

Political Perspectives on EU's Trade Policy Shift towards New Zealand in von der Leyen's Commission: Enlarged Indo-Pacific Engagement, Practice of New Generation FTA, and Reiteration of Liberal Order

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Manuscript received November 17, 2023; revised December 13, 2023; accepted February 27, 2024; published June 21, 2024.

Abstract—New Zealand and the European Union (EU) share a rich history marked by significant exchanges of people, goods, capital, ideas, and institutional ties. However, in the late 2000s, the EU displayed reluctance to institutionalize its trade relations with New Zealand, primarily due to the limited appeal of the New Zealand market and the EU's protective stance on its agriculture market. A significant shift in the EU occurred in the late 2010s, coinciding with von der Leyen's term in office. While maintaining its economic concerns, the EU softened its approach to the economic agreement with New Zealand and initiated negotiations on the EU-NZ FTA. This study explores the factors behind the shift in the EU's trade policy towards New Zealand, examining them through three prominent IR theories: realism, liberalism, and social constructivism. This study concludes that the EU-NZ FTA holds significance for the global trading system, serving as a potential model for future EU FTAs.

Keywords—EU-New Zealand FTA, EU's Indo-Pacific strategy, liberal order, new generation FTA, WTO+FTA

I. INTRODUCTION

New Zealand stands as one of the EU's key partners in the Asia Pacific region. Despite the significant geographic distance, New Zealand and the EU share a long history of substantial exchanges of people, goods, capital, ideas, and institutional ties [1]. Despite being one of New Zealand's biggest trade partners and investors, the EU lacks preferential trade agreements with the country. As a result, EU industries face disadvantages when accessing New Zealand's market [2]. Notably, the European Commission has recognized New Zealand, along with a few other nations, for providing adequate protection of personal data [3], a focal point for the European Union (EU) in recent trade negotiations. Given these dynamics, the absence of formalized trade relations between the EU and New Zealand appears surprising.

Several reasons account for the absence of economic agreement between the EU and New Zealand. First, although the EU serves as an important destination market for New Zealand's agricultural products, there is a significant asymmetry between the two entities' mutual importance. As of 2021, the EU stands as New Zealand's third-largest trading partner, contributing 11.5% of its total trade. Meanwhile, New Zealand is only the EU's 49th largest trading partner, accounting for merely 0.2% of the Union's total trade [4, p. 78]. Second, as a proponent of liberalism, New Zealand's

market access barriers were not sufficiently high to capture the EU's attention [3]. Third, with the majority of New Zealand's exports being agricultural products, comprising more than half of the country's exports, as shown in Fig. 1, the EU, with its extremely sensitive and protective stance on the agricultural sector, exhibits a lack of enthusiasm in formalizing its trade relations with New Zealand. On one hand, the EU is not keen on reducing the already-low market barriers of New Zealand's relatively small market. On the other hand, the EU remains hesitant to open its market for New Zealand's agricultural products.

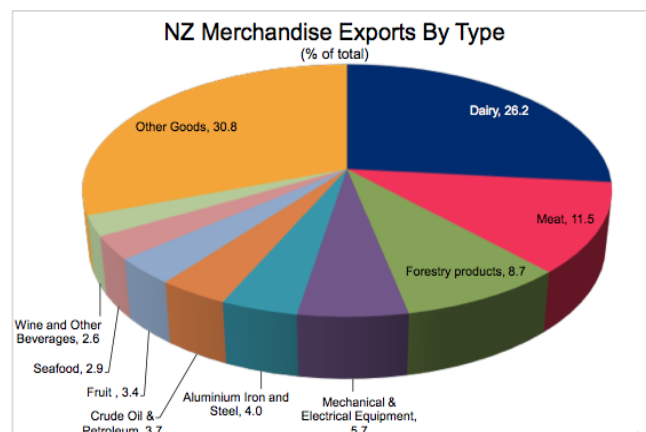


Fig. 1. Export of New Zealand (source: Econfix¹).

Historically, the EU's preference for a multilateral approach led to the conclusion of its Free Trade Agreements (FTAs) with its neighborhood countries or former developing colonies. These FTAs were often driven by strong foreign policy or enlargement motivations. As New Zealand neither falls within the EU's immediate geographical proximity nor qualifies as a developing country, the EU finds no political motivation to update its economic relationship with New Zealand.

EU's global trade policy position underwent a transformation in the 2000s, marked by the proliferation of regional and bilateral FTAs worldwide. In 2006, the EU announced its trade strategy in "Global Europe: Competing in the world", with economic rationales, while considering factors such as the market potential of the partner and existing barriers for EU exports when initiating economic agreements [5, p. 280]. This shift made bilateral trade agreements with

¹ According to statistics NZ, agricultural products account for 55.3% of total New Zealand exports. <https://econfix.wordpress.com/2014/04/01/new-zealand-reliance-on-a-single-product-and-a-single-market/#>

states of similar economic development a viable option for the EU [6, p. 13], thus rendering New Zealand a potential candidate for FTA negotiations.

