

Realizing Europe's Soft Power in External Cooperation and Trade (<http://respect.eui.eu/>)

Selective overview of research findings

Bernard Hoekman

European University Institute & CEPR

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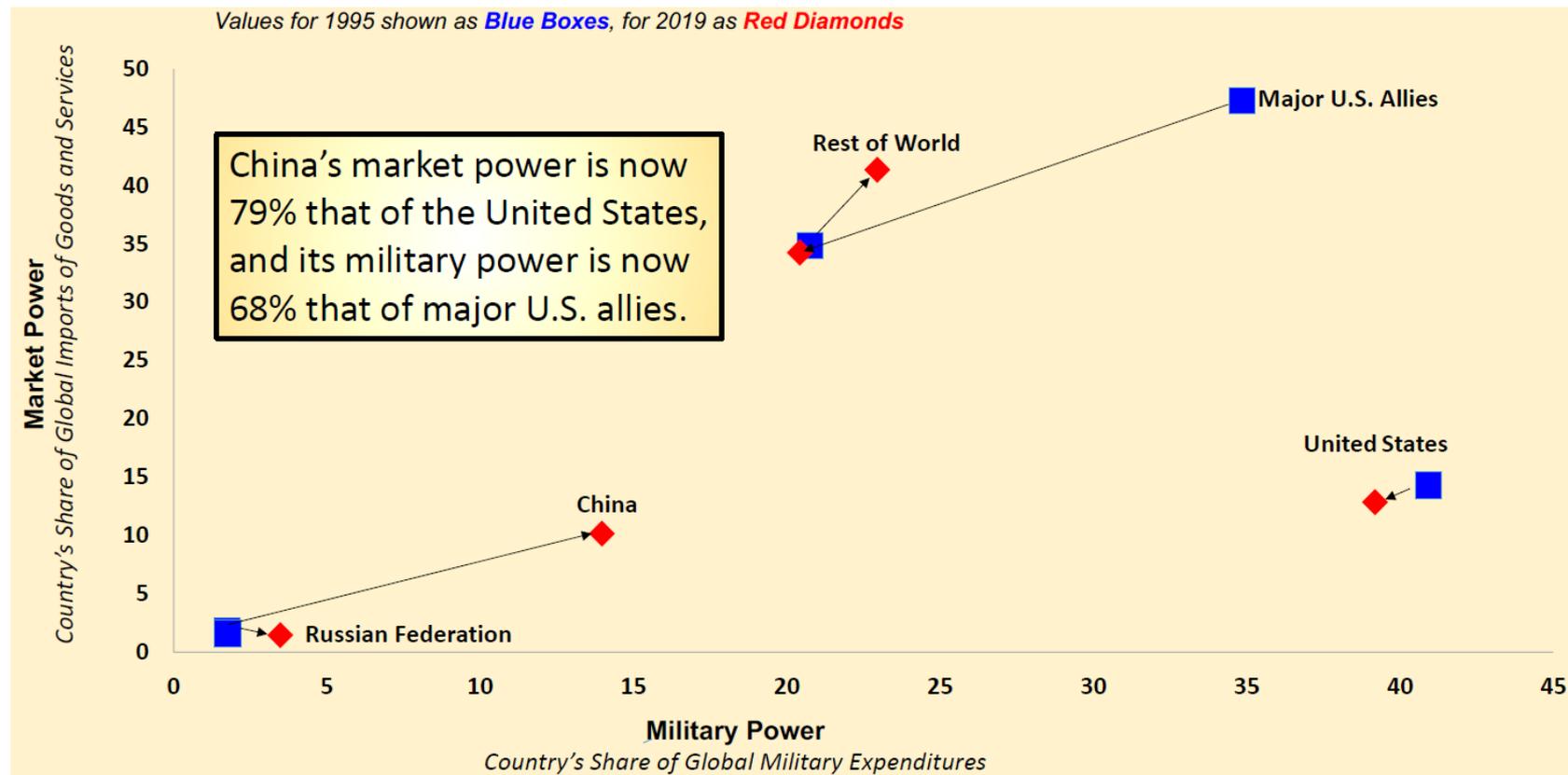
- Consortium of 10 universities and policy research institutes:



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement number 770680.

- Main research question reflected in project title: how to better realize Europe's soft power in external cooperation and trade?
- Multidisciplinary/mixed methods focusing on how effective EU trade and external cooperation is in achieving nontrade objectives
- This presentation by necessity must be selective – see project website (<http://respect.eui.eu/>) for papers as well as many summary policy briefs

