

# 1

## Between Regionalism and Globalism: European Union Interregional Trade Strategies

*Vinod K. Aggarwal and Edward A. Fogarty*

### 1 Introduction

The collapse of multilateral trade talks under the auspices of the World Trade Organization (WTO) in Seattle in November 1999 challenged international policymakers' attempts to strengthen the institutional basis of the global economy. Yet these policymakers' failure in Seattle did not attenuate the expansion of global market forces, nor the strong incentives for governments to seek to institutionalize their transnational commercial relations at the broadest possible level. Although the November 2001 Doha trade talks succeeded in launching a new round of multilateral discussions, there is little question that the trading system looks increasingly fragile and the deadlines for a new round unrealistic – particularly after the failure of the talks at Cancun in September 2003. Moreover, leading governments, and especially the United States, have consistently proven receptive to calls for protection from hard-pressed domestic sectors.

With global institutions facing an uncertain future, could various types of “interregionalism” – the pursuit of formalized intergovernmental relations with respect to commercial relationships across distinct regions – emerge as a next-best strategy for states and firms to pursue trade liberalization? And will “pure interregionalism” – the formation of ties between two distinct free trade areas or customs unions – become the predominant form of trade organization in the global economy as the world increasingly divides up into regional groupings?

The recent interregional overtures of the European Union (EU) – easily the world's most coherent and institutionalized regional bloc – suggest that Europeans may indeed see this as a viable alternative.<sup>1</sup> The EU has initiated formal interregional talks with East Asian countries, developed an interregional accord with MERCOSUR, and is pursuing similar discussions with countries and groups in North America, the Southern Mediterranean, Eastern Europe, and the developing world. If this interregionalism is not an obvious response to market dynamics, the question remains: what factors

## 2 *EU Trade Strategies*

are driving this phenomenon?<sup>2</sup> Does the European Union's new approach suggest that interregionalism is an emerging synthesis in the dialectic of market-driven globalism and politically-driven regionalism?

This chapter provides the analytical framework for this volume to examine and characterize many of the world's emerging interregional relationships. Focusing primarily on the motivations of the EU, we explore several potential explanations for the development of interregional agreements, including the interplay among sectoral interests, interagency rivalries, the dynamics of systemic level factors such as power balancing and nested institutions, and the vagaries of political and cultural identities. Moreover, we consider how different forms of interregionalism square with existing regional and global arrangements, and whether different institutional layers can be suitably reconciled. Our intent is to provide both analytical and policy-relevant work on the relatively new trend toward the formation of interregional agreements to examine if interregionalism represents more than a mere sideshow in the evolving face of international economic relations.

Section 2 begins with a conceptualization of interregionalism, in terms of both its differences from other types of trading arrangements and its own varieties. Section 3 then turns to some hypotheses that might account for variation both among types of trade arrangements and among different types of interregional arrangements. In Section 4 we examine the notion of counterpart coherence, that is, the extent to which the regions that the EU is engaged with have developed an institutional identity. Section 5 then previews the empirical analysis of the chapters that follow. An appendix describes the complex trade policymaking processes in the EU.

## 2 Conceptualizing interregionalism

First, what is interregionalism and how does it compare with other forms of trading arrangements? To answer these questions, it is useful to first conceptualize trade relations more generally before turning to a specific characterization of this phenomenon.

### **Classifying trade arrangements**

Over the last fifty years, states have utilized a host of measures to promote or control trade and monetary flows. Commercial arrangements have varied along a number of dimensions, including the number of actors (unilateral, bilateral, minilateral, or multilateral), the scope of issue coverage (narrow or broad), and the geographic dispersion of participating countries (concentrated or dispersed). Other relevant characteristics include the timing of arrangements, their relative openness, their degree of institutionalization, and the scope of products covered therein.

Table 1.1 provides illustrative examples of trade arrangements along the dimensions of actor scope, geographical dispersion, and product scope.<sup>3</sup> In

Table 1.1 Classifying trade arrangements

Actor Scope	Unilateral			Bilateral		Multilateral	
	Geographically concentrated		Geographically dispersed	Geographically concentrated		Geographically dispersed	
Product Scope	Few products (sectoralism)	Removal of Corn Laws (1848) (1)	Germany–Finland treaty (1932) US–Canada Auto Pact (1965) (2)	UK–Argentina (1930s) VERs (EC–Japan) (3)	ECSC (1951) (4)	Lancashire Pact (1958) in textiles (5)	ITA (1997) BTA (1998) ISA (1999) (6)
		UK unilateral liberalization (1850s) US Smoot- Hawley Act (1930) (7)	US–Canada bilateral agreement (1988) (8)	US–Singapore (2003) (9)	EEC (1958) EFTA (1960) EEA (1994) NAFTA (1994) (10)	APEC (1989) ( <i>transregionalism</i> ) EMIFCA (1995) ( <i>pure interregionalism</i> ) Lomé (1975) ( <i>hybrid interregionalism</i> ) (11)	GATT/WTO (1947/1994) (12)

Note: Dates refer to effective date of agreements. European agreements whereby “Europe” is considered as “one country” are listed in parentheses.  
Source: Based on Aggarwal (2001) and Aggarwal and Dupont (2002).

#### 4 *EU Trade Strategies*

brief, the top row (cells 1–6) refers to different forms of *sectoralism*. Cell 1 includes such measures as the British Corn Laws, which were a forerunner to the unilateral and then bilateral removal of tariffs in the late 1800s. Cell 2 contains geographically concentrated agreements in specific products, such as the 1932 German-Finnish treaty that gave Finland preferential treatment in butter imports (and which went against the prevailing most favored nation norm).<sup>4</sup> Cell 3 refers to bilateral agreements that are geographically dispersed, such as a treaty between the United Kingdom and Argentina in the 1930s calling for the purchase of specific products.<sup>5</sup> In cells 4 and 5, we have product-specific sectoral agreements. An example of a geographically concentrated agreement that focuses on few products (cell 4) is the 1951 European Coal and Steel Community (ECSC), which, while an agreement to liberalize trade, violated Article 24 of the GATT.<sup>6</sup> Cell 5 provides an example of dispersed sectoral minilateralism, as in the case of the Lancashire Agreement that “managed” trade in cotton textile and apparel products in the 1950s between the United Kingdom and Commonwealth members India, Pakistan, and Hong Kong. Cell 6 provides an example of multilateral sector-specific accords such as the Information Technology Agreement (ITA), negotiated in 1996, and the Basic Telecom Agreement (BTA) and Financial Services Agreement (FSA) a year later.<sup>7</sup>

The second row focuses on multiproduct efforts. Cell 7 refers to unilateral liberalization or restriction, and includes such actions as the British phase of liberalization in the 1850s or the protectionist 1930 Smoot-Hawley tariff in the United States. In cell 8 are geographically concentrated accords such as bilateral agreements between the United States and Canada. Cell 9 features cases of geographically dispersed bilateral agreements, for instance the free trade agreements between the United States and Israel. Cell 10 includes geographically-concentrated minilateral agreements such as the European Economic Community (EEC), European Free Trade Association (EFTA), the European Economic Area (EEA), and the North American Free Trade Agreement (NAFTA).<sup>8</sup> These geographically-concentrated minilateral accords have traditionally been referred to as “regionalism.” As should be clear from the table, however, cells 2, 4, and 8 also represent forms of “regionalism,” although theoretically they may have quite different political-economic implications. Cell 12 refers to global trading arrangements, namely multilateral, multiproduct arrangements such as the GATT and its successor organization, the WTO.

#### **Characterizing interregionalism**

Cell 11 encompasses varieties of interregional arrangements. Examples of interregionalism involving the EU include the Lomé Agreement, the EU-MERCOSUR Interregional Framework for Cooperation Agreement (EMIFCA), and Asia-Europe Meetings (ASEM), all of which span regions, but which do not necessarily link the EU with a coherent counterpart regional

grouping. The United States has also pursued cross-regional arrangements, in the Asia-Pacific Economic Cooperation (APEC) forum and the Free Trade Area of the Americas (FTAA).

We define an agreement as “pure interregional” if it formally links two free trade areas or customs unions, as in the case of EU-MERCOSUR. If one customs union negotiates with a group of countries from another region, but the second group is not a customs union or free trade agreement, we refer to this as “hybrid interregionalism” (e.g., the Lomé Agreement). Finally, if an accord links countries across two regions where neither of the two negotiates as a grouping, then we refer to this as “transregionalism” (e.g., APEC). Transregionalism as a concept can encompass a broader set of actor relationships than simply those among states. Any connection across regions – including transnational networks of corporate production or of nongovernmental organizations – that involves cooperation among any type of actors across two or more regions can in theory also be referred to as a type of transregionalism. In this chapter and book, however, we use both the terms transregionalism and interregionalism to refer specifically to interstate commercial arrangements.

What our definition entails is that interregionalism – whatever its ultimate manifestation – is fundamentally cooperative in nature, intended to bring benefits to both parties through voluntary negotiation and mutual agreement regarding a certain set of rights and responsibilities in cross-regional commerce. How these benefits are distributed, and how they affect third parties, varies by case. As such, interregional arrangements can be treated as “international regimes” – albeit more limited in actor scope and with some specific characteristics that distinguish them from purely multilateral accords.

In this book, we focus on three dimensions of regime outcomes to classify interregional arrangements.<sup>9</sup> First, we can examine the *strength* of the arrangement: to what degree does the arrangement constrain actors’ behavior? Strong regimes generally prescribe and proscribe actions within a clear and coherent set of rules. These rules, meanwhile, may display a range of institutionalization – i.e., they are manifested to some degree in formal organizations such as a secretariat, parliamentary assembly, dispute settlement bodies, working groups, and the like. In other words, the strength of the regime involves a certain mix of behavioral rules and mechanisms to monitor and enforce compliance among participants.<sup>10</sup>

A second characteristic of interest is the *nature* of the regime, which refers to the objectives promoted by the regime rules and procedures. In trade, the simplest distinction is between protectionist and liberally oriented accords. However, within the context of this book, we are primarily interested in two other, somewhat related aspects of the nature of the regime: its issue scope and its development emphasis. Issue scope in this context involves the range of economic (and political) issues included in the regime – does it cover only trade, or are there provisions

6 EU Trade Strategies

for investment, aid, and/or social issues such as human rights, labor and environmental standards, and cultural exchanges? Similarly, does the regime feature specific provisions, such as preferential market access or import credits, for promoting economic development among some subset of regime participants?

A third characteristic of interregional regimes which is more specific to our approach in this book is that of the *EU's commercial treatment of the counterpart region*. Does the EU treat all countries in a counterpart region uniformly, or does it prefer different rules for different countries? And does the type of trade the EU pursues represent a pure interregional approach (i.e., the EU treats the counterpart as a unitary regional actor), does it prefer to deal with individual countries in a counterpart region on a bilateral basis, or does it pursue some mix of interregional and bilateral approaches?

