

# How Does the EU Exercise Its Power Through Trade?

Written by Daniel Hakan Urquijo

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<https://www.e-ir.info/2020/04/07/how-does-the-eu-exercise-its-power-through-trade/>

DANIEL HAKAN URQUIJO, APR 7 2020

Trade has been an integral part of the European Union (EU) ever since its very inception as the European Coal and Steel Community, where a common market for coal and steel was established to make conflict between France and Germany “not merely unthinkable, but materially impossible” (Schuman, 1950, p. 17). From the six-member common market of coal and steel established in 1951, all the way to the customs union of twenty eight states with trade relations with almost every country in the world that it is today (Keukeleire and Delreux, 2014, p. 203), the EU has become the largest actor in international trade. This paper will explore the ways in which the EU exercises its power through trade using a Lukesian power framework. In order to do this, the institutional framework of trade competences and goals will firstly be introduced. This will be followed by a brief survey of the literature to assess the key arguments advanced on the EU’s trade power and to provide context for the main analysis. The Lukesian framework will then be presented and the channels through which the EU exerts this power (direct, indirect, and structural) will be critically evaluated. It will finally be concluded that the EU’s power through trade is primarily exerted via indirect methods though direct methods are used as complements.

### **Institutional Framework: Competences and Goals**

EU competencies over trade are enshrined in Article 207 of the Treaty on the Functioning of the European Union (Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, 2012). The EU receives authority over Common Commercial Policy (CCP), which comes under the form of negotiating trade agreements, foreign direct investment, and export policy to name a few. The CCP is in itself embedded within the broader chapter on external action. This means that trade policy should follow the principles and objectives set out in Article 21 of the Treaty of the European Union (Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, 2012), which include, amongst others, the promotion and observance of the rule of law, democracy, and human rights. The CCP is thus best understood as a pool of trade sovereignty in order to safeguard and promote the EU’s interests and values through the principle of economies of scale.

### **Survey of the Literature**

The predominant argument posited by scholars is that the EU derives its trade power from its monopoly over regulating access to its huge domestic market and the effect that its own domestic policies have on the international trade regime, such as the Common Agricultural Policy (Allen and Smith, 1990; Woolcock, 2010, p. 3). Proponents of the market power argument often advance that it is the EU’s strong presence in international trade that creates a bargaining power, where access to its market is granted to those who accommodate for European demands (Meunier and Nicolaïdis, 2006, p. 908; Nottebaum, 2012, p. 237). This view, however, is contended. An alternative explanation postulates that the EU’s trade power is best defined by how well it can convert its economic prowess into concrete external action measures, for bargaining power solely depends on this “economic power liquidity” (Baldwin, 1989, p. 139; Forsberg, 2013, p. 29). The economic power liquidity argument considers the level of unity, strategic quality, and potential for misplaced confidence on power resources as the mechanisms that condition EU’s trade power (Forsberg and Seppo, 2009, p. 1806). In this view, it thus follows that EU’s trade power is best explained by the set of strategies taken by the EU rather than its market size per se.

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Effectiveness of trade power is thus conditioned by bargaining power in the view of market power proponents, whereas for economic power liquidity advocates it is the strategies adopted by the EU that matter. Still, some aspects are missing in the arguments posited by the relevant literature, such as a convincing non-instrumentalist conception of the EU's economic power.

The key takeaway from the literature is that, if the EU's trade power is derived from its bargaining power and the strategies it adopts to realise it, the EU will then act as to avoid situations that may undermine such sources. This has profound implications in the ways in which the EU will then go on about exerting this power to achieve its goals.

## Lukesian Framework

A framework derived from the "three dimensions of power" in Lukes (1974) will be used in order to analyse the ways in which the EU exercises its power through trade in a holistic way. This approach is largely novel in EU studies as a whole, more so in the case of trade, despite it being implicitly embedded in most of the literature (Robinson, 2006, p. 4). By adopting an explicit framework, we are able to discern neatly different EU instruments and understand better the ways in which they work – deriving important policy implications.

Power is the ability to make somebody do something that otherwise he or she would not have done (Dahl, 1957, p. 202-203). It can be exerted through three main ways, as shown in Table 1. Direct power is the simplest form of power, it takes the form of straightforward coercion. Indirect power works largely through inducement, which may or may not be apparent to the actor being subjected. Structural power, however, is much harder to account for and largely an abstract concept – it explores how the system itself compels each actor to act in a certain way.

Table 1: Three faces of power

**Direct** *A gets B to do something.* **Indirect** *A induces B to do something and curtails B's ability to avoid this.* **Structural** *System compels A and B to act in a certain way.*

With this framework in mind, it is useful to recall the two key goals that the EU has set out to achieve through trade; domestic growth and promotion of EU values abroad (Meuner and Nicolaïdis, 2006, p. 910). These goals can now be used as a guide for the expected EU behaviour, for they will condition the channels used to instrumentalise its trade power.

### *Direct power*

The EU exercises direct power through several means, the primary being the upholding of agreements. Any form of trade agreement between the EU and a third country is bound to have some kind of conditionality attached to it, whether through pre-accession (ex ante) or post-accession (ex post) requirements. It is through this ex post conditionality that the EU exerts its power directly – should a violation occur, the EU is able to review the situation and partially or fully suspend the agreement (Risse et al., 2001, p. 11). An illustrative example of this is the recent situation in Cambodia, where poor human rights records raised concerns for the EU. A review process was kickstarted in February 2019 to tentatively conclude in a withdrawal of Cambodia's trade benefits (European Commission, 2019). The process began to put pressure on the Cambodian government, which increased the minimum wage for textile workers and slightly eased crackdown on the opposition just weeks before the final report was concluded (Thul, 2019). This is a modest example of how the EU has the ability to coerce states into behaving in an "appropriate" manner that respects "core principles" (European Commission 2019). Nevertheless, despite some successes, this approach has long been criticised as 'too little, too late' by critics.