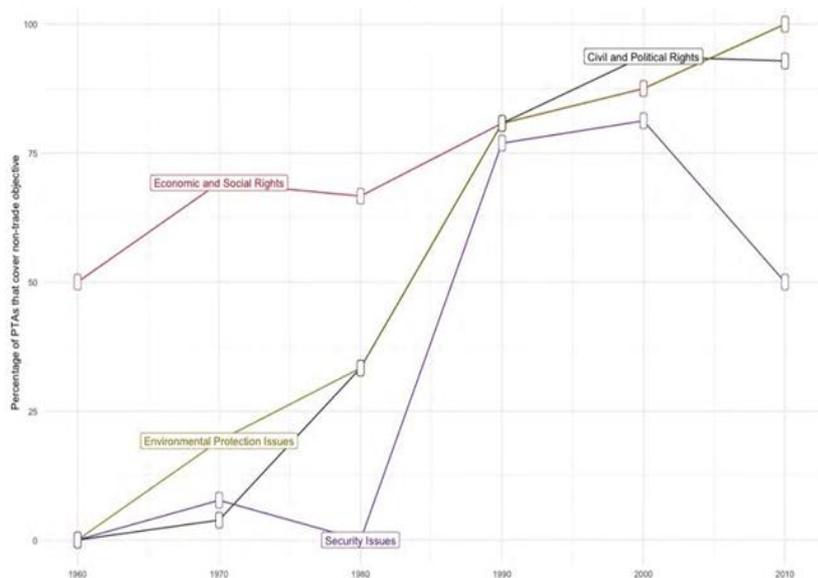
EU soft power matters – global hard power balance: 1995 vs. 2019



Source: VanGrasstek (2021)

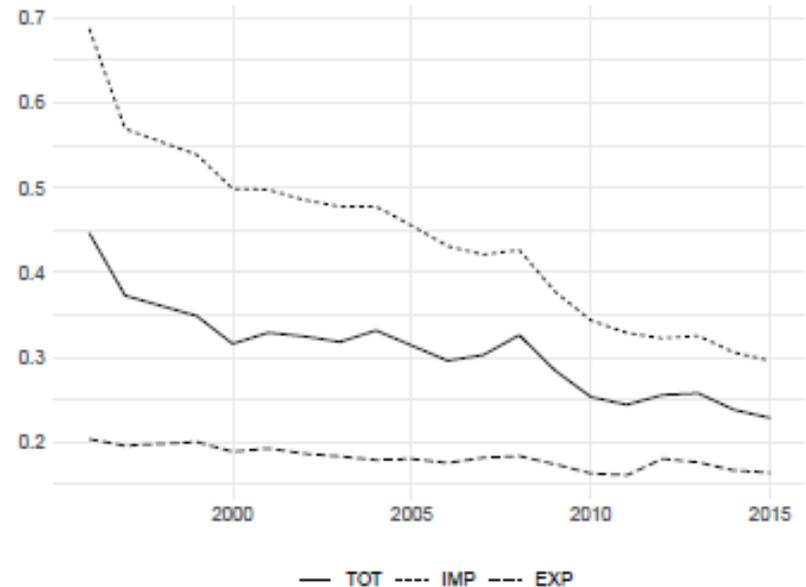
Stylized facts

Steady growth in inclusion of non-trade provisions in trade agreements

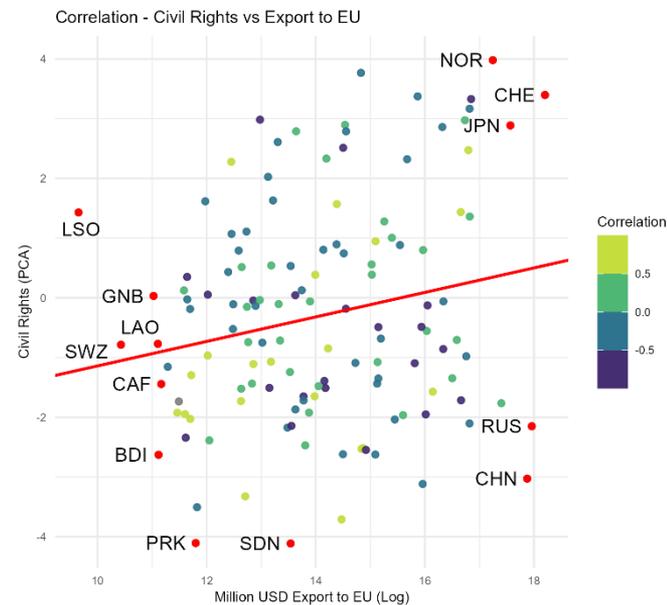
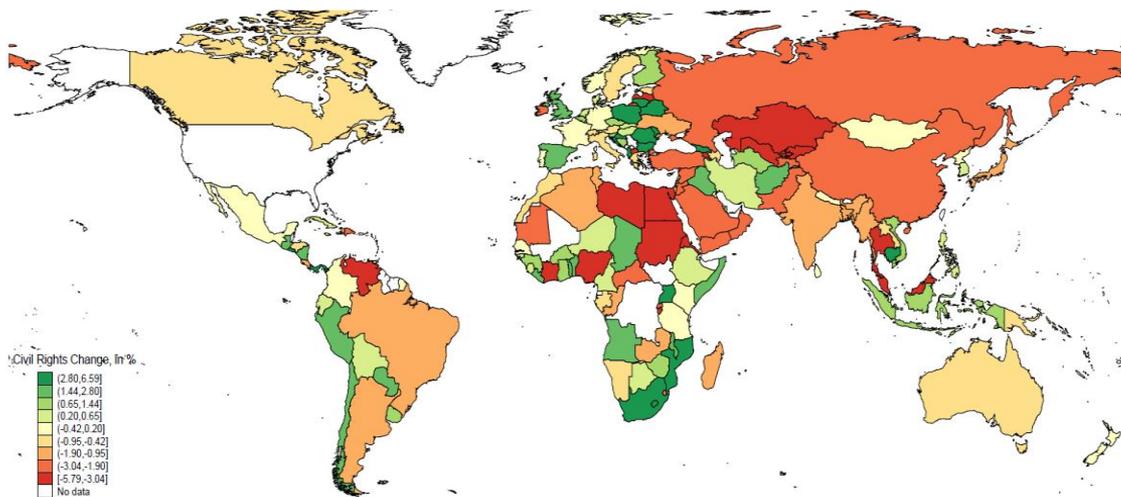


