



## **Realizing European Soft Power in External Cooperation and Trade**

Final project report\*

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\* This report is based on inputs provided by RESPECT consortium members drawing on their research findings. The consortium comprises the Robert Schuman Centre for Advanced Studies (European University Institute) (coordinator: Bernard Hoekman); the European Center for Advanced Research in Economics and Statistics (Université Libre de Bruxelles) (lead: Paola Conconi); the World Trade Institute (University of Bern) (lead: Joseph Francois); University of Sussex (lead: Steven McGuire); Central European University (lead: Miklos Koren); Center for European Policy Studies (lead: Jacques Pelkmans); European Centre for Development Policy Management (lead: Kathleen van Hove); Centre for Economic Policy Research (lead: Beata Javorcik); University of International Business and Economics (lead: Xinquan Tu) and School of International and Public Affairs (Columbia University) (lead: Merit Janow). The project leading to this report received funding from the European Union's Horizon 2020 research and innovation program under grant agreement No 770680 (RESPECT). This report constitutes deliverable D 7.8.

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# Realizing European Soft Power in External Cooperation and Trade (RESPECT)

## Final project report

### 1. Introduction

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 it pursues external policy objectives 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 report 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 (Bluth, 2021). 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 a zero-tolerance policy on child labour'.<sup>1</sup> Realizing these non-trade policy objectives (NTPOs) requires coherence across policy areas (European Commission, 2015, p. 35), as well as commonality of action. The 2020 review of EU trade policy (European Commission, 2021a,b) reaffirms the need to balance pursuit of material interests with European values. Achieving EU external goals will often be context-specific precluding a one-size-fits-all approach.

This report provides an overview of findings emerging from the RESPECT project.<sup>2</sup> The aim of the RESPECT research project is 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

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<sup>1</sup> [https://ec.europa.eu/info/sites/default/files/political-guidelines-next-commission\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/political-guidelines-next-commission_en_0.pdf)

<sup>2</sup> Most of the output generated by RESPECT is posted on the project website at <http://respect.eui.eu/>. Several deliverables were interim in nature and were only posted on the Commission Horizon 2020 portal: <https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/projects-results;programCode=H2020>. For ease of reference the Appendix provides a mapping of formal project deliverables to the various academic papers, publications and other outputs that build on or extend the formal deliverables under RESPECT.

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 (Apiko et al. 2019). 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.

### ***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+ program. 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 should be given to mapping non-trade policy tools to non-trade goals, 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.

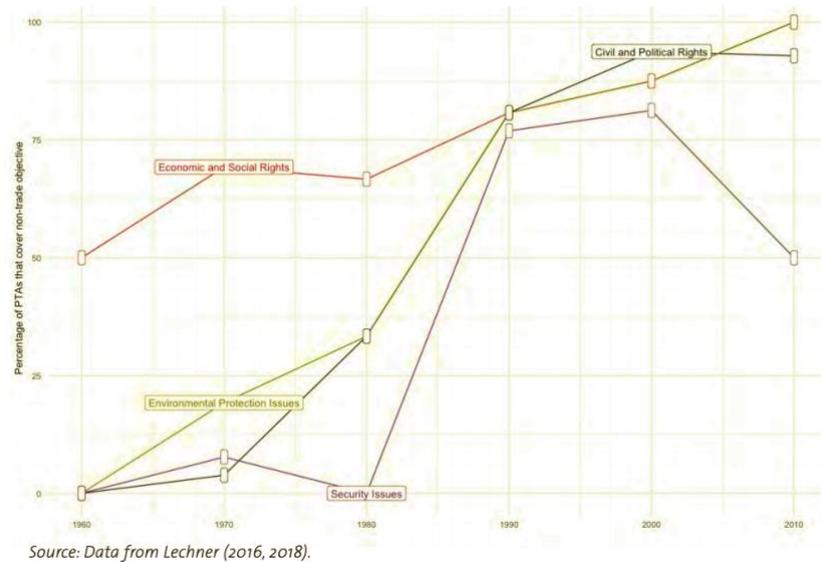
## 2. Datasets

To provide a basis for empirical analysis, the RESPECT consortium compiled several datasets covering NTPO provisions in trade agreements and indicators of non-trade outcomes. The first is a dataset on non-trade issues, including civil and political rights, economic and social rights, environmental protection and security issues in 665 preferential trade agreements (PTAs) signed between 1945 and 2018 (Lechner, 2018b). In 90 of these 665 PTAs, the EU is a signatory. The data reveal that the EU is a leader in using trade agreements to pursue NTPOs (Figure 1).

A second dataset compiled by the RESPECT consortium covers an extensive range of non-trade policy outcome indicators which can be found in trade agreements. Manchin (2021a) provides a detailed

description of the dataset which is available in Manchin (2021b). The variables measuring these various non-trade outcomes are grouped along four main categories: (i) economics and social rights, (ii) political and civil rights, (iii) environmental issues, and (iv) security issues. The data covers the period from 1960 to 2018 with the number of countries covered being 217. Overall, the number of variables in the dataset is 490, from which 30 are summary indexes which are constructed using principal component analysis. Figure 2 depicts trends in non-trade outcome indicators since 1995.<sup>3</sup> The maps reveal that for several developing countries/regions there was significant improvement in environmental protection. The trend appears is less positive in terms of labor rights and civil rights protection. The upshot is that countries do not register unidirectional improvement in non-trade outcomes. Reversals and deterioration over time is frequently observed across countries and issue areas.

**Figure 1: Non-trade objectives in EU preferential trade agreements over time**



A third dataset comprises a compilation of assessments by the European Commission of convergence by European Neighborhood Partnership countries on a range of NTPO-related policy and institutional variables and an associated codebook (Bruszt, Maduko and Pál, 2020a,b). Finally, a dataset was constructed defining measure a Trade Similarity Index for each EU Member State and third countries (Koren et al. 2020).

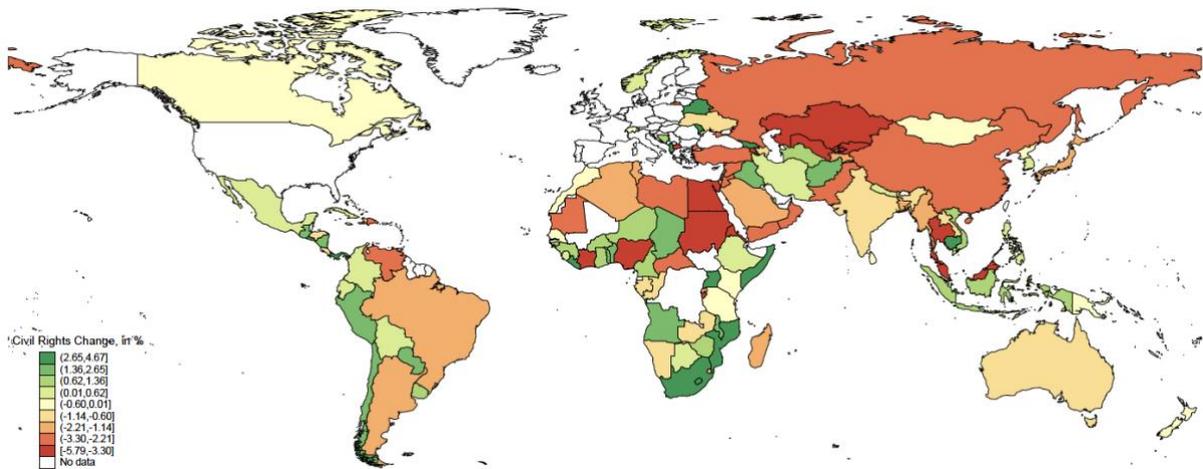
### Expert surveys

In the initial phase of the project an expert survey was conducted, targeting representatives of the European Institutions, governments, businesses, civil society organizations and stakeholders in the EU and in third countries to solicit views on the salience and efficacy of linking trade policy to non-trade policy objectives. This suggested broad support for the strategy but also pointed to substantial heterogeneity across groups of stakeholders as well as perceptions by practitioners that non-trade policy instruments are more effective in supporting progress on sustainable development (Fiorini et al., 2019). The heterogeneity is evident from Figure 3.

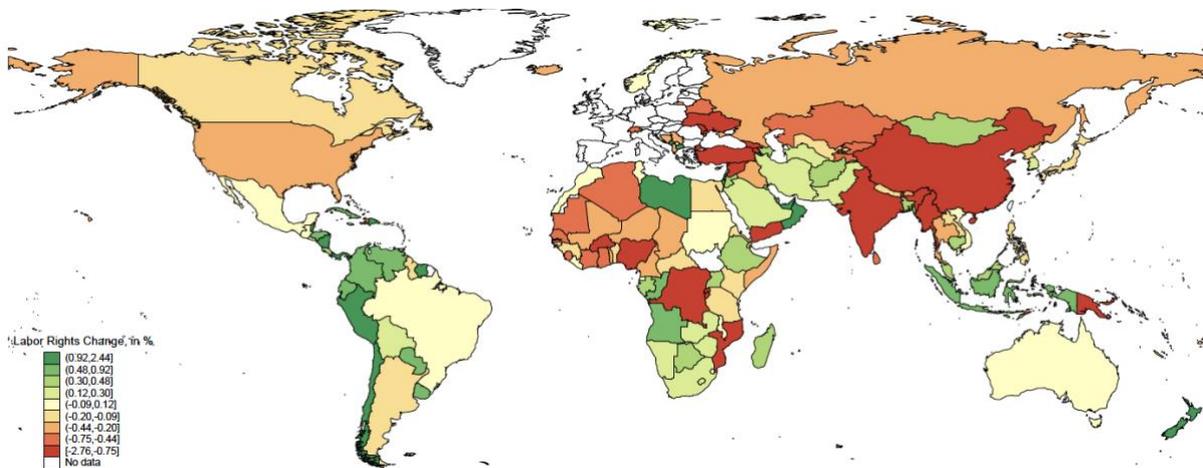
<sup>3</sup> The sample period is constrained by data availability. To maximize country coverage the sample spans the period between 1995 and the last year in which the information for each non-trade outcome is available (2012, 2011 and 2015 for Civil Rights, Environmental, and Labor Rights Protection respectively).

Figure 2: Percentage change in non-trade outcome indicators since 1995

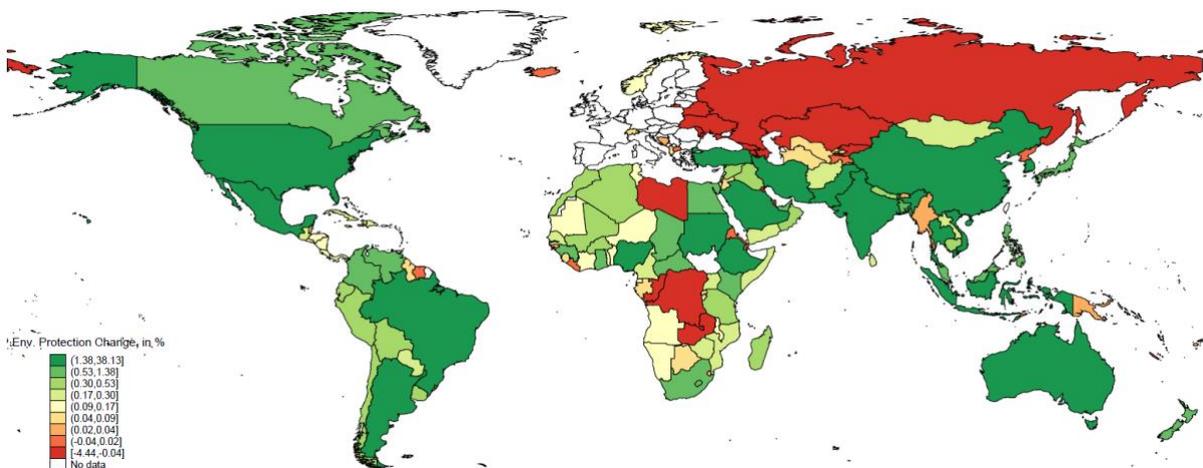
*Civil rights*



*Labor rights*



*Environment*

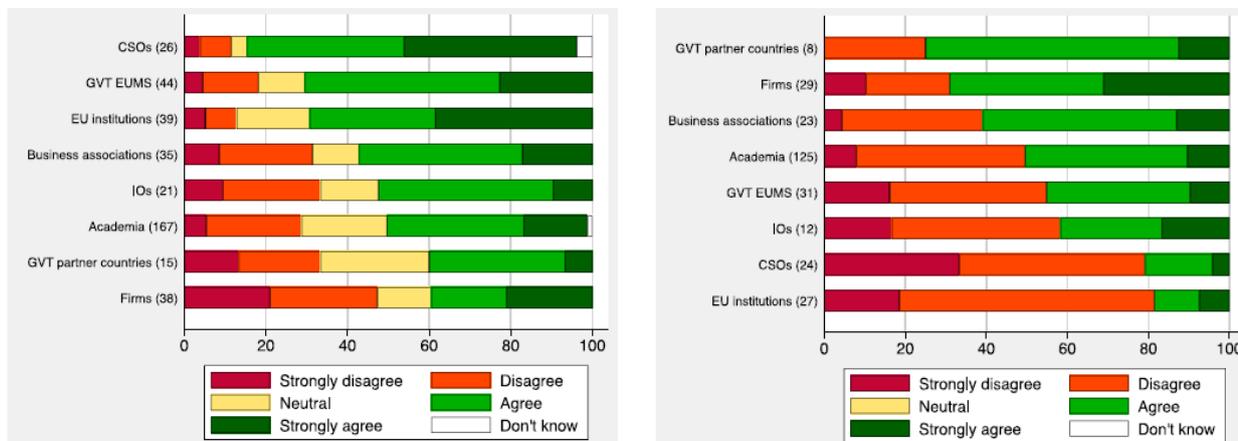


Note: indicators are aggregate indices constructed using principal component analysis by Manchin (2021).  
Source: Ferrari et al. (2021).

**Figure 3. Selected results from the first RESPECT survey**

**The EU should link trade to NTPOs**

**Including NTPOs reduces trade policy effectiveness**



Note: number of respondents per category reported in parentheses.  
 Source: Fiorini et al. (2019).

Analyzing the survey results in greater depth, Yildirim et al. (2021) stress three findings. First, although preferences regarding linkage of trade policy to NTPOs sometimes diverge in expected ways, e.g., business respondents are more skeptical than civil society, staff working for EU institutions are more aligned with civil society views than those expressed by business. Second, EU partner country respondents are less inclined to support the strategy. Third, a majority of respondents, whether based in the EU or in partner countries, regard other policy instruments – such as technical assistance; dialogue; working with stakeholders in partner countries – as more effective in supporting NTPOs than trade agreements.