This last question introduces a key theme of this book: under what conditions will we see pure interregionalism as opposed to more mixed forms of interregional regime? In the context of EU-centered cross-regional trade arrangements, we expect to see one of two types of interregional regimes: pure interregionalism or hybrid interregionalism. (By definition, the EU cannot be engaged in transregional accords.) (See Figure 1.1)

### 3 Hypotheses on the origin of EU interregional trade strategies

The question of which factors explain EU commercial relations with other regions is the central puzzle of this book.<sup>11</sup> Our primary objective is to

		Region B		
		Unified		Plural
Region A	Unified	pure interregionalism	semi-pure interregionalism	hybrid interregionalism
	Plural	semi-pure interregionalism		transregionalism

Figure 1.1 Types of interregionalism

determine which factors affect EU policymakers' inclinations or disinclinations to adopt an interregional approach, beginning from a set of theoretically grounded hypotheses. Our contending hypotheses fall within two broad categories: those that explore factors below the unit (i.e., European Union) level, and those that look at the EU as an actor in the international system. These two groups of hypotheses derive from a variety of traditions in the international relations and comparative politics literatures, including those focusing on sectoral interests, bureaucratic politics, security competition and nested institutions, and transnational identity formation. These hypotheses are neither exhaustive nor mutually exclusive – some of them are quite closely interrelated – but as a starting point, we treat them as discrete. (For a short description of the defining processes of EU commercial policymaking, see the appendix to this chapter.)

*Hypothesis 1: EU trade strategies, interregional or otherwise, are determined by the relative influence of specific interest groups within Europe.*

In this "pluralist" view, European Union commercial policy is a forum for competition among various societal interests (i.e., firms, industry associations, environmental groups, etc.) as they seek to capture the EU policymaking apparatus to promote policies that reflect their particular preferences. Interest groups employ strategies that maximize the probability that their specific preferences will prevail, with lobbying being the most visible such activity. However, these actors face a tradeoff: acting alone reduces the likelihood of capture but increases the chance that "successful" lobbying will lead to policies reflecting their *specific* preferences; acting collectively increases the chances of capture but reduces the likelihood that resulting policies will reflect the preferences of any individual actor. Thus interest groups seek to construct minimum winning coalitions to capture the Union's broader trade policy agenda, with the interplay of economic actors in particular broadly representing a contest between those sectors and factors that support openness in trade policy and those that oppose it. The dynamics of the resources and strategies in these two broad camps will thus determine the shape of EU trade strategies, interregional or otherwise.<sup>12</sup>

Given these groups' strategic imperatives, a set of resources, and the particular EU policymaking structure, we can make predictions about which interest groups are most likely to influence EU trade policy. But to understand EU interregionalism, we need to know why influential interest groups would lobby for an interregional approach – as opposed to a multi-product global or bilateral, or some type of single-product sectoral, approach. Here we can consider EU interest groups' preferences in terms of four subtypes: (1) internationally competitive actors that seek general, global liberalization; (2) export-oriented actors that rely substantially on EU subsidies or protection; (3) nonexport-oriented actors that rely substantially

8 *EU Trade Strategies*

on EU protection; and (4) societal groups that are generally opposed to economic internationalization (see Table 1.2).

This first group of internationally competitive actors – such as many European media groups, telecommunications firms, financial sector firms, some automakers, chemical companies, and increasingly Airbus – are not particularly threatened by import competition. They seek general liberalization at the broadest possible level to take advantage of their own competitive position and economies of scale to penetrate previously closed international markets. The best EU trade posture for such firms would be global liberalization through the WTO; and for competitive sectors it would be either the WTO or multilateral sectoral liberalization (such as the ITA). In both cases, an interregional approach would be seen as second best, though still good to the extent that it could succeed in improving European firms' access to desirable foreign markets. In a context in which liberalization through the WTO was blocked, however, these actors would likely be strong advocates of an interregional approach.

Export-oriented sectors that rely on EU protection – notably, agriculture – may also be positively disposed toward an interregional approach. The imperative for those in this category is to maintain their own protection (i.e., minimize import competition) while increasing access to other markets. As such, the best EU strategy for them is one that follows a political rather than a market logic, maximizing the asymmetries in the Union's bargaining power *vis-à-vis* other actors. Best here would be a straight bilateral approach that dealt with individual countries, in which the EU would dwarf any interlocutor bar the United States (and, to a lesser extent, Japan and China). Here again interregionalism would be a second-best strategy, since in most cases a counterpart region would be far smaller and less coherent than the EU – and thus these groups' protection would be less endangered by a trading partner's bargaining strength.

Table 1.2 EU trade agreement preference rankings by group

<i>Group category</i>	<i>Type of trade agreement</i>			
	<i>Unilateral (EU only)</i>	<i>Bilateral</i>	<i>Interregional</i>	<i>Global (sectoral or multiproduct)</i>
Global competitors	4	3	2	1
Protected exporters	3	1	2	4
Protected nonexporters (esp. unions)				
Factoral	1	2	3	4
Sectoral	4	3	2	1
Anti-global groups	1	2	3	4

Nonexport-oriented groups that rely on EU protection are likely to be ill-disposed toward interregionalism, and to liberalizing international agreements more generally. While small, nonexport-oriented firms are unlikely to have much influence at the EU level (though they may exercise influence at the national level), other economic actors in this category – in particular, unions – have much greater sway. Unions' posture depends in large part on the degree to which they act as a single, coherent economic actor (i.e., the degree to which they view trade strategies along factorial as opposed to sectoral lines). If there is broad agreement across sectors that trade liberalization poses a threat to workers' well-being, whether through factory relocation, worker compensation, or import competition, unions will likely advocate strongly against global and, to a lesser extent, interregional agreements – unless these agreements contain strong safeguard and worker-rights clauses that protect European workers from displacement by their cheaper foreign counterparts. If unions split along sectoral lines, however, those in competitive sectors would be much better disposed toward global and interregional agreements (like competitive firms more generally) than those in uncompetitive sectors.<sup>13</sup>

Finally, societal groups such as environmentalists, human rights activists, and others that tend to oppose globalization will generally prefer to keep economic activity at a smaller scale, where it is more easily regulated. While some of these groups dislike capitalism in principle, most of them simply wish to curtail the human and environmental costs of international economic activity. As such, they might welcome international trade agreements to the extent that they enforce strong protections for individuals, groups, and the environment. However, they also understand that broader agreements can also be particularly difficult to embed such protections into, given both the greater relative strength of international firms and the diversity of national ideas regarding such protections. Therefore, these societal groups will support EU external trade agreements only to the extent to which they simultaneously retain EU safeguards and promote similar safeguards in other countries. This becomes possible as EU's relative bargaining strength increases, notably at the bilateral, but also potentially at the interregional, level.

More generally, all of these groups' preferences are likely to turn on the qualities of the trading counterpart in question when they consider bilateral or interregional arrangements. Some countries and regions present powerful threats to sensitive and politically powerful sectors in Europe. For example, India and other South Asian countries have globally competitive textiles sectors that have undercut inefficient European producers, a trend that will accelerate with the phasing out of the Multi-Fiber Agreement in 2005. On the other hand, other countries or regions present fewer threats to sensitive sectors in Europe. Sensitive, politically powerful sectors and actors must be appeased – or forsaken at a high political cost to EU policymakers – if bilateral or interregional arrangements are to be made with

## 10 *EU Trade Strategies*

countries or regions whose exports might directly compete with European goods.

In sum, an interest group hypothesis involves four elements: the institutional environment (which may or may not vary; see the next hypothesis); the resources of the interest group; the coherence of the interest group; and the preferences of the interest group. Preferences in particular can be expected to vary depending on the expected target market (country, region, etc.) of trade negotiations. Any interest-oriented explanation of EU trade policy and interregional posture would start with group preferences and consider how successful different groups are in translating those preferences – via resources, collective action, and institutions – into EU action.

*Hypothesis 2: EU trade strategies, interregional or otherwise, are determined by EU bureaucracies' attempts to maximize their own influence in the European policymaking arena.*

In the bureaucratic politics view, relevant European institutions contend to expand their control over EU commercial policy. To do so, these institutions – namely the Commission, the Parliament, the Council, and even the European Court of Justice – woo both private and public actors with an interest in trade policy. Meanwhile, the legacies of past relationships among the bureaucracies and private actors (i.e., policy networks) act as important constraints on future relationships. In this case, European trade policy will reflect one of two constellations of interests: (1) the combined interests of the “winning coalition” that any one institution puts together to become the dominant locus of European trade policy; or (2) the ongoing dynamics of contention among these institutions if none can obtain or sustain trade policy dominance. In the first sense, the substance of EU trade policy is determined by the interests co-opted by the most influential EU institutions. If the relevant institutions – particularly the Commission – can increase their own intra-EU influence by promoting trade negotiations and co-opting interest groups that favor interregional outcomes, this will become a focus of EU trade policy.<sup>14</sup> In the second sense, policy processes as defined in EU treaties are malleable and subject to interpretation, and EU institutions will by nature press for interpretations that expand their own remit. In this view, changes to the treaty base may arrive as exogenous shocks that formally reorder institutional responsibilities but do not alter the more general, ongoing dynamic of bureaucratic contention that shapes the processes that determine trade policy.

For a bureaucratic politics hypothesis to explain trade outcomes, then, we must know which institution stands to benefit in terms of intra-EU influence from different trade postures, and in particular whether an interregional outlook would benefit any one institution disproportionately.<sup>15</sup> As suggested by the discussion to this point, this question comes down to a

struggle between the Commission and the Council. The Commission, for its part, is the EU negotiator for any international trade agreement, and so will push for international trade negotiations whenever possible and appropriate. More specifically, however, the Commission sees its agenda expand as the scope of a proposed arrangement expands: the greater the number of sectors, countries, or policy areas (e.g., development, aid, etc.) involved, the greater the role for the Commission. However, broader trade arrangements/policy agendas do also raise the prospect of more intra-Commission wrangling between the various DGs regarding under whose purview certain subsets of trade negotiations will fall. Still, if task expansion is the primary goal, the Commission can be expected to prefer trade negotiations at the broadest possible level, and hence to be open to broad-scoped interregional negotiations when global processes falter. Interregional trade negotiations and arrangements potentially offer an array of bureaucratic opportunities for the Commission's DGs to establish institutionalized government-to-government contacts with their counterparts in other regions (i.e., external task expansion) and, perhaps more importantly, to tighten their control over their intra-EU policy briefs by managing any internal reforms necessitated by new trade accords (i.e., internal task expansion).

The Council (as well as the EP and ECJ) is unlikely to gain new powers through the manipulation of EU trade policy, and so simply seeks to prevent the Commission from gaining too much influence at its own expense.<sup>16</sup> Given that the Council is not likely to derive any institutional influence from any one type of trade arrangement over another, the Council's preferences as a whole on the merits of global vs. interregional vs. other trade strategies may simply derive from individual member preferences. EU member preferences, in turn, may be determined largely by powerful national interest groups' preferences. In other words, a bureaucratic politics hypothesis would not say too much about the Council's institutional preferences regarding different types of trade arrangements on the merits of those arrangements per se,<sup>17</sup> but rather simply suggest that the Council will brandish its oversight and approval powers to prevent the Commission from negotiating agreements in such a way that significantly extends the latter's overall policymaking authority within the EU.

However, the Council may have one reason to prefer interregional (or bilateral) agreements over global ones: they may give the Union's more geopolitically oriented member states an opportunity to push the EU into a greater prominence in international politics. Despite halting moves toward a Common Foreign and Security Policy (CFSP) centered in the Commission, the EU's chief foreign representative (currently Javier Solana) reports to the Council, suggesting that big countries such as Britain, France, and Germany remain unwilling to cede their foreign policy powers to the technocratic and still relatively inward-looking Commission. As such, they may see interregionalism as a means not only to pursue their

## 12 EU Trade Strategies

vision of the EU's international political goals (see next hypothesis), but also to repoliticize trade relations in a way that better suits the Council's "political" intergovernmentalism than the Commission's more technocratic supranationalism.

