

PROMOTING EU ECONOMIC INTERESTS ABROAD

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Within the context of the “Think Global - Act European” project, *Notre Europe - Jacques Delors Institute* has mobilised a group of 17 European think tanks to explore the ways to attain a more integrated strategy for the EU’s external action. Experts have confronted their analyses in occasion of a series of working seminars (economic interests, strategic resources, migrations, EU neighbourhood and CSDP), organised throughout Europe in October 2012. Policy papers and final report will be available soon.

The fourth seminar of the project “Think Global - Act European” took place in Madrid at the Royal Elcano Institute on October 26th 2012. The seminar was shaped by the contributions of the members of the working group dedicated to the promotion of EU economic interests around the world:

- **Filippa Chatzistavrou**, Research Associate, *ELIAMEP* ;
- **Elvire Fabry**, Senior Research Fellow, *Notre Europe - Jacques Delors Institute* ;
- **François Godement**, Senior Policy Fellow, *ECFR*;
- **Dimitris Katsikas**, Research Fellow, *ELIAMEP*;
- **Agatha Kratz**, Researcher, *ECFR/Asia Centre*;
- **Daniela Schwarzer**, Head of Research Division EU Integration, *SWP*;
- **John Springford**, Research fellow, *Centre for European Reform*;
- **Federico Steinberg**, Senior Analyst for Economy and International Trade, *Royal Elcano Institute*;
- **Pawel Swieboda**, President, *demosEuropa*;
- **Yiannis Tirkides**, Senior Research Fellow, *CCEIA*;
- **Diego Valiante**, Research Fellow, *CEPS*;
- **Richard Youngs**, Director, *FRIDE*.

Discussions, open to external experts, were introduced by **Mr. Jose Luis Pardo Cuervo**, Deputy Director General for EU General Affairs, Spanish Ministry of Foreign Affairs and Cooperation.

This synthesis regroups salient points identified throughout the discussions.

The crises in the euro zone have highlighted deep deficiencies of European governance and damaged

the credibility of the EU. Not solely economical but also deeply political, the crises reflect profound questioning concerning what model of statecraft the EU intends to adopt and how to use the tools at its disposal to return to growth and maintain global influence. While focusing on internal debates about euro zone governance, Europeans should thus not neglect the external dimension of economic, financial and monetary policy. The latter occupy an ever more central role at a moment of changing geopolitical landscapes and relative decline of European power in global economic and financial governance. **Both are interconnected as the reform of the euro zone’s economic governance influences EU foreign economic policy.**

1. Reinforcing relationships with traditional partners while engaging strategically with new global players.

The EU needs a clear strategy to deal proactively with its strategic partners and must decide whether to support a multilateral economic regime under all circumstances or develop simultaneously a more neo-realist approach based on bilateral alliances. The substantial relationships with strategic partners are mostly developed through national capitals undermining EU action. The resulting competition provides little incentive to work together.

The EU has lost economic weight globally. The economic crisis has led the member states to embark on more systematic trade diplomacy. A politicised foreign economic policy is neither new nor without merit yet competing national geo-economic policies

can be counterproductive. **The EU's relationship with two of its closest economic partners - the US and China - have thus been chosen as key case studies to elucidate the need for a more coordinated EU approach.**

1.1. The United States

The transatlantic relationship is weakening. It lacks structured micro-economic as well as macro-economic dialogue. Cooperation is often sectorial (finance, energy...) and ad-hoc, calling for the establishment of a framework for information sharing on shared interests. The EU must pay attention to the evolutions that risk affecting its economic relationship with the US (e.g. increasing protectionist pressures) which will remain for long the main international power.

Within the context of the multipolar setting, the importance of the EU-US' shared values calls for an increasingly strategic cooperation between the two. In this respect fighting the abuse of state capitalism (illegal subsidies, forced technology transfers or disrespect of intellectual property rights) and maintaining a global level-playing field *vis à vis* countries pursuing catch-up strategies require renewed focus.

The establishment of a free trade agreement with the US is thus strategic for the EU economy with the added advantage of setting the standard for future trade negotiations with emerging countries. Research collaboration is also desirable. The creation of a joint EU-US research council focusing on major technologies across the energy mix, innovation and space research is to be envisaged.

1.2. China

The continuous empowerment of the BRICs calls also for the development of an EU policy *vis à vis* these economic powerhouses, beyond the current so feeble strategic partnerships.

China, acting as a case in point, is increasingly affirming its growing economic power via a more assertive political strategy in its bilateral and multilateral relationships. **Member state policies vis à vis China however compete and diverge drastically, resulting in confusing and conflicting national positions.** Yet no member state can compete on a bilateral basis with China hence the EU more than ever needs a coordinated policy. Even

Germany, China's largest European partner, advocates the need for coordinated negotiations despite huge benefits of unilateralism to the country's export developments.