Complementary takeaways also emerge from essays by practitioners that build on the survey (Bilal and Hoekman, 2019). These generally support the principle-based, yet pragmatic approach taken by the EU in its trade and development policies and the importance the EU attaches to multilateralism as the core of its external policy. However, some contributors argue that pursuit of PTAs as a means to forge stronger bilateral economic and political relations may have contributed to weaken the multilateral rule-based system. A theme emerging from several contributions is that the trade-offs might not always be properly assessed, and the balance struck might be sub-optimal. Overall, the contributions to the eBook argue for more ambition by the EU in using its soft power to engage with partners in support of greater trade, including in services sectors, and defend core values, but also to do more to promote economic development outcomes based on partners’ priorities rather than its own.

In the final stage of RESPECT, another expert survey was undertaken, complemented by a series of in-depth interviews with a sample of practitioners and stakeholders to solicit feedback on RESPECT research results. The findings of this exercise are summarized in the penultimate section of this report.

**3. Trade Policy and Non-Trade Policy Objectives**

The EU’s trade policy can affect the realization of NTPOs through different potential channels. One is through its effect on trade and investment flows. More trade with partner economies and inward FDI into foreign countries may have positive effects on livelihoods, with higher incomes associated with improvements in human development across a range of areas. Another channel is through the incorporation of NTPOs into trade agreements or preferential access programs.

### *Political economy analyses*

The specific provisions and contours of trade agreements will be determined in part by political economy variables, including lobbying by stakeholders – import competing and export-oriented companies/sectors in the EU, NGOs, labor unions, etc. RESPECT research on the political economy dimensions of trade policy and regulation related to NTPOs focused on the design of trade agreements and lobbying incentives for firms.

Parenti and Vannoorenbergh (2019) develop a theoretical framework in which countries use regulation to deal with market failures or achieve non-economic goals – i.e., include NTPOs as an element of the design of a trade agreement. These NTPOs (the standards) will reflect national (EU) preferences and not consider those of trade partners. Their inclusion may affect trade incentives as they may increase trade costs. Trade agreements can then be used as a tool to coordinate and agree on common standards or mutual recognition to reduce such costs. However, if regulatory preferences differ significantly across countries, common standards will reduce the gains from inclusive multilateral trade cooperation, leading to the emergence of socially optimal trade blocs. From a policy perspective this analysis helps rationalize the observed pursuit of NTPOs in bilateral and regional trade agreements by the EU as opposed to doing so in the WTO (i.e., on a multilateral basis). As will be discussed subsequently, other RESPECT research argues that agreement need not involve trade for plurilateral cooperation on NTPOs to be feasible.

Miroudot and Rigo (2019) investigate the impact of deep trade agreements – defined as spanning provisions on NTPOs on multinational production, i.e., economic activities carried out by firms outside of their country of origin. Often these will be organized as production networks or “global value chains”. Using a structural gravity model, they find that tariff reductions have a positive impact on multinational (GVC) production. They find that deep provisions (on NTPO-related policy areas broadly defined) have no significant impact on foreign affiliates that produce goods, such provisions are associated positively with foreign affiliates operating in the service sector. These results suggest that the proliferation of trade agreements with non-trade regulatory provisions that are salient for services activities have supported the participation of foreign affiliates in global value chains.

This finding has implications for the incentives of firms to support the negotiation of deep trade agreements. Blanga-Gubbay, Conconi and Parenti (2021) study the role of firms in lobbying for or against trade agreements in the United States, for which detailed information on lobbying exists. This reveals that virtually all firms that lobby on trade agreements support their ratification and are larger, and more likely to be engaged in international trade and be export-oriented than non-lobbying firms. The paper develops a model accounting for firm heterogeneity that shows that the biggest winners have higher stakes in the agreement than the biggest losers, explaining the observed lobbying pattern and design features of trade agreements.

In a complementary analysis, Conconi, Magerman and Plaku (2020) suggest a potential reason for support of deep trade agreements by firms. They hypothesize that trade in intermediate goods, which has risen dramatically due to the emergence and expansion of global value chains, may be more sensitive to geographic distance than trade in final goods because inputs tend to cross borders repeatedly. Using a dataset of bilateral import flows covering 5000 products and more than 200 countries over the 1998-2011 period, Conconi, Magerman and Plaku (2020) show that intermediate goods are more sensitive to distance than final goods, with differentiated inputs exhibiting the highest distance elasticity. The results suggest that sourcing inputs from nearby countries helps final good producers to better coordinate with their suppliers, monitor their production, and ensure the timely delivery of inputs that need to be tailored to their needs. While not part of their analysis, an implication is that deep trade agreements can be an instrument to reduce coordination, monitoring and policy uncertainty costs.

These papers led to follow-on work by several RESPECT members that illustrate how the project has stimulated research on the political economy of trade agreements. Baccini et al. (2021) ask if the increasing reliance on GVCs affects the design of preferential trade agreements, empirically investigating the causal impact of gross and value-added trade on the depth of trade agreements. To solve the critical issue of endogeneity of trade flows for trade policy, their identification strategy exploits a recent transportation shock: the sharp increase in the maximum size of container ships, which has more than tripled between 1995 and 2007. The key variation in this instrument hinges on the fact that only deep-water ports can accommodate new larger ships. The methodology permits assessment how the design (depth) of trade agreements is affected by the overall value of trade flows (gross exports) as well as more specifically by GVC-based trade flows, using indicators of domestic and foreign value added embodied in trade flows to capture the latter. Baccini et al. find that trade occurring through GVCs increases the probability of forming deep agreements (which generally will include provisions on NTPOs). The results indicate that GVCs are a driver of deep trade agreements.

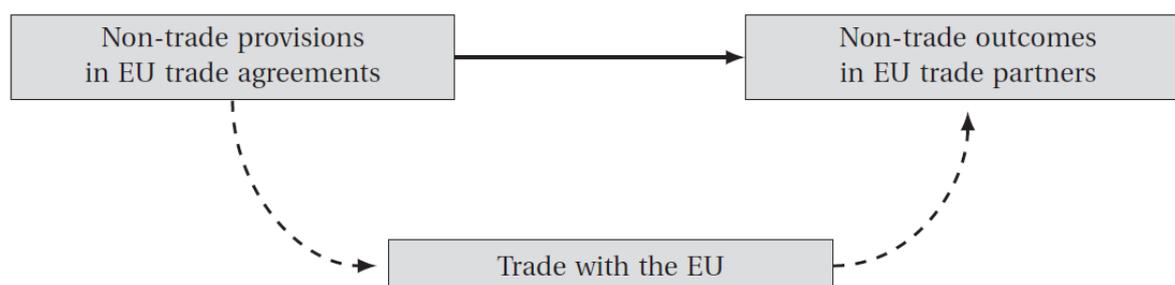
### *Issue linkage*

A basic premise underlying EU external policy is that preferential access to the EU market for trade and investment can and should be linked to non-trade issues, creating “carrots” to incentivize interest groups in partner countries to support domestic action to attain EU NTPOs. One element of RESPECT research focused on the salience of issue linkage and conditionality strategies, making cooperation to achieve NTPOs a condition for access to the EU market (Conconi, 2018).

Inclusion of NTPOs into EU trade policy as an instrument to incentivize actions in partner countries in non-trade policy areas may have both direct and indirect effects. Indirect effects may arise through the consequences of inclusion of NTPOs in trade policy instruments on trade, possibly changing the impact of trade on non-trade outcomes (Figure 4). The potential relationships are complex. They depend on many factors, including the scope and enforceability of non-trade provisions embodied in trade arrangements and the depth of trade preferences. The latter are a function of the level of applied MFN tariffs and the degree to which rules of origin constrain the ability of partner country firms to claim trade preferences.

Francois, Lechner, Manchin and Santi (2021) investigate the relationship between trade and non-trade outcomes. Controlling for trade agreements with non-trade provisions, the authors analyze whether being more open to trade or having more intensive trade relationships with the EU is positively associated with non-trade outcomes. They focus on three non-trade issue areas in more than 150 countries during the 1988-2012 period: (i) civil rights, (ii) environmental protection, and (iii) labor rights. Using both principal components that encompass multiple indicators and single variables to measure these three dimensions, they find that trade intensity with the EU (defined as the export share to the EU in total exports being above the median of the sample) is often negatively correlated with non-trade outcomes. A deeper investigation of the relationship between trade and non-trade outcomes using a synthetic control methodology finds a significant negative impact of provisions on labor rights in EU trade agreements when the EU is an important export destination for the partner country (i.e., with above average export shares). When trade links with the EU are below average, labor provisions do not appear to influence non-trade outcomes. This result is not found for the other two non-trade outcomes. While this is not a casual analysis, it provides some suggestive evidence that increased trade with the EU may not be associated with improved labor outcomes.

**Figure 4: Impact channels of trade policy on non-trade outcomes**



Borchert et al. (2021) examine the extent to which the EU can promote NTPOs through its two principal instruments of trade policy: PTAs and the Generalized System of Preferences (GSP). The authors assess whether these trade tools can be used as a ‘carrot-and-stick’ mechanism to incentivize trading partners to achieve NTPOs. The analysis suggests that, if the EU wishes to rely more on trade policy to promote such objectives, it should focus on improving GSP programs. The unilateral nature of these programs implies that the EU can use them to enforce NTPO commitments by its trading partners. However, conditionality in GSP schemes should be administered in a more consistent and rules-based way, with beneficiary countries regularly monitored and their trade preferences more systematically revoked or suspended in cases of non-compliance with NTPO commitments.

RESPECT research on non-reciprocal trade preferences granted to developing countries through the Generalized System of Preferences by Borchert and Di Ubaldo (2020) finds that a greater focus on ensuring that preferences are offered on a stable and durable basis will have development payoffs. They assess the effects of the 2014 EU reform of its GSP program which removed the threat of competitiveness-related graduations for members of the GSP+, a sub-scheme of the main program in which partner countries make NTPO-related commitments in return for enhanced preferential access to the EU. Borchert and Di Ubaldo (2020) find that the reform increased EU imports from GSP+ countries by about 45% on average whilst tariffs stayed the same. This trade impact is driven by the country-sector pairs most exposed to non-reciprocal trade preferences uncertainty prior to the reform. Uncertainty about market access conditions can be detrimental to exporters planning to invest in products eligible for preferential treatment in the EU; conversely, the removal of trade policy uncertainty leads to sizeable increases in trade for affected countries.

The feasibility of issue linkage strategies is determined in part by the ability of the EU to build them into trade policy instruments. The EU can only act internationally on competences that have been transferred to it by its Member States. Trade agreements negotiated by the EU that include provisions outside its exclusive competences must be ratified following not only the procedures set out in the EU treaties, but also the national ratification procedures of the Member States. As a result, mixed agreements are associated with much greater uncertainty, as national or regional parliaments may block trade deals agreed between the EU and its trading partners after years of negotiations. Kleimann (2020) argues that putting an end to the negotiation of ‘mixed’ agreements in favour of ‘EU only’ agreements will enhance the efficiency of EU external economic treaty making.

Conconi, Herghelegiu and Puccio (2021) argue that splitting trade agreements in two parts (one covering trade and one covering shared competence provisions), can help to insulate trade negotiations from the legal and political risk of mixity but this is not always possible or desirable. Where the EU or the trading partner wants to achieve deeper integration on non-trade matters, it can

be essential to bundle commitments in different policy areas.<sup>4</sup> Moreover, in the case of relationships where the EU engages with the third country on a variety of topics, it could be more efficient to have a single agreement that provides a unified institutional framework and enforcement mechanism. An important question therefore concerns the effectiveness of the linkage between EU trade policy and the realization of non-trade objectives.

#### *Do EU trade agreements help realize NTPOs?*

The effects of linking trade (market access) to non-trade issues can be expected to be heterogenous across trade partners. In the literature, the answer to the question whether trade policy can be an effective tool to achieve EU non-trade policy objectives remains inconclusive. The extant research literature is often limited to the analysis of a single non-trade issue, with studies suggesting that the strategy only works under certain conditions. In those cases where empirical methodologies are used that are designed to rigorously identify the direction of causality, researchers generally find no effects.

Ferrari et al. (2021) tackle this question by applying a synthetic control methodology on a large sample of EU trade partners whose performance in many non-trade policy issues is observed over time. This work considers that non-trade provisions in trade agreements may directly impact non-trade outcomes in partner countries, or do so indirectly through affecting trade flows. The synthetic control methodology centers on the direct channel in Figure 4 (i.e., solid line). This methodology provides a means to better assess the direction of causality than standard econometric approaches that are subject to endogeneity biases that impede identification of causal effects. Results from this exercise confirm there is a high degree of heterogeneity in the effect of EU trade policy strategy across trade partners and within each specific policy issue. The main conclusion is that there is no evidence of a systematic positive impact of including non-trade issues in EU trade agreements on partner countries performance on related non-trade outcome indicators. One reason for this may be that agreements that have more NTPOs embodied in them are of recent vintage and it may be too soon to pick up the effects of the subset of agreements that have more extensive coverage of NTPOs.

An extensive body of research has demonstrated that reforms needed to achieve NTPOs require domestic support (“ownership”) in the countries concerned. One potential source of such support is emerging market multinationals, which need to adopt internationally accepted standards in order to be able to contest foreign markets. Another source is inward investment into a country, and the suppliers to such firms – and more generally exporting firms. Work related to the effects of NTPOs on FDI complements analysis of relationships between trade and non-trade issues. Classifying NTPO provisions into civil and political rights, economic and social rights, environmental protection and security issues, RESPECT research has focused on whether inclusion of these provisions in trade agreements had a positive or negative impact on FDI flows.

Kox and Rojas-Romagosa (2020) find that PTAs have a positive relationship with FDI. Implementing any PTA is associated with an increase of bilateral FDI by some 30% on average. However, they found no conclusive empirical evidence that the type of PTA may matter. Rojas-Romagosa (2020b), differentiating between types of NTPO provisions in PTAs, finds that provisions related to civil and political rights drive the observed positive effect on FDI: signing a PTA of any type is associated with increased bilateral FDI. Including civil and political rights provisions in the agreement has an additional positive effect on investment. This research does not find strong empirical support that inclusion of other NTPOs – economic and social rights and environmental protection – in a PTA affects bilateral FDI. At the same time, no negative FDI effects of including more or stronger non-trade provisions in

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<sup>4</sup> Looking at the negotiations of the EU-Singapore agreement, McKenzie and Meissner (2020) observe that the EU unbundled trade policy from its rights-based foreign policy. The authors suggest this created a significant opportunity for Singapore (and other Asian states), but at the risk of compromising the EU’s norms.

trade agreements was found. To sum up, inclusion of NTPO provisions in PTAs were found to have a positive effect, if any, on bilateral FDI.