New Zealand has actively pursued FTAs with international partners to safeguard its exporters from potential disadvantages². The country has consistently shown eagerness to establish an FTA with the EU. In the mid-2000s, as the EU shifted its trade preference from multilateralism to bilateralism, as outlined in the global Europe document, an opportunity seemed to arise for New Zealand to engage in FTA discussions with the EU. However, the EU rejected the proposal in 2009 [7]. It was not until 2018 that the EU and New Zealand initiated negotiations on the FTA. Negotiations on the EU-New Zealand Free Trade Agreement (Hereafter: EU-NZ FTA) were launched in June 2018.

The negotiations progressed at a rapid pace. After a four-year discussion, the EU and New Zealand reached a consensus and finalized the FTA in 2022 in von der Leyen's Commission. As the EU-NZ FTA is considered as much economically advantageous to New Zealand [7, p. 28], this research seeks to understand why the EU's attitude toward the FTA shifted from indifference in the late 2000s to active engagement in the late 2010s despite the structure mentioned, low demand for New Zealand's market, and EU's concern about its domestic agricultural market. Additionally, this study aims to understand the reasons why the FTA was finalized at such a quick pace, especially considering the EU's relatively disadvantaged position.

To achieve the abovementioned objectives, this study utilized three mainstream IR theories. Realists, who emphasize power and structure, suggest that the EU's action should be observed from the lens of power and structure. Liberalists, concentrating on interests, contend that the cooperation between the EU and New Zealand signifies collaborative efforts, generating mutual interests, which tend to automatically expand once initiated. Social constructivists, focusing on ideology, advocate for a broader perspective in observing the EU's actions, emphasizing the importance of considering norms and values in understanding the dynamics at play.

II. STRATEGIC PERSPECTIVE: ENHANCEMENT OF EU'S PRESENCE IN THE INDO-PACIFIC REGION

1) EU's strategy in the Indo-Pacific region

The Indo-Pacific region has garnered increased attention in recent years. Despite not being a resident power in Asia, Europe holds significant interests in the region. Economically, Asia accounts for more than 35% of European exports, emphasizing the crucial economic interests Europe aims to safeguard in this region. This reliance is particularly pronounced in the context of unobstructed maritime roads [8]. From a political standpoint, the escalating involvement of the United States (US) in the region and the intensifying competition between the US and China have transformed the Indo-Pacific region into a focal point for major power rivalry. In light of these developments, the EU must strategically position itself to secure a meaningful role in this competitive landscape [9].

President of the European Commission, Ursula von der

Leyen, has faced a challenging geopolitical landscape since assuming office in 2019. In September of the same year, the European Commission proposed the "Joint Communication on the EU Strategy for cooperation in the Indo-Pacific". This document underscores the escalating strategic significance of the Indo-Pacific for the EU, signaling an intent to increase engagement, foster partnerships, and reinforce the rules-based international order in the region [10, p. 2]. During the "EU State of the Union Address" in 2021, President Ursula von der Leyen highlighted that the new Indo-Pacific Strategy reflects the region's growing importance to the EU's prosperity and security. She emphasized the necessity for Europe to have a greater presence in the region [11].

In April 2021, the EU Council of Ministers adopted the "Council conclusions on an EU Strategy for cooperation in the Indo-Pacific", reaffirming the EU's commitment to strengthen its strategic focus and presence in the Indo-Pacific region. The EU explicitly stated its intent to contribute to the stability, security, prosperity, and sustainable development of the region by promoting democracy, the rule of law, human rights, and international law. With a focus on both its economic interests and geopolitical considerations, the EU aims to increase its political and economic presence in this vast region, recognizing its crucial role in both the EU's economy and geopolitics [12, p. 1].

Traditionally, the EU has not wielded a substantial influence on the political and security agenda of the Indo-Pacific region. Predominantly driven by the economic vitality of the region, the EU's cooperation strategy in the Indo-Pacific region has largely focused on economic exchanges [12, p. 13]. The EU's relations with pivotal regional partners such as Australia, Japan, India, ASEAN, and others have primarily revolved around trade and human rights dialogues, encompassing substantive cooperation on economic, commercial, and development matters. However, starting from the 21st century, security and political cooperation have been included in a broader agenda [13, p. 134]. Viewed from a geopolitical and geo-economic standpoint, the focal point of global dynamics is shifting toward the Indo-Pacific region. Recognizing this shift, the EU has increasingly identified the Indo-Pacific region as strategically vital. The region's growing economic, demographic, and political influence positioned it as a key player in shaping the international order and addressing global challenges [14]. Josep Borrell, the High Representative of the European Union for Foreign Affairs and Security Policy of von der Leyen's Commission, emphasized the interconnectedness of the EU's future with that of the Indo-Pacific.

