

# The Impact of Disintegration Dynamics on EU Trade Policy: An Institutional Analysis

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Dr Konstantinos J. Hazakis

Working Paper No. 20  
11<sup>th</sup> December 2020

## CENTRE FOR GLOBAL POLITICAL ECONOMY

University of Sussex  
Brighton  
BN1 9SN  
United Kingdom  
Telephone: +44 (0) 1273 872735  
Fax: +44 (0) 1273 723 673563  
E-Mail: [cgpe@sussex.ac.uk](mailto:cgpe@sussex.ac.uk)  
Website: [www.sussex.ac.uk/cgpe](http://www.sussex.ac.uk/cgpe)

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*The Impact of Disintegration Dynamics on EU International Trade Policy: an Institutional Analysis*

**Dr Konstantinos J. Hazakis** Professor, Head of Department of Economics, Democritus University of Thrace

# The impact of disintegration dynamics on EU international trade policy: An institutional analysis

Dr Konstantinos J. Kazakis

*Professor, Head of Department of Economics, Democritus University of Thrace, University Campus, Komotini, Greece, PC 69100.*

*Telephone: 25310-39821, email: kmhazaki@otenet.gr.*

## **Abstract**

Safeguarding access to international markets requires an effective EU international trade policy. Equally important, preserving an open, rules-based world trading system presupposes strong EU capability as well as consensus of EU states on the scope and targets of EU international trade policy.

The paper presents a policy oriented analytical framework of EU international trade policy taking into consideration the impact of disintegration dynamics and emerging trade protectionism.

Initially, the analysis sets the problem while section two offers the major tenets of the politicization of EU international trade policy. Section three presents the key arguments of the institutional analysis on the issue while section four analyses the content of an alternative policy framework for understanding disintegration - EU trade policy interaction. Section five concludes and reaches useful policy implications. It is suggested that there is a need for more Europe on international trade meaning enhanced, effective and inclusive EU trade institutional action.



## 1. Introduction

The European Union (EU) is a global actor in terms of trade and a pillar of the global trade regime. In 2017, 17.8 % of world exports for goods and services originated from the EU-28. This was lower than a decade earlier (18.8 %), but higher than the share (16.5 %) recorded in 2012 (Eurostat, December 2019). Similarly, EU-28 share in world imports for goods and services in 2017 was significant (16.3 %). Contrary to external and internal challenges, EU remains a liberal actor in the international trade system and supports negotiations in difficult trade issue areas like government procurement, intellectual property rights, competition and environmental standards. As EU Trade Commissioner Malmström said “The EU continues to champion free and fair trade, at the forefront of a group of like-minded countries” (European Commission, 2017c).

However, parallel to multilateral trade negotiations EU forwards bilateral, plurilateral and regional (i.e. the comprehensive economic and trade agreement or CETA) trade agreements. The EU has a significant trade network, with 41 trade agreements covering 72 countries. The different types of agreements can be grouped in first generation agreements (negotiated before 2006), that focus on tariff elimination, second generation agreements, that extend to new issue areas (i.e. intellectual property rights), Deep and Comprehensive Free Trade Areas (DCFTA) between the EU and its neighboring states, and Economic Partnership Agreements (EPAs) focusing on developing countries. Rule-based trade order remains vital but the EU rebalances each component of this order against investment, trade and job priorities of its member states. This is not culminating to aggressive trade unilateralism and quid pro quo trade concessions but it certainly involves competition concerns and new regulatory norms and priorities.

Moreover, investment and global value chains are crucial aspects of EU welfare and prosperity (European Commission, 2015:9). According to Eurostat (2019), 34.7 % of global inward investment was located in Europe (9.7 trillion euros), while EU accounted for more than two fifths (40.5 %) of the world’s outward investment positions (11.1 trillion euros).

Despite EU importance in both FDI and trade shares globally, a rapidly changing global economic environment (protectionism, failure of Doha round) leads to a reconsideration of EU international trade policy. Adjustment of trade targets and means

is unavoidable within an emerging protectionist international trade landscape and an internal conflictual political environment because of Euroscepticism.

Concerning the latter, the situation becomes even more complicated as disintegration dynamics influence the operation, scope and practice of EU trade policy redefining its geographical and sectoral content.

It is crucial to comprehend disintegration dynamics as the abolition / weakening of existing formal interactions / rules / jurisdictions / processes / competences in a union, influencing institutional membership and non-institutional aspects of structure as well as cohesion / territorial / institutional / economic / political / social / cognitive terms of organization (Hazakis, 2018). Disintegration dynamics in the EU include among others, a selection of policies / rules / norms / practices to be applied each time in an EU issue area and influence the type and content of interaction in policy making. Thus, disintegration refers not only to the exit option of a sovereign state from European Union but also to the weakening of existing rules and norms in an EU issue area. For example, the euroarea sovereign debt crisis in 2009-2015 brought some states near exit from euroarea (i.e. Greece). In the same manner, the refugee crisis threatened the Schengen no-border area (2015-2016) weakening the common European asylum rules. More recently, the internal EU challenges (i.e. Brexit) reconfigure EU international trade priorities as it is underlined in external EU relations bibliography (Costa, 2019; Schmidt, 2019; Duina, 2019; De Bievre, 2018; Delreux, 2012; Hodson et al., 2019).

Indeed, Brexit influences trade, investment and productivity (Baldwin, 2016; Van Reenen, 2016; Sampson, 2017; De Ville et al., 2019; Schimmelfennig, 2019) on both UK and EU (HM Treasury, 2016; Kierzenkowski et al., 2016). The results differ but researchers agree that effects are stronger in the absence of a detailed bilateral agreement between the EU and the UK.

It is also evident that there isn't a common framework to face EU crisis (Weber, 2018; Vollard, 2018; Rosamond, 2019). Zielonka (2014:22) eloquently mentioned, "the problem is that EU experts have written a lot about the rise of the EU but virtually nothing about its possible downfall". As a result, disintegration literature on EU issue areas is embryonic and cannot fully analyze the rationale and the traits of disintegration variables. Equally important, the scientific inquiry focuses mainly on the impact of disintegration on EU competences and procedures and not on EU policy effectiveness.



The bibliography highlights the impact of disintegration on national autonomy (Sampson, 2017) and on trade and welfare (Firdmucet et al., 2000; Dhingra et al., 2017; Gudgin et al., 2017; Vandenbussche et al., 2017; McKibben, 2010; Meunier et al., 2019) and not on the interaction of disintegration with EU international trade policy. Disintegration reshapes the equilibrium between national preferences, the priorities of interstate bargaining and the challenges for existing issue area regimes (da Conceição-Heldt & Meunier, 2014; Niemann & Bretherton, 2013).

