

TOWARDS A MORE INTERACTIONIST APPROACH ON THE CHANGING  
DYNAMICS AND DETERMINANTS OF EU TRADE STRATEGIES

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## **ABSTRACT**

### **TOWARDS A MORE INTERACTIONIST APPROACH ON THE CHANGING DYNAMICS AND DETERMINANTS OF EU TRADE STRATEGIES**

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EU trade strategies which include multilateralism, bilateralism/inter-regionalism, unilateralism, and protectionism have displayed different trends in different time periods. Regarding the determinants of EU trade strategies, while institutionalist approach points to the roles played by core EU institutions, pluralist approach draws attention to the influence of domestic interest groups. Systemic approach, on the other hand, underlines the impact of external constraints or opportunities. Nevertheless, neither of these approaches can provide a complete explanation as each of them focuses on the impact of one factor. The aim of this thesis is to investigate the changing dynamics and determinants of EU trade strategies by developing a more interactionist approach. For this purpose, firstly, main arguments of the previous approaches utilized in the analysis of EU's external trade policy are critically reviewed. Later, all the major factors proposed by previous approaches are brought together in an interactionist manner in order to demonstrate that a direction

of influence exists among these factors and they each play a distinct role in the determination of EU trade strategies. Secondly, reasons behind different trends displayed by EU trade strategies throughout history are investigated by utilizing the interactionist model for three major periods: 1958-1995; 1995-2000; 2000-present. The analysis reveals that in all three periods, external factors always drive the EU to reconsider its trade strategies while their specific content is rather shaped by domestic dynamics.

**Keywords:** EU Trade Strategies; Interactionist Approach; International Systemic Factors; Domestic Interests; EU Institutions

## ÖZ

### AB DIŐ TİCARET STRATEJİLERİNİN DEĞİŐEN DİNAMİĐİ VE BELİRLEYİCİLERİ ÜZERİNE DAHA ETKİLEŐİMLİ BİR YAKLAŐIM

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Çoktarafli, ikitarafli/bölgelerarası, tektarafli ve korumacı AB dış ticaret stratejileri farklı zaman dilimleri içinde farklı eğilimler göstermiştir. Bu stratejilerin belirleyici öğelerine ilişkin, kurumsalcı yaklaşım temel AB kurumlarının rolüne işaret ederken, çoğulcu yaklaşım yerel çıkar gruplarının tesirine dikkat çekmektedir. Öte yandan, sistemik yaklaşım ise dışsal kısıtlamaların veya fırsatların üzerinde durmaktadır. Ne var ki, bu yaklaşımların hepsi de tek bir faktör üzerinde yoğunlaştığından, hiçbiri eksiksiz bir açıklama ortaya koyamamaktadır. Bu tezin amacı, AB dış ticaret stratejilerinin değişen dinamiğini ve belirleyicilerini daha etkileşimli bir yaklaşım geliştirerek incelemektir. Bu amaçla, ilk olarak, AB'nin dış ticaret politikasının analizinde şimdiye kadar kullanılan yaklaşımların temel görüşleri eleştirel bir şekilde gözden geçirilmektedir. Daha sonra, önceki yaklaşımlar tarafından ele alınan başlıca öğelerin tümü, etkileşimli bir biçimde bir araya getirilip bu öğeler arasında mevcut bulunan ilişkinin yönü belirlenmeye çalışılmakta ve her birinin AB ticaret

stratejilerinin belirlenmesinde ayrı roller oynadığına dikkat çekilmektedir. İkinci olarak, AB ticaret stratejilerinin tarih boyunca farklı eğilimler göstermesinin ardında yatan nedenler, geliştirilen etkileşimli yaklaşım çerçevesinde üç ana dönemde (1958-1995, 1995-2000, 2000-günümüz) incelenmektedir. Analiz sonunda elde edilen bulgular ortaya koymaktadır ki, her üç dönemde de, AB'yi mevcut ticaret stratejilerini gözden geçirmeye dışsal faktörler itse de, bu stratejilerin asıl içeriği yerel dinamikler tarafından şekillenmiştir.

**Anahtar Kelimeler:** AB Ticaret Stratejileri; Etkileşimli Yaklaşım; Uluslararası Sistemik Faktörler; Yerel Çıkarlar; AB Kurumları

To my beloved brother, Recep Gün Güner...



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## LIST OF ABBREVIATIONS

ACP	African, Caribbean, Pacific
AEBF	Asia-Europe Business Forum
APEC	Asia Pacific Economic Cooperation
APT	ASEAN Plus Three
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
CAFTA-DR	Central American Free Trade Area - Dominican Republic
CAP	Common Agricultural Policy
CARIFORUM	The Forum of the Caribbean Group of ACP States
CEECs	Central and Eastern European Countries
CET	Common External Tariff
CM	Common Market
CU(s)	Customs Union(s)
DDR	Doha Development Round
DGs	Directorates General
EAC	East African Community
EBA	Everything But Arms
EEA	European Economic Area
EEC/EC	European Economic Community/European Community
EFTA	European Free Trade Association
EMIFCA	EU-MERCOSUR Inter-Regional Framework Cooperation Agreement
EMP	Euro-Mediterranean Partnership
EMU	Economic and Monetary Union
EP	European Parliament
EPA	Economic Partnership Agreements

ERT	European Round Table of Industrialists
ESA	Eastern and Southern Africa
ESF	European Services Forum
EU	European Union
FDI	Foreign Direct Investment
FTAA	Free Trade Area of the Americas
FTAs	Free Trade Area(s)/Agreement(s)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
IPR	Intellectual Property Rights
LDCs	Least-Developed Countries
MERCOSUR	Common Market of the South ( <i>Mercado Comun del Sur</i> )
MFA	Multi-Fibre Arrangement
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NGOs	Non-Governmental Organizations
NICs	Newly Industrialized Countries
PHARE	The Programme of Community Aid to the Countries of Central and Eastern Europe ( <i>Poland and Hungary: Assistance for Restructuring their Economies</i> )
PIF	Pacific Islands Forum
PPP	Purchasing Power Parity
PTAs	Preferential Trade Arrangement(s)/Agreement(s)
RTAs	Regional Trade Agreement(s)
SACU	Southern African Customs Union



SADC	Southern African Development Community
SEA	Single European Act
SEM	Single European Market
TBTs	Technical Barriers to Trade
TDCA	Trade, Development and Cooperation Agreement
TEA	Trade Expansion Act
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Aspects of Intellectual Property Rights
UAE	United Arab Emirates
UNICE	Union of Industrial and Employers' Confederations of Europe
US	United States
VERs	Voluntary Export Restraints
WTO	World Trade Organization

## CHAPTER 1

### INTRODUCTION

Almost all the studies dedicated to the analysis of the external trade policy of the European Union (EU) acknowledge at least one of the following five characteristics of EU. Firstly, EU is the world's most successful example of a regional trade bloc. Secondly, it is one of the key members of the World Trade Organization (WTO). Thirdly, EU has formed an extensive network of bilateral and inter-regional relations with distinct countries and regions all over the world. Fourthly, EU is one of the leading actors in development cooperation and aid through its trade policy. Lastly and ironically, EU has been among the major protectionists in the world with its frequent use of anti-dumping investigations, high levels of technical standards as well as its traditionally protected sectors such as agriculture.

First and foremost, it is indisputable that EU is the world's most successful example of a regional trade bloc with a deep level of economic integration. Starting with the formation of its customs union (CU) and intensifying with the completion of its single market, EU has been in an ambitious and continuous attempt "to eliminate the barriers which divide Europe"<sup>1</sup> through the various stages of its economic integration.<sup>2</sup> To be more specific, since its foundation, EU has always been more than a free trade area (FTA), by not only eliminating the tariffs and quantitative restrictions among the Member States but also adopting a common external tariff (CET) towards non-members. In time, customs union turned into a common market (single market) where restrictions on factor movements are eliminated in addition to the restrictions on free movement of commodities and

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<sup>1</sup>See EU (1957) for the preamble of the Treaty of Rome.

<sup>2</sup>According to Balassa (1961), there are five subsequent stages of economic integration which are given in order as free trade area (FTA), customs union (CU), common market (CM), economic union, and total economic integration.

services (Balassa 1961, 5). Currently, EU members are in an economic union in which abolition of restrictions on commodity, service and factor movements has been followed by a certain degree of harmonization of national economic policies, rules and regulations (Dorrucci et al. 2002). If such kind of a deep regional integration is taken into account together with enlargement, it can be argued that deepening and widening of European integration indirectly contribute to the liberalization of international trade.

Secondly, since its foundation, EU has been one of the key members of General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO). Via its active participation in the multilateral trade negotiations, by being a party to many multilateral agreements and by encouraging the participation of other parties, EU has shaped the course of the international trade relations until present. In addition to its contribution to the liberalization of world trade through the deepening and widening of its own regional economic integration, EU as a powerful GATT/WTO actor has been able to contribute to the further liberalization of worldwide trade.

Thirdly, EU has developed an extensive network of bilateral and inter-regional relations with many countries and regions from distinct parts of the world. It has formed Customs Unions (CUs) with Turkey, Andorra, and San Marino; concluded Free Trade Agreements (FTAs) with many countries/regions including Switzerland, Mexico, Morocco, South Africa, CARIFORUM, and South Korea; continues the ongoing negotiations with MERCOSUR, India, Singapore and Malaysia among others; and considers to open negotiations with Japan, Indonesia, and Thailand, to name a few. As a result, borrowing from Bhagwati's "spaghetti bowl phenomenon", Koopmann and Wilhelm describe the EU's complex pattern of FTAs as the "European spaghetti bowl" (2010, 311).

Fourthly, EU is one of the leading actors in development cooperation and aid through its trade and development policy. Since its foundation, EU has granted unilateral preferences to the developing and the least-developed countries (LDC) through various channels such as the Lome regime, Generalized System of Preferences (GSP) scheme and Everything But Arms (EBA) initiative in order to

help their development process and encourage their efforts for further liberalization.

Finally, and in fact ironically, EU is also considered as being among the major protectionists in the world despite its continuous contribution to the liberalization of world trade through the above-mentioned means. Due to its frequent resort to anti-dumping investigations, imposition of high levels of technical standards as well as its traditionally protected sectors such as agriculture, it is sometimes claimed that EU has been creating additional barriers to free trade.

Apart from the above-mentioned characteristics, it is also necessary to add that external trade policy of the EU generally extends beyond pure trade and development purposes and also covers foreign policy objectives. Neighbourhood Policy which addresses the issues of democracy, human rights and rule of law in addition to trade and investment matters illustrates this point well. That is why as a fertile research area, external trade policy of the EU has not exclusively been studied by economists but it has also attracted scholars and students from different disciplines such as political science, international relations, and law.

While in general external trade policy of the EU provides a popular area of research, particularly the use of different channels such as multilateral GATT/WTO rounds, bilateral/regional/inter-regional agreements or unilateral initiatives by the EU for entering into relations with various countries/regions has been a major area of interest for many researchers. Different authors refer to these channels in different ways. For instance, according to Meunier and Nicolaidis (2006), concepts of bilateralism, regionalism and globalism (multilateralism) are defined as the “nature of trading relations” (p. 910) while Leal-Arcas (2008) conceptualize unilateralism, bilateralism/regionalism and multilateralism as three “types of liberalization” (p. 355). Elsig (2007), on the other hand, considers bilateralism, inter-regionalism and multilateralism as “EU’s choice of regulatory venues for trade negotiations” (p. 927). As different from these authors, Aggarwal and Fogarty (2004) refer to the same concepts as *EU trade strategies*. Moreover, in studying these concepts, some authors evaluate bilateralism, regionalism and inter-regionalism in the same category as in Leal-Arcas (2008), and use the concepts of

globalism and multilateralism interchangeably as in Meunier and Nicolaidis (2006) and Aggarwal and Fogarty (2004).

In investigating the determining factors behind the use of different trade policy channels/strategies/venues by the EU, different authors have benefited from the insights provided by three distinct approaches in their explanations. To be more specific, these explanations have been built on only one of the institutionalist, pluralist, or systemic approaches. Authors such as Meunier (2005), Elsig (2007), Larsen (2007) and Woolcock (2010a) have emphasized the determining role of the core EU institutions such as the Commission and the Council of Ministers on EU trade strategies, by adopting an institutionalist approach. On the other hand, authors including Dür (2007, 2008), Mazey and Richardson (2003), De Bievre and Dür (2005), and Belloc and Guerrieri (2008) have focused on the impact of special interest groups and lobbying activities during the trade policy-making process from a pluralist point of view. As opposed to the first two groups of authors highlighting internal factors such as the roles played by either institutions or special interest groups, authors like Zimmermann (2007) and Hyde-Price (2006) have made use of the arguments of the systemic approach by pointing to the influence of international systemic and structural constraints or opportunities on EU's external policies.

Although previous studies have contributed to the literature on EU's external trade policy in distinct ways, they suffer from two major deficiencies. Firstly, most of these studies neglect the roles played by *multiple* factors in the process of EU trade policy-making and instead they attempt to find out which factor has the most influential role. Secondly, even the studies which take into account the role of multiple factors in the determination of EU trade strategies do not necessarily adopt an interactionist approach. In other words, they usually ignore that there might be a direction of influence among the multiple determinants of EU trade strategies. As a result, they often do not go beyond suggesting various possible combinations of different factors with an influence over the choice of strategy alternatives.

By deploying the conceptualization provided by Aggarwal and Fogarty (2004), this study aims to investigate the changing dynamics and determinants of *EU trade*

*strategies*. However, as different from the former studies, four major trade strategies including *multilateralism*, *bilateralism/inter-regionalism*, *unilateralism* and *protectionism* are taken into account. While the first three types of strategies have been extensively studied, so far protectionism has not been necessarily included among the major EU trade strategies. Thus, this study acknowledges that protectionism is sometimes adopted by the EU as a trade-restricting rather than liberalizing strategy.

It is intended that the question of which factors are influential in the evolution and determination of alternative trade policy strategies of the EU is answered by departing from the above-mentioned deficiencies of the previous studies and instead by developing a more interactionist approach. For this purpose, this study has a broad coverage in terms of not only the number of strategy types taken into account but also with respect to the number of factors considered in the evolution and determination of these multiple trade strategies. Accordingly, Chapter 2 is devoted to the review of qualitative literature on the three major approaches which are adopted in the analysis of external trade policy of the EU. After elaborating on the arguments presented by each of the institutionalist, pluralist and systemic approaches and revealing their major deficiencies, an alternative model is developed in this chapter which attempts to go beyond these approaches by synthesizing the insights provided by each of them under an *interactionist approach*. In the following chapters, this model is utilized as a helpful tool to demonstrate that EU trade strategies are determined by an interaction among multiple external and internal factors, all of which play distinctive roles behind this process.

Following three chapters are designed by adopting a historical perspective in order to investigate different trends displayed by EU trade strategies in three different time periods chosen according to the consistency in the dominance or weakness of certain strategies throughout the specific time periods. Accordingly, Chapter 3 focuses on EU's choice of trade strategies in the period between 1958 and 1995, during which strategy of multilateralism was dominant. By examining the roles of multiple external and internal factors in an interactionist manner, this

chapter aims to provide insights into the question of why EU mostly committed itself to multilateralism during this period although it pursued other alternative strategies such as bilateralism/inter-regionalism, unilateralism and protectionism for specific reasons as well.

Chapter 4 covers the period between the mid-1990s and the beginning of the new century when EU mostly preferred the strategy of bilateralism/inter-regionalism over the others. In this chapter, interactionist model is utilized in order to explain the reasons behind the noteworthy emergence and rise of the strategy of bilateralism/inter-regionalism as an alternative dominant trade strategy to both multilateralism and unilateralism.

Chapter 5 examines the recent trends in the EU trade strategies since the beginning of the new Millennium until present. Under the framework of the interactionist approach, the purpose of the chapter is to provide an understanding as to why during this period different EU trade strategies have been dominant in different circumstances. In other words, the model is used to provide explanations to the question of why since the beginning of 2000 EU has had to frequently switch from one strategy to another rather than favouring a single strategy over the others as in previous periods.

Finally, Chapter 6 summarizes the major findings of each chapter in order to draw conclusions regarding the analysis on the determinants of EU trade strategies adopted in different periods.

## CHAPTER 2

### DEVELOPING A MODEL FOR ANALYZING THE CHANGING DYNAMICS AND DETERMINANTS OF EU TRADE STRATEGIES

In this chapter, three major approaches adopted by the studies analysing the external trade policy-making process of the EU are reviewed. These are the institutionalist approach, pluralist approach and systemic approach. Building on the insights provided by each of these approaches and yet eliminating their deficiencies, an alternative analysis with a more interactionist approach is suggested in the last section.

#### 2.1. Institutional Approach

This section starts with the common arguments presented by the studies adopting an institutionalist approach. This is followed by the differing arguments of scholars within the same line of thinking. Lastly, the major shortcomings of this approach are briefly presented.

##### 2.1.1. Common Arguments of the Institutional Approach

Studies which are based on an institutionalist approach commonly agree that core institutions of the EU -namely the European Commission and the Council of Ministers- are the major determinants of EU trade policy decisions in general and trade strategies in particular (Elsig, 2007; Zimmermann, 2007; Woolcock, 2010a; Meunier, 2005)<sup>3</sup>. They share two basic arguments with respect to the trade policy-making process of the EU.

First of all, they all point that core institutions of the EU which are authorized by the founding treaties enjoy a certain degree of autonomy from the societal actors with specific interests. In order to demonstrate this, they either deploy a principal-

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<sup>3</sup>Aggarwal and Fogarty (2004) alternatively refer to the institutionalist approach as “bureaucratic politics hypothesis” in their review (pp. 10-12).



agent framework as in Elsig (2007) or they adopt a collusive delegation argument as in Meunier and Nicolaidis (1999) and Meunier (2005).

Principal-agent framework is used to examine the EU trade policy-making process and its institutional design (Elsig, 2007). Accordingly, in the case of EU, there are *multiple* principals such as Member States, European Parliament, European Court of Justice or domestic interest groups. They delegate the task of trade policy-making to an agent, namely the European Commission. Commission, as their agent, represents the interests of the principals but also enjoys a certain level of autonomy. Yet, principals also make use of certain mechanisms in order to control the behaviour of their agent. For instance, particularly the Member States as dominant principals control the Commission through the Council of Ministers (Elsig, 2007). In brief, this framework basically emphasizes the roles of the Commission (agent) and the Member States (dominant principals) in the trade policy-making process of the EU.

Similarly, collusive delegation argument focuses on the delegation of the trade policy-making authority from the national to a supranational EU level (Dür, 2008a).<sup>4</sup> According to Meunier and Nicolaidis (1999), such delegation occurs at two stages. At the first stage, authority is delegated from Member States (national level) to the Council of Ministers (collective level). At the second stage, Council of Ministers delegates their authority to the European Commission (supranational level) which has a key role in the policy initiation and negotiation processes. Major point made by this argument is that during the foundation of the EU, European elites deliberately decided to transfer the trade policy-making power to the EU level in order to *insulate* the policy-making process from the protectionist domestic groups (Dür, 2008a; Meunier, 2005; Meunier & Nicolaidis, 1999). Hence, the argument goes, as a result of the autonomy gained by the supranational institutions of the Union, EU could achieve substantial trade liberalization. There is also a practical

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<sup>4</sup>Collusive delegation argument was originated in the studies analysing the US trade policy-making process (Dür, 2008a). Accordingly, Congress, which can be influenced by the protectionist domestic groups, delegated the trade policy-making authority to the President in order to ensure trade liberalization (Meunier, 2005).

aspect to the transfer of such authority. From a functionalist point of view, it is pointed that delegating the trade policy-making power to a supranational level and agreeing to speak with a single voice would assure that trade negotiations are concluded in a more efficient and effective way (Elsig, 2007; Meunier, 2005; Meunier & Nicolaidis, 1999).

Secondly, and related to the first argument, it is agreed that EU trade policy-making process is highly executive dominated and technocratic while societal actors have a limited or negligible role (Zimmermann, 2007; Woolcock, 2010b). Accordingly, trade policy outcomes are determined by the institutional dynamics and balance of power between the Commission and the Council of Ministers.<sup>5</sup>

Aggarwal and Fogarty (2004) point to the major power struggle between the Commission and the Council of Ministers in their preferences for different trade strategies. More specifically, Commission generally opts for those strategies with the broadest scope such as multilateralism or inter-regionalism in order to expand its tasks in the field of trade policy when negotiating multiple issues with multiple parties. Council of Ministers, on the other hand, cannot gain additional powers depending on the choice of trade strategies, thus it may rather try to prevent the Commission's task expansion by supporting those strategies with a narrower scope such as bilateralism (Aggarwal & Fogarty 2004, p. 11). Moreover, Council's preferences for bilateral arrangements with strategic partners are also influenced by the geopolitical interests of the Member States that they are representing. In brief, bureaucratic power struggle between the Commission and the Council is the major determinant behind the choice of various trade strategies.

Nevertheless, although EU trade policy-making process is described as technocratic by the institutionalist approach, authors also acknowledge that during the policy-making process, bureaucrats may look for some input from societal actors

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<sup>5</sup>Since most of the studies were conducted before the 2009 Lisbon Treaty reforms, role of the European Parliament (EP) in EU trade policy-making process is neglected. Moreover, Woolcock (2010b) argues that even the new powers granted to the EP by the Lisbon Treaty reforms will not lead to a significant change in the technocratic character of the trade policy-making process in the short or medium term.

in order to define the common trade objectives better (Woolcock, 2010a, p. 391). Still, institutionalist approach asserts that although certain business and civil society groups are consulted during the policy-making process, their influence is rather negligible since they cannot change the dominant preferences of the core EU institutions in those cases where these institutions and societal actors have opposing ideas (Woolcock, 2010a; Zimmermann, 2007).

In sum, institutional approach emphasizes the significance of the core EU institutions and the limited role of the domestic interest groups during the trade policy-making process.

### **2.1.2. Differing Arguments within the Institutional Approach**

Although studies with an institutionalist approach commonly share some basic views, they have three major differing opinions. Firstly, they disagree over the question of which institution has a major role in the policy process. Secondly, they cannot decide on whether particular *interests* or *ideas* of the bureaucrats shape the policies. Finally, they present diverging explanations as regards to why interest groups have a limited role in the choice of trade strategies.

Firstly, although institutionalist approach commonly agrees that core EU institutions matter in the choice of trade strategies and in the process of trade policy-making, authors sometimes differ in their views regarding the dominant institution in the trade policy-making process. Some authors emphasize the dominance of the Council of Ministers representing the Member States as in Woolcock (2010a). Woolcock (2010a) points that it is the Council which decides on the EU's trade objectives by evaluating the draft mandate proposed by the Commission and by authorizing the Commission to start the negotiations. Moreover, it is emphasized, during the negotiations, Council also closely controls the Commission and directly intervenes if necessary. Finally, last decision belongs to the Council which adopts the results of the trade negotiations conducted by the Commission.

On the other hand, there are authors such as Elsig (2007) and Larsen (2007) who highlight the autonomy of and internal dynamics within the Commission in the

determination of trade policy objectives and strategies. Elsig (2007) disagrees with those who use the principal-agent framework to highlight the significance of the principals (Council of Ministers/Member States) but rather suggests considering the role of the agent (Commission). Accordingly, the author argues that Commission enjoys a substantial degree of autonomy since it is usually hard for the Member States with diverging positions to agree to change the original proposal prepared by the Commission (Elsig, 2007, p. 933). Subsequently, Commission becomes the major agenda-setter and determines the trade strategies to be chosen by using its discretion.<sup>6</sup> Similarly, Larsen (2007) suggests that analysis should focus on the internal dynamics within the Commission and the roles played by various Directorates General (DGs) during trade negotiations instead of the Member States and the Council of Ministers.

