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EXECUTIVE SUMMARY

**FIGHTING GLOBAL
IMBALANCES
WHAT ROLE FOR THE EU?**

EUROPAPERSPEKTIV 2014

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EXECUTIVE SUMMARY OF EUROPAPERSPEKTIV 2014

Fighting Global Imbalances What Role for the EU?

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When the Treaty of Maastricht took effect on 1 November 1993, it established a Common Foreign and Security Policy for the European Union (EU). The fall of the Soviet Union and the end of the Cold War had opened up new prospects for a uniting Europe to play a more important role in world affairs. With its economic strength and its core values of democracy and human rights, the EU has sought since then to promote peace and free trade, both in its immediate neighbourhood and in the rest of the world. After several years of serious economic crisis, however, the Union now faces a number of vital challenges on the world arena. Can the Union be a constructive force in world politics? And if so, how ought it to proceed?

Recent events in Ukraine illustrate the efforts of the Union to exert influence over countries in its vicinity. Yet at the summit for the EU's Eastern Partnership in November 2013 – exactly twenty years after the Treaty of Maastricht took effect – the Ukrainian president, Viktor Yanukovich, chose not to sign the Association Agreement with the EU that had been negotiated. The Agreement would likely have led to substantially increased trade with the Member States of the EU, but pressures from Moscow proved decisive in the end. Yanukovich thus chose to maintain close ties with Russia, rather than moving towards the EU. In addition, the previous dispute over gas between Russia and Ukraine, in January 2009, had brought serious consequences for EU energy security, affecting both citizens and companies within the Union.

The Union also faces a challenge from new power centres, such as the rapidly growing economies in Africa, Asia, and South America. Yet the EU continues to vie with the United States for the position as the world's largest economy, and it still accounts for a large share of world trade. It furthermore stands out as the foremost aid-giver in the world. Many observers see it as setting a good example in the struggle to halt world climate change, and in the task of spreading peace, democracy, and human rights. Nevertheless, the years of crisis have left the EU's economic and political resources badly depleted. The economic and financial crisis has forced the Union to focus on a crucial internal challenge: to restore confidence in the common currency, by consolidating the European economy and strengthening the institutional framework of monetary integration. These developments run the clear risk of reducing the international importance of the Union.

This book looks at the EU's role in addressing some of the greatest challenges of our time: poverty, protectionism, climate change, and human trafficking. These challenges follow from a series of global imbalances, which at bottom are economic, political, and social in character. What can the Union do, and what should it do, to help address the great challenges resulting from these global imbalances? Can it maintain its high ambitions with regard to free trade, human rights, development assistance, and the fight against climate change? How are its strategically important relations with China, Russia, and the countries of Africa developing? And has the High Representative of the

Union for Foreign Affairs and Security Policy succeeded, with the aid of the new European External Action Service (EEAS), in giving the Union a stronger voice in world affairs – notwithstanding the ever deeper divisions among Member States to which the crisis has led? These are some of the issues explored in this yearbook, the seventeenth in the *Europaperspektiv* series.

The external activities of the EU are very extensive. They involve everything from conflict prevention and crisis management – through measures both civil and military – to policies for the promotion of world trade, by means of bilateral and multilateral agreements. They include development cooperation, neighbourhood policy, and humanitarian assistance. They take aim at such planetary challenges as energy security, global migration, climate change, and peace and security. Providing a full picture of the Union's role in all these areas is not possible. This book therefore focuses on certain areas where the global imbalances are particularly challenging, and where measures taken by the Union can have an important impact.

Trade and investment – and not just among Member States of the Union, but with other countries as well – are critical for increasing European competitiveness. The Union's trade policy forms an important part of its foreign policy, as do its efforts at strategic cooperation with other leading economic powers. Within the framework of the World Trade Organisation, for example, the EU has pushed for free trade. At the time of writing, moreover, it is negotiating a new free-trade agreement with the United States. But trade and the global economy have undergone far-reaching changes in recent years. New high-growth economies (China in particular) have emerged as important global actors. It is therefore crucial that the EU undertake strategic cooperation with the new high-growth economies. These moreover include Russia, the great power of foremost strategic significance within the vicinity of the Union. Cooperation with Russia has centred in large part on energy and raw materials, which are crucial for EU provision and security in the energy area. But trade policy is also closely connected with another of the great challenges facing the world: the threat of climate change.

