International Relations and Diplomacy, June 2016, Vol. 4, No. 6, 384-389
doi: 10.17265/2328-2134/2016.06.003

EU Trade and Investment Policy: A Responsible Contribution to Growth and Jobs*

Jolana Mungengová
Boston University, Boston, USA

This paper explains what led the European Commission, the executive body of the European Union, to reviewing the long-standing priorities of the European Union's trade policy. In doing so, it highlights which new objectives have been defined for European Union's trade policy with the rest of the world. This paper argues that the new EU trade and investment policy adopted by the European Commission on 14 October 2015 is more transparent and more values-based than ever before. On three concrete examples, the paper details how this new strategy translates in terms of the rule of law in investment protection, small and medium-sized enterprises' integration in the world economy, and promotion of sustainable development through EU trade and investment agreements. The paper also clarifies the articulation between EU trade and investment policy and the World Trade Organisation. The paper concludes that EU trade and investment policy is now better fitted to provide a more responsible contribution to the generating of growth and jobs.

Keywords: EU, trade, investment, transparency, socioeconomic growth

Introduction

Globalization is every day's reality because of worldwide trade and investment flows. The European Union (EU)'s trade policy is an area of exclusive EU competence that is exercized by the European Commission, the EU's executive arm. On the one hand, EU trade policy that also covers investment contributes to globalization and resulting international economic integration. On the other hand, it faces many challenges as a result, and struggles to overcome them.

The European Commission adopted on 14 October 2015 a Communication entitled *Trade for All—Towards a More Responsible Trade and Investment Policy*. The "Trade for All" is a response to the widespread public debate about the objectives that the trade policy conducted on behalf of the EU and its 28 Member States should pursue. In practical terms, this meant designing a trade policy that would be more transparent and more in line with EU interests and values.

It appears that a sound EU trade and investment policy is about finding the right balance between these two concepts—EU interests and EU values, and about using the right tools to defending both of them in negotiations with partner countries and in the World Trade Organisation (WTO) to create and preserve growth

* The information and views set out in this article are those of the author and do not necessarily reflect the official opinion of the European Commission.

Jolana Mungengová, PhD., Department of Political Science, Boston University; Member of Cabinet (Policy Assistant), The EU Commissioner for Trade.

and jobs.

EU Trade Policy Creates Jobs

About 30 million jobs in the EU depend on sales to the rest of the world (exports), an increase of 10 million since 1995 (Sousa, 2012). Moreover, these jobs tend to be high-skilled, better paid, and often related to innovations that find clientele worldwide. To give just one example from the EU Member State I know and love most, the Czech Republic, almost 15,000 direct exporters outside of the EU benefit in the Czech Republic alone from the EU trade policy (Cernat et al., 2014).

As the EU Trade Commissioner, Ms. Cecilia Malmström, highlighted in her speech in Prague:

> … by making it easier to export, trade agreements directly create jobs in export-driven companies. One in six people at work in the Czech Republic today are employed thanks to exports outside of the European Union. And every new billion euros that the EU exports is worth roughly 14,000 jobs within our borders. (Malmström, 5 June, 2015, p. 2)

In addition to trade relations (exports and imports) with other EU Member States in the EU Internal Market, the Czech Republic also exports to, and imports from, outside of the EU. Just to give you an example, exports from the Czech Republic to the US increased by 13.6% in 2015. Czech exports to the US represent 2.4% of all Czech exports, which is more than those to Russia or the People's Republic of China (Czech Association of SMEs (AMSP ČR), 2016). In fact, the EU as a whole needs to import from abroad in order to be able to export abroad as well. As a consequence of increased exports and imports, the integration of European companies in global value chains progresses gradually. This gradual economic integration is thus the direct result of EU trade and investment relations with partner countries.

EU Trade Policy Reaches out to the World

The European Commission, which negotiates on behalf of the EU and its member states all trade and investments deals the EU is party to, concluded negotiations or is still negotiating over 20 trade and investment agreements with over 60 countries all around the world. The European Commission does so in each case based on negotiating directives (the so-called mandate) from the Council of the EU (ministerial level).

Some of these agreements are very broad and comprehensive such as the EU-Korea Free Trade Agreement (FTA) in force since 1 July 2011, the EU's first in Asia. It led to an unprecedented level of tariff dismantling (eliminating almost 99% of duties within five years, the majority of them already at entry into force) and some ground-breaking provisions on non-tariff barriers, and provided for a 55% increase in EU exports during the fourth year of its implementation alone (against a rise of 5% in our imports from Korea) (European Commission, 2013).