A complementary paper, Di Ubaldo and Gasiorek (2020) estimates the effect of the degree of legalization in PTAs of a range of NTPOs on the flow of bilateral greenfield FDI, also using a structural gravity framework. The difference with Kox and Rojas-Romagosa (2020) is that the focus is on provisions that are enforceable (legally binding). They find that all three types of non-trade provisions affect the flow of FDI negatively. This appears to be driven by investments directed to middle- and low-income countries and the subset of environmental provisions. When attention is limited to the subsample of EU PTAs, they again find that only civil and political rights provisions appear to be associated with the flow of FDI.

Brucal et al. (2019) investigate the empirical relationship between FDI and realization of NTPOs, focusing on the impact of foreign acquisitions on plant-level energy intensity in Indonesia. They find that plants that were bought by foreign companies reduced their energy intensity by almost one-third more than similar plants in the control group in the two years following acquisition. This analysis illustrates the salience of the direct channel between trade or FDI and improving non-trade outcome indicators, independent of whether there is a trade agreement that includes the relevant NTPO(s).

#### **4. Policy Coherence**

The EU is not a single actor. It is made up of both the EU institutions and the individual member states. The common commercial policy operates alongside Member State policies. The scope of the former has expanded over time, and the relative roles of the EU and the Member States has evolved. For example, under the Lisbon Treaty core competence over investment treaties with foreign countries has been moved from the individual Member States to the set of common policies managed by the EU. At the same time, Member States retain the ability to pursue a variety of national policies that impact on incentives to trade with partner countries. As a result, the European trade-related policy landscape is complex. EU success in promoting its values and standards depends on its ability to act coherently, both across member states and across policy areas.

Policy coherence is a common theme of RESPECT, with research addressing trade-development linkages, EU engagement to promote NTPOs in European Neighborhood Policy (ENP) and ACP countries, trade-external energy policy coherence, use of national (Member State) trade promotion and export credit agencies and issues raised by the EU dual-use export control regime.

##### *Trade and development assistance*

Apiko et al. (2019) examine whether the institutions of the EU and the member states supported the same goals and projected the same values through their trade and development policies, focusing on trade-related aid. They assess whether the EU has been able to promote development objectives through linking its aid to its trade policy. The study focuses on the ability of the EU to act coherently through its institutions and its Member States to influence attitudes and non-trade policies in partner nations through soft power as well as trade-related policies, notably through development aid. The authors find mixed evidence of coherence and complementarity of EU trade and aid policies, and between EU institutions and member states.

A mixed picture emerges. While the EU and member states appear to pull in the same general direction, they vary considerably in their degree of coherence with the EU institutions. Further, while the EU institutions' development aid was relatively coherent with its trade policy objectives, this was less evident among the member states, where national priorities appeared to be more influential. The authors argue that, in practice, acting in complete unity may not always be best. Instead, they suggest

the smart exercise of soft power is one that exploits instances where a partner country has a favorable attitude towards a particular EU member state (Magntorn et al. 2020). It then may make sense to let that member state take the lead in engagement to promote the EU's values. If complemented by coordination among member states and EU institutions to reduce overlap of aid spending among donors, this could enable the EU to maximize its smart power and influence attitudes globally in a more efficient way. In this regard, both the EU institutions and the member states have a clear role to play to reinforce and add value to each other's efforts (Holmes et al., 2020).

RESPECT research on aid for trade investigates whether such aid is effective – increases trade – and, if so, whether such aid boosts trade capacity (performance) in general or is instead associated with certain products or exports from the donor countries. Aid is not an exclusive competence. EU member states provide over 75 percent of all foreign aid bilaterally, channeling 25 percent via EU institutions. Existing research generally finds weak positive effects of aid for trade (AfT) on aggregate merchandise trade of recipients once endogeneity in the AfT-trade relationship is accounted for. Hoekman and Shingal (2020) find that AfT allocated to economic infrastructure, productive capacity building in services and trade policies and regulation is more effective for smaller trading economies, especially in services.

Liberalization of trade in services by partner countries can enhance access to key services that matter for a range of SDGs, several of which correlate with or map into NTPOs. Many developing countries oppose inclusion of services in trade agreements with the EU. In part, this reflects mercantilist arguments: a perception that the EU has a comparative advantage in many services and that deepening agreements to include services will only increase EU exports. This ignores the development dimension of services and the potential role services trade and investment can play to improve SDGs by enhancing access to basic services and bolstering sustainability in partner countries (Fiorini and Hoekman, 2018). To realize this potential a greater focus is needed on the complementary measures needed to improve regulatory institutions. Benefits may not materialize if the institutional environment is not supportive or appropriate regulatory regimes are not in place.

This points to the importance of more effective coordination between implementation of trade agreements and provision of development assistance, and more specifically for a greater focus on allocating aid for trade resources to support trade in services – both cross-border and FDI – as opposed to primarily seeking to promote merchandise exports (Hoekman and Shingal, 2020; 2021). The interdependence between market openness and domestic regulation quality as a determinant of the gains from trade integration efforts applies within the EU as well. Fiorini and Hoekman (2020) investigate how national economic regulations shape the impacts of reducing external barriers to services trade for a sample of European countries. Notwithstanding far-reaching integration of services markets, there is significant heterogeneity in domestic regulation across European economies. This affects the potential downstream productivity effects of services trade policy. In some cases, liberalization can substitute for weak regulation; in others, there is a complementary relationship. Thus, the productivity effects associated with services market access liberalization depend on the quality of domestic economic regulation. An implication of the findings is that more attention should be devoted to assessing how specific dimensions of domestic regulatory regimes influence the size and distribution of services trade reforms – and targeting resources to improve domestic regulation.

#### EU engagement with ENP countries and NTPOs

Pál, Maduko and Bruszt (2021a; 2021b) analyze the extent and manner in which the EU has contributed to the promotion of labor standards through its European Neighbourhood Policy. The primary objectives of the research were to 1) evaluate the effectiveness of the ENP to bring about

change in labor standards in the two national contexts and 2) identify those features of the implementation approach and/or domestic/regional factors that facilitated improvements over time.

Through a compilation of Commission monitoring reports evaluating neighbouring countries' progress towards the objectives they committed to in their respective action plans, resulting in a unique dataset (Bruszt, Maduko and Pál, 2020a,b), and the study of ENP-led improvements in the cases of Moldova and Morocco, the research finds that improvements in labour standards take place primarily at the formal level and is limited to selected issue areas. ENP-led improvements have been more evident with respect to fundamental labor rights than working conditions, as implementation focused primarily on the promotion of gender equality and elimination of child labor, reflecting a combination of genuine normative concern and efforts to avoid international criticism (especially with respect to child labor). Working conditions received only limited attention – focused almost exclusively on occupational health and safety – and at a later stage of implementation, in close connection to regulatory harmonization with EU directives, revealing a sequential approach towards the promotion of labor standards. There are indications that while regulatory reform increased protection for workers, this was insufficient to address persistent structural causes of non-compliance, notably significant informality and rising competitive pressures, particularly in labor intensive manufacturing (Pál et al., 2021a).

This research concludes that EU instruments – financial assistance, mobility agreements, and deep and comprehensive free trade agreements (DCFTAs) – to promote trade and NTPOs in the framework of the European Neighbourhood Policy can be improved. Common sources of complaints by stakeholders from ENP countries include limited financial assistance, too few benefits and high costs of DCFTA implementation, and low institutional capacity to implement expected reforms. Pál et al. suggest that results could be improved by prioritizing labor issues in implementation of EU trade policies, while focusing on all aspects of labor standards and coordinating more with domestic and international labour organizations. They also highlight that strengthening the developmental capacity of domestic state organizations to design and implement programs that increase the positive and decrease the potential negative externalities of increased trade is of paramount importance.

This research also assessed how interventions of international and European organizations interact in complementing/subverting EU efforts to promote labor standards through the ENP. The most relevant organization in this regard was the ILO as ILO Conventions legitimized and reinforced EU requests and the ILO often contributed to significant technical assistance and policy support for measures included in ENP Action Plans. The development and other state agencies of European member states also often contribute to ENP efforts by building the capacity of social partners, strengthening social dialogue and training labor inspectorates. Moldova provides an example how the interventions of international organizations (World Bank and IMF) may counteract EU efforts to promote labor standards in developing countries, as efforts to increase the competitiveness of Moldovan companies by reducing the regulatory burden resulted in a significant weakening of the national labor inspectorate in general and of state enforcement of occupational safety and health regulations.

Maduko, Pál and Bruszt (2021) also used mixed methods to assess if improvements in labor standards in ENP countries are associated with (i) labor standards in export markets, (ii) technological sophistication of exports, (iii) state capacity, and (iv) freedom of civil society organizations. They find that economic factors, such as the export destinations within the EU, and sectoral composition of exports condition the incentives and ability of governments and businesses in the ENP countries to improve labour standards. A shift away from textile and apparel to more technologically sophisticated sectors generally entail an improvement in working conditions. In addition, political factors such as state capacity and independence, and strength of labour organizations have potential positive implications for EU governance approaches.

Their research concludes that assistance programs are needed that increase the capacity of domestic business and labor organizations to enhance quality of jobs through investments in skills and enforcement of labor standards. Such programs, involving state actors where possible, would ensure that economic benefits are shared with broader segments of society. EU measures to facilitate new benefits has become especially important as new – sometimes competing – powers have emerged both to the east and south of the EU, and several governments from these regions seek to diversify their international economic relations. More differentiation is needed in assistance and capacity building programs in ENP countries, depending on the domestic conditions in individual countries and preferences of key stakeholders to deepen their ties with the EU.

### Africa-ACP

EU trade negotiations with sub-Saharan African countries have often been hampered by the perception that the EU is pushing its own agenda, with insufficient recognition of the constraints faced by local economies (Bilal and Hoekman, 2019). Although the EU has made significant progress in better connecting its trade and investment objectives with its development policy instruments, boosting its aid for trade and increasing support for business engagement to leverage private investment, EU engagement in Africa could contribute more to building local trade and financial markets and institutions. The ability of the EU to reflect and respond to partner country priorities in a flexible manner is a key component of success (Apiko et al., 2019; Lui and Bilal, 2019).

Bilal (2020) argues that the principles underlying the EU External Investment Plan (EIP) should be extended through the enhanced European Fund for Sustainable Development (EFSD). More broadly, there is scope for integrating private sector trade and investment related activities more effectively into the EFSD by building on the information and activities of Export Credit Agencies (ECAs), national development finance institutions and public promotional banks and institutions. In this context, more attention should be paid to trade finance and SME-relevant investment programs under the EFSD, not only as a source of potential support to SMEs, but also as a source of potentially relevant market trade-related information for SMEs.

RESPECT case studies suggest that connecting better to local priorities and ongoing or planned initiatives can help EU external policy to become more successful. EU financial and technical support to the social inclusion (reskilling, social safety nets, organizing small planters, etc.) in Mauritius in the mid-2000s helped sustain economic reforms in the mid-2000s (Apiko and Woolfrey, 2021). The 'success' suggests that EU efforts to promote its NTPOs in partner countries are more effective when they build on, are aligned with and/or are embedded in locally-owned reform processes on which there is broad consensus among influential local stakeholders. Coherence between different actors and between different policy instruments can also be helpful in promoting EU NTPOs. In this respect, co-defining priorities, objectives, outcomes and indicators with partner country governments and other important local stakeholders can help ensure a buy-in to reform processes targeting NTPOs and can facilitate effective implementation and monitoring. Trade policy and instruments, and adjustment support measures seem most effective when they are tailored to accompany a strongly owned domestic reform agenda.

Another case concerns the Economic Partnership Agreement (EPA) concluded by West Africa with the EU. Apiko et al. (2019) find that collective EU aid commitments helped the conclusion of the agreement but did not contribute in practice to an effective trade-related development program. This contrasts with the situation with some other EU partner countries, as in the case of Botswana, where a more consultative and flexible approach promised greater complementarity between the EU support and Botswana trade-related needs and priorities (Apiko, 2019).

A third country study finds that development assistance financed investment in roads played a significant role as a determinant of the effects of trade liberalization in Ethiopia. Fiorini, Sanfilippo and Sundaram (2019) show that input tariff reductions were associated with a larger increase in firm productivity in areas where better roads improve access to other intranational markets. Roads magnify pass-through of trade liberalization to imported input prices and incentivize firms to exploit this cost advantage to enhance productivity.

Focusing on EU trade and investment relations with Africa, Bilal et al. (2020) argue that European trade and investment relations should build on and support African priorities and dynamics. This calls for an EU external economic relations strategy that is centered around support for strategic priorities determined by African policymakers and stakeholders to leverage trade and investment opportunities to realize development objectives. The African Continental Free Trade Area (AfCFTA) now provides the most relevant political anchor for cooperation to support economic transformation in Africa. The EU aid for trade agenda can be tailored to better support the AfCFTA broad agenda, including in terms of localization of production and development of value chains, exploiting synergies and complementarities between continental integration, sub-regional integration processes centered around the Regional Economic Communities and the implementation and further negotiations of EPAs. The long-term prospect of a continental free trade agreement can be enhanced through greater technical alignment of the EPAs and DCFTAs with North African countries to the AfCFTA, to simultaneously facilitate intra and inter-continental trade.

## **5. Other policy instruments**

### *National trade promotion*

Ugarte and Olarreaga (2021) find that export promotion helps reduce unemployment, especially when export promotion agencies focus their promotion efforts on sectors where a country has a comparative advantage. When they focus on sectors with high labor market frictions, unemployment increases. This tells us that in countries where export promotion budgets are largely allocated to sectors with greater comparative advantage, and a small fraction to sectors with high unemployment, we should observe that export promotion reduces unemployment. Countries illustrative of this category are France, Turkey, Belgium, the Czech Republic, Vietnam, Malaysia, and Trinidad and Tobago. At the other end of the spectrum are agencies that spend more of their export promotion budgets in sectors with high unemployment and little comparative advantage. Their efforts would lead to increased unemployment. Examples in this category are Spain, Lithuania, Cyprus, Brazil and Mexico. Based on these findings, Ugarte and Olarreaga point to the following policy implications. Even if the mission of export promotion agencies was to shift from export promotion to reducing unemployment, their export promotion efforts should still target sectors where a country has a comparative advantage rather than sectors with high labor market frictions. By targeting sectors with more comparative advantage, trade promotion organizations can boost export growth while also reducing unemployment. The authors stress that export promotion is a potential complementary policy to tackle aggregate unemployment – addressing the labor market frictions in each sector directly should be the primary focus of policy interventions.