Disagreeing with both of the positions, Zimmermann (2007) asserts that in specific circumstances, Commission and the Council can both hold similar positions and equally shape the policy outcomes. In other words, the author suggests that “the EU might well not *be*, but *act* like a unitary actor” (Zimmermann, 2007, p. 817).

Secondly, authors differ in their views on whether interests or certain ideas shape the behaviour and decisions of the policy-making institutions. Some studies point to the role of bureaucratic self-interests in the determination of trade strategies. As mentioned before, power struggle between the Commission and the Council and self-interest of each institution in expanding its power may be one factor behind the policy decisions (Aggarwal & Fogarty, 2004, p. 10). In addition, some authors such as Zimmermann (2007) focus on the importance of the geopolitical interests and strategic motivations driving the policy-makers to adopt certain trade strategies. In fact, Council of Ministers can be influential in deciding to

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<sup>6</sup>Elsig (2007) also acknowledges the possibility that a single person within the Commission, namely the Trade Commissioner, can assert significant influence over the choice of trade strategies by pointing to Trade Commissioner Pascal Lamy's support for multilateralism and inter-regionalism during his tenure.

form strategic relations with certain countries and regions depending on the foreign policy objectives of the Member States that they are representing.<sup>7</sup>

While particular interests of the trade policy-makers may play a role in the formulation of policy decisions, some authors highlight the impact of the dominant ideas held by the policy-makers (Elsig, 2007, p. 930). This is the constructivist view within the institutionalist approach which has two implications regarding the choice of trade strategies. On one hand, it is argued that during their socialization process, politicians and bureaucrats acquire different identities, beliefs, ideas or world-views which may influence their policy decisions (Elsig, 2007; Aggarwal & Fogarty, 2004). For instance, Meunier (2005) points to the liberal ideas which were dominant among the founding fathers of the EU and emphasizes that this was reflected in the Treaty of Rome which centralized the trade policy-making in order to effectively liberalize trade. On the other hand, constructivist thinking also draws attention to the attempts of European elites in “identity building” for the peoples of Europe through trade strategies such as inter-regionalism (Aggarwal & Fogarty, 2004, p. 14). In other words, it is pointed out that by promoting regional integration in other parts of the world, EU tries to constitute a distinct global role for itself as opposed to its peers such as United States (US) which is usually identified with multilateralism or globalism. Hence regional integration becomes an identifier for the EU in this process.

Lastly, authors differ in the explanations they provide with respect to the reasons why special interest groups are not (or cannot be) influential in the trade policy-making process. Zimmerman (2004) and Woolcock (2010a) argue that there are no formal channels in the EU for the interest groups to effectively lobby the policy-makers - or for the policy-makers to consult them- unlike the US practice. On the other hand, Elsig (2007) points that interest group lobbying within the EU is highly costly due to the multi-level character of the policy-making process. Moreover, the author argues that diverging interests among the different sectors and business groups also make it difficult for them to agree on a position and be

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<sup>7</sup>Also see Aggarwal and Fogarty (2004).

influential in the policy process (Elsig, 2007). Gerlach (2006), however, asserts that it is generally easy for the business groups to access to Commission and in fact Commission is in need of information which can be provided by them with respect to trade policy objectives. Nevertheless, business groups usually cannot provide such kind of input due to the deficiencies in their internal structures not to mention the fact that sometimes they are even not interested in doing so (Gerlach, 2006).

### **2.1.3. Shortcomings of the Institutional Approach**

Institutionalist approach has two major shortcomings. On the one hand, disagreements among the authors over major points actually weaken their basic premises. On the other hand, this approach rather describes the EU trade policy-making process existing in theory by neglecting the role of societal actors.

To begin with, as it has become clear from the previous evaluation, divergence and disagreement among the authors adopting an institutionalist approach can be considered as the first major shortcoming. In fact, their disagreement with respect to which institution has a more dominant role in the policy-making process and why interest groups are not (or cannot be) influential may weaken their basic arguments. After all, degree of the influence asserted by interest groups on the choice of trade strategies actually change depending on which institution is considered as the major agenda-setter. If Commission is considered as an autonomous institution with a major role in the agenda-setting phase as a result of the delegation of trade policy-making authority from national to a supranational level as previously suggested by Meunier and Nicolaidis (1999)<sup>8</sup>, then arguments of the institutionalist approach may have a point. However, if Council of Ministers representing the Member States is accepted as the most influential institution, then it can be expected that interest groups may in fact easily put pressure on their national governments according to their interests which in turn will be reflected in Council decisions.<sup>9</sup> In brief,

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<sup>8</sup>Also see Meunier (2005).

<sup>9</sup>See next section which elaborates on the influence of domestic interest groups on the EU institutions in detail.

diverging arguments of the authors lead to inconsistencies in the major assumptions of the institutionalist approach.

Secondly, this approach rather describes the EU trade policy-making process which exists in theory by frequently referring to the relevant articles devoted to the field of trade policy in the founding treaties. Therefore, they neglect the societal actors which play a role in the choice of trade strategies in practice. Dür (2008a, 2008b) criticizes the collusive delegation argument and argues that there is actually empirical evidence supporting the influence of protectionist groups on the trade policy decisions of the Union. By examining the negotiating position of the EU during both Kennedy and Doha Rounds, the author points that interests of the import-sensitive protectionist sectors such as agriculture, textile, automotive, and audiovisual services were actually taken into consideration and they became exempt from high tariff cuts. Moreover, Dür (2008a, 2008b) also asserts that theoretical reasoning behind the collusive delegation argument is even wrong by highlighting the fact that unanimity requirement in Council decisions with regard to issues concerning sensitive national interests dominated the decision making process of the Union since its foundation. For this reason, author suggests that Commission would rather listen to dominant interests if it wants to make sure that its proposal will be approved by the Council. Thus, the author concludes that collusive delegation argument is empirically weak and theoretically flawed (Dür, 2008a, p. 31).

## **2.2. Pluralist Approach**

This section is devoted to a review of the studies which adopt a pluralist approach by elaborating on their basic arguments, presenting the different view points of the authors representing the same approach, and summarizing their major shortcomings.

### **2.2.1. Basic Arguments of the Pluralist Approach**

Studies adopting a pluralist approach in their analyses of EU trade policy-making process are influenced by the US political model and they try to apply the

same logic to European politics. They basically argue that European politics are characterized by a competition among different societal groups trying to influence the legislators according to their own interests (Elsig, 2007; Aggarwal & Fogarty, 2004).

Their argument is based on certain assumptions. Firstly, they assume that European policy-makers, whether Commission or the Council, do not have their own preferences independent of the domestic interest groups but rather design policies serving the interests of societal actors (De Bievre & Dür, 2005). Secondly, they consider that interest groups' access to policy-makers is easy both at the national and supranational levels due to multiple access points (Mazey & Richardson, 2003; Dür, 2008a). Finally they point to a *symbiotic* relationship in which both groups will benefit. Accordingly, while domestic interest groups ensure that their interests will be served as a result of the access to policy-makers, legislators also need them for various reasons such as information provision, electoral support or legitimacy (De Bievre & Dür, 2005; Bouwen, 2002; Belloc & Guerrieri, 2008; Mazey & Richardson, 2003). Subsequently, they argue that trade policy outcomes and strategies of the EU can be considered, to a large extent, as the reflection of the interests and preferences of the domestic groups.<sup>10</sup>

This literature points to three types of interests trying to capture the attention of the EU legislators. These are export-competing interests, import-competing interests and diffuse interests, each opting for different trade strategies according to their own benefit.

Export-competing interests are represented by globally competitive sectors which are in favour of gaining access to larger markets in order to benefit from economies of scale and thus support global liberalization through multilateral channels (Elsig, 2007; Aggarwal & Fogarty, 2004; De Bievre & Dür, 2007). In cases where multilateral liberalization is impeded, inter-regionalism would be their “second best” option (Aggarwal & Fogarty, 2004, p. 8). Thus, these groups try to influence the policy-makers for further liberalization.

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<sup>10</sup>Also see R. E. Baldwin (2011).



Import-competing sectors such as agriculture, on the other hand, aim to minimize import competition and largely rely on domestic protection (Aggarwal & Fogarty, 2004, p. 8). Since such sectors are concerned that their domestic market position would be affected by opening up to new markets, they usually prefer bilateral asymmetrical arrangements with selected partners rather than inter-regionalism or multilateralism (Elsig, 2007; Aggarwal & Fogarty, 2004). Moreover, it is the import-competing sectors which pressure the policy-makers to adopt defensive instruments such as anti-dumping measures when they feel that their market position is threatened (Elsig, 2007; De Bievre & Dür, 2005; Davis, 2009).

Finally there are diffuse interests which are represented by non-governmental organizations (NGOs). These groups support various causes such as environmental protection, sustainable development, or protection of labour rights. They oppose globalization in principle and criticize the costs of further trade liberalization on environment, developing countries or international labour force.<sup>11</sup> Therefore, they try to influence the policy-makers in a way that their policies pay attention to these problems. As a result, they mostly support unilateral arrangements rather than multilateral or inter-regional ones (Aggarwal & Fogarty 2004). Nevertheless, it is usually agreed that diffuse interests are under-represented as opposed to concentrated interests (i.e. export-competing and import-competing sectors) (Dür, 2008a; De Bievre & Dür, 2007; Vander Stichele et al., 2006). Major reason with respect to this situation is provided by De Bievre and Dür (2007). Authors point out that diffuse interest groups cannot be effectively organized for political action since they do not have such clear incentives as export and import-competing groups do. In other words, while access to or protection from foreign markets provide “concentrated benefits” to export-competing and import-competing sectors, respectively; NGOs are not directly affected by the policy outcomes since they

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<sup>11</sup>Also see Aggarwal and Fogarty (2004)

rather represent the diffuse interests of others (De Bievre & Dür, 2007, p. 1). Subsequently, they are not much influential in the policy-making process.<sup>12</sup>

### **2.2.2. Different Viewpoints within Pluralist Approach**

Pluralist explanations with regard to EU policy-making process in general and trade policy-making process in particular also have different viewpoints on why legislators are open to lobbying activities and whether access to policy-makers are restricted or not.

First of all, authors adopting a pluralist approach provide different answers to the question of why EU legislators are willing to hear the demands voiced by dominant interest groups within the Union. Their difference originates from the distinct levels of analysis on which they focus - i.e. whether they examine lobbying activities taking place at the national level or supranational level.

De Bievre and Dür (2007) focus on the political activeness of both export and import-competing sectors within the EU which assert pressure on their national governments throughout the history. They suggest that Member States are dependent on the support provided by both groups for electoral reasons and they cannot risk discriminating against any of them. Therefore, they have to represent the interests of the both groups in a balanced way. For this reason, Member States through Council of Ministers delegated their trade policy-making power to the Commission but at the same time they created various control mechanisms over the Commission in order to ensure that neither of the interest groups is discriminated. More importantly, they argue, Member States by taking the legislation process under control through Council of Ministers also aimed to be the central focus of the national lobbying. As

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<sup>12</sup>Although mobilization of NGOs, specifically after the mid-1990s, was acknowledged by the Commission and led to the creation of Civil Society Dialogue within the DG Trade, their inclusion has not yet been translated into actual influence (De Bievre & Dür, 2007).

a result, both trade liberalizing and protectionist policies have existed within the EU since its foundation.<sup>13</sup>

On the other hand, there are authors such as Mazey and Richardson (2003), Broscheid and Coen (2007), Bouwen (2002), and Belloc and Guerrieri (2008) who focus on EU level lobbying activities targeting primarily the Commission. Major reasoning provided by them to the question of why Commission is willing to listen to these domestic groups is closely related to the concern for political legitimacy which can be ensured by acquiring a better knowledge about societal interests. More specifically, it is argued that since Commission has the exclusive right of policy initiation, it has a quite significant role in the agenda-setting process. Therefore, if Commission wants to make sure that its proposals are approved by the Council, it has to be aware of the interests which will possibly be affected by the policies in question. Hence, it is pointed out that particularly during the preparation of policy proposals, Commission benefits from the input which is provided by interest groups taking part in the specialized committees within the DGs (Belloc & Guerrieri, 2008; Mazey & Richardson, 2003; Broscheid & Coen, 2007; Bouwen, 2002).

As a second difference, authors disagree with respect to the degree of access enjoyed by the interest groups. On one hand, Mazey and Richardson (2003) argue that particularly after the adoption of the Single European Act (SEA), continuing increase in the number of lobbyists who are active at the EU level and ready to supply information demanded by the Commission has driven the Commission to ensure that their access to policy-making process is broadened. Yet, on the other hand, Broscheid and Coen (2007) assert that in spite of the increasing attempts on the part of the Commission to interact with societal groups, there is still an *elite* type of pluralist system into which participating groups are selected depending on the

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<sup>13</sup>This explanation can also be considered as an alternative to the principal-agent analysis/collusive delegation argument provided by the institutionalist approach in the previous section. As it has already been mentioned, institutionalist approach emphasizes that EU institutions act autonomously without taking the demands of the domestic groups into account and thus can contribute to trade liberalization (see Meunier, 2005; Meunier & Nicolaidis, 1999). On the contrary, De Bievre and Dür (2007) argue that delegation of trade policy-making in the EU is actually done in order to ensure that existing interests are effectively represented.

quality of the information which they provide. In other words, it is pointed out that “access is generally restricted to a few policy players, for whom membership is competitive and strategically advisable” (Coen, 1997, p. 98).

### **2.2.3. Deficiencies of the Pluralist Approach**

Pluralist approach provides a significant alternative to institutionalist explanations with respect to the determination of EU trade policy outcomes and strategies, yet it still has two major shortcomings.

First of all, it cannot fully grasp all the interests or motivations involved in the process of trade policy-making. It portrays both the EU institutions and Member States as the mere representatives of dominant interest groups by neglecting the possibility that the Commission, Council and Member States may actually have their own preferences and motivations independent of the domestic groups with respect to trade policy strategies.

In fact, Zimmermann (2007), from a realist point of view, draws attention to the “strategic pursuit of preferences by international actors” (p. 815). Accordingly, EU institutions can pursue certain economic and geopolitical goals which they think it is in the best interest of the Union. In fact Sally (2010) argues that EU’s external trade policy can at the same time be characterized as a “de facto foreign policy” (p.168). Similarly, Meunier and Nicolaidis (2006) point out that as EU lacks a military power, it can rather act as a civilian power *through* its external trade policy. In other words, by utilizing the conditionality attached to its trade agreements, EU can grant or deny the right of access to its market depending on the efforts of those partner countries/regions in internalizing the values such as democracy which are promoted by EU.

EU’s external trade policy can even reflect the specific foreign policy and security motivations of the individual Member States as pointed out by various authors such as Meunier and Nicolaidis (2006), Leal- Arcas (2008), and Brenton (2000). Former EU Trade Commissioner, Pascal Lamy (2002) draws attention to the post of rotating Presidency of the Council in order to illustrate how geopolitical

and security-related interests of the Member States played a role in entering into trade relations with various countries/regions from distinct parts of the world. For instance, while Germany and Austria actively supported Europe Agreements with Central and East European Countries, Spain and Portugal pressed for strengthening relations with the Latin American nations (Lamy, 2002). In brief, EU trade strategies are not solely determined according to the commercial interests of the domestic groups but also reflect broader considerations of the EU institutions and the Member States.

As the second major drawback, pluralist approach by itself cannot provide the answer to the question of which factors motivate the domestic actors to form their interests and act accordingly. In fact, both the institutionalist and pluralist explanations generally focus on the endogenous dynamics involved in the policy-making process. They are good at explaining the general tendencies inherent in the institutions and domestic groups with regard to the choice of EU trade strategies. For instance, as it has already been mentioned, institutionalists depict the Commission as the general supporter of multilateralism while pluralist approach suggests that import-competing sectors are in favour of protectionism. Nevertheless, it is also necessary to have an international systemic perspective in order to be able to explain the major shifts from particular strategies to others in certain periods as a response to certain developments. Systemic approach can provide a complementary analysis in this regard.

### **2.3. Systemic Approach and Major Systemic Theories**

This section presents the explanations provided by two major systemic theories which are liberal institutionalism and realism. After a review of the insights provided by each one of these theories, last part of this section is devoted to the shortcomings of the systemic approach in general.

### **2.3.1. Liberal Institutionalism**

Contrary to institutionalist and pluralist approaches underlining the impact of internal factors such as the roles played by domestic institutions or special interest groups, authors benefiting from the insights provided by the systemic approach rather draw attention to the impact of international systemic and structural factors working as external drivers of various trade strategies (Aggarwal & Fogarty, 2004; Elsig, 2007). Within the systemic approach, theories of liberal institutionalism and realism provide opposite explanations with respect to the nature of the broader international system. To be more specific, while liberal institutionalism highlights the opportunities originating from international settings, realism adopts a more pessimistic view by focusing on the constraints.

Liberal institutionalism mainly argues that international legal/institutional settings function as promoters of partnership and cooperation among states (Grieco, 1988). Regarding cooperation in the area of international trade, liberal institutionalists underline the enabling role of the GATT/WTO in which “liberal trading model has become embedded” (Elsig, 2007, p. 930). It is emphasized that principles and rules set out by the GATT/WTO regulate various channels through which states can enter into trade relations and cooperate with each other. For instance, while GATT/WTO trade rounds enable many states to discuss and negotiate over various matters multilaterally, GATT/WTO agreements also regulate other channels of trade cooperation such as bilateralism, regionalism or unilateralism. In fact, as a result of the provisions of Article XXIV of GATT regarding the establishment of customs unions (CUs) and free trade areas (FTAs)<sup>14</sup>, WTO members have been able to form multiple bilateral/inter-regional preferential trade arrangements (PTAs) with their partners (Conconi, 2009). Similarly, under the Enabling Clause of GATT, WTO members have been able to enter into relations

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<sup>14</sup>Several WTO members can discriminate against goods from the rest by forming FTAs or CUs if these arrangements lead to the elimination of trade barriers on a substantial part of the goods traded among the members of FTAs and CUs “within a reasonable length of time”; if they do not result in a rise in average trade barriers against other trade partners outside these arrangements; and if the formation of these FTAs and CUs are notified to the WTO immediately (Hoekman et al., 2002)

with the developing and the least-developed countries by granting them unilateral preferences (Conconi, 2009). Besides, GATT/WTO rules even allow some room for trade restrictions in certain cases. Hoekman et al. (2002) point to three specific circumstances in which trade restrictions are allowed by the GATT/WTO rules. Firstly, trade can be restricted for non-economic purposes such as public health or national security. Secondly, instruments such as countervailing and anti-dumping duties imposed on subsidized and dumped imports can be used in order to ensure fair competition. Thirdly, in times of extraordinary circumstances such as serious balance of payments difficulties or serious injuries to certain industries by significant increases in imports, governments are allowed to restrict trade as a safeguard measure (Hoekman et al., 2002, p. 44).

Elsig (2007), however, argues that liberal institutionalists cannot provide explanations regarding the periodic shifts from certain trade strategies to others under certain circumstances by only focusing on the general rules and principles which regulate and enable these strategies. Although the author might have a point, it is also necessary to bear in mind that as rules and principles regulating the trade strategies evolve in time, these changes may well lead to strategy and policy shifts.

### **2.3.2. Realism**

In general, realism has two core assumptions, one with respect to the nature of international system, the other regarding the characteristics of the states. First of all, realists assume that international environment is structurally “anarchic” in which competition, conflict and war are always existent (Hyde-Price, 2006, p. 220). Secondly, states as “primary international actors” try to respond to that anarchic environment by rationally and strategically calculating the consequences of their actions (Hyde-Price, 2006, pp. 220-21). As a result, such kind of an anarchic international system forces the states to be interested in the maximization of only their own security and power since they consider that in such a competitive environment, other states are also pursuing the same goals under similar pressures. Therefore, as opposed to the arguments presented by liberal institutionalists, realists

pessimistically claim that possibilities for the states to cooperate with each other are limited since cooperation usually depends on the relative gains to be acquired under those conditions (Hyde-Price, 2006). In other words, states are willing to cooperate with each other only if they certainly believe that doing so will strengthen their positions relative to their major rivals.

Realism (and its variants such as neo-realism) usually focuses on the strategic actions of sovereign states constrained by the broader international systems. Most recently, assumptions of the realists have been quite instrumental in providing explanations with respect to the global rise of bilateralism, regionalism and inter-regionalism since the beginning of the 1990s. It is generally pointed out that end of the Cold War marked the beginning of a new world order in which global competition has been accelerated and states have increasingly become interdependent on the actions of each other (Santander & Ponjaert, 2009). Acceleration of globalization has rendered the states and their economies vulnerable to the repercussions of any international or global development taking place in the world (Santander & Ponjaert, 2009). In such an emerging international order, regionalism is used as a strategy by nation states either to prepare for or to react to the consequences of globalization by building alliances (Telo, 2007).

Apart from this general explanation, realist scholars underline the impact of two specific systemic factors playing a significant role in the rise of regionalism. First of all, they consider the nature of the international trading system (Telo, 2007; Young & Peterson, 2006). What is usually meant by the nature of the international trading system is the character, scope and coverage of multilateral trade relations under the framework of GATT/WTO. Accordingly, it has been pointed out that the course of the multilateral WTO negotiations has been increasingly slowing down since the late 1980s. This is mostly evident in the cases such as Uruguay Round (1986-1994) which was completed in almost eight years, WTO Ministerial in Seattle in 1999 which is considered as a failure, and 2001 Doha Development Round which has been suspended in 2006. It is argued that all these cases have led to an uncertainty regarding the future of the multilateral trade system and driven the states



to move to bilateral, regional or inter-regional arrangements under competitive pressures (Telo, 2007). Secondly, impact of the global economic and financial situation, -i.e. existense of global crises or economic booms- on the evolution of preferential arrangements has been discussed. It has been argued that changes in the global economic and financial situation can either motivate the states to seek regional cooperation for survival or weaken the existing ties among them due to self-seeking policies of certain nations (Telo, 2007).

Although scholars mostly prefer to deploy realist theories in their analyses of the behaviour of sovereign states, authors such as Zimmermann (2007), Hyde-Price (2006) and Farrel (2006) successfully utilize the assumptions of the realist perspective in order to examine the behaviour of the EU in its external actions despite the fact that EU is not a sovereign state. On the contrary, Zimmermann (2007) argues that in its external trade policy EU can be considered as a unitary actor which is capable of pursuing strategic and rational objectives in order to ensure the well-being of the Union as a whole. Similarly, Hyde-Price (2006) suggests that “EU is not a sovereign actor in its own right, but acts as a vehicle for the collective interests of its member states” (p. 220).

Similar to the above-mentioned scholars, in the case of EU, too, authors generally make use of the realist theories in their explanations with respect to the reason behind the emergence and rise of bilateralism/inter-regionalism within the EU since the mid-1990s. Accordingly, it is argued that bilateralism/inter-regionalism is preferred by the EU as a strategy to enter into relations with various countries/regions primarily to maintain and strengthen its own economic competitiveness and/or political influence in these territories by attempting to counter-balance the similar initiatives of its major competitors such as the US (Aggarwal & Fogarty, 2004). Most frequently mentioned examples with respect to this balancing behaviour is the formation of the EU-Mexico FTA as a response to a US initiative which includes Mexico to the previously formed US-Canada FTA by superseding it with a North American Free Trade Agreement (NAFTA), and EU’s start of inter-regional negotiations with MERCOSUR region in an attempt to

respond to a US plan for a creation of a Free Trade Area of the Americas (FTAA) in the mid-1990s.

However, realist application cannot be confined to the explanations regarding EU's strategic actions as a response to the behaviour of its major rival, US. Equally it can be applied in order to explain EU's strategic responses to the actions of its other major competitors such as Japan or China. In fact, realism can be deployed to examine EU's responsive acts originating from any other international development which concerns its economic security and competitiveness. For instance, Zimmermann (2007) adopts a realist perspective in order to provide insights into EU's behaviour during the negotiations about the accessions of China and Russia to WTO. On the other hand, Farrel (2006) examines the EU-Africa relations under the 2000 Cotonou Agreement and concludes that EU's policy towards this region is substantially realist and based on a concern to secure its own economic interests.

