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THE EU'S NEW TRADE STRATEGY

GEARING UP FOR COMPETITION OVER VALUES

The EU's new trade strategy instrumentalizes trade policy more forcefully in order to promote EU values such as democracy and human rights. A value-based and more defensive trade policy can lead to conflicts spirals, especially with China. The EU also needs to be prepared for potential setbacks in developing the transatlantic relations.

In the coming weeks, the EU's trade policy will see the most significant changes in decades. The new trade strategy introduced by the Commission to the member states is shifting the emphasis and modifying the structures of the EU trade policy goals. These changes are reflecting growing needs to improve the EU's defensive trade policy capabilities to respond to the new challenges related to the rise of China, and the intensification of great-power competition between the United States and China.

The EU trade policy has always been based on balancing between the defensive interest to protect the internal market on the one hand, and safeguarding export-related offensive market access interests

on the other. This balance has been shifting for a while now more in the direction of defensive interests and the new trade strategy will further strengthen this change. The strategy is aimed at creating a more effective and comprehensive set of trade policy tools to impose, or at least threaten to impose, more restrictions unilaterally on foreign trade and investment.

The new strategy will entail structural changes but also modify the objectives of the EU's trade policy. Despite the fact that trade policy, by nature, entails coordination between the different aims and interests of different policies, the EU trade policy has traditionally focused on economic objectives. The EU's new trade strategy will,

however, change the relationship between trade policy and other policies in an unprecedented manner. Aims related to security, climate and human rights will become more integral parts of trade policy decision-making and instruments. The EU's industrial and competition policies along with other EU internal market policies will also have a stronger role in directing the EU's trade policy. The strategy also introduces a new sector of responsibility for trade policy: combatting the economic inequality developments inside the EU.

In order for the EU to be better able to tackle global challenges that are becoming more complex, it also needs to use trade policy more in defending its values and interests.

This will, however, create various problems for trade relations between the EU and third countries. Problems will most probably emerge with China in particular, which shares neither the EU's values nor its social system, but is, nonetheless, the EU's second biggest trading partner. The adversarial pressures of the EU-China relations will force the EU to determine a clear order of priority between economic and other policy objectives.

Tensions in the EU-China relations were already heightened in March as the EU's new human rights sanctions regime was applied and sanctions against China were imposed. China wasted no time in responding to the EU's action with countersanctions. Although the EU's ability to form a common front towards China turned out to be better than expected, China's rapid counter-reaction came as a surprise to the EU and revealed its lack of preparedness for deteriorating relations.

As the increasing tension with China can be detrimental to European companies and the EU's economy alike, the EU needs to consider options to counterbalance possible negative effects. The EU should also allocate more resources to trade liberalization with its biggest trading partners to balance its

new defensive agenda. In addition to negotiating and ratifying new trade agreements, the EU needs to update existing ones in order to meet the requirements of both the digital and the green transition.

A crucial problem concerning the strategy is that it puts too little emphasis on deepening the EU's trade relations with key partners. The relationship with the United States is an exception. Expectations of developing the transatlantic relations are great, and possibly over optimistic. The new strategy is aimed at renewing both the bilateral trade relations as well as reforming the multilateral trade rules based on common values shared by the EU and the United States. Joining forces to defend democracy and combat authoritarianism is a clear reaction to China's growing power. However, sharing values is still a long way from reaching a mutual understanding of trade rules in questions related to digitalization, the green transition or even national security.

For example, the EU's plans to proceed autonomously in preventing carbon leakage by imposing a carbon border mechanism could be interpreted by the US and other trading partners as a protectionist action providing justification for countervailing measures.

In addition to increasing the risk of trade conflicts, the new trade strategy will also have an impact on the EU's internal decision-making and EU member state relations. A trade policy giving priority to defensive interests might breed resistance among those member states that traditionally stress the importance of open markets and liberal trade policy.

Emphasizing human rights and environmental values to the extent that they subordinate economic interests might test the internal unity of the EU. Hence, the increase in the diversity and complexity of interest in trade policy might make it even more difficult to define the EU's interest as a whole, and to coordinate the positions of individual member states, a prerequisite for achieving a common EU position.

Approval of the EU-Mercosur free trade agreement would be a significant showcase for the new EU trade policy. Approval of the agreement is being delayed because of the EU's internal problems coordinating social, climate and economy-related interests. These challenges should not, however, lead to the stagnation of the EU's capacity to act, or to the failure of agreements of strategic importance. /