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The European Union as a conflicted trade power

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ABSTRACT The EU is a formidable power *in* trade. Structurally, the sheer size of its market and its more than forty-year experience of negotiating international trade agreements have made it the most powerful trading bloc in the world. Much more problematically, the EU is also becoming a power *through* trade. Increasingly, it uses market access as a bargaining chip to obtain changes in the domestic arena of its trading partners, from labour standards to development policies, and in the international arena, from global governance to foreign policy. Is the EU up to its ambitions? This article examines the underpinnings of the EU's power through trade across issue-areas and across settings (bilateral, inter-regional, global). It then analyses the major dilemmas associated with the exercise of trade power and argues that strategies of accommodation will need to be refined in each of these realms if the EU is to successfully transform its structural power into effective, and therefore legitimate, influence.

KEY WORDS Conflict; Europe; globalization; legitimacy; market; power; trade.

Is the European Union (EU) truly an international power? Everyone from Robert Kagan to Joseph Nye, from Tony Blair to Jacques Chirac, agrees that the EU is not a superpower in the traditional sense. But there is little consensus on how exactly to characterize European power (Kagan 2003; Nicolaïdis 2005). Cynics (or realists?) argue that the rhetoric of the EU as a civilian power or purveyor of soft power simply dresses up the EU's fundamental weakness on the international scene. By contrast, Euro-idealists (or pragmatists?) argue that it is precisely its non-military and non-coercive character that is the key to the EU's actual and potential influence in the world – in particular the spreading of its norms and values (Manners 2002; Leonard 2005; Smith 2005). Others suggest that the notion of the EU as a normative power must be critically assessed, in light of its neo-colonial implications and echoes of nineteenth-century 'standards of civilization' (Nicolaïdis and Howse 2002; Diez 2006).

Trade is at the very core of such potential or actual power. Historically, internal trade liberalization and external trade policy served as the glue to

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bind together the former enemies within Europe. As a result, the sheer size of Europe's single market combined with the collective character of European trade policy have enabled the EU to become a true rival to the United States (US) in international trade negotiations (Meunier 2005).

In fact, the Union is not only a formidable power *in* trade. It is also becoming a power *through* trade, using access to its huge market as a bargaining chip to obtain changes in the domestic policies of its trading partners, from labour standards to human rights, and more generally to shape new patterns of global governance. Yet, is this enough for the EU to become a world power in its own right?

As Waltz (1979) and others have argued, the basic components of any kind of power are force, political will, and legitimacy. This article asks how far EU actors have been willing or able to transform the EU's structural power into effective influence. It also asks whether power is fungible: that is, if power in one arena (trade) can become power in another arena (foreign affairs in general). By extension, the analysis raises questions about legitimacy, or what power is supposed to be about – power to change what and for whose benefit?

We argue that the EU is indeed a 'trade power', in that it is able to affect other countries' policies and positions through its capacity to manipulate market access. It is, however, a *conflicted* trade power, a trait that may be both its saving grace and its Achilles heel. The EU is conflicted within, as different member state governments, influenced by a host of domestic actors, hold very different views on how to wield such power through trade. The EU is also conflicted between its own guiding principles, which often appear to contradict one another – such as championing multilateralism while blanketing the planet with bilateral trade agreements, or promoting the cause of economic development while protecting European agriculture. Only through appropriate strategies to reconcile such tensions can the EU find the path to 'legitimize' its power on the world scene.

The first section of this article explores the determinants of the EU's trade power. The second examines how the EU derives its international power in trade and through trade. The third section highlights the various tensions between alternative principles pursued by the EU through its trade power and the accommodation strategies developed to address these tensions.

SOURCES OF EUROPEAN TRADE POWER

The sheer size of the single European market and its more than forty-year experience of negotiating international trade agreements have made the EU the most powerful trading bloc in the world. Indeed, the trade power of the EU comes above all from the strength of its internal market and the efficiency of its institutions in negotiating lucrative commercial deals. Both of these sources of power, however, have limitations.

Structural power

The power of a country, or group of countries, in trade is a function above all of its sheer economic strength. Its weight in trade policy depends on its relative market size and on the overall performance of its economy. Until the birth of the European Community in 1958, the US was the unchallenged hegemon in world trade. The first two multilateral trade negotiations in which the Common Market participated as a single entity – the Dillon and Kennedy Rounds of the General Agreement on Tariffs and Trade (GATT) in the 1960s – immediately established Europe as a rival to the US in terms of market power and negotiating leverage (Meunier 2005).

The key sources of EU trade power have always been the size of its internal market – specifically, the market access that can be bargained away for both foreign direct investors and exporters from the rest of the world – as well as its share of world trade. The attraction of its market leads most World Trade Organization (WTO) members to seek deals with the EU, and increasingly to try to adapt to its standards.

With the 2004 enlargement, the EU became the biggest trading bloc in the world. It is the world's largest trader of services (27.8 per cent of the world's export and 25.1 per cent of the world's import in 2004) and one of two giants in the trade of goods (world leader in exports with 18.1 per cent of exports and second in imports with 18.3 per cent in 2004; see WTO 2005). While enlargement has a complex impact on external trade patterns by internalizing previously external trade, it has undoubtedly strengthened the EU since a larger single market is both a more attractive prize to outside economic players and a more costly opportunity loss in case of trade conflict.