*Hypothesis 3: EU trade strategies, interregional or otherwise, are determined by international systemic constraints and opportunities. These constraints are of two types. The first is reflected in a need to respond to external threats to Europe's economic security and to promote Europe's influence as an international actor (a form of balancing behavior). The second is driven by considerations of broader institutions within which trade agreements might be nested.*

In these two related approaches the European Union is treated analytically as a unitary alliance of constituent states. The first highlights the EU motivation of promoting its collective political and economic influence and security within the international system – particularly as a way to counter American hegemony.<sup>18</sup> This view would suggest that the EU sees interregionalism as an initial piece of an emerging common foreign and security policy that seeks to extend European influence in various strategic regions through a "hub-and-spoke" model with the EU at the center of a series of economic relationships in which it maintains ties to other regions that may or may not have ties to one another. In most "bilateral" relationships between regions, the European Union would be the dominant side, and thus could largely dictate the terms of these institutionalized relationships. To a certain extent, this European strategy could be seen as classic balancing behavior and a response to the American pursuit of a similar strategy, particularly through APEC and FTAA. Bhagwati and Arvind see this hub-and-spoke approach as a new direction for Europe: "The extension of RTAs [reciprocal trade agreements] to non-candidate countries represents a radical departure for the EC. By doing so, it joins the United States in promoting 'hegemon-centered' trade agreements..."<sup>19</sup>

This hypothesis is based on a certain interpretation of the attributes of both the international system in general and the EU in particular. The international system in the post-Cold War era is defined by two primary characteristics: the increasing importance of international economic competition (and competitiveness), and the rise of regionalism as a middle position of political and institutional organization between the nation-state and globalism.<sup>20</sup> Because of the former dynamic, the struggle among economic actors to redefine the rules of international commerce in ways that privilege themselves has become high politics, with states giving much greater attention to the ways in which their domestically-based firms and industries are affected by the rules underpinning international markets. Because of the latter dynamic, regions are becoming important manifestations of the rise of "geoeconomics" and potentially economic and political actors in their own right.<sup>21</sup>

In this approach, the use of trade policy as a means to manage international power relationships is a reflection of the inability of EU member states to generate any real momentum for a more “political” CFSP. Since trade policy already aggregates the member states into a coherent unit, and the basis of European influence in the world is more economic than political, the EU can best punch its weight in international politics by granting and/or restricting access to the large and rich European market. Even if a coherent CFSP does arise, it does not necessarily augur an immediate rise in Europe’s political influence (not to mention military power) around the world; as long as Europe remains a “civilian power,” commercial policy will be its primary means of international political influence.

The promotion of interregional trade ties may be a specific strategy that draws on both Europe’s economic and institutional strengths. It allows the EU to be the senior partner in any interregional arrangement (except perhaps with North America), given its greater economic weight and the far more advanced institutionalization of its regional member states. A hub-and-spoke interregional system could act as a guarantor of economic security in the face of the not-unimaginable dangers of the collapse of the WTO and the multilateral trading system and/or a protracted trade war with the United States – not unlike the British withdrawal within its empire during the Great Depression of the 1930s.<sup>22</sup> An interregional system would also fit well with the EU’s preference for “political” trade – in which solutions to trade disputes are negotiated by the disputants – over “legalized” trade (i.e., in the WTO).<sup>23</sup> As noted above, the EU would almost always be the (much) stronger party in any such negotiations, and thus would tend to prevail in such disputes.

The second systemic hypothesis focuses on the constraints of nested systems and institutions.<sup>24</sup> From this perspective, and consistent with the above discussion on balancing, the trading system is nested within the broader economic system, which is in turn nested within the security system. Following the logic of higher-level systemic objectives, this view focuses on the impact that a bipolar or unipolar security system has on economic and trade objectives. A classic example of this impact is the U.S. willingness to make concessions to the Europeans on trade in the 1950s and interest in promoting Japanese accession to the GATT (despite European opposition) – both in an effort to resist the Soviet Union. By contrast, with the decline of the Soviet Union and the increasing transformation of the security system into one of unipolarity in the wake of the Cold War, the United States became less willing to make concession in the name of security. This point is nicely illustrated by former U.S. Secretary of State James Baker, who noted in 1995:

Finally, the end of the Cold War has had important ramifications for the West itself. Absent concern about Soviet aggression, the traditional

14 *EU Trade Strategies*

alliance among the United States, Western Europe and Japan is showing patent signs of strain... U.S.–Japanese relations, plagued by rancorous trade disputes, are more troubled than they have been in decades.<sup>25</sup>

Tied to nested security considerations is the nesting of international institutions. The WTO is the dominant overarching trade organization. Under its auspices, following Article 24 of the GATT, regional free trade agreements and customs unions are permitted under certain conditions (such as the coverage of significant trade among the members and criteria on trade diversion and creation). In general, consistent with the nested systems notion, the principles, norms, rules, and procedures of broader international arrangements will have an effect on the negotiation evolution of narrower arrangements, be they on a sectoral basis as with the Multi-Fiber Arrangement in textiles and apparel or a regional basis such as NAFTA or the EU. We would expect such nested constraints to be operative in the case of interregional agreements as well, which themselves should in principle be justified under Article 24 of the WTO/GATT. A clear case of this would appear to be the European concern involving its trade conflict in bananas with the United States as a result of its preferential treatment of Lomé countries.<sup>26</sup>

*Hypothesis 4: EU trade strategies, interregional or otherwise, are determined by the ongoing need to forge a common European identity among the people of its constituent nations and by a belief in the utility of regions as a unit for organizing the global economy.*

In this view, European elites – particularly within the Commission but also in member countries – promote trade strategies that might help generate notions of pan-European interests and identity among the peoples of Europe. Moreover, this belief extends to other regions of the world, based on the notion that regions provide a logical mode of organizing the world economy and promoting economic development within regions.

The underlying dynamics of European identity building involves two lacunae in relative sympathy for the EU – between elites and masses and between Europhilic countries and Euroskeptic countries – and the desire of Europhilic elites to foster the internalization of European identities among all EU citizens. Thus these elites support trade strategies in which Europe-wide interests and identities can be articulated and promoted. Examples include creating and promoting Europe-wide firms such as Airbus or civil-society groups, or alternatively highlighting ways in which European norms and practices differ from those found in other regions and countries of the world.

This “constructivist” hypothesis starts from the view that international trade occurs in a social context that both constitutes and is constituted by actors’ identities and actions.<sup>27</sup> Economic interaction is not simply an

objective, material exchange, but also involves the affective understandings of individuals and societies of the meanings of economic activity through their interpretation of available symbols. Through this lens, interregionalism is seen within the context of the broader project of European integration, and more specifically the desire of European elites to foster a more robust European identity among the citizens of member states. Hence interregionalism would be an institutional expression of European unity that, in practice, may be internalized by EU citizens. For instance, the common currency, whatever its economic rationale, may be one such institutional mechanism to create an identity-related response among Europeans. Interregional trade agreements, while much less a part of Europeans' everyday lives, would be a more abstract way of prodding them to view themselves as part of a cohesive economic, political, and social unit that interacts with other like-units – in a similar way as the completion of the single market did internally.

The underlying cognitive mechanism in this view is that only through self-conscious interaction with comparable “others” does the conception of “self” take shape. Karl Deutsch's “transactional” approach hypothesized that an increase in the number and frequency of transactions within Europe would help foster a European identity. The analogical thinking in the realm of international commercial policy is that increasing and formalizing transactions between Europe as a whole and other recognizable regions would serve the same purpose. The shared values and norms that are represented in European trade policy would trickle down to European citizens, who would recognize and perhaps internalize these shared values and norms into their own sense of identity.<sup>28</sup>

The creation of a greater sense of “self” among European citizens may be a prerequisite for the EU to generate a coherent CFSP as well – i.e., meaning that the EU could exercise its institutional capacity to pursue a common trade policy to help generate a more robust European identity, which would then feed back into European leaders' ability to craft new institutions that further solidify the EU as a coherent international actor. Put differently, the generation of a stronger European identity is valued both in and of itself as well as a means to future policy goals.

An overt connection between Europe's internal identity and its “international identity” – i.e., how Europeans conceive of their global role, and how this perceived role feeds back into Europeans' conceptions of themselves – also underlies this constructivist hypothesis. Some have suggested that European leaders have sought to foster an overall European identity through comparison to other peer nations – notably the United States and Japan.<sup>29</sup> A recurrent theme in this identity formation process is the casting of Europe as a “civil power,” which highlights the normative aspects of Europe's values and identity (i.e., democracy, the rule of law, economic justice, pooling of sovereignty, etc.) and implicitly or explicitly juxtaposes

## 16 *EU Trade Strategies*

them to other leading nations (especially the military, commercial, and technological “hyperpower” of the United States).<sup>30</sup> Indeed, the United States is a useful basis for comparison on many fronts. Globalism – or, more specifically, globalization – is often associated with the United States, and possibly favors an American view of how the world should be organized. Interregionalism could be Europe’s riposte, projecting the EU’s success in creating a region and seeking to externalize the forms that have worked in Europe through region-to-region trade relationships. While the U.S. trans-regional ventures to date (APEC, FTAA) have deemphasized regional blocs as distinct halves of an interregional whole, the EU has specifically dealt with their counterparts as a “regional” group, no matter how disparate geographically or politically.

### 4 Counterpart evolution

The source and evolution of EU preferences toward different types of trade arrangements are the primary lenses through which this book examines interregional outcomes. But to satisfactorily account for international regime outcomes it is of course essential to consider the characteristics of the counterpart regions with which the EU engages. The chapter authors will address in some detail three interrelated aspects of the counterpart region.

First, they explore the individual and collective preferences of the countries in the counterpart region. To some extent, this analysis is possible through an approach similar to that applied to Europe: which societal groups are the most keen on – or opposed to – commercial agreements? How are preferences shaped by national or region-wide institutional structures? Does an incipient sense of regional identity lend momentum to region-to-region agreements? However, because the EU is at a far higher level of internal institutionalization than any of the counterpart regions under consideration, this approach to *regional* preferences cannot be borrowed too directly to explain motivations in counterparts where individual states are relatively much more important than any regional collective. Therefore, we expect counterpart motivations to be fairly region-specific and to not fit easily within a generalized formula.

Second, authors will consider configurations of power (particularly economic) both within the counterpart region and between the EU and all or some subset of the counterpart region. To a large extent, this is the reciprocal to hypothesis three of EU preferences: in what way do power considerations within the counterpart affect the willingness of all members of the region to engage in interregional ties with the EU? What’s more, how do possible power asymmetries between the counterpart and the EU affect the former’s attitudes toward negotiations and possible agreements with the latter? Does collective regional action represent the means of getting

the best possible deal from the EU? The authors consider these questions of counterpart power with an eye to how these configurations affect the intensity of preferences for different types of commercial arrangements both for states in the counterpart and for the EU.

Third is the idea of *counterpart coherence*, or the degree to which the counterpart region manifests a clear and coherent zone of political-economic activity and the institutional underpinnings to represent that zone *vis-à-vis* the rest of the world. In particular, the coherence of the counterpart region can be approximated through four dimensions that represent the political, economic, and cultural/geographic elements of regions.