In brief, as a systemic approach, realism attempts to “deduce the preferences of international actors from the constraints of the international system” (Zimmermann, 2007, p. 815).

### **2.3.3. Shortcomings of the Systemic Approach**

Systemic approach -either from a liberal or realist perspective- constitutes a significant alternative to both institutionalist and pluralist approaches by rather highlighting the roles played by the external systemic and structural factors in the determination of EU trade strategies. Nevertheless, it still has two basic shortcomings.

First of all, systemic approach, similar to the institutionalist approach, neglects the role of the domestic groups and special interests in the process of trade policy formation and strategy choices. While liberal perspective underlines the significance of international institutional and legal settings, realists examine the behaviour of states -or the EU as long as it is considered as a unitary entity- as the primary level of analysis.

Secondly, by only considering the impact of the external factors, systemic theories such as liberal institutionalism and realism cannot fully grasp all the elements involved in the process of trade policy-making. Therefore, systemic approach can rather be helpful when utilized as a complementary tool together with the institutionalist and pluralist approaches. In fact, Aggarwal and Fogarty (2004) argue that external environment cannot be isolated from the domestic realm since interests or behaviours of domestic actors such as interest groups, bureaucrats and policy-makers are influenced by the external dynamics. Therefore, an analysis of the evolution and determination of EU preferences towards different trade strategies should consider the influence of external and internal dynamics together and in an interactionist manner.

#### **2.4. Towards a More Interactionist Approach**

Examination of the main arguments and major deficiencies of the institutionalist, pluralist and systemic approaches utilized in the analysis of the external trade policy and trade strategies of the EU has demonstrated that each approach contributes to the further understanding of the determinants of EU trade strategies by providing certain insights. Nevertheless, when deployed in isolation, they all remain insufficient by themselves. This study aims to propose an alternative analysis in which all the major factors mentioned above are taken into account in a more interactionist manner. Following subsections elaborate on two major features of this alternative model -i.e. its broad coverage and interactionist approach.

##### **2.4.1. The Necessity of an Analysis with a Broad Coverage**

Studies adopting any of the three approaches mentioned above lack a broad coverage in two major ways: They usually focus on the role of a *single factor* in the process of EU trade policy-making and/or they analyse the factors which have a role in the case of a *single trade strategy*.

First of all, most of the studies aim to highlight the impact of a *single factor* on the process of EU trade policy-making and/or on the determination of EU trade

strategies from a different point of view. As a result, these studies reach to contradictory results. For instance, as mentioned before, authors adopting a systemic approach such as realism emphasize that it is basically the external constraints which drive the policy-makers to prefer certain strategies by neglecting the roles of the EU institutions acting on their own initiatives or the domestic actors putting pressure on the policy-makers in the process of trade policy formation. In fact, Zimmermann (2007) clearly suggests that realism as a systemic approach contradicts both with the pluralist and institutionalist approaches by arguing that

If it can be shown that the EU foregoes commercial gains in the interest of geopolitical goals, consistently brushes aside important societal groups in the pursuit of this strategy, and overrides normative concerns, the case for a realist explanation would be greatly strengthened...If, however, EU negotiations, were very open to societal interests, such as commercial lobbies or NGOs and sectoral interests were dominant in shaping EU preferences, this would strongly contradict the realist hypothesis...Likewise, in case EU preference formation derives from norms...there would be less room for a realist argument. (Zimmermann, 2007, p. 818)

Although, external constraints definitely have an influential role in the determination and evolution of EU trade strategies, previous elaboration on the arguments of institutionalist and pluralist approaches has also demonstrated that influence of the EU institutions and domestic actors with various interests on the process of trade policy-making are undeniable. Therefore, it is necessary to consider the impact of multiple factors on the evolution and determination of EU trade strategies.

Building on the insights provided by these approaches but also eliminating their major shortcomings, this study takes into account multiple factors playing distinct roles in the changing dynamics and determinants of EU trade strategies. These factors can be grouped into three categories as being external constraints, domestic interests and core EU institutions.

As external constraints, three major factors which are highlighted by the systemic approach are taken into account. These are nature of the international trading system, global economic and financial situation, and major competitors of the EU. Although these external constraints are generally utilized by the realist theory, this study does not necessarily confine itself to the explanations provided by realist authors. In fact, under the concept of nature of the international trading system, this study combines the insights provided by both the realist and liberal institutionalist theories. Thus, this concept not only refers to the nature of the power relations at the multilateral level but it also takes into consideration the evolving GATT/WTO rules and principles.

With respect to domestic interests, this thesis considers the influence of three types of interests. These are export-competing interests, import-competing interests and Member State interests. While pluralist approach provides insights into the dominating influence of the first two, it is also necessary to acknowledge the significance of the particular interests of Member States in shaping the trade policy and strategy decisions of the EU throughout the history. Besides, agreeing with the pluralist approach, this study deliberately neglects the role of the diffuse interests in the process of trade policy-making in the EU. Although diffuse interests which are represented by various NGOs have recently been included into the policy formation process, their influence is still insignificant.

Among the EU institutions, this study will consider the impact of two core EU institutions which are the European Commission and the Council of Ministers. Agreeing with the institutionalist approach, Commission, as the major agenda-setter, policy-initiator and the chief negotiator play a huge role in the determination of trade strategies. Council of Ministers, on the other hand, controls the Commission during the policy-making process and ultimately decides on the policies initiated by the Commission by giving its approval. Although the 2009 Lisbon Treaty reforms have granted joint powers to the European Parliament with the Council in the processes of trade policy-making, trade negotiations and ratification of the trade agreements, Woolcock (2010b) argues that this will not lead to a significant change

in the existing character of the trade policy-making process in the short or medium term. Moreover, since this study focuses on the major trade strategy shifts in EU which occurred before the Lisbon Treaty reforms entered into force, European Parliament is not included within the core EU institutions intentionally.

Consideration of the role of the multiple factors in the EU trade policy-making process is not sufficient by itself for an analysis aiming to have a broad coverage. It is also necessary to test the impact of these multiple factors on *multiple trade strategies*. In the literature, while only a few studies consider analysing the role of multiple factors in the determination of certain EU trade strategies as in Aggarwal and Fogarty (2004), studies testing the influence of multiple factors on *multiple trade strategies* are almost non-existent. Aggarwal and Fogarty (2004), for instance, provides an analysis with the broadest coverage in the literature in terms of the number of factors considered by taking into account the impacts of various factors such as institutions of the EU, special interest groups, international systemic constraints, and EU's need to create a common identity. Yet, authors examine the roles of these elements particularly in the case of EU's trade strategy of inter-regionalism towards distinct regions.

This study attempts to test the influence of multiple factors listed above on the choice of four major types of EU trade strategies which are categorized as being multilateralism, bilateralism/inter-regionalism, unilateralism and protectionism. Multilateralism is used in order to refer to the working of EU with multiple parties on international trade matters under the framework of GATT/WTO. For simplicity, bilateralism and inter-regionalism are evaluated under the same category in order to examine EU's trade relations with individual countries and regional blocks together. Regionalism, however, is excluded from the major trade strategies of the EU since it actually refers to the establishment of a regional trade block and evolution of the regional integration through enlargement rather than a trade strategy utilized by the EU to enter into relations with trading partners. Unilateralism is used for preferential concessions granted by the EU to the developing and the least-developed countries without demanding any reciprocity. Finally, as different from

the former studies, protectionism is included among the major EU trade strategies as a type of a defensive trade strategy which involves the use of certain instruments by the EU in order to temporarily restrict trade in certain circumstances.

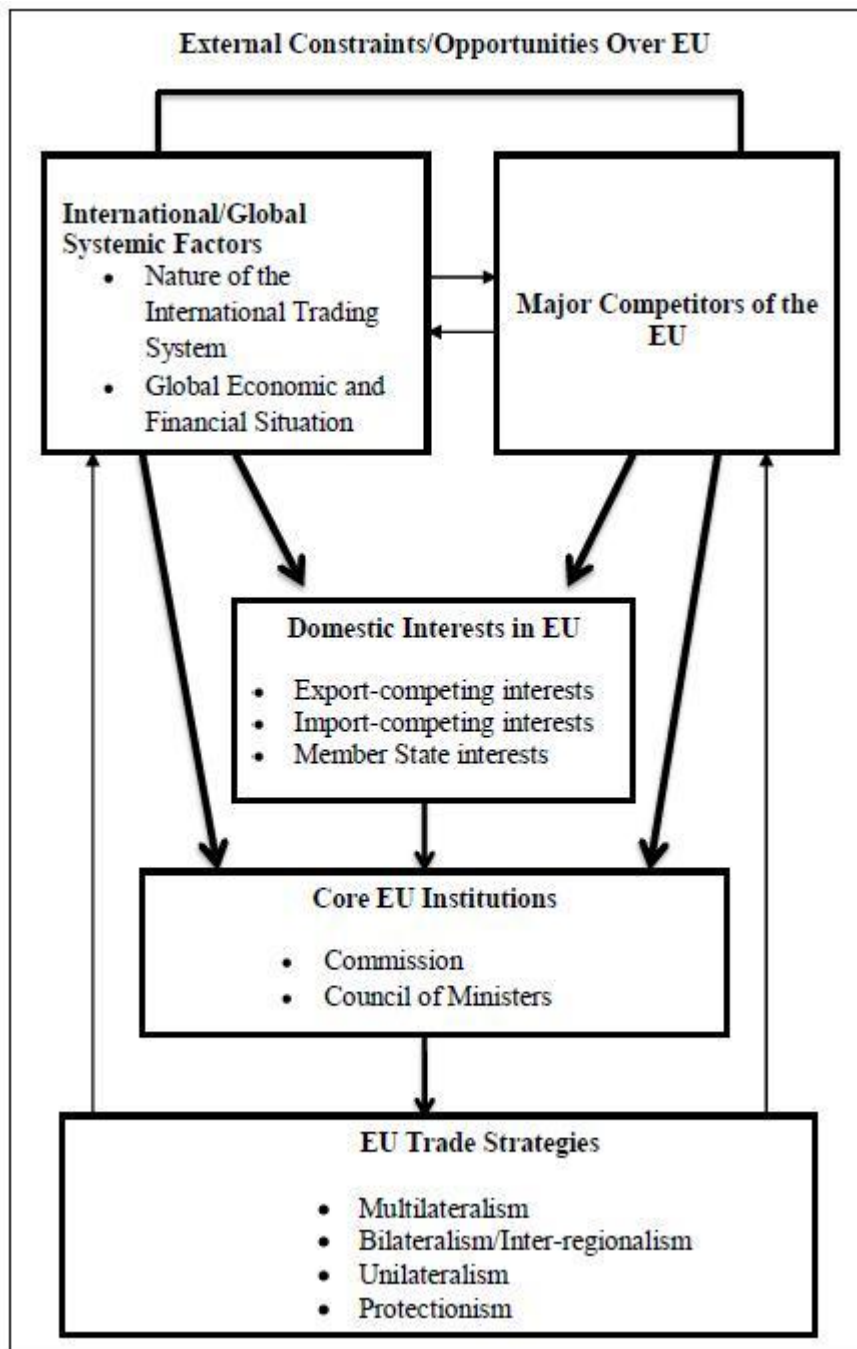
In brief, this study suggests an alternative analysis with a broad coverage to examine the evolution and determination of EU trade strategies by taking into account the role of *multiple factors* regarding *multiple trade strategies*.

#### **2.4.2. Adding an Interactive Dimension to the Analysis with a Broad Coverage**

Insights provided by different approaches do not have to be necessarily contradictory but on the contrary, they can well be complementary with each other. In order to demonstrate this, it is also necessary to add an interactive dimension to the analysis with a broad coverage.

Figure 2.1 displays the interaction between the multiple determinants of EU trade strategies. Before solely focusing on the EU case and how its trade strategies are determined, it is firstly necessary to point to the direction of influence among the EU, its major competitors in trade, and international/global systemic factors.

To begin with, as demonstrated by Figure 2.1, EU and its major competitors directly give the international/global systemic factors their existing shape by affecting the international trading system through their participation in WTO negotiations and transform the global economic/financial situation through their individual economic performances. In fact, EU and its major trade competitors such as the US, Japan, China, India and Brazil are the key players in the multilateral trade negotiations of WTO (Young, 2011). While EU, US and Japan have traditionally dominated the GATT/WTO negotiations; China, India and Brazil have recently appeared as active players, constituting a major challenge to the traditional actors in the WTO governance (Young & Peterson, 2006; Young, 2011; M. Baldwin, 2006).



Source: Own interpretation

**Figure 2.1: Interaction between the Determinants of EU Trade Strategies**



Major factor which contributes to their dominance in multilateral trading system is the fact that EU and its competitors are highly remarkable in terms of their respective market size and resulting trade power. Barton et al. (2006) suggest that in trade negotiations, market size and bargaining power are directly proportional.<sup>15</sup> In other words, nations with larger markets have more influence in the WTO negotiations. In fact as one indicator of market size, almost half of the total goods and services traded in the world only belongs to EU and its major competitors which are among the leading exporters and importers in world merchandise trade and commercial services. Table 2.1 lists the world shares of EU27, US, China, Japan, India, and Brazil regarding their exports and imports of goods and commercial services. Accordingly, 49.3 per cent of the total goods and 59.4 of commercial services are exported from EU and its major competitors to the rest of the world. Similarly, 54.6 per cent of the total goods and commercial services are imported by these traders from the rest of the world.

As another indicator of market size and resulting trade power, Table 2.2 lists the shares of EU and its major competitors in world Gross Domestic Product (GDP) based on Purchasing Power Parity (PPP) in 2011. Accordingly, EU and its major competitors together have a share of 67.5 per cent in global GDP (PPP) while 53.4 per cent of this share belongs only to EU, US and China. Consequently, it is these nations which dominate the multilateral trade negotiations through their bargaining power which results from their market size and trade power. Besides, both the EU and some of its major competitors such as the US have the power to individually constitute a direct effect on the global economic and financial situation through their economic performances. This is most recently evident from the 2008 economic and financial crisis which broke out in the US and immediately spread to the rest of the world.

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<sup>15</sup>Also see Krasner (1976) and Young (2011).

**Table 2.1: Leading Exporters and Importers in Merchandise Trade and Commercial Services**

<b>Major Exporters and Importers</b>	<b>Share in World Exports (%)</b>		<b>Share in World Imports (%)</b>	
	<b>Merchandise Trade</b>	<b>Commercial Services</b>	<b>Merchandise Trade</b>	<b>Commercial Services</b>
<b>EU27*</b>	15.1	24.4	16.5	21.9
<b>US</b>	10.8	18.5	16.4	13.3
<b>China</b>	13.3	6.1	11.6	7.1
<b>Japan</b>	6.5	4.9	5.8	5.8
<b>India</b>	1.9	4.4	2.7	4.3
<b>Brazil</b>	1.7	1.1	1.6	2.2
<b>TOTAL</b>	<b>49.3</b>	<b>59.4</b>	<b>54.6</b>	<b>54.6</b>

\* Excluding intra-EU trade.

Source: (WTO, 2011a)

**Table 2.2: Shares of EU and Its Major Competitors in World GDP (PPP) (2011)**

<b>WTO Members</b>	<b>GDP (PPP) (%)</b>
<b>European Union (EU27)</b>	20.0
<b>United States</b>	19.1
<b>China</b>	14.3
<b>India</b>	5.6
<b>Japan</b>	5.6
<b>Brazil</b>	2.9
<b>TOTAL</b>	<b>67.5</b>

Source: Derived from International Monetary Fund database (IMF, 2012).

After moulding the international/global systemic factors through their actions, EU together with its major competitors has to act under this framework which now asserts influence over them. As a result, while EU is affected by the nature of the international trading system and global economic/financial situation when deciding on its trade strategies, on the other hand, it also has to keep an eye on the actions and strategies decided by its major rivals which are constrained under the influence of similar pressures. Similarly, EU is followed with utmost care by its rivals regarding its actions and policy decisions which might affect their moves as well.

Having emphasized the direction of influence among the EU, its major competitors and the international/global systemic factors, if the focus is given solely to the EU case, at the external level, pressures are asserted over EU from two different directions (see Figure 2.1). Firstly, systemic factors which have been shaped by both the EU and its major competitors assert a direct influence on EU. Secondly, strategies of its major competitors which have similarly been decided under external pressures affect the EU during the process of trade policy-making. Therefore, external factors work as major drivers motivating and pressuring the EU to reassess its trade policy and strategy options under these circumstances. In this respect, they may seem as the real determinants of EU trade strategies. Nevertheless, Waltz (2000) suggests that “structures shape and shove; they do not determine the actions of states.” (p.24). In fact, how states respond to the pressures created by international/global systemic and structural constraints depend on the domestic dynamics within the states as well (Hyde-Price, 2006). Thus, domestic factors such as the influence of domestic interests and roles played by the policy-makers should also be taken into account for a full understanding of the determinants of EU trade strategies.

At the domestic level, external constraints create pressures over the domestic actors and institutions within the EU, driving them to respond accordingly. At this level, there exist two possibilities. Firstly, domestic actors such as export-competing and import-competing producers or Member States with various interests at stake under these circumstances may try to convince the EU institutions to follow a

certain trade strategy which serves their particular interests the most. However, EU institutions do not automatically translate the demands of these groups into policies. In fact, success of the domestic groups such as business lobbyists in shaping the policy outcomes, to a large extent, depends on the “receptiveness” of the EU institutions to their demands (Woll, 2007, p. 59). In other words, if interests of the domestic actors converge with those of EU institutions, the former can more easily influence the policy outcomes and the choices among different trade strategies.

Secondly, EU institutions -particularly the Commission as the major agenda-setter- may decide on a trade strategy which they think it would best serve the common interest of the Union upon their own initiative. In this case, although the autonomy enjoyed by the EU institutions may seem explicit as suggested by the institutionalist approach, in order for the policy proposals to be easily approved and turned into actual policies, EU institutions should ensure that domestic actors such as the influential business representatives or more importantly the Member State governments also support their initiatives as argued by the pluralist approach. Thus, in this case, too, it is necessary to adopt an interactionist approach to examine the dynamics between the domestic actors and the EU institutions.

## **CHAPTER 3**

### **EU'S COMMITMENT TO MULTILATERALISM (1958-1995)**

This chapter focuses on EU's choice of trade strategies in the period between 1958 and 1995 under the framework of an interactionist approach developed in the previous chapter. In the first section, global commitment to multilateralism and resulting 'multilateralism first' approach within the EU are examined by taking into account the external and internal elements leading to the support for multilateral liberalization during the Dillon, Kennedy, Tokyo and Uruguay Rounds. In the following two sections, other trade strategies deployed by the EU, namely the protectionism, unilateralism and bilateralism/inter-regionalism are analysed in a similar manner in order to demonstrate that these alternatives are pursued for specific reasons but not as a main strategy, validating EU's commitment to 'multilateralism first' approach until the mid-1990s. Last section provides a final assessment on the determinants of EU trade strategies during this period.

#### **3.1. Global Commitment to Multilateralism and EU's 'Multilateralism First' Approach until the mid-1990s**

This section starts by presenting the major external factors leading to the establishment of GATT. Secondly, EU's participation in the Dillon, Kennedy and Tokyo Rounds are examined and evaluated under the framework of an interactionist approach. Section ends with EU's contribution to multilateral liberalization in the Uruguay Round.

##### **3.1.1. Systemic Factors Leading to the Establishment of GATT**

In order to understand the need for the creation of a multilateral trade regime after the end of the Second World War and the increasing global commitment to 'multilateralism first' approach since then until the mid-1990s, firstly it is necessary

to examine the international/global systemic factors -i.e. nature of the international trading system and global economic/financial situation- prevailing in the pre-GATT period under the framework of the interactionist approach developed in the previous chapter. Although this model is developed for the case of EU to analyse the changing dynamics and determinants of its trade strategies since its foundation in the GATT era, it also provides helpful insights in order to examine the prevailing international/global systemic factors and domestic dynamics within other nations in the pre-GATT period, which subsequently resulted in a world-wide shift in trade strategies from bilateralism and protectionism towards multilateral liberalization.

To begin with, throughout the 19th century and until the Great Depression of 1929, international trading system was mainly based on bilateralism (Aggarwal, 2006; Khorana et al., 2010). Liberalization of trade had actually started before the establishment of GATT with the creation of a 'network' of bilateral agreements through which reciprocal tariff cuts were realized (Nenci, 2011). This system collapsed as a result of the severe impacts of the 1929 Great Depression and nations immediately turned to 'beggar-thy-neighbour' policies in an attempt to protect their individual economies (Khorana et al., 2010, p. 22). Major example of these protectionist policies was the 1930 Smoot-Hawley tariff, which was introduced by the US to decrease the volume of its imports and it is often argued that it played a significant role in the collapse of the world trade by encouraging further increases in tariffs world-wide (Irwin, 1998). Although the individual impact of the Smoot-Hawley tariff on the collapse of the world trade is not clear (Irwin, 1998), rapid increase in global protectionism led to a 61 % decline in the total volume of world trade between 1929 and 1933 (McCalla, 1969, p. 335).

In 1934, US returned to bilateralism with the entry into force of the Trade Agreements Act. It aimed to negotiate reciprocal tariff cuts with its individual trading partners through bilateral agreements, but in the end no substantial reductions in the tariffs were achieved. Barton et al. (2006) point to two major reasons behind the ineffectiveness of the reciprocal agreements. First of all, negotiating reciprocal tariff cuts with each of its trading partners was a slow and

time-consuming process for the US since the President with the negotiating mandate had to consult to a number of institutions including the Tariff Commission, related state departments and special committees. Moreover, interest groups had to be invited to the public hearings in the committee meetings to convey their views both before and after the negotiations. Secondly, it was usually difficult for the US to find a partner to negotiate a bilateral agreement since smaller nations were suspicious that US could breach its commitments as it previously did (Barton et al., 2006). In the case of US, this was in fact related with the first problem of heavy involvement of the domestic actors which affected the future of its bilateral agreements (Barton et al., 2006).

In sum, soon after the end of the Second World War, both the US and other nations had clearly understood that neither the ineffective bilateral attempts nor the protectionist policies would contribute to the welfare of the global community which had seriously declined as a result of the combined impacts of the two world wars and the Great Depression (Khroana et al., 2010; Frank, 1996). In other words, strategies and policies which had previously been pursued by the trading partners shaped the international/global systemic factors which would have a serious impact on their future trade strategies.

General Agreement on Tariffs and Trade (GATT) was finally signed in 1947 under the leadership of US as a part of a broader effort to regulate the post-war political and economic cooperation mechanisms via multilateral channels (Telo, 2007; Conconi, 2009). The major purpose behind the establishment of a multilateral trade regime was to avoid the severe impacts of protectionism and discriminatory effects of bilateralism which had been experienced since the Great Depression (Conconi, 2009; Khorana et al., 2010). By emphasizing certain principles such as non-discrimination and reciprocity, freer trade would be realized through the elimination of tariffs and non-tariff barriers to trade under the framework of GATT (A. G. Brown, 2003). However, as policy-makers were not certain about the repercussions of liberalization or possible “future shocks” on their domestic economies, some exceptions to general trade rules and principles were also

considered (Chase, 2006, p. 27). By this way, multilateral liberalization of world trade would be pursued without incurring much opposition (Chase, 2006).

One of the mostly cited exceptions allowed by GATT is the Article XXIV which regulates the conditions under which customs unions (CUs) and free trade areas (FTAs) are established. This article was originally designed to discourage the “escapes” from the Most Favoured Nation (MFN) principle by establishing certain rules to enter into such bilateral and regional arrangements (Chase, 2006, p. 28). Thus, preferential liberalization would be seen only as a “second-best” trade strategy (Khorana et al., 2010, p. 23). By this way, formation of the first examples of regional trade blocs such as European Economic Community (EEC) in 1957 and European Free Trade Association (EFTA) in 1960 was rendered possible.