Source: Data from Lechner (2016, 2018).

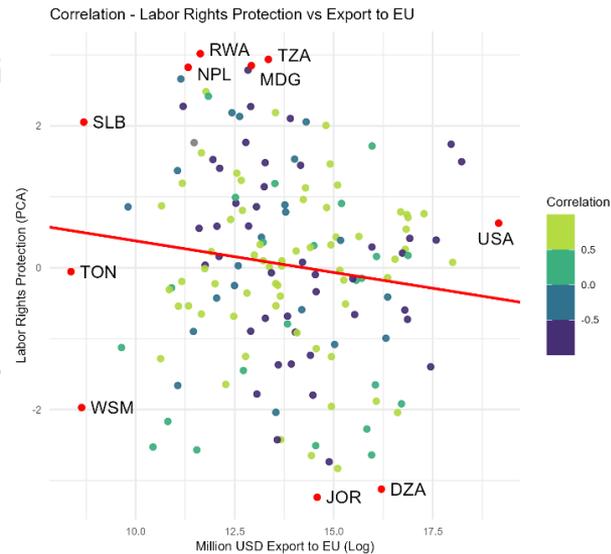
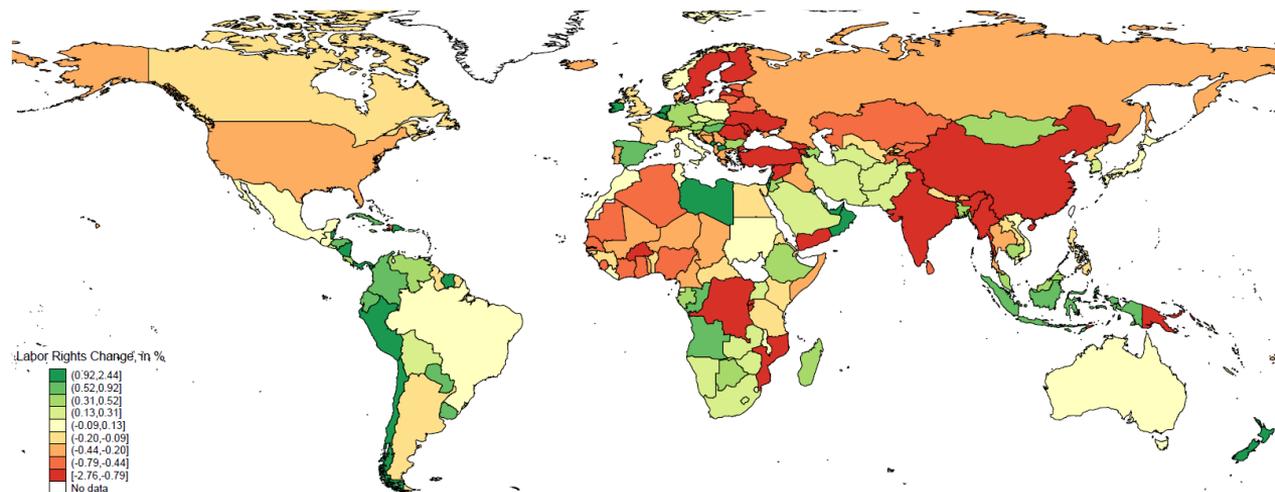
Declining relative importance of EU as a trade partner



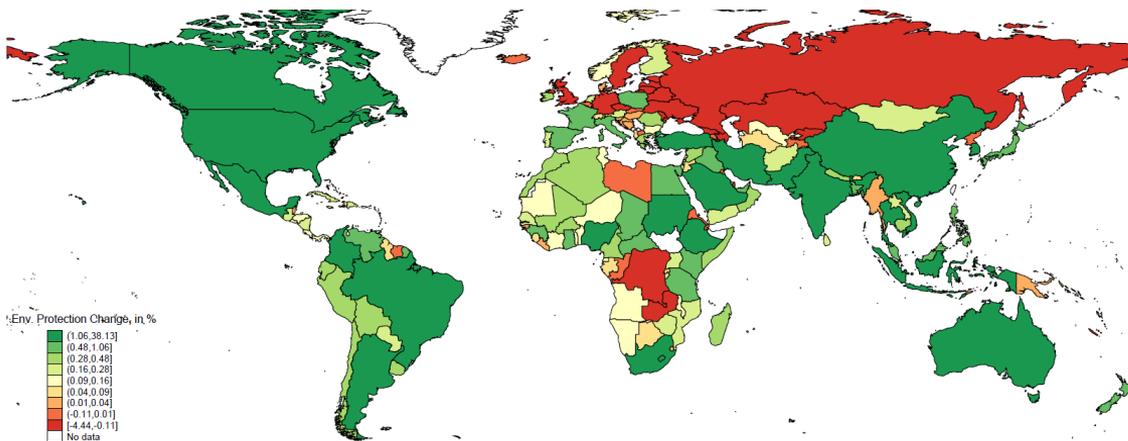
Change in nontrade outcome indicators since 1995: Civil rights