The EU and other countries in the region share common geopolitical concerns, primarily aimed at avoiding entanglement in great power politics and the intensifying competition between the US and China [15, p. 7]. As the most fervent advocate of the so-called liberal international order, the EU relies heavily on the effective operation of global governance. Failure in this regard could result in the EU's international role being overshadowed by the escalating rivalry between the US and China. Consequently, the EU's narrative on the Indo-Pacific region is viewed as a hedge rather than a direct alignment with the US narrative [16].

² <https://www.mfat.govt.nz/en/trade/nz-trade-policy/>

2) New Zealand's strategic importance in the Indo-Pacific region

While the EU attempts to expand its involvement in the Indo-Pacific region, it is evident that the EU is not a resident power in the region due to geographical constraints. Thus, the EU must find leverage to enhance its presence in the region. The EU finds New Zealand a key partner for the EU in the Indo-Pacific region [17]. According to the Centre de Recherches Internationales (CERI) of SciencesPo, New Zealand is considered the EU's first-degree key partner³, being a like-minded ally of the EU that shares a similar stance on the Indo-Pacific. Collaborating with like-minded partners in the Indo-Pacific region enables the EU to legitimize and strengthen its participation in the region [7, p. 27].

A distinguishing feature of the EU's Indo-Pacific Strategy, setting it apart from that of the US, is its emphasis on inclusivity—A key vision of von der Leyen's Commission [18]. The strategy underscores the EU's commitment to reinforcing the existing rules-based multilateral order to cope with the heightened geopolitical competition and challenges in the Indo-Pacific region, reflecting the EU's pursuit of multilateralism. The EU Indo-Pacific Strategy highlights that its engagement with the region is principled and long-term, guided by key principles including a rules-based international order, inclusive and effective multilateral cooperation, and respect for democracy, human rights, and the rule of law.

Another core principle of the EU's Indo-Pacific strategy is the promotion of a level playing field and an open, fair trade and investment environment. In addition to multilateralism, inclusiveness is a defining aspect of the EU strategy. The EU Indo-Pacific strategy aims to deepen engagement with the region, particularly with "partners that have announced their own Indo-Pacific approach", including ASEAN, Australia, India, Japan, New Zealand, South Korea, the United Kingdom, and the US—Demonstrating the inclusiveness of the EU's Indo-Pacific strategy. At the same time, the EU incorporated the term "cooperation" into the title of the strategy, emphasizing flexibility and inclusiveness. Moreover, the strategy recommends further dialogue on the EU-China Comprehensive Agreement on Investment (CAI), suggesting that China's involvement is a possibility rather than completely ruled out [8].

Interestingly, to emphasize the inclusiveness of its strategy, the EU has deliberately refrained from mentioning the US version of the Indo-Pacific vision. This choice stems from the US emphasis on decoupling and comprehensive strategic confrontation in recent years, particularly during the Trump era, raising concerns among European allies [19]. For instance, the German government suspects that the US concept of the Indo-Pacific carries strong anti-China characteristics [12, p. 6].

New Zealand S with the EU in adopting a similar stance. In a speech on Indo-Pacific, New Zealand's Prime Minister, Jacinda Ardern, emphasized that the term "Indo-Pacific" was often used to "exclude some nations from dialogue" – specifically referring to China. However, Arden made it clear that New Zealand would not use the phrase as a "subtext for exclusion". She expressed New Zealand's desire for a world characterized by respect for rules, consistency in international

law, open trade and investment, transparency in foreign policy objectives, and "initiatives beyond borders" [20].

Despite being a small country in the region, New Zealand enjoys a broadly positive international image [21]. New Zealand has played a stabilizing role in the Indo-Pacific region, maintaining amicable relations with China and being the first country to sign an FTA with China. On the other hand, it is a member of a Western alliance, maintaining a strong history and connection with the US, the United Kingdom, and the EU. Additionally, New Zealand holds a pivotal leadership role among small countries in the Pacific, evidenced by membership in the Pacific Islands Forum [7, p. 27]. A global perception study further underscores "a world view that New Zealand is a nation capable of making a measurable difference through decisive action and quick decision-making" [22].

In summary, New Zealand's good relations with stakeholders of different parties make it a stabilizer of the region. Strengthening ties with New Zealand provide the geographically distant EU with increased legitimacy to participate in the Indo-Pacific region. This explains the EU's policy change to New Zealand.

3) Structural realist explanation

According to structural realists, international actors are bound by the constraints of the international framework. Despite not being a resident power in the Indo-Pacific, the EU is compelled to align with the shift in international power dynamics and direct its attention to the region.

Structural realists, such as Kenneth Waltz, Robert Gilpin, Barry Buzan, and Stephan Krasner, attempted to describe, explain, and predict behaviors of international actors with the international framework and system [23]. Waltz emphasized the anarchical structure of the international framework. In this context, international politics lacks central authority and order. Countries exist as sovereign and independent entities, devoid of an orderly hierarchy. The absence of a central authority perpetuates anarchy in the international system, necessitating the analysis of international politics.