In brief, with the establishment of GATT, ‘multilateralism first’ approach would be embraced globally as a response to the negative consequences of bilateralism and protectionism in the previous era while preferential arrangements would be accepted only under certain conditions as the second-best option.

### **3.1.2. EEC/EC<sup>16</sup> in the Early Gatt Rounds**

After the signing of GATT until the establishment of EEC by the 1957 Treaty of Rome, four rounds of multilateral trade negotiations had been held in Geneva (1947), Annecy (1949), Torquay (1951), and Geneva (1956), respectively. Nevertheless, these rounds had not led to significant tariff cuts and immediate elimination of trade barriers (A. G. Brown, 2003). Although nations committed themselves to multilateralism in the post-war era due to the reasons mentioned above, A. G. Brown (2003) and Dür (2007b) suggest that substantial trade liberalization was basically impeded due to the US unwillingness in further tariff cuts. Authors emphasize that US reluctance was originated from the domestic dynamics within itself. Accordingly, US legislation on trade negotiations and the decisions of the Congress which was the major trade policy-making authority were largely influenced by the interests of the dominant import-competing groups (A. G.

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<sup>16</sup>EEC/EC stands for European Economic Community/European Community.



Brown, 2003; Dür, 2007b). As US was not willing to make further tariff reductions in the multilateral GATT rounds in order to protect the interests of its import-competing producers, other nations were not agreeing to make concessions, either (A. G. Brown, 2003). Thus, although first four rounds of GATT demonstrated its members' commitment to multilateralism, their results were not much satisfactory for further trade liberalization due to domestic dynamics within these countries. Only the following rounds in which EEC was also able to participate had increasingly significant results in this regard.

### **3.1.2.1. Participation of EEC/EC in the Dillon, Kennedy and Tokyo Rounds**

Dillon Round (1960-61) was the first round in which EEC participated. In fact, it was to a large extent a response to the creation of the EEC (A. G. Brown, 2003; Conconi, 2009; Evans, 1971). During the preparations for the Treaty of Rome which would establish a customs union among the six Western European states, some GATT members had questioned the compatibility of EEC with the provisions of the Article XXIV of GATT (Kim, 2010; McKenzie, 2010). Three major elements of the Treaty of Rome were deemed contradictory to the core GATT principles. These were common external tariff (CET), provisions about overseas territories, and plan for a common agricultural policy (CAP). While establishment of a common external tariff (CET) among the Six, which would not be generalized to the rest, and provisions about certain tariff privileges to overseas territories violated the non-discrimination principle, plan for a creation of a common agricultural policy (CAP) was associated with protectionism (McKenzie, 2010). However, support of the US for an integrated Western Europe for geopolitical considerations, willingness of EEC to integrate itself with the multilateral GATT mechanism in order to contribute to further liberalization, and vague interpretations of the Article XXIV all led to the acceptance of EEC within the GATT framework (Kim, 2010). Moreover, content of the emerging CAP could not be questioned further since US had already obtained a

waiver for its own agricultural policy imposing quotas on exported products from the rest of the world to its own market (McKenzie, 2010).

Instead of declaring the incompatibility of EEC with GATT, which would cause harm both to the integration of Western Europe and newly created trade regime, Dillon Round aimed to discuss the negative effects of EEC on the GATT members and thus negotiate compensations and further tariff reductions (McKenzie, 2010). Particularly US and other 'excluded' nations demanded unilateral concessions from the EEC as compensation for the resulting tariff changes after the creation of CET (Dür, 2008b). The Six, on the other hand, refused to grant unilateral compensations but rather asked for reciprocal tariff cuts (McKenzie, 2010). However, Dillon Round did not achieve significant tariff reductions due to disagreements between the US and the EEC. Major source of disagreement was again originated from the problems associated with the domestic legislation within the US which impeded higher tariff cuts and thus limited the negotiating mandate given to the President (Dür, 2007b; McKenzie, 2010; Evans, 1971).

Next multilateral trade negotiations were realized in the Kennedy Round (1964-67). Literature agrees that this round was remarkably different from the previous GATT rounds in two major ways. Firstly, substantial tariff liberalization was achieved. Secondly, anti-dumping measures as non-tariff trade barriers were addressed for the first time. In these achievements, domestic developments within both the US and EEC had played a huge role. More specifically, while economic growth in Common Market started to increase rapidly, US was experiencing balance-of-payments difficulties and major market losses due to the formation of EEC (Evans, 1971; Ludlow, 2007; McKenzie, 2010). These developments motivated the export-competing interests within both the US and the EEC to pressure their respective governments for a participation in a new round of trade negotiations to achieve satisfactory results (Dür, 2007b, 2008b).

US was interested in the successful conclusion of the Kennedy Round to reduce trade barriers experienced in the EEC, to increase its exports and economic growth, and to further improve the multilateral trade system under GATT (Coppolaro, 2011).

In order to achieve these results, domestic trade legislation which constituted a major impediment to further trade liberalization and bargaining with the EEC in the previous rounds had to be addressed (Evans, 1971; Coppolaro, 2011; Ludlow, 2007; McKenzie, 2010). Accordingly, Congress passed the Trade Expansion Act (TEA) in 1962 which would substantially increase the negotiating power of the President by granting him the authority to reduce the tariffs by 50 per cent on an across-the-board basis (Coppolaro, 2011; McKenzie, 2010).<sup>17</sup>

Dür (2007b) provides explanations for the changes in the US trade legislation by deploying a ‘protection-for-exporters hypothesis’. Briefly the author suggests that under normal conditions, import-competing interests dominate the trade policy-making process but in the case of market losses from abroad, export-competing groups mobilize and pressure the legislators for adopting policies which enables trade liberalization both in the home and foreign markets. According to this hypothesis, it is argued that US exporters which experienced major market losses in the Western Europe due to the trade diversion effects of the EEC, influenced the US policy-makers to change the existing legislation and agree to negotiate reciprocal tariff cuts with the EEC. However, Dür (2007b) draws attention to the fact that import-competing interests also continue to get involved in the negotiation process and the balance between the positions of both groups determine the final decisions and granted concessions to other parties.

In the case of EEC, US willingness to agree to reciprocal tariff cuts for further trade liberalization and make further concessions in this regard had increased the bargaining power of the EEC (Dür, 2008b; Ludlow, 2007). Thus, EEC would benefit from US tariff cuts while it would also be able to protect its import-competing interests as a result of its increased bargaining power (Dür, 2008b; Ludlow, 2007). During the Kennedy Round, EEC had three major demands. Firstly, it asked for the elimination of tariff disparities between the EEC and US by unequal rather than

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<sup>17</sup>Previous legislation allowed the negotiations for tariff cuts to a maximum of 20 per cent on an item-by-item basis (Evans, 1971; Coppolaro, 2011). Moreover, tariff reductions were curtailed by further exceptions known as “peril points” (Evans, 1971, p. 136).

linear tariff cuts (McKenzie, 2010; Coppolaro, 2011; Dür, 2008a). This meant that US would reduce its tariffs more than EEC would. Secondly, EEC demanded to address the existing non-tariff barriers in the US against the EEC exports, particularly the American Selling Price which was used as a protectionist method in the price evaluations of chemical products (Dür, 2007b; Coppolaro, 2011). Lastly, EEC asked for exemptions from high tariff cuts in certain import-sensitive sectors such as agriculture, textile, automotive and steel (Dür, 2008a). By this way, EU would balance the interests of both the export-competing groups which favoured further liberalization and import-competing sectors which argued for domestic protection.

Final position of the EEC in the Kennedy Round reflected a balance among the interests of all its major domestic actors, each playing important roles. During the negotiations, Commission represented the interests of the EEC by enjoying the discretion granted by the negotiating mandate of the Council (Ludlow, 2007, p. 356). It also asked for the technical support of the import-competing groups in the preparations for the exemption lists (Sidjanski, 1967). Moreover, Council of Ministers strictly controlled the Commission by organizing meetings and setting up special committees to discuss the appropriate levels of tariff cuts (Ludlow, 2007). Besides, the attitudes of the Member State governments, particularly those of France and Germany, were also determinant in the formulation of the negotiating position of the EEC (Ludlow, 2007).

As a result of its unified position and increased bargaining power, EU could achieve most of its demands (Dür, 2008b). Overall tariffs in US and EEC were reduced by 64 and 50 per cent, respectively, leading to a first significant trade liberalization since the creation of the GATT (McKenzie, 2010). Meanwhile, EEC could protect its import-sensitive sectors with granted exemptions (Dür, 2008a). Thus, as Finger (1976) put it, “EEC gained more from the Kennedy Round as an exporter than it lost as an importer.” (p. 93).

EEC-US relations during the Kennedy Round not only exemplified the influence of major trade powers on each other through their individual policies and

strategies, but it also highlighted that they additionally constitute an impact on the nature of the international trading system through their participation in trade negotiations as suggested by the interactionist approach in the first chapter. Accordingly, initial protectionist tendencies in both the US and EEC were largely lessened as a result of the perceived adverse effects of the policies adopted by the one on the other. More specifically, formation of a customs union in the Western Europe was highly influential in the transformation of the existing trade legislation in the US which had previously limited substantial tariff reductions. Thus, EEC challenge was a significant driving force for further liberalization of the US trade (Ludlow, 2007). On the other hand, pressures of the US and other GATT members on EEC eventually led to a unified stance for trade liberalization in the EEC despite the existence of relatively more protectionist Member States such as France and Italy (McKenzie, 2010). At the end, EEC-US challenge to each other resulted in a successful conclusion of the Kennedy Round with the most liberalizing effects on the world trade since the foundation of GATT (Coppolaro, 2011; Ludlow, 2007; McKenzie, 2010).

Next multilateral round of trade negotiations, namely the Tokyo Round (1973-1979) was launched under the US leadership. US motivation in this regard was largely influenced by four major international developments with an impact on the world trade in the early 1970s. Firstly, enlargement of the EU to include United Kingdom, Denmark and Ireland was perceived as a major threat by the US which was concerned about the trade diversion effects of these accessions on its exports (Conconi, 2009; Dür, 2008b). Secondly, the rise of Japan and newly industrialized countries (NICs) such as Hong Kong, Singapore, South Korea and Taiwan -Four Asian Tigers- was a major challenge to US and other industrialized countries with their expanding shares in world exports (Conconi, 2009; Woolcock, 2005, 2011).<sup>18</sup> Thirdly, as a result of the 1973 OPEC oil crisis and decline of the Bretton Woods fixed exchange rate system, US hegemony was significantly undermined (Telo,

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<sup>18</sup>Choice of Tokyo as the location of the new round of multilateral trade negotiations was intentional in order to reflect the rise of Asian countries (Conconi, 2009, p. 167).

2007). Lastly, and related with the rise of Asia and economic crisis of the 1970s, unfair competition had increased particularly among the EU, US and Japan with the use of certain non-tariff trade restricting instruments (Woolcock, 2005, 2011; A. G. Brown, 2003).

102 countries participated in the round in order to alleviate the adverse effects of the above mentioned developments on the world trade and on individual domestic economic growth. Both the US and the EU particularly aimed to address the use of national rules and regulations as non-tariff barriers since tariffs had already been reduced substantially in the previous rounds (A. G. Brown, 2003). US, under the pressures of export-competing interests, demanded the inclusion of subsidies, government procurement and technical barriers to trade (TBTs) in the GATT agenda as a response to the frequent use of these instruments by the EU and Japan (Woolcock, 2005, 2011). Similarly, in response to the demands of its own export-competing producers, EU asked for the elimination of US non-tariff barriers resulting from anti-dumping legislation, customs valuation methods and technical standards imposed on the EU exports (De Bievre & Dür, 2005; Dür, 2010). Moreover, EU agreed to make concessions and liberalize its trade as long as it received similar concessions from the US while it also demanded further harmonization of tariff levels among the EU and the US (Dür, 2010).

Tokyo Round resulted in negotiations on three categories of issues with mixed results (WTO, 2011b). Firstly and traditionally tariffs were addressed. Secondly, a number of plurilateral agreements were signed. Thirdly, four major framework agreements were concluded on various subjects. Table 3.1 lists all the Tokyo Round codes and Framework Agreements.

Firstly, tariffs on industrial goods were further reduced to an average of 4.7 per cent (WTO, 2011b; A. G. Brown, 2003). However, agricultural and textile sectors were largely protected due to the disagreements among and reluctance of EU and US (A. G. Brown, 2003). Secondly, non-tariff barriers were addressed but progress on this issue was rather limited (A. G. Brown, 2003). More specifically, with respect to anti-dumping measures, although US agreed to accept an international anti-

dumping code for the first time due to the pressures of the EU (Dür, 2008b), this code was plurilateral in nature, meaning that it would only apply to those who signed it (WTO, 2011b; A. G. Brown, 2003). Similarly, as listed in Table 3.1, other plurilateral codes on subsidies and countervailing measures, government procurement, technical barriers to trade, import-licensing procedures, and customs valuation were signed. Yet, their effect on further liberalization of trade was not significant as only a number of countries agreed to sign them (Barton et al., 2006).

**Table 3.1: Tokyo Round Codes and Framework Agreements**

<b>Codes</b>	<b>Framework Agreements</b>
♣ Subsidies and Countervailing Measures	♣ Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (Enabling Clause)
♣ Technical Barriers to Trade (The Standards Code)	♣ Declaration on Trade Measures Taken for Balance-of-Payments Purposes
♣ Import Licensing Procedures	♣ Safeguard Action for Development Purposes
♣ Government Procurement	♣ Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance
♣ Customs Valuation	
♣ Anti-dumping	
♣ Bovine Meat Arrangement	
♣ International Dairy Arrangement	
♣ Trade in Civil Aircraft	

Source: (WTO, 2011b; Hoekman et al., 2002)

Lastly, Framework Agreements were concluded on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, -i.e. the Enabling Clause<sup>19</sup>; Trade Measures Taken for Balance-of-Payments Purposes; Safeguard Action for Development Purposes; and Notification, Consultation, Dispute Settlement and Surveillance (Hoekman et al., 2002). These agreements were the first attempts to reform the GATT system (WTO, 2011b).

Despite existing unfavourable conditions such as the oil crisis, balance-of-payments difficulties, rise of the Asian countries, and protectionist tendencies, conclusion of the Tokyo Round demonstrated once again the global commitment to multilateralism and further trade liberalization, continuing since the early GATT rounds. Although the results of the round were mixed, A. G. Brown (2003) suggests that it was a success in the long run as participation of more countries validated the “universal character” of the GATT (p. 116). Following sub-section makes a final assessment on EU’s participation in the Dillon, Kennedy and Tokyo Rounds under the framework of the interactionist approach.

### **3.1.2.2. Evaluating the Early GATT Rounds by the Interactionist Approach**

World-wide commitment to multilateralism and liberalization of world trade resulted from the existing international/global systemic factors which were shaped by the individual trade policies and strategies of the trading nations as well as their economic performances in the previous era. In this process, influenced by the very same factors which they have given shape, responsive policies of major trading powers constituted an additional impact on each other. These responsive policies were formulated under the pressures of domestic actors.

In the case of EU, newly emerging international trading system under GATT principles, increasingly improving economic conditions in the post-war period, and

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<sup>19</sup>Enabling Clause which was negotiated in the Tokyo Round provided a legal basis for the inclusion of the Generalized System of Preferences (GSP) into the GATT framework. Previously, it was introduced with a waiver (Karsenty & Laird, 1987).



the pressures of the US which became the leading supporter of multilateralism had a significant impact on its multilateralism first approach. However, EU's negotiating position in the multilateral rounds were largely influenced and shaped by the domestic dynamics within itself. In the Dillon, Kennedy and Tokyo Rounds, EU had both 'defensive' and 'offensive' positions as a result of its objective of balancing the interests of its import-competing and export-competing sectors (Woolcock, 2005, 2011; Brenton, 2000). As its bargaining position was relatively strong compared to US due to its regional integration, it could receive important concessions to protect its import-competing interests while it contributed to liberalization of world trade to gain market access for its export-competing sectors (Dür, 2007b, 2008b, 2010). EU institutions such as the Commission and the Council of Ministers as well as the Member States generally adopted a unified stance during the negotiations and reflected the balance between the import and export-competing interests.

As a result of its participation in the GATT, EU had a substantial impact on the international trading system as well (A. G. Brown, 2003). GATT had to adopt itself to European integration, Common Agricultural Policy (CAP) and EU's preferential treatment to overseas territories since the signing of Rome Treaty (Kim, 2010; McKenzie, 2010). With its unique practices, EU also directly affected its trading partners since its foundation and constituted a major challenge particularly to the US. In fact, as agreed by the literature, GATT evolved as a result of the relationship between the US and EU. Their agreement or disagreement on the issues negotiated in the Dillon, Kennedy and Tokyo Rounds defined the results achieved at the end.

### **3.1.3. EU in the Uruguay Round**

Uruguay Round (1986-1994) was launched again under the leadership of US with participation of 123 countries (Schott, 1994; A. G. Brown, 2003; WTO, 2011b). Four major international developments had paved the way for an opening of the new round of negotiations in Uruguay. Firstly, global recessions in the early 1980s following the second oil crisis of 1979 had increased the barriers to world trade as nations unilaterally decided to impose barriers on foreign imports and protect their

economies (A. G. Brown, 2003; Schott, 1994). Secondly, with the globalization of production and the rise of multinational corporations, concerns on new and non-traditional barriers to trade such as national rules and regulations on services, foreign direct investment and intellectual property had emerged while old divisions between the export-competing and import-competing interests had become invalid as access to new markets had come into prominence for both groups (Brenton, 2000; Frank, 1996). Thirdly, developing countries in Latin America and East Asia had initiated national reforms on their state-managed trade policies towards a more open and outward-looking stance and increased their interest in multilateralism (A. G. Brown, 2003). Lastly, with its southern enlargement, EU had included agriculturally significant markets such as Spain, Portugal and Greece, leading to concerns for trade diversion effects (Dür, 2010).

Although nations all considered that multilateralism would serve them best, they had different interests in agreeing to participate in a new round of trade talks (A. G. Brown, 2003). US had four main interests in the launch of the Uruguay Round. First of all and most importantly, as a response to the pressures of business lobbyists and exporters, US aimed to include new trade related areas such as services, foreign direct investment (FDI) and intellectual property rights (IPR) into the negotiation agenda (A. G. Brown, 2003; De Bievre & Dür, 2005; Woolcock, 2005). More specifically, US service providers were facing barriers in the foreign markets due to national legislation on service provision and restrictions on FDI while US-based multinationals were complaining about IPR infringements in developing countries (A. G. Brown, 2003). Since US had competitive advantage in those sectors such as financial services, telecommunications and high-technology and R&D-based products, it was highly interested in including these new areas into the multilateral trade agenda (Woolcock, 2005). Secondly, US wanted to address the issue of agriculture more seriously due to the existence of high agricultural protection in both EU and Japanese markets resulting from export subsidies and import restrictions (A. G. Brown, 2003). Thirdly, US aimed to revitalize global commitment to multilateralism which was partially weakened as a result of the

economic recessions of the early 1980s and rise of protectionist practices (Schott, 1994). Finally, integrating the developing world into the international trading system was considered as another objective (Schott, 1994).<sup>20</sup>

Japan, on the other hand, actively supported the opening of a new round to basically reform the multilateral trading system and strengthen the GATT rules in order to avoid the arbitrary practices of industrialized nations such as the US (A. G. Brown, 2003). More specifically, Japan was highly concerned about US national legislation on retaliatory action used in cases of unfair trade practices of other countries (A. G. Brown, 2003).

Developing countries under the leadership of emerging nations such as Brazil and India, were also interested in participating in the Uruguay Round in order to gain access to the markets of industrialized countries for their agricultural and textile products while they were initially less willing for the launch of multilateral talks since they considered that issues of the Tokyo Round had not yet addressed properly (A. G. Brown, 2003). Similar to Japan, suffering from the arbitrary actions of the developed nations, they also aimed for disciplining the existing GATT rules (A. G. Brown, 2003).

EU was initially reluctant to participate in a new round of multilateral trade negotiations when it was first proposed by the US in 1982 (Woolcock, 2011; Young, 2011; Dür, 2010). Under the pressures of import-competing groups, EU was mainly concerned that its Common Agricultural Policy (CAP) would come under serious attack particularly by the US in this new round (Dür, 2010; A. G. Brown, 2003). Yet, on the other hand, export-competing business lobbyists were trying to influence the EU institutions to participate in the Uruguay Round in order to gain market access for the new trade-related areas such as services and investment (Beder, 2010; A. G. Brown, 2003; De Bievre & Dür, 2005). At the end, EU agreed to participate by considering that it could gain some significant concessions particularly from the developing countries regarding the inclusion of new issues, which in turn can

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<sup>20</sup>Choice of Uruguay as the location of the new round of multilateral talks reflected the objective of “North-South negotiation” (Schott, 1994, p. 5).

compensate for the possible losses during the negotiations on the agricultural sector (Dür, 2010).

Based on the diverging and sometimes converging interests of the EU and major trading parties, Barton et al. (2006) summarizes the major “Uruguay Round tasks” as:

- to bring the agricultural and textile sectors under the discipline of GATT;
- to create a rule-based system by consolidating the several plurilateral codes of the Tokyo Round into a single document and ensuring that they will be binding on more nations;
- to include the new trade-related issues such as services, foreign direct investment and intellectual property rights into the multilateral trade agenda. (Barton et al., 2006, pp. 92-93)

Although reluctant at first, EU eventually adopted a more strong and proactive approach to further trade liberalization and shared the leadership with the US in supporting a rule-based multilateral trading system during the Uruguay Round negotiations (Woolcock, 2005; Young, 2011). In its active involvement, three major domestic developments played a significant role, ensuring the support of all the major domestic actors such as interest groups, Member States and EU institutions. These were strong domestic economic growth, efforts to complete internal market, and reform of the CAP.

First of all, strong and stable domestic economic growth within the EU ensured its active involvement in multilateral negotiations. According to M. Baldwin (2006), strong economic growth constitutes one of the major preconditions for active policies demanding further liberalization through multilateralism. This was particularly existent within the EU since the end of the Second World War with only short-term interruptions by the crises of 1970s and 1980s (M. Baldwin, 2006).

Secondly, and most importantly, EU’s efforts to complete its internal market by adopting a rule-based and liberal position under the framework of its Single Market Program (1985-1992) coincided with the Uruguay Round (1986-1994). This enabled

the EU to easily reflect its domestic approach at the multilateral level as well (Young & Peterson, 2006; Young, 2011; Meunier & Nicolaidis, 2005; Woolcock, 2005). Under the pressures of business lobbying asserted by the influential groups such as European Round Table of Industrialists (ERT), Single Market Program of the EU had already liberalized certain key sectors such as financial services and telecommunications in the area of services domestically (Van Apeldoorn, 2010; Woolcock, 2011). This ensured that Member State governments and the Council could easily grant a negotiating mandate to the Commission to present the position of the Union for the inclusion of the new issues into the multilateral trade agenda (Young & Peterson, 2006; Young, 2011). Moreover, common rules and approaches to further liberalization which were agreed during the completion of its own internal market helped EU to play an active role in the creation of a rule-based system in the multilateral arena as well (Woolcock, 2005, 2011; Young, 2011; Young & Peterson, 2006).

Thirdly, during this period, EU realized an important domestic reform regarding its common agricultural policy in 1992. This reform, known as MacSharry reform, helped it to defend its agricultural sector during the negotiations and achieve some progress in this regard (Young, 2011; A. G. Brown, 2003). Nevertheless, as the reform only addressed the issue of domestic support rather than market access (Meunier, 2005; Young, 2011), other participants, particularly the US, were not much satisfied with the result (Meunier, 2005). In fact, agricultural talks between the US and the EU were frequently impeded from the start due to disagreements, even putting the successful completion of the Uruguay Round at risk (Meunier, 2005; Conconi, 2009; A. G. Brown, 2003). Still, CAP reform was significant in driving the Round towards conclusion.