Bargaining power

Clearly, political and institutional factors determine how such structural foundations materialize into actual power. The EU is a conflicted power, first because different member state governments, influenced by different domestic actors, hold very different views on how to wield its structural trade power (see Baldwin 2006). It could be argued that most big trading entities contain interests which are intensely at odds: for instance, Vermont dairy protectionism vs. California information technology in the US, or rich agricultural exporting companies vs. Sao Paolo industrial interests in Brazil. But the EU is the only political entity where interests need to be aggregated not once but twice – at the level of member states and then the EU – and where each level of aggregation in itself constitutes a potential veto point.

And yet, the common commercial policy, which governs EU trade policy, is the most prominent EU policy to have been under supranational competence from the very beginning (Meunier and Nicolaïdis 1999). Whether in bilateral, regional or multilateral trade negotiations, Europe formally 'speaks with one voice' and negotiates through one agent, the European Commission. Its more than forty years of experience in negotiating international trade agreements on behalf of its members have made the EU an essential player and a powerful bargainer in the multilateral trading system (Baldwin 2006; Meunier 2005).

The very idea that nation-states could give up such a key area of their external affairs was, and continues to be, revolutionary. Delegation here operates at two levels. First, individual member states have delegated their authority to conclude trade agreements to the European Community, acting collectively through the Council of Ministers. Second, the latter has delegated to the European Commission, which initiates the participation of the EU in international trade negotiations and negotiates on behalf of the member states. This pooling of international representation has obviously magnified the power of the EU member states in the international trade system.

Yet this revolutionary granting of competence over trade to the supranational authority has not been without political controversy and continues to be contested to this day. Some states are loath actually to give up the veto they have lost formally. Yet, they also recognize the need for greater efficiency in an enlarged Union. This tension has been reflected in the ongoing saga over the scope of exclusive Community competence in trade, from the Amsterdam to the Nice Treaties, and most recently the ill-fated Constitutional Treaty, which reasserted such competences for services, intellectual property and foreign direct investment, with the notable exception of culture (Nicolaïdis and Meunier 2002). Granting more power to the European Parliament, as envisaged in this latest iteration, might have reduced the likelihood of adopting trade deals but would certainly increase the legitimacy of EU trade policy, including by making more explicit some of the debates we discuss below.

Irrespective of institutional reform, has enlargement affected the coherence or conflict between member states and thus its ultimate capacity to speak with one voice? Experience thus far suggests that the constellation of interests in the new entrants generally mirror those pre-existing in the EU, with little evidence that enlargement has altered fundamentally the EU's overall position in trade negotiations (see Baldwin 2006).

But a 'conflicted power' in terms of heterogeneity of interests does not necessarily mean less influence. On the contrary, internal conflict can be the ultimate source of power (Meunier 2005). 'The power of a negotiator often rests on a manifest inability to make concessions and to meet demands' (Schelling 1960: 9). Indeed, tying one's hands internally, for instance through inflexible negotiating instructions and divisions highly visible to the opposite party, can confer strength in negotiations (Nicolaïdis 2000). The EU has often negotiated international trade deals under such constraints, with the hands of its negotiators tied by internal disputes among member states with unclear veto powers. By being divided internally but united through the collective representation requirement, the EU has been able to obtain more in international trade negotiations than it might have if all decisions had been made through strict majority voting and with a lot of flexibility granted to European negotiators.

POWER IN TRADE AND THROUGH TRADE

If the EU can rely on fundamental sources of trade power, for *what* does it exercise this power? What is it trying to gain in exchange? The first goal of EU trade power is self-evident: the EU is using its power to secure concessions from others about market access. In doing so, it works as a shaper of economic globalization. More originally, the EU is also using its trade power to achieve non-trade objectives, from the export-specific rules flanking market integration (social, environment, safety standards) to more political or strategic linkages. The question remains whether such use of trade power ultimately matters in geopolitical terms.

As summarized in Table 1, we distinguish between power *in* trade, whereby access to the EU's market is simply traded for increased exports of the EU's own goods, capital and services (through diffuse or specific reciprocity), and power *through* trade, whereby access to the EU's market is after a more elusive prize, namely exporting the EU's laws and standards, and ultimately its norms and ideas. Clearly, these two dimensions are not neatly separable, since the export of EU standards may often constitute a prerequisite for gaining market shares (from intellectual property to product standards or competition laws). Second, how these two forms of trade power are exercised obviously depends on the nature of trading relations, namely whether they are bilateral, regional, or global.