For a long time now, the EU has been calling in international negotiations for stricter limits on greenhouse-gas emissions by the industrialised nations. By setting ambitious goals for itself in the area of climate and energy – e.g., by pledging to reduce emissions by at least 20 percent by 2020 – the EU means to display its determination to tackle the climate challenge, and to map out the future course needed. The plan is furthermore that, by the same year, energy consumption within the Union will have fallen by 20 percent, and renewable sources will account for 20 percent of all energy consumption. The Union's leading role on this question reflects in large part the determination of its Member States, and their willingness and ability to cooperate. One of the EU's most important instruments in this area is the EU Emissions Trading System (EU ETS). The question, however, is whether such a

system can be used to reduce emissions in other countries too, thereby helping to address one of our time's greatest global imbalances.

In a similar way, the question of global migration poses a significant challenge for the Union's role in the world. The economic and financial crisis has led to mass unemployment in many of the Member States. Over the longer run, however, the EU faces serious demographic challenges due to its ageing population, and the labour shortage this is expected to produce. The Union must furthermore handle the flow of asylum-seekers and refugees seeking entry, not least as a result of political unrest in North Africa and the Middle East. Migration policy too reflects the willingness and ability of the Member States to cooperate, and to each bear a proportionate burden in addressing the global imbalances in this area. Yet disagreement among the Member States is far-reaching in this area, even as they strive to adopt a common strategy for migration. Often, moreover, migration policy has been addressed from a purely security-oriented perspective, and in a way that takes scant account of other foreign-policy considerations, such as humanitarian aid, development cooperation, or respect for human rights. Moreover, protection has been inadequate for asylum-seekers and refugees, many of whom have met with harsh treatment or fallen victim to human trafficking.

The Treaty of Lisbon made development policy an integrated part of EU foreign policy. This has involved the establishment of a new body, the Directorate-General for Development and Cooperation – EuropeAid, the charge of which is to formulate foreign policy and to dispense development aid throughout the world. However, responsibility for EU aid policy is divided between the Union and the Member States, making far-reaching coordination necessary for an effective use of resources. European coordination is thus critical if the Union is to play a leading role in reducing poverty and promoting economic development, above all in Africa. The Union's efforts in this area ought therefore to be coupled with the rest of EU foreign policy, not least in the area of migration. This should help reduce some of the imbalances between the Union and poorer parts of the world.

The future role of the EU in world politics, then, will reflect its efforts in relation to a series of global imbalances associated with some of the greatest challenges of our time: poverty, protectionism, climate change, and human trafficking. Challenges of this kind therefore figure centrally in this book.

In the first chapter, *Lisbeth Aggestam* investigates whether the reform of formal leadership structures within the Common Foreign and Security Policy has strengthened the capacity of the Union to tackle global imbalances. She demonstrates the persistence of a tension in this area: between, on the one hand, internal ambivalence about how much power EU leaders ought to be allowed to acquire; and, on the other, the widely nourished ambition that the Union will play a leading role in world affairs. From a sovereignty standpoint, delegating leadership to the EU on foreign-policy questions is a sensitive and symbolically charged issue. Aggestam examines Catherine Ashton's record as the

first High Representative of the Union for Foreign Affairs and Security Policy, in an effort to shed light on the problems Ashton has had to confront in her attempts to coordinate both the Member States and the institutions of the Union. Ashton has met with sharp criticism for failing to show the requisite leadership, whether on narrowly delimited questions or in regard to overall vision. Declining the strongly individual-centred perspective that dominates research on European leadership, however, Aggestam argues that the personal traits of the High Representative are not necessarily decisive for the effective running of the system. Effective European leadership in foreign affairs is only possible, she contends, with a well-functioning foreign service and an pronounced political will on the part of the Member States to coordinate their foreign policies. Researchers who have studied the Union's behaviour during the Arab Spring have drawn similar conclusions.

