15

EU External Relations

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Chapter Contents

Reader's Guide

This chapter focuses on the external economic relations of the European Union—the longest-established area of international policy-making and action. The chapter begins by examining institutions and policy-making in external economic relations, 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 two areas of mixed competence, in which policy responsibility is shared between the EU institutions and national governments: development assistance policy and international monetary policy. The chapter then proceeds to explore the substance and impact of EU external economic policies, and to assess the role of the EU as a global economic power. The conclusions draw attention to a number of tensions and contradictions in EU external economic policies.

Introduction

The European Union is unquestionably one of the largest concentrations of economic power in the global arena. As can be seen from Table 15.1, the Union possesses 'assets' in the form of economic resources, human resources, and territory that put it on a par with the United States, Japan, China, and other leading economic actors, and well ahead of several of them. Equally, in trade, [illegible] The European Union and its major rivals in [illegible] political economy

	Population (m)	Area (m km²)	GDP (€ bn)	Share of world trade (%)
[illegible]	1357	9.6	6,958	12.6
[illegible]	1252	3.3	1,413	2.8
[illegible]	127	0.4	3,691	5.0
[illegible]	144	17.1	1,579	2.8
[illegible]	316	9.8	12.650	13.4
[illegible]	506	4.3	12,977	16.4

[illegible] figures for 2013.

[illegible] Trade, http://ec.europa.eu/trade/en/.

[illegible] of international production and exchange, the [illegible] be seen as a potential economic superpower, [illegible] because it constitutes the largest integrated [illegible] in the world. It is rich, it is stable, and it is [illegible], and thus it inevitably occupies a prominent [illegible] in the handling of global economic issues. [illegible] fact of international economic life has only been [illegible] by the **accession** of the 13 new member [illegible] between 2004 and 2013 (see Chapter 16).

[illegible] to the conversion of this economic potential [illegible] economic power and influence, as in so many [illegible] areas of EU policy-making, is the institutional [illegible] for the conduct of external economic policy. [illegible] the very outset in the 1950s, with the estab[illegible] of the **customs union**, the then **European [illegible] Community (EEC)** had to develop a Com[illegible] Commercial Policy (CCP) with which to handle [illegible] relations with partners and rivals in the world econ[illegible]. During the 1960s, the Community also initiated [illegible] was to become a wide-ranging and complex de[illegible] assistance policy, primarily to manage rela[illegible] with the ex-colonies of Community members. [illegible] early as the 1970s, there was a proposal also to es[illegible] a **monetary union**, with an external monetary [illegible], but this did not finally become established (and [illegible] only for some EU member states) until the 21st [illegible]. Each of these key areas of external economic [illegible] presents the EU with distinct institutional prob[illegible] and with distinct opportunities for the exertion [illegible] international influence.

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' by converting its potential into action.

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 18). 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 TEU. 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 15.1, 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 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

BOX 15.1 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.

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; 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 are those of '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 and monetary 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 14). 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, on 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 foreign and security policy, in relation to which the member states remain supreme—see Chapter 17). 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 these 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). 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. 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 so it has remained ever since (see Chapter 22). 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 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 2015, 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 18).

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. 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 two of the most important of these.

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 and monetary 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. Since the 1970s, there has been a realization that the process of monetary integration in Europe must be accompanied by some form of international monetary policy. In contrast to the trade and commercial policy area, though, these areas have never been subject to the full Community method and thus to the leading role of the Commission. As a result, they demonstrate distinctive patterns of institutions and policy-making.

Let us look first at Community policies on development assistance. 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 15.2 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

BOX 15.2 KEY STAGES IN THE EVOLUTION OF THE EU'S RELATIONS WITH AFRICAN, CARIBBEAN, AND PACIFIC (ACP) COUNTRIES

1963	*First Yaoundé Agreement* (renewed 1969)
	Reciprocal preferential trade access between EEC member states and associated states (former colonies of member states)
	European Development Fund
	Joint Council of Ministers, Joint Parliamentary Assembly, and Committee of Ambassadors
1974	*Lomé Convention* (renewed 1979, 1984, 1990, and 1995)
	Includes former British colonies
	ACP group established, with Secretariat in Brussels
	ACP partners increase from 46 (1974) to 68 (1995)
	Non-reciprocal trade preferences
	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)
2000	*Cotonou Agreement*
	20-year agreement (entered into force April 2003; revised in 2005 and 2010)
	78 ACP partners (2006)
	Multilateral agreement to be supplemented by bilateral or minilateral economic partnership agreements (EPAs) by December 2007 (by the end of 2014, only one of seven such EPAs was fully in force, whilst three were applied provisionally or as interim agreements and three others were in the final stages of signature and ratification)
	Conditionality: aid payments linked to democratic government and human rights provisions

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

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 (MDG)**. 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 from the 40 poorest countries except those with a military use.