Which are the differences in analyses concerning the impact of disintegration on EU international trade policy? At the heuristic level, there are differences on how to conceptualize disintegration dynamics, meaning what are the appropriate concepts to comprehend disintegration and what are the concepts to interpret its impact on EU trade policy (Hazakis, 2019). At the methodological level, there are differences on the methods to control disintegration hypotheses, taking into consideration the embeddedness of methods and their linkages with EU state and non-state agents. At the policy level, there are different EU proposals on how to limit the impact of disintegration on international trade policy of EU, or how to internalize them in the existing institutional EU framework. At the institutional level, there are different approaches on the ability of EU international trade rules, norms, and practices to embed disintegration dynamics and to limit their influence. Finally, at the cognitive level, there is a debate on who is to blame for the ideological support of disintegration supporters (Hazakis, 2019b).

The paper follows a policy-oriented approach so as to capture the impact of disintegration on EU international trade policy and the impact of politicization on the content of EU international trade policy. Institutional methodology tools are applied so as to examine the interaction in a holistic way.

More specifically, section one presents the problem, while section two offers the major tenets of the politicization of EU trade policy. Section three sets the key arguments of the institutional analysis on the issue, while section four studies the content of an alternative analytical framework for understanding disintegration - EU trade policy interaction. Finally, section five concludes and provides useful policy implications.

## 2. The politicization of EU international trade policy

International trade issues have become more politicized around the world in the last five years. Trade was a key electoral subject in the presidential election in France (2017) as well as in the presidential election in the USA (2016). In 2018-2019, US administration imposed tariffs on steel and aluminum imports from EU and China and blocked new appointments to the WTO's Appellate Body, downgrading the multilateral rule-based trading system. In response, the EU launched legal proceedings against the US at the WTO, implemented tariffs on specific US products and opened a safeguard investigation into potential damage stemming from additional imports coming into the EU as a result of the US market being closed to EU exports. Thus, politicization of trade issues becomes more complicated as unfair trade practices are intensified.

At the international level, the content and expression of politicization in trade varies according to the trade issues at stake, the trading partner, the proposed extent of trade liberalization, the linkages of trade issues with political-security aspects (i.e. transnational energy corridors) and states' different national trade priorities and interests.

Is it an easy task to reconcile operational and policy synergies in trade (thus normative issues) and daily irregular trade tactics of main actors in world trade system? EU trade policy continues to embed its practices within regime-based international organizations (OECD, the International Organization for Standardization, World Customs Organization, World Trade Organization) without undermining the long-established trade links with other states (i.e. agreements with the African, Caribbean, and Pacific states, with ASEAN, and with Central America, with Canada, with Japan).

The major criticism of EU trade policy seems to be that it does not promote collective EU trade interests, and EU trade norms, standards, principles but it compromises EU fundamental international trade policy targets downgrading long-term competition of EU firms and welfare of producers and citizens. The supporters of this criticism further argue that EU international trade policy does not reduce free rider practices by third countries. They also suggest that renationalization of trade policy is the most appropriate solution to face challenges in a highly volatile and protectionist world trade system.

Despite the effort of EU institutions to legitimize highly complicated trade issues (i.e. through impact assessment reports, explanatory papers, public consultation with interested parties) there is criticism on the efficiency, effectiveness and mutuality of EU trade agreements with third parties.

Indeed, Eurosceptics argue that EU integration project is politics without policy, meaning the substitution of commonly agreed collective intentionality by bureaucratic terms of international trade management. As there is not a fully operational European political system in place (in the meaning that European parties do not express European collective policies but a compromise of national priorities), they underline that policy consensus is built in technical terms and thus decision-making is technocratic (Woolcock, 2010).

According to Euroscepticism, EU international trade policy suffers from jurisdictional overstretch, from ineffective and rigid overregulation deteriorating economic/structural/welfare divergences between European regions. Lack of transparency on international trade policy of EU (i.e. the case of the transatlantic trade and investment partnership with USA) and ignorance of national preferences and priorities in trade issues is also mentioned. It is further argued that the growth of global production and value chains leads to redundancies in manufacturing and thus any attempt for further trade concessions is socially and nationally intolerable (the debate on the Transatlantic Trade and Investment Partnership, the Comprehensive Economic and Trade Agreement and the EU–Singapore free trade agreement).

Politicization is thus a critical filter in the whole process of disintegration dynamics and also in international trade policy issue areas of EU (Hazakis, 2019a). Politicization embeds consensual and too often contrasting and conflictual positions on the critical problems at stake and it entails state disagreements. In many cases, rent seeking rises and partisan or vested interests exhibit an influence usually greater than their real resources and capabilities (Hazakis, 2018). Electoral cycles and internal party management are prioritized and EU countries act not as utility and rational maximizers of a rule-based regime but according to the rationale of appropriateness, linking short term targets and preferences to compliance.

Despite the aforementioned heterogeneous criticism most citizens seem to adopt a rather different view. In a survey conducted in the 28 member states of the EU

between 9 and 25 May 2019, six in ten respondents argued that citizens benefited from international trade, including 19% who said that they benefited “a lot” (an increase of +16pp since the 2010 survey). Only a third (33%), believed that they did not benefit (European commission, 2019).

Furthermore, half of respondents agreed that international trade rules are vital because they help create a level playing field for countries and business. Respondents were asked to what extent they agree or disagree that the EU is more effective in defending the trade interests of its countries in the world than member states are when they act on their own. 71% of respondents agreed, including 24% who totally agreed.

Further, it was asked to what extent EU citizens agree or disagree that EU trade policy also takes into account the social, environmental and human rights impacts both in the EU and on EU trade partners worldwide. 56% of respondents agreed with the statement, including 11% who totally agreed. Equally important, 59% of respondents trusted the EU to conduct its trade policy in an open and transparent manner, including 13% who totally agreed.

Finally, only 15% of respondents felt that the signed trade agreements between the EU and other countries (Canada, Japan and Mexico) limit the ability of their country to pass new laws in order to protect workers, the environment, health or education.

Within such a complex politicized environment which is the content of current EU international trade policy? According to the EU Treaties, EU promotes its values, high social and environmental standards, and respect for human rights. In like manner, EU international trade policy targets openness, non-discrimination and fair competition, so as to preserve welfare in EU economy and a global playing level field. The EU's new trade strategy “Trade for all – Towards a more responsible trade and investment policy”, (October 2015) highlights effectiveness (tackling new economic realities, such as the rise of global value chains), transparency (working more closely with member states, the European Parliament and civil society) and values (being responsive to the public's expectations on regulations and investment, and promoting sustainable development, human rights and good governance).