The choice of a new High Representative during 2014 will be symbolically important, as a signal of the EU's global ambitions. A single individual, of course, has but limited prospects for solving all the structural problems with the Union continues to wrestle. Aggestam emphasises, however, that the next High Representative, unlike his/her predecessor, will enjoy the assistance of a full-fledged European foreign service. According to Aggestam, therefore, the new High Representative will have a golden opportunity to develop a unique leadership role as a policy entrepreneur. The High Representative can become a hub in the various overlapping national and European diplomatic networks, with the competence and powers of oversight needed to identify crucial questions for the future at an early stage, and to draw up guidelines for Union policy vis-à-vis the different global imbalances.

In the second chapter of the book, *Arne Bigsten* trains a spotlight on the economic imbalance between the EU and Africa. Can the EU help to reduce this imbalance with the development assistance it provides? Poverty in Africa is a crucial challenge for the Union from the standpoint of justice and solidarity; in addition, however, it lies in the interests of the EU itself that Africa be prosperous and stable. Bigsten discusses how aid policy should be structured, and what can be done within the EU so as to make aid to Africa more effective. He first analyses the consequences arising from inadequate coordination among aid-givers, from the unpredictability of aid flows to receiving countries, and from the tying of assistance to purchases in aid-giving countries. He then examines the choice of receiving countries by the European Commission and the Member States. In particular, the largest aid-giving countries within the Union have strategic or commercial interests in maintaining a presence in certain countries – countries which are not necessarily the poorest. Finally, Bigsten discusses how policy in this area should be organised, and what the strategic focus of the Union's development programmes ought to be. He concludes with a brief look at the prospects for reducing the imbalance between the EU and Africa by opening up for greater migration into the Union.

In addition to improving its aid programmes in terms of policy and coherence, the Union needs to develop better mechanisms for implementation. The main issue of strategy here concerns the extent to which aid should be coordinated among the Member States. One way of improving coordination would be to give the Commission greater power. There are two main ways to do this, according to Bigsten. Either the Member States can choose to channel more aid resources through the Commission, or the Commission can be empowered to impose greater coordination of the aid carried out by the Member States. For certain types of aid, furthermore – which for political reasons are better handled in a multilateral setting – the Commission rather than bilateral channels can be used.

In the book's third chapter, *Magnus Henrekson and Tino Sanandaji* analyse the global imbalance that exists in connection with innovative entrepreneurship. There is a broad consensus that entrepreneurship is an important key to creating jobs and growth in Europe. The two authors stress as well, however, that successful entrepreneurship in Europe can help spur economic development in other parts of the world too. The reason for this is that entrepreneurial innovations do not just benefit the country in which they arise. Over the long run, new technology provides benefits for all countries that can use the new products and methods. Henrekson and Sanandaji regard innovative entrepreneurship as distinct from self-employment and small enterprise. Most small business people get their daily bread from their business, and it is not usual for them to become innovative, growth-oriented entrepreneurs in the process. In order to identify the latter group better, Henrekson and Sanandaji study the dollar billionaires named in *Forbes Magazine's* yearly compilation, who acquired their wealth through entrepreneurship. They refer to this group as super-entrepreneurs. They identify 996 super-entrepreneurs in some fifty countries during the 1996–2010 period. Since the Second World War, the billionaires on *Forbes'* list have founded about half of the biggest high-growth companies.