Theories of hegemony have long taught us that the foremost source of power for economic hegemons is the use of access to one's market as a bargaining chip to obtain specific changes in behaviour and policy of one's trading partners. In the 1940s and 1950s, the US used this enormous leverage to create and consolidate the Bretton Woods system and internationalize the kind of liberal global order that it believed served its economic interest. This global bargain, however, was based on the presumption that trade liberalization would not ultimately

Table 1 Forms of EU trade power

Nature of trading relations	*Power* in *trade* *Exporting goods, services and capital*	*Power* through *trade* *Exporting standards and norms*
Bilateral	– symmetric and asymmetric bargaining power over market access	– democratization, development, governance and adoption of standards
Regional	– reciprocal market access	– exporting EU single market rules and broader governance tools to other regions
Global	– multilateral bargaining, specific and diffuse reciprocity	– shaping the multilateral system through deep trade agenda

trump the domestic concerns of states participating in the system – according to what Ruggie (1994) aptly called the embedded liberalism compromise.

With time, this straightforward equation was shaken in two fundamental ways. On the one hand, the US commitment to multilateralism started to wane as a result of its partial loss of economic pre-eminence in the 1970s as well as the assessment that progress in what it considered to be its main economic interest (services, intellectual property) would be better served through bilateral deals. On the other hand, the nature of the trading system the US sought to promote appeared to be increasingly one of 'disembedded' liberalism, where domestic policy choices might be overtaken by the requisites of the global market (Howse and Nicolaïdis 2003).

Now that the EU has become a global trade power in its own right, one can ask whether it is following a similar logic. That is: how different is its own brand of global economic hegemony premised on market power equal to that of the US? Does it exert its economic statecraft for political purposes differently than the US (Baldwin 1985)? Does this assessment vary with the nature of trading relations considered?

Power in trade

The EU and the US are not markedly different in the way they exercise 'power in trade' at the *bilateral level* through agreements over market access for their goods, services and capital in other markets. EU agreements usually involve reciprocal concessions over tariffs, quotas, and technical barriers to trade – say with the US and Australia. But concessions can be asymmetrical, either because the EU makes steeper cuts, or because the value of the EU cuts is greater because of market size. Notwithstanding these asymmetries, it is clear that the EU, like the US, uses preferential bilateral agreements to pry open the markets of the South in exchange for access to its own markets.

At the *regional level*, EU power takes the form of less specific reciprocal concessions. As a growing number of countries in the world join regional trading blocs, the EU seeks to realize economies of scale through bloc-to-bloc deals. The first such bi-regional trade agreement has been under negotiation since 2000 between the EU and Mercosur (a customs union between Argentina, Brazil, Paraguay and Uruguay created in 1991); ASEAN (the Association of South East Asian Nations) is to follow as are new economic partnership agreements (EPAs) with, among others, the Caribbean countries and the Gulf Co-operation Council. There is no denying that in Latin America in particular, such moves have partly occurred in reaction to the USA's own drive towards regionalism.

At the *global level*, the EU's involvement in multilateral bargaining is shaped by its relationship to the US. The two great trade powers have been engaged for years in what the rest of the world sees as a battle of titans, whereby each side tries to ensure a continued balance in market access to the other side through trade and regulatory deals or to resort to dispute settlement. At the same time, they have used their trade power to exert a form of 'western hegemony' over the developing world, in particular around the so-called 'new issues' of services and intellectual property introduced during the Uruguay Round (Pollack and Shaffer 2001). In recent years, however, such joint hegemony seems to have been on the wane. There has been little EU–US regulatory co-operation of late (Commission 2004) and the two powers have started to pursue sharply diverging tactics and strategies, culminating in diverging alliances during the Hong Kong meeting of the Doha Round in December 2005.

Power through trade

It is precisely in contrast with the forms of power exercised by the US, however, that we can start to characterize the specific forms taken by the EU's trade power. In theory at least, the EU is more attached both to multilateral forms of trade relations and to the premises of embedded liberalism, for which Pascal Lamy, former EU Trade Commissioner, developed his own brand of conceptual engineering, namely 'collective preferences'. Perhaps most importantly, and in contrast to the case of the US, the use of trade to achieve non-trade objectives has pride of place as a potential instrument of Europe's geopolitical power.

While there is little doubt that the EU is at the top of the world trade league, much ink and angst has been spent assessing its identity as a 'power' in general (Nicolaïdis 2004). Numerous qualifiers have been used to characterize a mode of influence that relies less on getting others to do what they would not do otherwise (the classic definition of power) than on getting others to want to do what is in the EU's interest. This is not the place to assess the relative merits of different variations of the EU's soft power, particularly its civilian, normative or transformative brands. What matters to us is that the EU's 'actorness' on the international scene relies primarily on non-military means, from aid to diplomacy, and that in this panoply, trade stands perhaps as the most effective mode of action (Hill 1990). That trade would play a more important role for the EU than for the US in their respective assertions of power is therefore not surprising.

The shift from a post-war to a post-Cold War paradigm of economic hegemony is not only one towards increased interventionism inside the affairs of trading partners, a shift promoted by the EU as well as others. It is also one where, absent the subservience of trade to security imperatives, the ends of increased interdependence, and the power to be yielded from asymmetries in such interdependence, are scrutinized under a mode demanding criteria of legitimacy. While the US may have been trying to promote specific features of an open trading system that served its domestic interests, the EU is increasingly engaged in a more subtle game where values, interests, and model are blurred. The EU does not just try to promote openness but openness 'the EU way'. Since the EU is itself a system of market liberalization, its external efforts are about *replication* more than *domination*. This does not mean, of course, that the former does not include elements of the latter.