Under the shared leadership of the EU and the US, Uruguay Round was finally concluded in 1994 (Evenett, 2007a; Young, 2011; Young & Peterson, 2006; Woolcock, 2005). It is commonly agreed that it was the most successful round in the history of GATT in terms of the agreements reached with respect to many

significant issues, making it remarkably different from the previous rounds. All the agreements signed at the end of the round were listed in Table 3.2.

After a quick glance at the Uruguay Round agreements, it can be concluded that Uruguay Round had four major results. Firstly, with the signing of Agreement on Textile and Clothing, and Agreement on Agriculture, these sectors could finally be integrated into the multilateral trading system by even achieving certain tariff reductions (Barton et al., 2006; Dunkley, 2001; A. G. Brown, 2003).<sup>21</sup> Secondly, agreements on Trade Related Intellectual Property Rights (TRIPs), Trade Related Investment Measures (TRIMs), and General Agreement on Trade in Services (GATS) came into force in 1995, expanding the scope of the GATT trade agenda. Thirdly, except for the code on government procurement, which still remained plurilateral, other major Tokyo Round codes on subsidies and countervailing measures, technical barriers to trade, import licensing, customs valuation and anti-dumping were brought under a ‘single undertaking’ with the creation of World Trade Organization (WTO), which would replace the GATT. This meant that agreements on these areas would be multilaterally binding on the members of the WTO. Young (2011) argues that ‘single undertaking’ was particularly advocated by the EU to ensure that “nothing was agreed until everything was agreed” so that concessions on other areas would compensate for the disagreements on sensitive sectors such as agriculture in the future rounds (p. 724). Finally, with the establishment of a dispute settlement mechanism, the most significant institutional reform of the multilateral trading system had been completed (Conconi, 2009).

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<sup>21</sup>Tariffs on textile and clothing were reduced by 22 per cent while agricultural tariffs were decided to be cut by 36 per cent after previous agricultural quotas were tariffed. Agricultural tariff cuts for the developing countries would be 24 per cent (Dunkley, 2001, p. 50). Tariffs on industrial goods were also further reduced to an average of 3.9 per cent (Dunkley, 2001, p. 50).

**Table 3.2: Agreements Annexed to the Agreement Establishing the World Trade Organization**

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<b>WTO Agreements</b>
General Agreement on Tariffs and Trade 1994
Agreement on Agriculture
Agreement on the Application of Sanitary and Phytosanitary Measures
Agreement on Textiles and Clothing
Agreement on Technical Barriers to Trade
Agreement on Trade-Related Investment Measures (TRIMs)
Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994
Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994
Agreement on Preshipment Inspection
Agreement on Rules of Origin
Agreement on Import Licensing Procedures
Agreement on Subsidies and Countervailing Measures
Agreement on Safeguards
General Agreement on Trade in Services and Annexes (GATS)
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)
Understanding on Rules and Procedures Governing the Settlement of Disputes
Trade Policy Review Mechanism
Agreement on Trade in Civil Aircraft (plurilateral)
Agreement on Government Procurement (plurilateral)
International Dairy Agreement (plurilateral)
International Bovine Meat Agreement (plurilateral)

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Source: (WTO, 1994)

A. G. Brown (2003) evaluates that all the major participants in the Uruguay Round gained certain concessions. While developed countries were able to include the new trade-related areas into the WTO system, some concessions -although limited- on agricultural and textile sectors were made to developing countries in return. By this way “a grand bargain” among the developed and developing world could be achieved (Barton et al., 2006, p. 94; Meunier & Nicolaidis, 2005, 2006). Moreover, institutional and legal reforms on the trade system were welcomed by all the parties. Nevertheless, Barton et al. (2006) argue that while developing countries would open their markets to the developed world for the new areas such as services and investment immediately, access to the markets of developed countries for exports in agricultural and textile products of the developing countries would be improved rather in a long run. This would lead to significant tensions in the subsequent rounds (Barton et al., 2006, p. 94). In fact, Meunier and Nicolaidis (2006) characterized this situation as a “western hegemony” asserted by the EU and the US over the developing countries (p. 912).

The interactionist approach proposed by this thesis is quite helpful in demonstrating the relationship and direction of influence among the external and internal factors which led to the continuing commitment of EU towards multilateralism and its active involvement during the Uruguay Round negotiations. As global commitment to multilateralism continued to be strengthened by the participation of more countries and as nations had experienced economic growth through further liberalization and multilateralism in the previous rounds, US proposal to launch a new round was accepted by the EU. However, its active participation was largely influenced by a number of domestic dynamics, shaping the negotiating position of the EU during the multilateral trade talks. Particularly the Single Market Program and other domestic developments such as strong economic growth and CAP reform had increased the support of domestic actors within the EU for further liberalization. While in the earlier rounds, EU had agreed to participate in order to balance the interests of its import and export-competing producers (Woolcock, 2005); in the Uruguay round, interests of multinational corporations -



both exporting and importing- were in favour of improved market access for further liberalization of new trade-related areas, invalidating the old division between the export and import-competing groups (Brenton, 2000). Under the influence of big business representatives lobbying both at the national and supranational levels (Beder, 2010; Van Apeldoorn, 2010), Member State governments and EU institutions shared unified positions in supporting global liberalization (De Bievre & Dür, 2005; Badwin, 2006).

### **3.2. Protectionism in the EU as a Strategy to Temporarily Restrict Trade**

Certain protectionist practices deployed by both the EU and its competitors were briefly touched upon during the analysis of the ‘multilateralism first’ approach in the previous section. This section aims to elaborate on EU protectionism as a strategy to temporarily restrict trade as a response to the pressures of the domestic groups demanding protection under external constraints. Before examining the determinants and use of protectionism in this period, it is necessary to remember the GATT rules allowing trade restrictive measures in certain circumstances. Hoekman et al. (2002) summarizes the three cases in which GATT members were allowed to deploy certain trade restrictive instruments to protect their domestic markets:

1. In case of threats to public health and national security, governments can deploy policies to restrict trade from abroad;
2. In case of unfair competition resulting from dumped and subsidized imports from abroad, governments can impose anti-dumping and countervailing duties on them;
3. In times of extraordinary circumstances such as serious balance of payments difficulties or serious injuries to certain industries by significant increases in imports, governments are allowed to restrict trade as a safeguard measure. (Hoekman et al., 2002, p. 44)

Since its foundation in the late 1950s until the mid-1990s, differing external factors led to the preference of different trade restrictive policies and instruments by the EU. In parallel with the three major multilateral rounds -Kennedy, Tokyo and

Uruguay-, taking place in this period, nature of EU protectionism can be examined in three time intervals.

First time interval covers the years between late 1950s and early 1970s. Based upon the previous analysis of the early multilateral rounds of GATT in the first section, EU protectionism during this period can be characterized as classical protectionism in the sense that it mostly involved tariff exemptions or employment of quotas regarding sensitive domestic sectors such as agriculture, automotive, steel and textile. Agricultural sector had not yet been integrated into the GATT system and it was mostly regulated by individual domestic policies -i.e. Common Agricultural Policy (CAP) in the EU. Textile sector, on the other hand, was addressed in the earlier rounds and exempted from the framework of GATT with the signing of A Short-Term Agreement on Cotton Textiles (1961), which was replaced in 1962 by the Long-Term Arrangement Regarding International Trade in Cotton Textiles until the early 1970s (Barton et al., 2006; De Bievre & Dür, 2005). Other instruments associated with protectionism such as anti-dumping or safeguard measures could only be introduced by the end of the 1960s in the EU (De Bievre & Dür, 2005; Woolcock, 2005).

Second period covers the years between 1970s and early 1980s. Protectionism as a strategy to restrict trade under external pressures has emerged among the major trading parties during this period and continued increasingly since then. In the literature, authors refer to this phenomenon deploying different terms such as 'crisis-related protectionism', 'new protectionism' (Erixon & Sally, 2010), 'managed trade' (Page, 1981) or 'administered protectionism' (Finger, 2010). These terms mean that newly emerging phenomenon was different from the classical protectionism of the previous era in a way that it involved 'non-tariff' restrictions to trade in order to manage with the pressures originating from certain extraordinary circumstances.

In our case, there were two major international developments leading to the increased use of non-tariff trade restrictions both by the EU and its competitors during the 1970s and early 1980s. First one was the long-term structural

transformations in the competitive advantage regarding certain sectors such as textile/clothing, steel, shipbuilding, automotive, electronics and technological products. These transformations had put the developed countries in a disadvantaged position while it favoured newly emerging markets such as Japan and South-east Asian countries (A. G. Brown, 2003; Page, 1981; Dunkley, 2001; Hager, 1982; Uğur, 1998). Second one was the oil crises of 1970s and 1980s, which resulted in serious recessions, balance-of-payments difficulties, increases in production costs, decline in demand, and rising unemployment in most of the industrialized countries including the EU and the US (A. G. Brown, 2003; Dunkley, 2001; Page, 1981). These difficulties in the economic and financial circumstances additionally intensified the repercussions of the first development which was experienced in the developed world.

As already mentioned, safeguard measures were allowed under the framework of GATT in order to deal with these extraordinary circumstances. However, Article XIX allowed the restriction of imports of a product as long as importing country grants certain concessions to the exporting party (WTO, 2011b). Therefore, safeguard clause was not frequently preferred by the importing countries but they rather resorted to national trade barriers such as import quotas or ‘grey area measures’ in the form of ‘voluntary export restraints (VERs), which were negotiated outside the GATT framework (Barton et al., 2006; WTO, 2011b; Hoekman et al., 2002). Since textile sector was protected with bilaterally negotiated quotas under the Multi-Fibre Arrangement (MFA) during the 1970s<sup>22</sup>, which replaced the previous Long-Term Agreement on Textile and Clothing, VERs were frequently deployed by both the EU and the US in order to restrict imports of other products such as steel, cars or electronics from Japan, Taiwan and South Korea (A. G. Brown, 2003; Woolcock, 2005; Brenton, 2000; Finger, 2010; WTO, 2011b).

In the case of EU, as a response to the protectionist demands of the domestic groups, Member States increased the level of ‘national volume protection’ by

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<sup>22</sup>Multi-Fibre Arrangement was first negotiated in 1972 and then renewed until the signing of Uruguay Round Agreement on Textiles and Clothing (Barton et al., 2006).

imposing quantitative restrictions on imports and by negotiating VERs with exporting countries under the framework of Article 115 of the Treaty of Rome (Brenton, 2000; Woolcock, 2005; Schoknecht, 1991). Article 115 stated that:

In order to ensure that the execution of measures of commercial policy taken in accordance with this Treaty by any Member State is not obstructed by deflection of trade, or where differences between such measures lead to economic difficulties in one or more of the Member States, the Commission shall recommend the methods for the requisite co-operation between Member States. Failing this, the Commission shall authorise Member States to take the necessary protective measures, the conditions and details of which it shall determine. (EU, 1957)

Member States used their discretion in applying the provisions of the Article 115 in order to respond to the interests of domestic sectors while Commission also enjoyed a high level of autonomy in approving these applications (Schuknecht, 1991). Particularly, the role of the Commission in regulating the trade restrictive measures increased during the 1970s and early 1980s (Page, 1981). As a result, national protection level within the EU became even higher than the Union level (Schuknecht, 1991). Moreover, common market was divided through national border controls in order to prevent trade deflection -i.e. entering of products to more constrained markets through less constrained neighbours (Brenton, 2000). Such a proliferation of national protection within the EU led Hager (1982) to express his concern regarding the fact that within the EU, “the choice is not between protectionism and free trade, but between European and national protectionism” (p. 428). Major reason behind the rise in national level protection and Commission’s receptiveness to the demands voiced by domestic interests was that during this period specific interests of the domestic sectors were actually associated with the general interest of the Community as a whole (Uğur, 1998). Being subject to external pressures in the form of economic recessions and losses in comparative advantage regarding certain sectors, domestic sectors within the EU could easily

convince their national governments and the EU institutions to deploy trade restrictive measures during the 1970s and early 1980s.

Within the same period, last time interval regarding the use of trade restrictive instruments covers between the mid-1980s and mid-1990s in parallel with the Uruguay Round negotiations. Starting from this period, other types of instruments associated with protectionism such as anti-dumping measures, subsidies, government procurement or technical standards have come into prominence and have been frequently used since then. Although these instruments are not originally designed for protectionism, Finger (2010) argues that “it is more useful to think of these measures as what they have come to be than as what they were designed to do” (p. 18).

Among the above mentioned instruments, particularly the use of anti-dumping measures by the EU and the US increased significantly during the late 1980s (Davis, 2009; Finger, 2010) while the use of VERs and import restrictions continued to decline until they were permanently prohibited with the signing of agreements on safeguards and textile and clothing at the end of the Uruguay Round<sup>23</sup> (Barton et al., 2006; WTO, 2011b). Two major international/global factors which played an important role in the transformation of the nature of the international trading system had an impact on this trend as well. Firstly, market access regarding new trade-related areas such as services had gained importance among the developed countries and trade-offs had to be made between textile protectionism and further liberalization in order to gain concessions from the developing world during the Uruguay Round (Uğur, 1998). In fact, developing countries had agreed to the inclusion of the new areas into the trade agenda in return for the phasing out of the Multi-Fibre Agreement (A. G. Brown, 2003). Secondly and related to the first development, multinational firms which opt for further liberalization have started to demand a ‘strategic’ trade policy from their governments to ensure that access to

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<sup>23</sup>Uruguay Round Agreement on Safeguards clearly prohibits the use of ‘grey area measures’ in the form of VERs while Multi Fibre Agreement was phased out with the signing of Agreement on Textile and Clothing (Barton et al., 2006; WTO, 2011b).

domestic market would strategically be restricted in cases of unfair competition from abroad (Milner & Yoffie, 1989). Dumping complaints against unfair competition were often made against newly emerging exporting markets in the Asia (Finger, 2010).

In the specific case of EU, in addition to the impact of international/global developments encouraging the use of new instruments such as anti-dumping measures as a “protectionist tactic” (Davis, 2009, p. 4), domestic reforms required by the Single Market Program also played a significant role. More specifically, elimination of national border controls within the internal market rendered the use of national import quotas and VERs impossible (Brenton, 2000; Woolcock, 2005). As a result anti-dumping investigations initiated by the Commission against newly emerging exporters have increased since then under the pressures of domestic groups (Davis, 2009; Woolcock, 2005). Use of anti-dumping measures since the mid-1990s will be elaborated in the following chapters.

In sum, nature of the protectionism in the EU until the end of the Uruguay Round changed in parallel with the transformations in the nature of the international trading system. As GATT rules on trade restricting instruments changed, EU and its major competitors tried different forms of instruments during different periods. Accordingly, classical protectionism involving tariff barriers were gradually replaced by a strategy of protectionism through which trading parties could temporarily manage the impacts of external factors -i.e. economic and financial difficulties or changes in comparative advantage- on their domestic markets. EU institutions and Member States followed the same trend under the pressures of domestic interest groups. However, it is necessary to point out that trade restricting measures deployed by the EU and its major competitors were temporary and did not lead to a lack of commitment in GATT (A. G. Brown, 2003). On the contrary, occasional protectionist tendencies among the trading parties often resulted in the launch of new multilateral trade rounds in order to address their repercussions on the world trade.

### **3.3. Preferential Relations of the EU: Strategies of Unilateralism and Bilateralism/Inter-regionalism**

This section covers EU's trade strategies of unilateralism and bilateralism/inter-regionalism, which are preferential in nature. During this period, in addition to its 'multilateralism first' approach and occasionally protectionist practices, EU also granted unilateral preferences to its former colonies in the Africa, Caribbean, Pacific (ACP) region as well as the Maghreb and Mashreq countries<sup>24</sup>, and developed certain bilateral relations with close neighbours and potential members such as EFTA states, Turkey, Malta, Cyprus and Central and Eastern European countries (CEECs). Nevertheless, in this period, unilateral and bilateral relations were developed by the EU not as part of a broader strategy but rather formed under the framework of GATT rules and principles as a response to country/region specific reasons.

To begin with, EU's non-reciprocal preferential treatment to the ACP region for almost three decades was institutionalized with the signing of the first Lome Convention in 1975. Continuity of relations with these territories where the founding Member States had long developed colonial ties was important for two reasons. Firstly, Member States -particularly France- wanted to secure their vested interests in the ACP region such as continuation of the access to raw materials and natural resources, and protection of previously made investments (Farrell, 2006; Serrano, 2011). Secondly, they -again particularly France- aimed to balance the expanding influence of the US over their former colonies resulting from its investment initiatives in mining and mineral sectors (Van Reisen, 2007). As a result, under the influence of France, a regime of association was developed between the former colonies and the founding members and this was incorporated into the Treaty of Rome upon its signature (Farrel, 2006; Serrano, 2011; Flint, 2009).<sup>25</sup> Major

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<sup>24</sup>Maghreb countries are Algeria, Morocco, and Tunisia in North Africa while Mashreq group consists of eastern Mediterranean states which are Egypt, Jordan, Lebanon, and Syria.

<sup>25</sup>Part IV of the Treaty of Rome was devoted to the 'Association of the Overseas Countries and Territories' (see EU, 1957).

purpose of this association was “to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole.” (EU, 1957, p.46).

After their independence, an association agreement, known as Yaoundé Agreement, was signed with the 18 African states in 1963, formalizing the relations between these countries and the EEC (Flint, 2009). However, Yaoundé Agreement had envisaged a EEC-Africa free trade area, thus it was reciprocal in nature (Flint, 2009). Before realizing this goal, with the accession of United Kingdom, relations between the EEC and the African countries had to be renewed in order to accommodate the interests of the United Kingdom regarding Commonwealth members in the Africa, Caribbean and Pacific regions (Flint, 2009). Consequently, Lome Convention was signed in 1975, granting unilateral concessions to the ACP region as a single bloc.<sup>26</sup>

In brief, relations with the ACP region were developed due to historical colonial ties as well as the geo-strategic and commercial significance of the region. Member States such as France and the United Kingdom, which had certain economic and political interests in these territories, played an influential role.

In a similar manner, EU’s unilateral preferences towards Maghreb and Mashreq countries were established through Cooperation Agreements signed in 1976-77.<sup>27</sup> Non-reciprocal preferential treatment towards these countries also originated from colonial ties and strategic importance of the region (Baert, 2003). First of all, Member States such as France, Italy and the United Kingdom aimed to maintain their historical and economic relations with countries like Algeria, Morocco, Tunisia, Libya and Egypt (Baert, 2003). Secondly and most importantly, these countries were important suppliers of gas and petroleum (Van Reisen, 2007). Since the outbreak of the oil crisis in 1973 had seriously threatened the energy security of

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<sup>26</sup>Unilateral concessions were renewed every five years with the signing of Lome II (1980), Lome III (1985), Lome IV (1990) and Lome IV-bis (1995).

<sup>27</sup>EU had also signed a Cooperation Agreement with Israel in 1975.



the EU which had limited energy resources of its own, EU had to deepen its relations with these countries immediately (Van Reisen, 2007).

Apart from unilateral concessions, EU developed reciprocal bilateral relations with close neighbours and potential members as well. Article 238 of the Treaty of Rome provided a legal basis for the signing of future association agreements with the third parties other than the former colonies (Van Reisen, 2007) by stating that:

The Community may conclude with a third State, a union of States or an international organisation agreements establishing an association involving reciprocal rights and obligations, common action and special procedures. (EU, 1957)

Accordingly, EC signed an Association Agreement (1963) and an Additional Protocol (1970) with Turkey, and Association Agreements with Malta (1970), Cyprus (1972), Andorra (1991), and San Marino (1992) with the aim of forming a customs union (European Commission, 1997; Sapir, 2000). According to Baert (2003), strengthening relations with Turkey<sup>28</sup> was of particularly strategic importance to the EC during the Cold War period.

In the early 1970s, EC signed its first bilateral free trade agreements covering industrial goods with individual EFTA states which aimed to avoid trade diversion after the accession of two founding EFTA members, United Kingdom and Denmark to the EC (Brenton, 2000; Sapir, 2000). During the EU efforts to complete its single market, other EFTA members such as Austria, Sweden, Finland, Norway and Switzerland applied for EU membership due to the concerns for trade diversion effects as well (Sapir, 2000). At the end, European Economic Area (EEA) was established in 1994 among Austria, Sweden, Finland, Norway and the EU with the additional inclusion of Iceland and Liechtenstein.<sup>29</sup> Thus, since the beginning, EU-

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<sup>28</sup>In 1987 Turkey officially applied for EU membership. EU-Turkey Customs Union came into effect on 31 December 1995. Negotiations for membership were launched in 2005.

<sup>29</sup>Austria, Sweden and Finland became EU members in 1995. Switzerland did not join EEA and suspended its membership negotiations as a result of a public referendum held in 1992.

EFTA relations evolved under the concerns for trade diversion originating from EU enlargements.

In the early 1990s, after the collapse of the Berlin Wall and subsequent German unification, ten CEECs applied to EU for membership.<sup>30</sup> EU had already been providing aid and technical assistance to these countries since 1989 under the PHARE<sup>31</sup> programme (Smith, 2005, p. 350). In order to help their restructuring and reform process, contribute to their stability and prepare them for future membership, EU started to conclude bilateral Europe (Association) Agreements with the CEECs since 1991 (Smith, 2005; Sapir, 1998; R. E. Baldwin, 1997). Thus, agreements extended beyond pure trade and developmental considerations to include the whole *acquis communautaire* of the EU (Sapir, 1998; Smith, 2005). Since the ultimate aim was the accession of CEECs, EU did not pursue a strategy of inter-regionalism but rather preferred bilateralism in order to impose conditionality and differentiate among the CEECs (Smith, 2005, p. 350). CEECs were not interested in regional integration outside the EU as well (Smith, 2005, p. 360). EU Member States such as Germany and Austria played an influential role during the process of integration with the CEECs due to geopolitical and security considerations and previously developed close ties (Sapir, 1998, p. 727; Lamy, 2002, p. 1404). At the end Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and Slovak Republic became EU members in 2004 while Romania and Bulgaria were granted membership in 2007.

Table 3.3 summarizes the bilateral agreements concluded by the EU with close neighbours and potential members since 1960s until mid-1990s. These agreements were notified to GATT/WTO under Article XXIV (European Commission, 1996a). Table does not include Austria, Finland and Sweden which became EU members in 1995.

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<sup>30</sup>These ten countries are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

<sup>31</sup>PHARE stands for Poland and Hungary: Assistance for Restructuring their Economies. It is a programme of Community aid devoted to the countries of Central and Eastern Europe.