- Is the counterpart region self-defined (e.g., MERCOSUR), or was it defined by the EU (e.g., the Southern Mediterranean)?
- What portion of the counterpart countries' economic exchange is conducted within the region as opposed to with countries outside the region?
- Of the broadest possible definition of what constitutes the "potential" region (in rough geographical and/or cultural terms), what portion of the countries in this potential region are drawn together in a regional regime of some sort?
- How strongly institutionalized is any region-wide regime?

Counterpart coherence, measured along these lines, helps to determine the nature of interregionalism we see when countries from two distinct regions make commercial agreements (i.e., pure interregionalism, hybrid interregionalism, or transregionalism). An example of pure interregionalism is the EU-MERCOSUR Framework Agreement, in which each side negotiates and presumably, will adopt new policies *vis-à-vis* the other as a coherent regional bloc. By contrast, APEC is a transregional arrangement that does not involve formal links among regional groupings. This accord, created in 1989, links a variety of countries across the Asia-Pacific including Japan, the United States, and China, among others. Although many APEC members are part of relevant regional groupings (NAFTA, the Andean Pact, and the putative Association of Southeast Asian Nations [ASEAN] Free Trade Area), they participate in APEC as individual economies and not as subsumed under their regional groupings.<sup>31</sup>

Descriptively speaking, then, we expect interregional regime outcomes – including the absence of a regime – to be a function of some constellation of received EU preferences and counterpart characteristics. This approach is represented in Figure 1.2.

It is worth noting that this "model" is not intended to represent the process by which regime outcomes are reached but simply the basic relationship between inputs and outputs. As such, two additional points bear making. First, we are less interested in understanding the course of events

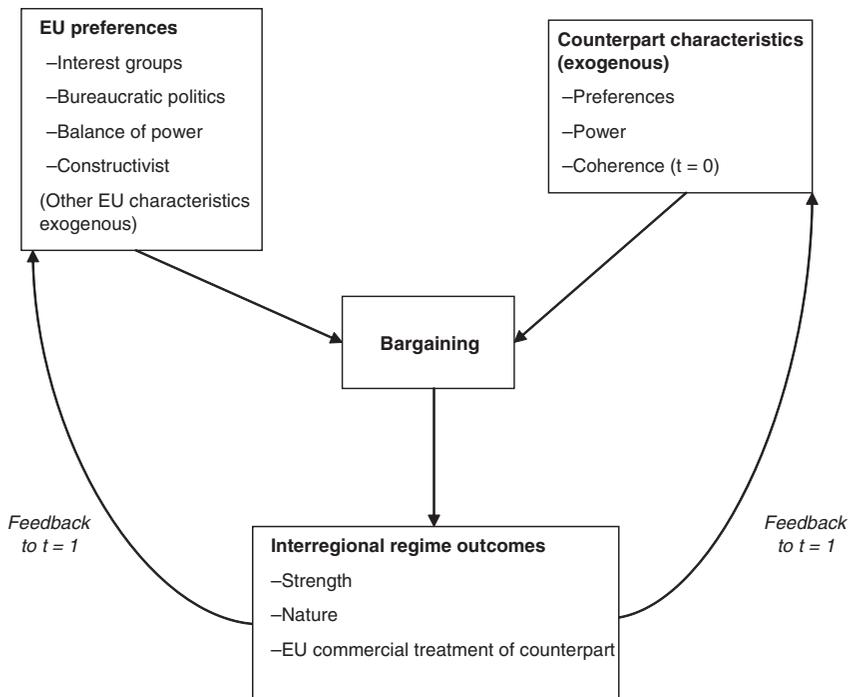
18 *EU Trade Strategies*

Figure 1.2 "Model" of interregional trade outcomes

in region-to-region interaction than in how certain values or configurations of the abovementioned variables are associated with particular regime outcomes. While the chapter authors will, for the purpose of illustration, present some details regarding the nature of interregional bargaining, we tend to discount the effect that particular aspects of the bargaining process have on regime outcomes. Second, as the figure suggests, we believe that the creation and existence of interregional regimes are likely to feed back into the political and economic characteristics of the participating regions. Commercial regimes can create vested interests within regions and countries, lead to differential growth rates that affect the international balance of power, and strengthen or weaken certain intraregional institutions.

Perhaps most interesting, however, may be the potential effect that a proliferation of interregional regimes has on the status of regionalism as a mode of supranational governance in the world political economy. Following along the logic of the constructivist hypothesis outlined above, the European Union's interregional overtures may promote increasing counterpart coherence over time. That is, European leaders' attempts to foster regional identities may also spread to counterpart regions, both creating effective trade partners and externalizing EU institutional forms.

Indeed, this institutional diffusion may be an overarching EU goal. Manners has referred to this as “meta-regionalism,” in which the EU engages “in interregional diplomacy which implicitly and explicitly promotes *mimétisme* (regional replication) in places such as southeast Asia (ASEAN), southern Africa (SADC), and South America (MERCOSUR).”<sup>32</sup> In other words, the EU may see interregionalism as a means to promote counterpart coherence and institutional mimesis among potential and actual regional blocs, with its own model of regional integration being the exemplar.<sup>33</sup> This too could feed back into the European identity, promoting the view that the EU is at the vanguard of a movement toward a new form of political, economic, and social organization that renders old national identities obsolete (or at least less important).

## 5 Analytical expectations regarding hypotheses of interregional developments

Given these hypotheses regarding the most important determinants of EU (and counterpart) preferences *vis-à-vis* different commercial policies and relationships, there remains the question of how the sets of variables highlighted in each hypothesis relate to each of our three specific regime outcomes of interest. That is, as interregional trade regimes are negotiated, renegotiated, or left unrenegotiated over time, which actors or contexts are most likely to have the greatest effect on the evolving strength and nature of the regime and the EU’s treatment of its counterparts therein? While we begin from an understanding of a complex and multicausal world – and thus are skeptical about drawing straight lines from likely inputs to likely outputs – we set out with the following sets of expectations regarding the relationships between these inputs and outputs.

In considering the relative importance of these different factors, we use an ordinal ranking that scores them as ‘most important,’ ‘very important,’ ‘important,’ ‘somewhat important,’ and ‘least important.’ This, of course, does not mean that a variable identified as ‘least important’ is irrelevant; rather, it simply indicates that we expect it to have a less direct effect on the outcomes of interest than the other factors.

### Regime strength

We define the strength of an interregional regime in terms of its formal institutionalization and the bindingness of its rules. Our expectations are as follows.

Systemic power and security considerations should be most important. The relative importance of a particular interregional relationship (both for the EU and for the counterpart) in solidifying a strong and secure place in the international system – and for promoting domestic economic security and stability – can clearly be expected to affect each side’s willingness

20 *EU Trade Strategies*

to tie itself strongly to the other. This potentially reciprocal aspect of systemic considerations may be particularly reflected in the institutions of cooperation the two sides set up to manage relations. However, the bindingness of rules across relevant issues may be strongly shaped by the distribution of power within the interregional relationship. That is, when its relational power is asymmetrically great, the EU would be expected to seek to impose strong rules that force counterparts to open their markets, while denying or delaying the imposition of strong rules that would hurt its own domestic interests.

The interplay among interest groups should be very important for regime strength. Generally speaking, business groups will have very strong preferences regarding the bindingness of regime rules: they will be very positively disposed toward binding rules that improve their competitive position both in the European and counterpart markets, and negatively disposed toward binding rules that hurt their competitive positions. The intensity of their preferences – and thus the extent to which they will seek to sway policy-makers toward their viewpoints – will mirror the size of the impact of binding rules on their competitive positions. However, while all relevant private sector groups may support the creation of fora such as roundtables and working groups that include them in regime processes, their level of commitment to such fora may be mild if they believe domestic channels of influence to be more effective.

Nesting considerations are likely to be important in influencing the strength of regimes. States are likely to be concerned with compliance with higher-level institutions that affect broader trade and possibly security interests. Thus regime rules at the interregional level are likely to be brought in conformity with broader level trading arrangements such as the WTO, particularly if these interregional regimes undermine such broader arrangements or create conflicts with trading partners.

Inter-bureaucratic contention should be somewhat important. The institutional roles of the Commission and the Council may lead them to have divergent preferences regarding both rule bindingness and institutionalization. The Commission, which seeks to create and enforce binding rules within Europe, may be constitutionally better inclined toward such rules in an interregional arena, while the Council, to the extent that it is a forum for maintaining flexibility for national members, may be more skeptical. Similarly, a heavily institutionalized interregional regime may present more opportunities for the Commission to represent the EU as a whole, perhaps causing the Council to withhold support for proliferating official fora within the regime – or to push for institutionalization to focus on national and subnational private- and public-sector actors. However, it is not clear to us whether these divergent bureaucratic preferences regarding interregional regime strength would be strong enough to be decisive.

Identity considerations may be least important. In general, it is not immediately obvious why the strength of interregional rules and institu-

tions should be a function of EU leaders' desire to foster a European identity; after all, the identification of and symbolic relation to the other should be more important than the nitty-gritty details of specific rules and institutions. However, if EU leaders believe that the relative strength of interregional rules and institutions is potentially constitutive of the two regions themselves, then they may seek a level of regime strength that best symbolizes the level of European commitment – and perhaps best promotes EU-style institutions in counterpart regions.

### **Regime nature**

We define the nature of an interregional regime in terms of its issue scope and its development emphasis. Our expectations are as follows.

Identity considerations should be most important. As the EU continues to struggle to assert its identity within Europe and in the world, EU policy-makers are surely aware that the types of issues the EU emphasizes in its dealings with other “like” actors will reflect on the EU itself. Thus the EU may be expected to make strong efforts to show that it is much more than a mere regional FTA by emphasizing a broad range of issues in its region-to-region relationships, particularly those issues on which it sees itself having a “comparative advantage,” such as human rights and social cohesion. Moreover, it may also seek to set itself up for a favorable comparison to the United States by including generous development terms where appropriate.

Nesting considerations should be very important. We expect significant efforts to be made to keep the nature of the interregional agreements consistent with the GATT/WTO. This does not, however, mean that the EU might not use the opportunity of developing interregional agreements to pursue “WTO-plus” arrangements that would allow it to both differentiate itself from the United States and meet its own objectives that cannot easily be pursued at the WTO level.<sup>34</sup>

Inter-bureaucratic contention should be important. Specifically with respect to the EU, we expect the Commission to pursue a broad issue scope, both to expand its overall role in the negotiation and maintenance of a given regime and to ensure that its various DGs are represented therein. This second reason also suggests that the Commission, and particularly its Development Directorate, will push for development provisions where appropriate. The extent to which the Council will resist, acquiesce, or support Commission initiatives in this area is somewhat less clear. The Council may weigh in on issue scope if one or several EU member states have particular sensitivities to the inclusion or exclusion of certain issues; it may weigh in on development emphasis if member states seek to manage relations with countries or regions of particular interest through an EU-led interregional forum.

