Global Value Chains, the Anti-Globalization Backlash, and EU Trade Policy: A Research Agenda

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ABSTRACT

Two recent developments have the potential to fundamentally alter the conventional view of EU trade policy-making: the emergence of global value chains (GVCs) and the recent backlash against globalization. In this paper we summarize the conventional wisdom after which we delineate the main expectations derived from the GVC and the globalization-backlash perspectives. In so doing, we focus on the EU’s trade and non-trade preferences, and the EU’s ability to achieve its preferences in international trade negotiations. We then discuss the research agenda that would allow testing the expectations derived from these different perspectives. A key point that emerges from this discussion is that the conventional perspective, the GVC perspective, and the globalization-backlash perspective may all be needed to fully understand EU trade policy. The challenge is to know under which conditions which of these perspectives best explains the process and outcomes of EU trade policy-making.

Key words: EU trade policy; global value chains; anti-globalization
Introduction

Research on EU trade policy generally views the EU’s trade interests as largely defined by the preferences of key domestic producers, as the EU aims to improve foreign market access for its exporters, while protecting domestic sectors threatened by foreign competition (Poletti and De Bièvre 2014). Its non-trade interests, such as protecting human rights or the environment, are subordinated to or even a function of its trade interests. Defending labour rights, for example, may be driven as much by the objective of limiting foreign competition as by genuine concern for foreign workers’ well-being. This conventional wisdom also views the EU as a powerful actor in international trade governance that manages to achieve policy outcomes largely in line with its trade and non-trade interests.

Two recent developments have the potential to fundamentally alter EU trade policy just as these findings are becoming broadly accepted. On the one hand, production is ever more geographically dispersed across the globe (Antras 2010). Especially producers in developed countries increasingly rely on the outsourcing of labour-intensive, less value-added operations to low(er) income countries (Lanz and Miroudot 2011). The resulting creation of global value chains (GVCs) (Gereffi 1999) may incentivize the political mobilization of pro-trade domestic constituencies and act as a constraint against protectionist interests (Eckhardt and Poletti 2018). On the other hand, developed countries experience a backlash against globalization (Rodrik 2018), with public opinion displaying greater levels of scepticism about the merits of free trade than in the past. This is best illustrated by the decision of British voters to leave the EU; vigorous opposition to the (eventually failed) negotiations for a Transatlantic Trade and Investment Partnership (TTIP) and the EU-Canada Comprehensive Economic and Trade Agreement (CETA); and, more generally, by the growing electoral support enjoyed by protectionist parties and candidates in many EU member states (Colantone and Stanig 2018). This globalization backlash, by politicizing EU trade policy, has the potential to limit the EU’s ability to conclude trade agreements and to alter the contents of trade agreements.

What makes these two developments particularly interesting for research on EU trade policy is that in many respects they have opposite consequences. Whereas the increasing importance of GVCs should make EU trade policy more free-trade oriented, the globalization backlash should make it more protectionist. Moreover, GVCs should make the EU less interested in pushing non-trade

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interests in trade agreements, whereas the change in public attitudes may have the opposite effect. Finally, while GVCs should decrease EU bargaining power in international trade negotiations, the growing public scepticism towards trade agreements should increase its bargaining power. In this paper, we present a research agenda that studies the impact of these two developments on EU trade policy. Although our focus is primarily on the EU’s role in international trade negotiations, we also refer to other areas of EU trade policy such as unilaterally imposed trade defence measures.

The conventional wisdom on EU trade policy

A rich literature on EU trade policy has emerged over the past two decades (see e.g. Conceição-Heldt 2011; Dür 2017; Dür and Zimmerman 2007; Eckhardt 2015; Meunier 2005; Poletti and Sicurelli 2018; Siles-Brügge 2014; Young and Peterson 2006; 2014). Much of this work starts from the assumption that policymakers act as transmission belts for the demands of organized domestic societal groups (Dür 2008). As in other political systems, EU policymakers are subjected to pressures from different domestic constituencies: they face demands by export-oriented sectors wishing to see better access to foreign markets, while also facing pressures from import-competing sectors wishing to reduce exposure to foreign competition domestically. Although the EU’s willingness to commit to trade liberalization ultimately depends on the relative balance of influence of these two groups – which in turn is influenced by the institutional context within which EU trade policy choices are made (Elsig 2002; Hanson 1998) – this view suggests that the EU should consistently strive to improve foreign market access for its exporters while protecting domestic sectors threatened by foreign competition (De Bièvre and Dür 2005).