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 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 22).

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. 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 15.2). The complex programmes that have evolved at the European level

Table 15.2 EU net bilateral and multilateral overseas development assistance (ODA), 2012

Country	Amount (US$ m)
United Kingdom	13,891
France	12,028
Germany	12,939
Netherlands	5,523
Sweden	5,240
Spain	2,037
Italy	2,737
Denmark	2,693
Belgium	2,315
Finland	1,320
Austria	1,106
Ireland	808
Greece	327
Portugal	581
Poland	421
Luxembourg	399
Czech Republic	220
Slovenia	58
Hungary	118
Slovak Republic	80
Estonia	23
DAC EU Members, Total	64,724
EU Institutions	17,479
EU total (EU DAC members + EU institutions)	82,203
US	30,687
Japan	10,605

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

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

are also, unlike the CCP, the result of a complex division of powers between the European institutions and the national 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 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, 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) 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. 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 do the poorest countries, which 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. Far less well established is the management of the international monetary relations that are an inevitable consequence of the adoption of the euro by 19 of the EU's member states. It has long been the ambition of enthusiasts for **European integration** to see the establishment of a 'real' European currency that might rival the US dollar on the world stage. Although there was significant European monetary coordination during the 1980s and 1990s, it was only with the adoption of the euro in 1999 that this became a political and economic reality (and then only for a certain number of EU member states, now around two-thirds of the total). The euro experienced a harsh baptism, declining against the dollar continually for two years or more, but it then recovered during 2003–05 as the dollar itself came under pressure. Since then, it has maintained considerable strength not only against the dollar, but also against European non-member currencies such as the British pound sterling, especially after the onset of the global financial crisis in late 2008. This is not the place to discuss the internal workings of the euro (see Chapter [illegible]), but it is important to note that the launching of the euro created at least a partial alternative to the dollar; it has become part of the currency reserves of a wide variety of countries, and it has become a target for those concerned at their overwhelming reliance on the US currency.

The euro is managed through a complex institutional process in which the **European Central Bank (ECB)** plays a key role. Because it has not been adopted by all of the EU member states, it coexists alongside the remaining national currencies such as the pound sterling, the Danish kroner, and the Polish zloty; while the governments of the non-euro countries are represented in a number of the bodies overseeing the euro and responsible for economic performance in the EU as a whole, there is differential membership, which gives rise to a number of questions and tensions. The result is a complex picture of overlapping institutions and this has its implications for international monetary management—implications that have been made even more complex and demanding by the global and European financial crises of 2008 and afterwards (see Chapter 26). The euro is a common currency among a number of countries, but it is not managed by a single government: the ECB does not report to a European Finance Minister, and there is no EU system of taxation or macro-economic management.

Yet the establishment of the euro has led to calls for adjustment of membership in international financial institutions such as the **International Monetary Fund** (IMF) to reflect the fact that 19 governments have merged their currencies into one. Not surprisingly, the United States has been prominent among those who note that the **euro area** should have only one voice in such bodies as the IMF or the World Bank, and that the persistence of the national **representations** is an anomaly.

KEY POINTS

- Development assistance and monetary policy are two key areas of 'mixed competence' in EU external relations. Thus the EU has potentially important influence in both areas, but has to contend with complex internal policy processes, as well as 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 tension between the internal demands for euro area monetary stability and coordination and the external challenge of a changing global economy. This is particularly clear in the context of global financial crisis.

The European Union's external economic policy objectives

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 15.1, 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.

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 15.3). A large number of the disputes between the EU and the United States (which, between them, account for the majority of disputes brought before the WTO) have been exacerbated by the lobbying of 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.

BOX 15.3 EU–CHINA TRADE DISPUTES: THE 'TEXTILE WARS' OF 2005 AND BEYOND

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 2012–2013, which saw some restraints on Chinese exports but no punitive EU measures.

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 international monetary policy, we have also noted the tensions between the requirements of internal management of the euro and the pressures of the global economy. The European Central Bank (ECB) has as almost its only major policy objective the achievement of monetary stability and the reduction of inflation, but this has been held responsible for some of the problems experienced by EU economies during the early 2000s and thus for their inability to compete on a global level. Whatever the truth or the final conclusion of that argument, there is no doubt that the major economies of the euro area have often underperformed against their major global rivals and that the need to bed down the **eurozone** system has contributed to this problem. It can also be argued that the primacy of monetary stability in the eurozone has made it more difficult for its member countries and the ECB to respond rapidly to international financial crises such as those in the late 1990s, during which unfavourable contrasts were drawn between the speed of movement of the US system and the lack of movement from Europe, or that of 2008 and afterwards, during which national measures predominated at some crucial stages (see Chapter 26).