More specifically, the EU conducts a two-edge strategy which is on the one hand safeguarding an open and rules-based world trading system and on the other hand

constraining aggressive trade policies. Since the 1990's EU followed a liberal trade practice (De Ville & Siles-Brügge, 2018) but it takes into account the necessity to support EU labor force against unfair trade practices (Bolle et al., 2016) as well as to support the linkages of EU trade with foreign policy targets. The accomplishment of the aforementioned issues demands intensive international cooperation to shape globalization (by continuing to support existing international institutions as well as regulating new areas that are currently not subject to international rules), enhanced economic diplomacy to pursue the EU's economic interests abroad and better implementation of instruments to ensure a level playing field (through effective trade defense instruments and better enforcement of existing trade agreements and rules).

However, preserving bargaining power of EU international trade policy requires economic instruments and industrial policies to promote EU trade purposes. Thus, EU international trade policy is connected to other issue areas of EU collective policy such as sustainable development, human rights, industrial priorities and EU foreign policy.

Equally important, the EU follows a differentiated but comprehensive strategy relative to developing states based on preferential trade agreements (Woolcock, 2010). For example, with least developed countries it provides full trade concessions, with middle-income states it applies a focused but not fully reciprocal partnership, and with other states (i.e. the Economic Partnership Agreements) it insists on the implementation of transparency clause and on Singapore agenda issues. Moreover, the EU implements agreements with tariff-free preferences for least developed states under the "Everything but Arms" policy as well as a generalized system of preferences with developing countries. The latter forwards sustainable development and good governance, and it is also used as a vehicle for promoting fundamental democratic values in partner countries.

Preferential trade agreements favor a level field in international trade and WTO rules are the framework where preferential agreements are embedded. As it was stated in the communiqué between US President Trump and former President of the European Commission, Jean-Claude Juncker, (July 2018) "in line with existing EU trade policy, pledges that no EU trade agreement will lead to lower levels of consumer, environmental or social and labor protection than offered today in the European Union, nor will they constrain the ability of the EU and member states to take measures in the future to achieve legitimate public policy objectives on the basis of the level of protection they

deem appropriate. Any change to the level of protection linked to a trade agreement can only be upward". Thus, against the temptation of isolationism (European Commission, 2017b), the EU prefers inclusiveness in its free trade agreements (European Commission, 2015).

### **3. An institutional analysis of EU international trade policy**

Institutionalism (Dowding, 2000; Aspinwall and Schneider, 2001; Jupille and Caporaso, 1999; Hazakis, 2019a) analyses not only legislative and executive EU politics, (including aspects of EU decision making), but also the influence of politics on EU countries and integration/disintegration evolution (Hodson, 2009).

EU cooperative practices, shared information, collective solutions to external policy threats, cost sharing through increased cooperation, do influence EU policy making, international trade included (Jupille and Caporaso, 1999; Stone et al., 1997; Stone et al., 2001). The institutional framework of EU is examined either as independent variable influencing results at policy issue areas or as a dependent variable derived by EU states volition to perform specific roles/functions within the European project (Hazakis, 2018). Intra-institutional dynamics and inter-institutional relations are also given high importance for disintegration analysis (Hazakis, 2019a).

While EU countries' influence on the content and scope of EU institutions is taken into account, institutionalism suggests that EU institutions do impact significantly on member states negotiating behavior and policy choice. Institutional theory further underlines the influence of pre-existing EU norms, principles and commitments on trade issues among EU countries. Thus, member states learn how to operate within a specific cognitive framework and adapt their behavior as an outcome of functioning within an EU institutional context.

Institutionalists also argue that a unitary actor approach in integration / disintegration analysis is limited because it insists on outcomes, downgrading processes of collective decision making. As Bretherton and Vogler note, (1999: 2-3), European studies research evaluates the impact of the EU on global system, leaving little analytical room for EU processes. One should also remember that policy consistency (Brattberg & Rhinard, 2012b), meaning EU capacity to carry out its policies and commitments in a predictable way, is critical in international trade policy.

In institutional analysis the traits of a holistic policy framework (actors, processes, issues, and tools) are interrelated and constitute a dynamic EU international trade policy nexus. Thus, the nature of the policy process is affected by the identity of the actors involved, the issues being dealt with, the policy instruments available and the institutional context within which policy is made. EU policy is more than the agents and processes involved in fact it is the outcome of their dynamic interaction.

Equally important, EU issue area regimes formation is influenced by the bargaining power of state and supranational actors, the functional and organizational interdependencies between policy issue areas, the available learning/adaptation processes for involved EU agents and the switching costs of alternative policy options for agents. Ad hoc and contentious negotiations without embedded structural terms lead to a minimum common denominator trade policy which is by nature fragile, ineffective and short-lived, maximizing the gap between EU expectations and EU capabilities.

Furthermore, institutionalism is preoccupied with the containment of rent seeking behavior in regional and international trade regimes. Institutional checks and balances in a trade regime reduce transaction cost and informational asymmetry in international trade issues. It is argued that high quality of institutions in an EU policy issue area increases transparency and accountability, and enforces rules of the game. Apparently, efficient incentives to comply by the rules ameliorate the collective result of applying resources in an issue area.

What are the major tenets (Hazakis, 2018) of the institutional approach regarding EU international trade policy?

First, European states realize joint welfare and trade gains through cooperation and avoid negative spillovers, externalities and asymmetries of non-cooperative options in issue areas of global trade. European international trade policy promotes cooperative behavior by increasing information about non-EU states' targets, behavior and expectations which renders easiest the process to detect non-compliance and defection from bilateral and WTO based regimes. Moreover, robust and efficient EU international trade policies increase decision making trust which makes EU states willing to promote further cooperation and to achieve medium and long-term cooperative gains.

Second, institutional theory underlines the embeddedness of agents' action within the network of EU institutions in international trade policy. Complexity of trade policy areas, embeddedness of involved agents' behavior and *acquis Communautaire* (the sum of existing EU practice and legislation) influences policymaking in several issue areas of EU trade. This does not lead a priori to "lock-in" of member states' preferences but certainly does mean limitation of "degrees of freedom" in decision making thus limitation of national capacity for policy maneuvering (Hazakis, 2018). Indeed, national trade preferences are embedded within a highly specified institutionalized setting that legitimates trade policies and negotiation practices. Similarly, the long-term embeddedness of EU trade policies increases exit cost for all EU member states.