Over the past decade, the EU has been able to exert power *bilaterally* through trade conditionality – sanctions in its extreme form – or less frequently through 'unilateral tariff disarmament'. In theory, the goals promoted span from democratization, the rule of law or good governance to conflict resolution. But market access remains a blunt tool.

The most powerful instance of conditionality has been associated with EU accession. With enlargement to Central and Eastern Europe, the EU has presided over the most successful democracy-promotion programme ever implemented by an international actor (Vachudova, forthcoming). The EU's transformative power is surely not only about changing specific actions but also engineering permanent changes in the logic of behaviour of domestic actors and institutions driven by EU norms (Grabbe 2006). Every aspect of state action is captured in the accession sweep, from improvements in democratic standards, the rule of law, and ethnic minority rights to better state capacity and macro-economic performance.

But what is the relative weight of market access in the calculations of candidate countries? It could be argued that membership per se is the only causal factor here. Even with no promise of candidate status under the early association agreements, many countries had already engaged in anticipatory adaptation with the EU – an anticipation of membership in a club, which itself would not be subject to a bargaining logic but to their capacity to adapt unilaterally. As a result, it is difficult to generalize from the politics of accession to the politics of trade with states which are not potential EU members.

Beyond accession, what can the EU's use of trade conditionality accomplish? The answer is 'a lot' if one believes Commission rhetoric. The evidence, however, is mixed. In the most ambitious attempts to date to engineer 'convergence without joining', the EuroMed programme and the European Neighbourhood Policy (ENP) seek to provide an unstable middle ground between non-membership and full accession by using many of the tools and conditions of accession while delivering 'only' market access and aid. The effectiveness of this strategy will test the effectiveness of market access short of membership as a tool of influence.

Beyond its neighbourhood, the EU has built an unprecedented web of bilateral preferential agreements – from Chile to Syria, and most prominently the special agreements with the African-Caribbean-Pacific (ACP) countries through the successive Yaoundé/Lomé/Cotonou conventions since 1963. All these relationships rely both on asymmetric rights of market access (at least for industrial products) and, increasingly, on the EU's use of such asymmetry as a bargaining chip to obtain changes in the domestic arena of its trading partners – from labour standards to human rights, from democratic practices to the environment (Hafner-Burton 2005). It is worth asking how such conditions will be retained as the EU engages with its ACP partners in the new EPAs which introduce reciprocal market access for the first time (see below).

Perhaps the most ambitious, and so far inconclusive experiment with the EU's power through trade over the last decade has been its use of *region-to-region* trade agreements to export the tools of governance of its single market. To be sure, the idea that the EU's approach to regional integration ought to inspire other countries to do the same was there from its inception. But regionalism was not a dominant trend, nor was it actively promoted by the EU until the post-Cold War era (Fawcett and Hurrell 1995; Mattli 1999).

Ironically, many of the groupings that have spawned in the last decade seem to coalesce precisely in order to increase their bargaining power in trade negotiations against the EU and the US. Yet, closer relations with other regions around the world is a means of enhancing the EU's normative power as well as a reflection of this power, since it is in this context that EU exceptionalism, its unique character as an integrative polity among nations, truly matters. It is the EU as a *federal union* rather than the US as a *federal state* which is relevant to integration among countries in the US's backyard. As a result, EU support for regional organizations such as the African Union and the Pacific Islands Forum is linked to specific expectations of contributing both to economic integration and to the prevention, management and resolution of inter-state conflicts.

The most accomplished illustration of such a strategy so far is provided by the ongoing negotiations between the EU and Mercosur of an Association Agreement that goes beyond a mere exercise of power *in* trade as discussed above and will be the first of its kind worldwide. One of the central principles of the negotiations is that the region-to-region approach must constitute the basis of discussions in all regulatory areas. Thus, all the provisions of the Agreement, such as EU market opening or the application of environment, competition or intellectual property standards, will apply to all Mercosur countries, making *their* integration a precondition for EU access. Indeed, in December 2004 the members of Mercosur and the Andean Pact signed an agreement for closer economic and political integration, to be called the South American Community of Nations, with an explicit nod to the trail-blazing role of the EU (*The Economist*, 9 December 2004).

Closer to home, the EU has also started to experiment with the use of bilateral trade agreements to promote regional integration *among* its trading partners. An illustrative example is Southeast Europe where in 1999 the Commission called for the creation of a regional body to promote free trade in the Western Balkans (SEE-5). To gain access to the EU market, these states were to dismantle tariff walls amongst themselves, thus making the fragmented Western Balkan markets more attractive to foreign investors. The EU is now transposing this approach to the ACP countries, since the conditions attached to the EPAs mentioned above combine capacity-building with regional integration.