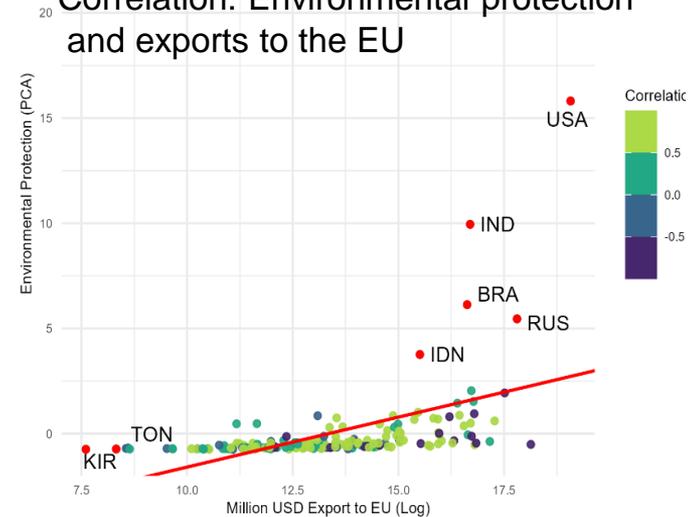
Change in nontrade outcome indicators since 1995: Labour rights



Change in composite environmental protection indicator since 1995

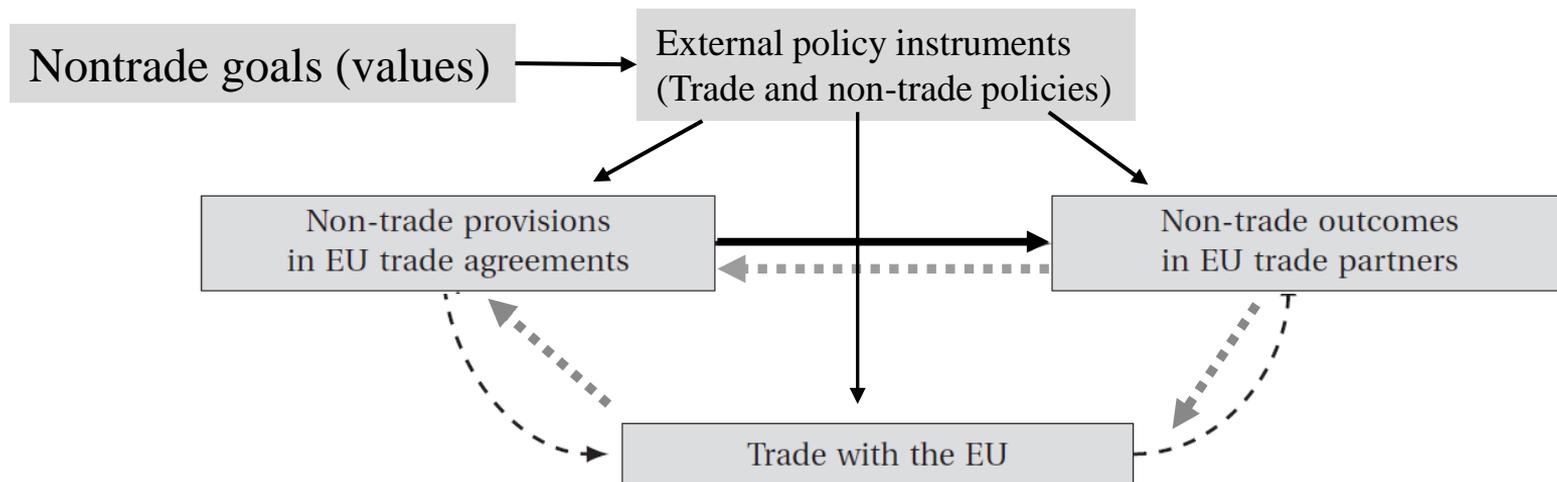


Correlation: Environmental protection and exports to the EU



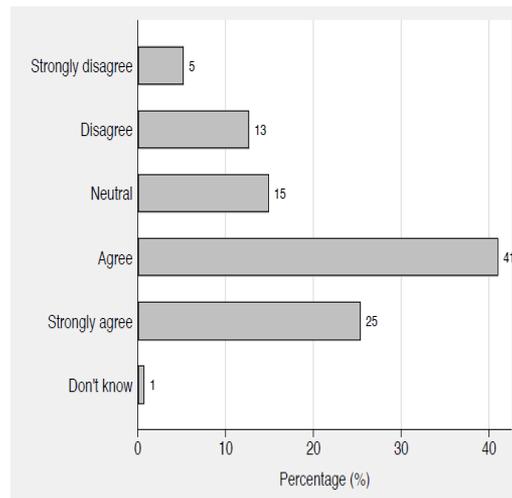
Conceptual Framework

- **Direct Effect:** External policy (EU and Member States) impacts on trade and non-trade outcomes
 - Inclusion of non-trade policy objectives (NTPOs) in policy implementation (e.g., trade agreements) trigger changes in partner country policies, improving non-trade performance indicators