The autonomy of EU states is also embedded within that complex policy network. Although national divergences exist, their options are framed by a cooperative approach, by trust and reciprocity, by consensus building, and by a process of common identification (Elgström and Jönsson, 2000; Scharpf, 2006).

Substantive and procedural norms frame a specific cognitive framework of conducting international trade policy with extensive interstate consultation and confidentiality during all stages of forming collective trade policy choices and consensus procedures in decision making (Lewis, 1998, 2003; Smith, 2004). Evidently, the content and scope of EU collective policy on trade issues is closely linked to both preferences of EU countries and to effectiveness of collective EU norms concerning international trade. Cooperative rather than competitive behavior prevails as collective bargaining implies less costs and better bargaining position in international trade vis-à-vis autonomous policy options (Lax and Sebenius, 1986; Hopmann, 1995). Equally important, path dependence is important since early decisions provide incentives for national agents to perpetuate behavioral patterns and policy choices from the past.

Third, EU institutions create arrangements in trade issue areas that allow reasonably efficient decision making and effective compliance despite the involvement of states with divergent trade preferences. This means that European institutions have the ability to influence the international trade agenda, to frame policy problems and to accommodate often conflicting national targets. Crucially important in this procedure is the internalization of EU institutional norms and principles in national trade policy making frameworks.



Fourth, the impact of global and regional trade dynamics is not indifferent and systemic variables, formal (i.e. WTO) or informal (emerging protectionism), do impact on EU trade policy. Emerging protectionism, if not properly accommodated in existing frameworks and rules, gives rise to emergency trade politics meaning exceptional actions which are embedded within the principles of EU international trade policy but are not fully assigned by formal rules.

Fifth, EU international trade policy is analysed at three fundamental levels (Hazakis, 2015). At the first level, there are basic concepts, norms, routines and values of European international trade policy which are the most enduring and resistant to policy change. They are also important for institutional analysis as they exert the greatest influence at all policy levels, defining the cognitive conditions that lead to compliance or to non-compliance with EU international trade policy framework.

The second level of analysis concerns institutional arrangements and includes complex EU institutional networks and institutional hierarchies, influencing national economic agent motives and risk/profit/burden sharing in European trade policy implementation.

The third level of analysis concerns not institutions per se but the systemic dimension of EU policy framework on international trade issues. The sustainability of European Union policies rests not only on getting EU organizations and national decision-making systems working more efficiently on an individual basis but to do so in an interconnected fashion. The third level of analysis also refers to the hierarchy of European trade policy issue-areas and the multiple linkages among them. While each of the EU issue areas has some autonomy, an institutional logic leads all issue areas into a common policy configuration. Too often in treaty-making, new EU competences are codifications of changes of tacit routines and practices (Peterson & Bomberg, 1999).

#### **4. A policy model for the interaction of disintegration dynamics with EU international trade policy**

EU is a complex policy system involving heterogeneous and path dependent agents. Complexity refers to member states' diversified adaptation to EU policies and rules and also to flexibility of decision-making mechanisms and states' involvement in them. One should also mention that EU international trade policy occurs in an unstable

and uncertain external EU environment which enlarges policy risk and volatility and puts into doubt fully rational predictability.

Heterogeneity means plurality of agents' interests and intensive negotiations during all stages of EU international trade policy and decision making especially when there are not sufficient and commonly perceived tradeoffs (Hazakis, 2018). All the agents involved in EU international trade policy making do not always have perfect knowledge about policy problems and thus they do not have perfect knowledge of available policy instruments.

Equally important, international trade policy selection involves national and EU choices, constraints, risks, benefits, costs, pressures and path dependent practices and is not the unavoidable outcome of a "lock-in" EU international trade policy system. It depends on many variables if, how and under which terms exceptional policy options manipulate existing EU institutional and rule limits and this explains why EU adaptation/learning mechanisms lead to varied results.

Additionally, state and non-state agents can organize their policy agenda against EU collective intentionality and collective action (Hazakis, 2019a). Non-state agents together with institutions do have an impact on the calculus of principles to delegate authority and do participate in the shaping of policy proposals prior to, during and after the completion of authority delegation (Cowles, 2003:106).

The paper proposes an analytical framework so as to perceive the interplay of disintegration with EU international trade policy, taking into consideration institutional / economic / political / social / cognitive variables. Diagram one further outlines the terms under which EU international trade policy advances, gets stuck or is reversed and presents a simplified type of interactive processes and links in disintegration dynamics. The diagram not only identifies the fundamental variables shaping the EU's international trade policy, but also highlights the gaps between expectations and capabilities in the trade issue areas thus it helps the configuration of possible reforms and strategies to influence EU international trade and member states capacity to act. According to diagram one, domestic and EU politicization act as a filter between all EU policy making stages embedding not only consensual but also contrasting and conflictual positions on trade problems at stake.

