

Trade and Development Policies

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Reader's Guide

This chapter focuses on the external economic relations of the European Union—the longest-established area of collective European international policy-making and action—and specifically on trade and development policy. The chapter begins by examining institutions and policy-making for trade, in which the Commission plays a central role in initiating and conducting policy, and looks especially at the **Common Commercial Policy (CCP)**. It goes on to examine development policy—an area of mixed **competence**, in which policy responsibility is shared between the EU institutions and national governments. The chapter then proceeds to explore the substance and impact of EU trade and development policies, and to assess the linkages between the two areas. The conclusions draw attention to a number of tensions and contradictions in EU trade and development policy.

Introduction

The European Union is unquestionably one of the largest concentrations of economic power in the global arena. As can be seen from Table 17.1, the Union

possesses 'assets' in the form of economic resources, human resources, and territory that put it at least on a par with the United States, Japan, China, Russia, and other leading economic actors, and well ahead of several of them. Equally, in trade, investment, and other

Table 17.1 The European Union and its major rivals in the global political economy

	Population (m)	Area (m km ²)	GDP (€ bn)	Share of world trade (%)
China	1,383	9.6	10,135	13.4
India	1,309	3.3	2,038	2.8
Japan	127	0.4	4,462	4.9
Russia	143	17.1	1,157	1.8
United States	323	9.8	16,776	15.0
EU 28	510	4.3	14,824	16.8

Note: All figures for 2016.

Source: DG Trade, <http://ec.europa.eu/trade/en/>.

forms of international production and exchange, the EU can be seen as a potential economic superpower, not least because it constitutes the largest integrated market in the world. It is rich, it is stable, and it is skilled, and thus it inevitably occupies a prominent position in the handling of global economic issues. This fact of international economic life has only been underlined by the **accession** of the 13 new member states between 2004 and 2013 (see Chapter 18).

Basic to the conversion of this economic potential into economic power and influence, as in so many other areas of EU policy-making, is the institutional context for the conduct of external economic policy. From the very outset in the 1950s, with the establishment of the **customs union**, the then **European Economic Community (EEC)** had to develop a Common Commercial Policy (CCP) with which to handle its relations with partners and rivals in the world economy. During the 1960s, the Community also initiated what was to become a wide-ranging and complex development assistance policy, primarily to manage relations with the ex-colonies of Community members. Each of these key areas of external economic policy presented the EU with distinct institutional problems and with distinct opportunities for the exertion of international influence. Not only this, but they have also developed in ways that are linked, both with each other and with the broader pursuit of the EU's international 'actorness'.

The purpose of this chapter is to explore these areas of external economic policy, to link them with the institutions and policy-making processes that they generate within the EU, and to explore the ways in which these create challenges and opportunities for the EU in the global arena. By doing this, the chapter will expose a number of areas in which there are tensions and contradictions within EU policies, as well as linkages between them; it will also enable us to evaluate EU policies towards major partners and rivals in the global arena, and the extent to which the EU has been able to establish itself as a global 'economic power' through its trade and development policies.

Institutions and policy-making: the Common Commercial Policy

The core of the European Union's external economic relations is the Common Commercial Policy (CCP). Established by the **Treaty of Rome**, but not fully implemented until the late 1960s, the CCP is the means by which the EU manages the complex range of partnerships, negotiations, agreements, and disputes that emerge through the operation of the customs union and the **Single Market** (see Chapter 20). As we shall see, the definition of 'commercial policy' has broadened considerably since the initiation of the EEC, but it is important to understand the core principles and policy-making procedures of the CCP as the basis for understanding the whole of the Union's external economic policies.

As established in the Treaty of Rome, the CCP was based on Article 113 of the Treaty—since amended to become Article 133 of the **consolidated treaties** in the late 1990s, and now Article 207 TFEU. Article 207 sets out not only the principles on which the CCP is to be pursued, but also the policy-making processes through which it is to be implemented. In terms of principles, as set out in Box 17.1, the CCP embodies not only a set of aims for the external policies of the Union, but also a set of far broader aims in relation to the operation of the world trade system. This key tension is at the heart of the successes registered and the difficulties encountered by the CCP, since it sets up a series of contradictions: is the EU to achieve the aim of prosperity and stability for Europeans at the cost of international stability and development? Or

BOX 17.1 THE COMMON COMMERCIAL POLICY

1. The Common Commercial Policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action.
2. The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall adopt the measures defining the framework for implementing the common commercial policy.
3. Where agreements with one or more states or international organizations need to be negotiated . . . the Commission shall make recommendations to the Council, which shall authorize the Commission to open the necessary negotiations . . . The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it. The Commission shall report regularly to the special committee and to the European Parliament on the progress of negotiations.

