

# Values first?



**PROMOTING EU NORMS  
THROUGH TRADE**



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THROUGH TRADE



EUROPEAN LIBERAL YOUTH  
**LYMEE**

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## FOREWORD

This publication is a compilation of essays written by the participants in the European Liberal Forum seminar “Values First? Promoting EU norms through trade!” organised by LYMEC, which took place in Luxembourg in the beginning of March 2020. The participants in the event and authors of the essays comprising this publication are members of LYMEC member organisations and individual members, all young liberals from across Europe.

A week after the event, confinement measures were enforced due to the COVID-19 pandemic with borders shutting down and hurdles to global trade and the economy. We could see how significant it is for the EU to act united, and the importance of global connectivity and timely international trade and transport was also made clear. But recent events have reconfirmed that it is gravely necessary to insist on and stand up for our values, export them, and promote them to our counterparts. In an ever-

connected world, borders are nothing but a concept, and we need common actions when faced with common challenges.

The idea behind this publication is thus rather timely and valid, as it touches on two fundamentally important liberal concepts – advancing our society through global trade and markets while not failing to insist on protecting fundamental civil rights, individual freedoms, sustainability, and environmental action.

The publication you are now reading, expresses these young liberals' visions on the matters described above. My sincere hope is that it can serve as a discussion starter on our way forward to a common, integrated vision towards reinforcing our international partnerships. This not only has the potential to bring about economic growth but could also globally reiterate the values at the heart of the European project. I hope you enjoy the read!

*Antoaneta Asenova, President of LYMEC (European Liberal Youth)*

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## Trade: A Non-Trivial Concept

**Gerzson Kovács**

If there is one field of science rather unpopular among the rest, it is economics. Quite a number of physicists and chemists, for example, claim that all assumptions in economics are basically trivial. Mathematician Stanislaw Ulam once famously challenged Nobel laureate Paul Samuelson to “name me one proposition in all of the social sciences which is both true and non-trivial.”<sup>[1]</sup>

After several years spent thinking about an answer, Samuelson came up with David Ricardo’s concept of comparative advantage: the fundamental principle of trade. The main twist, based on non-trivial mathematical proof, is that countries should specialize their production and outsource other activities even if they are more effective in conducting both. It took centuries for this concept of specialization and trade to be grasped.

Trade has played a major role in Europe throughout its history. Many risked their very existence and sailed into

the blue to exchange goods with actors from different cultures. There was not only a language barrier, but the main fundamentals of our meritocratic and fair trade system were also absent: institutions and international law. It was therefore easier for strong actors to exercise power over others, enabling brutal wars and the inhumane exploitation of smaller actors.

Today, the main idea of trade in western societies is still that establishing the requirements of free trade is the best option to make a country prosper. As a matter of fact, state authorities are required to loosen their centralized power and deliver justice. The effects of trade do not only affect the economic situation but also have many positive cultural effects.

On the other hand, we see criticism of the inequality correlated with free trade. In the modern age, disadvantages arise when one trading partner is equipped with much higher amounts of capital and strongly subsidized producers than the other. On a global scale, we see the significant presence of protectionism within the

political landscape, as well as challenges in society that have occurred as a result of globalization.<sup>[2]</sup>

In this context, the European Union (EU) – as the largest economic entity measured by Gross Domestic Product (GDP) – has a significant responsibility in the field of trade. Global trade is still dominated by countries with lower GDPs but whose governance is at a federal level. Especially in the USA, we see a tendency to move away from classical free trade policy that is caused by the social changes mentioned above. The European Union is strongly committed to supporting progress in global trade. At the 2020 World Economic Forum in Davos (Switzerland), ministers from the EU and other major economic actors, including China and Brazil, agreed on a statement<sup>[3]</sup> to improve the functioning of the World Trade Organization (WTO) Appellate Body. The background of this statement is the US government's decision to impose tariffs on industrial goods from Europe and China, undermining the efforts of a rules-based trading system, as it is in no country's best interest to open the market for international trade unless every

country follows, or at least a substantial majority does. The USA is trying to win short-run gains by undermining the existing trust-based system.

We might have to ask ourselves if we should only blame the USA for increasing tensions in the trade system. If the EU wants to establish an honest and fair game, it should also make sure that it does not go against the rules itself. The reality is that every member state has its own interests and requirements. In fact, vulnerable industries are financially supported through targeted fiscal policies to prevent high unemployment rates. In 2018, 38% of the EU budget was spent on the Common Agricultural Policy (CAP).<sup>[4]</sup> This, of course, means that imported agricultural products are not competing on a fair basis with European ones.

To conclude, let us come back to the very core of global trade mentioned in the introduction. Ricardo's concept of comparative advantage is a non-trivial assumption and, in the short run, trade is disrupted by different actors. Furthermore, it only works if a rules-based and

competitive fundament is agreed upon by all participants. Every country has its challenges that need to be taken into account and not allowed to be undermined. In the long run, however, not participating in a rules-based trade system results in economic disadvantages far beyond short-term disruptions. It took centuries to grasp this concept on a global scale, and we are witnessing the first backlash in the progress of trade.

#### Recommendations:

- Challenges in international trade can only be overcome if we stick to the rules and respect each other in a trust-based system;
- Avoid excessive subsidies in the field of industry to avoid global market disruptions;
- Alleviate unnecessary tariffs on imports.

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## Trade and Human Rights: Different liberal perspectives

**Daniel Ilkevic**

A well-known debate between Professor Ernst-Ulrich Petersmann and Professor Philip Alston clearly represents two clashing viewpoints on trade and human rights.<sup>[1]</sup> They argued about whether the free market, open for international trade, warrants or constrains human rights. What is the stance of liberals in this dispute?

Before clarifying, it is necessary to understand the relationship between human rights and trade. Recent empirical studies suggest that the traditionalist view of justifying international firms' cooperation with repressive regimes (not necessarily non-democratic ones) has no basis. This is due to a number of reasons, such as spotlight effects, a changing labor market, and the financial risk mechanism.<sup>[2]</sup> Thus, it is revealed that democratic states tend to develop strong cooperative interstate networks while economic crises, as well as global wars, determine the backslide in trade integrity. This leads to disrespect

regarding the rule of law, while states with better human rights practices develop more trade contacts. This conclusion is important, as it yields credence to the expectation that repression creates an unfavourable business environment.<sup>[3]</sup>

As the principle suggests, trade cooperation between two entities is linked to their respect for human rights. It's a fact that countries with strong trade relations do better in the field of human rights. Some research developed by EU institutions has confirmed the fact that trade increases the level of human rights alongside ensuring economic benefits – triggering progress in areas such as women's empowerment, the fight against child labor, forced labor, torture, or illicit drug trafficking, and climate change.<sup>[4]</sup> Former High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the Commission Federica Mogherini said: "When democracy and fundamental freedoms are guaranteed, our economies are strong, resilient societies, stable security, and our development is based on solid foundations."

One interesting fact is that increased attention to human rights practices has been drawn by the so-called *spotlight effect* associated with human rights advocates' use of media to shame multinational corporations (MNCs) and make them improve the human rights conditions in their international locations. Such shaming, more recently accompanied by legal and economic sanctions against the violating firms, has been rather effective, forcing a number of MNCs – most notably Nike, Starbucks, and Gap – to make substantial revisions of their overseas practices or even pull their business out of states with repressive regimes.

We can find in this a positive trend that trade is beneficial for human rights. With these links having been proven, liberals in this dispute are supporters of human rights. Even if classical liberalism is not a coherent body of political philosophy, there are three key ideas that most classical liberals subscribe to when it comes to human rights.

The first is the idea that all people are born with rights which they hold simply because they are humans. This is the idea that underpins Article 1 of the Universal Declaration of Human Rights:

*“All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.”*<sup>[5]</sup>

This idea itself is based on the central ideologeme of liberalism – freedom – and one of its core concepts, which is independence from community.<sup>[6]</sup> Freedom as a key concept of liberalism goes hand in hand with liberty, giving a solid construction for human rights and its presence in the trade sphere.