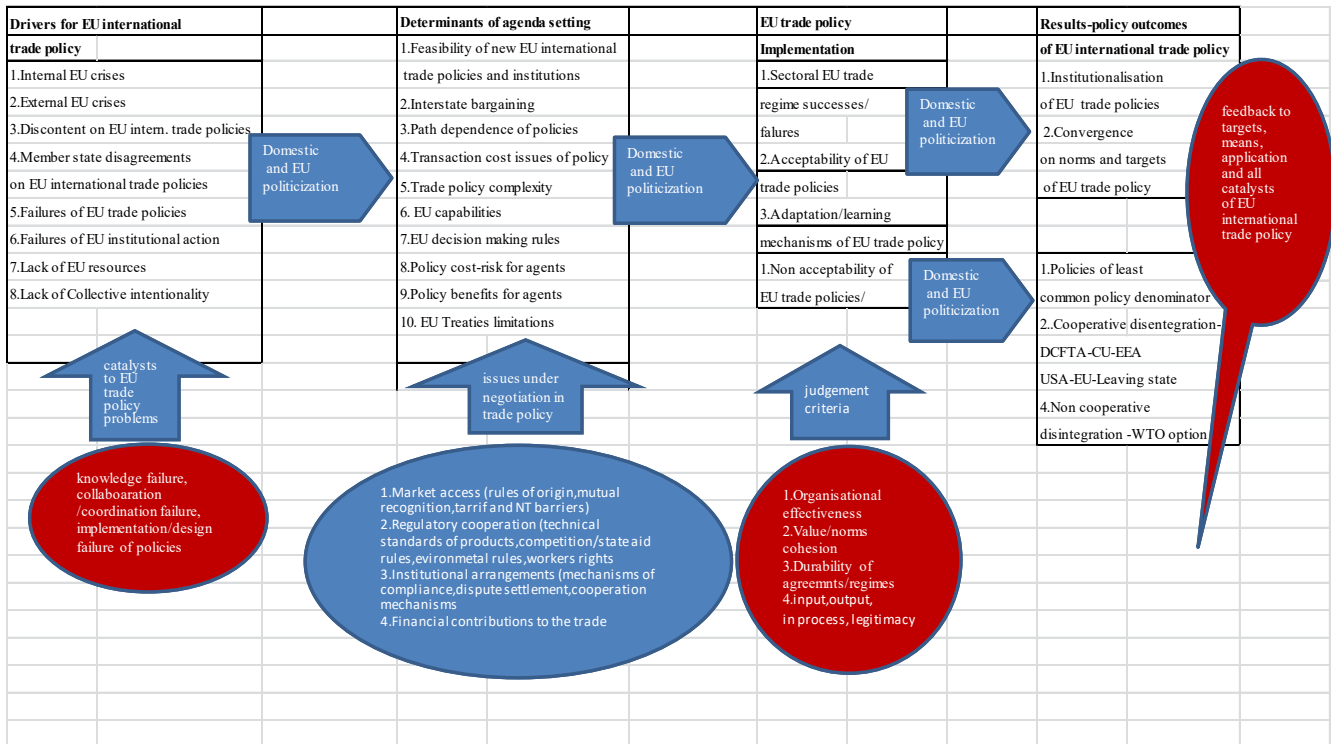


Diagram 1: The Interaction of Disintegration Dynamics with EU International Trade Policy

EU institutions and EU agents' interactions are closely intertwined at both policy-making and policy implementation levels. Collectivity and institutional path dependency link cross-pillar EU and national decision-making to EU capabilities and instruments in all types of European trade policy. Cross linkages are not however static or locked-in but evolve over time following internal and external challenges as well as successes and failures of international trade policy.

The first and the most important element in diagram one relates agents to EU international trade policy-making, analyses the drivers for disintegration and examines the role of internal and external crises in EU international trade policy.

An EU crisis is considered a situation of heightened and asymmetrical interdependence with strong externalities and non-predictable distributional and risk effects (Hazakis, 2019a). In such a situation, policy uncertainty and ambiguity are not easily controlled and state and non-state agents try to minimize crisis burden and to

maximize benefits from necessary policy/institutional reforms.

Which type of crisis is critical to shake the EU international trade agenda and decision making? Exogenously given variables do play a critical role (i.e. immigration, economic protectionism, relocation of economic activities due to global competition).

Whether an EU internal/external crisis induces collective activity and changes in international trade policy issues depends on how EU agents perceive policy challenges, on the stability of agents' coalitions, on agents' openness to new cognitive frameworks in an issue area, on institutional inertia, on institutional effectiveness and on the power of path dependence. Lack of consensual policy in an issue area of trade can lead to exclusion of a policy proposal in EU agenda. Indeed, internal and external crises lead to different types of policy risk and ambiguity (Hazakis, 2019b).

Internal asymmetry between the disintegration challenges and EU trade policy capabilities underlines that EU international trade policy needs more flexibility and resources. The ad hoc and incremental changes in international trade policy are not enough to address the match between policy interconnectedness, policy challenges and disintegration evolution. Again, it becomes apparent that EU institutional structure needs enforcement so as to internalize the challenges coming both from the internal and the external environment of the EU.

Further, compliance of member states and non-state actors to EU rules and norms is not an automatic process. States have incentives to avert timely compliance to policies, prioritizing electoral cycles and internal party management. In many cases, rent seeking rises and partisan or vested interests exhibit an influence usually greater than their real resources and capabilities. States act within this framework not as utility and rational maximizers of a rule-based regime but according to the rationale of

appropriateness, linking short term targets and preferences to compliance (Hazakis, 2019a).

Thus, as it is highlighted in diagram one, a crisis can lead either to the abolition / weakening of existing formal interactions / rules / jurisdictions / processes / competences in EU or to the enforcement of formal interactions / rules / jurisdictions / processes / competences in a specific issue area of EU international trade policy.

From an external perspective, different factors can be identified and built into the analysis. As Drieskens argues more attention should be paid to international environment which enable or undermine EU influence abroad (2017:1540). Favorable terms can act as windows of opportunity for the EU's global role (Bretherton and Vogler, 1999) while unfavorable terms undermine the EU's acting capacity (Bretherton and Vogler, 2013). The obvious example that has been dealt with at length in the literature is the impact of emerging protectionism on EU international trade policy.

More specifically, the external crises involve WTO failure in Doha round, trade unilateralism, trade distorting measures of emerging economies and conflict of interests with key global trade actors on issues like public procurement, property right issues, investment and state-owned firms' subsidies.

EU trade policy cohesion is a key issue and it varies according to the trade issue area, the preferences of agents and the institutional thickness which surrounds an issue area. As Thomas (2010:7) mentions "the range of preferences amongst actors will be a major determinant of the Union's political cohesion. The more EU member states and supranational institutions agree on what the EU's policy should be the more cohesive the union will be and vice-versa". He further adds that "the simple adoption of a common policy is less important than its determinacy, meaning how clearly it articulates the

Union's goal and how narrowly it specifies the behaviors incumbent upon EU member states and institutions in order to achieve those goals" (Thomas, 2010:7-8). Hill also eloquently mentions that countries "find it genuinely difficult both to reach agreement on group strategies and then to hold to these strategies once agreements are reached" and thus "solidarity is the exception rather than the rule – even in Western Europe" (Hill, 1996: 7).

Brattberg and Rhinard, (2012a; 2012b) suggest four dimensions of cohesion namely cohesion in values, preferences, internal procedures, or policy outputs. Value cohesion and common commitment to principles (Bretherton et al., 2006:30) regarding the general orientation of EU countries is also vital for European trade policy. Preference cohesion refers to common preferences vis-à-vis the targets of EU international trade policy and procedural cohesion concerns agreement on the basic rules by which policies are made while output cohesion refers to collective positions in the form of policy outputs (Jupille and Caporaso, 1998: 219-221).

Do failures of EU institutions pave the way for issue area disintegration thus weakening of EU issue areas trade regimes and practices? It is beyond dispute that failures of EU policies and inadequate resources undermine policy cohesion. However, EU institutional inertia favors persistence of EU norms, practices and principles in an issue area despite the fact that they become more costly, less efficient and less legitimized as time passes. This is why in the absence of a new alternative trade policy, any proposal that puts into question the hierarchy, content and prescribed behavior of an issue-area regime is considered inappropriate for EU-trade agenda setting.