Source: Article 207 TFEU.

is it to privilege the aim of global prosperity and development at the expense of the EU's citizens and their welfare? The reality, of course, is that there is a complex balancing process for policy-makers as they utilize the instruments of the CCP.

Essentially, these instruments fall into two broad areas. The first deals with what might be called 'trade promotion': the activities that develop the EU's international activities and organize them around certain core practices. These instruments fall partly within the control of the EU itself, but are also to be found in the broader global institutions and rules established in the world arena. Thus the EU has developed a complex range of trade and commercial agreements, covering almost every corner of the globe. Some of these are bilateral, with individual countries such as Russia or China; others are inter-regional, covering relations with groupings such as the Association of Southeast Asian Nations (ASEAN); others still are multilateral, with the prime example being the World Trade Organization (WTO). In all of these areas of trade promotion, the EU aims to establish stable partnerships and relationships, often with a set of formal rules, which enable trade to develop and diversify.

A second set of CCP instruments is that relating to 'trade defence'. Here, the EU is concerned to counter perceived unfair trade practices by its key partners, such as the **dumping** of goods at unrealistically low prices on the EU market, the subsidization of goods, or the creation of barriers to EU exports. To support

it in these areas, the Union has developed a battery of trade tools, including anti-dumping and anti-subsidy measures, rules of origin, sanctions, and other punishments. But it does not exercise these powers in isolation; frequently, the Union works through the WTO to counter what are seen as unfair practices, using the WTO dispute settlement procedures to defend itself at the global level. Trade and partnership agreements also include procedures for dealing with trade disputes, as a matter of routine, and sometimes linkages are made with other areas of external policy such as those on human rights and development assistance (see 'Institutions and policy-making: development assistance policy').

In the post-**Lisbon Treaty** context, the policy processes through which the CCP is implemented still make use of what historically was known as the '**Community method**' (see Chapter 16). In practical terms, this means that the Commission has the power of initiative, conduct, and implementation of commercial policy agreements. In many cases, the Commission will propose '**negotiating directives**' in which its negotiating mandate is set out; where this is the case, the Council has to approve the mandate as well as any changes in it, and the Commission is monitored by a special Council committee, the Trade Policy Committee of member state representatives. In other areas, the Commission has **delegated** powers to apply **regulations** (for example, in anti-dumping cases), subject to monitoring and approval by the

Council. The Commission has developed a sophisticated apparatus for the conduct of trade negotiations and the conduct of 'commercial diplomacy' through the Union's delegations and specialist missions, such as that to the WTO in Geneva. It might be argued on this basis that, in this area, the EU has effectively displaced the national trade policies of the member states (in contrast to the position on foreign and security policy, in relation to which the member states remain supreme—see Chapter 19). As a result of the Lisbon Treaty, the European Parliament has also been given a more active role in the CCP, especially in relation to the framework for trade policy-making and to the approval of trade agreements once they have been negotiated.

As time has passed, the Union has also had to respond to the changing nature of world trade and exchange, and the CCP has been reshaped to reflect the key trends. In a number of instances, this has exposed the continuing tension between the national preferences of the member states and the European perspective of the Commission, thus raising questions about the extent to which the EU has really undermined the independence of national commercial policies. A key issue here is that of competence: in the Treaty of Rome and for a long time afterwards, the CCP was assumed to be about trade in manufactured goods, but the changing global economy has given a much more prominent role to trade in services (for example, aviation services or financial services) and to related questions such as that of 'intellectual property' (the trade in ideas, such as those embodied in computer software) or foreign investment. In order to cater for these changes, the scope of Article 113 and then 133 had to be expanded during the 1990s, and this was not always a simple process, because member states found reasons to resist the expansion of the Commission's role.

The Lisbon Treaty effectively resolved these tensions, and the Union now has competence not only in trade in goods and services, but also in issues relating to intellectual property and foreign investment. In these areas, the Union's use of its new or expanded powers raises interesting questions—for example, the member states have a very wide range of existing bilateral investment treaties, and the EU's exercise of its post-Lisbon competences will entail the modification or elimination of such treaties (for example, in the Union's pursuit of a bilateral investment treaty with China, the negotiations for which

started in 2014). Another area of tension, which has existed from the earliest days of the European Community, reflects the linkage (or the gap) between 'internal' EU policies and the Union's external relations. As internal **integration** reaches new areas, it is inevitably found that these have external policy consequences. Thus, in the early days of the Community, the Common Agricultural Policy (CAP) was recognized to be not only a policy about what went on within the Community, but also a policy about the regulation of food imports and the promotion of exports, and so it has remained ever since (see Chapter 24). More recently, the completion of the 'single European airline market' during the late 1990s raised questions about who was to negotiate with countries such as the USA about the regulation of international air routes. Only after a prolonged struggle was it agreed that the Community (and thus the Commission) could exercise this power. A large number of other 'internal' policy areas, such as competition policy, environmental policy, and industrial policy, are inevitably linked to trade and the global economy, and this will continue to be an issue for the conduct of the CCP and related policies. This has been borne out by the recent negotiation of 'deep and comprehensive' free trade agreements between the EU and a range of significant partners. By 2016, the most ambitious of these, the negotiations between the EU and the United States for a wide-ranging **Transatlantic Trade and Investment Partnership (TTIP)**, had provided a major case-study in the move from negotiations based on trade in goods to talks which were set to encompass a host of areas in both domestic and international commercial policy (see also Chapter 20). The advent of the Trump Administration in the USA effectively 'froze' the TTIP negotiations, and it was unclear in late 2017 whether they would be resuscitated.