The second idea relates to what human rights are. Classical liberals believe that the list of human rights is quite short. It primarily consists of those rights necessary to preserve life and individual liberty. This list abhors torture, slavery, arbitrary arrest, and detention. Freedom of association and freedom of speech are also seen as

legitimate human rights. But other rights, particularly economic and social rights, are viewed as mere aspirations. This classical liberal perspective assumes that human rights are reflected only through individual liberty and individual rights.

Thirdly, classical liberals believe that the role of the state in fulfilling or protecting human rights should be very limited. States should do only what is necessary to protect life and property.<sup>[7]</sup>

In less democratic countries, human rights should firstly be provided and secured, after which free dispositional use can be given. Where there is initially no place for human rights to exist, there is no need to be a “night watchman”. As emphasised by political philosopher Robert Nozick, a “night watchman” state is one that does not interfere with the privacy of citizens and their freedom to live, work, or be educated.<sup>[8]</sup> This principle aligns with classical liberalism, as both believe in a minimal state – however, with the state giving up control over its citizens, it is difficult to foresee it working in every society.

## Recommendations:

- We can conclude that the perspective we should take when it comes to international trade is one that follows the basis of liberalism.
- The EU should ensure that human rights are respected, since it guarantees a strong basis for trade and economic development.
- Encourage developing trade relations in the world as a tool to improve the situation of human rights in given countries.

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# EU Trade Policy in the Twenty-First Century

**Ruslana Bolkun, EYU**

The European Union is the largest trading bloc in the world with a strong position on trade-policy issues. Its market including 500 million consumers, the EU is in fact both the largest importer and exporter, so its attitudes cannot be ignored by any trading partner. In this essay, I will examine its trade policy, main issues and their solutions.

Since 1958, the EU's international trade has experienced three major structural changes: the “servicification” of trade (services are increasingly being traded across borders), the globalization of firms' value (or production) chains (intermediate rather than final goods and services are also traded internationally) and, finally, the economy's digitization (goods and services are traded in digital rather than physical form).<sup>[1]</sup>

The Lisbon Treaty (2009) brought important changes to the EU's trade policy processes like multilateral liberalisation and regional integration. Another unique feature is the institutional set-up. Trade policy is an exclusive EU competence. This means that the EU, not member states, deals with trade matters and concludes international trade agreements. If an agreement covers topics of mixed responsibility, the Council can conclude it only after ratification by all member states.<sup>[2]</sup>

These are the key points of EU trade policy – nowadays, there are some modern problems and tendencies within this sphere which draw attention to themselves.

Firstly, the EU's trade policy, like other areas of EU policy-making, has become more of a general public matter. This was certainly best exemplified by the high-profile cases of the Comprehensive Economic and Trade Agreement (CETA) with Canada (which went into effect in 2017) and the Transatlantic Trade and Investment Partnership (TTIP) with the United States (TTIP negotiations were launched in 2013 and concluded

without resolution at the end of 2016; according to the Council's decision of 15 April 2019, the negotiating directives for the TTIP are no longer relevant).[3] Attempting to make trade agreements and negotiations more transparent is important to the EU. These agreements let European businesses compete more effectively abroad and export more to countries and regions outside of the bloc, as well as more easily access raw materials at lower prices. This helps European businesses to stay competitive.[4]

Secondly, the "Trade for All" strategy sets out the EU's priorities for trade policy. It also includes approaches to make trade policy-making more effective, transparent and ethical.[5] Growing tensions in trade relations between the superpowers, coupled with protectionism – meaning the protection of domestic production from foreign competition – also represent a challenge to the European economy.[6] In this situation, it could be argued that the EU must defend its multilateral trade system and fight against new trade barriers. Published in June 2019, the Trade and Investment Barriers Report analyses trade and

investment barriers reported by businesses and Member States to the European Commission through the Market Access Partnership. According to this publication, the EU needs to consider the following items: goods and services in the EU's export markets, public procurement, intellectual property protection and enforcement in non-EU countries, rules on investment, protection against unfair trade and taking action during international trade disputes.<sup>[7]</sup>

Thirdly, one of the tools for resolving trade disputes is settlement under the World Trade Organization (WTO). The WTO is made of governments and customs territories that set, apply and enforce the global rules for trade among themselves. Both the EU and the individual EU countries are members of the WTO. I consider it to be the third issue because of the union's leading role that gives it significant influence in interstate relations as a member of the WTO, compared to separate EU member states.

It is worth noting that the EU has also opened its markets to trade with the world's poorest countries, and it helps

developing countries take advantage of global trade. In fact, the EU wants to support less developed countries and others to help boost their production, diversify their economies and infrastructure and improve their governance.

The EU's trade and development policy emphasizes that these countries should have ownership over their own development strategies. They need to implement sound domestic policies and make necessary domestic reforms to stimulate trade and investment, so that those in need will benefit from trade-led growth and long-term developmental growth.<sup>[8]</sup>

To sum up, 90% of future global growth is predicted to happen outside of Europe's borders. Hence, trade is a vehicle for growth and a key priority for the EU. The EU has become one of the most important advocates of a strong trade agenda at the multilateral and regional levels.

Following the above-mentioned points, these necessary measures for the EU should be taken:

- strengthen the multilateral trading system;
- continue negotiations on balanced trade agreements with key partners;
- reinforce the binding nature of the Sustainable Development Goals in EU trade agreements;
- ensure the swift and effective implementation of negotiated agreements;
- continue discussions on strengthening the EU's trade relations with some other countries, paying more attention to EBA countries (favorable FTA with Vietnam and similar perspectives with Cambodia);
- and promote balanced trade and investment relations with China.<sup>[9]</sup>

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## An EU trade policy for the 21<sup>st</sup> century

**Alex Alvarez**

When negotiating trade issues, the different affected stakeholders – such as NGOs and the general public – are raising more and more concerns about the processes and lack of participation among small and medium enterprises (SMEs).<sup>[1]</sup> Does that mean that the EU's trade policy is not up to date or coherent for the modern era?

For many years, the EU has been negotiating and concluding trade agreements at an international level. However, some stakeholders have recently expressed their opposition towards the CETA with Canada and the proposed TTIP with the United States. To overcome this situation, the EU has tried to make negotiations and trade agreements more transparent, as well as making participation more open to SMEs.

As per the Treaties, all aspects related to external trade are under the exclusive competence of the EU.<sup>[2]</sup> Moreover, this area requires qualified majority voting of the Council,

which makes all the processes of negotiations and conclusions longer and more politicized. This politicization has been present since the beginning, although it is contested in some cases – especially through social media (e.g., the TTIP with the US).

The EU's trade policy needs – as all policies do – to be updated to better answer citizens' and SMEs' expectations as well as match the challenges of an ever-changing and volatile world. Such an update would not endanger this policy, as it has been and is still aligned with and positively impacts global growth. It would furthermore mean growth for the EU (in terms of employment and income), as per the figures shown in the latest studies done by the European Commission.<sup>[3]</sup>

According to the Commission, a majority of companies in the EU are SMEs. Therefore, supporting these particular firms through specific tools would be paramount for their export potential within EU trade policy. By doing so, we would increase visibility and participation of these companies at a regional or local level, where citizens can

be more aware of them and see international trade up close. They might even eventually gain new perspectives about EU trade policy.

Open, free and fair trade is part of the liberal DNA. In order to achieve fair progress on all levels, this should be the model to follow; otherwise, we would risk opening the door to protectionism and threatening all the core ideas we liberals stand for. Working together with member states and their companies, especially SMEs, will help to set up more modern and progressive trade agreements that will create growth and jobs inside and also outside the EU.<sup>[4]</sup> This will result in citizens witnessing the EU's instrumental value in encouraging businesses to thrive and ensure prosperity, fair competitiveness and investment.

Several of the proposed improvements will go beyond simple trade policy and will require development towards a closer economic, social and political union. Trade needs to be taken into account together with other policies, like

GDPR, digitalisation, climate change or social issues, among others. <sup>[5]</sup>

It can be said that the current trade policy follows the legal mechanisms created to make it more transparent and participative. More political consensus will be needed in the future if we want to create common trade policies but also increase trade within the EU, making it even stronger on the international stage and allowing local and regional SMEs participate in the decision-making process.