Finally, EU collective intentionality includes intentions of involved agents, beliefs, and commonly agreed directedness of EU international trade policy. Collective action

dilemmas especially when they do not stem from inside EU but are external (trade protectionism, illegal immigration), demand effective and prompt policy convergence within EU.

The second pillar of diagram one refers to the determinants of EU international trade policy agenda setting. The conceptual framework of a policy in an issue area includes norms, values, attitudes and behavior of agents in a historically constructed environment. Policy choice comes up as an amalgam of past experience, knowledge, capabilities and resources, expectations and hierarchy of targets. Institutional thickness (i.e. inter-institutional EU interactions, shared policy norms and practices), in an issue area of trade as well as organizational hedging (i.e. the content of links and the existing modes of practice between involved EU agents in a trade issue area) create the conditions for sharing risk, cost and benefits in an issue area, favor institutionalization of reforms and create identity network of beneficiaries.

Observational and expectational learning are also vital in the process of policy choice. In observational learning EU agents form expectations based on lessons of the actions chosen and results experienced by other agents in an EU issue-area. Expectational learning is one of the dimensions of observational learning as EU agents form expectations linked to different actions (Hazakis, 2019a).

Defining the EU trade agenda further includes the tactical/strategic targets of a policy choice, the available instruments and the alternative methods to achieve a target. As agents compete for limited and common EU sources in an issue area of international trade, a balanced negotiation framework to incorporate different targets is needed.

The bargaining power of ad hoc or more long-term coalitions within EU is linked to the interdependence of different EU issue areas and influence positively or negatively the

ability of EU institutions and trade issue area regimes to accommodate trade reforms and to bear the cost of reform application. Cooperative or competitive stance during negotiations depends on national policy action and could prevent collective intentionality. Both intra-EU institutional dynamics and inter-institutional relations within EU architecture play an important role in EU policy making bargaining, in effective assignment and in policy deliverability (Hazakis, 2019a).

Interstate bargaining reconstitutes EU agents' practices and priorities and sometimes confuses the content and targets of the international trade agenda. Experience shows that the lower the capacity of an EU agent to autonomously regulate problems in an issue area, and the greater the interdependencies with other EU agents in an issue area, the more likely it is to reach a compromise, and to accept international trade policy changes in medium term. Equally important, the greater the capacity of an agent and the weaker the interdependencies with other EU agents in an issue area of trade, the more likely to prefer exit scenarios from issue area regulation or to insist on short term and least common denominator policy policies.

Analysis of interstate bargaining also includes the nature of the bargaining environment, the scope and complexity of the issues under consideration, the durability of existing rules of the game in an issue area, the level of targeted engagement and the capabilities of EU and member states.

Achieving policy cohesion through interstate negotiations is critical because it influences collectivity and policy coherence of EU relative to international negotiators and non-EU states and it does have an impact on EU performance on international trade issues. The type and quality of derived transactions (in all its forms ranging from agenda setting to imposition of trade sanctions) after interstate negotiations and the strength of



internal traits (meaning policy cohesion), are vital for operational and long-term application of a trade policy.

Transaction costs also play a significant role and arise from unclear or inefficient rules of EU policy formulation/implementation in an issue area, from asymmetrical information, from bounded rationality of involved EU agents, from costly enforcement of the imposed regime in an issue area and from functional distortions. Transaction cost also involves costs of applying, administering and monitoring interactions and behavior in an EU trade issue area within and between agents and institutions.

Thus, high transaction costs involve significant policy risk (in Knight's terminology a situation in which the possible results are known and the probability to occur linked with each result can be assessed under certain conditions) but more importantly policy ambiguity, thus a situation in which the possible results are traced but the probability to occur linked with each result cannot be assessed.

When decision making structures and learning/adaptation mechanisms cannot internalize strong doubts or divergent preferences then uncertainty is high and transaction cost is high. In the context of policy ambiguity and uncertainty, it becomes evident that an amalgam of ideological credos, and incomplete theoretical/policy knowledge renders prediction of outcomes in European integration project non feasible.

Capabilities are critical for EU trade policy and refer to resources for EU international policy action (Bretherton and Vogler, 2006: 30). Hill underlines that "true actorness requires not only a clear identity and a self-contained decision-making system but also the practical capabilities to have effective policies" (1996:13). Thus, irrespective of actual or potential EU resources if they are not embedded in trade regimes and institutional frameworks, a lack of collectivity or an unpredicted policy challenge could

hamper their deployment.

In the same manner, potential and unused EU capabilities have a minimal impact on EU trade policy if not converted to active policy instruments. The effectiveness of EU trade policy instruments is related to the trade policy agenda (the extent of its diversification) and to the way EU policy actors are being involved during all stages of EU trade policy formation and management. Thus, one needs to look at the EU ability to adapt and learn in unexpected or exceptional policy circumstances.

Although the EU has exclusive competence on international trade issues there are constraints and problems in the full application of trade policies. The EU's powers in the area of international trade are defined by the EU Treaties. On the basis of article 3(1) of the Treaty on the Functioning of the European Union (TFEU), the EU has exclusive competence in the area of customs union and international trade policy. Specific rules for EU trade policy vis-a-vis third countries are set out in article 207 TFEU.

Article 218 of TFEU analyses the procedure for concluding international agreements with third countries which requires the European Parliament to give its consent to new EU trade agreements. Despite the fact that foreign investment and trade are complementary in many sectors and despite the fact that the Lisbon treaty extended exclusive competence to cover foreign direct investment, member states still compete in both attracting inward FDI and seeking contracts in third markets.

Lastly, when normal conditions of international trade are not in place or when regional or global trade regimes are under attack, exceptional actions and emergency policies provide some sort of response under the condition that they are compatible with EU integration norms and principles. Thus, exceptional action does not undermine EU integration agenda if it achieves adaptation to new challenges and if the jurisdictional

overstretch does not violate the essence of WTO rules.

The third pillar provides the tools of assessment for international trade policy of EU. An EU policy should compromise the benefits/ costs /risks of different EU agents within a treaty prescribed framework but it should also make rules and agent behavior in an issue-area more transparent, efficient and accountable without imposing Babel- like regulatory framework.

EU agents involved in policy making accept or deny policy choices based among others on the deliverability of policy results, the efficiency of EU policy and the benefits derived by this policy.