When it comes to exporting its single market rules to other contexts, and notwithstanding the emergence of inter-regionalism, the *multilateral arena* has been the locus of choice for the exercise of EU trade power (Nicolaïdis and Howse 2002). Some argue that the EU literally engages in 'external governance' by exporting its internal mode of governance to its external relations (Lavenex

2004). But what kind of demand exists for the EU supply of governance tools? It could be argued that most other members of the WTO see it mainly as a bargaining forum – as ironically the dispute settlement mechanism is proving hard for most less-developed countries to access (Davis and Bermeo 2005). The EU in contrast sees an arena for regime setting, a projection of itself. This contrast was revealed in sharp relief in 2003 at Cancun when it had to drop its insistence on a 'deep trade agenda', the so-called Singapore issues (transparent rules on investment, public procurement, and competition policy), at the urging of almost all its trade partners.

Moreover, the 'export' of EU governance does not necessarily depend on extended trade links as prerequisites of delivery, the passive power of attraction works as well. Surely, no trade relations need be involved in the eager aping of EU governance by some remote polity, with a helping hand provided through EU technical assistance. Why should the spreading of the 'European model of society' to the rest of the world primarily happen through the negotiation of trade agreements? And does the EU's power through trade rely on the issuance of requirements attached to the deal (harmonization, regional integration, good governance), or more on the way the EU helps to meet these requirements through co-operation programmes, aid and technical assistance?

In short, the EU's trade power may rest on the credibility of the claim that the EU's role is to 'harness globalization' – a phrase favoured by the Commission. But, we may ask, to whose benefit? Whether through bilateral, inter-regional or multilateral relations, the EU is acting in a way like a 'globalizer' for the rest of the world, exporting norms and standards which in turn may facilitate their integration in the world economy. At the same time, some of its policies cushion the full effect of globalization either for EU producers – from the common agricultural policy (CAP) to anti-dumping measures and quotas with China – or for some of the 'uncompetitive' developing countries whose export would not reach European consumers without a preferential status. For farmers in Côte d'Ivoire or the Caribbean, the EU's trade power may be a matter of life and death. The same – but in reverse – holds for farmers in other developing countries where the CAP is an impossible rival.

A CONFLICTED TRADE POWER

While the EU sees itself, rightly or wrongly, as a 'trade power', affecting other countries' policies and positions through offers or withdrawal of market access, it is in fact a conflicted trade power. Not only conflicted within, as discussed above, but also conflicted between different guiding principles which often appear to contradict one another. These contradictions in turn may sometimes reflect the coalitional dynamics of the first set of conflicts. This section highlights six such fundamental tensions and asks how the EU can reconcile its goals of effectiveness and legitimacy through what we call 'strategies of conciliation'.

Regionalism vs. multilateralism

The first tension was, of course, there at the foundation. There is a lively debate as to whether regional trade agreements are building blocks or stumbling blocks for multilateralism. The EU has always claimed the former. It defended the relevance of its own approach to the Uruguay Round agenda – as both the EU and the GATT simultaneously explored the new ground of trade in services, admittedly with different ambitions as to the degree of liberalization (Drake and Nicolaïdis 1992). And it was a key player in the launching of the Doha Round, all the while becoming an active promoter of regionalism.

How are these two drives compatible? Considering the sudden jump in free trade agreements to more than 300 as of 2001, it is striking that the WTO has been unable to reach agreement on a single case report on any regional agreement in spite of the avowed role of its regional trade committee. In contrast, the Appellate Body has taken on the issue, suggesting the need to apply some kind of 'necessity test', in a recent ground-breaking case, where the EU and Turkey were condemned for raising unnecessary barriers to Indian textiles when Turkey entered its customs union with Europe. The EU is still drawing lessons.

Indeed, this judgment could inspire EU policy-makers as they devise strategies of accommodation to tame the trade-diverting effects of regionalism. Alternatively, on the region-to-region front, clauses can be inserted linking implementation of market access deals with progress on the multilateral front, as was done with ASEAN. Regionalism promoted by the EU can also come into conflict with trading partners' own bilateral agenda. In the Balkans, attempts by the EU's strategy of encouraging regional co-operation have come into conflict with its use of trade linkages for domestic change as the former comes to divert trade from the more lucrative EU market.

Similarly, in the EuroMed context, the EU sought to draw lessons from past relations with the Mediterranean by multilateralizing its relations and encouraging trade among the southern partners through changes in its rules of origins and allowance of *cumulation* – for example, aggregation – between the value added of the southern countries (Nicolaïdis and Nicolaïdis 2006). But given the lack of complementarity between these economies, this approach has not been judged a success. More drastic incentives may be needed. This may be why the EU's Neighbourhood Policy is in part about switching back to country-specific agreements and downplaying the regional strategy of the Barcelona process.

The systematic promotion of regionalism can indeed be detrimental to the EU's proclaimed development goals. For instance, some analysts argue that its urging of rapid regional integration in Francophone West Africa was a great contributing factor to subsequent instability in the region (Brown 2005). In this case, the EU sought free movement of goods but not people, without providing for a redistributive wealth mechanism to deal with adjustment costs while undermining government social programmes.