EU non-trade interests, according to this view, should be understood as a function of, or at least in combination with, its trade interests. The EU consistently used trade policy as a tool to promote non-trade issues (NTIs) such as labour and environmental standards, and human rights in foreign countries (Young and Peterson 2014). While some authors interpret this as a manifestation of the “normative” character of EU trade policy (Khorana and Garcia 2013), others show that the inclusion of NTIs in EU trade agreements is often in response to the demands of organized domestic interests wishing to impose costly regulatory burdens onto foreign competitors (Lechner 2016; Raess et al. 2018). This does not mean that genuine concerns for other countries’ labour or environmental conditions are absent altogether in the definition of EU non-trade interests. Recent works highlight that civil society organizations (CSOs) play an increasingly important role in EU trade policymaking (De Ville and Siles-Brügge 2015). Yet, because of generally low levels of public
attention to EU trade policymaking, these groups tend to be more influential when they join forces with organized producers wishing to limit foreign competition (Poletti and Sicurelli 2016). This suggests that genuine concerns for trading partners’ conditions are only likely to make their way into the definition of EU non-trade interests insofar as they are compatible with the EU’s underlying trade interests.

The conventional wisdom also largely views the EU as a powerful trade actor capable to exercise substantial leverage on international trade politics. It can do so both because of the size of its domestic economy and share of global imports, and as a result of the particular characteristics of the rules and institutions governing EU trade policymaking. The large size of its domestic market increases the costs that its trading partners are willing to incur to gain access to it (Dür 2010; Damro 2012). This means that the EU can effectively offer access to its large market in exchange for valuable concessions from its trading partners. At the same time, the high domestic trade policy decision-making thresholds generate the well-known paradox of weakness, which further increases the EU’s bargaining-power (Meunier 2005). As a result, according to the conventional view, the EU consistently manages to extract concessions from its trading partners and achieve policy outcomes in line with its trade- and non-trade interests.

The GVC perspective on EU trade policy

The globalization and fragmentation of trade, production, and distribution systems stands out as one of the most important developments in the contemporary international economy (Eckhardt and Poletti 2018). While traditionally largely taking place within the boundaries of the nation state, production and distribution are now increasingly geographically dispersed across the globe due to the growing reliance of producers in developed countries on the outsourcing of labour-intensive, less value-added operations to low(er) income countries (Lanz and Miroudot 2011).

The EU is one of the main drivers of these ongoing processes of internationalization and fragmentation of production (Amador and Di Mauro 2015). European firms do not only import raw materials, but increasingly also intermediate goods and services. For example, in 2017 Peugeot bought €500 million worth of parts from Morocco for its European plants (Sigal 2018). In some cases, European firms also import finished goods, after having exported intermediate goods. Illustratively, European car manufacturers including Renault, Peugeot and Volkswagen are currently investing heavily in assembly plants in Algeria and Morocco. Some of the cars assembled in these plants may be imported into Europe, for sale on the European market (Sigal 2018). Moreover, imports of
intermediates play a key role in European exports. In 2011, the foreign value added in Eurozone exports stood at 21.2% of total exports, a markedly higher percentage than that for the US (15%) and Japan (17%) and similar to that for China (Amador and Di Mauro 2015).

The GVC perspective on EU trade policy expects these developments to matter for EU trade policy in several ways. For one, the EU’s trade preferences should become more genuinely free trade oriented. As firms operating within GVCs increasingly depend on imports of intermediate goods and services, they can be expected to strongly support regional trade agreements that protect their supply chains (Chase 2003). They should also start expressing concerns about trade policies that could increase the costs of imports (Bernard et al. 2012). As a result, both the removal of domestic import-restricting policies and the reduction of regulatory burdens imposed onto foreign countries integrated in these transnational chains of production should become valued political objectives that increasingly stimulate the political mobilization of import-dependent firms. In fact, specifically for the EU, a growing number of studies shows that import-dependent firms have become crucial actors in the politics of EU trade policy. They 1) oppose the imposition of anti-dumping measures (Eckhardt 2015; De Bièvre and Eckhardt 2011); 2) support trade liberalization through preferential trade agreements (PTAs) (Eckhardt and Poletti 2016); and 3) advocate swift compliance in WTO disputes (Yildirim 2016). Overall, the increasing political role of import-dependent firms should strengthen the political weight and influence of pro-trade domestic coalitions. In line with this expectation, organized business groups were overwhelmingly unified in support of the TTIP negotiations in the EU (Young 2016).

