

# To What Extent is the EU a Power In and Through Trade?

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SEBASTIAN MANG, NOV 16 2014

“Where did we start? As a peace project among adversaries. What is our greatest accomplishment? The spread of stability and democracy across the continent. And what is our task for the future? To make Europe a global power; a force for good in the world.”

Javier Solana (2006), High Representative for Common Foreign and Security Policy

This essay argues that the EU is a major civilian and normative power in and through trade, both multilaterally and bilaterally, but that the EU is conflicted within and faces external challenges from an increasingly multipolar world. The first section will discuss the EU and multilateralism, the second the EU's bilateral trade[1] deals, and in the final section will discuss the internal and external issues the EU is facing.

Hanns Maull (1990) defines civilian power, firstly, as the cooperation with others in the pursuit of international objectives; secondly, as using primarily economic means to secure national goals; and finally as a willingness to develop supranational structures to address issues of international management. From the outset, therefore, the EU is a prime example of a civilian power. Many, however, have also argued that the EU is a normative power. The concept of normative power was first developed by Manners (2002), but because this concept is hard to define, this essay uses Laïdi's definition of norms and Joseph Nye's definition of power (Kugel, 2012). Laïdi argues that norms are:

“standards aiming at codifying the behaviour of actors sharing common principles and this in order to generate collective disciplines and to forbid certain conducts in the different fields of public policy” (Laïdi, 2008).

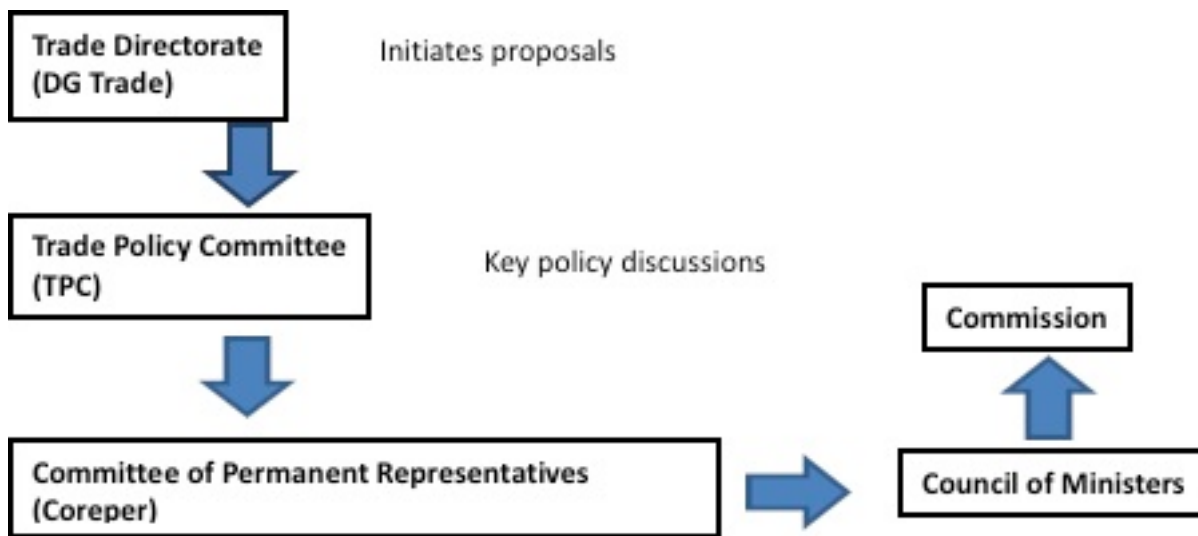
Nye defines power as “the ability to influence the behaviour of others to get the outcomes one wants” (Nye, 2004:4).

EU trade policy involves ‘two levels of delegation’[2] (Table 1) (Meunier and Nicolaidis, 1999). It evolved from the 1957 Treaty of Rome, which formally transferred the competencies of negotiation and the power to conclude international agreements in trade from the member states remit to the collective entity. The 2001 Treaty of Nice solved issues of responsibility[3] within trade in services. Finally, the Lisbon Treaty created parliamentary control according to Article 207 and 218[4]. The European Union has thus undergone a process of institutionalising trade policy from being under member states remit to a Union competency. The EU, with its soon to be 28 member states, has developed into the single largest Trading Bloc worldwide with a GDP of \$15,868.983 billion in 2011 (EU27+Croatia) (IMF, 2012). It has developed an array of negotiation tools and institutionalised processes to deal with trade issues.

