



## Realizing European Soft Power in External Cooperation and Trade<sup>1</sup>

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The EU is the world's largest trader of goods and services, and the leading source and destination for international investment flows. It is distinct among the large global economic powers in the extent to which its external policy objectives are pursued through trade policy instruments and the role that values play in its external relations strategy. The implementation of the common commercial policy – broadly defined in this brief to include regulatory standards that determine the conditions for trade in goods and services as well as investment flows into and out of the European single market – is primarily an EU-level responsibility. In parallel, EU Member States use a range of policy instruments to pursue a mix of commercial interests and foreign policy objectives, including official development assistance, export credit and development finance support for national enterprises and other types of export promotion activities.

Changes in the structure of the world economy, rising geopolitical tensions associated with the rapid economic growth of emerging economies, especially China, and the increasing urgency of addressing global market failures and governance challenges, notably climate change, have repercussions for the design and implementation of the EU's external policies. In responding to a dynamic external environment, including the unilaterally determined trade, investment and industrial policies of the United States and China, EU external policy must balance many objectives: enhancing prosperity, competitiveness, and economic resilience on the one hand and promoting sustainability and European non-trade goals on the other.

The Treaty of Lisbon calls for trade and investment policy to support and promote EU values and standards relating to human rights, labor rights, the environment, and sustainable development. In her 2019 'Agenda for Europe', Ursula von der Leyen, the current President of the European Commission, stressed that "[t]rade is not an end in itself. It is a means to deliver prosperity at home and to export our values across the world" including "the highest standards of climate, environmental and labour protection, with

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<sup>1</sup> This policy brief summarizes the findings of the RESPECT research project, which was undertaken by a consortium comprising the Robert Schuman Centre for Advanced Studies (European University Institute); the European Center for Advanced Research in Economics and Statistics (Université Libre de Bruxelles); the World Trade Institute (University of Bern); University of Sussex; Central European University; Center for European Policy Studies; European Centre for Development Policy Management; Centre for Economic Policy Research; University of International Business and Economics and School of International and Public Affairs (Columbia University).

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a zero-tolerance policy on child labour.” Realizing these non-trade policy objectives (NTPOs) requires coherence across policy areas as well as commonality of action. The 2020 review of EU trade policy reaffirms the need to balance the pursuit of EU material interest with EU values. Achieving EU external goals will often be context-specific precluding a one-size fits all approach.

This policy brief summarizes key findings emerging from the RESPECT project.<sup>2</sup> The aim of the RESPECT research project was to investigate factors that support or inhibit attainment of NTPOs and to draw out policy recommendations to realize better EU interests *and* values in the formulation and implementation of external policies. The premise underlying much of the research is that notwithstanding pressures for stronger forms of cooperation and joint action at EU level in the areas of defense and national security, EU external policy must depend primarily on ‘soft power’ instruments. Examples include financial and technical assistance to help partner countries bolster economic and regulatory governance standards in a range of areas, international public-private partnerships, multilateral engagement with like-minded countries and international regulatory cooperation.

Soft power is reflected in the ability of an actor (the EU) to influence the willingness of its partners to copy it without the use of coercion or financial incentives. The EU has considerable exemplary power which may lead other actors to see it as a model to strive for. A necessary condition for realization of the EU’s external soft power potential is that policy instruments are effective and do not work against each other, consistent with the EU commitment to Policy Coherence for Development. Elements of incoherence at different levels – within and between EU institutions, between EU institutions and Member States, and among Member States – in the design and implementation of common EU and national policy instruments may inhibit realizing the full potential of EU soft power. That said, coherence need not equate with uniformity. Efficiency and effectiveness may call for specialization, with EU member states using national instruments to exploit differences in comparative advantage, capacity, and preferences to complement EU-level action.

A central conclusion, supported by consultations with stakeholders, feedback from on-line surveys and in-depth interviews with practitioners is that trade policy should be complemented by other instruments to pursue NTPOs. Greater policy coherence, both vertically (i.e., considering the interaction between the EU member states and European policies) and horizontally (i.e., across policy areas and instruments) can be achieved by revisiting and bolstering interactions with the private sector and civil society organizations in the EU and partner countries, both in the design of ex ante impact assessments and ex post monitoring and evaluation. Devoting greater attention and resources to supporting multilateral cooperation and issue-specific plurilateral agreements would also help to realize EU NTPOs.

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<sup>2</sup> The full report and the associated underlying research output generated by RESPECT is available on the project website at <http://respect.eui.eu/>.