Fiorini, Koren, Santi and Zavec (2020), using a new dataset compiled for RESPECT (Koren, Fiorini, Santi and Zavec, 2020) propose a novel methodology to assess the similarity in trade and investment patterns across EU Member States with respect to the average EU performance. The statistical approach centers on quantifying a synthetic indicator of the extent to which trade or investment profiles of individual EU member states differ from the EU average. This research investigates the linkages between trade/investment similarity and measures of political effort exerted by member states to develop an idiosyncratic strategy for their trade and investment relationship with partner countries. The analysis shows a robust negative correlation between trade similarity and the

incentives to develop and use trade promotion and export support policies. This analysis has implications for EU Economic Diplomacy, suggesting a complex synthesis of country-specific external policy motives originating from differences in trade and investment structures of EU member states.

### *Export Credit Agencies*

In addition to EU-level trade agreements and market access negotiations, support for export sales in third countries is provided by national Export Credit Agencies (ECAs). For provision of export credit insurance and guarantees, competence lies at the national level, with the individual EU member states. Publicly funded export credit agencies help businesses access opportunities abroad, and are particularly important in times of crisis like the COVID-19 pandemic.

A mix of quantitative and qualitative research on the activities of EU ECAs sought to identify whether there is competitive dissonance between the Member States' export financing that undermines the EU competitive level playing field internally, or a so-called 'weaponisation' of export financing. Dawar (2019) analyses the scope and enforcement of the soft law approach to international cooperation on ECA activities under the OECD Arrangement on Export Credits. Dawar also examines compliance by EU ECAs with EU NTPOs, including the OECD Common Approaches on Environmental, Human Rights, Social Rights and Due Diligence. Her research incorporates civil society complaints to the European Commission and an investigation of the European Ombudsman.

Dawar (2020a; 2020b) points out that without a clear governance framework, ECA support can become a 'race to the bottom' in export support terms and conditions, potentially crowding out the private sector and generating negative spillovers, especially for developing country exporters. She makes a strong case for negotiating a clear regulatory framework to prevent a zero-sum subsidy race and to support the sustainable development agenda in official export credit support. Dawar argues as well that insofar as the EU seeks to bolster SME international trade performance, strategy should therefore support entry into exporting. Eurostat data show that the share SMEs in the value of extra-EU exports was highest in Cyprus (87.9 %) and Estonia (79.7 %) and lowest in Germany (17.9 %) and France (19.3 %). Exporting involves costs of entry into foreign markets and – in comparison with domestic sales – a longer time span between the export order and the final payment for the sale. Accessing the finance needed to alleviate the costs and risks of exporting is a barrier faced by many SMEs. Supporting SME export strategies therefore requires the availability of official export financing when the commercial financial sector is unwilling to take the risk.

Official export credit support for small businesses is typically associated with short-term financing and small transactions. Dawar calls on European ECAs to can increase support to SMEs by approving more financing and recalibrating towards more active engagement with small businesses to better understand the supply chain reach of their financing. If the large successful exporting companies monopolize official credit support, this will be at the cost of the growth of smaller and start-up companies. Foreign buyers are also increasingly preferring to trade in their local currencies to avoid exposure to fluctuations in exchange rates. This is a challenge for exporting SMEs because accepting these terms exposes them to potential financial losses due to a subsequent devaluation of that foreign currency. If SMEs can only sell in Euros, it can result in lost export opportunities to other ECA competitors that are willing to accommodate the foreign buyer. By offering foreign exchange risk cover via an ECA, the process of mitigating foreign exchange risk becomes much simpler for SMEs.

The OECD Arrangement regulates the terms of longer-term official export credit. Given the increasing number of emerging economy ECAs that operate outside of the scope of the OECD Arrangement, this framework is outmoded. It also exhibits weak transparency and enforcement mechanisms. Dawar notes that this weakness is not offset by stronger EU transparency requirements for European ECA activities. In July 2013, a European Parliament resolution (2012/2320(INI)) asserted that neither the

annual reports of the member states nor the Commission's evaluation of these reports enabled the EU to adequately determine whether the member states' export credit activities complied with the Union's foreign policy goals.

The dynamic and significant nature of contemporary export financing transactions calls for a new international framework capable of providing a level playing field in official export credit support that can also support SMEs exporting potential. The EU could usefully work further to ensure that domestic firms compete for foreign markets on price and quality and not on the terms of publicly funded export support, as with short term transactions under the State aid rules. This will help to improve the competitiveness of EU SMEs vis-à-vis larger and international firms – allowing them a stronger position on the international market. It will also avoid crowding out the private financial sector and fueling a non-transparent subsidy race at the expense of the public purse, the level playing field in the Single Market, competition on international markets and sustainable development, i.e., NTPOs. To this end, Dawar recommends that the EU expands the coverage of State aid rules to medium- and long-term official export credit support, along with more forcefully advocating the negotiation of a successor to the OECD Arrangement spanning additional members. The latter should encompass more relevant and enforceable rules that address international competitive spillovers and recognize the role ECAs can play to support the realization of NTPOs and improve policy coherence (Dawar, 2019).

#### *Dual-use export control regime*

National (economic) security considerations give rise to another trade-NTPO linkage. In May 2021, the EU adopted a revised version of its 2009 Regulation that defines the EU's export control regime. The revised regulation is supposed to enhance the clarity, effectiveness, and efficiency of European dual-use trade rules. Moreover, it puts a special emphasis on human security and expands the list of controlled items to cyber-surveillance technology. Focusing on the revised regulation's scope and institutional design, Urbanski and Meissner (2020) discuss whether and how it will promote coherence in European dual-use export control. The authors identify four problems that have so far produced incoherence in European dual-use governance: (i) non-binding and incomplete licensing criteria; (ii) a catchall mechanism for non-listed products; (iii) separate national control lists; and (iv) the implementation of dual-use sanctions. They argue that the revised regulation is insufficient to provide a comprehensive remedy. Far-reaching national discretion and inadequate coordination mechanisms prevent a truly level playing field for European companies and hamper the EU's establishment as a fully coherent security actor.

#### *Sanctions and NTPOs*

For trade-NTPO issue linkage strategy to be effective, the EU must be able to use trade sanctions as a mechanism to enforce NTPOs. Whether sanctions generate incentives that are substantial enough to induce partner countries to implement NTPO-related commitments is an important dimension of any assessment of the effectiveness of the linkage strategy. Hinz and Leromain (2020) find that diplomatic tensions have heterogeneous impacts on imported products. Imports used as inputs in a domestic economy intensively are more sensitive to negative diplomatic shocks than are other imports. Looking at how exporting firms react to sanctions, Crozet et. al (2020) also find heterogeneity in the impact of sanctions. Thus, they conclude that sanctions are policy tools that should be used cautiously, as they have strong effects on trade, on its intensive and, importantly, extensive margin, and it is generally hard to know who will be hit, how and for how long.

Gnutzmann and Gnutzmann-Mkrtchyan (2020) examine the effect of trade preferences withdrawal in Belarus and find no decline in total exports to the EU. Although industries benefiting from the program were affected, this seems to suggest that any political leverage deriving from the EU GSP program cannot rely on aggregate economic effects. Limited tariff sectoral coverage and low preference margins are the key obstacles. This leaves only sectoral impacts as an alternative leverage channel –

if politically connected industries stand to lose from GSP withdrawal, they may lobby national governments to satisfy GSP requirements.

#### *Trade and external energy policy coherence*

RESPECT research analyses in some depth the EU's competence in external energy policy matters, focusing on the "vertical" coherence of EU energy policy: the consistency of the national energy and climate plans of EU Member States. Puccio (2020) analyses this for sixteen member states: Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Finland, France, Poland, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Portugal. She also assesses how vertical coherence can generate "horizontal" coherence across policy areas, looking at EU external energy policy and EU trade policy. Three cases of horizontal coherence are analyzed: the WTO and energy subsidies; the Energy Charter Treaty and energy investment law; and energy and climate provisions in EU bilateral relations with trade partners and EU trade agreements. Incoherence between trade and energy policy can arise when trade remedies are imposed on green subsidies. This work concludes that the EU can achieve a better balance between its trade and renewable energy objectives by using the Union Interest provision in its trade remedies regulations.

In complementary research, Puccio and Pitaraki (2021) assess the Energy Community regime, focusing on three countries: Moldova, Kazakhstan, and Belarus. These nations have different agreements with EU but no prospect of EU membership. The authors assess factors influencing regulatory convergence and the enforceability of energy-related obligations in EU treaties with neighborhood countries, including their geopolitical situation, lobbying by national state-owned enterprises and the degree of dependence on Russia.

## **6. Standards, regulation and value chains**

Product and production process standards are instruments used to pursue a wide range of NTPOs. Standards may be mandatory, embedded in regulations or legislation, but may also be private and be adopted on a voluntary basis. Voluntary sustainability standards (VSS) seek to improve social and economic outcomes in developing nations through voluntary commitments by firms located in these countries, who can advertise their adherence to the standard through certification and associated labels. VSS are a potential instrument to help achieve NTPOs, complementing binding commitments by governments. The distinction between voluntary and mandatory standards can be fuzzy in practice, especially in cases where regulation or legislation refers to voluntary standards. Codes of conduct often apply inside the value chains of major multinational companies.

Swinnen, Olper and Vandeveldde (2019) analyze how value chains play a role in the political economy of non-trade policies – focusing on agricultural and food regulation, reviewing the emerging literature on political economy of trade policy and value chains and discussing market power issues with increasing concentration in agri-food value chains and its implications for government regulations. They present a political economy case study of the EU "unfair trading practices" (UTP) regulation that targets value chain structures in the agri-food sector. Initially farm associations were the main groups demanding such regulatory interventions. Retailers and food processing companies opposed the introduction of legislation and supported voluntary initiatives. After voluntary initiatives were attempted, the food industry (which includes many SMEs) considered the attempts unsuccessful and changed its position to favoring legislation, thus switching from a coalition with retailers to one with farmers. This shifted the balance of power in the negotiations to the pro-UTP legislation side, resulting in the 2019 EU UTP directive. The case study is of wider relevance since it addresses the use and

implications of product and production process standards in global value chains – a concern that is related to factors that have been driving the inclusion of NTPOs in trade agreements.<sup>5</sup>

Disdier et al. (2020) use French firm-level data to examine whether standards raise the quality of traded products (a NTPO) by correcting market failures associated with information asymmetry on product attributes. In accordance with the theoretical model, quality standards enforced on products by destination countries (i) reduce the export probability of low-quality firms but also that of high-quality low-productivity firms; (ii) increase the export participation and sales of high-productivity high-quality firms; (iii) improve the average quality of consumption goods exported by France.

Developed by business actors, civil society organizations, and multi-stakeholder initiatives, voluntary sustainability standards (VSS) are a widely used instrument to govern environmental, social, and ethical issues in global supply chains. Over the past decade, the market uptake of these programs has grown considerably. The use of VSS is also widespread in other industries, such as forestry, fishery, electronics, and textiles and garments. This means that private sustainability standards now apply to millions of farms, plantations, and factories around the world. Fiorini, Gnutzmann, Gnutzmann-Mkrtchyan and Hoekman (2020) review the extant empirical evidence on the effectiveness of VSS systems. Distinguishing between Fair Trade VSS developed by non-governmental organizations and corporate-backed private VSS, they disentangle the possible channels through which these two types of VSS regimes may impact on trade and, in turn, on NTPOs, using the SDGs as a framework for NTPOs (see Table 1). They find there are important differences between the two categories of VSS.

This research, together with the findings of Fiorini and Hoekman (2018) and a complementary analysis by Basedow (2020) on EU investment policy and the SDGs, suggest more serious consideration be given to assessing how trade and investment policies can impact NTPOs. More generally, this research argues for a broader focus on specific SDGs as a means of making progress in realizing NTPOs.

**Table 1. Channels through which VSS may impact SDGs**

<b>Channel</b>	<b>SDGs</b>
Pricing	(1) No Poverty, (2) Zero Hunger
Supply Chain Competitiveness	(1) No Poverty, (2) Zero Hunger
Certificate Design	(1) No Poverty (2) Zero Hunger (16) Peace, Justice, and Strong Institutions
Production Channel	(1) No Poverty (2) Zero Hunger (5) Gender Equality (8) Decent Work and Economic Growth (12) Responsible Consumption and Production (13) Climate Action (14) Life Below Water (15) Life On Land
Public Goods Channel	(3) Good Health and Well-being (4) Quality Education (6) Clean Water and Sanitation (7) Affordable and Clean Energy (9) Industry, Innovation and Infrastructure (11) Sustainable Cities and Communities (16) Peace, Justice, and Strong Institutions

Source: Fiorini, Gnutzmann, Gnutzmann-Mkrtchyan and Hoekman (2020).

<sup>5</sup> Swinnen (2019) discusses implications of the prevalence of asymmetric information that motivates the use of standards. As standards may create winners and losers, this may lead to lobbying by special interests. One channel for such engagement is the use of social media to spread biased (fake) information to consumers, in turn potentially affecting the return to producers in developing countries to adopt voluntary standards.

Given the pervasiveness of VSS in the global trading system, the EU can foster more responsible business conduct and promote sustainable supply chains by designing trade policy strategies that exploit complementarities and potential synergies with the VSS landscape. Such a strategy hinges on detailed and updated information on VSS market footprint across countries and products as well as on their institutional design and the potential linkages between their requirements and sustainability objectives. Such data are not available but are needed to monitor the take-up of VSS and the effectiveness (and rate of return) of use by producers in third countries. The 2021 EU trade policy review calls for greater use of NTPO-related standards in GVCs and the activities of EU-headquartered companies (European Commission, 2021a). Greater support by the EU for such data collection and analysis will assist in undertaking monitoring and evaluation of the effectiveness of policies to encourage (require) the use of specific NTPO-related standards in supply chains.