The Indo-Pacific, described by Waltz, mirrors an anarchical structure with no central authority and order. Great powers such as China and the US compete for dominance of the region in pursuit of power, safety, and survival. Subordinate or smaller powers in the region have no alternative but to participate in the competition.

The second argument put forth by Kenneth Waltz asserts that all actors in the international system function like units. Given the anarchic nature of the international structure, all units in the system must rely on their own strength to seek survival and development. Therefore, each unit in the system must help itself and take actions that align with the structure of the international system.

The power competition of actors in the Indo-Pacific aligns with the principles of structural realism. Regardless of whether an actor is a great or small power, and irrespective of its geographical location, it is inevitably compelled to participate in the competition in the Indo-Pacific region. This is evident in the case of New Zealand, a small state aiming to avoid entanglement in great power competition. In 2018, New Zealand's Deputy Secretary for Americas and Asia, Ben

³ <https://www.sciencespo.fr/ceri/observatory-indo-pacific/eu/>

King, stated that “the term Indo-Pacific may not resonate in New Zealand yet” [24]. In 2022, Prime Minister Jacinda Arden recognized the term Indo-Pacific, marking New Zealand’s foreign policy shift to join the game [21]. The EU, despite being geographically distant from the Indo-Pacific region, published its Indo-Pacific strategy in 2019, even preceding New Zealand’s announcement.

From the perspectives of structural realists, the EU’s and New Zealand’s engagements in the Indo-Pacific are inevitable. As long as the international framework remains anarchical, all international actors will be involved in the region where international power gravity is concentrated. Thus, even for a small state like New Zealand or for an actor without geographical relevance like the EU, all actors must find leverage to participate in the competition. The geopolitical relevance of New Zealand in the Indo-Pacific region serves as the leverage that the EU seeks. Thus, the EU changed its trade policy to actively establish connections with New Zealand actively, aiming to secure a foothold in the region.

III. INSTITUTIONAL PERSPECTIVE: THE INNOVATION OF NEW GENERATION FTA

1) The birth of the new generation FTA

In 2006, the EU announced the concept of the so-called “new generation FTA” in its Communication “Global Europe: Competing in the World”. Since then, “new generation FTA” has become the EU’s standard framework when initiating any free trade agreement. The new generation FTA is called “WTO+FTA”.

In 2006, the European Commission announced a new trade policy to support efforts to foster economic growth and jobs. The Commission proposed shifting the EU trade policy, moving away from the exclusive focus on multilateral trade negotiation to initiate a new generation of Free Trade Agreements [25, p. 117]. The focus of the new generation FTA includes several targets. First, the new generation FTA aims to remove tariff and non-tariff barriers to improve market access for goods and services. Second, the agreement addresses behind-the-border issues, such as Intellectual property rights, investment protection, competition policy, and transparency in government procurement, which fail to reach a consensus in the Doha round. Third, the agreement aims to address issues regarding sustainable development, such as climate and labor rights [26, p. 20]. These issues are those that cannot be addressed in the Doha round. The scope and depth of the targeted integration issues of the new generation FTA surpass those of the WTO consensus, earning it the moniker WTO+FTA.

As a normative power and trade power, the EU has demonstrated its contribution to norms and its ability to exert influence by utilizing trade to promote norms such as environmental protection and labor rights. This policy preference is evident in the new generation FTA.

In the EU’s new generation FTA, a Trade and Sustainable Development chapter (TSD chapter) was developed based on the logic that trade relations should not be developed at the expense of the environment, labor rights, or other sustainable norms. Notably, the EU-Korea FTA is considered the EU’s first new generation FTA, as it was the first EU’s FTA under the “Global Europa” initiative in 2006 [27]. Furthermore, the

EU’s FTA with Japan includes provisions for the implementation of the Paris Agreement [28, p. 40].

Basically, the TSD chapters contain provisions defining the context and objectives regarding sustainable development. Furthermore, the TSD chapters generally involve provisions on domestic legislation to allow parties to harmonize the international sustainable development standards with their domestic regulations. A particularly important element of the TSD chapters is the mechanism for settling disputes. Generally, the enforcement of FTA is based on dispute settlement procedures. However, considering that the TSD chapters are beyond the scope of the WTO, they are not applicable to the WTO procedure. Thus, a special procedure is necessary for the TSD chapters. Specifically, all EU FTAs require the contracting parties to resort first to government consultations. If consensus could not be reached, an expert panel would be formed to provide recommendations and advisory opinions [4, p. 74].

