

## Refining the EU's Geoeconomic Approach to Trade Policy

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*The great powers are adapting their policies to a new geoeconomic context. When looking at the EU's strongest external policy tool, trade policy, one could ask if the EU is doing enough? This policy brief makes recommendations on how to improve the buy-in of Member States for trade-security initiatives, advance cooperation between DG Trade and the EEAS, and avoid escalation in an age of geoeconomics.*

### BACKING UP COMMITMENTS

The EU does not lack ambition. We all remember Commission President von der Leyen, declaring the arrival of a “geopolitical commission” and the Commission’s powerhouse DG Trade announcing the need for “open strategic autonomy”. Indeed, since these ambitions were put forward, the Commission has taken some unprecedented steps in its trade policy. Various initiatives to reinforce the EU’s trade defense arsenal and the swift reaction, with several rounds of sanctions, in response to Russia’s war against Ukraine are clear examples. Yet, when looking at the various trade initiatives the EU has taken since the arrival of the “geopolitical Commission”, many initiatives remain unfinished and risk not backing up the EU’s ambitious commitments.

Take the proposed Anti-Coercion Instrument, meant to enable countermeasures to tackle economic blackmailing by third states. In a time when the WTO dispute settlement system is blocked, third countries can weaponize their trade policies to pressure the EU or its Member States into changing policies. The Commission’s new Anti-Coercion

tool would thus ideally prevent situations such as when China sanctioned Lithuania after it allowed Taiwan to open a representative office in Vilnius under the name “Taiwan Office”. Although the Anti-Coercion Instrument is often referred to as the EU “flexing its geopolitical muscle”,<sup>1</sup> the EU’s new weapon now risks becoming a paper tiger. As some EU capitals fear that the Commission will not respect the unanimity requirement on foreign policy with this instrument, the proposal risks being watered down by these Member States. This could negatively affect the EU’s capacity to respond to economic coercion.

It would not be the first time that promising initiatives at the intersection of trade and security policy face this humbling reality. In 2017, after pressure from Germany, France and Italy, the Juncker Commission proposed an investment screening regulation enabling the EU to block economic investments in strategic economic sectors. However, in the end, the Commission’s proposal was weakened by Member States unwilling to cede national security decisions over foreign investments to Brussels. Although Member States are not necessarily less motivated than the Commission to protect their national security, national decisions may have adverse effects on the proper functioning of the single market. Furthermore, norms of what constitutes national security are not well aligned. This leads to a patchwork of rules and standards that make a defense of the entire single market difficult. Recent controversies over the stake of foreign companies in various European ports are a clear example of the fragmented way EU capitals look at national security. Given the network effects of ports, the Commission should have had a stronger role in co-deciding on these investments. In the context of increasing geoeconomic

competition, better protection of the single market is necessary. Therefore, further weakening of the EU's trade-security initiatives by allowing a fragmented approach, should be prevented.

### INVOLVING MEMBER STATES

It is important to consider the changing rationale behind EU trade policy. Indeed, there's a valid claim to be made that EU trade policy is slowly integrating within the EU's foreign policy sphere. Although the EU has exclusive competence over trade policy, Member States maintain tight control over the foreign policy realm. Recognizing the stake Member States have in an increasingly "geopolitical" trade policy is, therefore, the first step. Concretely, the Commission could pursue more coordination with Member States when initiating "trade-security" initiatives.

Currently, Member States already advise and assist the Commission with possible new EU trade legislation in the framework of the Trade Policy Committee (TPC) of the Council. However, when it comes to specific cases of trade-security initiatives, more can be done to increase the involvement of Member States at an earlier stage of the decision-making process. Consequently, the Commission and the Member States could create a new "Trade-Security Forum" in the framework of the TPC, where they could have regular in-depth discussions on trade-security matters. This increased coordination could work towards more overall trust, inclusion, and an esprit de corps on trade-security. The demand for more involvement is clearly present, as the recent question by 11 Member States for more influence on the decision-making of the Anti-Coercion Instrument shows.<sup>2</sup> Consistent dialogue can provide the opportunity for an approximation of views on trade-security. This first step in recognizing the important stake Member States have can increase the buy-in for credible trade-security tools.

### DEVELOPING A TRADE-SECURITY ENTENTE

Inter-institutional cooperation should also be raised. Indeed, when third parties increasingly weaponize trade to achieve foreign policy objectives, it is only logical for

the EU to work towards better cooperation between the Commission's trade powerhouse, DG Trade, and its foreign policy service, the European External Action Service. In the past, both were often seen as two separate worlds isolated from each other. Nonetheless, by having a stronger entente on trade-security policies, the EU could bring together the available expertise and means to realise more of its geoeconomic potential.