RESPECT research discusses the complementarities between EU trade policy and sustainability standards looking at EU trade agreements with environmental protection provisions. Increasingly, countries are signing up for environmental protection provisions in their bilateral trade agreement with the EU including, for instance, Canada, Chile, Colombia, Croatia, Mexico, Peru, Singapore, South Africa, South Korea, and Vietnam. At the same time, there has also been an increasing uptake of voluntary environmental programs, which are diffused by firms in their value chains. The EU-governed Eco-Management and Audit Scheme is one such standard, amongst others such as the ISO 14001 series of environmental certifications. The EU's trade agreements with environmental protection provisions complement the effect of these private standards in the reduction of air pollutants and greenhouse gases (Di Ubaldo et al., 2019). Soliciting more analysis of how trade policy can best complement private standards in promoting responsible and sustainable supply chains would help to inform the appropriate design of provisions to do so.

Schleifer, Fiorini and Fransen (2019) focus more broadly on the spread in use of transnational private governance organizations that develop standards for sustainable commodity production in the Global South. Analyzing the operations of 47 such organizations in 12 export-oriented commodity sectors and the 10 largest developing country producers of these commodities, the authors find that an unequal geographic and sectoral distribution of transnational private governance, the lack of inclusion of producers in its central decision-making bodies, and the prevalence of problematic cost sharing arrangements limit the potential of this mode of governance to contribute to sustainable commodity production and achieve NTPOs.

## **7. A European Economic Diplomacy in the making**

Promoting NTPOs through EU trade policy requires balancing the defense of EU values with the promotion of its economic interest, while building on and seeking synergies with the interests of its partner countries. This is one of the aims of the European economic diplomacy, which is being established by the EU. Bilal (2021c) assesses how the EU is formulating its economic diplomacy, and to which extent it builds on its economic, trade and development policies. He suggests that the concept of EU economic diplomacy has not been clearly defined. Rather, the EU has followed a bottom-up approach, relying on the different efforts of EU delegations in partner countries. A well-structured European economic diplomacy can promote greater coordination between trade and investment promotion instruments and development aid at the EU and member state levels.

Bilal (2021b,c) suggests several ways European economic diplomacy could be strengthened. First, European associations such as the European Trade Promotion Organisations Association, can play a critical connecting role between the EU member state and EU institutions levels (vertical connector), as well as among EU member states (horizontal connector). In addition, they can also play a representation role at the international level, towards EU partners, and help the EU speak with a common, more easily identifiable voice (international connector). Second, as discussed above, better

coordination among European ECAs, greater transparency and compliance with EU rules and renegotiation of the OECD Arrangement and Common Approaches (Dawar, 2019). Another issue relates to sharing of information and exploiting synergies through better aligning their operations with the European economic diplomacy objectives and opportunities. The Global EU Response to COVID-19 (EC and High Representative, 2020) provides a good template for European economic diplomacy, in particular the Team Europe approach, which brings together the EU institutions, the EU member states and their respective financial institutions and agencies for development.

European economic diplomacy puts significant emphasis on the internationalization of European businesses, especially SMEs, but does relatively little to distinguish among types of businesses and their operations. To promote fair, ethical, socially inclusive and sustainable practices, an active European economic diplomacy could put greater emphasis on supporting companies, trade and investment that pursue such objectives. This entails supporting and engaging with European producers, public actors in the EU and partner countries, as well as social enterprises and cooperatives, including in the financial sector (e.g., ethical banks, credit unions and the micro-finance community).

#### *The Enterprise Europe Network (EEN)*

Van Seters and Bilal (2019; 2020a,b) analyze the role of the Enterprise Europe Network (EEN) as a trade, investment and business promotion tool and its effectiveness as a channel for business associations and chambers of commerce to provide feedback on and influence trade and investment policies. The focus of the EEN is on SMEs, which provide two out of every three jobs in the EU and generate more than half of EU GDP. Van Seters and Bilal find that the EEN contributes to the EU sustainable trade agenda but is not used in a fully consistent and strategic manner to pursue NTPOs. They suggest areas where synergies can be sought between the EEN and development cooperation instruments, to strengthen business associations in partner countries, and using the EEN as mechanism to operationalize public-private dialogues related to investment climate and trade policies. Van Seters and Bilal identify four avenues to realize the potential of tools like EEN: (i) expand its geographical scope; (ii) more explicit inclusion of social and environmental issues; (iii) promoting collection and use of company feedback on the design and implementation of trade policy; and (iv) enhancing synergies with development cooperation.

The first and second avenue would make the EEN better serve EU values while further enhancing economic opportunities for Europe's 'green' companies. While the EEN collects feedback from SMEs on existing and upcoming EU policy measures, not enough attention is paid to collecting feedback from SMEs in relation to trade policies, and little use is made of it to inform and shape EU trade policy and implementation. EU tools to support SMEs that take advantage of the internal market opportunities could be better harnessed to international dimensions, as SME needs and challenges to engage in cross-border exchanges are often similar whether within or beyond the EU, including in terms of the provision of market information, access to finance, support to innovation and sustainability, and connecting with new markets. The EEN is particularly strong in promoting business-to-business (B2B) linkages and trade within the internal EU market. It is well placed to step up its contributions as regards extra-EU trade, if sufficient resources are provided for this.

#### **8. EU engagement with stakeholders**

Stakeholders participate in EU trade policymaking at different stages, using both informal and formal channels to communicate with EU institutions. Examples include consultations, civil society dialogues, expert groups and advisory committees convened by the Commission and a Market Access Partnership. These mechanisms provide channels for collecting inputs and feedback that allow to evaluate whether EU trade policy delivers the expected results.

### *Consultations and impact assessments*

To inform its trade negotiations the European Commission uses ex-ante sustainability impact assessments (SIAs) to provide an evidence-based analysis of the potential economic effects of a trade agreement. An associated consultation process is a core part of the SIA framework, providing for transparent two-way communication between the EC and stakeholders. The goal is to inform the trade negotiation process and to ease the eventual approval of the outcome of negotiations by the Council and the European Parliament (EP). As argued by Weiß (2021), if the goal of EU trade policy is to achieve NTPOs, the institutional design of policy formulation cycles and decision-making must include a focus on strengthening the influence of the EP in decision-making, control and monitoring mechanisms. The SIAs and associated consultation mechanism are one important input in this regard.

Francois, Hoekman and Rojas-Romagosa (2020; 2021) discuss the evolution of the SIA process over time, with an emphasis on the role of the consultation process in trade SIAs. This paper builds on and complements an in-depth assessment by Rojas-Romagosa (2020a) of the analytical methodology used in SIA modelling exercises. These papers argue that although the transparency and inclusiveness of these processes have increased, this has come at the cost: SIAs do too little to guide prioritization of issue areas that are more important to stakeholders and give insufficient attention to highlighting issue areas where trade policy is a useful (appropriate) instrument to realize NTPOs. SIAs and related consultations span a long list of non-trade issues, many of which end up being superficially treated, reducing rather than increasing the legitimacy and credibility of the SIA effort.

Trade negotiations invariably will have heterogeneous effects on socio-economic groups in the EU and partner countries, and the relative importance of non-trade issues will vary. Francois et al. (2021) suggest that consultation processes should focus more on impacts for specific (priority) stakeholder groups and priority NTPOs instead of a shallow, all-encompassing discussion of potential trade policy effects. Highlighting the importance of a relatively small set of effects that are of significant interest to many stakeholders could increase the usefulness of SIAs. Narrowing the thematic scope of the CP would help identify if and how trade agreements may affect particular stakeholders and what they regard to be the most effective flanking and compensation mechanisms.

Francois, Hoekman and Rojas-Romagosa (2021) suggest revising the consultation survey instrument to collect information through a set of closed ended questions on specific NTPOs of interest as opposed to the current focus on compiling data on subjective beliefs whether and how a trade agreement affects a very wide range of non-trade outcome indicators. They also propose using deliberative polling approaches that bring together a representative sample of stakeholders drawn from the survey respondent population. Deliberative polling techniques can overcome several of the weaknesses of current approaches, including “rational ignorance” of respondents and the absence of a methodology to weight stakeholder views and concerns. Finally, they echo the suggestions of Findlay and Hoekman (2020) – discussed below – to consider organizing supply chain-specific deliberations as a means of focusing attention more specifically on how NTPO-related issues factor into economic activities in partner countries.

### *Feedback by stakeholders: business and civil society*

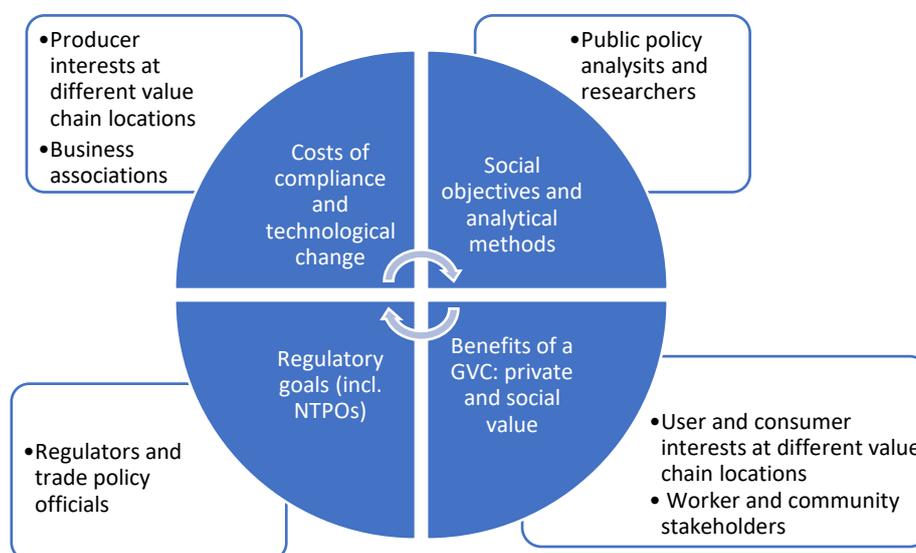
Input and feedback from the private sector can be improved to better inform EU trade policy making and implementation processes, e.g., through initiatives such as the Enterprise Europe Network (see above) or the Sustainable Business for Africa (SB4A) platform. This can also inform aid for trade, as well as “investment for trade” to address targeted trade and investment bottlenecks, and help promote relevant value chains, better harnessing the “Jobs and Growth Compact” approach of the EU to relevant trade and investment opportunities. In its programming exercise, the EU should better target value chains and sectors with high trade and investment potential, for local markets and to the EU, drawing on business interests and incentives. To do so effectively, more grant funding should be

allocated to project development in strategic economic sectors, notably those projects helping to address trade-related opportunities and constraints.

Findlay and Hoekman (2020) propose an approach to operationalize these ideas, anchored around value chain partnerships that bring together representative firms, regulators, civil society organizations, government officials and academics (Figure 5). They argue that such multistakeholder mechanisms can facilitate provision of information to government agencies (and in the case of the EU, the Commission) on frictions created by policies or the absence of policies that affect both economic and non-economic objectives that can be pursued through the operation of value chains. They suggest building on approaches that have been developed in initiatives focused on sustainability standards for products and production processes.

Mechanisms to support better coordination between the public and private sector to identify opportunities to both improve the efficiency of value chain-based production (e.g., by lowering trade and transactions costs) and identify areas of weakness regarding performance in attaining NTPOs have not been a feature of EU trade cooperation to date. The European Enterprise Network, for example, does not provide a platform for this, nor do other mechanisms at EU level such as the Market Access Partnership, which has a bilateral focus and is limited to supporting EU exports. Findlay and Hoekman (2020) and Francois et al. (2021) propose EU support for the development of knowledge platforms that bring together stakeholders in the EU and partner countries and serve as mechanisms through which information related to implementation and problems in making progress on improving non-trade indicators can be flagged.

**Figure 5: A Value Chain Partnership**



Source: Adapted from Findlay and Hoekman (2020).

Pursuing these suggestions can build on the civil society dialogues in the EU organized by DG Trade and on local stakeholder fora where these already exist, enhancing local ownership. Ex-ante SIAs and associated consultations are complemented by domestic institutions and civil society mechanisms to provide inputs and feedback on implementation of NTPOs in trade agreements. The Domestic Advisory Groups (DAGs) are an example, conceived as mechanisms intended to further the goals of the trade and sustainable development dimensions of EU trade agreements. RESPECT consultations with concerned stakeholders led to the identification of a list of concrete recommendations to improve the functioning and effectiveness of the DAGs, summarized in Table 2 (Ashraf and Seters,

2020a,b). The growing number of trade agreements and the associated civil society mechanisms is only adding to the fatigue of actors who are already critical of the usefulness of these mechanisms. It is thus imperative for DAGs to show results that justify the investment made towards them and prove to civil society actors and others that these mechanisms play a useful role in promoting sustainable dimensions of EU trade agreements.

The recommendations made in Francois, Hoekman and Rojas-Romagosa (2021) and Ashraf and Seters 2020a,b) comprise calls for more comprehensive approaches to stakeholder consultations and participation in the overall EU trade policy processes, including towards achieving NTPOs in trough trade agreements. This is a matter extending beyond ex ante SIAs, ranging from the preparation of EU negotiations, their conduct and the implementation phase with monitoring and feedback from DAGs. A more rigorous ex-ante impact assessment-cum-consultation process that becomes the basis for sustained engagement between interested parties, local governments and the EC (as well as other international organizations and EU member state economic development agencies if the partner is a developing country) can help improve implementation and outcomes. Sustaining engagement and developing partnerships with stakeholders, including the business community and actors that participate in (depend on) specific international value chains, can do much to generate feedback on progress or lack thereof and identify ways in which to improve results. Steps in this direction would help attain policy coherence objectives and be more effective than the current segmented approach towards SIAs, consultations and implementation-cum-enforcement of treaty provisions.

**Table 2: Selected recommendations to enhance effectiveness of civil society mechanisms**

Area	Recommendations
<b>Composition</b>	Develop good practice guidelines for DAGs and joint civil society fora
	Encourage creation of independent, representative civil society mechanisms
<b>Scope</b>	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
<b>Organization</b>	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
<b>Channels of input</b>	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

### *Market access and monitoring implementation of agreements*

Strengthening enforcement and implementation of trade rules is one of the key priorities of the Von der Leyen Commission and the 2021 review of EU trade policy (European Commission, 2021). A new Chief Trade Enforcement Officer oversees enforcement of trade agreements, use of trade defense instruments against unfair trade practices, protection of IPRs and investment screening. Increasing capacity to enforce the EU's rights under trade agreements is identified as a core medium term objective of EU trade policy. Examples of steps taken in this direction include the updated Enforcement Regulation, and a renewed focus on the enforcement of TSD chapters in trade agreements through improved monitoring and increasing businesses' role in ensuring sustainability in trade by promoting responsible business conduct.