### Table 1 – Process of Establishing a Negotiating Mandate

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This section will show that the EU, as Lavenex (2004) postulates, exports parts of its legal *acquis* through trade. The EU, having been awarded the Nobel Peace Prize in 2012 (Nixon, 2012) for its ground breaking experiences and accomplishments in European multilateralism, has presented itself as the Champion of Multilateralism in international trade (Cini & Borragan, 2009). From the very beginning, the European Union has played a key role in multilateral trade negotiations. In the Doha Rounds, which began in 2001, the EU's position was to 'manage globalisation' according to the doctrine laid out by the former commissioner Pascal Lamy (2004). He argued that, by increasing the number of actors participating in the international trading regime, a greater share of trade is subjected to rules and international trade law. Actors will thereby be acting in a less anarchic system. One could argue that the internal conceptions and experiences of multilateralism have 'spilled over', as described in neo-functional theory[5], to external trade policy. Table 1 shows that the EU (Commission), in theory at least, speaks as a unified voice within international trade. Although neo-functionalism explains the EU's conceptual stance on trade multilateralism, the EU's single voice is based upon liberal inter-governmentalism[6], whereby member states have 'pooled' their sovereignty to establish a unified and single voice to act more efficiently in the international arena. This section has established that the EU intentionally exports its experiences of multilateralism and acts as a single voice in international trade negotiations.

Within this international system one has to look at the EU's bargaining leverage, which is defined as "the ability to maximize one's relative gains in a negotiation" (Meunier, 2005). The highest bargaining leverage is attributed to that actor which has the most structural power or has the highest intensity of preference. Firstly, the size of the economy and the dependency on external actors' economies in itself can influence one's negotiating strength. As Hirschman argued in 1945 (Keohane, 1984), "the bigger one's own market, and the greater the government's discretion in opening it up or closing it off, the greater one's potential economic power".

In the case of the EU, therefore, one could argue that by creating a larger internal market, and in so doing reducing the dependency on other actors, the EU has increased its international bargaining strength and can therefore negotiate concessions in return. Secondly, the EU's competitiveness is a further strength. The underlying economic principle of the EU, liberal economic theory suggests that market integration has the effect of increasing competitiveness. Thus the EU has decreased dependency on third countries and increased its bargaining leverage.

Intensity of preferences, as highlighted by Moravcsik (1997), refers to the "security imperatives" (Meunier 2005). This in essence means that international trade falls within alliance structures (Gowa & Mannsfield, 1993). It is, therefore, more likely that the EU can compromise and obtain concessions from its allies than with hostile or neutral actors.

The above has shown that the EU is very well placed to assert power over other international actors within a

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multilateral setting. Through utilising its sheer size and competitiveness and by working together with its allies, the EU can influence global international trade negotiations and in so doing influence international trade law. Therefore, one would argue that the EU sees the WTO as an institution for regime setting and for pushing its own policies. Within these negotiations, the underlying principle is to achieve market liberalisation. Adversely, in practice, actors aim to reduce other countries' trade barriers and keep their own barriers intact. The EU is no exception and due to its strong bargaining position and powerful alliances, it successfully protects fragile industries such as agriculture. The EU has even gone beyond issues dealing with trade in goods and moved into areas outside its legal competence, including intellectual property rights, and the tax regimes of third countries (Billiet, 2005,2011). The following two case studies illustrate the EU's power within the WTO and the UN.

Within the WTO especially, where the single voice is most prevalent, the power of the EU in trade is strengthened. Within it, the EU is one of the two most important actors in the organisation. No decisions can be taken without it. Furthermore, it enables the EU to confront its trading partners, in particular the USA and increasingly China, on unilateral actions through defensive and proactive instruments[7]. When an actor adopts a trade policy measure or takes an action considered to breach WTO agreements, the dispute can be brought to the WTO (McCormick, 2011). The EU and USA have clashed within the WTO on numerous occasions. They have settled trade issues over, for example, banana imports (Butt Phillips, 2001) and intellectual property rights. These examples show that the EU uses the WTO to agenda set and to protect its companies and industries (Bretherton & Vogler, 2006).