To pursue this, the EU does not need to reinvent the wheel. Commission President Juncker in 2014 already initiated the Commissioners' Group on External Action (CGEA), a high-level forum existing of Commission Vice-Presidents and chaired by the HR/VP. The coordination body aspired to improve policy coherence on cross-cutting policy areas, including trade and security, and was renewed by President von der Leyen as the Commissioners' Group on "A Stronger Europe in the World". In addition, the von der Leyen Commission initiated a new preparatory body, the Group for External Coordination (EXCO), co-chaired by the HR/VP and the Diplomatic Advisor to the Commission President. The objective of EXCO is to better align the EU's internal and external work and improve the working relationship between the Commission and the EEAS.

Despite these efforts, progress has proven difficult. Furthermore, the scarce research on the functioning of these bodies produces contrary assessments. The "Group on A Stronger Europe in the World" has been criticized for being too one-dimensional: discussions would be guided by interest from the HR/VP and the EEAS in Commission files, while the EEAS' files are not up for discussion, allowing the HR/VP to maintain control over foreign and security policy.<sup>3</sup> Others argue that these bodies have not yet produced results because of the reluctance of the HR/VP to intrude on Commission files such as trade policy.<sup>4</sup> These contrary assessments show that the Commission needs to thoroughly and objectively review the working of these bodies to tackle the various issues at play. Furthermore, the HR/VP, being present as a (co-)chair in both bodies, should coordinate these fora in a two-dimensional way. This means that the European External Action Service should fulfil its responsibilities as a "service", being transparent and

supporting the Commission with its competences when requested. This includes providing it with geopolitical awareness, intelligence, and diplomatic tools whenever this can improve the Commission's work. In turn, the Commission will be more likely to reciprocate cooperation with the EEAS. Putting these high-level coordination fora to use as originally intended is a necessary step towards better cooperation.

### OPENNESS AS DEFAULT

Lastly, while adapting its trade policy to a new context in which trade tensions are on the rise, economic openness should remain the EU's standard outlook, to avoid escalation and ensure prosperity. Indeed, today the Commission often justifies its trade-security initiatives, such as the Foreign Subsidies Regulation and the Anti-Coercion Instrument, as "defensive" tools that only aim at "protecting the single market" or "building deterrence" against others' offensive measures. Yet, for other countries, these arguments might only stir up tensions. While the Commission, for example, legitimizes its Anti-Coercion Instrument by referring to international law, various legal experts have already contested this argument from a WTO law perspective.<sup>5</sup> Furthermore, the notion that the EU refers to the negative effects of foreign subsidies to defend its new foreign subsidies regulation, feels very awkward at a time when the EU itself is heavily involved in the subsidization of European companies.

Third countries could invoke these types of arguments to define the EU as offensive, in turn justifying countermeasures against the EU.

The EU should, however, avoid escalation. Instead of piously pointing the finger at "offensive actors" to legitimize its actions, the EU should on the one hand acknowledge that if needed, it too will adopt offensive measures to protect its interests. On the other hand, the EU should ensure that the latter goes hand in hand with economic openness as the standard outlook for EU trade policy decisions. Concretely, this means that before adopting trade-security measures, pursuing openness should always remain the primary objective for the EU, only to be surpassed when there is no other option. While openness remains a central element to maintaining a flourishing single market, it also allows third states to perceive the trade-security measures the EU does take in a less confrontational manner, reducing the risk of escalation.

At a time where trade policy is adapting to an age of geoeconomics, the EU should do more to fulfill its ambitious commitments, while maintaining openness as its default position.

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## Endnotes

- 1 Moens, B., Hanke Vela, J. (2021). EU flexes geopolitical muscle with new trade weapon, *Politico*.
- 2 Gijs, C. (2022). EU countries seek to claw back power from Brussels on upcoming trade bazooka, *Politico*.
- 3 Stueber, J. (2022). Trade-Security Nexus in EU External Action: A Practice Approach. Cham: Springer International Publishing AG.
- 4 Blockmans, S., Hillion, C. and Vimont, P. (2021). From self-doubt to self-assurance, The EEAS as the indispensable support for a geopolitical EU, *CEPS, SIEPS, FES*.
- 5 Baetens, F., Bronckers, M. (2022). The EU's Anti-Coercion Instrument: A Big Stick for Big targets, *EJIL: Talk!*. Accessed at <https://www.ejiltalk.org/the-eus-anti-coercion-instrument-a-big-stick-for-big-targets/>; The National Board of Trade Sweden. (2022). Analysis: the EU Proposal for an Anti-Coercion Instrument. Accessed at <https://www.kommerskollegium.se/en/publications/reports/2022/the-eu-proposal-for-an-anti-coercion-instrument/>.





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