A Market Access Database (MADB) is used as tool to compile information on reported barriers to trade and violations of trade agreements. This scope of this database has been extended to include non-trade issues,<sup>6</sup> with a Single-Entry Point system for stakeholders to file complaints on trade barriers. The 2021 Trade Policy Review emphasizes the need to strengthen cooperation with different stakeholders to increase information sharing, including through private-sector organizations such as national trade promotion organizations and the European Enterprise Network (discussed above). Bondi et al. (2021) describe the mechanisms available to European firms to report violations of trade agreements and market access barriers more generally and conclude that these are more streamlined and generate greater transparency than those in the United States, which has an established reputation for active enforcement of trade agreement commitments. They argue that more should be done to complement the reliance on stakeholders to file complaints with analysis of global trends in the use of trade policies that may distort competition and/or undermine the rules-based trading system – and thus the interests of EU companies.

## **9. China, the United States and the EU**

From a narrow trade perspective, external relations with China (the world's largest exporter) and the United States (the world's largest importer) are particularly important for the EU. These two countries account for about one-third of total EU exports and imports, with more than 20% of EU exports going to the US and China accounting for 20% of EU imports. Successful collaboration with these two large players is important for achieving both the EU's trade and investment goals and its external objectives.

### *a. United States*

RESPECT research on trade relations with the US focused primarily on the implications of the return to aggressive unilateralism under the Trump Administration. VanGrasstek (2021), an updated version of a 2019 RESPECT working paper,<sup>7</sup> puts the shift towards a more protectionist policy regime by the Trump Administration in historical context, arguing this was predictable even if the form it took was not, given the traditional focus of the US on reciprocity and rising concern regarding the rapid growth of the Chinese economy and its State-capitalist model (Winters, 2021). Less predictable was the targeting of allies, including the EU. VanGrasstek concludes that Trumpism may well survive Trump, unless pro-trade forces manage to retake control of one of the two major political parties, a prospect he discounts.

Bekkers et al. (2021) analyze the possible drivers for the trade war launched against China – and to a lesser extent the EU – by the US. They argue contemporary economic theory has little to offer in the way of serious analysis. They conclude that a central problem is that the actions of the Trump Administration are inconsistent with maximization of social welfare, re-election prospects (given

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<sup>6</sup> [https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc\\_156618.pdf](https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf)

<sup>7</sup> [http://respect.eui.eu/wp-content/uploads/sites/6/2019/02/RSCAS-2019\\_11.pdf](http://respect.eui.eu/wp-content/uploads/sites/6/2019/02/RSCAS-2019_11.pdf)

standard political economy theories suggest the distribution of costs and benefits of the trade war will not do so); or pursuit of geo-strategic goals (the policies seem too collectively incoherent to reflect such goals). This complicates decision making by the EU regarding how best to engage with the US.

Evenett (2021a) assesses the reaction of the European Commission to Trump Administration trade policies, noting the multi-pronged nature of the EU response – a mix of trade retaliation, pursuit of additional trade agreements with major economies, concluding the Comprehensive Agreement on Investment talks with China, participating in talks with Japan and the US to define how to bolster rules on the use of subsidies and operation of Chinese State-owned enterprises, addressing the US decision to stop the WTO Appellate Body from functioning by putting in place an interim appeal system, and seeking to agree a more limited agenda for a bilateral trade agreement following the decision by the US to stop talks on Trans-Atlantic Trade and Investment Partnership (TTIP). He argues none of these strategies were very effective. Hoekman and Wolfe (2021) argue that any resolution of these tensions requires a tripartite approach among the three major players. Given that the EU and the US share core values, including on most of the NTPOs pursued by the EU in its external relations, a key question is the extent to which China will be willing to agree to joint commitments on policies that have given rise to trade conflicts.

#### *b. China*

In the absence of a trade agreement between the EU and China, the focus of EU engagement with China has been on a specific instrument of EU soft power: policy dialogue. A large number of dialogues spanning decades have addressed many topics, including climate change, the environment, emissions trading, clean coal, sustainable forestry, sustainable fisheries, regulation, a range of economic and social rights as well as human rights. Hu and Pelkmans (2020) assess the myriad of ‘trade-related’ Dialogues between the EU and China, a key element of trade policy-related engagement. There have been some 68 Dialogues, some 50 of which address economic and trade-related issues, including sustainable development. Both the sheer quantity and the scope are conspicuous, although there is lack of transparency and paucity of hard data. Hu (2021) provides a detailed compilation and discussion of what has been done by the EU and China in terms of dialogues.

Hu and Pelkmans (2021a, 2021b) provide an in-depth assessment of EU/China cooperation with respect to sustainable development NTPOs over a 25-year period, focusing on labor-related norms. Following the signature of a Strategic and Comprehensive Partnership in 2003, Dialogues at ministerial level and annual Summits defined joint programs and a series of projects, some very large, with associated working groups, exchanges and action plans. This had relatively limited success. The leading multilateral set of commitments in the area of labor rights are ILO Conventions, in particular the eight core Conventions. China has yet to ratify four of these and has made no international legal commitments for social protection, except for some corollary aspects addressed in other ILO conventions.

In a related RESPECT report, Pelkmans (2021) focuses on EU-China trade-related cooperation in environment and climate mitigation policies and technologies. The EU has systematically and energetically pursued cooperation with China in these areas. Pelkmans points to a process of convergence between the EU and China in the status of environment and climate factors as captured by environment and climate indicators: damaging divergence in outcome indicators has turned into an uneven process of convergence, with improvements in some environmental indicators and a firmer attempt to embrace mitigation of greenhouse gasses. Both China and the EU adhered, with ratification, to no less than 12 Multilateral Environmental Agreements (MEAs) and related Protocols and Amendments. This is far more than the specific MEAs referred to in EU trade agreements. There is also evidence of a process of convergence of policies between the EU and China, over a broader

scope and predating what is visible in indicators. That said, the contrast between the respective policies remains stark in some areas.

Overall, Pelkmans concludes EU engagement has been effective in stimulating a process of convergence in both policies and outcomes. This finding is echoed in Hu and Pelkmans (2020). The web of bilateral Dialogues cannot be regarded as being the equivalent of an ‘unbundled’ trade agreement, but – abstracting from tariffs – on balance they may have eased access to the Chinese market because of the ‘lesser restrictions’ approach to reforms stimulated via Dialogues. As regards NTPOs, Dialogues were associated with progress on ‘sustainable development’ issues, both socially and in environment and climate and appear to have helped address ‘systemic differences’ in roundabout ways by helping to underpin unilateral reforms in specific areas.

The cooperative approach towards dialogue on sustainable development issues that has been a central feature of external relations with China has not been pursued with other trading partners anywhere near to the same extent as with China. More activities and greater efforts do not necessarily produce better results, of course, but the fact that, selectively, the effort of pursuing a multiple set of goals through Dialogues have generated positive payoffs. This type of cooperation could be pursued with other countries, something that deserves consideration in light of RESPECT findings regarding the lack of strong evidence that embedding NTPOs in trade agreements may not have much effect in realizing improvements in performance in the policy areas concerned.

As noted, the EU does not have a standard trade agreement with China. Instead, the focus in recent years has been on negotiating a Comprehensive Agreement on Investment (CAI). Kurtz and Gong (2021) assess the CAI,<sup>8</sup> note that the CAI provides a possible basis for negotiating investment policy disciplines in the WTO on a plurilateral basis. They argue that the CAI is innovative in many respects, embodying deeper market access commitments than have been agreed by China in other trade and investment agreements. The CAI also breaks new ground by including sustainable development provisions, including on labor standards and environmental protection that reflect EU NTPOs. This is a significant achievement. The extent to which this reflects a payoff to the investment made in the Dialogues discussed above cannot be determined. Kurtz and Gong note that China only agreed to state-to-state dispute settlement, departing from the EU’s preferred baseline of extending standing rights to foreign investors; adopted a WTO-like (prospective) remedy structure (requiring bringing measures into conformity with the agreement); and refused to consider appellate review (which is a feature of the EU’s investment court system).

Turning to China’s external policies towards the EU and other countries, Tu and Li (2020) describe the widening and deepening of bilateral trade and economic relationships between China and the EU. They note that EU-China economic relations have followed a multi-objective, multi-dimensional approach. China has consistently pursued an ‘economics first’ policy towards the EU. This has gone beyond trade, spanning ‘new’ areas such as investment, science and technology, as well as the types of economic cooperation discussed by Hu and Pelkmans. China has sought to strengthen relations with Europe as a priority to serve its strategic goals. In 2018, for the 15<sup>th</sup> anniversary of the strategic partnership between China and the EU, China unveiled its third policy paper on the EU, signaling China will seek greater synergies between each party’s policies, pursue cooperation in areas such as finance, handle disagreements and frictions in a constructive manner, and avoid politicizing economic and trade issues. The 2018 paper included the goal of cooperating with EU Member States through the ‘17+1’ platform as well as active bilateral engagements reflecting differentiated priorities in bilateral relations.

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<sup>8</sup> See also Hu (2021b).

An important pillar of China's external policy is the Belt and Road Initiative (BRI), which encompasses infrastructure-related investments and FDI. The BRI includes selected European partner countries as well as ENP countries and nations in Asia and Africa. Much of the BRI revolves around infrastructure, but Chinese investments and aid increasingly include projects of the type that have long been a core feature of EU external assistance to developing nations. Martorano et al. (2020) analyze the effect of Chinese aid on education, health, and nutrition. They find that Chinese projects significantly improve education and child mortality in treatment areas, but do not significantly affect nutrition, and that social sector projects have a larger effect on outcomes than economic projects. The authors do not find significant effects for projects that ended more than five years before the post-treatment survey wave used to assess impacts.

Ghossein et al. (2021) focus on the governance of large-scale procurement associated with BRI projects. They note the rate of return of BRI projects depends in part on the integrity of public procurement processes and realizing value for money objectives. To date BRI projects financed by Chinese institutions have been largely awarded to Chinese companies. The authors consider several options that could be considered by China and by BRI partner countries to enhance transparency of BRI procurement, including a concerted effort to report, compile and analyze information on BRI procurement processes to help assess, and where necessary, enhance BRI procurement governance and accession to the WTO Government Procurement Agreement. Doing so can have significant positive spillover effects on public procurement more broadly, by fostering learning among stakeholders within and across the regions spanned by the BRI. This is an area where the EU has extensive experience that could be used to assist BRI countries.

## **10. Bolstering Multilateral Cooperation**

Resolving rising trade tensions between the EU and other major trading powers requires agreement on new rules of the game for the use of contested policies. Some European policymakers have called for policies to incentivize reshoring of productive activities. Seeking to do so will have negative effects on EU exports (because of retaliation and emulation) and EU consumers (higher prices and less choice). It would also undercut the perceived credibility of the EU's stated emphasis in favor of multilateral cooperation. A more restrictive trade policy stance is unlikely to enhance resilience to shocks and is likely to increase costs of the targeted goods or services and have broader negative effects throughout the economy. RESPECT research argues that a greater focus on improving the operation of the WTO – the apex multilateral institution through which countries can agree on approaches to address the negative spillovers of trade-related policies – should be a focus of EU external strategy to bolster cooperation with other major trade powers. The need to do so extends beyond the trade-related tensions and disputes with China and the U.S.

As noted by Evenett (2021b) many countries have put in place more trade restricting and potentially harmful trade-related policies that call for concerted action to develop common rules, including in new areas of policy that affect the digital economy and old issues such as the use of trade instruments as part of programs aimed to combat climate change such as the Green Deal. A finding of RESPECT research is that international cooperation need not be embedded in trade agreements but can also take the form of international regulatory cooperation. As regulatory policies are increasingly a key factor affecting the costs and ability to trade across borders and are critical in improving partner country performance on non-trade issues and the realization of EU values, open plurilateral agreements revolving around regulatory cooperation should come to be a more prominent element of EU external action.

### *International regulatory cooperation and open plurilateral agreements*

Satisfying regulatory requirements often will be necessary to access a market, whether for EU exporters or partner country exporters to the EU. Hoekman and Sabel (2019) argue improving trade-related regulation may be achieved effectively and efficiently without embedding cooperation in trade agreements. This is the case when regulators have concerns regarding the use of trade linkages that could undercut the realization of regulatory goals to achieve market access objectives. Hoekman and Sabel (2021) develop a conceptual framework that differentiates trade agreements from open plurilateral agreements (OPAs) and argue that the latter offer a flexible approach that is more conducive to learning and focusing on realizing NTPOs. A key difference between the two forms of cooperation is that OPAs need not involve linkage to trade (market access).

International regulatory cooperation can be pursued outside trade agreements and go beyond the unilateral or bilateral settings that to date have been the main focus of the EU. Examples are data adequacy decisions (Saluste, 2020), the Open Skies agreement with the US (Héritier and Karagiannis 2020), the Forest Law Enforcement, Governance and Trade (FLEGT) action plan (Woolfrey, 2021; Hoekman and Sabel, 2021) and the GSP+ program (Borchert et al. 2021). These types of initiatives are important in linking market access to the pursuit of/support for attaining NTPOs. Some are based on norms that have been established through international fora (e.g., the ILO for labor standards), others are based on norms established by the EU (e.g., data protection).

In the case of EU-Ghana, for example, the EPA makes no reference to forest governance objectives. Instead, these objectives are tackled through complementary initiatives, notably the FLEGT Voluntary Partnership Agreement and the financial and technical support provided by the EC and EU member states to support implementation of this agreement. This voluntary arrangement tackles the problem of illegal logging and associated trade by conditioning market access on implementation of sustainable forestry standards and provision of development assistance to support timber sustainability reforms (Woolfrey, 2021). The example reinforces the point that trade agreements need not be the main tool through which NTPOs are pursued by the EU. Approaches built on partner country reform objectives and embedded in national legislative processes ensure greater legitimacy and ownership and facilitate more equal partnerships and more effective enforcement. Independent monitoring and joint review of the implementation of the functioning of the agreement and civil society engagement are important for sustaining implementation of reform processes in partner countries.

Open plurilateral agreements offer a means to extend the governance and participation in IRC ventures to a broader group of like-minded countries. Doing so can be a steppingstone to gradual multilateralization of regulatory cooperation. Moving from bilateral arrangements to a plurilateral framework can reduce transactions costs, support sharing of resources and promote learning. Possible subjects that lend themselves to plurilateral regulatory cooperation discussed in RESPECT research include regulation of the digital economy and cross-border data flows and the use of trade policy instruments when implementing programs to address climate change. Plurilateral agreements in these areas are already being pursued by non-EU countries. Digital economy agreements and digital economic partnership agreements have been/are being negotiated in the Asia-Pacific region and there is an ongoing negotiation on an open plurilateral Agreement on Climate Change, Trade and Sustainability between Costa Rica, Iceland, Fiji, New Zealand.