### ***Selected findings***

- There is strong support among stakeholders for the strategy of linking trade policy to the pursuit of non-trade goals (EU values). There is a high degree of coherence in the *values* projected by the EU and its member states, helping the EU harness its soft power to promote its policy objectives externally.
- There is no evidence of a causal relationship between inclusion of NTPO provisions in EU reciprocal trade agreements (conditioning access to the Single Market on partner-country non-trade policy commitments) and improvement in non-trade indicators. In most cases, analysis suggests the absence of any relationship.
  - Surveys and interviews reveal that non-trade instruments and actors are regarded as more effective by practitioners in promoting NTPOs than trade agreements. RESPECT research supports these views. Whether non-trade issues should be linked to trade therefore requires more careful consideration – in practice, not doing so may be more conducive to attaining improvements in specific non-trade policy areas.
- RESPECT research finds more evidence for a positive relationship between realization of NTPOs and foreign direct investment (FDI) flows into trading partner countries. Provisions related to civil and political rights in trade agreements are found to be positively associated with additional FDI; such associations are not observed for provisions on economic and social rights and environmental protection provisions.
- The scope for successful linkage of preferential access to the EU market to the realization of NTPOs in reciprocal trade agreements is constrained. This is because once tariffs are eliminated following the entry into force of a trade agreement, trade preferences no longer can be used as a ‘carrot’ to reward good behavior on NTPOs by trading partners.
  - Using trade sanctions to enforce non-trade policy commitments by partner countries may also have little effect given that trade preference margins are often relatively small and depend on the value of affected trade (i.e., the share of the EU in total exports) and the ability of countries to find alternative markets.
- In principle, there is greater scope to offer positive incentives and to withdraw them if deemed necessary through non-reciprocal trade preferences: the GSP+ programme. This is because such preferences are granted on a unilateral basis and not embedded in a binding agreement.
  - The value of unilateral trade preferences to partner countries is influenced by uncertainty regarding the duration and implementation of preferential access. Reducing this uncertainty will enhance the potential benefits of GSP programs to recipients and enhance the potential effectiveness of linking preferential market access to non-trade issues.
  - Inconsistency in sanctioning NTPO violations is a source of uncertainty, reducing the potential value of preferences. The EU has only applied negative GSP conditionality on small developing countries, refraining from increasing tariffs as a sanction on large beneficiary countries, possibly because of adverse effects on cost of sourcing inputs from these countries or fear of retaliation in large export markets.



- The EU can better balance material interests with its values by using ex-ante impact assessment processes to identify non-trade priorities of stakeholders and the appropriate instruments to pursue them, and through stronger monitoring and evaluation of implementation and results achieved.
  - Ex-ante sustainability assessments and consultations are not designed to identify and help prioritize non-trade areas and identify instruments and modalities of cooperation to pursue them. This reduces their salience as a guide to negotiators and as a basis for ex post monitoring and evaluation of cooperation.
  - Use of closed ended survey instruments with scaled responses to NTPO-specific questions complemented by deliberative polling of a representative sample of stakeholders would permit prioritization of non-trade issues and associated policy instruments and provide a stronger basis for creating partnerships to implement agreements, provide feedback and bolster ex-post monitoring and evaluation of results.
- Complementing the current industry-driven complaint-based system to identify market access barriers with a broader focus on trade policy dynamics in partner countries would better inform prioritization of both enforcement action and negotiation priorities.
- Greater investment in data collection and analysis are required for a systematic and rigorous monitoring and evaluation of EU external policies. More regular analysis of the effectiveness of EU external action in realizing NTPOs is a necessary input into learning and adjusting EU strategy to increase its effectiveness.
- The achievement of NTPOs calls for effectively combining and leveraging a range of policy instruments. Research findings, supported by surveys and interviews, suggest greater attention be given to non-trade policy tools, including tailored development assistance, dialogue and regulatory cooperation.
  - The capacity of domestic institutions in partner countries to implement non-trade provisions is a key determinant of non-trade outcomes. Differentiated technical and financial assistance that reflects partner country conditions and priorities is a critical complement to trade agreements.
  - Policy instruments through which EU Member States can support enterprises, including enterprise networks, trade promotion organizations and export credit agencies complement EU-level trade policy mechanisms by permitting governments to target activities and industries that are important nationally but not necessarily at EU level. As such instruments may also create negative competitive spillovers, it is important that there is full transparency and information on their use. Current mechanisms to assure transparency and analysis of their effects are inadequate.
  - A similarity index of trade-related aid objectives of EU institutions of the EU and a sample of EU member states reveals evidence of 'positive complementarity': EU institutions and member states promote similar but not identical aims.
  - An underappreciated instrument of EU external engagement is policy dialogue to establish good practice in different issue areas. Such 'soft law' cooperation appears to



have been associated with gradual convergence in regulatory standards in China over time in several non-trade policy areas, including the environment.

- The use of standards in supply chains can help improve non-trade outcomes. The EU-governed Eco-management and Audit Scheme is an example, as are the ISO 14001 series of environmental certifications. EU trade agreements with environmental protection provisions complement the effect of these private standards in reducing air pollutants and greenhouse gases.
- Greater trade in services can enhance access to key services that matter for specific NTPOs. Benefits from trade liberalization (trade agreements) may not materialize if the institutional environment is not supportive or regulatory regimes are not in place. Complementing efforts to deepen trade agreements with developing country partner countries with more aid for trade resources to improve services regulation and support trade in services can both enhance the benefits of trade liberalization and the realization of NTPOs.
- Plurilateral cooperation offers an additional instrument to the EU as a normative actor in international affairs, complementing bilateral engagement and multilateral cooperation in the WTO and other international fora.
  - Plurilateral cooperation need not be conditional on trade agreements. For regulatory issues, open plurilateral agreements can be an efficient mechanism for realizing NTPOs and projecting EU soft power. Significant opportunities exist for the EU to go beyond unilateral actions and bilateral cooperation to pursue open plurilateral initiatives that multilateralize good regulatory practices that are consistent with EU values.
  - Examples include cooperation on digital economy regulation, data privacy norms for cross-border data flows, taxation and the implementation of the European Green Deal and realization of Paris Agreement national commitments.