Regarding non-trade interests, the GVC perspective expects a decrease in the EU’s propensity to include NTIs with trading partners with which it is highly integrated in GVCs (Poletti and Sicurelli 2018). Unless they are linked to greater productivity, higher labour standards in a third country can make plants in that country less competitive, because they increase labour costs. For European firms exporting to these countries, this can be a competitive advantage. For European firms that – because of their involvement in GVCs – invest in or purchase intermediate goods from that country, however, the effect is just the opposite. For them, higher labour costs in the third country translate into higher costs for themselves. The same applies to environmental standards. With GVCs strengthening the group of foreign investors and importers compared to exporters, in the aggregate this should weaken European support for the inclusion of (strong and enforceable) non-trade provisions in trade agreements.
Finally, the increasing importance of GVCs should decrease the EU’s bargaining power in trade negotiations, as the EU can no longer credibly use the threat to close its large market to gain concessions from third countries. The more European firms become import dependent, the more they also become concerned about any interruptions of trade relations. If the costs of imports increase, this does not benefit but hurt them. Reductions of barriers to imports – be they tariffs or non-tariff barriers – by contrast benefit them. The EU thus can no longer use its own trade barriers as bargaining chip in trade negotiations with third countries. So, holding other factors constant (e.g. relative power asymmetries, trade partners’ preferences) the GVC perspective suggests a decrease of EU bargaining power in trade negotiations.

The globalization backlash perspective on EU trade policy

An increasing part of the population in developed countries considers that globalization has failed to provide opportunities for them, which has in turn fostered profound dis-illusion with both the ‘elite’ and their global vision (Kobrin 2017). This is particularly so in the US, where anti-globalist and nationalist sentiments played a key role in the 2016 presidential campaign, but also in the EU, where the recent electoral victories of nationalist and populist movements in a number of member states are another manifestation of a revival of economic nationalism (Colantone and Stanig 2018).

The reasons behind this backlash are complex and multifaceted. What seems evident is that the global financial crisis and its aftermath has refuelled scepticism in Western democracies about the gains from trade (Eckhardt and Curran 2019; Kobrin 2017). Moreover, recent research shows that high levels of exposure to the vagaries of international economic competition, in particular Chinese import shocks, are highly correlated with rising anti-globalization sentiments (Colantone and Stanig 2018a). This backlash, however, is not only driven by economic concerns, but also results from broader grievances about the impact of globalization on national identity and culture (Rodrik 2018).

The globalization backlash perspective on EU trade policy stresses the important consequences of this development for EU trade policy. For one, growing popular scepticism about the merits of trade liberalization should make EU trade policy more protectionist. In fact, trade protectionism has figured prominently in the policy proposals of populist/nationalist movements and politicians. Public concerns about trade also have already led to important policy reversals. In the US, a trade sceptic won the 2016 presidential election; pulled the US out of the Trans-Pacific Partnership and renegotiated NAFTA; while imposing a flurry of new tariffs (Noland 2018). In France,
the far-right presidential candidate – running on a programme of economic patriotism, protectionism and leaving the EU – received an unprecedented third of the vote in 2017 (Eckhardt and Curran 2019). Distrust of trade in the EU also crystalized around fierce resistance in numerous member states to TTIP and CETA (De Ville and Siles-Brügge 2015) and protests against EU’s initiative to grant China ‘market economy status,’ which would make it harder for the EU to impose protectionist trade defence measures on Chinese imports (Angel 2016).

To be sure, other recent EU trade negotiations and trade policy initiatives have taken place in the absence of any significant public uproar. Yet, the aforementioned unprecedented domestic political turmoil triggered by EU trade policy initiatives shows the growing popular disillusion with globalization, which in turn has created greater opportunities for policymakers and organized societal interests to pick on and exploit these sentiments, pushing EU trade policy in a more protectionist direction relative to the past.