Some policy recommendations to improve EU trade policy and bring corporations in closer would be the following:

- In case some disinformation is affecting companies and no one is going against the misleading information, we need to find a rapid mechanism for communication on the part of EU institutions and the confederation of enterprises to singularly refute certain negative and false campaigns coming from NGOs or political leaders.

- In every EU trade agreement, we need to increase the visibility of European SMEs by explicitly targeting them in the agreements and creating special tools for them to increase their participation.
- The new European Commission should launch disputes before the competent entities whenever they deem it necessary and justified according to international trade regulations or WTO rules. A communication campaign to the attention of the general public should follow any such action.
- The achievements of the EU's internal market cannot be viewed as a secondary priority. They should be complementary to the trade policy of the EU.

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## Normative Trade Power Europe Under Threat: Takeaways from a WTO emergency

**Ciprian Constantinescu**

Since the formation of the World Trade Organization in 1995, the EU, as the only supranational full member, has played an active role in shaping the ever-evolving rules of international trade, especially through the dispute settlement mechanism (DSU). The US obstruction of the DSU Appellate Body is threatening the good functioning of the rules-based international trade system, effectively depriving the WTO of its ability to enforce trade rules. The EU may have to look away from the WTO and find new institutional tools to defend its norm-shaping power status.

Ample literature has characterised the EU's *sui generis* nature as a 'normative power' actor in international relations,<sup>[1]</sup> drawing legitimacy not from the traditional Westphalian sovereignty types<sup>[2]</sup> but from a newly-created legal order that plays a strong role in norm-shaping both inside and outside the EU.<sup>[3]</sup> At the WTO,

the EU plays this role as the only supranational entity to enjoy full membership.<sup>[4]</sup> This is an exceptional situation, reflecting the EU's nature as a single market and supranational polity,<sup>[5]</sup> which has assumed international trade as an exclusive competence under its founding Treaties.<sup>[6]</sup> This status has allowed the EU to assume a more prominent supranational character and emerge as a unitary actor in trade negotiations, which has been most evident since the beginning of the Doha Round in 2001.<sup>[7]</sup>

It is argued that the EU has become a strong negotiating party on its own since the Doha Round,<sup>[8]</sup> in contrast with the previous tendency of European countries to either align with US positions or diverge from each other when trade interests conflicted. This issue has been resolved by strengthening the EU's power to act as an autonomous unitary actor in trade issues, an exclusive competence under the Treaties. Moreover, the EU has not only shaped trade norms through the negotiation rounds but also by actively using the DSU processes. The EU has been involved as either applicant or respondent in 190 out of the 593 dispute settlement cases at the WTO, the second



biggest number of cases after the US (which stands at 293).<sup>[9]</sup> The EU's vast financial and human legal resources allow it to be an active litigator in trade disputes, a position which helps further its role as a norm-shaping power by holding other WTO members accountable when their practices contravene rules-based trade.

However, these tools are increasingly being challenged, both by unfair trade practices, such as those of China,<sup>[10]</sup> or by actively undermining the WTO system – as the US is doing by blocking the Appellate Body's effective functioning. Since 2018, the US has blocked all new nominations to the AB, leaving the Body without enough adjudicators by December 2019.<sup>[11]</sup> The US has touted the ever-increasing rule-shaping role of the AB, as well as its perceived 'judicial overreach',<sup>[12]</sup> as the official reasoning behind its decision to freeze the AB's functioning.

Some authors argue instead that the US criticism is misdirected: evidence shows that the DSU panels, as well as the AB's decision-making process, have been deeply influenced by the legal opinions and inner workings of the

WTO Secretariat as well as the member states themselves.<sup>[13]</sup> In fact, the authors argue that it is the Secretariat which the US should focus its reform proposals on, as that body lacks the transparency and accountability of the adjudicators at the AB. Member states have far less sway in deciding upon Secretariat appointments, and the Secretariat can push its views more effectively than AB adjudicators, whose terms are limited to 4 years and who may not be re-elected in case of controversial decisions.

We could look at the emergence of ‘mega-trading blocs,’<sup>[14]</sup> multilateral FTAs that aim to enhance trade by negotiating and signing agreements at trading bloc level, rather than between individual states. One such example is the EU-Mercosur agreement currently being developed. This would represent an efficient alternative strategy by creating strong DSU-like processes at the widest multilateral level possible. Moreover, it may also give the EU more sway in bilateral bloc-to-bloc negotiations, allowing it to defend its role as a norm-shaping power. These ‘mega-trading blocs’ would essentially become

mini-WTOs, where consensus would be easier to reach and European norms and standards could be more easily exported than within the WTO framework.

The EU Concept Paper on WTO modernisation aims to strengthen the Secretariat's role in negotiating processes as well as implementation functions.<sup>[15]</sup> However, if we follow the empirical analysis of Pauwelyn and Pelc, for the US concerns to form the basis of any reform, the role of the Secretariat should be completely rethought in the sense of increasing its transparency and accountability and possibly limiting its sway over arbitral decisions. If meaningful WTO reform is still envisaged, strengthening the Secretariat would not represent the best strategy. A reform of the dispute settlement system, based on sound empirical research, would both ensure transparency and accountability of the adjudicators, as well as prevent the rise of 'rogue' AB decisions,<sup>[16]</sup> representing a better path forward.

By creating an interim appeal arbitration system in January 2020,<sup>[17]</sup> the EU and 16 other WTO members may

be attempting to keep the WTO system working; yet, in fact, they seem to be abandoning every hope at reaching a new WTO consensus to overcome this impasse.

Lacking the necessary consensus, the EU should redirect its energies into promoting human rights and sound trading norms through the ‘mega-trading blocs’ strategy. While this may weaken a wholly-international rules-based regime in the short run, in the long run it will mean most economies becoming possibly entrenched in the rules and institutions shared by most, if not all, ‘mega-trading blocs’ – and therefore making it easier to arrive at a consensus-based international regime. It may also allow Normative Power Europe to slowly but more steadily export its own rules to other trading blocs, promoting itself as a ‘living’ blueprint. Moreover, with international trade rules constantly evolving as a result of negotiation and compromise, the EU itself may be increasingly influenced by the customs and positions of other countries, which will result in a more dynamic evolution of the EU’s own internal trade rules.

## Recommendations:

- The role of the WTO Secretariat should be completely rethought in the sense of increasing its transparency and accountability.
- Reform the dispute settlement system of the WTO by creating an interim appeal arbitration system to ensure both transparency and accountability of adjudicators.
- The EU should redirect its energies into promoting human rights and sound trading norms through the ‘mega-trading blocs’ strategy.

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## International Trade: Why is the EU a trendsetter?

**Kateryna Onishchuk**

It turns out that the EU is playing a “trendsetting” role in international trade regulation. As an economic collective, it sets global rules and standards by entering into international agreements, supporting regional unions, and influencing non-EU states with patterns of legislation or standardization.

International trade is now key in an increasingly interrelated and interdependent world. It is the lifeblood of the global economy. There are two generally recognized reasons for trade between countries:

- 1) the receiving country itself cannot produce the goods or provide the services in question, or they do not have sufficient supplies;
- 2) the countries concerned have the capability to produce certain goods or supply services, but they still rely on imports if this would be cheaper than

what is produced domestically, or either a greater variety or certain advantages of imported goods would be available (e.g., better quality or design, higher status, etc).<sup>[1]</sup>

The EU, having created regional trade agreements, is aimed at establishing common economic policies not only to benefit from trade but also to encourage states to cooperate and exchange goods.<sup>[2][3]</sup> Since international agreements and treaties are the core basis of international law, it is fair to note that the emergence of European supranational law has contributed greatly to international trade regulation. The European legal system provides the legal foundations for EU-wide cooperation and unites European countries. This system works by removing trade barriers (tariffs and quotas) to protect Europeans, giving them wider opportunities to trade, work, or consume quality goods, as well as striving to promote human rights, social and safety standards, respect for the environment, and sustainable development.