As a result of these trends and processes, the CCP has, in a sense, 'spread' to encompass new areas of external commercial policy, especially in the area of regulatory policy but also now in foreign investment and related areas. The EU has become engaged with a very large number of international institutions in the conduct of these policies and has developed a complex web of agreements with which to manage them. Not all of the EU's international economic policies fall into this framework, and we will now turn to look at one of the most important of these—development policy.

KEY POINTS

- The Common Commercial Policy sets the framework for internal coordination of EU commercial policies, as well as principles for the EU's international activities; these two elements can conflict and create tensions.
- The key instruments of EU external commercial policies can be seen as those of 'trade promotion' and 'trade defence'. They need to be balanced and can come into conflict.
- The key method of external commercial policy-making is still the 'Community method', giving a leading role to the Commission and to its interplay with the Council and now the European Parliament, but there is still a residual role for member states, and a number of areas demonstrate 'mixed competence'.
- The changing nature of commercial policy on the global level creates tensions between the 'internal' development of the integration process and the 'external' demands of global institutions and trading partners or competitors.

Institutions and policy-making: development assistance policy

Historically, there has been pressure for the Community, and now the Union, to expand the scope of its international economic policies. Thus, from the 1960s onwards, there has been a continuing concern with development assistance policy, stimulated originally by the process of decolonization in the French empire. In contrast to the trade and commercial policy area, though, this area has never been subject to the full Community method and thus to the leading role of the Commission. As a result, it demonstrates distinctive patterns of institutions and policy-making.

Starting in the early 1960s, a series of increasingly ambitious agreements between the EEC, its member states, and a growing range of ex-colonies created a unique system for the multilateral management of development assistance issues. Box 17.2 summarizes the key phases in this process, especially the progression from the 'Yaoundé system' to the 'Lomé system', and then to the present 'Cotonou system' (each taking its name from the place where the agreements were finalized). It can be seen from this summary that the successive conventions have set progressively larger ambitions for the scope of the activities that they

cover and also that they have covered an increasing number of partners. As a result, the 'Cotonou system' now covers well over half of all countries in the international system, including some of the very richest and a large number of the very poorest.

The initiation of the Lomé system in the 1970s was widely felt, especially by EC member states, to herald a revolution in development assistance policy by setting up an institutionalized partnership between the EEC and the **African, Caribbean, and Pacific (ACP) countries**. Processes were established to create and maintain a stable partnership, in which the ACP group would have its own collective voice, and to underpin the development of the poorest economies in the face of an unstable world economy. As time passed, however, there was criticism that the Lomé framework was increasingly irrelevant to the development of a global economy. As a result, the Cotonou system places a much greater emphasis on what might be called 'bottom-up' processes of development, in which individual ACP countries or groups of them produced their own plans for **sustainable development** to be negotiated with the EU. The Cotonou system also contains markedly more in the way of what has come to be called 'conditionality'—in other words, provisions that make the granting of EU aid conditional on **good governance**, observance of human rights, and the introduction of market economics. As such, it parallels broader developments in the provision of aid on the global scale and the United Nations' **Millennium Development Goals (MDGs)**, revised in 2015 as the Sustainable Development Goals). It has also been accompanied by special measures relating to the very poorest countries, especially the Union's 2001 'Everything but Arms' Regulation, which allows free access for all products—except those with a military use—from the 40 poorest countries. The Cotonou system is thus a part of a broader and comprehensive approach to development assistance and cooperation, based on an agreed European Consensus on Development, which in turn is an integral part of the EU's Global Strategy, adopted in 2016. The Global Strategy explicitly links development assistance with broader foreign policy and external economic policy goals.