By systematically measuring the number of super-entrepreneurs in different regions, together with the level of risk-capital investment, Henrekson and Sanandaji are able to show that the US, and to some degree Asia, have the edge on Europe when it comes to innovative entrepreneurship. Europe underachieves in this respect, notwithstanding several preconditions for innovative entrepreneurship which are present in the region, including a well-educated labour force, a well-developed infrastructure, a high level of GNP per capita, and a high level of investment in research and development. What can the Union and its Member States do to encourage more super-entrepreneurship in Europe? The authors contend that high taxes may be an important part of the explanation for Europe's underachievement in this area. They also point to the importance of separating policy for the promotion of small and medium-sized business from that for the promotion of innovative entrepreneurship. Many European countries have special rules for small companies, which have the practical consequence of

encouraging such firms to remain small. Finally, increased market integration within Europe can be important for increasing the size of the market and for reaching the critical mass needed for the emergence of new entrepreneurial companies.

In the book's fourth chapter, *Sanja Bogojević* examines the EU's efforts to even out a further global imbalance: the differing levels of responsibility which different countries take for the climate. This imbalance is clearly reflected in the fact that a mere handful of countries take responsibility for their CO₂ emissions. No more than about 20 percent of the world's greenhouse-gas emissions are the subject of climate agreements. Bogojević asks whether the Union has the ability to spur a larger number of countries to take measures for the climate. The EU Emissions Trading System (EU ETS) stands at centre in her analysis. She notes that this system is often considered exemplary, and that it has served as the model for regulatory schemes in several countries. Indeed the EU ETS, in her estimation, is the foremost example of the Union's ambition to stake out a leadership role in the global climate regime. By instituting the EU ETS, the Union is trying to set a good example and to encourage other parts of the world to take responsibility for the climate. The Union has also sought to give the EU ETS a broader international reach, by applying it to aviation. It has tried to require flights taking off from or landing at any airport in the EU to acquire emissions rights, irrespective of country of departure or final destination.

Have the Union's measures had any effect on the international climate regime? Bogojević contends the EU has succeeded in "showing its muscles" and in pressuring a greater number of countries to take responsibility for the climate. It has not been able on its own, however, to set the rules for airlines outside its own borders. The resistance from countries like China, India, the US, and Russia was too great for that. Bogojević concludes from this that the EU cannot act unilaterally to counteract the global imbalance in this area: i.e., the differing responsibility that different countries take for the climate. It should therefore concentrate instead on acquiring a strong voice for the Union as a whole in international climate negotiations. This in turn means the Member States must be united on the form which an international system of climate protection ought to take. They should also work for an even stronger single market. With the single market's power of attraction as a hook, the EU ought to be able to exert significant pressure for the environment on a global level, even if this would not enough in itself to earn for it the title of environmental hero.

In the fifth chapter of the book, *Anna Jonsson Cornell* analyses human trafficking as an expression for global imbalances, and assesses the efforts of the EU to combat it. The Union has put the fight against human trafficking high on its list of priorities. It mobilises on this question internally, as well as vis-à-vis countries outside its borders. For a long time now, scholars and activists have argued that human trafficking can only be combatted with an integrated and holistic approach that includes both preventive measures and enforcement and prosecution, together with protection for especially vulnerable groups.

The approach which the EU takes today in its fight against human trafficking embraces all of these perspectives. Nevertheless, human trafficking does not appear to be diminishing in scope. The number of convicted perpetrators is very low, seen in relation to the apparent scale of the trafficking. The same is true of the number of identified victims of the crime. One of the chief questions considered in the chapter is how it can be explained that human trafficking is not diminishing, notwithstanding all the political attention it receives and all the measures the EU has taken. The author describes the driving forces behind human trafficking, and identifies its perpetrators and victims. She also reviews the measures the Union has taken to combat this scourge.

The author concludes that the EU has found it difficult to implement its policy against trafficking. In particular, it has not been able to act in a strong and unified way in the international arena. The Union's measures against human trafficking take their point of departure in the grave violation of human rights which the crime represents. But persistent problems dog the Union's efforts in this area, particularly in connection with internal coordination and harmonisation. Differing views on prostitution, migration, and labour law are the chief causes of coordination problems within the EU. All of these problems, the author contends, are tied to the question of demand: it is the continuing demand which ensures that trafficking does not diminish, but rather increases. The Union and its Member States must become much more effective in their measures to counteract demand. They must also intensify their efforts to implement the obligation of states under international law towards those who have fallen victim to trafficking. The Union must meet its internal challenges, or it will not be able to act vigorously against human trafficking at the global level.