While the EU's trade policy works by virtue of negotiating, concluding treaties, or facilitating programmes such as the European Neighbourhood Policy (ENP), it also sets the norms and standards which become precedents and patterns for international customary trade law. These could furthermore be used as a cornerstone basis for further international agreements in trade. This policy consists of 3 main elements:

- 1) trade agreements with non-EU countries to open new markets and increase trade opportunities for EU companies. By negotiating with developing countries, the EU influences the legal customs, rules, and regulations of these countries while aiming to make their trade laws more liberal and open. By running EU-neighbourhood programmes, the EU contributes to forming unions of states (e.g., the Union for the Mediterranean with Tunisia) which strive to ensure investment and reduce trade barriers by showing the countries concerned the most effective models of behaviour in terms of trade on

the international stage. A good example is the EU-Vietnam Free Trade Agreement (EVFTA), approved in February 2020.<sup>[4]</sup>

- 2) trade regulations to protect EU producers from unfair competition and prevent trade wars. There is a well-known standard of anti-dumping legislation<sup>[5]</sup> that has emerged within the European legal system. The principles of this legislation have become exemplary for states willing to include such rules in their national laws so that the EU-established rules become global.
- 3) EU membership at the WTO, where it sets international trade rules.<sup>[6]</sup> The European Commission negotiates on behalf of all 28 member states by stating their unified opinion and thus influencing WTO negotiations. So, it affects policy within the WTO, which in turn comprises more than 160 members. Therefore, standards become global after being approved by the WTO quorum.

In addition, the EU sets bans on both imported and exported goods and services which may lead to human rights violations. This is done not only through bilateral or multilateral treaties but also via publicity. For instance, since 2004, the marketing and transit of tools used for cruel, inhumane, and degrading treatment aimed at execution or torture – such as electric chairs or automatic drug injection systems<sup>[7]</sup> – have been prohibited. If non-EU countries are to ultimately achieve better human rights, they should aim towards achieving the EU's model of providing high standards of living and quality services and goods.

As the examples above reflect, trade policy within the EU realm sets several precedents to protect itself in the international arena. It is also apparent that the EU's ability and desire to make trade policy multifaceted by further honing into factors like labour rights has encouraged others to follow suit and adopt the norms and standards set by the EU. As an authoritative entity, the EU influences international trade customs as well as the national legislations set by states.

The following policy recommendations can be suggested:

- The EU's constant negotiation with member countries of the European Neighbourhood Policy before taking decisions to ensure the effective setting of standards;
- The EU's establishment of a permanent organ responsible for studying threats to trade: sale of hazardous equipment or obscene materials, the illegal sale of weapons, human trafficking, etc;
- The EU's development of an FTA movement, especially with developing countries.

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## International Trade: The European oasis

**Toine Schouteten**

*“Europe should become less complacent and naïve, and more realistic than it has been in the past” (Mark Rutte’s Churchill Lecture, 2019)<sup>[1]</sup>*

The European Union is the single largest trade bloc in the world, forming a liberal economic oasis that continues to expand European prosperity and thereby makes use of a powerful voice in the world.<sup>[2]</sup> This European oasis values the individual European citizen and is anchored in the four freedoms – movement of people, goods, services and capital.<sup>[3]</sup> However, much like an actual oasis in a desert which has to withstand sandstorms, the EU too needs to ensure its survival in the face of external threats. In recent years, such dangers have become more numerous and more intense.

One telling example is the case of the worldwide production and trade of steel. Steel is of strategic importance to the EU because: it is closely linked to many



downstream industries, such as automotive, construction and electronics engineering; there is a strong cross-border dimension, with 500 production sites across 23 EU countries; and the EU is the second largest producer of steel in the world.<sup>[4]</sup> This strategic interest, however, is being threatened by the largest producer of steel in the world, China. Chinese steel production accounts for over 50 percent of worldwide outputs.<sup>[5]</sup>

It is through this practice that China is exerting a major influence on the global steel market and the European steel market in particular: China's excess production is as much as double the total EU demand. Combined with an operation at artificially depressed cost levels, this means that China is dumping steel on the world market.<sup>[6]</sup> The EU is particularly hard hit, as shown by the willingness of both European steel employers and employees to gather in their thousands in Brussels. Their concern? If the EU continues its current policies vis-à-vis the Chinese dumping of steel, 3.5 million European jobs will be threatened and EU GDP might decrease by 1-2 percent. In short, if the EU's anti-dumping measures remain as

largely ineffective as they are now, then the EU steel industry will become completely naked.<sup>[7]</sup>

The counterargument put forward by the European Commission states that it does what is possible under the current EU rules, which is the fastest available remedy. This remedy consists of 27 measures regarding products coming from China. However, the European Commission admits that, even though it is using the full potential of its trade defence toolbox, dumping from China has continued.<sup>[8]</sup> Two major reasons for this lack of effect can be identified: the timeliness of measures and the severity of measures.

A typical anti-dumping investigation conducted by the EU will take 7 to 13 months until preliminary or definitive measures can be undertaken against the dumping source.<sup>[9]</sup> The timeliness of these measures is questionable, especially in the context of similar procedures introduced by the US Department of Commerce, which take 4 to 6 months.<sup>[10]</sup>

Regarding the severity of these same measures, a similar discrepancy becomes evident. Both the EU and US governments can employ variable as well as fixed duties to counter dumping activities.<sup>[11][12]</sup> The US President, however, can issue executive orders by which the enforcement and collection of antidumping duties are enhanced, something done by the Trump administration in 2017.<sup>[13]</sup> Such an executive order, which in this case led to additional tariffs of 25 percent on all steel imports to the US, can make for a powerful measure against the assertive, prolonged dumping of steel on the domestic market.<sup>[14]</sup> The European Commission currently does not have such measures in its toolbox.

As Winston Churchill said in 1946, “*The cannons have ceased firing. The fighting has stopped. But the dangers have not stopped*”,<sup>[15]</sup> in order to overcome the modern-day dangers it is confronted with, the EU needs to be less naïve and more realistic.

The recommendations are as follows:

- In the face of the increasing number of trade wars currently happening on a global scale, the EU should conduct anti-dumping investigations in a timelier manner, comparable to the US example.
- Additionally, the European Commission should obtain more executive power to address dumping practices more effectively. Naturally, this expansion of executive power should be democratically founded through the European Parliament as well as member states.
- Therefore, the EU should expand its toolbox of trade policies as well as use its current tools better. It is only possible in this way to build a free, democratic, entrepreneurial, prosperous, sustainable and united Europe that is open to the world.<sup>[16]</sup>

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## Values or Profits First?

### **Harm Huizer**

The primary EU values used to make trade policy can be brought back to the five fundamental values: respect for human dignity and human rights, freedom, democracy, equality and the rule of law.<sup>[1]</sup> But these values do not always align with the actual trade policies within firms; multiple examples are available where multinational corporations (MNCs) violate these values.<sup>[2]</sup>

Not all these values are as strongly shared among those involved in trade as one would hope. Some leaders are ignorant about the fact that firms do not abide by moral rules or that profit margins are actually the key to personal success. Cognitive dissonance can occur among employees who feel morally attached to certain values but have to act in an opposite way on the job. The division between ethical companies and financially viable ones is increasing. Being a competitive company forces almost all industry players to cut down on costs and take short cuts, leading to less profits and well-being for suppliers.



On one hand, we see businesses struggling to conform to these values; but on another, we see successful businesses boasting their own strong values. Multiple reports show that strong values in a company's core strategy can propel it to become successful or even a market leader.<sup>[3]</sup> However, the greater share of companies has not yet combined moral values within their strategies, since they are struggling enough already just to stay afloat.

The ideal setting the EU strives for is one where EU companies and operations will be profitable and add value for all EU citizens. How can this equilibrium between values and profits be found? Or could it be said that a strong financial status needs to be reached before a company can focus on these actual values?

The way to achieve this is by adding a new value to the existing ones present in EU policy-making: namely, the ability to be profitable, as profit is key to success in the modern economy. The EU could put more emphasis on the profitability of firms in all member states, which

would then be able to invest more in humanitarian or ecological projects.