The EU's development assistance policies have thus had to respond to the changing nature of the global economy while taking account of new linkages (for example, between trade and development, environment and development, and so on), and to balance the needs of the developing countries against those of the

BOX 17.2 KEY STAGES IN THE EVOLUTION OF THE EU'S RELATIONS WITH AFRICAN, CARIBBEAN, AND PACIFIC (ACP) COUNTRIES

1963	<p><i>First Yaoundé Agreement</i> (renewed 1969)</p> <p>Reciprocal preferential trade access between EEC member states and associated states (former colonies of member states)</p> <p>European Development Fund</p> <p>Joint Council of Ministers, Joint Parliamentary Assembly, and Committee of Ambassadors</p>
1974	<p><i>Lomé Convention</i> (renewed 1979, 1984, 1990, and 1995)</p> <p>Includes former British colonies</p> <p>ACP group established, with Secretariat in Brussels</p> <p>ACP partners increase from 46 (1974) to 68 (1995)</p> <p>Non-reciprocal trade preferences</p> <p>Schemes to support ACP agricultural prices (System for the Stabilization of ACP and OCT Export Earnings, or STABEX, in 1979) and mineral export prices (System for the Promotion of Mineral Production and Exports, or MINEX, in 1984)</p>
2000	<p><i>Cotonou Agreement</i></p> <p>20-year agreement (entered into force April 2003; revised in 2005, 2010, and 2015)</p> <p>79 ACP partners (2017)</p> <p>Multilateral agreement to be supplemented by bilateral or minilateral economic partnership agreements (EPAs) by December 2007 (by the end of 2017, all seven such EPAs were in different stages of development: some were fully in force, others were applied provisionally or as interim agreements and others were in the final stages of signature and ratification)</p> <p>Conditionality: aid payments linked to democratic government and human rights provisions</p>

Source: European Commission, http://ec.europa.eu/europeaid/index_en.htm.

EU and its member states. The most acute tensions come in the area of agricultural policy: the Common Agricultural Policy (CAP) does demonstrable damage to the economies of some of the poorest countries, by depressing commodity prices, preventing free access to the European market, and subsidizing EU exports. Here, again, we can see that external economic policy is closely connected to internal policy processes, and it is not always a profitable linkage (see Chapter 24).

Central to the problems encountered by the EU's development assistance policies are two factors. The first is an internal institutional problem: the mixture of policy competences between the EU and its member states, and (in the post-Lisbon context) between the new array of EU institutions. For example, the post-Lisbon arrangements gave the European External Action Service responsibility for overall development strategy, while the

financial and other resources needed to implement the strategy at the European level remained with the Commission and with DG DEVCO. The second is an external factor: the ways in which development assistance policies have become increasingly politicized in the contemporary global arena. In terms of the EU's institutional make-up, development assistance policy remains an area of 'mixed competence' in which policies proposed and implemented at the EU level coexist with national policies for international development. Thus, although the EU claims to be the world's largest donor of development aid, the majority of that figure consists of aid given by member states as part of their national programmes (see Table 17.2). The complex programmes that have evolved at the European level are also, unlike the CCP, the result of a complex division of powers between the European institutions and the national

Table 17.2 EU net bilateral and multilateral overseas development assistance (ODA), 2015

Country	Amount (US\$ m)
United Kingdom	18,545
France	9,039
Germany	17,940
Netherlands	5,726
Sweden	7,089
Spain	1,397
Italy	4,004
Denmark	2,566
Belgium	1,905
Finland	1,288
Austria	1,324
Ireland	718
Greece	239
Portugal	308
Poland	441
Luxembourg	363
Czech Republic	199
Slovenia	63
Hungary	156
Slovak Republic	85
Estonia	34
DAC EU Members, Total	73,238
EU Institutions	13,670
EU total (EU DAC members + EU institutions)	86,908
US	30,986
Japan	9,203

Source: OECD Development Assistance Committee, <http://www.oecd.org/>.

Note: OECD Development Assistance Committee (DAC) members only.

their policies and initiatives have had considerable influence on the ways in which development assistance is targeted and allocated.

Agreements such as the Lomé and Cotonou conventions are mixed agreements, and the Council collectively and the member states individually have the power to ratify or not to ratify them. As with trade policy, this is also an area in which the European Parliament has a stronger and more assertive voice after the Lisbon Treaty. The major institutional innovations made by the Treaty lie elsewhere, however—namely, as noted above the establishment of the new **European External Action Service (EEAS)**, and the reshaping of the Commission's services into the Directorate-General for Development and Cooperation (DG DEVCO), which created significant uncertainties about who controls the policy framework and (perhaps most importantly) the funding for development assistance programmes. For several years after the implementation of the Lisbon Treaty, there remained areas of tension and competition in these policy domains.