Systemic power and security considerations should be somewhat important. The EU may seek both a broad issue scope and a development emphasis in any interregional regime with less-developed countries – particularly those

## 22 *EU Trade Strategies*

LDCs in relative proximity to Europe – if it is seen as a means to promote stability within the counterpart region and limit the flow of migrants to Europe. At a more systemic level, the EU's relatively greater willingness to include developmental and aid provisions in any such regime may allow it to be a more attractive partner than the United States to counterpart regions, though these counterparts' suspicion of environmental and labor provisions would suggest that the EU would have to leave these types of issues out to press this advantage.<sup>35</sup>

The interplay among interest groups should be least important for the nature of the regime. On the one hand, we expect all interest groups to have quite strong preferences with regard to issue scope, and to mobilize to impress those preferences on policymakers. For instance, while competitive firms will seek to focus the regime on trade and investment, European labor groups may seek the inclusion of strong labor and/or human rights clauses, green groups the inclusion of environmental rules, European farmers the exclusion of agricultural liberalization, and the like. However, we expect interest groups to have less of an interest (and thus likely effect) on the developmental emphasis of the regime, as this aspect of policy tends to derive from an agenda determined within the public sector – though poor-country-advocate NGOs may well have some influence here.

### **EU commercial treatment of counterparts**

We define the EU's commercial treatment of the counterpart region in terms of its relative uniformity of treatment across countries in the counterpart and its inclination to deal with these countries as a single group or plurally. Our expectations are as follows.

Systemic power and security considerations should be most important. Different countries present the EU with different levels of political and economic challenges and opportunities, and the EU's commercial treatment of these different countries will reflect this balance of opportunities and threats. Some counterpart regions may have little differentiation among their constituent countries in this respect, providing little impetus for variable treatment or regional disaggregation. However, in other regions there may be one or a few countries that present either clear or unique challenges or opportunities, giving the EU a strong incentive to negotiate separate terms with the countries (if it chooses to negotiate with them at all).

Nesting should be very important. We expect this element to possibly conflict with the power-based objective of differential treatment, which may lead to conflict with the WTO requirements for most favored nation treatment. Thus, in this case, rather than a complementary cumulative effect, we might see conflicting objectives that may manifest itself in intra-EU bureaucratic contention.

The interplay among interest groups should be important for the type of EU commercial treatment. In particular, we expect interest group input to

be quite strong with respect to the relative uniformity of treatment. Countries in a counterpart region may have different levels of comparative or competitive advantage across a number of politically salient sectors, leading EU interest groups seeking to maintain protection against competitors from particular countries to mobilize to ensure that the EU treats those competitors differently than less threatening counterparts. Alternatively, EU producers and investors may want special deals with countries that offer relatively greater commercial opportunities. Reflected in EU trade policy, these interest group pressures could be expected to affect both the uniformity of treatment and trade types, probably in the direction of a more plural approach.

Identity-related considerations should be somewhat important. Similar to the logic with regime nature, European policymakers may view EU commercial treatment of counterpart regions as a reflection on both the internal and external identity of a united Europe, with uniformity of treatment of countries – or perhaps respect for diversity therein – reflecting and retransmitting Europe’s own experience. Nevertheless, we would expect these sorts of motivations to be an underlying, rather than dominant, factor. To the extent that the EU seeks to promote its own organizational forms abroad, however, we might also expect policymakers to favor interregional over plural-bilateral trade types.

Inter-bureaucratic contention may be least important. While the Commission seeks task expansion in general, it also prefers efficient modes of bargaining, and having to negotiate a separate set of terms with a number of different countries would not be the sort of task expansion the EC craves – especially if there is a large number of countries in the counterpart region. However, for both the Commission and the Council, other considerations may outweigh whatever (weak) inherent preferences they have regarding commercial treatment type such as the positions and activities of relevant interest groups (see above) and particularly the political-security relationships with countries in the counterpart region.

A preliminary “ranking” of the relevance of each of these hypotheses for our interregional regime outcomes of interest is summarized in Table 1.3.

*Table 1.3* Ranking the expected explanatory power of hypotheses

<i>Regime strength</i>	<i>Regime nature</i>	<i>Commercial treatment</i>
1. systemic/balancing	1. constructivist	1. systemic/balancing
2. pluralist	2. nesting	2. nesting
3. nesting	3. bureaucratic politics	3. pluralist
4. bureaucratic politics	4. systemic/balancing	4. constructivist
5. constructivist	5. pluralist	5. bureaucratic politics

## 24 *EU Trade Strategies*

These rankings and the analysis that informs them suggest that, based on an initial assessment, none of the four hypotheses is likely to prove dominant across all relevant aspects of interregional regimes. However, our expectations are very preliminary. The indeterminacy of a purely deductive or logical approach to these questions only further highlights the importance of grounding this study in in-depth cases.

### **6 Preliminary snapshot of cases**

Before moving on to the authors' analysis of the various cases of EU interregionalism, we want to establish the basis of comparison by providing a very brief snapshot of each. This snapshot portrays them only at their first stage of development, when the initial terms of the relationship were emerging. In the conclusion, we will contrast this initial snapshot to a later point in time, and will attempt to draw conclusions regarding both between-case and within-case variation in regime developments.

#### **EU-Central and Eastern Europe (1990)**

The relationship between the EU and the formerly communist states of Central and Eastern Europe (CEE) represents the case in which the dynamics of regionalism and interregionalism is most closely intertwined. The EU's answer to the question of how to reunite Europe after the parting of the Iron Curtain was initially interregional: since these poor, fragile new democracies could not immediately be brought within the Union, the existing EU members decided to encourage CEE countries to pursue their own subregional groupings as a means to promote stability and cooperation in the interim. Except for the Balkans – an area beginning to slip into chaos at the outset of the 1990s – the EU would see its relations with potential (though by no means certain) future members develop with three new blocs: the Visegrad group of Central Europe (including Poland, Czechoslovakia, and Hungary), the Baltic trio (Lithuania, Latvia, and Estonia), and the Commonwealth of Independent States (the former Soviet republics).

The encouragement of interregional relations with these subregional groupings represented a potentially practical solution to integrating these newly postcommunist countries into the zone of stability and prosperity that existed in Western Europe. It provided a short-term response to the inevitable difficulty of *formally* integrating these countries into Europe and a possible means for both coalescing and distinguishing among different classes of potential members, even as it established a set of vehicles for organizing EU assistance to and commerce with these countries.

#### **EU-Southern Mediterranean (1995)**

The European Union's "Mediterranean" policy began in the 1960s with loose concessionary trade agreements with the southern littoral countries,

followed in the 1970s by an expansion of economic and financial cooperation. The EU's New Mediterranean Policy of 1990 introduced a financial partnership consisting of financial assistance from the EU to bolster economic and structural reforms along the southern Mediterranean.

The Barcelona Declaration of 1995 codified the aims of the EU and Med12 countries (Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon, the Palestinian autonomous territories, Syria, Turkey, Cyprus, and Malta), establishing 2010 as the goal for establishing a free-trade area. The aim of the declaration was to create an "area of shared prosperity" to meet three broad objectives: to accelerate sustainable socio-economic development, to improve living conditions, and to encourage regional cooperation and integration. The EU also promised a substantial increase in financial assistance to Med12 states.

### **EU-East Asia (1996)**

Building on a generation of region-to-region ties between Europe and ASEAN, the EU and members of ASEAN plus Japan, China, and South Korea established the Asia-Europe Meeting (ASEM) in 1996. Intended to give institutional ballast to the relatively weak commercial and political relationship between Europe and East Asia, the EU and the ASEAN+3 created a process-oriented forum to strengthen interregional relations in general and, Europeans hoped, to expand trade and investment relationships through improved access for exporters and investors.

However, ASEM adopted a broad agenda, providing fora for policymakers and private actors to discuss a broad range of issues from business to development to cultural exchanges. While ASEM was explicitly born as a partnership of equals, the far lower regional institutionalization and political, economic, and sociocultural diversity among East Asian nations provided Europeans with the need – or perhaps the opportunity – to pursue a plural approach to relations with countries of East Asia within the ASEM forum.

### **EU-Africa, the Caribbean, and the Pacific (1975)**

The Lomé Convention, first agreed to in 1975 by the EU and a large group of countries in Africa, the Caribbean, and the Pacific (ACP), was established to govern commercial relations between European countries and many of their former colonies. Created at the high-water mark of developing country unity in international trade and economic relations, the Lomé Convention strongly institutionalized European support for and preferential treatment of ACP countries industries and exports.

Specifically, Lomé codified EU-ACP relations across several areas – including trade, finance, and industry – with the goal of helping ACP countries to achieve self-sustaining economic development, and established a "permanent dialogue" through a joint council of ministers, committee of ambassadors,

## 26 *EU Trade Strategies*

and assembly. Lomé provided for substantially equal treatment across the myriad ACP participants, though favored clients (or former colonies) received some special attention – although not necessarily or always within the specific Lomé framework.

### **EU-Southern Cone (South America) (1995)**

Leaders from the EU and Brazil, Argentina, Uruguay, and Paraguay signed the EU-MERCOSUR Interregional Framework Cooperation Agreement (EMIFCA) in December 1995. Created to develop a pure-interregional regime, the EMIFCA process began with a few core ideas but with only hazy outlines of the rules that it sought to codify. While an interregional free trade area was a primary goal, the two sides would promote broader exchanges to reflect the deep historical and cultural links between them.

The forum was fairly weakly institutionalized, however, with unclear prospects for binding rules. The unique aspect of this relationship was the fact that it was born early simultaneously to the creation of the MERCOSUR customs union, which implied a pure interregional relationship in which the terms of any future agreement would reflect the economic unity of each of the two regions.

### **EU-North America (1990)**

In 1990, policymakers on both sides of the Atlantic were pondering the future of their mutual relations after the end of the Cold War. While EU commercial ties to North America – and the United States and Canada specifically – were already strong and stable, in that year it signed separate agreements with the United States and Canada (which had themselves established a bilateral free trade area the previous year). These were political gestures more than concrete proposals, intended to reinforce the overall transatlantic partnership in the face of the disappearance of the common adversary – though in both cases they left the door open to future consideration of more institutionalized commercial relations. In the meantime, reconciliation of their distinct positions in the ongoing Uruguay Round negotiations was enough to fill the commercial diplomatic agenda.

Meanwhile, European commercial ties to Mexico had stagnated in the wake of the debt crisis, and little change outside the framework of multilateral talks seemed in the offing.

A summary of the relevant characteristics of each of these EU-centered interregional regimes appears in Table 1.4.

## **6 Conclusion**

Having achieved a truly unified internal market and launched its single currency, the European Union must be viewed as a strong, coherent actor

Table 1.4 EU interregional relationships (initial)

<i>Relationship (year)</i>	<i>Regime strength</i>	<i>Regime nature</i>	<i>EU commercial treatment</i>
EU–Eastern Europe (1990)	Medium-strong	Comprehensive, developmental	Uniform, interregional + bilaterals
EU–Southern Mediterranean (1995)	Weak	Comprehensive, developmental	Nonuniform, bilaterals
EU–East Asia (1996)	Medium-weak	Comprehensive, quasi-developmental	Nonuniform, interregional + bilaterals
EU–ACP (1975)	Medium-strong	Comprehensive, developmental	Mostly uniform, interregional
EU–South America (1995)	Medium-weak	Medium-narrow, quasi-developmental	Uniform, interregional
EU–North America (1990)	US/Canada: medium Mexico: weak	US/Canada: narrow, nondevelopmental Mexico: comprehensive, developmental	Nonuniform, bilaterals

whose strategies are of central importance to international economic relations more generally. By exploring the EU's apparently growing appetite for interregionalism we seek to get at the core political and economic factors that will shape the evolving international economic system in the coming years. Power, interests, institutions, and ideas all matter a great deal in shaping EU trade policy. A similar but not identical set of factors among the counterpart region combines with these received EU preferences to create some sort of regime outcome. Our questions are: what matters most? What constellations of factors are associated with which outcomes? And what does the answer to these questions tell us about the future of interregionalism? As our authors demonstrate in the following chapters, the answers to the first two questions vary from case to case. We will address the latter, informed by the contributions of the authors, in the conclusion.