In a similar fashion, the other two direct ways through which the EU instrumentalises its trade power are smart restrictive measures and trade defense mechanisms. The former are essentially newspeak for targeted sanctions and the latter a set of WTO-compliant measures that are used to combat 'unfair' competition. Targeted sanctions

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have been used by the EU increasingly over time, which may seem puzzling considering the hefty literature deeming sanctions useless (Kryvoi, 2008; Giumelli, 2013, p. 13). They often can take the form of trade sanctions that can then be instrumentalised to change or limit behaviour, or to send domestic and international audiences a message (Giumelli, 2013, p. 18; Eriksson, 2016, p. 1). A prominent example of trade sanctions is the case of Russia following the annexation of Crimea in 2014, where the EU has progressively introduced sanctions in order to push Russia to seek a solution to the Ukrainian crisis and to condemn its behaviour internationally (Veebel and Markus, 2015, p. 174-178). The extent to which these measures have been successful is still contested, however it is clear that sanctions' importance is growing as a channel for the EU's external action (Leenders, 2014, p. 4).

## *Indirect power*

If the EU's power through trade is realised thanks to an existing bargaining power and a degree of economic power liquidity, it must be that its preferred channel through which to instrumentalise this power is indirect, as the nature of its very power is so. Indeed, the EU sees more favourably in using its trade power in indirect ways due to its standing as a "normative power" rather than taking a more confrontational role that may jeopardise longer term aspirations whilst not yielding much short-term value (Meunier and Nicolaïdis, 2017, p. 222-223). Keukeleire and Delreux (2014, p. 205-207) put forward two key ways through which the EU uses its trade power indirectly: ex ante conditionality and political dialogue. Ex ante conditionality is the set of requirements that a third country must fulfil for it to enter into an agreement with the EU (Tocci, 2008, p. 883). It is one of the principles of the European enlargement process, the "Copenhagen criteria" (Keukeleire and Delreux, 2014, p. 208), and a concept that has been incorporated into subsequent processes such as the Cotonou Partnership Agreement with countries from Africa, the Caribbean and Pacific states (Gokcekus and Suzuki, 2013, p. 611).

Political dialogue is another way in which the EU exerts its power indirectly through trade. It can take place in various forms, from formal government communications to engagement with civil society actors (Keukeleire and Delreux, 2014, p. 207). The relatively relaxed nature of EU trade agreements with third countries ex ante means that there is great room for improvement once the agreement is in place – and that is where political dialogue steps in. Postnikov and Bastiaens (2014, p. 935) demonstrate that measures like labour standards are induced by the EU through engagement with the third country's civil society. The idea is that once the seed is planted, it is pressures from within the country that will push for those standards to be maintained. This method could, however, be at odds if the third country lacks a strong civil society as measured by European standards. Similarly, political dialogue can only yield results if the status quo policies in the third country are compatible in some extent (Keukeleire and Delreux, 2014, p. 207).

## *Structural power*

The ways through which the EU structurally exerts trade power are understudied. Structural power shall be a form of power that creates payoffs in the international trade system such that the EU is bound to have the upper hand. That is, the EU is compelled to behave a certain way not by coercion or inducement from any other actor but merely by the rules of the game. The first way in which the EU exerts its trade power structurally is through its privileged position in key trade-related institutions such as the International Monetary Fund, where EU member states amass 30% of voting rights (Kiatpongsan, 2011, p. 94-95). Secondly, the EU exerts its structural trade power through the euro – though it is not used by every member state, it still is the world's second-largest reserve currency. This has important implications for the EU's trade regime and thus, its power, as it provides for a very stable exchange rate that attracts neighbouring states to peg their currency to the euro to benefit from its stability (Strange, 2012, p. 270). Nevertheless, the notion of structural power being so abstract, it would benefit from comprehensive studies on the matter and a robust framework of its workings.

## **Conclusion**

This paper has constructed a modified version of the tried-and-tested framework of power put forward by Lukes (1974) to critically present the ways in which the EU exercises its power through trade in a novel way, summarised in Table 2. The first two (direct and indirect) are active ways through which the EU instrumentalises this power, while

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the last (structural) opens up an exciting area for future research and provides an insight into the ways in which the EU may passively exert power through trade. The EU's bargaining power is found to be a defining factor for trade power, however the picture is incomplete if economic power liquidity is not considered. A mix of different trade measures are used by the EU in order to utilise its power, with specifically targeted sanctions gaining popularity over time. Indirect methods include the most popular ways of promoting EU principles while safeguarding member states' interests, thus making indirect power the preferred modus operandi for EU's trade policy.

Table 2: Three faces of the EU's trade power

**Direct Indirect Structural Examples** *Ex-post conditionality, sanctions, trade defense mechanisms Ex-ante conditionality, political dialogue IMF voting rights, euro*

These findings have implications for future policy-making. The EU relies on economic power liquidity to derive its bargaining power, therefore variables such as the level of unity would make or break the EU's efforts abroad. Moreover, the set of direct power measures that the EU has under its belt are at best limited and at worst merely symbolical, which advances the case for 'soft power' diplomacy. Finally, strategies improving the EU's structural power may help circumvent the economic power liquidity problem that it faces by boosting its bargaining position.

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*Written by: Daniel Hakan Urquijo*  
*Written at: University of Liverpool*  
*Written for: Dr. Özge Zihnioğlu*  
*Date written: 11/2019*