The EU can also use its trade might as a coercive power as highlighted recently with the Iran Embargo. The EU has been instrumental in implementing the UN's (N.D) mandated embargo to halt Iran's uranium enriching programme and to address questions about its nuclear programme. On 15<sup>th</sup> October, the EU increased its restrictions on Iran by closing up loopholes. Analysts have said that the embargo imposed by the EU, US, and the UN Security Council has caused significant damage to Iran's economy. The Council of Ministers stated:

"They [the embargos] are meant to persuade Iran to engage constructively by negotiating seriously and addressing the concerns of the international community. The sanctions are not aimed at the Iranian people" (BBC, 2012).

The above shows that the EU has been able to shape global politics through trade, both in order to support its own economy and companies and as a coercive measure to facilitate positive change.

However, critics argue that the EU is anti-multilateralism and that this position is more rhetoric than full commitment, which puts into question whether the EU is fully committed to this form of influence. Meunier and Nicolaidis (2006) argue that the EU blankets the planet with bilateral trade agreements and thus supports protectionist policies (Acar & Tekçe, 2009).

Bilateral trade deals come in varying forms, which due to the EU's strong bargaining leverage, are normally dominated by the EU. The EU has an array of bilateral trade agreements. As a result of historical ties, these were initially with its neighbours and former colonies, but it widened this approach to include other actors. In 1995, the Euro-Mediterranean partnership was created with the goal of building a free trade agreement between themselves. In 2004, this was widened to include southern and eastern countries and renamed the European Neighbourhood policy (ENP). Although the ENP first only included trade, through 'spill over' it now incorporates many issues of good governance which highlights the normative aspect of the EU's trade policy (Börzel, 2009). Regardless of whether the Trade Agreement will be achieved, this example highlights that the EU has exercised power over the ENP members and increased its sphere of influence through the means of offering market access.

The EU has signed a number of trade agreements with third countries[8]. Especially noteworthy are the region-to-region trade agreements (e.g. MERCOSUR), where a customs union, aiming to facilitate free trade, is proposed. Although the negotiations for an agreement have stalled, this would be the first example of a customs union between two customs unions. Moreover, since 1971, the EU has ensured that Least Developed Countries face lower tariffs than other nations. Through the use of the Generalised System of Preference (GSP), GSP+, and the Everything but Arms Initiative (EBA), the EU has ensured that certain countries are given preference so that they can partake in international trade (European Commission, 2012a). Under the GSP+, additional preferences are given to those

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countries which comply with 27 international conventions, which further human and labour rights, sustainable development, and good governance (European Commission, 2012b). Most importantly and most successfully, the EU has used trade and its internal market for bargaining leverage to restore democracy through the Association and Stabilisation Criteria and by offering membership to Ex-Soviet states. The opportunity to join the European Union after the fall of the Berlin Wall and the end of the Yugoslav War (EU Business, 2008) was so alluring that actors were easily persuaded to comply with the economic and normative conditions laid out by the Union. One could even go as far back as the Spanish, Portuguese, and Greek transition to democracy, in which the then EC played a huge role in consolidating democracy (Huntington, 1991) by offering market access.

The above shows that the EU has an array of trade deals with third countries and shows that through offering market access, it is able to Europeanise<sup>[9]</sup> third countries and achieve civilian power goals i.e. free market liberalisation, and normative power goals i.e. compliance with international human rights laws. During negotiations and, possibly more importantly, due to close economic and political ties and discourse with third countries, these partners are incorporating economic, political, and in some cases, democratic values from the EU. This in effect highlights the long-term, continual influence of the EU over third countries (Meunier and Nicolaidis, 2006).

However five issues arise when looking at the EU as a power in and through trade: slow decision making and internal conflicts; the conflict between regionalism and multilateralism; the inconsistencies of exercising normative power in Europe through trade; a lack of hard power capabilities; and the EU's role in the ever more multi-polar world.