- **Indirect Effect:** Impacts on non-trade outcomes are intermediated by trade, i.e., non-trade provisions impact on trade (investment and this has effects on non-trade outcomes of interest)

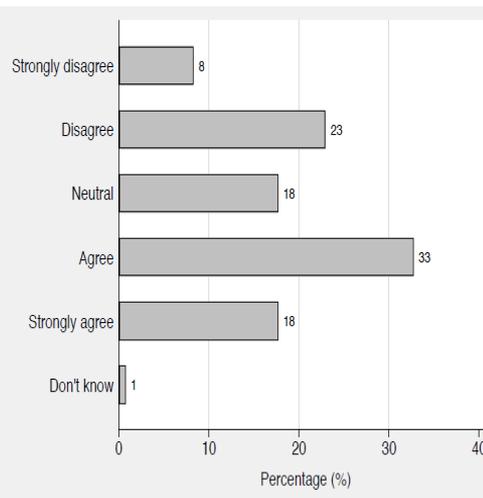


2018 survey of practitioners: should the EU make access to its markets by other countries conditional on non-trade objectives? (N=400)

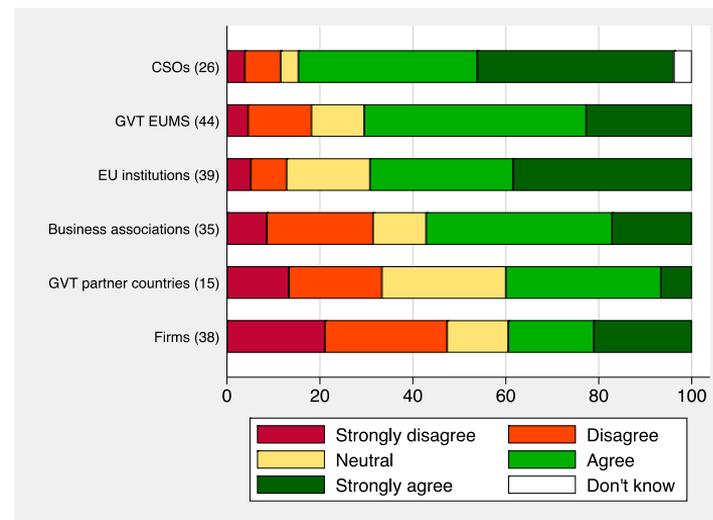
EU respondents



Non-EU respondents



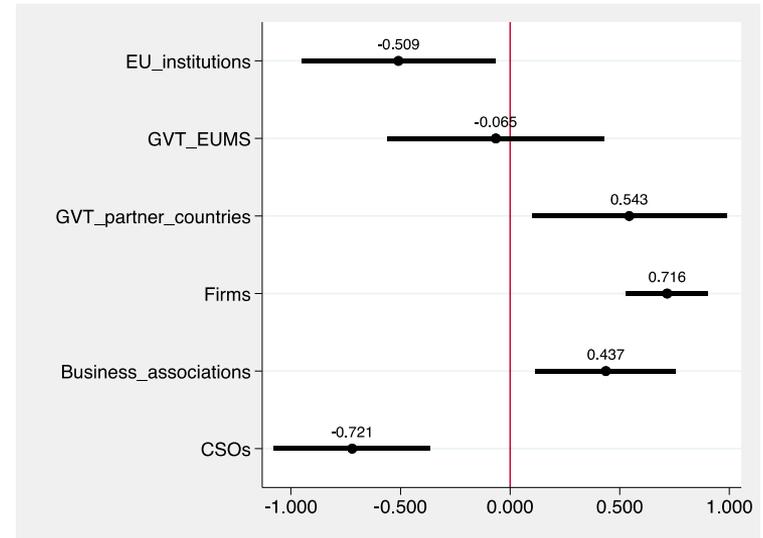
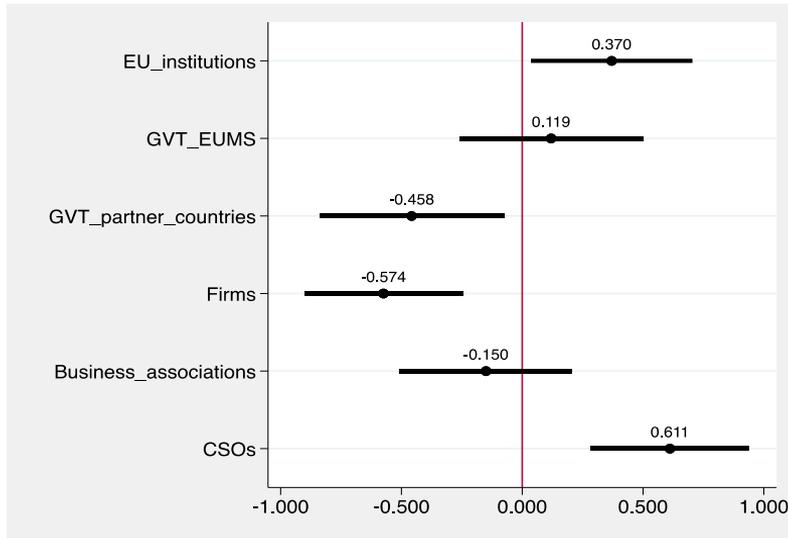
Sample excl. academia