Trade: both the external demand and the supply side—within the EU Internal Market and also between the EU and the new centers of global growth—matters, and it will continue to matter, in EU's path to economic recovery. This is likely to be the case even more in the future as 90% of global economic growth in the next 10-15 years is expected to be generated outside Europe, a third of it in China alone (Fouré, Bénassy-Quéré, & Fontagné, 2012).

Whereas there is not much controversy about the fact that trade contributes to fostering economic growth through increased trade and investment flows across the globe, concerns have aroused in recent years about the qualitative impact this has, and who benefits from it.

This is the reason why modern EU trade policy can no longer be about the traditional areas of focus only such as tariff liberalisation for easier trade in goods, public procurement, and trade in services for which there are rules and disciplines established by the WTO. Modern EU trade policy increasingly looks at investment and investment protection, regulatory cooperation, and the design of new rules—for example on digital commerce, fairer competition between market actors, and sustainable development, to name a few.

EU trade policy is one of the policy tools the EU has at its disposal to shrive and remain relevant in a globalized world. It is also an established fact that EU trade policy can also contribute to overcome disparities of competitiveness between Member States. New technologies—resulting from a constant need to adapt and acquire new skills—as well as opportunities for life-long learning through training and retraining of the labor force, are some of the other important drivers of change that shape the prospects for growth and jobs creation at EU Member States level.

The New EU Trade and Investment Policy: Why More Transparent?

In response to repeated calls for enhanced transparency in the context of the EU-US Transatlantic Trade and Investment Partnership (TTIP), the EU Trade Commissioner that took office on 1 November 2014 understood that enhancing transparency was absolutely crucial and politically inevitable in TTIP, and in the EU trade and investment policy in general (European Commission, 2015; European Commission, 2015, pp. 18-19).

The European Commission therefore adopted new commitments in the "Trade for all" to make transparency a reality in all trade and investment agreements the EU is party to. From now on, transparency should apply at all stages of the negotiating cycle from the setting of objectives to the negotiations themselves and during the post negotiation phase.

These improvements have been broadly welcomed by the Council of the EU, the European Parliament and stakeholders at large. However, it would be naive to think that discussions about transparency are over. It would actually be a bad thing if the public reflection on the right balance between transparency and responsibility would stop. It is precisely in the periodic review of this balance that we can all make sure we get the equilibrium right. Maintaining the highest possible degree of democratic accountability, while remaining efficient at the negotiation table, thus remains on the agenda for this European Commission's mandate, and as a legacy for the future.

The New EU Trade and Investment Policy: Why More Responsible?

The "Trade for all" stands out to be more than any previous document on EU trade policy a clear pledge towards a more responsible conduct of trade and investment flows by the European Union. Let me give you three concrete examples:

(1) The rule of law in investment protection;

On 16 September, 2015, the European Commission approved a new transparent system for resolving disputes between investors and states—the Investment Court System (European Commission, 2015). This system similar to public courts, and no longer based on private arbitrators, would replace the existing investor-to-state dispute settlement (ISDS) mechanism in all ongoing and future EU investment negotiations, including the TTIP. It is also this new system that protects the right to regulate at all levels of government, enables appeal like traditional courts, and prevents conflict of interest through a mandatory code of conduct for the public judges that decide, which is now included in the EU-Canada Comprehensive Economic Trade

Agreement (CETA) (European Commission, 2016) and the EU-Vietnam Free Trade Agreement (FTA) (European Commission, 2016).

(2) Small and medium-sized enterprises' integration in the world economy;

To further support small and medium-sized enterprises (SMEs)[1] which are the backbone of the European economy in their efforts to internationalize and overcome the lack, or insufficiency of information, one of the trade barriers SMEs face on a daily basis, the European Commission will include dedicated SME provisions in all negotiations, including dedicated web portals to facilitate access to information on product requirements in foreign markets and opportunities provided by FTAs for export and import. The European Commission will also strive for simplicity and consistency of rules of origin and provide user-friendly information on trade opportunities to SMEs. Last, but not least, the European Commission will also give greater attention to SME issues in its impact assessments on future trade negotiations. All this is done to help SMEs compete more fairly with other market actors, be it big companies and multinationals or State-owned enterprises;

(3) Sustainable development;

