Sustainable Development Goals and Paris Agreement. Adopting a differentiated approach based on its developing partners geography and capacities (as in the case of the WTO Trade Facilitation Agreement, which could be emulated in other areas such as public procurement for instance), better supporting geographical indications of value for its developing partners, better fostering trade linkages to innovation and science-based approaches, supporting fair and ethical trade, and more forcefully enforcing labour rights are just some of the examples discussed in this eBook.

## References

Borchert, I, P Conconi, M Di Ubaldo and C Herghelegiu (2019), “Trade Conditionality in the EU and WTO legal regimes,” RESPECT working paper, at [respect.eui.eu](http://respect.eui.eu).

Bown, C and Y Zhang (2019), “Measuring Trump’s 2018 Trade Protection: Five Takeaways,” Petersen Institute.

Evenett, S and J Fritz (2017), *Europe Fettered: The impact of crisis-era trade distortions on exports from the European Union*, a Global Trade Alert report, CEPR Press

Evenett, S and J Fritz (2018), *Brazen Unilateralism: The US-China Tariff War in Perspective*, 23rd Global Trade Alert Report, CEPR Press.

Hockman, B (2019), “Urgent and Important: Improving WTO Performance by Revisiting Working Practices”, *Journal of World Trade* 53(3): 373-94.

Hockman, B and L Puccio (2019), “EU Trade Policy: Challenges and Opportunities,” RSCAS Policy Paper 2019/06, at [respect.eui.eu](http://respect.eui.eu).

Vangrasstek, C (2019), “The trade policy of the United States under the Trump administration”, RSCAS Working Paper 2019/11, at [respect.eui.eu](http://respect.eui.eu).

## **About the authors**

Dr. Sanoussi Bilal is a Senior Executive and Head of Programme at ECDPM in Maastricht, the Netherlands and in Brussels, Belgium, where he is based. He heads the Trade, Investment and Finance team of ECDPM's Economic and Agricultural Transformation programme. Before joining ECDPM, he worked at the Overseas Development Institute (United Kingdom), the European Institute of Public Administration (the Netherlands) and the Economics Department of the University of Geneva.

Bernard Hoekman is Professor and Director, Global Economics at the Robert Schuman Centre for Advanced Studies, European University Institute in Florence, Italy where he also serves as the Dean for External Relations, and a CEPR Research Fellow.