Despite being an innovative idea to put normative elements in the material economic agreement, the new generation FTA is still widely criticized. Taking the EU-Korea FTA as an example, the EU-Korea FTA only uses soft, promotional sentences in the provision, such as “respecting...principles concerning the fundamental rights”, “the commitment to effectively implementing the ILO conventions”, “making continued and sustained “efforts” towards”, etc. [29, p. 271]. Such soft sentences undermine the prestige of the FTA. Furthermore, the Committee on Trade and Sustainable Development is required to oversee the implementation of the TSD chapters and create a report if intergovernmental dialogue fails to find consensus during disputes. However, the report is a non-binding document, as the FTA explicitly states that “the parties shall make their best efforts to accommodate advice or recommendations of the Panel of Expert on the implementation of TSD chapter” [29, p. 272].

In summary, a notable challenge in new generation FTA lies in the enforcement of the TSD chapters. The reports made by the dispute mechanism are mostly non-legal binding. Thus, there are no provisions for sanctions or consequences for non-compliance with the TSD provision and panel’s recommendations. Furthermore, the sanctions are challenging to enforce, given the difficulty in quantifying the damage caused by non-compliance [30, p. 1063].

2) The innovation of EU-NZ FTA to problems of the current new generation FTA

With regards to the issue of the new generation FTA mentioned above, the European Commission considered the need to improve the adopted. Specifically, the Commission considered a more enforceable provision for securing labor rights [29, p. 275]. The EU-NZ FTA has made substantial improvements.

Similar to previous EU FTAs, the EU-NZ FTA includes a TSD chapter (Chapter 19) that integrates labor, environment, and climate issues into the FTA. To address the credibility problem, the EU-NZ FTA took a fundamentally new approach that observes trade sanctions if the respondent parties fail to comply with the final report of the dispute panel. This is the first time that the possibility of applying sanctions due to infringement of TSD chapters was shown in an EU FTA. Moreover, the EU-NZ FTA introduces temporary remedies such as the suspension of the application of

obligations. This allows the sensitive labor, environment, and climate to be properly protected in lengthy arbitration proceedings, reflecting the vision of von der Leyen's Commission, which placed the "Green Deal" at the top of its priorities [31]. Commissioner for Trade of the European Commission Vladis Dombrovskis evaluated the agreement and said that "This is a new generation of trade deal" [29, p. 277].

Regarding climate change, the TSD chapter of the EU-NZ FTA ambitiously requires the contracting party to effectively implement the voluntary National Determined Contribution of the Paris Agreement [4, p. 82–83]. This specific sentence makes the provision more concrete and enforceable. Combined with the legally binding decision of the panel, the EU-NZ FTA not only constructs tracking progress to achieve its National Determined Contribution of Paris Agreement but also develops the multilateral treaty on climate change, such as the Paris Agreement, which is legally binding and also enforceable through the dispute settlement procedure outlines the EU-NZ FTA framework [4, p. 83–84].

Regarding the protection of labor rights, the role of the International Labor Organization (ILO) was strengthened. The EU-NZ FTA requires the parties to consider information from the International Labor Organization (ILO) to promote coherence between their work and the work of the ILO. If necessary, the parties are also required to seek advice from ILO [29, p. 278]. The EU-NZ FTA is recognized as an innovative agreement for labor rights, as it introduces strong sanctions unprecedented in previous EU FTA. The new provisions certainly made a breakthrough in improving the effectiveness of labor rights. Thus, the EU-NZ FTA is regarded as a model for negotiating and concluding other FTAs [29, p. 283].

3) Explanation of liberalist theories

Liberalists emphasize cooperation, asserting that collaborative efforts could reduce the incentives of conflicts and bring peace to the international anarchical society. In the case of New Zealand and the EU, like-minded partners sharing similar values and interests, conflicts are not a significant issue. Thus, the establishment of the FTA between the EU and New Zealand is not for conflict resolution, as suggested by liberalist principles. However, sub-theories of liberalism, including liberal institutionalism, functionalism, and neo-functionalism, can offer insights into the innovation of the TSD chapters of the EU-NZ FTA.

For liberal institutionalists, who contend that institutions could address the challenges of the international anarchical system, the innovative sanction mechanism of the TSD chapters in the EU-NZ FTA reflects the significance they attribute to the institutions. The sanction mechanism decreases the incentives for betrayal, enhancing the cooperation in climate change and labor protection. Doing so brings order to the anarchical international environment.

Liberal institutionalism emphasizes the importance of institutions when securing cooperation. However, for like-minded partners of the EU and New Zealand, betrayal of the other is not a major concern. The shared pursuit of sustainable development makes it less likely for either party to betray the other. Therefore, what merits greater attention in the EU-NZ FTA case is the expansion of cooperation observed by

functionalism and neofunctionalism.

The evolution of the provisions of the EU-NZ FTAs' sustainable development reflects the functionalist viewpoint. While liberalists emphasize cooperation and institutions, functionalists suggest that cooperation expands with the deepening of mutual trust and enlarged interests constructed through it [32]. This is a so-called "ramification" (i.e., a domino effect as cooperation in one field would lead to new cooperation in another field) [33].