Europeans need to address the issues of confrontation that are bound to arise with the Asian partner. **Whether to embrace a strong bilateral relationship or adopt a more multilateral approach (WTO-led) remains disputed.** A bilateral framework might be more effective *ex ante*, to be complemented *ex post* by multilateral means. The two remain complementary.

China's market power (greater than that of all the other BRICS together), its currency reserves and its dubious application of the rule of law, make it an atypical partner. **The EU needs to respond with assertiveness** (demanding more reciprocity, particularly in public procurement and market access) **whilst simultaneously pursuing grounds for constructive cooperation in areas of shared interests** (including potential Chinese investments in the neighbourhood). Negotiations of the partnership and cooperation agreement, creating new investment perspectives, could be facilitated by policy bundling.

Europeans should use all tools at their disposal, traditional ones tools (competition policy, WTO...) as well as new ones (negotiation of a new investment treaty, development of a committee to vet certain investments by foreign entities).

2. Leveraging EU economic performance abroad: the quest for more competitiveness and a strengthened economic union

2.1. Beyond the export contest

Other than the Commission's mandate for the negotiation of market access *vis à vis* economic partners, there is little emphasis on trade as a coordinated EU external strategy. Some **member states pursue defensive export-oriented policies**, failing to reap the full benefits of the EU's economic weight, and **which risks doing little to boost European long run prosperity, productivity growth and innovation capacity.** In the absence of consensus on an EU-wide growth model, how can the EU strike a balance between a set of coherent internal and external economic policies?

The focus on the export scramble must be balanced against the need to boost internal demand, especially by consolidating the internal market in the area of services. Notably trade is only one of the many and complex factors of growth. Low domestic demand offers insufficient incentive to invest in productivity enhancement. In the light of the overall balanced EU current account (CA), the existing European aversion towards imports and global division of labour may be excessive. Raising the level of CA, thus increasing the global level of trade, should rather remain the overarching objective.

The option of lowering trade barriers has thus been subject of heated debated in the light of current protectionist trends. Lower barrier for low added value products and higher specialisation in high added value products could boost productivity efforts, increasing competitiveness abroad. Increased import competition would then need to be complemented by specialisation in high value added production, requiring strong investment in education/innovation and labour market reform.

2.2. Rebalancing internal macro-economic discrepancies

The same growth model may however not be optimal for all member states. Raising the level of CA must be accompanied by internal policies aimed at rebalancing the flows. Unless the catch up process of the deficit countries is successful and, where needed, supported by European measures, internal macro-economic imbalances put at risk the euro zone in its current state.

This poses the challenge of formulating complementary growth models and calls for new industrial policies. Yet, what industrial policy to apply to whom? And how to inscribe these within a **more forward looking EU strategy towards globalisation?**

2.3. Complementary factors of growth

EU economic performance at home and abroad depends also on investment and the protection of investments abroad. **Financial stability, necessary to boost investment and growth, calls for urgent action: banking union, fiscal and economic union, debt mutualisation, Eurobonds and the single market.** And finally, some form of political union. Furthermore **certain sensitive sectors such as energy access call for a tailored**

EU-wide approach, where market rules need to be complemented by foreign policy coordination. Finally, considering the EU's demographic decline and resulting productivity challenge, **technology and innovation remain an urgent matter.**

2.4. The implementation of the single market

Starting with removing remaining barriers to trade in services , the single market is a further crucial leverage for EU competitiveness abroad. The resulting intensification of intra-EU trade would spur growth and potential rapprochement of member states growth models mobilising a unified EU external economic strategy backed up in negotiations by a strengthened common commercial policy and the weight of the largest unified market world-wide. **More supervision** (a common European supervisory authority) **and enforcement within the EU would contribute to project European norms and values outside and allow Europeans to benefit from the extension of those norms as global standards.**

2.5. Internal redistribution

Finally redistribution of the gains of the single market and implementation of political rules which embody more coherence and solidarity would set the strategic foundations for a stronger and more united European approach. Member states who are less afflicted by public deficit - notably Germany - must reconsider fiscal tightening in favour of promoting internal demand, engendering positive spill-over effects Europe-wide.

3. Increasing the efficacy of an EU external economic representation

The EU still exercises fragmented power with respect to financial regulation as well as the external representation of the euro, and lacks the institutional channels allowing it to participate effectively in transnational regulatory and monetary institutions.

3.1. International financial regulation

To build institutional power the EU must couple regulatory capacity (expertise) with institutional compatibility and complementarity. The former refers to the institutional correspondence of regulatory structures at different levels of governance; the latter

denotes the degree to which specific domestic institutional characteristics allow the efficient and effective participation of domestic regulatory agents in global negotiations.