### Appendix: EU trade policymaking processes

What follows is a brief discussion of the key political and institutional features of the EU trade policymaking and negotiating process, intended to identify the basic structure of actors, rules, and procedures that shape trade policy outcomes. The actual politics and processes are much more complex

than what is outlined here; we simply introduce the basic components of a general policy process and environment that the other authors analyse with an eye to their respective interregional relationships.<sup>36</sup>

### **EU trade rules**

The legal authority of EU institutions in trade policy is spelt out – with varying degrees of clarity – in the intergovernmental treaties signed by member states.<sup>37</sup> The Treaty of European Community, which was signed in Rome in 1957 and established the European Economic Community, mandated in its Article 133 (originally Article 113) the creation of a Common Commercial Policy (CCP) to complement a Common External Tariff. In the CCP, European countries shifted their authority to negotiate outside agreements to the European Commission – the supranational European bureaucracy – and bound themselves to seek changes or exceptions to these agreements only through EU-wide institutions (the Commission and the intergovernmental European Council of Ministers). Meanwhile, Article 133 permitted the negotiation of external trade agreements, but mandated that they must be consistent with the General Agreement on Trade and Tariffs (GATT, now the WTO) under Article 24. While Article 133 provides the legal authority for the EU's external trade negotiations, the specific type of trade agreement envisioned (i.e., preferential, reciprocal, etc.) affects the treaty provisions invoked. For example, in trade talks with developing countries, Articles 177 and 181, which deal with development issues, would also be a part of the legal basis of trade negotiations for what would likely be a preferential agreement. Meanwhile, Article 300 sets the rules on cooperation and association agreements, and Article 310 permits the Commission to negotiate reciprocal agreements with other countries or groups.<sup>38</sup> External trade negotiations have a special procedure under Article 133 that divides overall policy responsibilities for handling external trade negotiations between the Commission and the Council, and that relegates the European Parliament (EP), the Union's legislature, to an advisory role. Essentially, the following process is observed: first, the Commission initiates internal procedures for exploring an external trade agreement; second, the Council – more specifically, the Council's Committee of Permanent Representatives (COREPER) – defines the Commission's mandate regarding the possible shape of an agreement; third, the Commission's relevant Directorates-General (DGs) take the lead in negotiating an agreement on behalf of the EU while the Council monitors their progress through its Article 133 Committee;<sup>39</sup> fourth, the Commission concludes an agreement; and fifth, the Council approves (or rejects) the agreement.

Until the 1980s, voting in the Council on trade issues took place on a unanimous basis. As such, any member state that for whatever reason did not like an agreement could veto it and/or force changes. However, the adoption of the Single European Act in 1987 and the Maastricht Treaty in

1992 altered this procedure by instituting qualified majority voting (QMV) on trade in goods – though, significantly, not in services or intellectual property rights (IPRs) – thereby reducing the blocking power of recalcitrant parties.<sup>39</sup> However, this restriction of QMV to agreements based only on goods has hindered the EU's ability to negotiate pacts, whether in the WTO or in regional forums, that include these expanding sectors. "Mixed" trade agreements, which go into areas in which national governments retain competence, must be ratified by each member government.<sup>41</sup>

Still, the advent of QMV may have important repercussions for EU trade policy in general. An ever-shifting treaty base has slowly but steadily reduced the ability of individual member states to use their votes in the Council to impose particularistic agendas on the Commission in trade negotiation. Hanson has suggested that the completion of the internal market in the Single European Act and the ratification of the Maastricht Treaty have formally biased trade policy outcomes against protectionism by reducing the ability of individual member states – and the business interests that lobby them – to hold the process hostage to specific protectionist demands. Coalitions of EU member states can still put together a blocking majority in the Council, but the threshold is now higher and thus more difficult to achieve.<sup>42</sup> As such, the prevailing status of unanimity *vis-à-vis* QMV shapes trade policy by determining the extent to which interest groups and member governments have the scope to bend voting outcomes in the Council to their will – whether toward free trade or protectionism. Treaty changes that reduce the capacity of member states (or interest groups that capture them) to block the Commission's ability to make compromises in international trade negotiations will facilitate the EU's participation in broad trade negotiations at the global or interregional level.

The complexity of these formal rules and procedures, and their accessibility to interested parties of all types, push EU negotiators in several directions simultaneously. Nugent has noted four ways in which the institutional architecture of EU trade policy – and in particular the overlapping mandates of the Commission and the Council – muddies the waters in trade policy. First, there is institutional power jockeying between the Commission and the Council. Second, the differences in national interests among member states manifest themselves in the often hodge-podge mandate the Council gives the Commission. Third, the Commission roils with internal territorial skirmishes among the DGs and the Commissioners seeking to protect and expand their purviews. Fourth, the EP's striving for a greater role in trade policymaking adds an element of uncertainty to the existing interorganizational relationships among EU institutions.<sup>43</sup> Paemen has further lamented what he sees as the three "fundamental institutional flaws" that hamper the EU in external trade negotiations: (1) the "least common denominator" aspect of EU policy positions (a result of internal

### 30 *EU Trade Strategies*

bargaining) limits EU bargaining leverage; (2) visible intra-EU bargaining before external negotiations provides foreign trade partners with significant amounts of information about otherwise secret EU bargaining positions; and (3) the Commission's relatively short leash prevents it from making on-the-spot decisions and interrupts the momentum of negotiations when its authority to make a deal is not clear.<sup>44</sup>

Formal EU trade policymaking procedures thus create myriad hurdles and inefficiencies, but also a set of opportunities for relevant institutional and private-sector actors to make their voices heard. Indeed, the relevant actors and institutions involved often vary by each individual item on the overall agenda, making it difficult to define a coherent set of procedures and processes whereby broad EU trade policy is made.

#### **EU institutions**

There is no shortage of Europe-wide institutions that have some say in trade-related issues. However, as noted above, three are legally endowed with the greatest responsibility for trade policy: the Commission, the Council, and the European Parliament. While the Commission has traditionally been the driver of European integration because it retains primacy in legislative initiative and executive implementation, it has seen its political influence wane in recent years after the departure of Jacques Delors in 1995. The previously impotent Parliament, which in 1999 brought the Jacques Santer-led Commission to heel for corruption and incompetence, has benefited somewhat from the Commission's malaise. But perhaps the most important locus of actual decisionmaking power remains in the Council, which represents the interests of individual countries in the Union. The relationship among these three institutions is complex: the Commission retains primary authority for representing the Union in external trade matters, but it must seek a mandate from the Council in its preferred agenda. While the Parliament is relatively less important here, it has seen a steady increase in its ability to hold up or even reject Commission initiatives since the implementation of the Maastricht Treaty beginning in 1992 and the fall of the Santer Commission.

EU institutions draw on the treaty base to enhance their own position in the trade policymaking process. According to Peterson, "the specific treaty article under which a proposal is brought forward [e.g., by the Commission] is a powerful determinant of the resources that different institutional actors wield in policy debates." But because each institution has treaty articles to draw upon in pressing its case, the resolution of procedural struggles may come down to how the various institutions use these articles, not the articles themselves.<sup>45</sup> Thus while the legal basis of trade policymaking is central to our understanding of process, EU institutions can try to manipulate "institutional uncertainty" to enlarge their own procedural influence. Control over process means control over outcomes.

Perhaps the key feature of interorganizational politics at the EU level involves the Commission's attempt to draw ever more of the trade policymaking process within its purview. According to Nugent, "The Commission has long pressed the other EU institutions to adopt an expansive approach toward what may be included in Article 133 agreements, arguing that this is necessary to reflect the fact that EU economic activity and trade has changed considerably since the EEC treaty was negotiated in the 1950s."<sup>46</sup> Others have suggested that the Commission's best tactic has been its support for negotiations on multiple fronts, which expands its extra-EU, and potentially intra-EU, competence.<sup>47</sup> For our purposes, however, perhaps the most significant way in which the Commission promotes its own influence is through the cultivation of interest groups, which, as participants in Commission-led policy processes, potentially support more Commission prerogative in the areas in which they are policy partners (see section below on interest groups). However, the Commission does not always or even usually act as a single, unified actor: there are territorial fights within the Commission among the various DGs, many of which have a small slice of control over trade policymaking and agenda setting, and which guard their briefs jealously. This bureaucratic infighting weakens the overall voice of the Commission in shaping – and hampers its ability to carry out – trade policy.

Other EU institutions have also sought to check the Commission's control over trade policy and negotiations. According to Meunier, the Council has managed to hold the Commission at bay in the realm of trade policymaking (unlike in some other areas). She argues that the Council remains central in this policy domain because of its role in aggregating national preferences, which are relatively strong in an important area such as trade. In this understanding, the Commission is simply the bargaining agent of the Council: "Unlike in most policy areas falling under Community competence, ...trade policy remains one of the last bastions of sole Council legislative power. [This will not change] as long as international trade negotiations are conducted under... Article 133."<sup>48</sup> The EP, for its part, like the Commission has an interest in seeing control over trade policy processes trickle up to the supranational realm, but would like to impose greater legislative oversight over the Commission's activities in this realm. However, oversight is probably the best the Parliament can hope for, as, in the EU as in governments around the world, trade policymaking is typically an executive prerogative. Meanwhile, the European Court of Justice (ECJ), while it has no formal role in trade policymaking, is the arbiter of disputes among EU institutions over legal authority in policy areas. As such, it becomes relevant to trade policy if and when one institution's attempt to assert its authority in a policy gray area is challenged by another.

### **EU interest groups**

The clearest divisions among the social, economic, and political inputs into trade policymaking are along sectoral lines. Like any other large and diversified economy, Europe's economic sectors vary in their strategic salience, international competitiveness, and level of import competition; and like any other economy, these different sectors have varying amounts of political clout in Brussels as a result of their position along these dimensions.<sup>49</sup> Particular sectors are notable for their voice in EU policymaking – both in external trade and internal market issues – including steel, autos, textiles, fisheries, energy, and perhaps most prominently, agriculture. For instance, the importance of the steel industry and its sensitivity to import pressures after the 1970s has led to the adoption of a range of trade measures to protect this industry from external competition, measures helped in no small part by the growing participation of steel firms in the process of developing sectoral policies (notably in the Commission).<sup>50</sup>

Many firms and other actors within these and other sectors are intimately involved in EU policymaking through their participation in policy networks, which are relatively decentralized and informal relationships of varying durability among sectoral representatives, national governments, and supranational institutions (again, especially the Commission).<sup>51</sup> These sectoral actors play a large role in developing policies that link the internal and external market aspects of EU economic policy, with internal arrangements (such as the Common Agricultural Policy, or CAP) at times providing strong bases for shaping EU positions on international trade negotiations. The involvement of interest groups in EU policy processes suits the Commission quite well: these groups provide the Commission with resources of expertise in the process of policymaking and political support in policy implementation.<sup>52</sup>

Not all policy networks are equal, however. The ability of various interest groups to participate in EU policy networks depends largely on “structural” factors such as the effect of the sector's market dynamics on its political position and the accessibility of the various EU policymaking institutions. With respect to market environments, Hanson identifies three features of specific markets that potentially explain the varying effects of interest group activity on EU external trade policy outcomes: sectoral attrition, sectoral internationalization, and societal countermobilization.<sup>53</sup> Sectoral attrition denotes that trade liberalization occurs when uncompetitive industries get so weak that they lose their political influence, as authorities react to the falling political and/or electoral costs of ignoring failing industries' demands for protection. Sectoral internationalization, for its part, focuses on the degree of and change in specific sectors' relative dependence on international markets as a proportion of their revenues, with higher export dependence being associated with greater political support for trade liberalization.<sup>54</sup> Societal countermobilization suggests that liberalization

begets liberalization: increasing openness increases the political power of groups benefiting from liberalization, and increases their incentives to mobilize against groups demanding protection.<sup>55</sup>

The relative penetrability of the relevant EU institutions, for its part, helps determine which ones interest groups target. The Council is in itself not directly accessible to interest lobbies. As such, interest groups attempt to influence the Council through one of three channels: national representatives of COREPER; members of Council working groups in particular issue areas; and national governments (the main channel).<sup>56</sup> While national governments of course remain a major – and often sympathetic – target for lobbying, the advent of qualified majority voting in most EU external trade matters has reduced somewhat the importance of national governments in this arena. Still, the norm of consensus remains strong in the EU, although this may well change in the next few years, particularly with EU expansion.