Finally, the various deals negotiated throughout the 1990s under the umbrella of the New Transatlantic Agenda between the US and the EU are vulnerable to the same criticism. To some extent, they have tested the feasibility of exporting the EU approach to market integration via regulatory mutual recognition with the US (Nicolaïdis and Egan 2001). But the EU and the US still need to design such agreements and their supporting mechanisms better and make them open to newcomers who might elect to respect the standards adopted transatlantically (Nicolaïdis and Shaffer 2005).

Non-discrimination vs. bilateral preferential relations

An important variant on the multilateralism–regionalism dilemma is the growing tension between the EU's avowed commitment to international trade law, specifically the most favoured-nation (MFN) principle, and its desire to maintain preferential trading relations with particular countries. The EU's acquiescence to 'trade distorting' regimes stemming from some of its members' colonial pasts, above all the preferential market access granted to ACP countries (such as in the case of the bananas and sugar regimes), may indeed serve an objective even more commendable than MFN: the pursuit of global justice. But the EU ought to be clear on the price it must pay for this moral luxury. Indeed, underlying this tension between international law and special relations is a geopolitical one pitting two sets of developing countries against one another, namely ACP countries and, in the case of bananas, Latin American countries where US companies often control vast plantations (Alter and Meunier 2006). The issue also divides EU countries among themselves not least because France, Spain and Portugal grow bananas in their island territories.

Similarly, the 2001 Everything But Arms initiative (EBA) – granting duty- and quota-free access to all exports (except arms and munitions) from the least developed countries (LDCs) – is criticized for excluding the key crops of bananas (until 2006), rice and sugar (both until 2009), and for leading to discrimination among developing countries. Small and vulnerable economies that are included are bound to displace the exports of similar but excluded countries. States in the latter group, such as Bangladesh or the Caribbean members of the ACP group, previously benefited from preferential trading arrangements with the EU.

These policies have been repeatedly condemned by the WTO. But many member states, especially former colonial powers like France, the UK or Portugal, would be loath to abandon a system designed to 'trade away poverty' for the poorest farmers in the world who have become dependent on inflated EU prices. Here, the EU chooses a classic strategy of accommodation: progressive graduation and the negotiation of transition systems. In the face of multilateral constraint, its only remaining power seems to lie with determining the speed of transfer of adjustment costs among its trading partners as well as between its trading partners and its import intermediaries.

Such exercise of negative power is doomed to unpopularity. Thus, when the EU presented a new deal in 2005 cutting guaranteed sugar prices by 36 per cent over four years, it was predictably criticized on all sides – attacked for reforming to the detriment of poor sugar exporting countries as well as for not going much further. 'Our critics cannot have it both ways,' complained Peter Mandelson (quoted in the *Financial Times*, 29 November 2005, p. 2). But neither can the EU.

The EU seems to stand on slightly firmer ground, paradoxically, when playing around with the non-discriminatory obligations contained in the GSP, at least as ruled by the WTO 2004 appelate body ruling on *India vs EU*. There, India challenged the EU's modified GSP which provides an additional margin of preference for recipients with drugs enforcement policies where the Commission could invent out of the whole cloth a list of beneficiaries of the programme without any objective criteria (Howse, 2004). In a brilliant compromise the AB gave the EU (and therefore similar US policies) the benefit of the doubt and agreed that the right to modify preferential treatment was not subject to a simplistic constraint of identical treatment among beneficiaries, as the initial panel rule would have it. Instead, the AB contended that different developing countries were not 'similarly situated' when they had 'different needs', and hence could therefore be subject to 'performance requirements' as long as the latter were objective, transparent, and indeed non-discriminatory in the broad sense. The question remains to be tested, what are acceptable conditionalities more generally? Perhaps the EU ought to develop a more universal approach as to where to draw the line: should some environmental or human rights standards be OK but not intellectual property policies?

Western hegemony vs. mediating power

Another fundamental tension lies in the EU's alliance strategy and the light it casts on what kind of actor it wants to be. In short, can the EU play the part of the rich liberal North (services), the nervous protectionist North (agriculture) *and* the mediator between the North and the South? As part of the rich 'North', should it generally side with the US in order to protect their shared commercial interests? Or should it emphasize its vocation as a mediating power on the global scene, in particular between the US and the developing world but also, to an increasing extent, between various interests in the developing world itself? As recent controversies in the Doha Round demonstrated once again, multilateral trade negotiations are not only about asking how much liberalization, but also what kind of liberalization and for whose benefit.

The Uruguay Round did perhaps represent the culmination of an assertive US–EU alliance bent on a commercially driven line and a grand bargain between their reluctant acceptance of a (delayed) opening on textile and (partial) opening on some tropical/agricultural products, in exchange for introducing new issues in the newly created WTO. Intellectual property issues in particular exposed the EU to criticism on the part of the developing world for siding with the interest of US multinationals. The tension between the North – including the EU – and the developing world culminated at Seattle in 1999 (see Young and Peterson 2006).