There is a distinct risk that relying on EU 'market power' to justify a unilateral approach to standards setting, whether for taxing digital services-related revenues, carbon border adjustment measures on products when entering the EU or determining whether data protection in a partner country is adequate, may be regarded by partners as discriminatory and/or arbitrary. Others may not follow, increasing regional fragmentation of the global economy. Engaging with non-EU countries on the design and application of measures in these areas and seeking to move forward on a concerted basis

will both help attain EU goals and regulatory objectives, while reducing trade costs for firms and thus supporting global trade. The salience of international regulatory cooperation was illustrated in the COVID-19 pandemic. Ensuring products conform with regulatory requirements is critical for health and safety but associated regulatory enforcement processes can impede rapid responses to an emergency. Cooperation between the relevant sectoral regulators will facilitate trade and access to supplies from different sources. International cooperation to agree on common standards for products and production processes, while difficult and time-consuming, is one path to reducing regulatory heterogeneity and enhancing resilience over time. Supporting international cooperation between regulators to establish where regulatory regimes across countries/systems have the same goals and supporting work towards establishing where regimes are equivalent can make a significant difference in enabling the needed supply responses to crises by facilitating trade in essential products (Fiorini et al. 2020; Hoekman et al. 2020a,b). Puccio and Sapir (2020) argue for the EU to propose a new normative framework involving both WHO and WTO to avert supply shortages and export restrictions during a pandemic.

### *The multilateral trading system and WTO reform*

The structure of the world economy has changed significantly since the establishment of the WTO in 1995. Servicification, with associated cross-hauling of foreign direct investment (FDI), cross-border data flows and digitization of production, and the growth of emerging economies, notably China, that have successfully used a range of policies that are increasingly contested. The use of trade-distorting policies has been increasing in many WTO members, both instruments that are well understood and covered by WTO disciplines (e.g., border measures) and others that are less transparent and only partially covered by the WTO, if at all (e.g., tax incentives to attract FDI; subsidies to support local production; taxation of digital services). Subsidies and measures with equivalent effect accounted for more than half of trade-distorting actions imposed by G20 countries between 2009 and 2020 (Evenett, 2021b; Evenett and Kong, 2021; Hoekman and Nelson, 2020).

The situation confronting the trading system has parallels with the 1980s, which saw extensive recourse to trade-distorting measures in response to a rapid rise in exports from East Asian economies. This motivated a preparatory process that led to the launch of the Uruguay Round in 1986. A similar effort is called for today. The EU has a strong stake in bolstering the rules-based multilateral trading system, both because many practices that generate negative cross-border competitive spillovers cannot be addressed effectively on a bilateral basis. Moreover, large emerging economies and the US have, to date, not been willing to conclude deep trade agreements that include disciplines on investment, competition, industrial and regulatory policies and NTPOs.

The 2020 review of EU trade policy stresses the importance of multilateral cooperation in the WTO as a pillar of EU external economic relations and calls for updating the multilateral rulebook (EC, 2021b). Many of the highlighted areas and approaches suggested in the Review are consistent with research done in RESPECT,<sup>9</sup> which identifies a range of areas and possible actions to revitalize the WTO, focusing on the three pillars of the organization: negotiations, deliberation, and monitoring of implementation of agreements and dispute settlement.<sup>10</sup> RESPECT research argues that the EU has a particularly prominent role in the area of settlement of trade and investment-related disputes. The EU has been a strong advocate of the WTO Appellate Body. The EU opposed the decision of the United States to block new appointments starting in 2017 – which eventually led to the demise of the Appellate Body in 2019. The EU took the lead in putting in place a multi-party interim arrangement to permit WTO members that desired to continue to have access to an appeals mechanism, effectively mimicking the

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<sup>9</sup> The RESPECT consortium engaged with DG Trade representatives in the course of implementing research on the WTO and benefitted from periodic two-way exchanges on work in progress.

<sup>10</sup> See Hoekman and Zedillo (2021), Hoekman, Tu and Wang (2021) and Hoekman and Mavroidis (2021).

Appellate Body if it had been operational. While a useful interim stopgap, it is not a long-term solution. Most WTO members have joined the interim arrangement although it is noteworthy that China did. WTO dispute settlement reform is necessary to re-vitalize the WTO.

In the area of settlement of investment-related disputes, the EU has sought to put in place a multilateral mechanism along the lines of WTO, in which conflict resolution would be the task of a standing arbitration body. A driver for this effort was the extension of EU-level competence to encompass the negotiation of international investment agreements in 2009, increasing civil society opposition to investor-State dispute settlement (ISDS), and ECJ rulings that ISDS as such is a shared competence (Kurtz, 2016; Basedow, 2021a). Shifting away from ISDS and towards a multilateral court system (in which investors would still have standing) reduces potential complexities associated with mixed competences while addressing widespread civil society as well as governmental concerns regarding ISDS. However, the preference of the EU for greater judicialization of investment disputes contrasts with a preference for “de-judicialization” by the United States, reflected in US arguments that the WTO Appellate Body overstepped its mandate and its support for ISDS (Basedow, 2021b). Hoekman and Mavroidis (2021a,b) argue there has been too much focus by the EU on re-instating the WTO Appellate Body and too little consideration to the need to engage with the US and other nations on how to improve dispute resolution processes.

Preparing the ground for possible negotiations on new rules in different areas of policy by developing a common understanding of the magnitude and incidence of negative cross-border spillovers effects is an important precondition for making progress. Establishing such an understanding requires data and analysis. Many RESPECT papers note the absence of timely, salient and comprehensive information on a range of policies underlying trade tensions. Ensuring that the WTO and other international agencies have a stronger mandate to compile such data and to use it for analysis to inform governments and stakeholders on the state of play in a policy area and the effects on the trading system of national policies is an important dimension of WTO reform.<sup>11</sup> In many of these areas open plurilateral agreements offer a potential path forward (Hoekman and Sabel, 2019; 2021). The same is true for policy areas that are directly relevant for the realization of NTPOs, such as addressing climate change. De Melo and Solleder (2019) and Mavroidis and Neven (2019) argue that conclusion of the plurilateral negotiations on an Environmental Goods Agreement (EGA) would help build trust, potentially preparing the ground for extending the agenda over time to include non-tariff barriers and environmental services, which is the decisive test for an EGA to address meaningfully the climate-change challenge. As already noted, the decision by the EU to pursue a carbon border adjustment mechanism is another example where a plurilateral, cooperative, approach would be superior to unilateral implementation of such measures.

## **11. Consultations on RESPECT research findings and recommendations**

A consultation process was implemented in the final phase of the project to gather stakeholders and practitioners’ feedback on the RESPECT research findings. This process was composed of an online survey, individual interviews, and roundtable discussions. The survey was anonymous and asked respondents to indicate their agreement or disagreement with a selection of the main findings emerging from RESPECT research. This survey differed from the one implemented at the beginning of the project as it aimed at collecting feedback on specific research findings, rather than respondents’ perceptions on EU trade and external policies and the instruments used to pursue non-trade policy objectives. The individual interviews and the roundtable discussions were aimed at complementing the survey by deepening the analysis of patterns of responses and identifying stakeholders’

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<sup>11</sup> See, inter alia, Hoekman and Nelson (2020), Evenett and Kong (2021), Li and Rubini (2021) on subsidies; Hoekman and Sapir (2021) on state-owned enterprises; Hoekman and Shi (2021) on services trade policies.

suggestions for integrating NTPOs and EU trade policy. Detailed results are reported in Bondi et al. (2021). What follows presents selected survey results and main takeaways from the interviews.

### *Integrating trade and non-trade policy objectives*

The interviews suggest that the EU strategy of linking trade and non-trade issues is regarded as part of a long-term process and will continue to evolve. Suggestions made by interviewees on how it could be designed to better achieve its proposed objectives are summarized using the framework in Figure 6. This framework highlights three dimensions of the strategy to pursue NTPOs through trade: (i) its transparency and balance between the commercial and value-related objectives of EU trade policy; (ii) the extent of flexibility in recognizing differences across partner countries in the choice of NTPOs and how to pursue them; and (iii) the effective use of different policy instruments and actors.

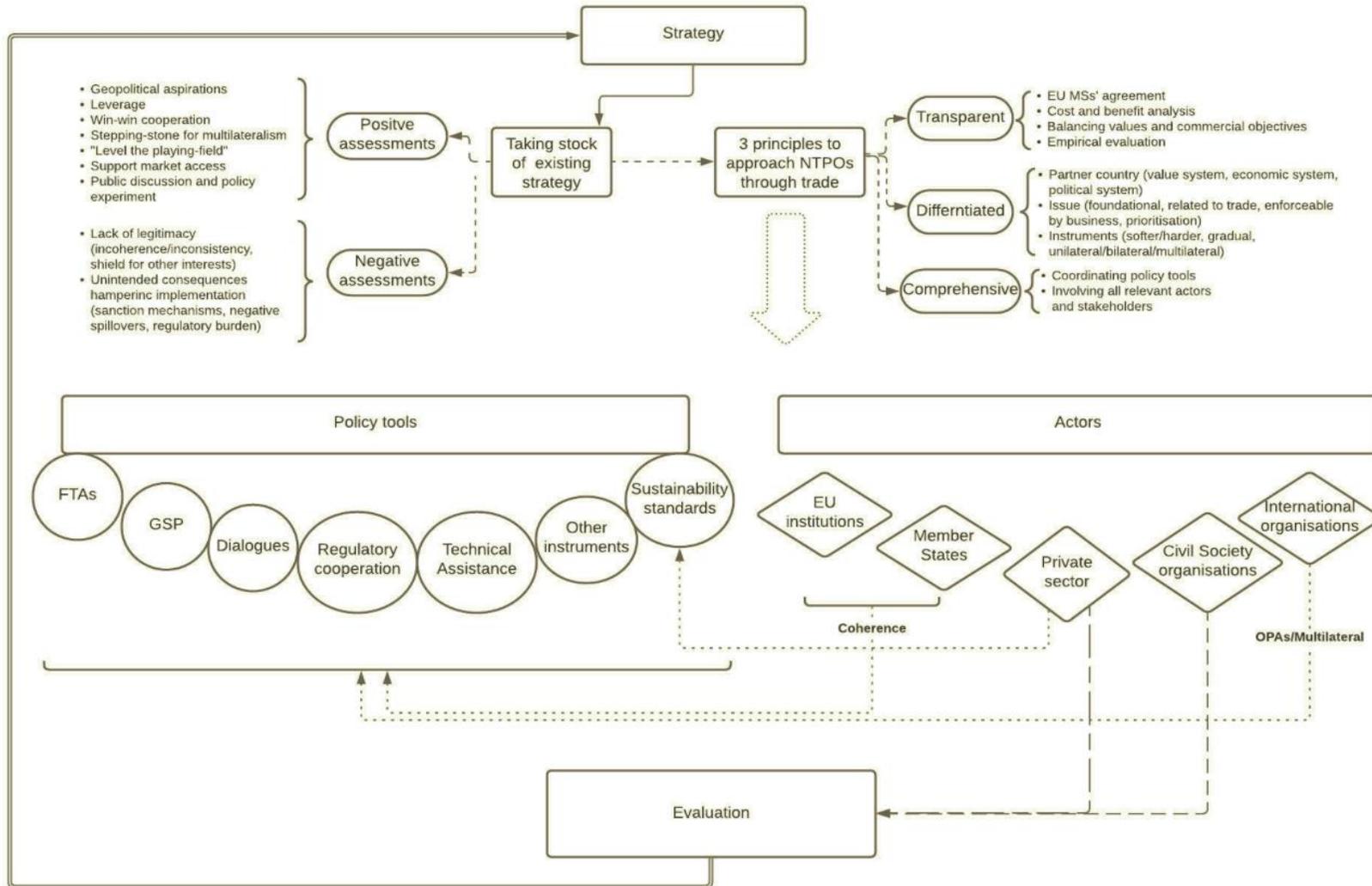
The relevance of these dimensions is supported by the results of the survey. Consistent with the initial survey implemented at the beginning of the project, the second survey revealed generally broad support for the use of non-trade instruments to pursue non-trade policy objectives. More than two-thirds of respondents (71%) agreed or strongly agreed the EU should use non-trade measures to pursue its NTPOs. This holds true across different professional categories and for both EU and non-EU respondents. Two-thirds also agree that a differentiated approach is called for that considers the circumstances prevailing in partner countries and that the EU should not apply the same approaches in all its trade agreements, i.e., independent of whether the partner is a large emerging economy, an OECD member country or a low-income developing nation (Figure 7a).

This is in line with the need for a differentiated and comprehensive framework, a point underscored in the interviews. These suggest that efforts to link trade and non-trade objectives should vary along three dimensions: (i) the characteristics of the partner country, including the level of development, openness to trade, the relative importance of the EU in economic relations, and the political environment; (ii) the specific NTPOs that should be promoted towards a partner country, depending on the presence of shared priorities, values, and salience to trade and business operations; and (iii) the instruments that are best suited to promote the EU strategy, with associated decisions on use of soft vs. hard law (enforceable commitments) and unilateral, bilateral, or multilateral approaches.

The survey and interviews reaffirmed that trade agreements are unlikely to be the best instrument to pursue NTPOs. A comprehensive approach to trade and non-trade policy issues allows integrating trade with other policy instruments. Many interviewees called for using the broader “toolbox” available to the EU, rather than looking at policy instruments in isolation. The decision on which measures can better complement trade in promoting NTPOs will depend on the partner country and should be based on the assessment of the fundamental problems hampering the attainment of NTPOs (e.g., the structure of the supply chains). The inclusion of complementary measures should recognize the need for gradualism, given that time will be needed for partners to achieve changes in NTPOs.

The survey reveals significant support for the conclusion that there is room for improving policy coherence, including coordinating policy actions at the EU and member state levels. Most respondents agree that EU sustainable impact assessments should focus more on identifying a subset of priority NTPOs and serve as a tool for programming aid to target these NTPOs (Figure 7f). Most respondents are neutral or disagree that non-trade instruments are integrated effectively in the implementation of EU commercial policy; most indicate agreement with the suggestion the EU should do more to link development assistance to NTPOs found in trade agreements. Most respondents also are neutral or disagree that there is an effective division of labor across EU actors in use of non-trade instruments.