The EU thus has to face up to a number of tensions emerging from its pursuit of external economic 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.

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.

Obstacles and opportunities: the European Union as a power in the world economy

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 external economic 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 external economic policy;
- the claims of different partners and rivals in the global arena, which demand different patterns of incentives and resources from the EU;
- the economic dimension of the EU's involvement in the global arena and the increasing levels of politicization that accompany international economic transactions; 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.

Against this, the EU has considerable assets and opportunities in the global economy. 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 on global warming (see Box 15.4 and Chapter 23); it has pursued its claim to be a leader in the provision of international development assistance, and increasingly of humanitarian aid and disaster relief; and it has begun to exercise material influence, albeit often indirectly and haltingly, on the conduct of international monetary policy.

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 impressive network of international economic partnerships and has, in many cases, been

BOX 15.4 THE EU AND THE KYOTO PROTOCOL

The EU has established what many would see as a global leadership role in the implementation of the Kyoto Protocol. This international agreement was reached in 1999 and sets targets for the reduction of greenhouse gas emissions. Whilst the EU was prominent in supporting the Protocol, others, most particularly the USA and China, failed to ratify and thus to implement it. The EU spent a lot of time in the early 2000s building a coalition that could bring the Protocol into force despite the absence of the USA (to enter into force, it had to be ratified by countries representing a set proportion of global emissions, and since the USA is by far the largest 'offender', its absence was a severe handicap). Eventually, with the crucial **ratification** by Russia, the Protocol entered into force in 2005. Whilst the USA is still not part of the Protocol, it has moved towards the EU's position, especially after the coming to office of Barack Obama in 2009, and seems likely to sign up to a successor Protocol to be agreed soon. This has had paradoxical implications for the EU: whilst it can still claim to be a leader, there is the possibility that increasing activism on the part of the USA and China will lead to a sidelining of the Union as their interests gain leverage. The Copenhagen (2009), Durban (2011), and Lima (2014) climate change conferences show contrasting examples of this process and of EU responses.

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 the regulation of international economic conditions through multilateral action.

It remains unclear in some respects what the EU as a global economic power 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 economic distinctiveness and the reality of its untidy policy-making processes. One thing that is clear, however, is that the enlarged EU of 28 members will continue to pursue an ambitious external economic policy and will continue to have a significant global economic impact.

KEY POINTS

- The EU faces a complex balancing act in the global economy. 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.
- The EU is thus a key participant in global governance 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 external economic policies: institutions and policy-making; aims and objectives; constraints and opportunities; and the impact of the EU's activities. It has done so by focusing especially on three areas of policy: external trade and commercial policy; development assistance policy; and monetary policy. 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; we have also seen that the EU's international monetary policy emerged directly from the internal integration process expressed in the establishment of the euro. In each of these cases, 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 producers [illegible] groups, and from competition between the [illegible]—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 global economy, the EU can claim in its external economic relations 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 external economic relations a distinctive significance and impact, and make them a key subject for study.

? QUESTIONS

1. What are the key sources of the European Union's power in the global economy and how have they changed in importance during the course of European integration?
2. What are the key features of the distribution of power between the EU institutions in issues of trade and commercial policy? Has the balance of power between the institutions changed, and if so, how and why?
3. How has the changing nature of world trade affected the EU's Common Commercial Policy?
4. What does it mean to say that development policy and monetary relations are areas of 'mixed competence' in the EU, and how does that affect processes of policy-making?
5. Why is it appropriate to describe the EU's development policies in terms of a 'pyramid of privilege'?
6. What are the key differences between the Lomé and Cotonou systems of EU development policy?
7. Why has the EU not become a 'monetary superpower' since the establishment of the euro? What developments might enable it to become one?
8. What contribution does the EU make to the governance of the global economy? Does this contribution match its potential?

GUIDE TO FURTHER READING

Hill, C. and Smith, M. (eds) (2011) *International Relations and the European Union*, 2nd edn (Oxford: Oxford University Press) Several chapters deal with various aspects of policy-making and implementation in the EU's external economic relations.

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.

Pisani-Ferry, J. and Posen, A. (eds) (2009) *The Euro at Ten: The Next Global Currency?* (Washington, DC: Peterson Institute for International Economics/Bruegel) A series of studies on the international role of the euro, which includes consideration of the early stages of the financial crisis.