**Table 3.3: Bilateral Agreements Concluded by EU with Close Neighbours and Potential Members**

<b>Parties to Agreements</b>	<b>Types and Aim of Agreements</b>	<b>Signature Year</b>
EEC-Turkey	Association Agreement (CU)	1963
EEC-Turkey	Additional Protocol (CU)	1970
EC-Malta*	Association Agreement (CU)	1970
EC-Switzerland	Free Trade Agreement (FTA)	1972
EC-Liechtenstein**	Free Trade Agreement (FTA)	1972
EC-Iceland**	Free Trade Agreement (FTA)	1972
EC-Cyprus*	Association Agreement (CU)	1972
EC-Norway**	Free Trade Agreement (FTA)	1973
EC-Andorra	Association Agreement (CU)	1990
EC-Hungary	Europe Agreement (membership)	1991
EC-Poland	Europe Agreement (membership)	1991
EC-San Marino	Association Agreement (CU)	1992
EC-Bulgaria	Europe Agreement (membership)	1993
EC-Czech Republic	Europe Agreement (membership)	1993
EC-Slovak Republic	Europe Agreement (membership)	1993
EC-Romania	Europe Agreement (membership)	1993
EC-Slovenia	Europe Agreement (membership)	1993
EC-Estonia	Europe Agreement (membership)	1994
EC-Latvia	Europe Agreement (membership)	1994
EC-Lithuania	Europe Agreement (membership)	1994

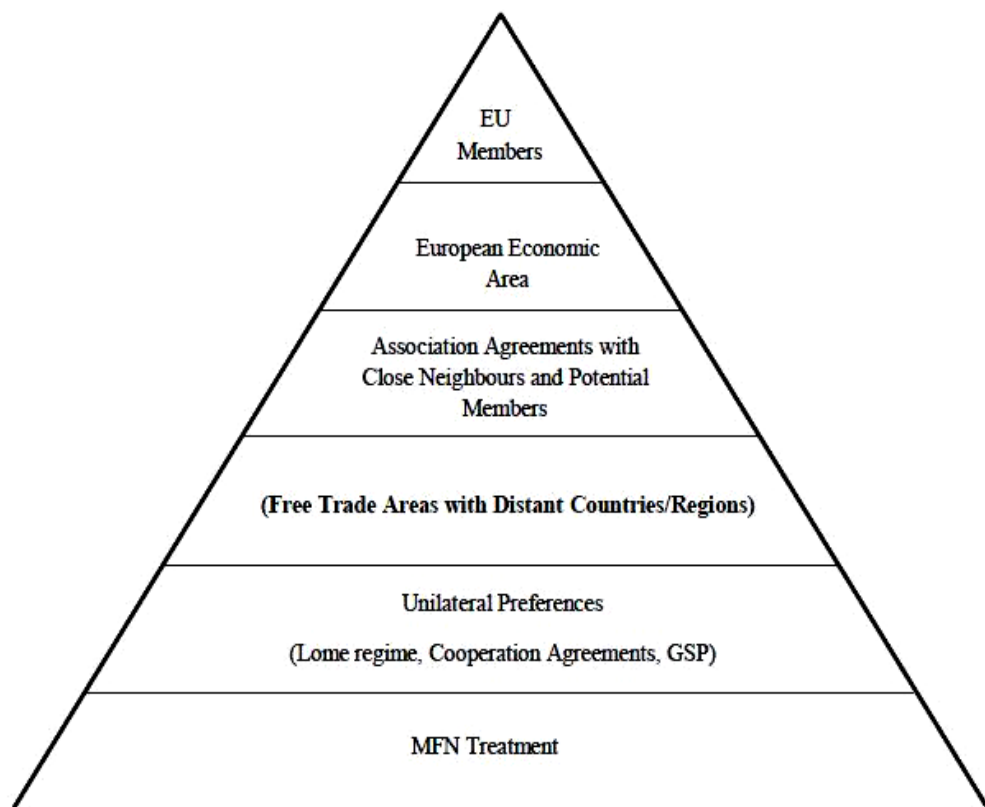
\* Malta and Cyprus became EU members in 2004.

\*\* Iceland, Liechtenstein and Norway joined EEA in 1994-5.

Source: (European Commission, 1996a)

Brenton (2000) points out that the above mentioned preferential arrangements - both unilateral and bilateral/inter-regional- together with the EU's Generalized

System of Preferences (GSP) scheme which grants unilateral concessions to remaining developing countries other than the ACP, Maghreb and Mashreq states under the Enabling Clause of GATT, all led to the emergence of the EU's 'pyramid of preferences' during the early 1970s. Figure 3.1 demonstrates the EU's pyramid of preferences towards distinct countries/regions.



Sources: Own interpretation based on various sources (Conconi, 2009; Brenton, 2000; Koopmann & Wilhelm, 2010)

**Figure 3.1: EU's Pyramid of Preferences**

As demonstrated in the pyramid, there are six types of preferences which are granted by EU to its members, partners in the European Economic Area, close

neighbours and potential members, distant countries/regions, developing and the least-developed countries and rest of the WTO members outside the first five groups. Content of the pyramid has changed through the years but types of preferences remained the same. Note that FTAs with distant countries/regions had not still become a reality for the EU before the mid-1990s. Next chapter will elaborate on emergence of FTAs between the EU and distant countries/regions as a trade strategy.

### **3.4. Determinants of EU Trade Strategies in the Pre-WTO Period: A Division of Labour**

During the period of 1958-1995, which starts with the establishment of the EEC and continues until the creation of WTO, EU utilized all of the four major strategies covered by this study with varying degrees. Mostly, EU committed itself to multilateralism. In parallel, it sometimes made use of certain protectionist instruments under certain circumstances. Lastly, it entered into bilateral/inter-regional and unilateral relations with certain countries/regions for specific reasons. As a result of the analysis conducted in this chapter, it has been observed that, all of the EU's trade strategies were determined by external factors while domestic dynamics shaped the policies and initiatives which were followed under the determined strategies.

First of all, EU's uninterrupted commitment to multilateralism since its first participation in multilateral GATT negotiations in Dillon Round until the end of the Uruguay Round was to a large extent driven by external factors such as prevailing global commitment to multilateralism, improving economic conditions of the post-war period and US leadership in GATT. However, during the course of each multilateral trade round -Dillon, Kennedy, Tokyo and Uruguay rounds-, EU's negotiating position was based on a balance among the interests of the import-competing groups, export-competing sectors and Member States. In setting this balance core EU institutions played a huge role. While Trade Commissioners

worked as the chief negotiators, Council of Ministers tried to assert control over the Commission.

In EU's use of protectionism as a temporarily trade restrictive mechanism, external factors such as global economic crises of the 1970s and 1980s and economic performances and competitive positions of the major EU rivals were the driving reasons. In the choice of this strategy, domestic interests groups -particularly the import-competing sectors- or the Member States acting under the pressures of their domestic sectors tried to convince the Commission to take the necessary measures.

Strategies of bilateralism/inter-regionalism and unilateralism, however, were not followed as a main strategy but rather EU had to enter into relations with former colonies, near neighbours or potential members due to certain country/region specific reasons. These reasons were both externally and internally driven. In these cases, dominant domestic actor was the Member States which acted under foreign policy and security considerations. As a result, preferential relations of EU during this period were driven by political rather than commercial motives. In other words, preferential relations were not established as a trade strategy of the EU.

## CHAPTER 4

### **EU AND THE RISE OF BILATERALISM/INTER-REGIONALISM (1995-2000)**

This chapter is devoted to the shifts in EU trade strategies during the years between the mid-1990s and 2000. In the first section noteworthy emergence of bilateralism/inter-regionalism in the EU as a dominant alternative trade strategy to multilateralism is elaborated by utilizing the interactionist model. Second section, on the other hand, focuses on the shift from the strategy of unilateralism to bilateralism/inter-regionalism. Third section briefly examines the first WTO ministerial meetings held during this period in order to provide insights to the changing nature of multilateralism since the completion of the Uruguay Round. Final section is devoted to an overall assessment of the period under the interactionist approach.

#### **4.1. From ‘Multilateralism First’ to Emergence of Bilateralism/Inter-Regionalism as an EU Trade Strategy**

This section starts with the examination of the reasons behind the emergence of bilateralism/inter-regionalism as a trade strategy. Later it proceeds with the analysis of the formation of bilateral/inter-regional relations between the EU and some distant countries/regions in Latin America and Asia. Lastly, EU’s first market access strategy developed by the Commission is assessed by taking into account of the emerging ‘competitiveness’ discourse within the EU.

##### **4.1.1. Systemic Factors Resulting in the Rise of Bilateralism/Inter-Regionalism**

First half of the 1990s was marked by the successful conclusion of the Uruguay Round and the solidification of the multilateral trading system with the creation of

WTO. On the other hand, during the same period, world-wide rise of preferential trade arrangements (PTAs) in the form of bilateral, regional and inter-regional agreements was considered as “ironic” (Aggarwal & Fogarty, 2004, p. 237) and “paradoxical” (Sampson, 2003, p. 3). Indeed, early 1990s witnessed the establishment of regional blocs such as Asia Pacific Economic Cooperation (APEC), North American Free Trade Agreement (NAFTA), Common Market of the South (MERCOSUR); formation of initiatives such as Free Trade Area of the Americas (FTAA); and strengthening of relations in the East Asia among ASEAN<sup>32</sup>, China, Japan and South Korea (ASEAN Plus Three, APT). In the second half of the 1990s, EU responded to them by opening FTA negotiations in Latin America with Mexico, Chile, and MERCOSUR; and by establishing Asia-Europe Meeting (ASEM) with the APT group.

Literature points that intensification of globalization, widening and deepening of European integration and the US turn to preferential arrangements, were the three major causes of the proliferation of PTAs during the 1990s. Firstly, authors such as Santander and Ponjaert (2009), A. G. Brown (2003) and Telo (2007) emphasize the intensification of globalization and resulting interdependence among the distinct countries and regions since the end of the Cold War and associated bipolarity. Authors argue that not only neighbouring states in the same region but also various countries from distinct regions became connected to each other as a result of the globalization of production, communication technologies and financial transactions.

Secondly, it is argued that widening in the EU resulting from the enlargements coupled with the deepening efforts under the Single Market Programme during the late 1980s and early 1990s had led to perceptions in the rest of the world that a ‘Fortress Europe’ was emerging (A. G. Brown, 2003; Brenton, 2000; Sbragia, 2010; Gilson, 2004). Thus, neighbouring countries in different regions responded to

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<sup>32</sup>Association of Southeast Asian Nations (ASEAN) was formed in 1967 by the original members, Indonesia, Malaysia, Philippines, Singapore and Thailand. In time, its membership expanded with the inclusion of Brunei, Burma (Myanmar), Cambodia, Laos and Vietnam.



European integration by forming their own regional arrangements under competitive pressures.

Thirdly, many authors assert that rise of PTAs was triggered by the US turn to preferential arrangements during the Uruguay Round negotiations as a result of its dissatisfaction with the slow progress of the trade talks (Erzan & Yeats, 1992; Frank, 1996; M. Baldwin, 2006; Sbragia, 2010; A. G. Brown, 2003; Sampson, 2003). Authors point that while US had been a long-time supporter of the multilateral trading system and its principle of non-discrimination, its commitment waned in time due to the gradualist character of the GATT rounds and signed relatively easy-to-conclude FTAs with Israel (1985) and Canada (1988). This argument is partly true and partly false. On the one hand, it is true that multilateral trade rounds had been increasingly more difficult to conclude over time due to the expansion of the negotiated issues and increase in the participating countries holding diverse positions (Young & Peterson, 2006; Young, 2011; M. Baldwin, 2006; Conconi, 2009; Erzan & Yeats, 1992).

Table 4.1 demonstrates the changing nature of the GATT rounds in terms of the time it took to conclude, the scope of the issues to be discussed and the number of participants to be negotiated with. Accordingly, while the earlier rounds were completed in a year by only negotiating on tariff cuts with less than 30-40 participants, 15 categories of issues were discussed by 123 countries in the Uruguay Round which lasted almost eight years. As a result Uruguay Round is usually characterized as “the round to end all rounds” (Schott, 1994, p. 37; WTO, 2011b, p. 18).

Although the transformation in the nature of the multilateral trading system is acknowledged, there are challenging arguments presented by Feinberg (2006), Bhagwati (1995), and R. E. Baldwin (1997) to the assertion that US turned to bilateralism due to its dissatisfaction with the slow progress in multilateral negotiations. First of all, Feinberg (2006) points that Israel and Canada were both “special cases” for the US (p.97). While forming relations with Israel had a geopolitical and strategic importance, Canada was a close neighbour with strong

trade and investment ties. Thus it can be argued that forming bilateral trade relations with these countries was not a part of a broader strategy for the US resulting from the dissatisfaction of multilateralism but rather it was due to specific reasons. This pattern is also similar to EU's establishment of bilateral/inter-regional relations with its close neighbours and strategic partners until the 1990s, which was elaborated in the previous chapter.

**Table 4.1: Changing Nature of the GATT Rounds**

<b>Name of the Rounds</b>	<b>Year</b>	<b>Subjects Discussed</b>	<b>Number of Participants</b>
Geneva	1947	Tariffs	23
Annecy	1949	Tariffs	13
Torquay	1951	Tariffs	38
Geneva	1956	Tariffs	26
Dillon	1960-1961	Tariffs	26
Kennedy	1964-1967	Tariffs and anti-dumping measures	62
Tokyo	1973-1979	Tariffs, non-tariff measures, framework agreements	102
Uruguay	1986-1994	Tariffs, non-tariff barriers, natural resource products, textiles and clothing, agriculture, tropical products, GATT articles, Tokyo Round codes, anti-dumping, subsidies, intellectual property, investment measures, services, dispute settlement creation of WTO	123

Sources: (WTO, 2011b, 2012)

Secondly, Feinberg (2006) and R. E. Baldwin (1997) call attention to the fact that US started negotiations to form FTAs upon the proposals of its partners. In the cases of US-Canada FTA and later NAFTA, it was Canada and Mexico which

proposed the deepening of trade relations to the US in the first place. Yet, it may equally be true that involvement of US in bilateral and regional FTAs, even if they were realized after the initiatives of its partners, might have had an influence on the perceptions of the competitors of the US. They might have considered that US started to pursue a strategy of bilateralism/regionalism.

Thirdly, R. E. Baldwin (1997) and Bhagwati (1995) challenge the argument that formation of bilateral and regional FTAs are always easy to negotiate compared to multilateral trade rounds. They point that formation of FTAs can face domestic opposition from import-competing interests and can take a long time to be concluded as well. Although they have a point, in this case, too, perceptions can come into play. States can initiate bilateral and regional FTA negotiations believing that they will be completed in a relatively lesser amount of time and result in short-term competitive advantage over the excluded markets (A. G. Brown, 2003, p. 170; Sapir, 1998, p. 729). In fact, there are examples of FTAs which were completed in a short period of time as in the cases of US-Canada and EU-Mexico FTAs, both of which were completed in less than two years.

Lastly, R. E. Baldwin (1997) argues that regionalism can occur regardless of the nature of the progress in the multilateral trade talks by proposing ‘a domino theory of regionalism’. Accordingly, the author argues that any incidence of preferential trade arrangement among a number of countries can create trade and investment diversion, which in turn results in membership requests to the existing formation. If the arrangement is open to enlargement, membership expands in time (e.g. EU). If it is not open to distant members (e.g. NAFTA), excluded nations can form their own bilateral and regional arrangements as a response (e.g. EU-Mexico FTA). Domino theory is indeed very helpful in explaining the rise in responsive bilateral and regional formations in order to alleviate the trade and investment diversion effects of others. However, it cannot provide answers to the occurrence of the first instances of bilateral and regional arrangements. In other words, it explains the continuing fall of dominoes only after the first one falls. It does not explain why and how the first domino has fallen at the beginning.

Interactionist approach which was developed in the first chapter definitely benefits from the insights provided by the domino theory in explaining the involvement of trade competitors such as EU, US and Japan in various reactive bilateral, regional and inter-regional arrangements since the mid-1990s. Nevertheless, it starts providing answers to the rise of bilateralism/inter-regionalism as a trade strategy preferred by the EU by firstly focusing on the nature of the international trading system and global economic and financial situation as systemic factors.

Just as global commitment to multilateralism under the framework of GATT until the 1990s resulted from the international/global systemic factors which had been influenced by the strategies pursued by trading nations in the pre-GATT period, rise of preferential arrangements in the form of bilateral, regional and inter-regional agreements since the 1990s can equally be explained by the transformations which had taken place in the nature of the trading system and global economic/financial situation in the previous period. In terms of systemic factors, as elaborated in the Chapter 3, globalization of production of goods and services; emergence of new trade-related issues; coming into prominence of multinational corporations and resulting disappearance of the division between the interests of export and import-competing groups; and further liberalization of trade in both developed and developing countries all led to the intensification of competition among the EU and its major trade competitors over further and immediate access to distinct markets. As they all started to form certain preferential arrangements through FTAs in order to secure their immediate access to different markets in the short-run, this paved way for the formation of other PTAs due to concerns for trade diversion.

In terms of global economic and financial situation, past decades witnessed to significant transformations as well. On one hand, economic growth started to slow down in the US since the early 1980s and in the EU since the mid-1990s (Crafts, 2004; Frank, 1996; A. G. Brown, 2003; Young, 2011). On the other hand, economic performances of emerging markets in Latin America and Asia had already entered

into a period of increasing improvement since the 1980s. These improvements were mostly evident in countries such as Brazil, India and China (Young, 2011). As a result, gaining immediate access to new markets through relatively easy-to-conclude bilateral/inter-regional FTAs became strategically important particularly for the EU and the US in order to maintain their competitive positions.

There are two major indicators of the emergence of bilateral/inter-regional PTAs as an alternative trade strategy to multilateralism. Most important indication is that both the EU and its major competitors started to enter into trade and investment relations with emerging and strategic markets from *distant* regions rather than their close neighbours. Secondly, since the 1990s, scope of the issues addressed in the preferential trade arrangements has also increased in parallel with the expansion of the multilateral trade agenda which started to cover new areas such as services, foreign direct investment, and intellectual property rights. Moreover, parties to the FTAs started to negotiate further issues such as elimination or harmonization of regulatory barriers to trade in order to facilitate trade and investment among themselves (Sampson, 2003; Frank, 1996; Brenton, 2000). Since these issues were not completely resolved even in the Uruguay Round, such FTAs were characterized as WTO-Plus, demonstrating the continuing and even increasing commitment to further liberalization (Sampson, 2003). Besides, it was believed that further liberalization and inclusion of additional issues in the FTAs would prepare the nations for the future multilateral trade rounds (Sampson, 2003; Bhagwati, 1995).

In brief, while until the 1990s multilateral GATT rounds had been considered as the best forum for balancing the domestic export and import-competing interests, after the 1990s concerns for competitiveness and securing immediate market access led to the perceptions that bilateralism/inter-regionalism is a better alternative with faster results. Following two sub-sections elaborate on the bilateral/inter-regional FTAs formed by the EU with *distant* countries/regions as a preferred trade strategy due to above-mentioned rationales.

#### **4.1.2. EU FTAs in Latin America**

From the 1980s onwards, EU had developed significant ties with Latin America involving political, developmental, social, and economic matters (Grugel, 2004, p. 612). This owed much to the liberalization reforms realized by Latin American countries as well as to the accession of Spain and Portugal to the European Union (Grugel, 2004; Pietrangeli, 2009). While Latin America was in a process of structural transformation by realizing important market-opening reforms; particularly Spain and Portugal, which had historical and cultural ties with the region, played an active role in pressuring the Union to form closer ties with Latin America not only to help their reform and development process but also to benefit from these emerging markets (Pietrangeli, 2009; Grugel, 2004; Santander & Ponjaert, 2009; Lamy, 2002). In parallel, Latin American countries as well attached greater importance to the interest of the Union in the region in order to reduce their political and economic dependence on the US (Santander & Ponjaert, 2009; Grugel, 2004). As a result, EU soon became one of the most important strategic partners of the region as the “leading donor” and “first foreign investor” after the US (Santander & Ponjaert, 2009, p. 291).

Although EU and Latin America started to deepen their relations since the 1980s, EU had to reject certain FTA proposals initiated by some Latin American countries such as Mexico as it had to give top priority to the integration of Central and Eastern European Countries (CEECs) to the Union after the collapse of the Berlin Wall (Espach, 2006, p. 255). Nevertheless, EU had to reconsider its trade strategies when its trade and investment interests in the region were significantly challenged during the mid-1990s by a number of FTA initiatives tying the US to certain Latin American countries with strategic importance (Sbragia, 2010). These were inclusion of Mexico to the previously formed US-Canada FTA by establishing North American Free Trade Agreement (NAFTA) and initiative of Free Trade Area

of Americas (FTAA) which offers membership to 34 countries including US, MERCOSUR<sup>33</sup> members and Chile as an extension of NAFTA.

To begin with, US-Mexico relations were deepened in the early 1990s. Initially, during its reform process towards an outward-looking economy and after being rejected by the EU, Mexico proposed the US to form an FTA in order to gain access to US market for its exports and to attract further foreign direct investment (Feinberg, 2006; R. E. Baldwin, 1997; Espach, 2006). While US would not gain much from this deal in commercial terms, it would be geopolitically beneficial to help Mexico's reform process and contribute to its economic development by establishing an FTA in order to create stability in its neighbourhood (R. E. Baldwin, 1997, p. 870; Feinberg, 2006). With the involvement of Canada, US-Mexico bilateral talks transformed into a trilateral negotiation and subsequently NAFTA entered into force in 1994 (R. E. Baldwin, 1997).

Similarly, other strategically important emerging markets in Latin America such as MERCOSUR and Chile, which were in a process of market-opening reforms as well, approached the US with an FTA initiative extending the membership of NAFTA to cover 34 countries in the western hemisphere except Cuba (Feinberg, 2006, p. 107). Major reason behind this initiative was the concerns for trade and investment diversion effects of NAFTA on the rest of the Latin American markets (R. E. Baldwin, 1997, p. 871). US agreed to start negotiations for the creation of an FTAA in the 1994 Miami Summit as a result of similar considerations such as fostering stability in and reducing labour migration from these countries by encouraging their liberalization efforts with FTAA plan.

European Commission (1995a) immediately drew attention to the initiatives such as NAFTA and FTAA in order for the Union to respond better by preparing a Communication for the Council, in which it evaluated the costs and benefits of bilateral/inter-regional FTAs alongside multilateral WTO negotiations. While it underlined the necessity of concluding FTAs with broad coverage and trade

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<sup>33</sup>MERCOSUR (Mercado Comun del Sur, Common Market of the South) was originally founded by Argentina, Brazil, Paraguay and Uruguay in 1991.

facilitation purposes, which are in line with WTO rules and principles, it mostly pointed to the strategic importance of them in terms of immediate market access for European exporters by stating that:

FTAs are economically beneficial, especially where they help the EU to bolster its presence in the faster growing economies of the world, which is our overriding interest...FTAs are usually trade creating...Most recently, this direct economic justification has also been supplemented by strategic considerations regarding the need to reinforce our presence in particular markets and to attenuate the potential threat of others establishing privileged relations with countries which are economically important to us. (European Commission, 1995a, p. 6)

By this way, Commission particularly referred to the importance of opening bilateral/inter-regional negotiations with Mexico and MERCOSUR region in order to counter-balance the US presence in these markets. Sbragia (2010) emphasizes that these balancing efforts led to the intensification of a “structural relationship of competitive interdependence” between the EU and US since then (p. 369).

In the case of Mexico, after the entry into force of NAFTA and Mexico’s decision to increase its tariffs against non-member states, EU exports to Mexico had substantially declined and suffered a major loss in competitive advantage (Dür, 2007a; Espach, 2006). Dür (2007a) points out that although Mexico’s share in total EU exports was negligible, discrimination felt by the EU was much stronger due to high tariffs faced by European producers with subsidiaries in Mexico when they imported intermediary products from the EU. As a result, European exporters mobilized and lobbied against market losses in Mexico, pressuring both the Council and the Commission to start FTA negotiations with Mexico (Dür, 2007a). Finally, in May 1995, negotiations for a Free Trade, Political Coordination and Cooperation Agreement, mostly known as Global Agreement, were launched between the EU and Mexico (Sbragia, 2010; Espach, 2006).

Although the major purpose behind the FTA negotiations with Mexico was the achievement of NAFTA parity regarding tariff reductions (Dür, 2007a; Espach,



2006), it had a substantially broader coverage (Aggarwal & Fogarty, 2005; Reiter, 2003). In addition to liberalization of trade in goods, it aimed to address the issues of services, investment, intellectual property, government procurement, technical barriers to trade and dispute settlement (Reiter, 2003; Aggarwal & Fogarty, 2005). This was in line with Commission's earlier argument for FTAs with broad coverage and trade facilitation effects. Despite certain divergent positions of the Member States and EU Commissioners for trade, agriculture and fisheries sectors which try to balance the interests of European exporters and importers over such extensive issues; Commission was granted an official negotiating mandate by the Council in 1999 and EU-Mexico FTA finally came into effect in 2000 (Dür, 2007a; Reiter, 2003).