Sjöstedt stressed that EU agent behavior “should consist of some sort of action emanating from the Community system and, second, that this action to a considerable degree is an expression of the identity of the European Community as a whole, not of one of its constituent parts” (1977:20). He also (Sjöstedt, 1974) identified three sets of necessary conditions for actor capability. These included the ability to articulate interests and mobilize resources towards common goals – capabilities for decision-making especially under difficult terms, and a network of agents to carry forth the will of the entity (see also Driekens, 2017).

In some cases, EU institutional edifice presents failures of coordination, failures of information on the internal/external EU problems, failures of consistent implementation of specific actions and institutional inertia. So, equally important is the question “how far short of their international trade assignments did member states and EU institutions accomplishments fail?

One should explain the suboptimal accomplishment of expectations and targets in

terms of both member state and institutional failures taking into consideration independent variables of influence from the external EU environment. The “fall-short” situation also needs to examine the necessity for extra resources and better adaptation/learning mechanism for EU agents putting on the compliance table more incentives for EU agents to adopt new patterns of behavior in an issue area (Hazakis, 2019a).

Likewise, the question “is EU international trade policy effective?” is linked with the question “do EU international trade policies attain their targets?”. Answering the question needs a clear definition of targets against which EU policy performance is evaluated. Unavoidably, international trade policies could fail because member states are unwilling to deploy the necessary resources and costs, do not have the necessary political will to apply reforms or prefer to follow domestic economic and political interest priorities (Hazakis, 2018).

In the same manner, the EU international trade policy making framework should prevent cooperation from becoming more complex leading to organizational failures, to low institutional performance, to institutional inertia and to limitation of tools for tradeoffs between different issue areas. Cooperative interaction can put in place an incentive driven policy reform in an issue area of trade that advances integration without being undermined by static agents’ interconnectedness. The latter concerns among others better inclusion of structural characteristics - resources of agents.

EU issue area regimes success rests on their ability to enlarge the action potential within existing institutional constraints, to remain open for inclusion of the hesitant EU agents, to facilitate agents’ negotiations under all circumstances and to be more flexible and less path dependent. In any case, EU institutions should convince EU agents that

collective international trade policies are the more efficient vehicles for them to gain resources, competencies and legitimization in an issue area.

Indeed, in the third pillar, the connectivity and receptivity of information/knowledge, so as to build consensual EU policy reforms in a trade issue area demand coordination mechanisms and strong cooperative routines. Standardized and tacit routines codify ways of networking between involved EU agents and reinforce trust. Routines also enforce collective problem-solving competences, settle conflictual state relations and permit better flow of information between involved agents in an issue area.

Moreover, the quality of adaptation and learning mechanisms influences the management of cooperation / coordination / conflict in an issue area and the capacity of EU agents to comprehend new information associated with an EU trade policy problem. Learning and adaptation goes hand in hand with collective intentionality to reform existing structures (Hazakis, 2019a).

The two mechanisms (adaptation and learning) are connected with the capabilities of EU institutional structure, the capabilities and limits of action autonomy of the EU agents, and the dynamics of disintegration in an issue area. The more intensive interactions are between agents in an issue area of trade, the greater the necessity for both EU and agents to diffuse critical information for common trade practices. Thus, EU adaptation and learning mechanism have adaptive value and fitness ability as long as they facilitate EU international trade action, they enforce interstate collaborative bargaining and they ameliorate national welfare (Hazakis, 2018).

Evidently, it is time for EU policy making to consider again its institutional fitness to evolving problems and it is time for member states to consider again their capacity to adapt in the EU institutional edifice. Such a new balance remakes normative reason,

prioritizing common preferences, practices and norms of EU agents and reasoned deliberation.

The final analytical step is to look at the actual impact of disintegration when it occurred. To what extent do disintegration conditions, along with contextual factors and performance, make any difference at all to the international trade system?

Scholars assess whether the EU international trade performs effectively regarding internal EU integration targets and welfare but also externally. The effectiveness agenda, also examines the implementation of sub-effective and modest international trade policy targets with limited and secondary (no rules based or regime based) changes.

For Ginsberg (2001:10), EU outputs become outcomes when “they have external political impact – or effect”. Thus, EU actor significance means influence on other actors and the external environment. Impact ranges from insignificant (having a presence) to significant (effecting reforms, changing the behavior of third actors, or altering the external environment). The external impact of the EU is measured in terms of the degree to which the behavior of other agents is changed, either directly and indirectly (the latter taking place through structural change in a global trade policy regime, for example).

Feedback effects within the EU system may be reinforced if the EU’s repeated participation in international fora contributes to reform contextual elements in a direction that is favorable to the EU. An example is the procedural rules in international organizations that may change to make it easier for the EU to perform a key policy role (Bretherton and Vogler, 2006). Successful cooperative international trade policy also needs a strong consensual agreement between member states on the distribution of costs, risks and benefits. There is also a need to enforce EU flexible instruments for crisis management and emergency politics. This presupposes among others that EU trade

policy is internally characterized by five criteria namely transparency, legitimacy, consistency, effectiveness and flexibility (Hazakis, 2018).

Legitimacy refers to the need that international trade policies not only respect the existing legal framework of EU but also respect the ideological foundations of the EU, meaning enhancement of participation and inclusiveness of all EU actors in all levels of decision making. It also means enforcement of input legitimacy, (i.e. the role of the European parliament and European parties) and output legitimacy (linked with the effectiveness criterion) targeting sustainable welfare for European citizens.

Flexibility means the possibility of granting temporary derogations for those states unable to follow all necessary adjustments for a more rigid international trade agreement. Transparency requires an enhanced role of the European Parliament in decision-making while effectiveness and consistency refer to the ability of the EU international trade policy not to undermine sustainable growth and exports throughout the EU especially at NUTS-2 (regional) level and not to downgrade the fundamental integration norms and principles of the EU.

Lastly, when disintegration is unavoidable for political or economic reasons there should be ready policy answers which are summarized in the last column of diagram one (see also European Parliament, 2018).

A no deal option is the least stable as trade is based on WTO terms, mainly the most-favored-nation clause. Intergovernmentalism and power politics determine international trade strategy. The leaving country assumes full responsibility for its own trade policy but continues to be subject to all its WTO law obligations. There are GATT-GATS-TRIPS commitments but no obligation to express trade policy through EU institutions.

The EU redefines negotiation agenda and tactics taking into consideration the new internal and external capabilities and constraints. Such a trade relationship also affects EU and leaving state linkages with third states meaning new agreements. The extent of diversification between EU and leaving state international trade policies as well as the content of the transition agreement, influence the future competitive-cooperation terms of the trade relationship inside and outside international trade organizations and trade regimes.