Next to more protectionism and less support for trade agreements, the globalization backlash perspective suggests that EU trade policy should attach growing important to NTIs. As European citizens become increasingly sceptical of trade agreements, they should demand strong non-trade provisions to accompany any trade liberalization. “Unfair” competition – namely imports that are cheaper than domestic production supposedly because of lower foreign labour or environmental standards – should be a key concern for them. We thus should see a more sincere EU demand for the inclusion of NTIs in trade agreements than expected by the conventional wisdom.

Finally, the increased public scrutiny of EU trade policymaking that results from the backlash to globalization should strengthen the EU’s hand in trade negotiations. The more sceptical public opinion in the EU, the more difficult ratification of trade agreements, which in turn means that the EU can more credibly demand additional concessions in trade negotiations.

A research agenda on EU trade policy

Given the contradictory expectations that derive from the conventional wisdom, and the GVCs and globalization backlash perspectives, the challenge is to find out under which circumstances which perspective best explains the EU’s trade preferences, non-trade preferences, and bargaining power. In the following, we suggest avenues to achieve this aim. We also propose possible ways to integrate the three perspectives into a coherent research agenda.
EU trade preferences

While the GVCs and globalization backlash perspectives both challenge the conventional wisdom, they suggest opposite consequences with regard to EU trade preferences. The GVC perspective expects EU trade policy to become more free-trade oriented, whereas the globalization backlash perspective expects EU trade policy to become more protectionist. So which of these perspectives can best explain contemporary EU trade preferences? To start developing general propositions on this important question, future research should strive to unpack the full set of causal mechanisms that connect the distributive consequences of trade liberalization and individual-level attitudes towards EU trade policy. One of the major findings of the most recent US trade policy literature is that trade liberalization generates an uneven reallocation of profits in favour of large and GVC-integrated firms at the expense of small and medium-sized ones (Baccini et al. 2017). This literature suggests that the growing popular opposition to trade liberalization may be partly related to the fact that GVCs, while smoothing out some producers’ opposition towards free-trade, may also contribute to a greater concentration of wealth in the hands of the few, at the expense of the many, as often claimed by critics of globalization (Osgood 2017). The EU trade policy literature should investigate whether similar developments can be observed for European countries, and whether these developments matter for individual trade attitudes.

Next to analysing the actual income effects of trade liberalization, it is also crucial to understand how these dynamics affect patterns of political mobilization by trade-related interests in different EU member states, and how these influence trade policy discussions in the media. For instance, the US trade policy literature shows that the growing importance of trade-related inter-firm distributive conflicts led to an increasing role of individual firms at the expense of sectoral associations in trade policy lobbying (Kim 2017). For the EU, similar studies are so far lacking. At the same time, it is now widely established that trade-related interest groups can increase the public salience of trade policy issues (Dür and Mateo 2014), as well as influence individual-level attitudes through the frames they manage to convey (Dür 2018). Lobbying by organized interests and public opinion thus are not independent of each other. Research on EU trade policy hence needs to study both in parallel, to find out how the emergence of GVCs and the globalization backlash interact in shaping contemporary EU trade preferences.

This discussion also suggests ways in which the GVC and globalization backlash perspectives can be integrated into a coherent research agenda to understand the politics underlying the definition of EU trade interests. First, the EU trade policy literature should engage in an empirical
assessment of how the growing integration of the EU economy in GVCs matters for the distribution of income. This would best be done using firm-level data, as trade may have heterogeneous effects within sectors. Second, research should analyse whether, and if so how, changing distributive conflicts systematically affect trade policy lobbying. Of particular importance here are the questions whether firms have grown in importance in EU trade policy lobbying and, eventually, what the implications of this process are for how EU trade preferences come to be aggregated. This needs to be linked to an analysis of how trade policy discussions are framed in the media, since media framing is likely to matter for citizens’ trade attitudes. And finally, EU trade policy scholars should investigate how these processes relate to anti-globalization sentiments and the politicization of trade policymaking in different EU member states and at the EU level.

**EU non-trade preferences**

The GVCs and globalization-backlash perspectives also lead to opposite expectations with respect to the non-trade interests of the EU. Whereas the former predicts less, the latter predicts greater EU concern for non-trade issues. Future research on EU trade policy thus will need to find out under which conditions the GVCs perspective and under which conditions the globalization-backlash perspective can better account for the politics surrounding the EU’s pursuit of non-trade interest with its trade policy. As a country becomes more important as a source for intermediate inputs into European production processes, do we see a heightened or reduced demand for the inclusion of new (or the strict enforcement of existing) non-trade provisions in a trade agreement with that country? Does the demand for non-trade issues vary at all over time and across agreements?