In the sixth chapter of the book, *Andreas Moberg* focuses on the global imbalance that characterises the protection of individual human rights. In order to alleviate this global imbalance, the EU makes use of political conditionality clauses. Moberg describes and evaluates this instrument. Political conditionality clauses are clauses which mean that the parties to an agreement must respect certain values if they are to avoid a suspension or cancellation of the agreement by the other party. Since the EU is an important partner on many questions, particularly in the areas of trade and development assistance, the majority of the world's states are anxious to ensure that their agreements with the EU continue to hold. Agreements with the EU can be suspended or revoked if human rights are not respected; thus, the prevalence of such conditionality clauses means, at least in theory, that these values are given high priority. Conditionality clauses have featured in EU agreements ever since the 1970s, but it was only at the beginning of the 1990s that the EC decided to include conditionality clauses in all of its agreements with external states.

Over the course of the last twenty years, conditionality clauses have gone from being uncommon to being included in the EU's agreements with about 80% of the world's countries. Moberg reviews the

states with which the Union has agreements containing such clauses. He then proceeds to a critical analysis of all the cases where the Union has cited such a clause, due to its judgement that the other party has violated human rights. The way in which the EU activates these clauses has met with considerable criticism, first and foremost the charge that the Union applies different yardsticks to different countries, all depending on which other interests (other than human rights) may be at stake. Moberg's broad conclusion is that this criticism is serious and cannot be dismissed. At the same time, he identifies some positive consequences that flow from the use of conditionality clauses. Above all, Moberg stresses, these clauses provide a platform to discuss human rights. Holding a dialogue on the need to protect human rights, as he sees it, is the first step on the road to improvement. Thus, when human rights form part of the negotiating agenda, this is an advance in itself.

In the seventh chapter of the book, *Ari Kokko* looks at three areas where an imbalance between the EU and China has led to substantial problems. The first relates to China's large trade surplus, which finds its counterpart in large bilateral deficits in the EU, the US, and other parts of the world. The author considers various explanations for the Chinese export miracle, and finds that low labour costs have been especially important. The second imbalance is the asymmetry obtaining with regard to market access and conditions for foreign investment. Whereas Chinese companies enjoy almost unlimited access to the EU's single market, including the market for state purchases, EU firms wishing to operate in China have but small prospects of competing within branches considered strategically important. The third imbalance concerns the capacity of the Union to act as an equal partner in negotiations with China. While certain Member States are mainly interested in gaining better access to the Chinese market, others put a higher priority on attracting loans and direct investment from China. Due to this division, the Union has not been able to frame a common policy towards China. The fragmentation has also allowed China to maximise its negotiating strength, by focusing on bilateral relations with selected Member States rather than negotiating with the whole EU.

Kokko claims that demographic and economic changes in China have already started to produce higher labour costs. This will lead in time to a reduction in the unnaturally high competitiveness of Chinese exports. No special measures will therefore be needed to limit the Chinese trade deficit. On the other hand, no comparable trends are to be observed when it comes to conditions for foreign investment in China's strategic industries. Due to the division within the EU over policy towards China, moreover, there are few prospects for reaching rapid results on this question by putting pressure on China and demanding equal treatment. The best strategy for the Union, as Kokko sees it, is to continue negotiating with China over better access, while trying at the same time to reach a transatlantic free-trade agreement with the US, thereby creating a counterweight to China, and helping to strengthen the EU both economically and politically.