In addition to the problems created by internal institutional factors, EU development assistance policies have to contend with the fact that issues of economic and social development have become intensely politicized within the global arena. This means that aid is not simply an economic matter; it has become linked to problems of human rights, of good governance, and of **statehood** in the less developed countries, and the EU has had to develop mechanisms to deal with this. There has been an increasing tendency to concentrate the EU's development assistance policies, especially through the EuropeAid development office and now through DG DEVCO, and to link them with the operation of agencies such as the European Community Humanitarian Office (ECHO). Since the end of the Cold War, there has also been a series of conflicts, for example, in the former **Yugoslavia** and in Afghanistan, in which the EU has played a key role in coordinating reconstruction and post-conflict economic assistance; more recently, conflicts in the Middle East and elsewhere have created major challenges in terms of reconstruction, humanitarian assistance, and the management of major movements of refugees. As a result, the EU's development assistance policies have moved away from their primary focus on the ACP countries and a far wider range of recipients has been identified. Among these, post-communist **regimes** and those involved in conflict form a key focus, as

governments represented in the Council. As a result, the Commission and the Union cannot claim to speak with one exclusive voice in this area, although

do the poorest countries, which as noted above are granted additional concessions in terms of free access to the European market for their goods.

Development assistance policy thus represents a long-established, yet continually changing, focus in the EU's external economic relations. EU development assistance, as an area of mixed competences and challenges associated with political change and conflict, is also increasingly subject to processes of politicization and securitization, some of which create major tensions. Not only this, but the relationship between EU development assistance policies and trade policies, as noted at several points in this chapter, is also a complex and often contested one.

KEY POINTS

- Development assistance is a key area of 'mixed competence' in EU external relations. Thus the EU has potentially important influence, but also has to contend with complex internal policy processes and international demands.
- Development assistance policy is an area with a long history and one in which the EU can claim global leadership; but there are tensions between the EU's policy framework, global rules, and the needs of developing countries.
- Key problems in development assistance include those caused by the emergence of new issues, such as those concerning the environment or human rights, and the increasing politicization of the area. There is an actual or potential tension between the EU's development assistance priorities and those expressed in its broader trade and commercial policies.

The European Union's policy objectives in trade and development

As noted, the European Union is nothing if not explicit about many of its external economic policy objectives. The tone was initially set by the provisions of Article 113 of the Treaty of Rome, in which the Common Commercial Policy (CCP) is established according to explicit principles, applying not only to the EEC and then to the EU, but also to the broader management of international commercial relations.

Perhaps significantly, this set of principles has not been absorbed within the general principles and objectives of the EU's external action (see Box 17.1, under 'Institutions and policy-making: the Common Commercial Policy'). This has been backed up over the years by an extremely wide-ranging and sophisticated series of trade agreements with a wide range of partners, which go into great detail about the privileges and concessions to be given to specific partners. This can be seen as establishing an elaborate hierarchy, or 'pyramid of privilege', in which the EU manages and adjusts its relations to individual partners. From time to time, this set of arrangements raises questions about exactly how particular partners should be dealt with: for example, in the case of China, the EU has had to change its approach as the country has developed economically, and as it has increasingly become integrated into the global economy through membership of the World Trade Organization (WTO) and other international bodies. Likewise, commercial relationships with Russia have been significantly affected by the conflicts of the past few years in Ukraine and elsewhere, which have also led to the imposition of economic sanctions by the Union.

At the same time, the EU has to balance its external obligations against the internal needs of the member states and of European producers and consumers. We have already noted that the Common Agricultural Policy provides extensive safeguards (often said to be discriminatory) for EU farmers, but this is often at the expense of consumers whose food bills are higher because of the protectionism built into the Common Agricultural Policy (CAP). Likewise, during 2005–06, there was a major crisis in trade between the EU and China because of a surge of Chinese textile and clothing exports; this led to the imposition of quotas on Chinese products, but this in turn brought howls of anguish from EU retailers who had ordered products from China only to see them prevented from entering the European market (see Box 17.3). A similar dispute arose in 2011 about Chinese exports of solar panels to the EU: an eventual agreement was reached, but not before the conflicting interests of EU manufacturers and installers or consumers of solar energy systems had been exposed. A large number of the disputes between the EU and the United States (which, between them, still account for a significant proportion of disputes brought before the WTO) have been exacerbated by the lobbying of

BOX 17.3 EU–CHINA TRADE DISPUTES: TEXTILES, SOLAR PANELS, AND STEEL

During the early 2000s, the rapid growth of Chinese exports created a challenging situation for the EU (as it did for other major importers, such as the USA). In particular, the phasing out of the Multi-Fibre Arrangement (MFA), an international agreement that allowed importers to impose quotas if they were threatened with a surge of cheap imports, led to a major increase in Chinese penetration of the European market for cheap textiles and clothing. The EU was faced with a dilemma: on the one hand, the remaining European textile producers, concentrated in southern member states such as Italy, Portugal, and Greece, demanded protection; on the other hand, northern member states with rapidly growing markets for cheap T-shirts and other products felt the heat from their consumer and retail lobbies. The Commission was faced with an almost impossible choice: whether to live up to its international obligations and thus offend powerful internal groups, or to impose restrictions and thus potentially renege on its international commitments. The climax of the problem was reached in 2005, when frantic negotiations produced a