- Support among stakeholders for linking trade policy to non-trade goals (values) – but less so among firms and partner country governments

The EU should make access to its markets by other countries conditional on non-trade objectives

Inclusion of NTPOs reduces effectiveness of trade policy

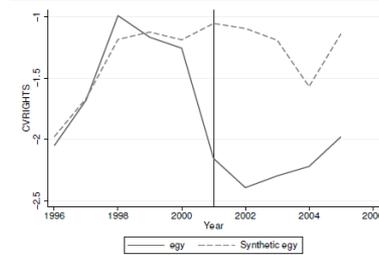


Trade and FDI: NTPOs in trade agreements and non-trade outcomes

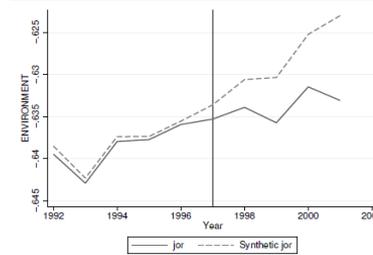
- Analysis using econometric techniques that account for endogeneity – synthetic control models; difference in difference techniques – in assessing existence of causal effects of NTPOs in trade agreements on non-trade outcomes fail to find evidence that linkage strategies are effective
- No average effect on NTPOs through the trade & trade agreement channel: little robust evidence of a causal relationship between non-trade provisions in EU trade agreements and partner-country nontrade outcomes
- Same applies to FDI: lack of robust findings re: effect of NTPOs in trade agreements
 - Results find both positive and negative effects on FDI
 - NB: Measure of FDI matters – greenfield projects vs. total stocks of FDI
- Non-result may reflect type of commitments (non-bidding) or lack of implementation follow-up and “enforcement”. Also, limited data that captures more recent agreements
- Implication: trade policy is being asked to do too much

- Vertical line: trade agreement
- Solid line: country of interest
- Dashed line: synthetic control group
- Takeaway: what is done at country level (domestic measures) and country-specific factors is key

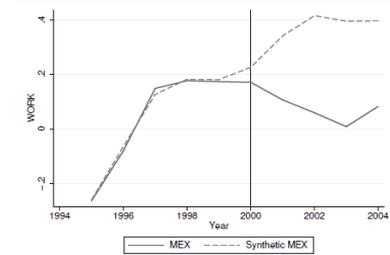
Panel A: Negative Effect



Egypt: Civil Rights

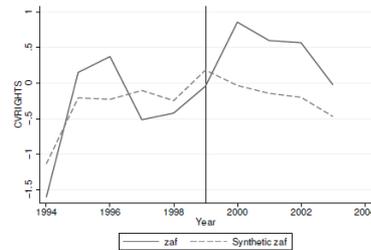


Jordan: Environmental Protection

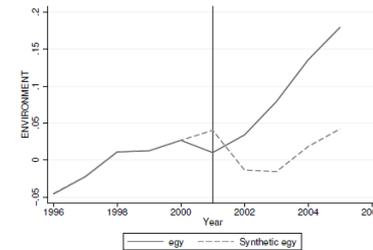


Mexico: Labor Rights

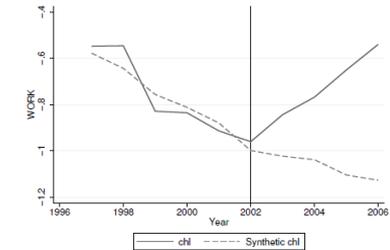
Panel B: Positive Effect



South Africa: Civil Rights



Egypt: Environmental Protection



Chile: Labor Rights

Practitioner survey: What instruments are most effective in achieving NTPOs? (%)

	Targeted assistance for NGOs / unions / regulatory bodies	Expert dialogues between EU and partner country stakeholders	Technical assistance	EU assistance funds (e.g. European Development Fund)	Bilateral development assistance programs of EU member states	Trade agreements	Study tours and student exchanges	Direct investment by European multinational firms	Development assistance for infrastructure improvement	Twinning of cities and similar partnership initiatives	Other instruments	National export promotion activities	Total number of respondents by professional category	Total number of responses by professional category
EU institutions	20	20	11	15	5	16	2	5	4	0	2	0	33	96
GVT EUMS	20	15	12	9	15	7	8	3	3	5	1	2	39	143
GVT partner countries	18	15	15	10	10	0	8	10	8	5	0	0	13	39
Firms	17	19	12	7	5	8	12	7	3	5	3	1	33	95
Business associations	16	18	14	8	8	8	8	6	4	6	4	0	33	106
Civil society	23	14	10	10	8	9	9	5	3	2	4		25	92
# of respondents ranking item first	108	96	69	56	52	50	43	32	22	22	14	7		