Drawing on the existing Sustainable Development Chapters in EU FTAs, the European Commission will:

(a) focus on a more responsible management of supply chains or Global value chains (GVCs) using existing mutual administrative assistance and promoting recourse by the EU's trading partners to authorised economic operators programmes to address risks in global supply chains;

(b) promote initiatives for responsible sourcing (e.g. Bangladesh Sustainable Compact for ready-made garment; FLEGT/VPN agreements for responsible sourcing of tropical timber from partner countries such as Cameroun or Indonesia);

(c) review, together with EU Member States, the 2007 joint EU "Aid for trade" strategy to enhance the capacity of developing countries to make use of the opportunities offered by trade agreements, in line with the 2030 Agenda for Sustainable Development of the United Nations;

(d) undertake an in-depth analysis of the possible effects of new FTAs on least-developed countries (LDCs) in sustainability impact assessments, with a view to designing flanking measures when necessary. The draft interim report of Ecorys, the independent consultant carrying out a Sustainable Impact Assessment (SIA) on TTIP, also looks at its impact on developing countries, notably LDCs (European Commission, 2016, May);

(e) prioritise work to implement effectively the core labour standards (abolition of child labour and forced labour, non-discrimination at the workplace, freedom of association and collective bargaining), as well as health and safety at work in the implementation of EU FTAs, and in the EU Generalized Scheme of Preferences (GSP) for developing countries.

EU Trade and Investment Policy and the WTO

In an increasingly globalized world characterized inter alia by the emergence of new economic powers such as the BRICS countries (Brazil, Russia, India, China and South Africa) and regional economic integration efforts such as NAFTA[2], ASEAN[3], the Trans-Pacific Partnership[4] or the TTIP in negotiation, the EU remains

[1] SMEs are defined in EU law (under EU recommendation 2003/361) as enterprises ranging between 0 and 249 employees; and with either a turnover below two million euros, or a total balance sheet below two million euros. However, there is no common SME definition across all WTO members.

[2] The North American Free Trade Agreement (NAFTA) is a trade agreement signed by Canada, Mexico and the USA that came into force on January 1, 1994.

[3] The Association of Southeast Asian Nations (ASEAN) is a political and economic organization of 10 countries formed on 8

committed to the advancement of the multilateral trading system with the World Trade Organisation at its core. With its 164 members since December 2015, the WTO continues to provide a very useful binding legal framework for global trade between its members, and a Dispute Settlement Mechanism, including an Appellate Body, to resolve disputes between them. The WTO thus remains a relevant enabler of economic integration and at the same time a regulator of globalized trade in its areas of competence.

Moreover, as tariffs are being reduced or completely eliminated as a result of progressing liberalization of markets, it is the regulatory dimension, the setting of new rules, which is gradually becoming the heart of EU's offensives interests both in the WTO, and in its bilateral and plurilateral negotiations that are conducted in a WTO-compatible manner.

The European Commission therefore supports the ratification of the Trade Facilitation Agreement (TFA), negotiated in the WTO context, which should simplify customs procedures. Moreover, the European Commission favours the conclusion of plurilateral agreements such as the Environmental Goods Agreement (EGA), and the Plurilateral Agreement on services (TiSA), and wishes to have them brought under the WTO aegis over time.

Conclusions

With the above mentioned agenda of complementary bilateral, plurilateral and multilateral agreements, and concrete pledges towards transparency, accountability and sustainability, the EU trade and investment policy seeks to make a more responsible contribution to growth and jobs in the EU and beyond. Whether it will succeed in delivering on its goals will depend on many factors. Amongst other, the availability of sufficient resources (human, financial, etc.) at the European Commission's disposal throughout the whole negotiation cycle is, and will remain, key to effectively implement the commitments made. On this aspect as well, a public discussion has started, and the European Commission will hope for a good result from budgetary negotiations between the two EU co-legislators (the Council of the EU and the European Parliament) to say the least. To sum up, if we want "trade for all", we also need to make sure to "talk to all" about its benefits, and win widespread public endorsement for it.

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August 1967. Its aims include accelerating economic growth, social and sociocultural progress among its members as well as fostering protection of regional stability and peaceful resolution of differences. The ASEAN countries are Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam.

[4] The Trans-Pacific Partnership (TPP) is a trade agreement between 12 Pacific Rim countries signed on 4 February 2016 in Auckland, New Zealand, which has not yet entered into force. The signatories are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA and Vietnam.

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