set of compromise agreements based on voluntary restraints by China, whilst shiploads of clothing products were trapped in European ports. The compromise agreements expired in 2007–08 without an immediate renewal of the crisis—perhaps because of the European economic slowdown and slackening of demand. More recently, a dispute with China over the alleged 'dumping' of solar panels raised many of the same issues: European solar panel manufacturers complained about the prices at which Chinese products were imported into the EU, but installers and consumers were equally adamant in support of continued imports. Again, a compromise agreement was made, in 2012–13, which saw some restraints on Chinese exports but no punitive EU measures. In contrast, the case of Chinese steel exports to the EU raised a more 'traditional' type of trade dispute in 2014–15, with the EU imposing anti-dumping measures and EU member state governments concerned with the protection of employment and 'strategic industries' threatened by a surge of imports.

producer groups both in the EU and the USA, which has created political problems around disputes that might, in earlier times, have been managed in a technocratic manner by officials and experts.

The net result of these cross-cutting tensions and pressures is a complicated picture in which the EU professes its commitment to the global management of trade issues, but often acts as though it wishes to pursue its own interests in a unilateral manner. Some of the same sorts of tensions emerge in relation to development assistance: the EU trumpets its commitment to international development and claims to be a pioneer of new types of development assistance policy, but there is always a balance to be struck between the broader international aims, those of the EU as a collective, and those of individual member states. This is institutionalized in the EU, thanks to the mixed nature of the institutional framework and the need to get agreement from the member states on major policy initiatives, and also reflects a number of powerful historical and cultural forces arising from the history of the European empires. In recent years, the EU's leading role in development assistance policy has been challenged by the emergence of new 'models', especially that promoted by China in Africa and elsewhere, which places a lower burden of conditionality on aid recipients.

The EU thus has to face up to a number of tensions emerging from its pursuit of its trade and development policies. These have become more significant as the EU (either as a whole, or through major subgroups such as the euro area countries) has expanded its role in the global economy, and as the linkages between economic, political, and security activities have become more pronounced. One way of stating these tensions is in terms of the competing demands of multilateralism, inter-regionalism, bilateralism, and unilateralism in EU external economic policies. Each of these patterns can be seen in current EU policies, and they have to be held in a complex and fluctuating balance by a set of collective institutions and individual member states with competing interests. The impact of financial and economic crisis since 2008 must also be factored into this balance, since it has created pressures for greater protectionism in trade and for reductions in overseas development assistance. On the whole, the EU has maintained its general stance in favour of trade liberalization and a major commitment to overseas aid, but the pressures persist, and have been underlined by the rise of populism and nationalism in a number of EU member states.

KEY POINTS

- The EU has a general aim of 'organizing' its external environment through commercial agreements and of creating a 'pyramid' of partners in the global economy.
- The demands of external commitments can come into conflict with internal pressures from different interests within the EU.
- This is part of a general problem created by the need for responses to a changing global environment, but can express itself in concentrated disputes and crises for the EU.
- The EU also faces the need to balance between different types of relationship: multilateral, inter-regional, and bilateral. In addition, internal pressures can lead to unilateral behaviour by the Union.

The European Union as a power through trade and development

The European Union has enormous potential for influence and activity in the global economy, but it is equally clear from the argument in this chapter that it faces a number of important constraints on its capacity to turn potential into reality. We have already noted that a series of complex balances have to be struck in the making and implementation of EU trade and development policies, between:

- the collective interests of the EU as a whole and those of individual member states or groups of member states;
- the claims and competences of specific institutions and the pressures generated by different sectors of trade and development policy;
- the claims of different partners and rivals in the global arena, which demand different patterns of incentives and resources from the EU;
- the changing nature of the EU's involvement in the global arena and the increasing levels of politicization that accompany international trade and development policies; and
- the competing claims of multilateralism, inter-regionalism, bilateralism, and unilateralism in the pursuit of EU policies, often within cross-cutting institutional frameworks with complex patterns of demands.

In some ways, of course, these are no more demanding than the problems confronting any national

government in the **globalizing** world economy. All governments and international institutions are subject to at least some, if not all, of these dilemmas. In the case of the EU, though, they are compounded by the fact that the EU itself is founded on a series of institutional compromises and a process of continuous negotiation. This makes the competing claims more obvious and, in some ways, less manageable than they might be for a national government, no matter what its size or complexity. As noted above, these competing claims and pressures have also been intensified in recent years by the impact of financial and economic crisis, which has often had uneven effects on EU member states. Another major factor with uncertain long-term consequences is the impact of the likely departure of the UK from the Union, as outlined in Box 17.4 below.