Firstly, a slow decision making process, which often results in 'lowest common denominator' solutions (Renda, 2009), leaves the EU with a lack of political will and a reduction of its structural power which affects the effectiveness of the EU within international trade. Because negotiations are fluid, the Commission, which gets its mandate prior to negotiations (Table 1), cannot always stay within the limits set out by its mandate. In such cases, the Commission needs to go back to the Council of Ministers to rework the mandate, and this slow decision making process can affect the international trade talks. Furthermore, many actors, including the US, have argued that the EU lacks transparency within the Article 133 Committee<sup>[10]</sup> and that the Council of Ministers impacts trade negotiations harmfully. Actors do not fully understand the complex processes of the EU. Moreover, a conflict between EU priorities and member states' priorities exists. The Commission's case against China was undermined when the German Chancellor Merkel visited China announcing that the EU ought to avoid bringing anti-dumping cases to the WTO (Hille and Chaffin, 2012). This shows that Member States diplomatic priorities can undermine and conflict with the economic priorities of the EU.

Secondly, the EU in itself has been a model for replication in other regions of the world. Bhagwati and Panagariya (1996) questions whether Multilateral Trade deals and RTAs are "strangers, friends, or foes". Although some argue that regionalism enables multilateralism by being building blocks for multilateralism (UNCTAD, 2005) – and the EU has been a driving force within this consensus – it has also been argued that regionalism is detrimental for multilateralism (Pal, 2004). Pal shows, that although economists are divided, if the current trend of increased regionalism continues, it will have a harmful effect on multilateralism and the WTO regime in particular. According to Bhagwati and Krueger, increased regionalism is harmful, as it leads to "inter-block trade wars, the domination of small countries by bigger players in the regional blocks and reduced commitment to a multilateral trade regime".

Thirdly, Europe's normative power is put into question by its disregard of international humanitarian law. The EU has been seen to be very hypocritical about which countries it influences and which countries are exempt from these conditions. Some authors have argued that when it comes to matters of security, energy, or trade, the EU easily sets its normative principles aside. Fernandez (2008) gives the example of the relationship between the EU and Russia, where contradictions within the EU's normative stance can be highlighted in regard to energy, trade, and security policy.

Fourthly, the EU has a lack of cohesive or hard power. Laïdi (2008) adds that in the eyes of non-Europeans, the EU stands out as a power with little coercive force. The reliance of the EU on the US as guarantor of hard power undermines the EU's power. One could, therefore, argue that the lack of EU hard power has implications for its bargaining power. Without the threat of the US's hard power capabilities, the EU would not have been able to

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threaten Iran with any further action past an embargo and, therefore, could not intervene if Iran were to get nuclear capabilities. Only on the back of the US, could the EU stop Iran's acquisition of nuclear weapons. Moreover, within international negotiations, it can be argued that the EU is not seen as a world power equal to other major powers, as hard power is missing within the EU's toolbox.

Finally, the EU can be described as a declining power within an increasingly multi-polar world. The economic crisis and the emergence of BRIC countries have highlighted the relative decline of the EU. The EU, although slowly growing, is declining in relative strength. The BRIC nations are forecast to overtake the EU cumulatively in 2014 whereas China is advancing rapidly to the level of the EU. Perhaps, more importantly, PEW Research (2012), which examined the perceived power of major world actors, has shown that the EU has experienced a reduction of perceived strength between 2008 and 2012. Furthermore, when comparing China and the EU, China is perceived to be far more powerful than the EU. Moreover emerging markets are no longer passive actors who want market access and Foreign Direct Investment; they want more complex commitments (McGuire & Lindeque, 2010). To further underpin this issue, McGuire and Smith (2008) show that the globalisation of innovation and knowledge makes emerging markets less reliant on knowledge transfers.

This paper argues that the EU is a major power in and through trade. It is the single biggest trading bloc, is highly competitive, and has a solid alliance structure. Furthermore, it has used this trading power and its bargaining power to agenda set within international organisations and negotiations, to create bilateral trade deals with third countries, and to influence domestic politics of third countries and, in so doing, Europeanise other global actors. This essay contends that the EU has not entirely utilised its trade power effectively. It has been argued that the slow decision making process in particular but also the hypocritical nature of the EU's normative power and its support for regionalisation of the global international order, has contributed to structural deficiencies within the EU and diminished its power. Moreover, the essay has highlighted that the EU's lack of hard power capabilities limits the range of policies it can utilise, thus limiting the effect of its trading power in such cases when it has to rely on the US's hard power capabilities. This may be even more exacerbated when emerging markets in the future have an increasing role in the ever more multi-polar world. Despite these deficiencies, this essay argues that the EU is a power in and through trade, that the current perceived power of the EU is undervalued in comparison to China, and that the EU could assert more power and become an increasingly global player if it solved its internal issues.