Instruments to support change in non-trade outcomes

- State-level: Capacity of domestic institutions in partner countries to implement non-trade provisions is a key determinant of non-trade outcomes
 - Calls for technical assistance; policy dialogue – engagement and support with stakeholders that share values & NTPOs
- Firm- & industry level: EU and Member State-level policy instruments to support enterprises (e.g. enterprise networks, trade promotion organizations and export credit agencies) complement EU-level trade policy mechanisms
 - ⇒ transparency critical to realize synergies
- FDI: EU trade agreements with environmental protection provisions complement the effect of private standards in reducing air pollutants and greenhouse gases.
- Private standards in supply chains can help improve non-trade outcomes
 - E.g., the Eco-Management and Audit Scheme and ISO 14001 environmental certification; Di Ubaldo/McGuire/Shrodkar find such standards complement environmental norms in EU FTAs

Trade and labor standards in ENP countries (Bruszt/Maduko/Pal—CEU)

- Negative association in cross-country data between labour standards in developing countries and growth in trade mitigated by EU-related governance mechanisms
 - State-led governance: labour provisions in trade agreements and accompanying measures
 - Market-based governance: exports to high standards markets; supply chain governance norms
- Labour provisions in trade agreements and accompanying measures – conditionality, dialogue and assistance – facilitate reform in core labor rights (at the formal level)
 - ENP exerted a positive influence on labor standards beyond the positive influence of EU trade agreements (probability of high labour standards from 8 to 13 percent)
- Growth in trade with EU member states with higher standards associated with improvements in working conditions for some groups in export-oriented sectors
 - Textiles & clothing (no); automotive (yes) – Moldova vs. Morocco case studies
- Material incentives and legal measures not strongly connected to labor reforms
 - DCFTA and ENPI assistance used to promote reforms in areas of greater priority; DCFTA with Moldova was accompanied by a deterioration of state labour administrative capacity

EU-Africa: Beyond trade agreements (Bilal et al. – ECDPM/Sussex)

- Trade agreement is no substitute to domestic reforms dynamics: at best, it can accompany and support, but cannot be a driving force:
 - Reformist countries take advantage, resisting countries cannot be bought
 - Case of Mauritius: structural reforms; social inclusion support before hard economic impacts of adjustment (e.g. sugar)
- Trade and development cooperation are linked
 - NTPO provisions can be an entry point, but not always needed: e.g. FLEGT (Forest Law Enforcement, Governance and Trade) and Voluntary Agreements (Ghana; Cameroon)
 - Highly structured aid frameworks might hinder flexibility: e.g. EPA support in West Africa vs. Botswana
- Build on domestic incentives & national and regional nexus
- Be more open on own interests and better link trade to investments:
 - Private sector engagement
 - Investment: External Investment Plan (blended finance, DFIs, guarantees; TA; dialogue)
 - Investment facilitation

Development cooperation as a lever to address capacity constraints)

Issue at stake

Businesses are less formalized and structurally organized in many lower income countries



Enterprise Europe Network: development cooperation synergies can be strengthened

- Development cooperation funding can support local business organizations to qualify as EEN members
- Provide EEN services to companies that have been strengthened with development cooperation support
- Information on trade bottlenecks gathered through EEN can shape development cooperation

China – EU cooperation

1. Assess policy dialogue as an instrument of bilateral economic (regulatory) cooperation
2. Explore prospects/perspectives for multilateral cooperation
 - Extensive new work on multi-decade policy dialogues on regulatory issues (Hu/Pelkmans) finds building trust via sustained substantive regulatory dialogue has delivered results
 - **Social:** labor rights (mixed picture; some major examples of success (OSH—mining); social protection
 - **Greening** (environment and climate change): substantial convergence in many areas
 - WTO: convergence in a range of regulatory issues that lend themselves to multilateral/plurilateral cooperation (e-book co-authored by EU + China scholars)
 - CAI illustrates dynamics documented in both lines of this research
 - Innovative approaches to contested matters including SOEs
 - Overall, research suggests convergence on several dimensions of sustainable development

US-EU

- US trade policy: has for decades been adjusting to China's rise (challenge) by devoting less attention to trade and (pre-Trump/Biden) shifting away from multilateralism (WTO)
- VanGrasstek: For the foreseeable future, can expect U.S. leaders to see trade largely through a security lens, to be less committed to multilateral leadership, favor discriminatory trade agreements and do little to arrest the drift toward managed trade
- If all of the U.S. and Chinese FTAs that are now being actively explored or negotiated are ultimately concluded, we will live in a world where US and its partners account for about three-fifths of the global economy, China and its partners for about two-fifths, and relatively few large countries have a foot in both camps
- Potential exists for EU to play a bridging role on an issue-specific basis. As prospects for bilateral trade agreements between US/EU and China seem dim, leverage areas of convergence and joint interest through cooperation in WTO on a plurilateral basis