Against this background of challenges, the EU has considerable assets and opportunities. We have already noted that the EU is the world's 'champion trader', with a key position in the exchange of goods, services, and ideas, and its position as manager of the world's largest integrated market provides it with opportunities as well as with challenges. In recent years, the Community and then the Union, through the Commission, has sought to exploit a number of these opportunities and to establish itself as a key player in the emerging global economy. Thus it has become increasingly active in leading global trade negotiations, with varying levels of success; it has taken a leading role in the handling of international environmental issues such as those dealt with by the Kyoto Protocol and later the Paris Accords on global warming (see Chapter 25); and it has pursued its claim to be a leader in the provision of international development assistance, and increasingly of humanitarian aid and disaster relief.

This means that the EU has increasingly become acknowledged as a power in the global economy. It has acquired the legal and institutional apparatus with which to pursue this ambition, and this legal and institutional framework gives it the capacity to carry out a number of important 'state functions' to preserve and enhance the prosperity of its citizens in a changing world economy. It has been able to establish itself as a key participant in global economic processes, both in formal institutional terms and in less formal terms of engagement in fundamental processes of trade, production, and exchange. In this, it has had to cope with challenges created by a number of other international economic powers, such as the USA, Japan, and (increasingly) China and India. It has created an

BOX 17.4 BREXIT AND THE EU'S TRADE AND DEVELOPMENT POLICIES

The decision by the UK government to negotiate departure from the EU, following the referendum in June 2016, creates a number of potential issues for EU trade and development policies. The UK is one of the three largest trading countries in the Union, and is its largest donor of overseas development assistance (see Table 17.2). It has historically been part of the 'liberal' free trading group in the Union, along with countries such as Sweden, Denmark, and the Netherlands. From the UK perspective, it has also gained through the 'multiplier effect' of EU membership; for example, through the EU's weight in trade negotiations and in overall development assistance.

In relation to trade, it is clear at the time of writing that the UK government seeks to create a new deep and comprehensive relationship with the EU, but retain the freedom to pursue its own trade agreements in the global arena. The departure of the UK would clearly change the internal balance between free traders and more protectionist countries within the EU, and thus might change the nature of EU trade policy more generally, especially in relation to the handling of trade disputes. In absolute terms, the UK's departure would affect only about 4% of EU GDP, even if no trade carried on between the two, and about 2% of EU GDP in relation to trade in services. It is likely, though, that a new form of trade agreement would be negotiated, so the key question is what type of agreement this would be. At one end of the spectrum, the UK would simply leave and its trade with the EU would then be regulated by WTO rules, with tariffs rising in key areas (e.g., to 15% in some agricultural products). At the other end, the UK could adopt the 'Norway solution' entailing membership of the European Economic Area and the need to comply with most of

the EU *acquis* despite not being a member state. The likely outcome is somewhere in between these two extremes, with either a full or partial customs union or a more or less deep and comprehensive free trade agreement. In either case, the EU would acquire a new and significant trade partner (or rival) in its immediate neighbourhood, and there would be uneven economic (and political) impacts on EU member states depending on their closeness to the UK. In relation to EU development policy, the UK has always been a major influence—indeed, the current system of relations with the ACP countries derives from the need to set up a framework able to deal with the ex-colonies of the UK when it joined in 1973. The UK's departure will subtract significant resources from collective EU development programmes, and will also affect the internal balance between 'northern' countries with large commitments to development assistance and those with less of a commitment, for example in Eastern Europe. It might also reinforce one of the trends noted in this chapter; towards a more 'geopolitical' or 'securitized' approach to development assistance, although that trend was established long before 'Brexit' became an issue. The EU would be faced with decisions about how far to continue to assist the UK's ex-colonies, while the UK would be faced with the actual or potential loss of the benefits from EU collective action and information-gathering. The task of disentangling the UK from development policy, while complex, would not be of the same order as the challenges faced in trade policy, but it would nonetheless be a potential distraction and entail time-consuming negotiations; for example, about contributions to the European Development Fund and about the development of mechanisms for coordination in future development activities.

impressive network of international trade and development partnerships and has, in many cases, been able to link these with increasingly political conditions or requirements, for example, through the use of economic sanctions. It has also taken an increasing role in global governance through its support for multilateral action on trade and development.

It remains unclear in some respects what the EU as a global power in trade and development is for or against. As we have seen, this is a reflection of the complex institutional and other forces operating on its external economic policies, and the cross-cutting pressures to which its policy-making processes are subject. The result is a constant disparity between the EU's claims to global distinctiveness and the reality of its untidy policy-making processes. One thing that is clear, however, is that the enlarged EU of 28 (or 27 in the event of 'Brexit') members will continue to pursue ambitious trade and development policies

and through them will continue to have a significant global impact.

KEY POINTS

- The EU faces a complex balancing act in trade and development policies within the global arena. In this, it is constrained by internal complexities and differences of interest.
- But there are considerable opportunities for leadership, especially in new areas such as environment and humanitarian support, which can be linked to trade and development policies.
- The EU is thus a key participant in global governance, not only in trade and development but also in other areas, and its role in this area is expanding.
- Nonetheless, there are still uncertainties about the EU's overall aims and impact within the global arena, and these affect both the EU and its key partners.