The second option is a deep and comprehensive free trade agreement (DCFTA) which is within the EU's exclusive competence under the TFEU provisions on the common commercial policy (Art 207). However, it depends on how deep and comprehensive the agreement will be as there will be unsettled issues concerning for example investor protection, and the dispute settlement provisions. DCFTA also means participation in the single market in many sectors although non harmonized sectors will remain a key issue.

A third option is a custom union with exemptions in certain sectors is also an option however its success depends on the type/content of relationship of EU with the leaving state. The latter continues to apply the fundamentals of EU trade policy and takes into account EU collective trade decisions even in its own trade policy with third countries. Such an option also implies limited contributions to EU budget.

A fourth option is a European economic area where the "leaving state" accepts single market rules. The leaving state does not participate in decision-making, does not accept the direct effect and primacy of EU law but contributes to the EU's cohesion funds.

A final although less possible option is a trilateral "leaving state-USA-EU" free trade area with fewer provisions than those predicted in the transatlantic trade and



investment partnership but with essential rules for tariff and non-tariff barriers. This scenario keeps the basics of bilateral economic cooperation, without undermining the prospect of a more intense and complex trade and investment relationship in the future.

The stability, the degree of institutionalization and viability of transition trade relationship is also crucial and affects the longevity of the long term legally-binding trade agreement. During the transition period, retaining full access to the single market and remaining part of the customs union with the EU is vital. Thus, a detailed and effective transitional agreement before final disintegration is important for transaction cost reduction and for securing the ability of reintegration in the future.

Diagram one also underlines the importance of the feedback mechanism which links performance and impact results to changes to the EU international trade policy itself. Capabilities and cohesion of EU agent performance are influenced by disintegration and thus could be undermined not only in an ad hoc and short-term way but structurally and in the long term. They could even lead under certain conditions of institutional inertia to an intensification of the free rider state conduct undermining not only the strength of collective EU international trade policy but more importantly EU norms and values.

Feedback is also crucial for adaptation/learning of EU international trade policy. The mechanisms underpinning feedback include learning processes (Siebenhuener, 2008), persuasion practices (Checkel, 2001), and crisis-induced action (Jones et al., 2016) and are categorized in terms of positive and negative dynamics. Positive dynamics include greater cohesion, leading to improved performance and impact while negative dynamics include the undermining of coherence, leading to ineffective performance and little-to-no impact.

## 5. Conclusions and policy implications

The question of disintegration impact on EU international trade policy needs to receive increased relevance. For Eurosceptics, EU policies are inefficient since they do not provide resources and instruments to minimize systemic/national risk in international trade issue areas, they do not reduce transaction cost in high politics issue areas, they do not decrease territorial/economic disparities, they do not reduce informational/policy asymmetries, and they fail to internalize negative spillovers of external trade challenges.

The paper recognizes the influence of disintegration and non-EU unilateral trade practices on EU international trade policy (Hazakis, 2019b). It is also noted that the convergence of EU member states preferences is incomplete as there are still differences on the future content and scope of international trade policy.

Three fundamental issues emerge for EU international trade policy. First, how to apply a new trade agenda. Second, how to apply a collective long-term strategy so as to reconcile EU agents' interests within existing and new issue areas of trade. Third, how to reframe EU international trade networking providing inclusion certainty for all EU agents, based on shared expectations, risks and benefits and taking into consideration a commonly reached perception of the constraints that the EU treaties and derived court decisions set. Similarly, the type/content/scope/effectiveness of EU international trade policies should be relevant to emerging internal and external EU challenges.

The emerging motto of EU international trade policy seems to be “continuity of EU international trade targets - diversity of international trade tools - adaptation of regulatory trade regimes”, so as to achieve deep and comprehensive trade agreements with third parties.

A triple policy challenge for EU integration project also emerges. First, how to control disintegration dynamics through rules flexibility and incentive driven inclusion policies. Second, if this is not feasible how to prescribe an effective transitional agreement which provides a smooth disintegration path leaving open the perspective of future re-integration. Third, how to provide a long-term non-membership agreement, which bridges the gap between full membership and non-membership, leaving robust the critical integration channels and interactions in key economic/political issue areas (Hazakis, 2018).

Which are the challenges for EU international trade policy performance? The EU holds a special role in sustaining the multilateral trading system and should continue to play its key role in fostering WTO reform, actively pursuing WTO strategy against protectionism and rule-breaking, and strengthening international trade monitoring. The EU should aim a set of plurilateral agreements on issues such as industrial subsidies, technology and intellectual property and should collectively reconsider the tradeoffs which provides in negotiations. Unavoidably, the assignment functions and the internal competences should be redesigned.

Two further implications emerge. First, there is a need to enforce the interactions and synergies between the EU issue areas trade regimes and strategies so as to maximize positive spillovers. Apparently, this calls not just for reconciliation of different priorities/identities in EU trade issues areas but for secured financial resources, competences and better input/output legitimacy of EU trade policies.

A new European international trade policy framework needs to redraw the interconnections between EU structures, EU institutions and EU objectives while recognizing the importance of contingent factors at the national level. Economies of

scale in EU policies do not suffice for maximization of EU international trade policies. There is a need for economies of scope meaning operational and functional synergies between different EU issue area policies so as to combine resources, and to use common policy frameworks. Redefining policy competences within and between EU issue areas, restructuring institutional and non-institutional interactions within and between EU agents, redrawing interstate negotiation tactics, are necessary conditions to stop an uncontrollable integration retreat.

Second, the key question to be answered is not only which institutional pillars of European architecture and issue areas should be enforced and how but also how can priorities of European integration be framed by rules and norms so that member states are enabled (to the largest possible extent) to pursue in mutually compatible ways national and collective (European) trade interests.

The challenge of disintegration could be faced by reforming the EU agenda setting and by reconsidering the means of the EU international trade action (Hazakis, 2015). Operability and credibility of the EU in international trade issues requires collectivity of targets-means so as to maintain EU fundamental rules and norms in international trade policy and to preserve long term consistency in EU international trade policy-making. Thus, the answer is shared commitment to fundamental principles (Bretherton and Vogler, 2006:30) and collective action (Jupille and Caporaso, 1998:219).

The embeddedness of the reformed international trade policy within EU integration norms context is crucial for EU policy durability, effectiveness and cohesion. The answer to the unprecedented EU integration crisis is not European retreat but more Europe meaning among others enhanced, effective and inclusive EU institutional action in international trade issues.

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