Open plurilateral agreements as steppingstones to multilateral cooperation

- Increasing geopolitical/geo-economic tensions and recourse to unilateral intervention
 - Foreign policy drivers: US: seek decoupling from China; EU: open strategic autonomy
 - Reflected in e.g., industrial subsidies, climate action, procurement, FDI screening, export controls
- Recommendations:
 - (i) need more analysis of (dynamic) competitive spillover effects to identify what is important systemically;
 - (ii) pursue open plurilateral agreements (OPAs) as a vehicle for (gradual) multilateralization of good regulatory practices that are consistent with EU values
- Many issues are regulatory in nature: digital economy policies, data privacy; data flows; Green Deal-related measures (CBAM)
 - Unilateral approaches associated with potential for conflicts and trade costs
 - Standard trade (market access) agreements may not be best instrument for cooperation – ask whether linkage to trade will support cooperation
 - Modular issue-specific OPAs can be more effective / efficient

Bolster transparency, impact assessment and evaluation

- Bolster transparency and invest more in analysis of policies and effects
 - Example: Activities of Export Credit Agencies
- Establish baseline performance indicators and track use of instruments
 - Corollary: invest more in data collection and analysis of impacts
- Use impact assessments to identify stakeholders' priorities and preferred / alternative instruments to pursue them
 - Redesign stakeholder surveys and consultation process to be an input into priority setting
 - Connect ex ante assessments with implementation
 - Provide support multistakeholder value chain partnerships – ex ante and to inform implementation of agreements / cooperation
- Revisit shift towards “enforcement” and “compliance”: stronger linkages between ex-ante SIAs and M&E of outcomes is needed to bolster ownership & accountability
 - Foster learning and flexibility by engaging with private and public actors – e.g., value chain partnerships – on implementation of cooperation over time

Civil society dialogues and consultation

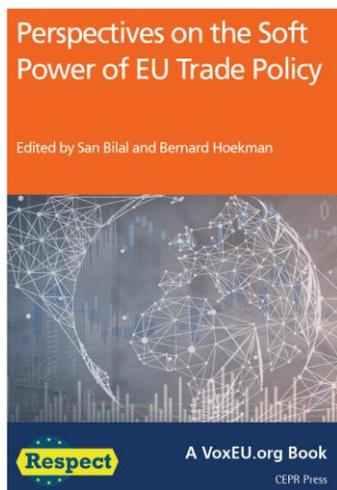
- EU has well-established mechanisms
- For EU FTA: Domestic Advisory Groups (DAGs) and Consultative Committee
- Frustrations by many DAG members on objectives and functioning of DAGs
- Recommendations to improve DAGs

Area	Recommendations
Composition	Develop good practice guidelines for DAGs and joint civil society fora
	Encourage creation of independent, representative civil society mechanisms
Scope	Identify concrete TSD priorities to help DAGs to focus and gather information
	Create DAG sub-groups for specific sustainability dimensions where feasible and valuable to stakeholders
Organization	Include text in trade agreements to ensure that civil society dialogue mechanisms have a sustainable stream of resources
	Enhance synergies with development cooperation instruments, including civil society roadmaps to support their engagement
	Conduct more frequent meetings using virtual tools
	Create thematic groups to communicate across DAGs
Channels of input	Reporting mechanisms and presentation of DAG views in meetings of the TSD committee
	Strengthen engagement between CSOs and relevant EU actors beyond DG-Trade
	Establish a complaint mechanism that is open to civil society
	DG Trade Chief Trade Enforcement Officer to engage with DAGs and CSOs more broadly

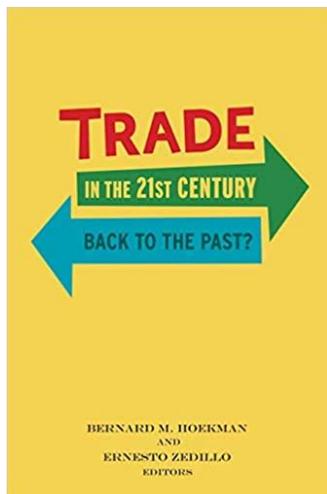
Selected RESPECT publications



Survey evidence and practitioner views



US trade policy



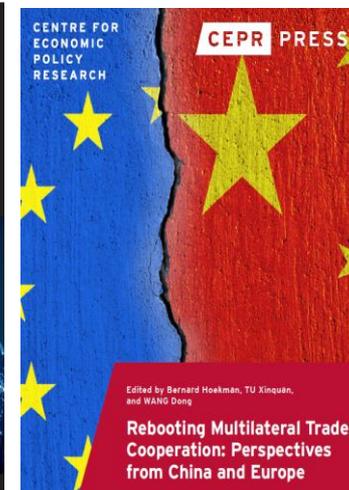
EU trade strategy



Multilateral trade regime & WTO reform



EU-China: perspectives on trade cooperation



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