Having suffered from actual market losses in Mexico after the entry into force of NAFTA, EU wanted to avoid a more significant loss before FTAA became a reality (Santander, 2005). Consequently, regarding the cases of MERCOSUR and Chile, EU institutions responded with two separate but parallel FTA initiatives in order to counter-balance the impact of a future FTAA. Faust (2004) draws attention to the fact that even before lobbying activities of interest groups started, both the Council and the Commission shared a unified stance in protecting the vested interests of the Union in the region, which came under serious threat by the plan of FTAA.

To begin with, EU signed with MERCOSUR an Inter-Regional Framework Cooperation Agreement (EMIFCA) in 1995. Faust (2004) points out that EMIFCA provided the first and best example of a 'pure' inter-regionalism involving the EU. Rather than negotiating separate FTAs with each of the MERCOSUR members, in this case, EU aimed to treat it as an equal trading bloc and promote their regional integration (Aggarwal & Fogarty, 2004).

According to Leal-Arcas (2008), in general, both political and economic factors play a role in EU's support for regional integration. Politically, as a well-developed regional bloc, EU considers itself as the "natural supporter of regional initiatives" (European Commission, 1995b, p. 6). Thus, it actively promotes regionalism world-

wide by presenting itself as a model for others (De Lombaerde & Schulz, 2009; Aggarwal & Fogarty, 2004; Faust, 2004; Santander, 2005; Grugel, 2004; Santander & Ponjaert, 2009). Economically, on the other hand, EU aims that its exporters and investors benefit from economies of scale (Leal-Arcas, 2008).

Commission has a particular role in the promotion of regionalism and inter-regionalism as a supranational institution (Söderbaum et al., 2005). Faust (2004) argues that by promoting the strategy of inter-regionalism, Commission tries to expand its tasks and thus supports agreements with a broad coverage. Indeed, EMIFCA had an ambitious coverage with its three pillars consisting of political dialogue, cooperation, and trade (Grugel, 2004; Santander, 2005). First two pillars were based on cooperation and technical assistance in international, multilateral and inter-regional matters (Santander, 2005, p. 294). Last pillar on trade liberalization envisaged a WTO-Plus agreement as in the case of EU-Mexico FTA, covering diverse issues such as liberalization in industrial and agricultural goods, services, investment and intellectual property (Santander, 2005; Faust, 2004; Aggarwal & Fogarty, 2004).

Although interest groups did not play a significant role in the launch of negotiations, both export and import-competing firms as well as multinational corporations actively involved during the negotiation process, trying to shape the course of the progress in negotiations (Grugel, 2004; Faust, 2004; Santander, 2005). On the one hand, export-competing groups and representatives of multinationals supported the WTO-Plus character of the agreement which addressed multiple issues for further liberalization. Particularly, they argued for the liberalization and trade facilitation regarding sectors such as financial and telecommunication services (Santander, 2005; Faust, 2004). On the other hand, representatives of sensitive sectors such as agriculture rejected any liberalization due to serious competition asserted by MERCOSUR members (Santander, 2005; Faust, 2004; Grugel, 2004). In parallel to those divergent interests, positions of Member States and Commissioners reflected disagreements over these issues as well (Faust, 2004). For instance, while Commissioner for Trade argued for further liberalization and CAP reform,

Commissioner for agriculture had to defend its opposing position. Similarly, Member States such as France, Ireland and the Netherlands, which are receptive to the protectionist demands of their sensitive sectors opposed to the agreement while Spain, Portugal, Italy and Germany actively supported it.

At the end negotiations with MERCOSUR started to slow down and have not yet reached to a conclusion due to the opposition of import-competing interests and problems in CAP (Aggarwal & Fogarty, 2004; Brenton, 2000; Santander, 2005). Nevertheless, authors such as Aggarwal and Fogarty (2004) and Dür (2007a) point out that the major reason behind the slow progress in MERCOSUR case was rather the fact that unlike NAFTA, FTAA has never become a reality, resulting in a loss of interest in the region. Dür (2007a) suggests that in the absence of a serious threat, import-competing interests have the capacity to mobilize and block the progress in negotiations. According to him, only significant and actual losses in market access lead to strong mobilization and lobbying of export-competing interests, pressuring the EU institutions to make good progress in negotiations for further liberalization.

Due to similar concerns and in parallel to negotiations with Mexico and MERCOSUR, EU also considered deepening relations with Chile. At the beginning, both the interest groups and the Member States did not give priority to the Chilean case (European Commission, 1995c; Dür, 2007a). They rather focused on MERCOSUR and Mexico. As a response, Commission prepared a communication on the strengthening of relations between the EU and Chile. Commission (2005c) explicitly warned that EU can face significant market losses unless relations are not deepened immediately. It drew attention to the possibility that Chile can join NAFTA even before initiative of FTAA is realized, resulting in trade and investment diversions (European Commission, 2005c, pp. 8-9). Consequently, a Framework Cooperation Agreement was signed between the EU and Chile in 1996. This agreement envisaged a WTO-Plus coverage as well (Reiter, 2003; Dür, 2007a). Similar to the cases of Mexico and MERCOSUR, the future FTA with Chile would cover areas such as services, investment, government procurement, intellectual property, competition policy and technical barriers to trade (Reiter, 2003). As a

response, interest groups and Member States which did not play an active role in the initial proposal, started to get involved during the negotiations in order to defend their own interests (Dür, 2007a). In this case, too, positions of outward-looking and sensitive sectors differed, resulting in slow progress in the negotiations (Dür, 2007a). While bilateral talks were still continuing in the New Millennium, start of FTA negotiations between the US and Chile had a triggering impact on the EU policy-makers and EU-Chile FTA finally came into effect in 2003 (Dür, 2007a, p. 848).

In sum, cases of Mexico, MERCOSUR and Chile demonstrated that external factors such as transformations in the nature of the international trading system as well as the strategies followed by the US towards Latin America had a serious impact on the trade strategies of EU regarding the same region. As a response to NAFTA, actual losses in market shares drove the export-competing interests to assert pressure on the Member States and EU institutions for an FTA with Mexico. Initiative of FTAA, on the other hand, had an initial impact on the EU institutions which proposed deepening of relations with MERCOSUR and Chile due to expectations of similar negative effects. Interest groups and Member States got involved after the negotiations had started. Their divergent positions regarding the covered issues and lack of an actual threat led to a slow progress in both cases. Although commercial interests dominated the relations with Latin America, MERCOSUR case was also politically significant as EU aimed to promote regional integration by presenting itself as a successful model in its strategy of inter-regionalism.

#### **4.1.3. Asia-Europe Meeting (ASEM)**

In parallel with the developments in Latin America, during the mid-1990s, strengthening of relations with the fast growing Asian economies had also become strategically important for the EU particularly after the emergence of Asia-Pacific Economic Cooperation (APEC). APEC was established in 1989 as an inter-governmental forum for political and economic cooperation under the leadership of

Australia and Japan (McKay, 2002; Feinberg, 2008). First APEC meeting was held at the level of foreign ministers representing 12 nations which consisted of ASEAN members, Australia, Canada, Japan, South Korea, New Zealand and the US (McKay, 2002). According to Feinberg (2008) there were two major reasons behind the formation of APEC. Firstly, end of the Cold War and associated bipolarity encouraged regional initiatives in the Asia-Pacific region. Secondly, market-opening reforms and the rise of the private sector in most of the Asian economies coupled with increasing market-driven interdependence all led to search for new opportunities.

Although APEC nations opted for economic and political cooperation, lack of genuine leadership and diverse positions of its members impeded the establishment of an institutionalized regional bloc unlike the cases of EU, NAFTA and MERCOSUR (McKay, 2002; Feinberg, 2008). First of all, existence of a rivalry and lack of thrust among three major powers, namely the US, Japan and China, inhibited the development of a regional integration among the APEC nations (Feinberg, 2008). Secondly, APEC consisted of both developing and developed nations with diverse positions over its institutional setting (McKay, 2002; Feinberg, 2008). On the one hand, some nations called for US leadership in order to avoid instability in the region originating from the problems with Korea, Taiwan and China (McKay, 2002, p. 45). On the other hand, particularly ASEAN expressed its concerns regarding the domination of US, Japan or China with the fear that its own regional integration process would be damaged (Feinberg, 2008). Instead, it argued for an informal and consensus-oriented setting with a small Secretariat (McKay, 2002; Feinberg, 2008; R. E. Baldwin, 1997). At the end, ASEAN's principle of "voluntary multilateralism" which is based on the preservation of national sovereignty was incorporated into APEC (Feinberg, 2008, p. 242).

While APEC continued as an informal cooperation mechanism at the ministerial level in its initial years, its first annual leaders' summit was held in 1993 under the leadership of US (Feinberg, 2008; McKay, 2002). With this initiative, US aimed to assert more influence over the region while it hoped to benefit from the

creation of more open markets at the same time (Feinberg, 2008, p. 245). In the next year's summit, APEC nations agreed to form an FTA by removing all barriers to trade and investment by 2010 among the developed nations, and by 2020 among the developing ones (Feinberg, 2008; McKay, 2002; R. E. Baldwin, 1997). R. E. Baldwin (1997) argues that these long-term targets were intentional since APEC nations avoided preferential liberalization due to certain reasons such as a lack of previous experience of regionalism or a poor record of free trade among certain Asian nations.

EU observed these developments with concern. Soon after APEC's plan for a free trade area is announced in 1994 under the leadership of US, Commission declared its new strategy towards Asia. Accordingly, Commission emphasized that competitors such as Japan and US, and emerging markets such as South Korea and Taiwan were actively getting involved in Asia with their trade and investment strategies (European Commission, 1994a, pp. 16-17). However, it pointed out that European business did not give sufficient priority to the region (European Commission, 1994a, p. 2). Thus, Commission called for the coordination of business and Member State activities towards Asia in order to benefit from their fast growth and to counter-balance the presence of major powers such as US and Japan (European Commission, 1994a). In another communication, Commission drew attention to the target of achieving an FTA and plans for harmonizing trade and investment rules among APEC nations, which led to concerns for the Union (European Commission, 1995a). In order not to be affected from these developments negatively, Commission suggested the deepening of relations with particularly ASEAN and other emerging Asian economies (European Commission, 1995a, p. 8). Moreover, it underlined the challenge to be faced during this process due to ASEAN's unwillingness for any type of institutionalized integration (European Commission, 1995a, p. 8).

After two years, EU could finally respond to APEC challenge with the creation of Asia-Europe Meeting (ASEM) in 1996 (Fogarty, 2004; Aggarwal & Fogarty, 2004, 2005; Gilson, 2004; Santander & Ponjaert, 2009). ASEM brought together

seven members of ASEAN, China, South Korea, Japan and the EU. Major supporters of this initiative were Singapore and France, both of which aimed to counter-balance the influence of the US (Santander & Ponjaert, 2009, p. 295). Japan and UK, on the other hand, acted more cautiously, considering the possible repercussions of this arrangement on the multilateral system (Santander & Ponjaert, 2009, p. 295).

ASEM was primarily designed to liberalize and facilitate trade and investment among the nations of Asia and Europe while it also aimed to develop economic, political and cultural dialogue among them (Gilson, 2004, p. 64). Similar to APEC, it had a semi-institutionalized setting which was based on leaders' summits and ministerial meetings as well as the involvement of private sector under the leadership of Asia-Europe Business Forum (AEBF). Nevertheless, Gilson (2004) points that interest of European business in Asia were not sufficient due to four major reasons. Firstly, European business mostly preferred to focus on CEECs rather than Asia. Secondly, existence of non-tariff barriers and state involvement in some Asian countries created problems. Thirdly, European business was not familiar with most of the Asian business practices. Fourthly, the US and Japan had realized the potential of Asia much before the EU did, resulting in a competitive advantage for them. Although Commission warned the European business for their lack of interest by emphasizing the increasingly growing potential of ASEAN nations (European Commission, 1996b), progress with ASEM continued to slow down in the face of Asian crisis of 1997/98 (Santander & Ponjaert, 2009, p. 296) and due to the lack of progress in APEC as well (Aggarwal & Fogarty, 2004, p. 228). European and US interests in Asia have only recently been revitalized in the new Millennium, which will be elaborated on the following chapter.

In sum, ASEM was established to counter-balance the US involvement in APEC and to exploit the growing potential of the Asian economies. These external developments created pressures over the Commission to encourage business activity in the region. Nevertheless, due to both external and domestic factors, ASEM could not turn into a priority case in the EU during the second half of 1990s.

#### 4.1.4. First Market Access Strategy of the EU and the Concept of ‘Competitiveness’

This sub-section aims to underline the emergence of a fundamental transformation in the EU’s understanding in terms of the objectives and priorities of Union’s external trade policy. In parallel to its responsive policies discussed in the previous sections -i.e. entering into relations with Latin America and Asia in order to counter-balance the influence of its major competitors-, it was only during the mid-1990s that EU developed a ‘bilateralism/inter-regionalism first’ approach in order to maintain and further improve the *competitiveness* of the Union in the face of dramatic structural changes which had been occurring both in the international and domestic domains. Before elaborating on the first market access strategy of the Union, which entails a more proactive understanding in the bilateral/inter-regional approach, it is necessary to emphasize the emergence of the concept of *competitiveness* in almost all policy areas of the Union.

Van Apeldoorn (2000) points out that concept of *competitiveness* had already emerged within the EU during the 1980s but its meaning fundamentally changed over time. During the 1980s, *competitiveness* meant:

being able to compete in the global market place by first shielding oneself from the forces of global competition in order then to enter the fray on the basis of increased strength achieved partly through non-market means (Van Apeldoorn, 2000, p. 173)

Since the 1990s, however, it means “survival of the fittest” in global and further liberalized markets (Van Apeldoorn, 2000, p. 174). Bearing in mind that EU experienced further liberalization both at the multilateral and domestic levels with the conclusion of the Uruguay Round and the completion of the Single Market, the significance of the concept for the EU was high.

The author asserts that competitiveness discourse with the latter meaning was developed in the early 1990s by the Commission under the influence of the representatives of large corporations and business leaders, among which European



Round Table of Industrialists (ERT) had played a big role. Since then, this concept has largely been reflected in most of the official documents of the Union (Van Apeldoorn, 2000, p. 175). Moreover, Commission's embrace of the concept has had repercussions not only on the policy areas such as competition or industry but also external trade. This point is well-illustrated in the first market access strategy of the Union developed by the Commission in 1996.<sup>34</sup>

Major objective of the market access strategy developed by the Commission was to achieve "faster growth", "rapid job creation" and "improved competitiveness" by addressing the trade barriers encountered by European firms abroad (European Commission, 1996c, pp. 2-3). According to the Commission, this was essential if EU would benefit from internal market-opening and the decisions taken in the Uruguay Round. Commission stated that:

European firms encounter a multitude of obstacles abroad of a very different nature. Therefore, in addition to carrying out adequate policies to promote the international competitiveness of European industry, *the Community must strive to achieve improved market access in third countries in parallel to the continued progressive opening of its own market*, both by ensuring the full implementation by its partners of their Uruguay Round obligations and through other market access actions (original emphasis) (European Commission, 1996c, p. 3)

In order to secure market access for European firms and investors abroad, Commission mentioned two alternative trade strategies as being multilateralism and bilateralism. Nevertheless, it explicitly suggested that preference of bilateralism would produce "quicker results" in terms of further liberalization and elimination of barriers to trade if it is pursued towards strategically important markets for the EU (European Commission, 1996c, p. 5). Thus, it was no surprise that during the mid-1990s EU started to negotiate bilateral/inter-regional WTO-Plus agreements with

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<sup>34</sup>Commission explicitly stated that 1996 market access strategy was its "first analysis of the Community's priorities in immediate market-opening" as a response to the complaints received from European business (European Commission, 1996c, p. 19).

emerging markets in Latin America and Asia, addressing a wide range of issues such as liberalization of services, investment or elimination of technical barriers to trade.

## **4.2. From Unilateralism to Bilateralism/Inter-regionalism**

This section is devoted to the transformation of relations between the EU and its former colonies in the ACP region and Maghreb/Mashreq countries. During this period, EU changed its trade strategy regarding these regions/countries from unilateralism towards bilateralism/inter-regionalism.

### **4.2.1. Transformation of the Relations with the African, Caribbean and Pacific (ACP) Region**

Transformation of the trade relations between the EU and the ACP region from a non-reciprocal nature towards reciprocity constitutes another perfect case which can be examined through the interactionist approach developed in the first chapter. In other words, shift from the strategy of unilateralism to inter-regionalism occurred as a result of the pressures exerted from outside on the domestic actors and the institutions of the EU, which in turn redefined their interests towards a different strategy.

Externally, changing nature of the international trading system, transformations in the global economic and financial situation, and impact of the US as EU's major competitor provide the basis for an understanding of the reasons which led to the shift in EU trade strategies towards the ACP region. To begin with, international trading system had been transformed in two aspects. In political economy terms, intensification of globalization, continuing liberalization and increasing pressures over maintaining competitiveness all led to a fundamental paradigm shift in development policies world-wide towards a neo-liberal content (W. Brown, 2000; Hurt, 2003; Farrel, 2005; Serrano, 2011; Flint, 2009; Onguglo, 1999). While non-reciprocal preferences were associated with the post-war period of decolonization (W. Brown, 2000, p. 368), a new understanding in development cooperation

incorporated aid with responsibility, and market access with conditionality (W. Brown, 2000; Serrano, 2011; Farrel, 2005; Flint, 2009).

In legal terms, on the other hand, creation of a rule-based system under the framework of WTO constituted a major challenge to the existing ACP regime of the EU (W. Brown, 2000; Onguglo, 1999; Ravenhill, 2004). More specifically, non-reciprocal nature of the Lome regime was incompatible with the provisions of Article XXIV of GATT while different levels of development among the countries within the ACP region had made it impossible for the regime to be treated under the Enabling Clause (W. Brown, 2000, p. 379). That is why ACP regime of the EU had already been challenged before the creation of WTO and examined by GATT Working Parties but no conclusions had been arrived at due to vague interpretations of the existing GATT provisions (Huber, 2000, pp. 429-430). Yet, concerned with the future challenge which could be asserted by the creation of WTO, EU had been able to receive a waiver for its ACP regime in 1994 just before the reforms of Uruguay Round and agreements establishing the WTO had come into effect (Huber, 2000, p. 430; Ravenhill, 2004, p. 128). However, EU was certain that establishment of WTO and creation of the Dispute Settlement Mechanism would render it more difficult to obtain waivers in the future (Ravenhill, 2004, p. 128; W. Brown, 2000, p. 379).

Regarding global economic/financial transformations, ACP region's commercial significance to the EU had already been weakened (Farrell, 2005; Flint, 2009; Ravenhill, 2004). There were three major reasons behind this change. First of all, trade shares between the EU and the ACP had declined over the years (Farrell, 2005, p. 268; Ravenhill, 2004). Secondly, emerging markets in Latin America and Asia had turned out to be a top priority for the EU due to their strategic character (Farrell, 2005; Flint, 2009). Thirdly, with the end of the Cold War, EU's development policy would mostly be directed towards CEECs in order to contribute to their economic development and integration into world markets (Flint, 2009; Ravenhill, 2004; Hurt, 2003). As a result, ACP region ceased to be a special case for

the EU (Farrell, 2005) and turned out to be “simply one amongst many” as pointed out by Flint (2009, p. 83).

As the last external factor, US challenge to the banana regime of the EU created a significant pressure over it to consider a policy shift regarding the ACP region (Sbragia, 2010; W. Brown, 2000; Ravenhill, 2004). EU’s banana regime had been designed to protect the producers from the ACP region by deploying trade restrictions against other exporters from the rest of the world (Brenton, 2000, p. 8). Accordingly, before the completion of the Single European Market (SEM), import quotas had existed in Member States such as Britain, France, Italy, Portugal and Spain which situated the suppliers from the ACP region and overseas territories in a privileged position against the exporters in Latin America (Ravenhill, 2004; Van Dijk, 1996). Nevertheless, since SEM reforms necessitated the removal of import quotas and divisions in EU domestic market, EU had to extend the quota regime EU-wide, resulting in the intensifications in the complaints from Latin American producers (Ravenhill, 2004; Van Dijk, 1996). With the involvement of US which controlled major plantations in Latin America (Meunier & Nicolaidis, 2006), EU was challenged before the newly created dispute settlement mechanism of the WTO, pressuring it to seriously reconsider its preferences towards the ACP region (Sbragia, 2010; Van Dijk, 1996; Ravenhill, 2004).

As a result of all these external factors, interests of domestic actors within the EU were dramatically changed, favouring a shift in the existing policy. On the one hand, transformed circumstances resulted in a loss of interest in both the Member States and the commercial interest groups which had previously supported the old ACP regime (Ravenhill, 2004). In addition, after the enlargements, new Member States had even no interest in maintaining the existing relations with the ACP, but instead, they argued for developing ties with strategically more important markets (Ravenhill, 2004). Commission was in favour of a policy shift as well in order to ensure efficiency, effectiveness, rationalization and WTO-compatibility in the development and trade policies of the EU (Ravenhill, 2004; European Commission, 1996d, 1997b). Subsequently, Commission suggested a reciprocal inter-regional

approach towards this region by considering the expiry date of the latest Lome Convention in 2000 as an opportunity (W. Brown, 2000; European Commission, 1996d, 1997b).

The new approach was developed under the principles laid down by 2000 Cotonou Agreement and envisaged that countries within the ACP region would be first divided into two groups based on their developmental levels (Onguglo, 1999; W. Brown, 2000; Hurt, 2003; Flint, 2009). While the least-developed countries (LDCs) would continue to receive non-reciprocal preferences through EU's GSP scheme, developing countries would negotiate reciprocal inter-regional agreements with the EU. These inter-regional agreements, known as Economic Partnership Agreements (EPAs), would be negotiated with each of the sub-groupings<sup>35</sup> within the ACP region with the aim of promoting regional integration (European Commission, 1997b; Söderbaum et al., 2005).

EPAs which are still under negotiation<sup>36</sup> have an ambitious coverage and a WTO-Plus character (Heron & Siles-Brügge, 2012), sustaining the trend since the mid-1990s. They extend beyond the aim of ensuring WTO-compatibility and address various issues ranging from services and investment to intellectual property (Heron & Siles-Brügge, 2012; Farrell, 2005). As a result, many authors such as W. Brown (2000), Hurt (2003), Farrell (2005) and Serrano (2011) criticize the neo-liberal content of the EPAs and use of WTO-compatibility as an excuse by arguing that they reflect the self-interest of the EU in terms of further liberalization and gaining market access rather than idealistic objectives such as promotion of regional integration, integrating the developing countries into the world trade and fostering democracy, human rights or good governance among the nations of ACP region.

Flint (2009) draws attention to the parallel FTA negotiations between the EU and South Africa during the mid-1990s as a good case illustrating EU's self-interest.

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<sup>35</sup>Seven regions include Southern African Development Community (SADC), Eastern and Southern Africa (ESA), East African Community (EAC), West Africa, Central Africa, Pacific Islands Forum (PIF), and The Forum of the Caribbean Group of ACP States (CARIFORUM).

<sup>36</sup>After the end of the transition period in 2007, first EPA which entered into force in January 2008 was concluded with CARIFORUM (European Commission, 2012a).

Accordingly, after its emancipation from the apartheid system in 1994, South Africa requested to be involved in the Lome regime but EU suggested the negotiations for a bilateral FTA under the framework of Trade, Development and Cooperation Agreement (TDCA), considering South Africa as a developed country (Flint, 2009; Petersson, 2007). Agreement is concluded in 1999 after four years of negotiations. According to Flint (2009), this case demonstrated the intentions of EU regarding the future EPAs while at the same time it undermined the regional integration process within the Southern African Customs Union (SACU), treating South Africa as a separate case.