The European Parliament, while not a central institution in trade policy-making, may become an important lobbying target if it moves to pass legislation to regulate lobbying in general. So, groups that already have well established patterns of gaining access and influencing policy may find themselves hamstrung by new lobbying rules – unless, that is, if they are able to persuade the EP to protect their position. Groups lacking access, for their part, will of course seek new rules that will level the lobbying playing field. However, the Commission remains the most important lobbying target, given both its accessibility to lobbyists and industry representatives (especially *vis-à-vis* the Council) and its paramount trade negotiating authority. Interest groups that have access to the Commission can be involved at all relevant stages of the process of policymaking and trade negotiations. Moreover, as noted above, the Commission is intimately involved in intra-EU policy networks, interacting with interest groups in a symbiotic relationship based on lobbying and information-sharing. The Commission is thus at the center of the “intermestic” politics of EU external trade relations.

The resources interest groups bring to the table are of course central to their capacity – and strategy – to affect trade policy. Greenwood suggests that interest groups can draw on the following “bargaining chips” in their attempts to influence policies: (1) information and technical expertise; (2) economic muscle; (3) industry prestige/status; (4) ability to help enforce, or alternatively to challenge, implementation of EC policies; and (5) the internal noncompetitiveness of, and coherence of decisionmaking among, individual groups in an umbrella interest association.<sup>57</sup> Given the complexity and indeterminacy of policymaking authority in the EU, the most successful lobbying strategies tend to be those that are “multi-level” and “multi-arena” – i.e., that focus on both national and European levels, and on various institutions at those levels.<sup>58</sup> This state of affairs tends to further advantage those interests that already have ample resources, which

34 *EU Trade Strategies*

they can spread effectively across levels and arenas.<sup>59</sup> These resources that interest groups can draw upon are thus a major determinant of the strategies they pursue to influence EU trade policy. In the actual content of these strategies, actors typically engage in issue-framing: interest groups that are able to convince the Commission that their input is predominantly “technical” – i.e., intended to make sectoral governance more effective and/or efficient – will tend to be more effective in gaining access than those that are overtly “political” in their approach.<sup>60</sup>

More generally, groups seek to get themselves “insider status” – i.e., to become part of the governance structure of trade policy.<sup>61</sup> Interests that can make themselves “indispensable” to the functioning of a policy network – i.e., that can plausibly claim to provide a “service” that is in the broader public interest – will be able to sustain their influence over time.<sup>62</sup> The establishment of stable policy networks – which include, in part, well-entrenched patterns of lobbying – tends to lead to vested interests and policy inertia.<sup>63</sup> Of course, this is familiar: interests that have been successful in capturing the state will do whatever they can to maintain their influence and the favorable policies that their influence has brought them, regardless of the optimality of those policies for Europe as a whole.

The EU as a whole must balance the needs of these networks and their particular intra-European arrangements – which represent an important facet of European integration – with the political demands of international trade politics. While the EU is a coherent and powerful actor in trade politics, it faces a litany of trade partners and rivals that seek to gain access to the European market, access that is complicated or even denied by the EU’s internal market arrangements. Particularly intense of late have been interactions with the United States, which not only seeks to break down Europe’s trade barriers but also competes with Europeans for influence in and access to emerging markets in East Asia, Latin America, and elsewhere. It is this tension between internal market arrangements – which represent the workings of networks of European interests and institutions, and which enhance European economic and political integration – and the exigencies of external trade politics that represent perhaps the major axis around which European external trade policy revolves.

## Notes

1. For the sake of convenience, we use the name “European Union” when referring to this European grouping throughout its post-1958 history.
2. Grossman and Helpman 1996 have suggested that there is an inherent market logic to region-to-region trade agreements: they help overcome free-riding among industries that passively support free-trade policies. We begin from the premise that while such a market logic may exist, interregional agreements are often driven by political and security interests rather than pure market motivations.
3. This table was originally developed in Aggarwal 2001.

4. For a good discussion of bilateral agreements, see Snyder 1940.
5. Snyder 1940.
6. This article permits the creation of free trade agreements and customs unions – but only a *broad* product basis rather than only in a few sectors.
7. For a discussion and critique of these agreements, see Aggarwal 2001 and Aggarwal and Ravenhill 2001.
8. See Yarbrough and Yarbrough 1987 for a discussion of minilateralism.
9. On regime characteristics, see Aggarwal 1985, Krasner 1977, 1983, Keohane 1984, and Aggarwal 1998. For a review of the literature on regimes, see Haggard and Simmons 1987.
10. On compliance with international regimes, see Simmons and Oudraat 2001 and the extensive cites therein.
11. For a theoretical discussion of domestic and international links affecting the EU, see Verdier and Breen 2001.
12. This hypothesis is related to the idea of policy networks: given that the networks tend to be sectoral in scope, an analysis of the strength and stability of the networks (if they exist) in any one sector is the key determinant of the propensity of trade policy in that sector to change or remain stable. However, the literature on EU policy networks is typically more interested in examining policy processes than it is in articulating explanatory or predictive frameworks. As such we do not develop a specific policy networks hypothesis here, but rather accept the networks idea as one way to describe the nature of interaction between interest groups and governing institutions. Our explanatory hypothesis regarding interest intermediation corresponds to what factors cause these networks to be stable or unstable, and thus to lead to stasis or change in EU trade policies in given sectors.
13. See Rogowski 1989, Frieden 1991, Frieden and Rogowski 1996, and Hiscox 2001 for discussions of when economic actors split along sectoral and factoral lines.
14. The key difference between this aspect of the bureaucratic politics hypothesis and the interest intermediation hypothesis is the question of who co-opts whom. In the former, the institution co-opts the interest groups; in the latter, the interest groups co-opt the institution. The differences in trade policy outcomes predicted in each case, however, may be only moderate.
15. It is worth noting that the EU as a whole, as well as its constituent institutions and national governments, retain an official preference for multilateral trade negotiations under the auspices of the GATT/WTO.
16. To some extent the advance of qualified majority voting (QMV) has already decreased the role of the Council in trade policymaking by decreasing the scope for political “blackmail” by dissenting members in the Council. As such the political battles fought among interest groups and national delegations may be fought more within the Commission than within the Council.
17. From a more sociological institutionalist perspective, it is also possible to suggest that the organizational identities of these two institutions affect their views of the value of different types of commercial policy. Specifically, the Commission is often seen as bureaucracy whose core identity – and thus the policies it proposes – is strongly influenced by technocracy, universalism, and neoliberalism. As suggested, it is not clear that the Council has an institutional identity that may have as direct an effect on the policies it favors. While this institutional-identity approach is not at the heart of our bureaucratic politics hypothesis, we consider it to be a potentially important intervening factor. For more on this approach, see Powell and DiMaggio 1991; March and Olsen 1998; and Barnett and Finnemore 1999.

36 *EU Trade Strategies*

18. This hypothesis differs in its predictions from those put forth in the early 1990s that identified the specter of a regionalized system featuring both economic and political competition among distinct regions (see Weber and Zysman 1992). Whereas this earlier view focused on strategic trade and industrial policies, this new “realist” hypothesis argues that trade can be both mostly free *and* strategic. In this view, the EU will thus pursue interregionalism if it is deemed a useful strategy for increasing European influence and economic security, particularly *vis-à-vis* the United States.
19. Bhagwati and Arvind 1996, quoted in Sapir 1998: 729.
20. This depiction of the international system is not intended to capture the security issues driving the international “war against terrorism.” By this time it seems clear that U.S. and EU leaders have abandoned the idea of using trade policy – particularly in the Doha Round of WTO negotiations – to ameliorate the potential economic causes of terrorism in poor countries. Rather, if anything, the transatlantic rift over the 2003 war in Iraq seems likely to reinforce EU incentives to pursue international commercial arrangements that exclude the United States.
21. See Ohmae 1995.
22. According to Telo, “Region building is seen by many actors as a willingness to react to uncertainties and to compete better with other regions and economic powers.” Telo 2001: 6.
23. Sapir 1998: 730.
24. See Aggarwal (1985) on nested arrangements in textile trade and (1998) for a more general discussion of nested institutions in other contexts.
25. Baker 1995.
26. See Cadot and Webber 2002, as well as Ravenhill’s chapter in this volume.
27. We label this hypothesis “constructivist” even though it imputes primarily instrumental goals to European policymakers. However, it involves the mechanisms of identity formation and the ways in which trade as a form of social interaction affects these identities, themes often found in the constructivist literature.
28. Deutsch 1957, 1966. Others, notably Nicolaïdis and Howse (2002), argue that an EU identity ought not be thought of in terms of a “self” and “other,” but rather that there be an understanding and tolerance of diversity in identification both within Europe and between Europeans and non-Europeans.
29. Manners 2000. Other authors have sought to understand this international identity in other policy arenas – security policy (Wæver 2000), Middle East policy (Soetendorp 1999), and competition policy (Damro 2001).
30. See Prodi 2000; Kagan 2002.
31. In APEC, membership is not based on regional groupings but on economies, since Hong Kong and Taiwan hold independent membership. On APEC, see Aggarwal and Morrison 1998 and Ravenhill 2002.
32. Manners 2001: 18. See also Lamy 2002; Nicolaïdis and Howse 2002.
33. On institutional mimesis, see Powell and DiMaggio 1983.
34. However, given the EU’s likely dominant relational power within specific inter-regional relationships, the EU could conceivably insist on labor, environmental, or other potentially contentious provisions if it considered it important to do so.
35. The United States has used bilateral agreements for such a purpose, as with the introduction of service sector issues in the Canada-U.S. Free Trade Agreement in 1988 as a prelude to pressing for agreement in the sector in the Uruguay Round.

More recently, it has included labor and environmental provisions in its bilateral agreements, again as a device to possibly influence the course of multilateral negotiations in the WTO Doha Round.