The world is currently facing two crises – firstly, the corona crisis, and secondly, global warming. The effects of the coronavirus are being battled against with monetary support, but businesses are still suffering massively. More than one million jobs have been lost, and this is merely the tip of the iceberg.<sup>[4]</sup> However, there is no miracle solution to this crisis and the long-term effects of COVID-19 are uncertain. As a recession in the eurozone looms,<sup>[5]</sup> the EU should maximize its efforts to retain a healthy financial position. This crisis puts more people's lives at risk – financially speaking – than the coronavirus might do. There is still too much uncertainty to give clear predictions on how fast COVID-19 will be conquered by a vaccine, but as the Dutch Prime Minister previously stressed: “The curve seems to be flattening, but this situation can still stay very long with us”. How long can national economies withstand this situation before mass bankruptcies increase all around Europe?<sup>[6]</sup>

Furthermore, global warming poses another problem: its solution lies in huge investments to reduce CO2 emissions, but there is an endless stream of complaints by companies finding themselves in financial trouble due to the new restrictions and stricter regulations. This appears to be contradictory, as EU member states need vast amounts of resources to invest in solutions for global warming while money-makers are seeing their profit margins shrink. Luckily, the 2019 European Green Deal appears promising. Commission President Von der Leyen said that the package was aimed at economic growth and increasing prosperity: “[This] is our new growth strategy, for a growth that gives back more than it takes away.”<sup>[7]</sup>

However, now that the COVID-19 crisis is involved, Eastern European countries, whose economies rely on the coal industry, want to drop the European Green Deal – which aims for Europe to reach net-zero by 2050. As concerns have shifted to emergency responses, the European Commission has been forced to modify priorities and put “non-essential” environmental programmes, such as biodiversity and farm-to-fork, on the

back burner. If the EU fails to transform its economic priorities, we will be unable to avoid not only the next pandemic but also an unprecedented climate disaster. Faced with COVID-19's dire economic impacts, it is understandable for the EU to ponder if the stakes are high enough.<sup>[8]</sup> The new profitability is still general, but it can be easily applied within the Green Deal and new post-corona policies.

The profitability value solves two problems at once – preventing a loss of income regarding zero-CO2 emissions and safeguarding the well-being of thousands – thus making value-based policies more effective and accepted by the European public.

The monetary value of these principles should be one to aim for, as money is the sole thing that keeps the world turning. Thoughts and feelings make it only a bit more peaceful.

## Recommendations:

- Add the new value of “profitability” to the list of existing values in EU treaties.
- Consider this value when making new plans on how to support European economies during and after a crisis like the coronavirus pandemic.
- Try to keep ahead as a world leader, not only from a moral perspective but also from an economic and environmental one.

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## Communicating Trade: American chicken, Canadian tears and the European public

**Christopher Jefferies**

Finalising the Comprehensive Economic and Trade Agreement (CETA) was hindered by a failure in communication. To improve trade negotiations in the future, the public needs to be informed from the outset, parliamentary oversight should be increased, and trade should be explained through a lens that makes trade real to everyday life. This paper explains why improved communication is necessary, and how to achieve that.

In October 2016, Canadians were surprised to see their then Trade Minister, Chrystia Freeland, walking out of the Parliament of Wallonia in tears. Minister Freeland explained that: ‘it is now evident to me, evident to Canada, that the European Union is incapable of reaching [a trade] agreement – even with a country with European values such as Canada [...]’.<sup>[1]</sup> Much of the surrounding coverage asked how an international agreement that took years to negotiate could be derailed at the last minute. The

answer is simple: the European Union (EU) failed to communicate, which in turn permitted regional political concerns to become embroiled with international trade policy.<sup>[2]</sup>

This eleventh-hour drama was subsequently solved via intensive negotiations with the Walloon government. The Comprehensive Economic and Trade Agreement (CETA) has been provisionally put into force; however, it is yet to be fully ratified.<sup>[3]</sup> Nonetheless, the communication issues that were illustrated by this event remain unsolved.

According to the European Commission (EC), 36 million European jobs (1 in every 7) are supported by EU exports to the rest of the world.<sup>[4]</sup> Additionally, the EC claims that consumers benefit from lower prices, more variety and higher quality.<sup>[5]</sup> Trade liberalisation is an important part of the EU's economic strategy – as evidenced by the fact that there are several ongoing negotiations between the EU and third countries,<sup>[6]</sup> including a post-Brexit United Kingdom (UK). However, there is a vocal minority of the European population<sup>[7]</sup> that believes free trade only



benefits economic elites such as multinational corporations.<sup>[8]</sup> To rectify this, communicating trade better to citizens should be a priority for the EU.

Recently, the EU decided to get around ratification issues by following the European Court of Justice's Opinion (2/15)<sup>[9]</sup> handed down in May 2017. To avoid another CETA, its policy is now to divide trade agreements into EU competencies and Member State competencies,<sup>[10]</sup> much like it did through its agreement with Singapore.<sup>[11]</sup>

Unfortunately, this approach ignores the deeper problem altogether. If there are concerns on a national or regional level, this solution does not address them. This lack of communication cannot be a positive way forward.

To many European citizens, free trade formerly meant fewer tariffs on goods entering or leaving their country, thus making products cheaper for them. Beyond that, perhaps their only other tangible interaction with free trade happened to be the loss of their jobs to cheaper locations.<sup>[12]</sup> Now, trade agreements have shifted from focusing solely on tariff reduction<sup>[13]</sup> to a wide variety of

topics, such as intellectual property protection, investment, public procurement, competition and sustainable development.<sup>[14]</sup> These are all matters that will affect many different aspects of EU citizens' lives. However, explaining such trade deals once they are struck is not good enough because even the best explained policies will not matter to the public if they do not agree or, worse, are unconcerned.<sup>[15]</sup>

The answer to this conundrum lies in chlorinated chicken. In recent public discourse surrounding the UK's post-Brexit trade arrangements with the United States, upholding food standards in trade suddenly became a priority for the majority of the British public.<sup>[16]</sup> It got people to think and talk about regulatory alignment, not just tariffs. It animated public debate in a personal way. The public was able to communicate to their government – and communicate early – what they wanted (or did not want) from a trade agreement.

Any obstacles from stakeholders in a future trade deal should be unearthed as early in the process as possible so

that they can be dealt with during negotiations, not at the signing stage. This early communication of citizens' concerns must come from the bottom up, ensuring that politicians who need to ratify agreements are not surprised by last-minute objections. Even the best explanations will be ineffective if done too late. Once politicians have listened to the concerns of their citizens, a mechanism for parliamentary oversight should be created during the whole negotiation process to ensure that citizens' voices continue to be heard. This way, once deals enter the ratification stage, there should be little room for raising new, potentially obstructive concerns.

It is the reality of the EU to manage competing regional and national interests. To achieve this, trade discussions cannot be abstract – they must matter in real life.

Recommendations to better explain trade:

1. Democratise trade mandates: Before the European Council authorises the EC to open negotiations on their behalf,<sup>[17]</sup> the general public should be consulted on what *they* want to achieve from the negotiations. A

series of citizens' assemblies (including in every Member State as well as each region that has a vote) should be held so that everyone has an input within the negotiating mandate. The outcome of these assemblies should be approved by the national or regional parliament and fed into the Council's mandate. If the general public is informed from the outset, with a higher degree of parliamentary oversight, then they will have a degree of ownership over the deal – and it will require less explanation at its conclusion.

2. Allow further parliamentary oversight: Whether this happens through the European Parliament (EP) or national parliaments (or both), a series of 'check-ins' in all parliaments should be run at various points throughout negotiations, not just a vote at the end. Additionally, these 'check-ins' should include the whole parliament, not just the EP's or national parliaments' trade committees. Additionally, the EP should use its right to be informed in trade negotiations to assert its influence on and propose

amendments to the agreement. Although MEPs are updated regularly on the progress of talks, they should be able to debate in them as well. The European public's voice needs to be heard at all stages.