But in the years since, the EU has striven to establish a reputation as a champion of development including through its role in the launching of the 'Doha development agenda', in November 2001. There it promoted a path-breaking declaration on trade and public health which opened the way for legalizing broad exemptions from intellectual property constraints when importing generic drugs to treat diseases like AIDS (a final agreement was finally accepted by the US in August 2003). Other initiatives, such as the databank set up by the Commission's Directorate General for Trade to help developing countries in their market access strategies, have enabled the EU to start to change its image in the WTO. Still, recent developments in the Doha Round illustrate once more the difficulty for the EU in seeking to marry its natural alliance in many domains (not all) with the US and its development advocacy.

For one, its own 'demonstration strategy' through EBA was put in question by a World Bank study (Brenton 2003) indicating that once requirements such as standards and rules of origin were taken into account, the US was actually more open to LDC exports than the EU. On another front, the EU has failed to promote multilateral solutions to address perhaps the single most important factor linking trade and poverty – namely the massive volatility and decline in the price of primary commodities. Is it far-fetched to argue that some member states, as well as the US, are influenced by the interests of the futures exchanges that profit massively from such volatility (Brown 2005)? In any case, if the EU is to uphold an image as a 'mediating power' in the global political economy, it will need actively to promote changes in the WTO which are likely to be actively resisted by the US. Unfortunately, the EU has failed to exploit a potentially promising strategy of accommodation – namely, putting transatlantic economic and regulatory co-operation at the service of multilateralism.

Internal vs. external objectives

In a sense, the EU's way of exercising power through trade ought to be held up to special standards: its claim to consistency between its internal and external actions is at the heart of its *legitimate* exercise of power. To be in the business of exporting one's internal norms is to be able to say, 'Who we are dictates what we do' (Nicolaïdis and Howse 2002; Nicolaïdis 2004). Leading by example in the area of trade obviously raises difficult problems for the EU. For instance, if the single market is premised on the assumption that free movement of people is a key dimension of market integration, what does this mean for the EU's position on the freedom of movement of people in order to deliver services ('mode 4 delivery' in the General Agreement on Trade in Services (GATS) negotiations)? To be consistent, the EU would need to invest more creativity and political capital in 'globalization with human faces' and the ways in which back-and-forth movement of people can be encouraged as alternatives to permanent migration (Nicolaïdis 2005).

The tension between the internal and external has long been most apparent over agriculture, and has come to a head in the Doha Round. The conflicted position of the EU over agricultural tariffs and subsidies has led many voices to question its commitment to putting multilateralism at the service of development. Sure, European citizens should not be denied their landscape, food security, and way of life. But they must be told how much it costs – how many individuals are left to subsist on under $1 a day in, say, Africa for every acre of field preserved in the EU – and make the choice knowingly.

As for consistency, we can also ask whether region-to-region agreements are more about promoting regional integration outside the EU per se than a worldwide strategy to push for convergence with European standards and mutual opening of markets, thus supporting EU incumbents. Representatives of Mercosur have repeatedly stated that they aim to follow the EU's example, which has made Europe 'less dependent on the outside world' (Vasconcelos 2001; EESC 2004), while the EU has stressed market opening. Interestingly, the current political leadership in Mercosur, especially President Lula in Brazil, seems to favour the EU project over the US-led Free Trade of the Americas Agreement, confirming that the EU's leverage through trade is perceived as being more legitimate than that of the US.

Finally, the EU tends to assume that the liberal recipe of 'peace through commerce' which has worked so well in its own case applies uniformly elsewhere. Yet, we also know that trade can fuel conflict when conducted within a context of unfair rules, deep social inequalities and corrupt governance, and without sufficient attention paid to its destructive byproducts such as adjustment costs, export dependence, price volatility or illegal trafficking. In order to bring its external action into line with its internal philosophy, the EU needs to develop trade policies that are sensitive to such potential conflicts. Its current certification efforts for diamonds or timber constitute a promising starting point.

Equal partnership vs. conditional opening

A fundamental contradiction also exists in the very idea of 'soft' or 'normative' power. The EU speaks the language of shared norms developed through consensus and co-operation. Yet, trade power is about using 'carrots and sticks' to enforce such norms on trading partners. It is no surprise that the incorporation of non-trade conditions in trade deals faces great resistance from developing countries, which simply see this as blunt coercion. There is, of course, a growing debate on the effectiveness of conditionality, which is now spilling over from the field of aid to that of trade (Hafner-Burton 2005). Whatever the instrumental argument, the question remains whether a post-colonial power should not rely on voluntary change and the provision of public goods – such as its markets – to bolster the likelihood of such change. Is there not a contradiction as the EU seeks to export norms of its making, predicated on *voluntary* co-operation between states by using its quasi-coercive leverage through trade?

Policies such as the EBA clearly lie at the other end of the spectrum (unconditional opening as a tool for development), trusting that new export opportunities in themselves will foster desired changes in the beneficiaries. But is this policy genuinely taking the interests of developing countries to heart, or a public relations coup on the part of the EU? Meant as a signal to the rest of the world that the EU was finally acting upon its pro-developing world rhetoric, the EU succeeded in Hong Kong in generalizing the principle under WTO. Yet granting duty/quota-free access to 97 per cent of the products originating in least developed countries is considered a gimmick by some. More importantly, the EU is still struggling to find an adequate response to accusations that adaptation to its complex standards short of concurrent support constitutes a hidden form of conditionality.

