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* *The opinions expressed in this article are personal and do not represent the European Commission, where both authors work.*

Introduction

Trade is a fundamental part of the European Union (EU) economy. Indeed, the list of the EU's aims in Article 3 of the Treaty on European Union includes contributing to free and fair trade and to sustainable European and global development.

In recent decades, the European Union has been one of the main beneficiaries of an interconnected global economy in which the international trade in goods and services represents 43% of gross domestic product (GDP), while the value of foreign direct investment in the European Union makes up 40% of GDP. Trade is also essential for employment in the EU. Before the COVID-19 crisis, 36 million jobs depended directly or indirectly on exports to the rest of the world, and another 16 million on foreign investment.

Trade policy is one of the EU's exclusive competences and is constantly evolving as its priorities change. In particular, it adapts to the principles and goals of EU external action.

This chapter aims to analyse the reasons why the European Commission has considered it necessary to carry out a strategic review of its trade policy. Before proceeding to this analysis, we will begin by briefly reviewing the evolution of the European Union's trade policy over the last 15 years.

1. Evolution of EU trade policy

From the creation of the World Trade Organization (WTO) in 1995 until 2006, the European Union's trade policy was largely focused on multilateral negotiations. The EU was the main promoter of the so-called Doha Round, and sought global agreement to conclude the multilateral negotiations that began in 2001. However, after the WTO Ministerial Conference in Hong Kong in December 2005 brought very meagre results, the European Commission inaugurated a new phase in October

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2006 with its Communication “Global Europe”. It was proposed that the Doha Round negotiations should be combined with those on more ambitious bilateral agreements. The emerging economies of Asia were the first priority, and negotiations began with South Korea, the ASEAN countries and India.

The aim of this new approach was to strengthen European competitiveness and take advantage of the opportunities created by the transition to a more globalised economy, in particular by opening up and integrating with the world’s most dynamic markets. The new strategy also addressed new issues on the trade agenda, beyond customs duties: services and investments, intellectual property rights, regulatory barriers to trade, access to raw materials, competition policies and sustainable development. When the multilateral negotiations reached crisis point in 2008, the European Union, like the vast majority of countries, began to focus its negotiating efforts on bilateral free trade agreements, including launching negotiations with major trading partners such as the United States, Canada and Japan.

The debate around the negotiations with the United States and growing doubts about the benefits of international trade prompted the European Commission to adopt the “Trade for all” Communication. A more effective, more responsible and more transparent trade policy was proposed that would go beyond merely addressing issues that affect the economy. Trade agreements should be used as levers to promote European values like sustainable development, human rights and the promotion of fair and ethical trade. The Trump administration’s arrival in power led negotiations to be suspended with the United States – although they were already in crisis under the Obama administration. However, negotiations with Canada, Japan, Singapore, Vietnam, Mexico and Mercosur were successfully concluded (the last two still pending ratification).

Despite its undoubted successes, European trade policy is at a turning point. Trade is increasingly exposed to the volatility of international relations, to tensions between the main global economies, to rising unilateralism and economic nationalism, to greater state participation in the economy and to the use of trade policy as an instrument for achieving economic or geopolitical objectives. As argued below, these are all factors that have led to the weakening of global governance structures in general and of the rules-based multilateral trading system in particular.

In this context, on June 16th 2020 the European Union began a process of reviewing its trade and investment policy in order to define new strategic directions that respond to the new economic and geopolitical context.

This review is governed by two key objectives. First, an assessment will be made of how trade policy can contribute to a rapid and sustainable socio-economic recovery, strengthen competitiveness in the post-COVID-19 context, and meet the challenges likely to face the European Union. The second objective is to define how trade policy can contribute to building a stronger union, based on a model of “open strategic autonomy”, which benefits from openness for our companies, workers and consumers while at the same time protecting them from unfair practices and strengthening our resilience, so that the EU is better prepared to face future challenges.

This process includes a public consultation and will culminate in the adoption of a Communication in early 2021 that sets the course for the European Union's trade and investment policy for the next decade.

2. The new economic and geopolitical context

The review of the European Union's trade policy is therefore framed by the profound changes in the economic and geopolitical context that require both its internal and external policies to adapt.

To understand the reasons for these changes, we must look beyond trade policy and consider structural changes in the global economy with major geopolitical repercussions. Between 2000 and 2017, China's participation in global exports rose from 3.9% to 12.8%. China has become the world's second-largest economy and is increasingly influential in cutting-edge technologies and international institutions. This evolution has been accompanied by a larger role for the state in the Chinese economy, which distorts competition both in the Chinese market and globally. While the conflict between the United States and China began over trade, it is increasingly a geopolitical conflict with a significant economic dimension based on technological rivalry.