Going back to the definitions in the introduction, this essay has shown that the EU is a civilian power as defined by Hanns Maull (1990). It uses cooperation with others to pursue international objectives through its alliance structures. The EU uses primarily economic, i.e. trade means, to secure EU goals and finally is willing to work on a supranational level i.e. the WTO and UN. Moreover, although this essay would contend that the EU is a conflicted normative power, it has incorporated key issues of the definition laid out. It does have, as set out by Laïdi (2008) a set of standards, norms, and values and does "influence the behaviour of others to get the outcomes [the EU] wants" (Nye,2004:4) . However, it chooses to be a normative power in some instances and puts economic or diplomatic interests first in others.

As a concluding remark, this essay argues that a debate has to be initiated between member states within the Commission and within academia as to what kind of power the EU should be. It has to consider the moral implications of its hypocritical normative approach and be willing to forego economic competitiveness. And finally I would pose that in the Union lies the strength.

"Let's unite. And the world will listen to us."

Pro-European ad campaign, September 1992

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[1] Bilateral Trade Agreements include EU with Third country Agreements, Regional Agreements (European Neighbourhood Policy (ENP)), Region to Region Agreements (EU-MERCESUR) and accession agreements (Enlargements in 2004 and 2007) including the Stabilisation and Accession Agreement.

[2] 'Two level delegation' is seen in the EU today. It involves the Council of Ministers giving the Commission a mandate to negotiate with External actors. Even after Lisbon the Parliament has limited say over External Trade matters.

[3] Nice Compromise expanded Qualified Majority Voting to all aspects of trade and gave the Commission exclusive competence. However the European Court of Justice's recommendation of "mixed competencies" was enshrined to allow for a few exceptions e.g. cultural exceptions, education, social services, human health services and transport.

[4] The Lisbon Treaty created parliamentary control within issues of trade. The Parliament has to be informed of progress in trade negotiations and according to Article 218, and has to ratify any bilateral and multilateral trade agreements according to Article 207.

[5] Neo-functionalism: Haas (1958) developed the concept in his seminar work, the Uniting of Europe. He identifies 'spill over', in which the initial decision by governments or commission (George, 1991) to place a certain sector under the authority of central institutions creates pressures to extend the authority of the institutions into neighbouring areas of policy. (Wallace ed a;, 2005)

[6] Liberal intergovernmentalism is a development on the intergovernmental theory of European integration, established by Andrew Moravcsik (1998). Like intergovernmentalism, liberal intergovernmentalism emphasises national governments as the key actors in the process of integration. However, it also incorporates the liberal model of preference formation, whereby national governments have a strong idea of what their preferences are and pursue



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them in bargaining with other member states Liberal intergovernmentalists consider supranational institutions to be of limited importance in the integration process, in contrast to neo-functionalists (EU Civitas, 2011).

[7] Defensive instruments are used to counter unfair trade practices. These include Anti-dumping measures. Dumping occurs when companies from a non-EU country sells goods in the EU below the sales price of domestic goods or below production cost. Anti-subsidy measures are used to combat subsidies which help to reduce the production cost from abroad or cut the price of EU exports. The WTO allows safeguards, which temporarily restrict imports of a product if it is seriously injuring domestic industry. Proactive instruments are 'Trade barrier Regulation', which enable companies to complain to the Commission when they feel they encounter trade barriers that restrict their access to third countries economies. (Meunier, 2011)

[8] EU's Trade Agreements: South Africa in 2000, Mexico in 2000, Chile in 2002, South Korea signed in 2009, which has come into provisional force in 2011 and it has signed a Trade Agreement with Peru and Colombia in 2012. Furthermore it has started informal negotiations with India, Singapore, Canada, Ukraine and Vietnam.

[9] Ladrech (1994) defines Europeanization as "an incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national logic of national politics and policy-making" (p 70).

[10] Article 133 Committee is the EU trade committee, which was named after the Article which gives the EU the power (competence) to negotiate trade agreements with other countries.

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