Meanwhile, explicit conditionality is on the rise and increasingly contested. The EU's Preferential Trade Agreements (PTA) – such as the 2000 Cotonou agreement – include social, governance and environmental criteria, which can be potential conflict drivers and not only factors of progress. On another front, a more generous version of the Generalized System of Preferences (GSP) scheme is offered to countries which commit to tackling drug production and trade, as discussed above. If such concerns justify protection, it is argued that the EU should provide compensation to its trading partners (Laidi 2006). The question arises whether such schemes should expand to reward allies in the 'war on terror', such as with Pakistan's increased textile quota with the EU. In all of these realms, developing countries may have good reasons to be worried by the subjective character of the criteria set by the EU. How can they be reassured that supposed violations will not be an excuse for European protectionism? And what kind of bargaining power do these states have? What can they do when the EU insists that free trade agreements cover 'substantially all trade' (a vague WTO requirement), meaning at least 90 per cent, thus dumping duty free its heavily subsidized products in some of the poorest markets in the world, such as (say) Mauritania?

Trade liberalization vs. domestic preferences

In the end, perhaps the most fundamental tension for the EU as a trade power is one that is inherent within the embedded liberalism compromise: how to combine a trade liberalization credo with a primary concern for the social effects of market integration. Increasingly, the EU is facing social demands for protection that may go beyond the spirit of embedded liberalism. Partly in response to these demands, the Commission's trade policy-makers (until recently) under the leadership of Pascal Lamy developed a new conceptual apparatus around the notion of collective preferences – 'the end result of choices made by human communities . . . [which] have set up institutions capable of forging collective preferences' (Lamy 2004). These in turn may justify protection against foreign entrants in the name of the legitimacy and diversity of social choices over *inter alia* food safety, cultural diversity, public provision of education and health care, precaution in the field of biotechnology or welfare rights. If such concerns justify protection, it is argued that the EU should provide compensation to its trading partners.

Such a philosophy seems to underpin a number of recent developments and might be the ultimate condition for sustaining public support for an overall strategy of relatively open access to EU markets. But who makes the trade-off between the wealth generating value of freer trade and other social values pursued through protection? Is the calculation involved that of the interests of the EU as a collection of consumers, producers or citizens? And how do we determine whether a general notion of preferences has actually been turned into a collective choice that is seen as legitimate by the EU's trading partners? In the end, how will these decisions internalize or at least take into account welfare impacts on non-EU citizens?

CONCLUSION

Trade and political power are not always positively correlated. In recent history, some countries – like Japan – have enjoyed tremendous trade power, which they never succeeded in translating into actual political power. Other countries have enjoyed political power in world affairs without being trade heavyweights. Many in the EU want to see it become a global power through the back door, by leveraging its (substantial) trade power instead of its (lightweight) military power. Along with others in this volume, we are interested in assessing the conditions under which trade power can be leveraged into political power, and in predicting whether the EU might ever be able to fulfil these conditions.

This contribution sought to provide a starting point for answering these questions. We argued that, increasingly, the EU does exploit its formidable trade power to pursue non-trade objectives through conditionality or fostering regional trade blocs in its own image. But it is not always effective. It has become commonplace to point out how the divergence between member states' objectives makes it hard to signal its resolve to the outside world. Yet these divergences are themselves an expression or byproduct of underlying tensions between a number of alternative priorities or even norms to which the EU machinery must simultaneously commit: regionalism and multilateralism, non-discrimination and bilateral preferential relations, western hegemony and mediating power, internal and external objectives, equal partnership and conditional opening, trade liberalization and domestic preferences. Since legitimacy is the main currency of an aspiring normative power, the EU cannot effectively become a power *through* trade without addressing what many in the rest of the world perceive as unsustainable contradictions.

We recognize that designing appropriate strategies of accommodation constitutes a challenge for even the very best and brightest policy-makers in

Brussels and the capitals. Innovative ways are found to tie regional to multilateral deals, to transition away from preferential relations or to implement partial, unconditional market opening. But on many fronts the EU is found wanting. It could devise more open transatlantic agreements, appropriate incentives for the movement of people to deliver services, ways to promote trade liberalization while considering its side effects, or better guaranties against the arbitrary character of conditionality in the context of assorted global 'wars' on terror, drugs or corruption. And, of course, legitimacy will remain elusive without radical moves on the agriculture front, preferably alongside strategies to support adjustment for consumers in poor urban Third World centres.

But none of these avenues can be pursued without political will, a genuine shared commitment on the part of a plurality of actors in the EU to make the necessary sacrifices to support its ambitions. Unless there is a neofunctionalist logic at play, whereby a critical trade mass or specific trade instruments in themselves create a foreign policy, it is unlikely that the EU will become an international actor through the back door, short of a strategic vision, negotiated internally and externally. In this light, the uncertain fate of the Constitutional Treaty may paradoxically constitute an inducement for the EU to refine and redefine its ambitions as a power through trade. The result might ultimately be a mobilization of the energies of a new generation of Europeans, for whom power cannot be an end in itself.

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