Figure 6. Trade and non-trade objectives: Mapping policy instruments and actors

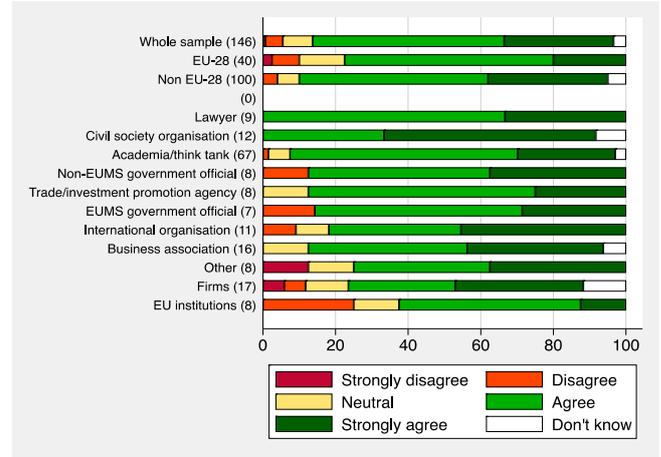
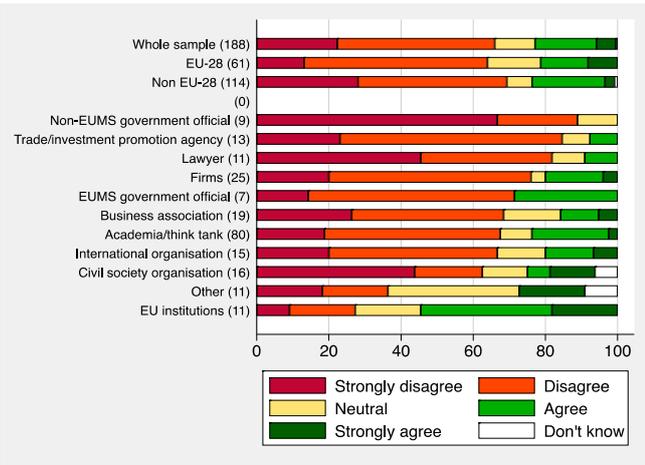


Source: Bondi, Fiorini and Hoekman (2021).

**Figure 7: Selected questions from the second RESPECT survey**

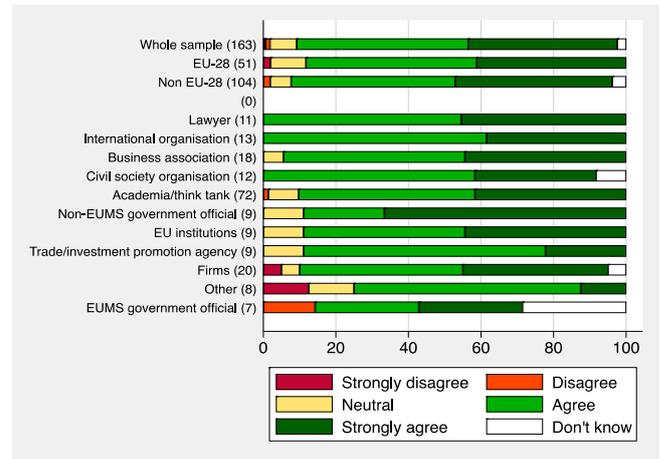
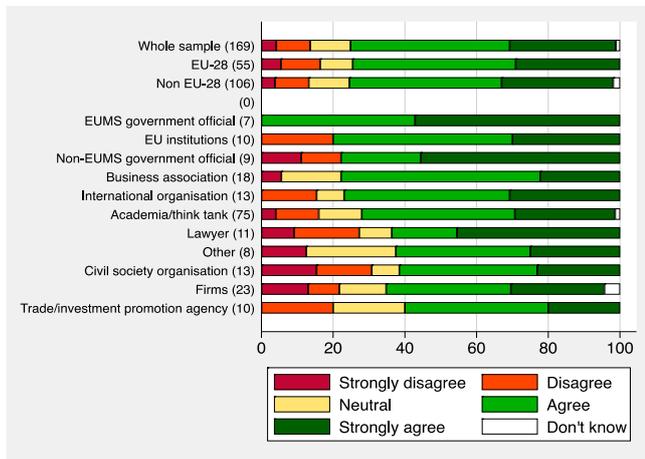
*(a) Use same approach to NTPOs in all agreements*

*(b) Assess reasons for violations before enforcement action*



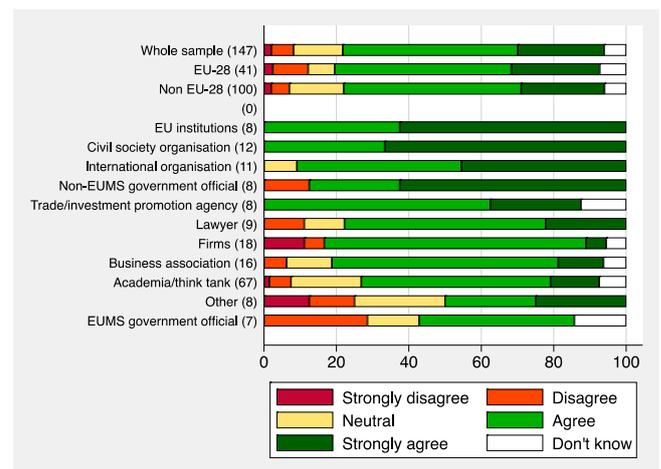
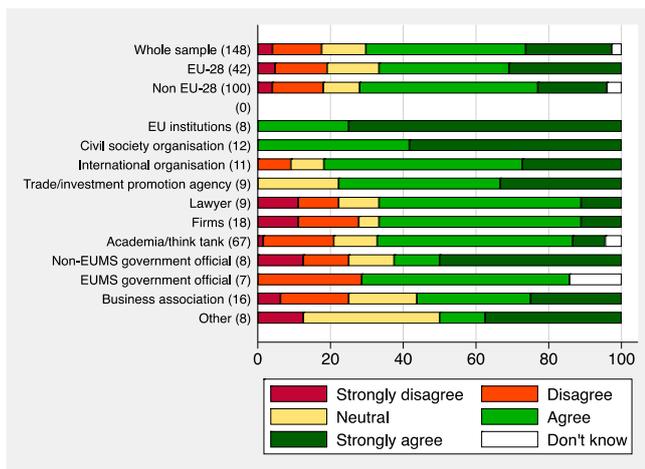
*(c) Pursue plurilateral agreements on non-trade issues*

*(d) Make greater use of expert dialogues to achieve NTPOs*



*(e) Require responsible business standards in value chains*

*(f) Use SIAs to identify key NTPO priorities*



Source: Bondi, Fiorini and Hoekman (2021).

Four-fifths (81%) of respondents agree the EU should consider the extent and effectiveness of assistance provided by EU member states and EU institutions when enforcing trade agreement provisions. A similar proportion agrees with the suggestion that before launching enforcement procedures the EU should ascertain and consider the reasons why a partner country has not implemented non-trade commitments (Figure 7b). The interviews confirm this assessment, with some participants arguing that a comprehensive and flexible approach requires cutting across the different Directorate Generals and integration with the activities of the EEAS. Some interviews pointed to distrust between directorates within the Commission, the EEAS, and the member states as a factor impeding effective use of the toolbox that is in principle available. Some also noted that the EU is at times perceived as using NTPOs as a pretext to advance its self-interest, although others point to the increased public awareness of non-trade issues in addition to the political pressure arising from the need to address the adjustment costs of trade liberalization. A more explicit and transparent effort to compensate partner countries for the potential costs of pursuit of NTPOs could permit a more explicit balancing of interests and values.

### *Complementary measures*

The survey shows widespread support for plurilateral agreements, as well as for the use of expert dialogues as tools to promote non-trade objectives. Three quarters (74%) of respondents support the use of plurilateral agreements as instruments to support realization of specific NTPOs (Figure 7c). The interviewees suggest OPAs permit tackling new developments in international trade, e.g., the digital economy, climate change and market dominance of large companies, and the related need for cooperating on regulatory matters. Several interviewees considered OPAs to be a means of sustaining the relevance of the WTO by serving as a stepping-stone towards multilateralization.

Challenges associated with negotiating OPAs mentioned in the interviews included potential unintended consequences of increasing tensions between participating and non-participating countries. Concerns were also expressed about the likely limited interest of many countries in considering NTPOs in OPAs, given long-standing opposition by many WTO members to consider labor and environment in the organization. Worries regarding the implementation costs associated with regulatory cooperation and limited negotiating capacity of many developing countries, and perceptions of sometimes “rocky” relationships between the WTO and other international organizations were also mentioned as potential challenges. Consistent with work done in RESPECT, interviewees stress the importance of openness, support for developing countries, and agreements (provisions) that generate benefits that are clear to both governments and private sectors. One area that respondents to the survey consider should be prioritized in this regard is climate change. As two-thirds of the respondents in the sample qualify as non-European, this suggests significant support by EU trading partners in achieving multilateral solutions to reduce greenhouse gas emissions

A large majority of survey respondents support the proposition that the EU should use expert dialogues and regulatory cooperation more extensively to promote NTPOs (Figure 7d). There is also support for the proposal by the EU to promote NTPOs by incorporating and monitoring sustainability and business conduct standards in value chains, although a substantial minority of government and private sector respondents are less supportive of this idea (Figure 7e). Many interviewees consider standards a good tool to promote NTPOs, as they are designed by technical experts and they pragmatically focus on a specific outcome. Firms increasingly adopt voluntary standards to differentiate themselves in the marketplace, creating a basis for promoting sustainability through value chains by engaging with suppliers to adhere to standards that are valued by consumers. Several interviews suggested that going beyond this to put in place a mandatory due diligence framework as proposed in the EU trade strategy may constitute a significant burden for smaller companies and create a disincentive to source from developing country suppliers to the detriment of NTPOs.

Companies pointed to the importance of ex-ante assessment of any due diligence check list for supply chains on a country-by-country basis.

The interviews underscored the importance of alignment between private and public sector in partner countries to foster implementation and enforcement of EU trade policy. An example is provided by the cooperation required between buyers and suppliers to adopt sustainability standards, where interviewees stressed the importance of continuous engagement and follow up, which may be best done by empowering civil society organizations as opposed to through government-to-government interaction.

## **12. Conclusion: Openness, Strategic Autonomy and Trade-NTPO Linkages**

Rapid growth of China as a trade power and international investment; structural transformation driven by technological change and the shift to an increasingly digital economy; rising resort to industrial policies by large economies with potentially significant effects on international competition; an increasingly urgent need to address global warming – all of these and other developments make trade policy a much higher profile policy area for the European Union. To some extent, what is called for is to bolster the ability of the EU to act to pursue its interests, including through trade defense instruments, vigorous competition policy enforcement and investment screening to maintain a level playing field on EU markets. The EU has taken steps to strengthen its ability to take unilateral action against foreign policies and measures that distort competition and threaten European values. Ultimately, however, addressing these challenges calls for cooperation with trading partners and better utilizing the EU's significant soft power.

The EU trade strategy (EC, 2021a) makes clear the Union does not intend to reduce global trade integration. It will continue to pursue an open trade and investment regime. Responding to protectionism abroad with protectionism at home is not the answer – maintaining an open policy stance is important for economic growth prospects and for the resilience of supply chains and international production networks. It is also important for achieving NTPOs and more broadly the sustainable development goals, as shown by RESPECT research analyzing the relationship between trade and investment policies and NTPOs.

Pelkmans (2021b) argues that the tendency of creating ever stronger linkages between EU trade policy and NTPOs and needs to be reconsidered because 'coupling' foreign policy and trade policy may be to the detriment of realizing goals in both areas of policy. Pelkmans does not question the importance of pursuing NTPOs and sustainable development more broadly but argues for more flexibility and discretion in using the framework of trade agreements to go beyond referencing internationally accepted standards such as Multilateral Environmental Agreements and core ILO conventions. Pelkmans stresses a basic theme emerging from much RESPECT research: different types of non-trade instruments may be more effective in realizing NTPOs than trade policy/trade agreements. A greater willingness to 'unbundle' and focus on identifying whether and when trade-NTPO linkages (conditionality) is likely to 'work' could help to make trade policy more effective and do more to achieve NTPOs.

The lack of robust empirical evidence that trade-NTPO linkages 'work' in the sense of leading to better non-trade outcomes as measured in a variety of non-trade indicators (Ferrari et al. 2021) suggests that from a policy perspective the message from practitioners in the RESPECT surveys that other instruments are likely to be more effective in improving non-trade outcomes deserves more attention. Positive incentives and constructive cooperation – soft power instruments – may be more effective even when hard linkages (market access conditionality) can be imposed on weaker trade partners. When such linkages cannot be obtained, they are the only option. The example of the CAI shows that a large country like China will not easily, if ever, be induced to change with respect to civil liberties

and certain specific labor rights given (perceived or real) threats to its political system, no matter what may be ‘on the table’ in terms of trade and/or investment opportunities. Giving up the prospects of trade and/or investment agreements with large emerging economies may come at a significant economic cost to the EU without doing anything to improve non-trade outcomes. Here again the research done on soft law cooperation with China suggests progress can – and has – been made using other instruments (Hu and Pelkmans, 2020; 2021a,b).

As the world’s largest trading bloc, the EU has a strong incentive to ramp up efforts to deepen trade cooperation with like-minded countries and further improve transparency and monitoring of the implementation of trade policy to address legitimacy concerns and ensure political accountability. Leadership by the EU on new open plurilateral agreements is not only a path forward in revitalizing the WTO as a forum for deliberation and negotiation. OPAs also offer the opportunity to address more effectively economic development and capacity differences by addressing specific constraints on an issue-by issue and country-specific basis and linking trade to development policy – official development assistance and EU aid for trade programs – policy areas in which the EU is a global leader, and which are important sources of EU soft power. Complementing a greater focus on pursuit of OPAs with the use of the broad range of external relations and development instruments available to ‘Team Europe’, accompanied with more effective mechanisms for dialogue and cooperation with the business community and other stakeholders, could do much to realize more fully the EU’s soft power in external cooperation and trade.

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2. Hoekman, B. X. Tu and D. Wang. 2021. *Rebooting Multilateral Trade Cooperation: Perspectives from China and Europe*. voxEU.org. Available at: <https://voxeu.org/content/rebooting-multilateral-trade-cooperation-perspectives-china-and-europe>.

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