It has had a profound impact on the multilateral trading system. In fact, the conflict has largely disregarded WTO rules and includes the application of discriminatory tariffs, as well as purchase commitments that may adversely affect third countries. US unilateralism has not been limited to its relations with China, but has also raised trade tensions with the European Union and other trading partners.

Along with increased trade tensions, the world economy is also being affected by structural changes that are having a profound impact on international economic relations. The digitalisation of the economy creates new opportunities for trade in services, but also alters comparative advantages and restructures global value chains. The digital economy also poses new challenges for regulatory, tax and competition policies, with a shortage of international rules that are able to limit conflicts.

Of even broader significance is the need to introduce profound changes in the economic model to tackle the climate crisis and achieve the goal of climate neutrality by 2050.

These structural shifts are compounded by the most severe crisis in the multilateral system of rules since the WTO's creation in 1995. Since the de facto suspension of the Doha Round in 2008, the WTO's negotiating function has essentially been paralysed. This has prevented the international rules being updated to account for the new realities of the world economy and the distortions linked to state capitalism. The Trump administration's decision to block the appointment of members of the Appellate Body has also thrown the dispute resolution mechanism into crisis, whose legitimacy was previously accepted by all WTO members.¹ In the medium term, the risk is that countries decide that with no effective dispute resolution mechanism multilaterally agreed rules can be ignored. The stability the WTO provides is essential for the growth of the European economy, and the costs of a collapse of the multilateral system would be extremely damaging.

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1. While the United States had long been critical of Appellate Body decisions, it had never before questioned the need to abide by its decisions or decided to reactivate unilateral actions based on section 301 of US law.

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The economic impact of the pandemic accentuates the trends linked to economic transformations and the geopolitical context. Uncertainty about the duration of the pandemic remains, but all indicators suggest a much deeper recession than that of 2008, with high levels of unemployment, increased public debt and more state intervention in managing the economy. The impact may be particularly negative for vulnerable low-income countries, many of which are close to Europe geographically. Although the global economic crisis could provide an opportunity to strengthen international cooperation, the initial reactions have accentuated the tendencies towards economic withdrawal and raised the tensions over state support for national companies. The feeling of vulnerability due to supply problems with essential medical products has also sparked a debate on global supply chains, including calls to relocate production.

The course of the geopolitical conflict between the United States and China is another element of uncertainty. In the short term, the pandemic's impact has intensified the conflict between the two powers, at least at the rhetorical level. It remains to be seen whether collective effort will enable trade tensions to be redirected towards a reform of international trade rules that allows the negative external impacts of state intervention to be dealt with more effectively. It is possible, however, that a more negative scenario will result in which a worsening of the conflict leads the two economies to disconnect and fragments the global economy into areas of influence. Of course, a range of intermediate scenarios are also possible, including better cooperation between the United States and its allies to address unfair Chinese practices, while maintaining spheres of cooperation and offering to negotiate rules within the WTO framework.

The European Union will have to autonomously define its own role in the conflict between the United States and China. That is not to say it should be equidistant, since the transatlantic relationship is based on common values and interests that go beyond the policies of one or another administration. In fact, the European Union largely agrees with US criticism of Chinese trade and industrial policies. On the other hand, the change of administration in the United States improves the prospects of establishing stronger cooperation for the reform of the multilateral system.

3. Trade policy's contribution to the economic recovery and strengthening the European Union's geopolitical role

Trade policy is one of the European Union's instruments for exerting influence on the global economy, through its participation in multilateral organisations, its wide range of over 40 free trade agreements and the global impact of its regulatory policies. EU decisions will therefore significantly affect the potential contribution of trade policy to the global economic recovery, along with the European Union's ability to influence the global geopolitical scene.

European Union trade policy will have to avail itself of the necessary instruments to navigate these troubled waters and defend its interests autonomously while strengthening its resilience and reaping the ben-

efits of trade openness. This does not mean that the European Union should focus only on itself or adopt protectionist policies. Opening up to international trade is compatible with a greater capacity to respond autonomously in defence of EU interests. This is what the Open Strategic Autonomy model seeks to achieve: promoting the EU's ability to develop alliances and lead the reform of the multilateral system in a direction that combines openness and sustainability and champions the rules over unilateral action. The European Union's actions should always align with its international obligations and with the objectives it advocates in terms of international cooperation.