Conclusion

This chapter has dealt with the core elements of the European Union's trade and development policies: institutions and policy-making; aims and objectives; constraints and opportunities; and the impact of the EU's activities. Each of these areas of policy has its own characteristic history in terms of the evolution of institutions and in terms of the EU's international engagement. We have seen that the Common Commercial Policy was almost built into the foundations of the EEC because of the need to manage the customs union, while the development assistance policy responded to the need to deal with the ex-colonies of the EU's member states. In each of these cases, the history matters, because it situates the external policy in a certain framework of institutional development and also because it locates the policy in terms of the development of the global economy.

It is also clear that, in each of the policy areas that we have explored, there is a complex and shifting array of pressures and demands to which the EU has more or less successfully responded. The internal pressures—from member state governments, from producer or consumer groups, and from competition between the

institutions—intersect with the external pressures created by globalization, by competition from major established and emerging economies, and by the pursuit of the EU's sizeable ambitions in a changing world. In these areas, the EU has for a long time had to deal with real and pressing policy dilemmas, which are a natural product of its assumption of major 'state functions'.

Despite these contradictory pressures and the difficulties of constructing policy in a changing global economy, the EU can claim in its trade and development policies to have gone some distance 'beyond the nation state'. This does not mean that the member states are redundant: far from it, they are a major source of policy pressures and challenges for the Union's institutions, and they are a key source of the **legitimacy** that has been acquired by those institutions in the context of global governance. But there is also the legitimacy that has been acquired by decades of steadily **deepening** involvement in the global economy, and the acquisition of the knowledge and skills that go with it. These are what give the EU's trade and development policies a distinctive significance and impact, and make them a key subject for study.



QUESTIONS

1. What are the key sources of the EU's power in trade and development?
2. How have the sources of EU power changed in importance during the course of European integration?
3. What are the key features of the distribution of power between the EU institutions in issues of trade and commercial policy?
4. Has the balance of power between the EU institutions changed, and if so, how and why?
5. How has the changing nature of world trade affected the EU's Common Commercial Policy?
6. What does it mean to say that development policy is an area of 'mixed competence' in the EU, and how does that affect processes of policy-making?
7. Why is it appropriate to describe the EU's development policies in terms of a 'pyramid of privilege'?
8. What are the key differences between the Lomé and Cotonou systems of EU development policy?



GUIDE TO FURTHER READING

Hill, C. and Smith, M. (eds) (2017) *International Relations and the European Union*, 3rd edn (Oxford: Oxford University Press) Several chapters deal with various aspects of policy-making and implementation in the EU's external economic relations; chapter 10 deals specifically with trade policy, and chapter 13 with development policy.

Holland, M. and Doidge, M. (2012) *Development Policy of the European Union* (Basingstoke: Palgrave Macmillan) The best and most recent general treatment of the aid and development issue, including the negotiation of the Lomé and Cotonou Agreements.

Kuiper, P., Wouters, J., Hoffmeister, F., de Baere, G., and Ramopoulos, T. (2013) *The Law of EU External Relations: Cases, Materials, and Commentary on the EU as an International Legal Actor* (Oxford: Oxford University Press) This is a major study of the legal aspects of EU external relations, including many areas covered in this chapter.

McGuire, S. and Smith, M. (2008) *The European Union and the United States: Competition and Convergence in the Global Arena* (Basingstoke: Palgrave) Chapters 3–7 cover a number of dimensions of EU-US economic relations.

Woolcock, S. (2012) *European Union Economic Diplomacy: The Role of the EU in External Economic Relations* (Farnham: Ashgate) This is a wide-ranging study of the effectiveness of EU external economic action; in particular, trade policy and its associated diplomacy, with detailed case studies.



WEBLINKS

http://ec.europa.eu/europeaid/index_en.htm The Commission's DG DEVCO web page features material on development assistance policies broadly defined, including the European Consensus on Development, the Sustainable Development Goals, and the Cotonou Convention.

<http://www.acp.int/content/secretariat-acp> The website of the Secretariat for the African, Caribbean, and Pacific (ACP) states, which are the EU's partners in the Cotonou Convention.

<http://www.oecd.org/> The website of the Organisation for Economic Co-operation and Development, which includes analysis of EU trade, economic, and development policies among a wide range of other studies.

http://europa.eu/trade/index_en.htm The Commission pages on trade are an excellent source of data and evidence on relations with other countries and regions, and on ongoing disputes or negotiations.

<http://www.wto.org/> The website of the World Trade Organization, which contains analysis and commentary on current trade issues and trade disputes, as well as large amounts of detailed information about trade negotiations.