3. Bring international trade to the local level: From the outset, the focus of the EC should be on explaining *why* the trade negotiations are happening.<sup>[18]</sup> Free trade is not self-evident. Building support for free trade should begin with justifying engagement with a particular trade partner.<sup>[19]</sup> Local information sessions, engagement with local media and explanations about how proposed provisions will help in specific geographic areas should be standard procedure.

4. Use transparency as a tactic: In the recent withdrawal negotiations with the UK, the EU was extremely effective at using openness as a negotiation tactic.<sup>[20]</sup> This should continue. Obviously, there will be some parts of the negotiation that are confidential; but, to the greatest extent possible, the EU should be

open to the public. When negotiations are completely secret, it allows for contrary (and often inaccurate)<sup>[21]</sup> narratives to take hold. By having the facts out in the open, the EU would be able to counter these narratives as they emerge.

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## Collateral Damage: Consumer safety and the political risks of trade wars

**Barra Ó Cruaí**

*“We know that competing on social and environmental standards – rather than on skills, innovation, and quality – leads only to a race to the bottom that puts workers, consumers, and the planet on the losing side.” (Michel Barnier)<sup>[1]</sup>*

Recent global trade developments are worryingly more protectionist in nature. The threat of tariffs, relaxing regulations, and lowering safety standards in a race to the bottom is reckless behaviour that only risks consumer safety and the environment as collateral damage. The challenges of global trade wars, post-Brexit trade negotiations, and the fall-out and recovery from the Covid-19 crisis are all major obstacles for the European Union, as it seeks to enforce good standards and promote norms that ultimately safeguard the safety of its citizens.

Using the examples of Boeing and Airbus, and how policymakers have influenced their success, we can reflect on how to act appropriately to encourage

competition through innovation whilst ensuring high safety standards and consumer rights. The backdrop to these two companies is a long running trade war between the US (Boeing) and Europe (Airbus).<sup>[2]</sup>

For decades, Airbus has received financial support to launch new projects. More recently, conditions have been placed on this financial support, meaning that the company must generate specific results or risk serious consequences.<sup>[3]</sup> Providing such support with links to sales saddles governments with a worrying level of market risk. This is evident throughout Europe, where governments are now finding themselves in a situation where they foot the bill.<sup>[4]</sup> Boeing, on the other hand, has not benefited from this type of financial support; however, the company has received alternative forms of support, such as research assistance from the Department of Defense. This has helped Boeing to innovate and advance its technology for commercial aircrafts.<sup>[5]</sup> Additionally, Boeing has benefited from tax breaks and other subsidies.<sup>[6]</sup>

Although companies can greatly benefit from government support, they can also be vulnerable to major losses due to government regulations. A good example is the levying of tariffs to induce trade wars, as shown when President Trump targeted European aircraft as well as agricultural and industrial products.<sup>[7]</sup> With UK Prime Minister Boris Johnson also considering the threat of tariffs as a negotiation tactic in trade talks with the EU,<sup>[8]</sup> it is important that we reflect on the consequences of going down a path of tit-for-tat behaviour. Companies negatively affected by tariffs have very few means for circumventing the destructive effects on workers, the environment, and safety.<sup>[9]</sup>

It is therefore with relief that we receive the eagerness and enthusiasm of the EU with regard to the Brexit trade negotiations: “*We are ready to design a new partnership — zero tariffs, zero quotas, zero dumping – a partnership that goes well beyond trade and is unprecedented in scope*” (Ursula von der Leyen).<sup>[10]</sup>

With regard to the aviation industry, the UK has already stated its intention to withdraw from the EU aviation safety regulator after the Brexit transition period.<sup>[11]</sup> Whilst such headlines may be imbued with a degree of nationalism, the focus issue should be on ensuring the safety of citizens through the safeguarding of standards, action on climate change, the protection of consumer and worker rights, and the promotion of competition through innovation.

In any case, tariffs are not the sole catalyst towards destructive effects within the aviation industry. Boeing gripped news headlines throughout 2019 for its 737-MAX crisis, which claimed the lives of 346 passengers. The aircraft was one of Boeing's most eagerly awaited, with over 5,000 orders. There was a sense of the company rushing to get this aircraft delivered to airlines around the world, as they were losing customers such as American Airlines who had been making large orders with Airbus instead.<sup>[12]</sup>

Throughout the design process, decisions were influenced by worries of incurring extra costs, having to undergo additional scrutiny by regulators, or airlines having to spend money retraining their pilots.<sup>[13]</sup> As a result, modern safety features were missing at a huge risk to those who flew on the aircraft. The 737-MAX, being classified as the latest version of the 737 family and based on a well-known design, was able to glide through the certification process of the Federal Aviation Administration (FAA) without its new elements being fully examined.<sup>[14]</sup> The low number of FAA staff overseeing Boeing's developments reflects a growing concern within the industry, as crucial faults are being missed by those responsible.<sup>[15]</sup> Cutting corners appears to be the new norm, with manufacturers looking for the regions that have the lowest safety standards, wages, and taxes in order to keep their costs as low as possible.<sup>[16]</sup>

As discussed, aviation companies are navigating a minefield – from gaining financial benefits to facing the threat of tariffs. This chaotic climate has resulted in major risks surfacing across different stages, from

manufacturing to sales. Better care needs to be ensured so that consumer safety and the environment are at the forefront of the entire industry.

The recommendations that can be formulated are the following:

- Adequately resourced regulators can help ensure that there is no corner cutting with safety standards. We cannot completely rely on firms to abide by safety regulations.
- Increase the role of the European Investment Fund with the aim of shifting market risk away from European governments. With the way government supports are currently designed, it is often the case that the cost of failures is socialized while the rewards are privatised.<sup>[17]</sup>
- Climate action should be a key pillar in providing support to our bloc's industries. In return for post Covid-19 state supports or injections of liquidity, airlines and other polluting industries should make

drastic concessions to limit the impact that their operations have on the environment.<sup>[18]</sup>

- Taxation is a very powerful tool in incentivising firms and consumers to act in a certain way. In the aftermath of the Covid-19 crisis, we must not give in to the requests of airlines to suspend the introduction of new travel taxes.<sup>[19]</sup>
- Encourage innovation through connectivity and research & development, rather than through direct government interference in markets. Incentivising R&D is very important to industries such as pharmaceutical and computing, but less so to industries such as consumer discretionary and retail – where connectivity and openness to trade are more important.<sup>[20]</sup>
- Avoid trade wars in the first place. Once a trade war begins, the path embarked upon is difficult to return from and the costs incurred on both sides are enormous.<sup>[21]</sup> While easily said, the difficulty of this aim should not be underestimated.



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## Should the EU Pick a Side in the US-China Trade War?

**Ahmed Mehmedov**

On 6th July 2018, US President Donald Trump imposed 25% tariffs on \$50bn worth of Chinese goods.<sup>[1]</sup> A trade war was well on its way; both the global trade situation and Europe's position within it still remain uncertain. With the US and China seemingly lukewarm towards future prospective possibilities with the Old Continent, all eyes are now turned towards Brussels. Despite the EU's reluctance to join the conflict in full force, however, all pretences of it maintaining a neutral stance were dropped following a series of high-level meetings later in July.

Shortly after the tariffs were first imposed, Washington and Brussels reached an agreement allowing for the expansion of imports, the lowering of industrial tariffs and the increasing of Europe's purchases of US goods. While this served to alleviate a significant portion of the tension between the EU and the US, it was also duly noted by Beijing.

The situation has not gone unnoticed by Chinese experts, as demonstrated by Foreign Minister Wang Yi's warning for Europe to "not stab China in the back". What the future holds for EU-Chinese trade relations remains to be seen, however. According to Europe-China relations analyst Jan Weidenfeld, the chances of reaching a "genuine alignment of European and Chinese global trade and investment policies" remains slim at best.<sup>[2]</sup>

All of this being said, it can be observed that the EU is not prepared to join in on the action – or not anytime soon, at the very least. China feels that the EU could betray them, based on the warning of Foreign Minister Wang Yi. Still, the latest US-EU trade talks can be seen as nothing short of Europe's public declaration of support for Washington. The EU and US are brought together by their joined concerns over China's trade and economic practices. Notorious for encouraging the preferential treatment of state-owned enterprises over foreign companies on home soil, the Chinese market is anything but welcoming to outsiders.