A policy of openness to the outside is essential if Europe aspires to lead the climate transition. A good balance must be found between the European Union's ability to ensure that access to its market contributes to the global reduction of carbon emissions and the importance of maintaining an environment of international cooperation in which the EU acts in coordination with a broad coalition of countries.

The new strategic trade policy orientation will look to support this transition through new initiatives in the WTO, using bilateral agreements as instruments to strengthen our diplomacy on climate issues, and ensuring that new autonomous instruments like the carbon border adjustment mechanism are compatible with multilateral rules.

The more active role of industrial policies also represents a major challenge for trade policy. Once again, it is a question of finding a balance between promoting competitive European industry and introducing effective digital and environmental regulations, while ensuring respect for international trade rules and consistency with the European aims of strengthening international digital standards and subsidy discipline.

The European Union has strengthened its autonomous instruments to ensure a level playing field exists. Alongside the traditional trade defence instruments (antidumping, anti-subsidy), a new instrument is being prepared to respond to the impact of third-country subsidies on the internal market. But fair competition conditions must not be limited to defending the internal market; they must also be extended to export markets, where the European economy's major source of growth lies. Hence the importance of international negotiations to strengthen subsidy discipline. This will undoubtedly be one of the most difficult issues on the WTO reform agenda.

The review of European trade policy should, therefore, lead to greater integration and coherence between trade policy, industrial policy and other regulatory policies. At the same time, the EU's ability to exert regulatory influence will largely depend on ensuring that the external dimension is sufficiently integrated into these regulatory policies. To meet the regulatory challenges of the digital economy and the climate transition, the EU cannot just passively wait for the impact of the so-called "Brussels Effect". A more active regulatory cooperation policy needs to be developed, which trade policy should support. This should involve both better cooperation with the United States on regulatory issues and the strengthening of such cooperation with Asian countries – the global economy's main pole of growth.

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Along with greater internal coherence, trade policy should also be better coordinated with other external policies that support the EU's geopolitical aims. The EU's capacity to lead and exert influence will depend on its ability to adopt credible multilateral initiatives, establish alliances and support its initiatives with the shared diplomatic weight – and resources – of the EU and its member states.

Reforming the WTO will be the central priority of European Union trade policy. How to contribute to achieving the sustainable development goals, and ensuring the modernisation and rebalancing of the rules and conditions of competition should be key parts of the reform. The 2021 WTO Ministerial Conference should enable the first steps to be taken in the process of reforming and defining a medium-term agenda that reinforces the legitimacy and effectiveness of the multilateral system of rules.

The other major geopolitical priority will be the European Union's support for stability and sustainable development in Africa and the countries in its neighbourhood. To achieve these objectives, European policies on trade and cooperation must be better integrated and more coherent. The same is true of regulatory policy. Trade policy should help promote sustainable investment in Africa and support our neighbouring continent's integration process. This will require increased political dialogue between the European Union and the African Union, including on WTO reform and support for the African Continental Free Trade Area. At the same time, the best way to facilitate the integration of neighbouring countries into a common regulatory space remains unclear. Indeed, while neighbouring countries often take European standards as a benchmark, the EU's regulatory influence should also extend to offering closer cooperation and dialogue with neighbouring countries.

The trade policy priorities therefore match the geopolitical priorities of the EU's external action on multilateralism and stability in our neighbourhood. In this sense, the trade policy review brings an end to a cycle that was focused on negotiating preferential agreements in order to focus more on multilateral action and implementing existing agreements. Meanwhile, it is also important to conclude the negotiations that have already begun and ensure the ratification of the agreements already concluded.

Conclusions

The review of the EU's trade policy should lead to the adoption of a new strategic document in early 2021 that sets the direction of trade policy in the new economic and political context. Together with the immediate guidelines to help contribute to the economic recovery, it will also try to define a medium-term direction that results in the identification of strategic priorities.

At the time of writing, the public consultation on the review of the trade strategy remains ongoing, and it is therefore premature to identify the political priorities to follow. These will, in any case, be subject to debate with the member states and the European Parliament. In this chapter we have sought to contribute to the debate by pointing out why we think the trade policy review should be strategic in nature and offer guidelines

that go beyond the short term. In reality, issues like WTO reform, climate and digital transitions, the better incorporation of Africa into global and regional value chains and the strategic positioning of the European Union in the US–China conflict require a continuous effort that will outlast the current European Commission mandate.

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