In the case of the EU-NZ FTA, ramification effects are evident. In early new generation FTAs, such as the EU-Korea FTA or the EU-Japan EPA, the FTAs were not that enforceable practically due to soft-stance, non-legal binding nature, and the absence of sanction mechanism even though sustainable values, including labor rights, environmental protection, and climate change were included. However, such FTAs serve as a promising starting point, often regarded as the "first block" that lays the foundation for future refinement. The EU-NZ FTA, in particular, represents the modified product that refines the implementing mechanism, making the FTA enforceable.

The ramification process is also observed in the evolution of labor provision, which proliferated in trade agreements over the last two decades. In 1995, there were only four trade agreements, including labor provision; there were 25 in 2005, 58 in 2013, 77 in 2016, 85 in 2019, and 116 in 2022 (Tyc, 2023, 271). This emphasizes functionalists' arguments stating that once cooperation is initiated, it will automatically expand.

The inclusion of sustainable provisions in the trade agreement reflects the so-called "spillover effect" defined by neo-functionalists. Neo-functionalists assert that a spillover effect, a process where "a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more, and so forth" occur during integration [34]. Originally, trade agreements involved the exchange of goods. However, labor and material resources are needed during the production of goods. If regulations solely focus on the exchange activity but ignore the production process, there would be ethical hazards where resources used during production would be sacrificed. To comprehensively regulate the exchange of goods, labor rights and the sustainability of using resources should be taken into consideration. Thus, the TSD chapters in FTA regulate labor standards and sustainability while producing goods. This reflects the viewpoints of neo-functionalists, suggesting that further conditions must be created to secure the original goal.

The EU and New Zealand share values in pursuit of sustainable development. While there may be some contradictions in the aspect of sustainable development, these are not highly conflicting between the EU and New Zealand. The design of the EU-NZ FTA is applicable to other future EU's FTA with other counterparts, causing ramification effects. To continuously expand the TSD chapters in future FTAs, the EU changed its trade policy towards New Zealand with the expectation that the EU-NZ FTA would become a crucial block for future FTA, incorporating more enforceable mechanisms to secure sustainable development.

IV. IDEOLOGIC PERSPECTIVE: DEMONSTRATE LIBERAL ORDER IN THE TIME OF PREVAILING PROTECTIONISM

1) The rising protectionism in a global economy

The 2010s marked a volatile era for the global economy. At the beginning of the decade, international actors devoted themselves to seeking a breakthrough for the deadlocked Doha round. The impasse in the Doha Round compelled the EU and other proponents of the liberal order to find another way to continue the liberalization process. The failure of the Doha Round dashed hopes for advancing a multilateral trading system based on the WTO. This led to a new wave of regionalism in the international community in the 2010s, aiming to promote free trade agreements at a regional level. Although the speed is different, large trading blocs such as the US, Europe, and East Asia responded to this international situation and sought bilateral trade arrangements with trading partners, seeking to overcome the deadlock in international trade negotiations [25, p. 105].

The EU actively engaged in negotiations for TTIP (Transatlantic Trade and Investment Partnership), a mega trade agreement between the EU and the US. The aim was to revive the faltering liberal order between two huge markets. For actors in the Asia-Pacific, attention was focused on the TPP (Trans-Pacific Partnership), a mega-regional agreement among 12 countries in the Asia-Pacific region. Besides TPP, there is a discussion on RCEP (Regional Comprehensive Economic Partnership) in Asia. The first half of the 2010s was undoubtedly an era of booming economic and trade agreements, with hopes that these mega-regional agreements would break through the deadlock of the WTO Doha round and continue to promote a liberal global trade process.

However, the rise of atypical politicians in the second half of the 2010s (i.e., Donald Trump) has failed the attempt to revive the liberalization process. Trump's economic policy diverged from a broad US consensus supporting open international trade policies, emphasizing limits on international trade [35]. In his inaugural address, Trump announced that his trade policy would be central to economic nationalism. After Trump assumed office in 2017, the negotiating TTIP and TPP both came to an abrupt halt, followed by Trump's announcement regarding his desire to renegotiate the North American Free Trade Agreement (NAFTA) [36]. Besides the multilateralism issue mentioned above, Trump also initiated bilateral trade with several trading partners, especially China. Furthermore, traditional allies of the US, such as the EU and Canada, were also targeted.

Trump's action is undoubtedly considered an act of protectionism, reflecting government policies, such as tariffs, NTBs, or other regulations aimed at restricting international trade. This approach supports domestic industries and boosts the country's industry by shielding it from foreign competition. In general, protectionism is the opposite of the economic thinking of free trade and liberal order. For liberals, fewer tariffs and lower restrictions promote a better quality of life among people. Meanwhile, for consumers, fewer tariffs offer the freedom to buy cheaper or better-made products from anywhere in the world. On the other hand, for producers, fewer restrictions mean cheaper or better production deployment globally, and lower production costs mean that consumers can purchase products at a more affordable price.