Despite the EU's ability to find common ground with Washington, many in Europe are still uncertain about the viability of getting too close to the US, especially considering US President Donald Trump's tendency to implement drastic policy changes. Observers have noted that whether the deal holds or not is primarily up to Trump maintaining his current stance on the situation.

French President Emmanuel Macron is still firmly against the EU's full commitment on the side of Donald Trump, citing his concerns regarding significant regulation changes and referring to talks between the US and EU as "useful" at best.<sup>[3]</sup>

Since his election, President Donald Trump has chosen to forego US participation in the Paris Climate Change Agreement and pulled out of the Iran nuclear deal, which is still fully supported by both the EU and China. Furthermore, Trump's views on immigration, border control and the necessity of strict regulations clash with those of most EU leaders, making him a problematic ally at best. We should all likewise not forget Trump's ban on



Huawei's 5G rollout across the US, an issue towards which the EU still lacks a united approach.

When it comes to the EU's decision-making on the Huawei ban, it is a difficult issue to say the least. Based on data from Statcounter in 2019, Huawei's market share in Europe was 18.1%, while in the US it was a measly 1.01%.<sup>[4]</sup>

Still, China is Europe's second-biggest trade partner after the US, and experts are urging leaders to take the importance of maintaining a mutually beneficial relationship seriously, despite these recent frictions.

Thus far, the trade war has proved largely negative for the EU, with the German economy suffering a staggering 8% fall in exports for June 2019, along with a 1.5% drop in industrial production from the month before. With Germany being Europe's luxury auto-export powerhouse, such figures are worrying. The auto industry, already under pressure due to recent greenhouse gas emission regulations, is highly dependent upon operations from China and has therefore suffered the brunt of the damage.

Further surveys into the matter have revealed that the country's entire industrial sector is undergoing a massive recession, with consumer demand and services propping up the entire economy.<sup>[5]</sup>

In the meantime, German unemployment remains at a relatively low 3.1%. Job gains have come to a standstill. Furthermore, for the second quarter of 2019, the entire Eurozone suffered a 0.2% drop, with Italy, boasting the third-largest economy, reporting zero growth. This shift in the global trade scene has prompted most of the EU's top companies to adopt a cautious outlook on the situation, with Volkswagen and Siemens AG's CEOs issuing statements warning against potentially devastating economic consequences. Economists warn that what we have been seeing is merely the tip of the iceberg, and the EU stands to lose the most out of all the involved parties should the situation continue to worsen. According to Mathilde Lemoine, Group Chief Economist of the Edmond de Rothschild firm, the Eurozone is suffering due to its lack of a "single market for services", which makes

it a challenge to define a single policy for negotiations with China and the US.<sup>[6]</sup>

We can conclude that the EU should not pick a side in the US-China trade war and rather should take a neutral stance in this matter. It is more important for us to be a reliable and trusted trade partner in the eyes of the world, a partner who will not sacrifice values for profits.

Recommendations:

- The European External Action Service should work towards a unified neutral stance on the issue of the US-China trade war whilst maintaining good trade relations with both parties.
- The Committee on International Trade at the European Parliament should come out with a report on the pros and cons of the EU's neutral stance during the US-China Trade war, and this report should be made available to all national governments. Governments should then consider further decisions to be taken.

- The Committee on International Trade at the European Parliament should prepare a report on how to mitigate the negative impact on the EU's economy amidst the current trade war and suggest possible courses of action to be taken.
- The EU should not sacrifice its values for profits and should stay a trusted partner.

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# Why are European Products Attractive to Neighbouring Countries?

**Anna Komziuk**

This essay aims to reveal the main reasons why exports of European products to surrounding countries, such as Ukraine, are so high. It will outline possible ways to increase the attractiveness of national Ukrainian goods using the experience the EU has on the matter.

The European Union's economy is one of the most important in the world. For more than a quarter of a century, the EU has successfully built a single market that guarantees the free movement of people, goods, capital, and services in accordance with its established policies. The idea for creating a single market was enshrined in the Single European Act of 1986 and, in order to transform itself within the modern form of the EU, this economic integration has come a long way – from a free trade area to an economic and monetary union.

One of the important stages of the economic integration of the EU was creating a customs union. Article 28 of the Treaty on the Functioning of the European Union set customs tariffs for third countries within the framework of the Customs Union, which allows for all member states to export products on equal terms.<sup>[1]</sup> That makes the European Union more attractive for international actors, since it allows for equal operating, for example, between states like Germany and Lithuania. Member states are also obliged to respect the principle of non-discrimination in relation to third countries, according to Article 199 of the Treaty on the Functioning of the European Union.<sup>[2]</sup>

The export of products is one of the main components of the EU's economy. Its position in international trade has been quite stable for several decades and, overall, it is ranked first in the world in terms of exports and imports.<sup>[3]</sup>

Regarding the regulation of exported products, EU legislation is clear and controlled, allowing for freedom of trade with international actors. Additionally, the EU's regulation of quality and control of goods increases its

credibility as a trading partner. According to Regulation 2015/479 concerning common rules for exports in the interests of the European Union, protective measures may be applied and the export of products is subject to the Commission's discretion. Thus, some products may be limited and member states may be requested to supply statistical data on market trends, in accordance with their national legislation and through a procedure to be specified by the Commission, to exercise surveillance over certain product exports.<sup>[4]</sup>

In Ukraine, the European Union has latterly been the main exporter. What makes EU goods more attractive than Ukraine's national products?

Firstly, the high level of corruption in Ukraine, through which manufacturers comply de jure with all the legal requirements for product control and quality but national actors de facto only "buy" certificates or licenses. Accordingly, confidence in national producers is declining rapidly.<sup>[5]</sup>



Secondly, it is the complexity of business activity, both in the initial stages and beyond. Legislative gaps and complicated procedures for creating and registering small and medium-sized businesses lead to the monopoly of big business players and consequently help to raise product prices.<sup>[6]</sup>

Thirdly, the development of a diversity of goods and services has been slow in Ukraine. As Ukrainian manufacturers attempt to obtain licenses and certificates, the EU market is already developing and providing buyers with a wider range of possible goods.

Currently, Ukraine has formed a euro-integration trend which can be seen in the benchmarking of certain provisions of European Union laws, principles, and practices.<sup>[7]</sup> Although, of course, successful experience is always useful for further development, without the existing Ukrainian legislation actually working correctly, such experience would be purely theoretical.

The ways in which the high-level corruption in Ukraine can be truly overcome include significant legislative

changes – for example, liability for economic offenses – and the eradication of corrupt institutions (or memories thereof) responsible for products' quality control, licensing, certificates, etc. by attracting new professionals and young people.

The state assesses the competitiveness of a product in terms of its demand and social importance. If its domestic version is socially significant but much more expensive than an imported one, then the state can influence this situation by either supplying subsidies to the domestic producer or quotas and customs barriers to foreign suppliers. Enterprises are evaluated by the state in terms of their role in the economy: how much their products are in demand and significant, and what their sales volumes are. The higher the level of these indicators, the more competitive the enterprise is from the state's point of view. A given industry is also valued by the state in terms of the demand for and sale of its products, as well as its importance to the economy as a whole. Therefore, the state's influence on the economy is crucial and, accordingly, high levels of corruption affect national

producers as well as the competitiveness of national products.

At the end of the day, what makes European goods attractive? In reality, it is European Union legislation, the values and principles that are enshrined in it and adhered to, and the gradual development from a free trade area to an economic and monetary union. This is precisely the power of the European Union in international trade.

Recommendations:

- Further improve the attractiveness of European products to neighbouring countries in order to fight corruption in those countries.
- Make the acquisition of licenses and certificates less bureaucratic to enable Ukrainian manufacturers to have a voice on the market.
- Either provide subsidies to domestic producers or apply quotas and customs barriers to foreign suppliers.