36. For a more comprehensive treatment of EU trade policymaking processes, see Nugent 1999 and Cram et al. 1999.
37. Please note that this section was written before the completion of the European constitution in 2003–04, and thus does not include any alterations in the existing legal structure of trade policy that may have been included in the constitution.
38. Nugent 1999: 441.
39. Different DGs within the Commission have authority for different regions of the world. DGI oversees commercial relations with North America, East Asia, Australia, and New Zealand; DGIA oversees Eastern Europe and the former Soviet Union; DGIB oversees the southern Mediterranean, the Middle East, Latin America, and South and Southeast Asia; and DGVIII oversees relations with ACP countries.
40. The Council granted the Commission competence in services and IPRs in 1997, but Commission agreements involving these issues must be ratified unanimously.
41. Laursen 1999.
42. Hanson 1998.
43. Nugent 1999: 445.
44. Paemen 1996, quoted in Meunier 2000.
45. Peterson 1995: 6.
46. Nugent 1999: 441.
47. Sbragia 1992.
48. Meunier 2000: 20.
49. The modes of representation in these sectors vary. In lobbying and participating in policy processes in Brussels, some firms represent themselves while others are involved in industry-wide “peak” associations. Nationally-based firms in the most significant sectors have already established Europe-wide lobbying associations that maintain a presence in Brussels. Meanwhile, some associations – notably labor organizations and chambers of commerce – organize across sectors. See Greenwood 1997 and Dupont 2001 for a discussion of these forms of interest representation.
50. Nugent 1999: 357.
51. On policy networks see Peterson 1995, and Stone Sweet and Sandholtz 1997. For a skeptical view, see Kassim 1994.
52. On this point, see Greenwood 1997 and Mazey and Richardson 1999.
53. Hanson 1998. While Hanson focuses on liberalizing policy outcomes, each of these potential explanations can be applied to the counterfactual, with the absence of the relevant conditions accounting for the presence of protectionism.
54. See Milner 1988.
55. See Rogowski 1989; Frieden 1991; Keohane and Milner 1996; Frieden and Rogowski 1996; Hiscox 2001. Indeed, Grossman and Helpman 1996 argue that pro-free trade groups will lobby governments for domestic liberalization in service of reciprocal trade agreements to facilitate their governments’ acquisition of market access abroad.
56. Mazey and Richardson 1999.
57. Greenwood 1997: 18–20.
58. See in particular, Dupont 2001.

38 *EU Trade Strategies*

59. Mazey and Richardson 1999.
60. Greenwood 1997: 14. The generally market-friendly outcomes of EU internal market and external trade policies in the 1980s and 1990s suggest that business groups seeking liberalization might have succeeded not just in getting their way on narrow aspects of liberalization in specific sectors, but in framing the issue as one of international competitiveness. See Mazey and Richardson 1999.
61. See Streeck and Schmitter 1991.
62. Greenwood 1997: 17.
63. Peterson 1995.

## References

- Aggarwal, Vinod K. (1985). *Liberal Protectionism*. Berkeley: University of California Press.
- Aggarwal, Vinod K., ed. (1998). *Institutional Designs for a Complex World: Bargaining, Linkages, and Nesting*. Ithaca: Cornell University Press.
- Aggarwal, Vinod K. (2001). "Economics: international trade." In P. J. Simmons and Chantal de Jonge Oudraat, eds., *Managing Global Issues: Lessons Learned*. Washington, DC: Carnegie Endowment for International Peace.
- Aggarwal, Vinod K. and Charles Morrison, eds. (1998). *Asia-Pacific Crossroads: Regime Creation and the Future of APEC*. New York: St. Martin's Press.
- Aggarwal, Vinod K. and John Ravenhill (2001). "How open sectoral agreements undermine the WTO." *Asia-Pacific Issues* 50 (February).
- Aggarwal, Vinod K. and Cedric Dupont (2002). "A Leader in Institutional Design? Europe and the Governance of Trade and Monetary Relations." *Europe and Globalization*. New York: Palgrave Macmillan: 117.
- Baker, James A. (1995). "Conflict and cooperation in the post-cold war era." Speech delivered at the First Annual Conference of the James A. Baker III Institute for Public Policy, Rice University (13 November).
- Barnett, Michael and Martha Finnemore (1999). "The politics, power and pathologies of international organizations." *International Organization* 53, 4 (Autumn): 699–732.
- Bhagwati, J. N. and P. Arvind (1996). "Preferential trading areas and multilateralism: strangers, friends, or foes?" In J. N. Bhagwati and A. Panagariya, eds., *Free Trade Areas or Free Trade? The Economics of Preferential Trade Agreements*. Washington, DC: AEI Press.
- Cadot, Olivier and Douglas Webber (2002). "Banana splits: policy process, particularistic interests, political capture, and money in transatlantic trade politics." *Business and Politics* 4, 1: 5–39.
- Cram, Laura, Desmond Dinan, and Neill Nugent, eds. (1999). *Developments in the European Union*. New York: St. Martin's Press.
- Cram, Laura, Desmond Dinan, and Neill Nugent (1999). "Reconciling theory and practice." In Cram et al., eds., *Developments in the European Union*. New York: St. Martin's Press.
- Damro, Chad (2001). "Building an international identity: the EU and extraterritorial competition policy." *Journal of European Public Policy* 8, 2 (April): 208–226.
- Deutsch, Karl et al. (1957). *Political Community: North-Atlantic Area*. New York: Greenwood Press.
- Deutsch, Karl (1966). *Nationalism and Social Communication: An Inquiry into the Foundations of Nationality*. Cambridge: MIT Press.
- Dupont, Cedric (2001). "Euro-pressure: avenues and strategies for lobbying the European Union." In Vinod K. Aggarwal, ed., *Winning in Asia, European Style: Market and Nonmarket Strategies for Success*. New York: Palgrave.

- Frieden, Jeffry (1991). "Invested interests: the politics of national economic policies in a world of global finance." *International Organization* 45, 4 (Autumn): 425–451.
- Frieden, Jeffry and Ronald Rogowski (1996). "The impact of the international economy on national policies: an analytical overview." In Robert O. Keohane and Helen Milner, eds., *Internationalization and Domestic Politics*. Cambridge: Cambridge University Press.
- Greenwood, Justin (1997). *Representing Interests in the European Union*. New York: St. Martin's Press.
- Grossman, G. and E. Helpman (1996). "Electoral competition and special interest politics." *Review of Economic Studies* 63: 265–286.
- Haggard, Stephan and Beth Simmons (1987). "Theories of international regimes." *International Organization* 41, 3 (Summer): 491–517.
- Hanson, Brian T. (1998). "What happened to fortress Europe? External trade policy liberalization in the European Union." *International Organization* 52, 1 (Winter): 55–85.
- Hiscox, Michael J. (2001). "Class versus industry cleavages: inter-industry factor mobility and the politics of trade." *International Organization* 55, 1 (Winter): 1–46.
- Kagan, Robert (2002). "Power and weakness." *Policy Review* 113.
- Kasim, Hussein (1994). "Policy networks, networks and European Union policy-making: a skeptical view." *West European Politics* 17, 4: 15–27.
- Keohane, Robert (1984). *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton: Princeton University Press.
- Krasner, Stephen (1977). *Defending the National Interest*. Princeton: Princeton University Press.
- Krasner, Stephen, ed. (1983). *International Regimes*. Ithaca: Cornell University Press.
- Lamy, Pascal (2002). "Stepping stones or stumbling blocks? The EU's approach towards the problem of multilateralism vs. regionalism in trade policy." *World Economy* 10 (November): 1399–1413.
- Laursen, Finn (1999). "Trade and aid: the European Union in the global system." In Cram et al., eds., *Developments in the European Union*. New York: St. Martin's Press.
- Manners, Ian (2001). "The 'difference engine': constructing and representing the international identity in the European Union." Web paper downloaded from CIAOnet.
- March, James G. and Johan P. Olsen (1998). "The institutional dynamics of international political orders." *International Organization* 52, 4 (Autumn): 943–969.
- Mazey, Sonia and Jeremy Richardson (1999). "Interests." In Cram et al., eds., *Developments in the European Union*. New York: St. Martin's Press.
- Meunier, Sophie (2000). "What single voice? European institutions and EU–U.S. trade negotiations." *International Organization* 54, 1 (Winter): 103–135.
- Milner, Helen (1988) *Resisting Protectionism: Global Industries and the Politics of International Trade*, Princeton, NJ: Princeton University Press.
- Milner, Helen and Robert Keohane (1996). *Internationalization and Domestic Politics: An Introduction*, NY: Cambridge University Press.
- Nicolaïdis, Kalypso and Robert Howse (2002). "This is my EUtopia...: narrative as power." *Journal of Common Market Studies* 40, 4: 767–792.
- Nugent, Neill (1999). *The Government and Politics of the European Union*, 4th edn. London: The Macmillan Press.
- Ohmae, K. (1995). *The End of the Nation State: The Rise of Regional Economies*. New York: Free Press.
- Peterson, John (1995). "Policy networks and European Union policymaking: a reply to Kassim." *West European Politics* 18, 2 (April): 389–407.

40 *EU Trade Strategies*

- Powell, Walter W. and Paul J. DiMaggio, eds. (1991). *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press.
- Powell, Walter W. and Paul J. DiMaggio (1983). "The iron cage revisited: institutional isomorphism and collective rationality in organizational fields." *American Sociological Review* 48, 2: 147-160.
- Prodi, Romano (2000). *Europe As I See It*. Cambridge: Polity.
- Ravenhill, John (2002). *APEC and the Construction of Pacific Rim Regionalism*. Cambridge: Cambridge University Press.
- Rogowski, Ronald (1989). *Commerce and Coalitions: How Trade Affects Domestic Political Alignments*. Princeton: Princeton University Press.
- Sapir, Andre (1998). "The political economy of EC regionalism." *European Economic Review* 42: 717-732.
- Sbragia, Alberta, ed. (1992) *Euro-politics: Institutions and Policymaking in the "New" European Community*. Washington D.C.: The Brookings Institution.
- Simmons, P. J. and Chantal de Jonge Oudraat, eds. (2001). *Managing Global Issues: Lessons Learned*. Washington, D.C.: Carnegie Endowment for International Peace.
- Snyder, R. C. (1940). "The most favored nation clause and recent trade practices." *Political Science Quarterly* 55, 1: 77-97.
- Soetendorp, Ben (1999). *Foreign Policy in the European Union: Theory, History and Practice*. New York: Longman.
- Stone Sweet, Alec and Wayne Sandholtz (1997). "European integration and supranational governance." *Journal of European Public Policy* 4, 3 (September): 297-317.
- Streeck, Wolfgang and Philippe Schmitter (1991). "From national corporatism to transnational pluralism: organized interests in the Single European Market." *Politics and Society* 19, 2: 133-164.
- Telo, Mario, ed. (2001). *European Union and New Regionalism*. London: Ashgate.
- Verdier, Daniel and Richard Breen (2001). "Europeanization and globalization: politics against markets in the European Union." *Comparative Political Studies* 34, 3 (April): 227-262.
- Weber, S. and J. Zysman (1992). "The risk that mercantilism will define the new security system." In Wayne Sandholtz et al., *The Highest Stakes: The Economic Foundations of the Next Security System*. New York: Oxford University Press, 167-196.
- Wæver, Ole (2000). "Insecurity, security, and asecurty in the West European nonwar community." In Emmanuel Adler and Michael Barnett, eds., *Security Communities*. Cambridge: Cambridge University Press.
- Yarbrough, B. and R. Yarbrough (1987). "Cooperation in the liberalization of international trade: after hegemony, what?" *International Organization* 41, 1 (Winter): 13-26.