From the perspective of the liberals, even if protectionism protects a country's producers, it cannot achieve the best allocation of resources, as evidenced in the aggregate global economy. Thus, protectionism only causes inefficient waste of resources.

In response to the protectionist trade action of the US, China increased the tariff on US products. As a result, the trade war between the US and China commenced. An economic showdown between the world's largest economies is not a good sign for the global economy [37]. Even the EU and Canada also complained about the US's action and took some countermeasures. It was calculated that the world's top 60 economies adopted more than 7,000 protectionist trade measures on a net basis since the financial crisis, and tariffs are worth more than 400 USD billion [38].

2) EU and New Zealand's support of liberal order in a global economy

The European integration project started from liberalist thinking. To bring peace to the war-torn Europe, the European integration was launched in the 1950s. The basic logic of European integration is rooted in the belief that interests brought by cooperation and integration among national states would cease conflicts and bring peace to them. The first European integration institution, the European Coal and Steel Community (ECSC), was constructed from liberal thinking, specifically under the neo-functional thinking developed from liberalism. The success of the ECSC created opportunities for further integration. As a result, further institutions such as the European Atomic Energy Community, the European Economic Community, and the European Community were constructed, which became the predecessor of the EU.

From the development history of the EU, it is evident that liberalism served as the core spirit of the EU. The success of that European integration project is attributed to the continuous stacking and expansion of the benefits brought by cooperation stressed by liberalists. The rule-based EU was constructed based on a liberalist perspective, suggesting that rules would make up for the deficiency of international anarchy and bring international order to a certain extent [39]. Similar to the prediction of the liberalists, the interests brought by institutionalized international cooperation led to the promotion of peace within the European continent, which is precisely seen within the EU [40].

Taking liberalism as a belief, the EU strongly supported the international liberalization process, believing a liberal international order would benefit the Union and bring order to the anarchical world. Thus, the EU's trade policy was developed based on the idea that the European economy's competitiveness exists in an open world trade system, which is based on multilateral rules supplemented by bilateral and regional trade agreements [41, p. 15]. Thus, the EU has constantly been the strongest promoter of international trade rules and liberal order.

In the 1990s, the EU asserted that a multilateral negotiation in the WTO forum would construct the international trade order. Thus, the EU supported the WTO negotiations by giving up bilateral talks. After the WTO suffered a major setback due to the stagnation of the Doha negotiations, the EU quickly adjusted its trade strategy to turn to other bilateral negotiations and continuously promoted the liberalization

process. The rapid policy changes of the EU suggest that the EU's support of the WTO originated from its belief in liberalism rather than its support of the WTO itself. When the WTO was no longer able to promote the liberalization process effectively, the EU quickly changed its strategy and looked for other policy tools that could better promote the liberalization process. Thus, what the EU supports is liberalization rather than the WTO forum.

Similar support for liberal order also applies to New Zealand, a small state dependent on trade [42]. International trade makes up around 60% of New Zealand's total economic activity⁴. As a small country with only 4.8 million population, it is challenging for New Zealand to produce diversified and high-quality goods that people consume, not to mention to provide a market to sustain its export sectors. There are approximately more than 600,000 jobs in direct export sectors or sectors supporting exports in New Zealand. Thus, a free trade order and an open market are important for New Zealand to maintain its economy. As a result, New Zealand strongly advocates for free trade, as well as the regional and international institutions that support free trade. The deadlock in the Doha Round left the EU disappointed and New Zealand frustrated. Similar to the EU, New Zealand sought to revive the liberalization through its own initiatives.

New Zealand's desire to promote liberalization is evident in its early participation in the regional integration project in Asia-Pacific, which lies on the TPP. The idea of the TPP originated from the TPSEP (Trans-Pacific Strategic Economic Partnership Agreement), in which New Zealand was a founding member. It was after the TPSEP was signed by Singapore, Brunei, New Zealand, and Chile that other countries expressed their interest in joining the agreement, transforming the TPSEP into TPP. New Zealand joined the discussion of the TPSEP/TPP plan very early, even earlier than Japan and the US. Notably, New Zealand was pleased to witness the enlargement of the agreement, as this would secure the liberal order and open markets for its exports. However, the setback of the TPP due to Donald Trump caused disappointment for New Zealand.

The ill-fated liberalization process in the late 2010s undoubtedly caused frustration among the liberals, including the EU and New Zealand. Thus, both countries turned their attention to other possible agreements [43, p. 3]. In this case, free trade between the EU and New Zealand became a tool for both of them to demonstrate their determination to achieve liberalization. Therefore, the EU changed its attitude on trade formalization with New Zealand.

3) Explanation of social constructivism

Considering the small scale of the EU's export to New Zealand's market, the economic benefits brought by the EU-NZ FTA were not that significant for the EU. However, the EU-NZ FTA demonstrated the EU and New Zealand's determination to push for a liberal order. The EU's perception of the liberal order influenced the EU's attitude. The practice of free trade agreements helped the EU and New Zealand continuously promote similar trade regimes on the global stage. These facts were further explained by social constructivism.