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# Do Economic Sanctions Towards Russia Infringe on the Civil Rights of the Russian Population?

**Vasily Neustroev**

Economic sanctions can have a negative impact on the civil rights of the population, unless they are delivered in a ‘smart’,<sup>[1]</sup> targeted way. The EU sanctions on Russia provide an example of targeted restrictions aimed at selected individuals and industries. The retaliatory ‘counter-sanctions’ in the form of a food imports embargo, self-imposed by the Russian government against the background of an adverse macroeconomic situation in Russia, have had a larger negative impact on the civil rights of the Russian population.<sup>[2]</sup>

One of the cornerstone principles of free trade is the unconstrained flow of goods and services between countries – normally, to the benefit of all parties involved in the process. Economically restrictive measures (sanctions) and trade embargoes, used as instruments of foreign policy, usually remove these free trade principles

as applied to a particular country with the aim of impacting its economy and thus stimulating the targeted government “to bring about a change in the policy or conduct”.[3]

Broad economic sanctions normally have a significant impact. That includes ‘collateral damage’, which is an unintended negative outcome for third parties such as the population of the sanctioned country or businesses and entrepreneurs on the sanctioning side.<sup>[4]</sup> In these situations, one can expect a certain level of infringement on individual and group civil rights. However, the sanctions imposed by the EU are, in its own words, “developed in such a way as to minimise adverse consequences for those not responsible for the policies or actions leading to the adoption of sanctions. In particular, the EU works to minimise the effects on the local civilian population and on legitimate activities in or with the country concerned.”<sup>[5]</sup>

The economic sanctions imposed by the US and the EU on Russia in response to the illegal annexation of Crimea

in 2014 can be defined as targeted, ‘smart’ sanctions “delivering focused impact with minimal collateral damage”.<sup>[6]</sup> The EU has “imposed different types of restrictive measures”, the majority of which are economic in nature, such as “individual restrictive measures (asset freeze and travel restrictions), restrictions on economic relations with Crimea and Sevastopol, economic sanctions, [and] restrictions on economic cooperation”.<sup>[7]</sup> As of January 2020, 170 people and 44 entities are subject to an asset freeze and a travel ban because their actions undermined Ukraine’s territorial integrity, sovereignty, and independence; there are restrictions in place on economic relations with Crimea and Sevastopol; economic sanctions target exchanges with Russia in specific economic sectors; and there are also restrictions on economic cooperation.<sup>[8]</sup>

Varying reports describe the actual effect of these sanctions: whether they have reached their goals, and how strong the impact on the Russian economy might be. Most observers seeking to assess and quantify the actual effect of the Western sanctions agree that the impact on the



Russian economy is difficult to measure, as it was mostly obscured by the significant oil price drop in 2014 and 2015 that had a much more detrimental effect on Russia's GDP.<sup>[9]</sup>

Assessments of the Western sanctions' impact is also hindered by an additional negative impact on the Russian economy coming from the retaliatory counter sanctions. These take the form of a food imports embargo that has been self-imposed by the Russian government, restricting imports of selected food products – including fish, fresh milk and dairy products, fruits, and vegetables – in July 2014 as a response to the sanctions imposed by the US and the EU. In spite of the officially reported achievements of the “import substitution programme” and boosted domestic agricultural production, actual consumption at the household level in Russia declined due to the food imports ban. Economists who analysed consumption patterns in Russia between 2013 and 2018 reported<sup>[10]</sup> that the real impact of these counter-sanctions on average Russian consumers was about 3,000 RUB annually (equal to approximately 4.8% of the annual cost

of the minimum food basket established by Russian law). This was due to increasing prices and the indirect impact of import-substitution costs picked up by end consumers.

Notably, these counter-sanctions were introduced by the Russian government against a seriously unfavourable background of falling oil prices and shrinking GDP, which led to a very negative impact on the Russian people, especially those on the brink of poverty.<sup>[11]</sup>

To conclude, the welfare and civil rights of populations are closely linked to free trade, which is currently being restricted by economic sanctions and ‘counter-sanctions’ in Russia. The EU’s economic sanctions on Russia are currently set until 31 July 2020, and are likely to be extended, as lifting them would be dependent on the complete implementation of the Minsk agreements in Ukraine. Russia’s food imports embargo may stay in place as part of its overall import-substitution policy.

## Recommendations:

- The EU should impose only targeted sanctions to minimise the negative effects on the population of Russia.
- Further economic sanctions could be imposed on Russia, but they still should be delivered in a ‘smart’, targeted way.

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## CONCLUSION

Globalisation, especially in the form of trade, helps us keep the peace between the European Union and the rest of the world. Trade in the EU is not something that appeared with the European project; it has always been part of the world, in the very nature of the rational individual.

The EU has become the largest internal market and trade area, which has also contributed to the creation of a leading economic region for world trade. The relative economic efficiency of the European Union has furthermore led to trade agreements with various countries around the world.

The community of European countries must take advantage of its status as world leader in trade to foster the integration of liberal ideas and values all over the world – with respect for human rights as a criterion for countries to fulfil in order to strike trade agreements with the EU.

We Europeans need to make sure that we do not neglect our liberal values in this process. As mentioned in one of the contributions you have read in this publication, open, free, and fair trade is part of the liberal DNA and it is important to always respect this trading approach.

The European Union has been a strong actor in perfecting the way trade is done around the world; this is at the core of its own creation. Without trade, it would not have been possible to economically bind the different European countries together in the way they are today. This co-dependency makes it more difficult for nations to start conflicts without completely destroying their economies.

Of course, a lot of crises and new challenges have shaken the world over the years, and the European Union needs to adapt its trade practices accordingly. After the TTIP and CETA protests, the EU now recognises that trade agreement processes need to be more transparent. Processes lacking transparency lead to the rise of populism and the spread of fake news. The COVID-19

crisis that has touched every country in the world will also have a huge impact on the global economy for years to come, leading to modifications in existing and future trade agreements. In general, people all over the world are becoming more and more political and want to be kept informed in decision making.

The world is always moving, and new challenges will always come up. We need to make sure that we take advantage of the opportunities they give us and that our approach to trade always keeps on moving together with the rest of the world, fostering the sharing of our liberal values.

We hope you enjoyed reading these recommendations and that at least some of them will inspire and encourage you to take further action in the near future.

Keep up the liberal fight!

***Marina Sedlo, Policy Officer of LYMEC (European Liberal Youth)***

## ABOUT THE PUBLISHERS

**The European Liberal Forum (ELF)** is the official political foundation of the European Liberal Party, the ALDE Party. Together with 46 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard.

ELF was founded in 2007 to strengthen the liberal and democrat movement in Europe. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen. ELF is engaged on all political levels, from the local to the European.

We bring together a diverse network of national foundations, think tanks and other experts. At the same time, we are also close to, but independent from, the ALDE Party and other Liberal actors in Europe. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different actors.

**The European Liberal Youth (LYMEC)** is a pan-European youth organisation seeking to promote liberal values throughout the EU as the youth organisation of the ALDE Party and the Renew Europe parliamentary group in the European Parliament. LYMEC is made up of Member Organisations (61) and Individual Members, and it is active across the breadth and diversity of the European continent. LYMEC's central aim is the creation of a liberal and federal Europe.



# Values first?

PROMOTING EU NORMS THROUGH TRADE

This publication is a compilation of essays written by the participants in the European Liberal Forum seminar “Values First? Promoting EU norms through trade!” organised by LYMEC, which took place in Luxembourg in the beginning of March 2020. The participants in the event and authors to the essays comprising the publication are members of LYMEC member organisations and individual members, young liberals from across Europe.

A week after holding the event, the COVID-19 pandemic forced on us confinement measures, the shutting down of borders and hurdles to global trade and economy. We could see how significant it is for the EU to act united and how important global connectivity, timely international trade and transport are. But the recent events reconfirmed also that it is gravely important to insist and stand up for our values, export them and promote them to our counterparts, as in an ever-connected world borders are nothing but a concept, and we need common actions when faced with common challenges.

Young liberals are ready to come up with serious policy proposals, find their recommendations in this publication!