Whilst the established European Supervisory Authorities (ESAs) improve the EU's legal and regulatory design, a large degree of fragmentation persists; supervision notably remains a national prerogative. The EU should draw on its experience with international accounting harmonisation ('European accounting institutional framework' allowing the EU to participate in the workings of the International Accounting Standards Board) and complement the ESAs where needed by appropriate governance structures.

Strengthened regulatory authority and compliance within the EU coupled with improved information sharing and coordination among all relevant European actors (public and private) would contribute to institutional compatibility and effective communication of agreed EU positions, strengthening thus its bargaining power at the global level.

3.2. External representation of the euro area

At a moment where enhanced integration within the euro zone is being discussed, **the external representation of the euro zone in international fora assumes a growing importance for the success of the monetary union.** Both domestic politics and external factors complicate the assessment of benefit and costs of a unified representation. IMF current rules, an interesting case in point, may not

provide an incentive for countries to merge quotas. Nevertheless arguments for a single membership for the euro area (potentially represented by the European Stability Mechanism) remain strong. Member states coordination problems would be reduced along with the total number of coalitions. Fewer coalitions would allow exercising more influence and attracting into a euro area alliance a number of satellite countries. In turn this would create the conditions for the EU to lead new initiatives and to block any decision without its assent.

From a functional point of view it could provide fertile grounds to develop coordination in other important areas, notably, foreign policy. Globally, the necessity for EU leadership in tackling the issue of global imbalances (misallocation of capital, financial bubbles) was revealed by the current crisis. **A unified external representation could facilitate an EU role in the promotion of policy changes addressing domestic and international distortions and imbalances (e.g. within the G20 fora).**

A stepping stone towards unified external representation would be **the creation of a euro area committee.** Established under the current framework it could coordinate voting rights within the IMF and other relevant organisations and change the current set of coalitions into one or few. A clear set of rules on how votes should be exercised would be defined ex ante (Memorandums of Understanding).

An introverted EU, failing to anticipate the new trends of globalisation and to develop a proactive management of growing interdependence, would however remove the benefits of any further integration.



The project “**Think Global - Act European**” (TGAE) organised by *Notre Europe - Jacques Delors Institute* is focused on the EU’s external action.

A more integrated global strategy would allow the EU to better respond to the substantial changes that are affecting the international arena. More coherence and coordination between internal policies and external policies as well as mitigation of institutional discrepancies through reinforced dialogue between EU institutions on those new challenges are thus scrutinised by the [17 European think tanks](#) involved in this project:

Carnegie Europe (Brussels), CCEIA (Nicosia), CER (London), CEPS (Brussels), demosEUROPA (Warsaw), DIIS (Copenhagen), ECFR (London, Madrid, Berlin, Paris, Sofia), EGMONT (Brussels), EPC (Brussels), Real Instituto Elcano (Madrid), Eliamep (Athens), Europeum (Prague), FRIDE (Madrid, Brussels), IAI (Rome), Notre Europe - Jacques Delors Institute (Paris), SIEPS (Stockholm), SWP (Berlin).

They confront their analyses on key strategic issues: economic interests, sustainable development, migration, the EU neighbourhood and security.

After a series of policy papers, the [final report](#) will be published in March 2013 under the direction of Elvire Fabry, Senior Research Fellow at *Notre Europe - Jacques Delors Institute*.

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EU DEFENCE CAPACITIES: MAINTAINING CREDIBILITY?

Elvire Fabry and Chiara Rosselli, *TGAE Synthesis, Notre Europe - Jacques Delors Institute, January 2013*

Other synthesis of TGAE seminars on migrations available soon.

EU RESOURCE STRATEGY: TIME FOR COHERENCE

Elvire Fabry and Chiara Rosselli, *TGAE Synthesis, Notre Europe - Jacques Delors Institute, December 2012*

EU’S NEIGHBOURHOOD AS AN OPPORTUNITY?

Elvire Fabry and Chiara Rosselli, *TGAE Synthesis, Notre Europe - Jacques Delors Institute, November 2012*

TRADE POLICY IN THE EU’S NEIGHBOURHOOD

Iana Dreyer, *Study n° 90, Notre Europe, May 2012*

THE FUTURE OF EUROPE IN THE NEW GLOBAL ECONOMY

Pascal Lamy, *Tribune, Notre Europe, February 2012*

THINK GLOBAL – ACT EUROPEAN REPORTS

First edition (2008), second edition (2010), third edition (2011), fourth edition (*to be published in March 2013*)

Elvire Fabry (dir.), *Notre Europe - Jacques Delors Institute*

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