According to social constructivist Alexander Wendt, the

international system consists of three elements: shared knowledge, material resources, and practice [44]. Material resources, such as power and interests, are elements addressed by traditional IR theories (i.e., realism and liberalism). Wendt affirmed the importance of material resources. However, he proposed that shared knowledge and practice play significant roles in the international system.

Shared knowledge refers to the actors that have common intersubjective understanding and expectations in a given social environment. The identity and interests of actors are constructed by common intersubjective understanding and expectations. In the case of the EU-NZ FTA, the EU and New Zealand share common understandings and expectations of liberalism, allowing them to reach an agreement at a quick pace. Furthermore, since New Zealand is a like-minded partner of the EU in terms of shared values on democracy, human rights, the rule of law, and sustainable development, the EU defines New Zealand as its first-degree key partner in the region and changed its trade policy to actively engage with New Zealand while it tries to secure the foothold in the region.

Practice is another element addressed by social constructivists. Practice refers to the third condition explaining the existence of the social structure. According to Wendt, the formation and existence of social structures are the constructive effects of the intersubjective practices of agents. This interactive process is the basic condition for the existence of social structure. For both the EU and New Zealand, if they desire to construct an international society based on a liberal order, they must continue to practice the liberal order. Thus, the EU shifted its attitude and agreed to construct the FTA with New Zealand despite the limited interests offered in the FTA. For both the EU and New Zealand, the FTA signifies more than just restricted economic interests. What holds greater significance is that they showcase the advantages and potential of sustaining a continuous liberal order through the implementation of the FTA.

V. CONCLUSION

The EU-NZ FTA may not have significant economic effects on the EU due to New Zealand's limited market scale. However, the EU-NZ FTA offers more significance beyond the economy. The EU-NZ FTA is considered a positive development that consolidates economic relations, common values, goals, and benefits shared by the EU and New Zealand beyond purely monetary gains. Therefore, the EU changed its trade policy towards New Zealand and finalized the EU-NZ FTA during von der Leyen's term in the Commission. This occurred in the midst of great global turmoil, emphasizing the necessity for consolidation with like-minded partners in the Indo-Pacific region.

From a strategic standpoint, the linkage with New Zealand allows the EU to find a steadfast foothold in the Indo-Pacific region. New Zealand, being an Indo-Pacific member with good relations with all stakeholders, both developed and developing countries, and the Western alliance and China alliance, assumes a crucial intermediary role. Thus, New Zealand plays a key minority role in the Indo-Pacific region,

⁴ <https://www.mfat.govt.nz/en/trade/nz-trade-policy/>

attracting the EU, which desires to increase its influential power in the Indo-Pacific region to strengthen its linkage with New Zealand.

From an institutional perspective, the innovative EU-NZ FTA reflects both ramifications and spillover effects. It is expected that the legal-binding TSD chapters in the EU-NZ FTA could serve as a model for other future FTAs, promoting further ramifications and spillover effects. This institutional design would help the EU and New Zealand, both aiming to promote sustainable values in world politics, materializing their vision in the future with more international actors.

From an ideological perspective, the EU-NZ FTA demonstrates the determination of the EU and New Zealand to continuously promote liberal order in global politics. Through the implementation of the EU-NZ FTA, the EU, and New Zealand could persuade other international actors to pursue liberal order in the era of prevailing protectionism.

Three IR theories provided the observations mentioned above. The change in the EU's trade policy towards New Zealand reflects the EU's goal to penetrate the Indo-Pacific region, making it an imperative international stakeholder. It shows the EU's intent to extend its global influence beyond trade. The international anarchical structure, in combination with the rising importance of the Indo-Pacific region as well as the prevailing protectionism in global trade, influenced the EU to shift its indifferent attitude in the late 2000s and actively negotiate the FTA with New Zealand to achieve the goals mentioned above, even though the EU-NZ FTA is not economically significant for the EU. From the viewpoint of structural realism, the EU-EZ FTA could help the EU gain its legitimacy in joining the competition in the Indo-Pacific region. Meanwhile, from the perspectives of institutionalism and social constructivism, the EU-NZ FTA was expected to be a model for future EU FTAs that include clauses, such as climate change and labor protection, and those that demonstrate to the world that the liberal order is still alive.

The EU-NZ FTA promotes geopolitical, institutional, and conceptual interests beyond economic calculation. Even though the economic interests brought by the FTA are not that significant for the EU, the FTA was still finalized at a quick pace. The EU-NZ FTA demonstrates that the EU acts as a trade power that takes trade to leverage and achieve its goals, allowing it to gain power in global politics.

CONFLICT OF INTEREST

The author declares no conflict of interest.

FUNDING

This research was funded by National Science and Technology Council, Taiwan, Grant number 112-2410-H-259-020.

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