In order to answer these questions, further research should strive to acquire more data on two sets of issues related to EU non-trade preferences. Firstly, better data is needed to grasp how different types of GVC-integration relate to business lobbying over non-trade issues and how this, in turn, affects the relative balance of societal interests on this issue. Recent research shows that GVCs do not unequivocally lower business demands for non-trade issues. Malesky and Mosley (2018), for instance, show that firms in developing countries will be most inclined to improve their labour standards when servicing foreign markets that offer relatively greater product mark-ups. Lechner (2018), moreover, finds that labour standards increase FDI in high-skilled labour-abundant sectors in developing countries. These findings suggest that, under certain conditions, the GVCs and globalization backlash perspectives may push in similar directions.
Secondly, there is a need to systematically combine data on lobbying activities with data on individual-level attitudes over trade policy. This is so because the relative influence of GVCs and globalization backlash on non-trade issues in the EU seems to vary across trade agreements. Illustratively, in February 2018 the EU publicly committed to not signing a trade agreement with any country that has not ratified the Paris climate change agreement. As a result, the EU Japan trade agreement includes a provision that commits both sides to uphold the Paris agreement. By contrast, as of 2019 the EU pursues a trade agreement with the US, although the latter country decided to quit the Paris agreement. Is this variation a result of policymakers ignoring public demands for more attention to climate change in the face of a strong corporate lobbying effort for an EU-US trade agreement?

EU bargaining power in trade negotiations
As outlined above, the two perspectives also lead to contradictory expectations regarding the EU’s power in international trade negotiations. The GVC perspective predicts that the more import-dependent EU firms become, the more concerned about trade barriers they will be, which in turn will decrease EU bargaining power because the EU can no longer use the threat to close its own market to gain concessions from its negotiating partners. If the GVC perspective is correct, therefore, the EU’s power should vary across trading partners and possibly even across sectors, depending on the extent of GVC trade. Future research should test these propositions. It would also be interesting to study variation in import-dependence and GVC integration between EU member states and whether this has a bearing on the EU’s ability to speak with a single voice, one important factor influencing the EU’s bargaining power during trade negotiations (Conceição-Heldt and Meunier 2014; but see Elsig 2007).

The aforementioned variation in the EU’s power across trading partners should also be apparent in terms of its ability to achieve its non-trade objectives. Research has shown that third countries often resist the inclusion of non-trade provisions in trade agreements (Harrison et al. 2018), in which case the EU needs to use part of its bargaining power in the negotiations to achieve its objective. To the extent that GVCs reduce the EU’s bargaining power, therefore, also the EU’s ability to link non-trade issues to trade should suffer.

At the same time, if the globalization backlash perspective is correct, we should see that the EU’s bargaining power varies depending on the public salience of trade agreements: the more publicly salient a trade agreement, the more important is a sceptical public opinion. By contrast, for
trade agreements that garner hardly any public attention, the globalization backlash should matter little.

Future research thus should investigate to which extent the EU’s bargaining power co-varies with the existence of GVCs or with the degree of public salience. Such variation can exist both over time and across trading partners but should be present for both trade and non-trade issues. Most interesting are cases of trade negotiations where GVCs and public salience do not go hand-in-hand, that is, cases with strongly developed GVCs but low public attention or weakly developed GVCs and high public attention. For these cases, the two mechanisms outlined above should be visible. In other cases, the two mechanisms should offset each other.

**Conclusion**

We have argued that the emergence of GVCs and the recent backlash against globalization have the potential to alter conventional views of EU trade policy. These developments are particularly interesting as they lead to contradictory expectations on how the EU pursues its trade and non-trade interests, as well as on its bargaining power in international trade negotiations. A key point that emerges from our discussion is that the conventional perspective, the GVC perspective, and the globalization-backlash perspective may all be needed to fully understand EU trade policy in the years to come. We therefore proposed possible ways to integrate these three perspectives into a coherent research agenda with a view to confronting what we believe will be the major challenge for researchers working in this field: developing general propositions on conditions under which these perspectives can best explain the process and outcomes of EU trade policy-making.
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