In the eighth chapter of the book, *Anke Schmidt-Felzmann* analyses the relationship between the EU and Russia in the new global balance of power. These two are neighbours and mutually dependent trade partners. Russia is also an partner for the EU on regional and global questions. The Union faces, however, a number of imbalances in its relationship with Russia. One problem Schmidt-Felzmann highlights is the fact that the Union is living through a period of internal crisis and division, at the same time that the Russian government has made clear its intent to restore Russia to the status of a great power. This means, according to the author, that the EU's capacity to assert its foreign-policy interests vis-à-vis Russia is very limited. Union representatives meet with substantial resistance from Russian decision-makers, who are often prepared during negotiations to struggle to the last. At the same time, changes in the global balance of power are putting pressure on the EU. In particular, the increased competition from new high-growth economies limits the Union's capacity to utilise its market position and power of attraction in negotiations with Russia. In addition, power imbalances inside the Union find expression in disputes among the Union's institutions and in disagreements among its Member States, producing a further obstacle to achieving an equal relationship with Russia.

The most fundamental question for EU policy vis-à-vis Russia, according to Schmidt-Felzmann, is whether the Union ought to increase pressure on Russia in order to bring about a change in that country's domestic and foreign policies; or whether heavier pressure would lead only to worsened relations, with an attendant risk that Russia's leaders would turn away from the EU. The author points out that disagreements among the now 28 members of the EU – together with the complicated power game played at the central EU level – make it possible for the Russians to apply a divide-and-conquer strategy. If the Union is to achieve a decisive shift in its relations with its large eastern neighbour, it must be tougher in negotiations and not cave in to Russian demands.

In the ninth and concluding chapter, *Ole Elgström* explores the picture of the EU that prevails in the rest of the world, and how it affects the Union's capacity to address global imbalances. The focus is on how other actors assess the power and capacity of the EU to act as a leader on such issues as trade, aid, and climate change. One constant theme here is variation: other actors' perception of the EU as an international actor varies, according to geographical region and issue area. A central message of the chapter is that the Union's influence reflects more than just its own efforts. It is also affected by how other actors see the role of the Union, and how they react to its initiatives. There are no leaders without followers. No organisation can exert normative influence if its efforts at spreading norms are considered illegitimate. Conversely, its powers may be greatly enhanced if its actions are thought credible and legitimate. One clear general finding here is that it is mainly within the area of trade and the economy that the EU is seen as a great power. Other actors view the Union as a great power on economic matters, but

this does not mean they necessarily see it as a leader. They view it, rather, as a leader “at times” and “in certain areas” – as when it makes one-sided concessions or champions liberalisation.

In future negotiations with important partners, Elgström argues, the EU should carefully analyse the expectations its counterparts have of the Union. Its representatives need to refine their external communications strategy. They should focus more attention on coordinating their strategies in advance, so that they appear as a coherent and legitimate negotiating partner. Finally, the EU should adjust its strategies and its coalition-building to prevailing power relations, so that its strategies are perceived as realistic and credible. Only if the Union follows this advice will it be able to alleviate the various global imbalances.

The nine chapters in *Europaperspektiv 2014* assess the great challenges facing the EU from a variety of disciplinary perspectives: those of economics, law, and political science. One important conclusion of these chapters is that the Union’s future role in the world will depend on the capacity of its Member States to cooperate effectively within the framework of the Common Foreign and Security Policy. The Union needs to reach a consensus on its fundamental priorities, and to achieve a closer concordance among its policies in different areas. Furthermore, if the Union is to play a leading role in addressing the most serious challenges of our time, the new institutional instruments and solutions established by the Lisbon Treaty must function effectively.

At the same time, the sovereignty of the Member States is being challenged by ever deeper collaboration in the area of foreign and security policy. The shifting interests of the different countries have sometimes proved hard to reconcile, undermining the Union’s capacity to show global leadership on a variety of questions. Is the EU a leading actor in addressing the imbalances that confront our world? Other actors’ perception of the Union in that regard is far from unambiguous. Much is therefore at stake in the coming elections to the European Parliament, to be held on 22–25 May 2014. Several of the top posts within the Union are to be filled after the elections, including that of High Representative for Foreign Affairs and Security Policy. The question is whether the EU’s new leadership will be able to give the Union a strong voice in the world, or whether internal antagonisms will undermine any prospects for European influence. The elections will be crucial for the Union’s global strategy, and for its future role in the world.