#### **4.2.2. Euro-Mediterranean Partnership (EMP): Transforming the Relations with the Maghreb and Mashreq Countries**

Similar to the previous ACP case, unilateral concessions granted to Maghreb and Mashreq countries by the EU through Cooperation Agreements signed in 1976-77 have been transforming into reciprocal ones which are compatible with the WTO principles under the framework of Euro-Mediterranean Association Agreements since 1995 (Aghrout, 2009). In addition to the issue of WTO-compatibility, transformations in this case were largely driven by foreign policy considerations of the EU and its Member States (Brenton, 2000; Sapir, 1998; Woolcock, 2007; Baert, 2003; Crawford, 2004). Thus, changes in the nature of the international trading system and global economic/financial situation had an indirect impact on the EU's EMP policy, shaping the content of the new agreements during the negotiation process.

End of the Cold War had necessitated that EU reconsidered its previous policies regarding the broader Mediterranean region for two reasons (Aghrout, 2009; Crawford, 2004). Firstly, EU needed a renewed policy in order to counter-balance the political influence and hegemony which would be reasserted by the US over the region in the post-Cold War era (Crawford, 2004, p. 105). Secondly, and most importantly, EU aimed to address major problems such as underdevelopment, political instability, war, Islamic fundamentalism and terror, prevailing in the region

and constituting a direct threat to the EU in two major ways (Crawford, 2004; Baert, 2003; Woolcock, 2007). On one hand, EU's energy security was continuously put in jeopardy by these problems (Crawford, 2004). On the other hand, Member States such as Italy, Spain and Portugal were under constant threat of migration flows from the Mediterranean countries (Crawford, 2004; Baert, 2003; Woolcock, 2007).

While EU would clearly benefit from the renewal of the policy, Mediterranean countries demanded the reconsideration of the existing relations as well (Sapir, 1998; Aghrout, 2009). Major motive behind this demand was the fact that EU had started to give top priority to its relations with the CEECs, putting the Mediterranean region in a disadvantaged position in terms of competition regarding the exports in manufactured products (Sapir, 1998, p. 726; Aghrout, 2009, p. 355).

As a result of these motives, Member States and the EU institutions supported a policy shift regarding the region. Particularly Spain, Portugal, Italy, and France strongly advocated the strengthening of relations with the Mediterranean (Sapir, 1998; Baert, 2003; Lamy, 2002), pressuring the Commission to take necessary steps for a formulation of a new strategy. Commission was also in favour of deepening relations with the region as it would lead to a task expansion (Crawford, 2004, p. 108). According to Dür (2007a) Member States and EU institutions can only pursue policies for geopolitical and foreign policy considerations on their own initiative when the interests of both the import and export-competing groups are not threatened significantly. Indeed, interest groups did not have a much role or interest during this process (Crawford, 2004).

Under the guidelines decided by Member States in Council Summits of 1992 and 1994, Commission prepared a framework for the near future Euro-Mediterranean Partnership policy in 1994 (European Commission, 1994b). It was suggested that permanent stability, security and peace would be fostered in the region by the gradual establishment of an FTA which would contribute to the economic and social development of the region (European Commission, 1994b). Thus gradual reciprocal liberalization would define the basis of the new strategy which would also be valid for the Maghreb and Mashreq countries (Aghrout, 2009).

A new communication further elaborated on EU's strategy towards the region regarding the envisaged FTA which would be completed in 2010 at the latest, and strongly emphasized that "all the Member States would benefit from an improvement in the region's stability and prosperity" (European Commission, 1995d, pp. 2, 5). It also underlined that the FTA should be in line with the principles of WTO and should cover a substantial amount of trade in various areas (European Commission, 1995d).

Commission's policy framework eventually led to the establishment of a Euro-Mediterranean Partnership (EMP)<sup>37</sup> in 1995 Euro-Mediterranean Conference. Barcelona Declaration (1995) defined the three major pillars of the renewed strategy as 'political and security partnership', 'economic and financial partnership', and 'partnership in social, cultural and human affairs'. In the area of economic and financial partnership, EU's commitment to support for region building and regional integration was emphasized while details of the envisaged FTA were elaborated on as well (Barcelona Declaration, 1995). Accordingly, it would have a WTO-Plus character covering areas such as progressive liberalization of trade in industrial goods and agriculture, services, investment, technical barriers to trade, intellectual property and competition (Barcelona Declaration, 1995; Woolcock, 2007; Aghrout, 2009).

Despite the initial enthusiasm, progress has rather been slow and disappointing (Baert, 2003; Aghrout, 2009). Euro-Mediterranean FTA has not yet become reality after two years of the suggested deadline of 2010. Table 4.2 lists the signature and entry into force dates of Euro-Med Association Agreements which have been negotiated by the EU with Mediterranean countries through the years. While Tunisia, Israel, Morocco, Palestinian Authority, Jordan, Egypt, Algeria and Lebanon concluded the Euro-Med agreements with EU, agreement with Syria was only

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<sup>37</sup>EMP Policy is frequently referred to as Barcelona Process since its foundations were laid in Barcelona during the Spanish Presidency of the Council of the EU.



initialled in 2008 and has not yet signed officially.<sup>38</sup> Although currently, the only country which has not yet concluded an Association Agreement with the EU is Syria, neither the trade within the region nor with the EU has improved significantly (Aghrout, 2009; Woolcock, 2007). Rather the trade deficit experienced with EU has continued (Aghrout, 2009). Disappointing progress is usually associated with the prevailing political and economic problems in the region as well as the insufficient involvement of interest groups in both parties (Aggarwal & Fogarty, 2004; Crawford, 2004; Aghrout, 2009).

**Table 4.2: Euro-Med Association Agreements**

<b>Country</b>	<b>Signature Date</b>	<b>Entry into Force</b>
Tunisia	July 1995	March 1998
Israel	November 1995	June 2000
Morocco	February 1996	March 2000
Palestinian Authority	February 1997	July 1997 (interim agreement)
Jordan	November 1997	May 2002
Egypt	June 2001	June 2004
Algeria	April 2002	September 2005
Lebanon	June 2002	April 2006
Syria	December 2008 (draft agreement initialled never signed)	-

Source: (European Commission, 2012b)

<sup>38</sup>EU has suspended the ongoing bilateral FTA negotiations with Syria in 2011 due to recent political upheaval experienced in the region.

### **4.3. Remembering Multilateralism in the First WTO Ministerials: From Singapore to Seattle**

This section aims to briefly touch upon the positions of the EU and its major competitors in the first WTO ministerials before proceeding to Chapter 5 which will elaborate on the EU trade strategies followed since the beginning of the New Millennium. By particularly focusing on the ministerial meetings<sup>39</sup> held in Singapore (1996) and Seattle (1999), major purpose of the section is to prepare the basis for a further understanding of the challenges which will be faced by the EU in the New Millennium regarding its strategy of multilateralism.

While during the mid-1990s bilateralism/inter-regionalism emerged as the first alternative to the strategy of multilateralism in order for the EU to gain easy access to distant markets, commitment to multilateralism for further liberalization continued as well. In fact, under the influence of business interests, EU's trade agenda at the multilateral level reflected the same considerations behind the strategy of bilateralism/inter-regionalism -i.e. further liberalization and facilitation of trade with the third parties (Heron & Siles-Brügge, 2012, pp. 255-6). For instance, Commission's 1996 Market Access Strategy, which was primarily designed for the Union's bilateral/inter-regional relations, also addressed the issues to be tackled in future negotiations at the multilateral level. It pointed to various issues such as investment, competition, environment, labour standards, public procurement and trade facilitation to be negotiated in the first WTO ministerial meeting in Singapore (European Commission, 1996c). US also supported the inclusion of new areas such as environment and labour standards to the multilateral trade agenda (Evenett, 2007a, p. 145). Consequently, under the leadership of EU and US, new trade-related areas such as competition policy, transparency in government procurement, trade facilitation, and investment were introduced for the first time in Singapore ministerial (Heron & Siles-Brügge, 2012; Evenett, 2007a; WTO, 2011b). In

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<sup>39</sup>There was one more WTO ministerial (second) which was held in Geneva in 1998. It coincided with the 50th anniversary of the GATT system (WTO, 2011b, p. 10).

addition, WTO Working Groups were established in order to examine the impact of each of these issues on trade before the launch of a new round of negotiations (WTO, 2011b; Abdelal & Meunier, 2010; Woolcock, 2005). Since then, these issues have come to be known as ‘Singapore issues’.<sup>40</sup>

After making its position clear in Singapore, EU proposed the launch of a comprehensive round in 1998 (Woolcock, 2005). The so-called ‘Millennium Round’ was expected to be launched in the third WTO ministerial meeting in Seattle in 1999. Commission clarified that EU’s main interest lied in further and comprehensive liberalization by stating that:

Further trade liberalisation and expansion through WTO can, by removing obstacles, help stimulate competition, growth and employment in Europe...The Community should therefore develop a multilateral agenda aimed at tackling remaining obstacles to trade, and strengthening WTO rules, in order to expand opportunities for international trade and growth, in a manner conducive to sustainable development. (European Commission, 1999, p. 3)

Attempts to start the opening of a new round of trade negotiations in the Seattle ministerial failed due to serious opposition asserted by developing countries in a coordinated manner (Young & Peterson, 2006; Woolcock, 2005; Evenett, 2007a; A. G. Brown, 2003; M. Baldwin, 2006). However, the meeting drew much public attention when NGOs from developed countries organized demonstrations and protested outside the building where the ministerial was held (Meunier & Nicolaidis, 2005; A. G. Brown, 2003; Gill, 2000). These protesters were against the further expansion of the WTO trade agenda and the anticipated costs of further liberalization of new areas on domestic jobs or public health. As these newly incorporated areas were commonly referred to as ‘behind-the-border issues’, they directly concerned domestic actors with non-commercial interests such as consumers (Young & Peterson, 2006; Barton et al., 2006).

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<sup>40</sup>These issues are also referred to as “the trade ands” since they were described in the official documents as ‘trade and investment’ or ‘trade and environment’ (M. Baldwin, 2006, p. 936; also see European Commission, 1996c).

Authors such as M. Baldwin (2006) and Lanoszka (2003) argue that anti-globalization protests by various groups including environmentalists, human rights activists, and advocates of labour and women's rights were over-publicized by the media, casting a shadow over the actual and more serious crisis emerging between the developing (South) and the developed (North) world. For the first time in history, developing countries led by emerging nations such as India and Brazil had formed a challenging coalition against the proposals of the EU and the US (M. Baldwin, 2006, p. 939). There were three major reasons behind their opposition of the developing world to the further expansion of the WTO agenda and liberalization of trade. They included disappointment with the results of the Uruguay Round, negative perceptions on the developed world, and domestic implementation problems.

Firstly, developing countries had increasingly started to feel disappointed with the results of the Uruguay Round, which had turned out to be a 'grand bargain' for the developed world (Meunier & Nicolaidis, 2005, 2006; Young & Peterson, 2006; Evenett, 2007a; Gill, 2000; Lanoszka, 2003; A. G. Brown, 2003). In fact, developed countries were constantly delaying to open their markets to the agricultural and textile exports from the developing world while they were demanding immediate implementation from the South regarding issues such as services, FDI and intellectual property rights. Moreover, developing countries had perceived that certain agreements negotiated in the Uruguay Round such as the TRIPs Agreement were actually threatening their development by increasing the costs of medicines and by impeding their efforts to fight with HIV/AIDS (Young & Peterson, 2006; Evenett, 2007a). Thus, the South was in the opinion that focus should rather be on the implementation of the decisions taken in the previous rounds in a manner more beneficial to them instead of trying to expand the WTO agenda with additional issues (M. Baldwin, 2006; A. G. Brown, 2003; Lanoszka, 2003).

Secondly, developing world perceived the North as self-interested and protectionist due to their efforts to address further issues such as labour standards, technical barriers to trade and trade facilitation rather than effectively reforming

their discriminative agricultural sectors (Lanoszka, 2003; Elgström, 2007; Evenett, 2007a; Meunier & Nicolaidis, 2005; M. Baldwin, 2006). They were particularly concerned that inclusion of ‘Singapore issues’ such as competition, TBTs, labour standards and environmental protection to the WTO agenda would result in increased protectionism within the North against their exports (Lanoszka, 2003, p. 50).

Lastly, developing world opposed to the inclusion of additional issues since they faced serious implementation problems regarding their domestic reforms in order to comply with the Uruguay Round decisions (Lanoszka, 2003; Young & Peterson, 2006). They considered that they did not have enough capacity to deal with additional reforms in terms of the new issues.

#### **4.4. Makers of Bilateralism/Inter-Regionalism: Externally-Driven Internal Actors**

After the completion of the Uruguay Round and establishment of the WTO until the beginning of the new century, EU explicitly preferred to make use of the strategy of bilateralism/inter-regionalism as an alternative to both multilateralism and unilateralism. Elaboration on the emergence and rise of bilateralism/inter-regionalism as an alternative to ‘multilateralism first’ approach in the EU has demonstrated that in EU’s noteworthy move to this strategy external factors were the major triggers. Due to intensification of globalization, increased global competition, and preferential policies followed by major competitors, EU had to respond to these pressures by initiating bilateral/inter-regional negotiations with *distant* countries/regions for the first time. In this period, particularly US acted as the major challenger with its initiatives in Latin America and Asia-Pacific region, driving the EU to respond immediately with similar projects. Course of the bilateral/inter-regional negotiations, on the other hand, was shaped by the domestic actors. Major players were multinational firms, representatives of corporate interests and export-competing groups which pressured the EU institutions to respond to external challenges with the strategy of bilateralism/inter-regionalism. As a result

bilateral/inter-regional FTA negotiations were initiated by commercial motives and competitiveness considerations.

During this period, EU had to transform its unilateral preferences towards bilateral/inter-regional ones due to external factors as well. In those cases, in addition to above-mentioned reasons, particularly the evolution of the GATT/WTO rules and principles in parallel to the transformations in the nature of the international trading system played a huge role. As a result, preferentialism without reciprocity and conditionality lost its significance, forcing the WTO members to reconsider their previous unilateral policies. While external factors resulted in EU's move towards bilateralism/inter-regionalism from unilateralism, specific policies followed under this strategy were determined by domestic dynamics. For instance, in the cases of Cotonou Agreement and Euro-Mediterranean Partnership, interests of Member States were quite influential. Moreover, Commission played an important role by encouraging those policies which promote region-building and contribute to regional integration processes of other countries/regions. Commercial interests groups, on the other hand, were less influential in those cases.

## CHAPTER 5

### **MANAGING GLOBALIZATION IN THE NEW MILLENNIUM: SHUTTling AMONG VARIOUS TRADE STRATEGIES (2000-PRESENT)**

This chapter focuses on the recent EU efforts to ‘manage’ globalization in the post-Seattle era by utilizing different trade strategies in different circumstances since the turn of the new millennium. First section is devoted to EU’s explicit preference for multilateralism and its active involvement in the Doha Development Round (DDR) until its suspension in 2006. In the second section, EU’s policy shift in 2006 from ‘multilateralism first’ to ‘bilateralism first’ approach is assessed. Last section elaborates on the re-emergence of ‘crisis-related’ protectionism in the EU as a response to the outbreak of the global economic and financial crisis in 2008. Chapter ends with a final assessment of the determinants of EU trade strategies followed in this period.

#### **5.1. Return to ‘Multilateralism First’ and EU in the Doha Development Round**

This section firstly examines the factors leading to the launch of the Doha Development Round and EU’s active involvement in this regard. Secondly, the doctrine of ‘managed globalization’ which was originally introduced by EU Trade Commissioner Pascal Lamy in order to demonstrate EU’s commitment to multilateralism is elaborated. It is emphasized that strategies of bilateralism/inter-regionalism and unilateralism would only be pursued in so far as they were complementary to EU’s objectives in the Doha Round. Lastly, EU’s participation and negotiating position in the Doha Round are analysed.

### **5.1.1. Factors Leading to the Launch of Doha Development Round**

Four major factors played a significant role in the launch of the Doha Development Round in November 2001. These included intensification of multipolarity and rising assertiveness of developing countries; increase in the number of bilateral, regional and inter-regional preferential arrangements in the previous decade; negative international environment prevailing after the terrorist attacks on September 11; and EU's leadership. It is essential that these factors be evaluated under the framework of the interactionist model developed by this study. To be more specific, major developments and strategies dominating in the previous period coupled with the existing factors constituted the international/global systemic reasons leading to the launch of a new round of multilateral trade negotiations.

Firstly, crisis between the developed and the developing world which manifested itself in the 1999 Seattle Ministerial had made it clear that nature of the international trading system had become multi-polar (Young & Peterson, 2006; Woolcock, 2005; Evenett, 2007a; M. Baldwin, 2006; Meunier & Nicolaidis, 2006). Rather than a "US-EU duopoly" which determined the course of the previous multilateral trade negotiations (Woolcock, 2005, p. 27; Evenett, 2007a, pp. 144-5), emerging multi-polar environment with the rising influence of the developing world meant that from then on EU and US would have to take into account the developmental concerns of the South in the subsequent multilateral trade rounds (Evenett, 2007a, p. 146).

Secondly, since the mid-1990s continuing rise of the number of preferential arrangements in the form of bilateral, regional or inter-regional agreements had led to concerns in terms of their discriminatory effects on the world trade (Fergusson, 2008, p. 2). Existing GATT/WTO rules on the creation of Regional Trade Agreements (RTAs) had to be multilaterally discussed and clarified in order to avoid the possible negative impacts of preferential arrangements. It is necessary to remember that rise of bilateralism and discrimination in the pre-GATT period had similarly led to active support for multilateralism and establishment of GATT.



Thirdly, terrorist attacks of September 11 had resulted in economic and political crises in the world, resulting in a dramatic decline in world trade and political uncertainty (Fergusson, 2008; WTO, 2001a). WTO (2001a) reported that following the 9/11 events, global output declined sharply as a result of the negative environment affecting investment and consumption decisions. Negative growth in world trade was experienced for the first time since the crisis of 1980s (WTO, 2001a, p. 1). In order to help the recovery of world trade and demonstrate that cooperation is essential to fight political uncertainty, trading partners agreed to launch a new trade round in Doha (Fergusson, 2008; Evenett, 2007b).

Lastly, EU's leadership and active involvement played a substantial role in the start of new WTO negotiations. Literature agrees that EU was the leading actor in the launch of the Doha Round for the first time in the history of GATT/WTO (Sbragia, 2010, p. 371; M. Baldwin, 2006; Poletti, 2011; Young, 2011; Meunier & Nicolaidis, 2005, 2006). As it has been emphasized before, EU had participated in the previous rounds as a response to US calls for a new multilateral round. However, at the beginning of the new millennium, EU's active leadership in the Doha Round coincided with a rather different trade strategy formulated by the US under Bush Administration. In parallel to its participation in Doha Round, US would also pursue a strategy of 'competitive liberalization' entailing the formation of bilateral FTAs with a special focus on trade facilitation (Sbragia, 2010; Leal-Arcas, 2008). Bilateral approach followed by the US will be elaborated on in the second section of this chapter. At this point it is sufficient to emphasize that EU led the way for the start of Doha Round despite the weakened commitment to multilateralism in the US.

In addition to above-mentioned external factors, one internal development within the EU might have positively affected EU's active involvement in the Doha Round. This was the realization of monetary integration with the launch of the euro in 1999 as the common currency. In fact, as a result of the establishment of an economic and monetary union (EMU), EU anticipated a significantly optimistic macro-economic outlook with stable growth and increased competitiveness

(European Council, 2000; Barrell et al., 2008). In the 2000 Lisbon Summit, EU had declared that by 2010 it would become

the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. (European Council, 2000)

Thus, positive domestic economic environment is essential for active support for multilateralism which was also evident in the EU during the preparations for Single Market Programme coinciding with the Uruguay Round (M. Baldwin, 2006).

### **5.1.2. Role of the European Commission and the Doctrine of ‘Managed Globalization’**

Following the Seattle Ministerial, anti-globalization protests and increasing concerns of the developing world in the face of further trade liberalization led the then EU Trade Commissioner Pascal Lamy (1999-2004) to formulate a doctrine called ‘managed globalization’ (Evenett, 2007b, p. 15; Meunier, 2007). The major idea was to create a new EU trade policy which would contribute to harnessing and controlling the negative effects of globalization on societies and developing countries to a large extent (Meunier, 2007; Sbragia, 2010; Jacoby & Meunier, 2010; Abdelal & Meunier, 2010). In order to achieve this aim, Lamy’s doctrine consisted of three pillars: First and foremost, a multilateral pillar which would be beneficial to all; secondly, an inter-regional pillar complementary to multilateralism; thirdly, a unilateral pillar which would take into account developmental concerns of the South.

First of all, Lamy was personally committed to multilateralism (Sbragia, 2010, p. 372) and he considered that multilateral agreements under the framework of WTO provide more benefits compared to bilaterally negotiated FTAs (Evenett, 2007b, p. 19). Thus, in order to show its commitment to active promotion of multilateralism and increase its credibility in this regard, EU would informally adopt

a ‘moratorium’ on the launch of new bilateral FTAs until the end of the Doha Round (Meunier, 2007; Woolcock, 2007; Sbragia, 2010; Evenett, 2007b; Lamy, 2002). Instead, managed globalization required that promotion of multilateralism would entail strengthening of existing rules, expansion of WTO membership and inclusion of more and more issues into the trade agenda (Meunier, 2007, pp. 911-13). Accordingly, globalization would be managed by improved multilateral rules and principles under the framework of WTO. In order to ensure the effectiveness of these rules, it was essential that WTO membership expanded to include more and more countries (Meunier, 2007, p. 912). As a result, EU actively supported the accession negotiations of China and Russia (Zimmerman, 2007). Finally, management of globalization would be possible if a wide range of additional trade issues are included in the WTO agenda. By this way, scope of the issues which are regulated by multilateral rules and agreements would be widened (Meunier, 2007, p. 913). Although EU’s multilateral strategy to manage globalization seemed logical, it is important to remember that it was particularly the expansion of the WTO membership and the negotiated issues which had challenged the EU most during the Uruguay Round and first WTO Ministerials.

Secondly, the doctrine of managed globalization had an inter-regional pillar which was considered to be the “second best” alternative to multilateralism (Elsig, 2007, p. 937). According to Lamy, unlike bilateralism, inter-regionalism was not contradictory to multilateralism but rather the latter two strategies were “complementary instruments to manage the complexities of an interdependent world” (Lamy, 2002, p. 1400). Lamy (2002) stated that EU would continue to promote deep regional integration in the world through its strategy of inter-regionalism in parallel to its commitment to multilateralism. In fact during this period, inter-regional negotiations which had already been launched or decided during the mid-1990s continued with MERCOSUR, Mediterranean and the ACP regions.

Lastly, third and unilateral pillar of managed globalization doctrine had the aim of “redistributing the benefits and costs of globalization” (Meunier, 2007, p. 915;

Jacoby & Meunier, 2010, p. 309). Through various unilateral initiatives EU would try to improve its credibility in the eyes of the developing world by proving to them that it actually takes into account developmental concerns of the South (Meunier & Nicolaidis, 2005, 2006). In fact, prior to the launch of the Doha Round, EU initiated a unilateral policy called Everything but Arms (EBA), through which it allowed tariff and quota-free access to EU markets for all the products of the 48 least-developed countries (LDCs) except arms (M. Baldwin, 2006; Meunier & Nicolaidis, 2005).

It is evident from the elaboration on the doctrine of managed globalization which was formulated by the Commissioner Lamy that in EU's active involvement for the launch of the Doha Round, Commission played an influential role. In this case, as a response to external pressures, Commission acted on its own initiative by formulating a new policy doctrine. Meunier (2007) argues that the notion of managed globalization was broad enough and appealing to both Member States and domestic interest groups. According to the author, Commission enjoyed autonomy by "reframing" and "repackaging" the interests of the domestic actors under broad objectives (Meunier, 2007, p. 910). By this way Commission could easily convince them and ensured their support during the multilateral negotiations.

In addition to its role in the agenda-setting process, Commission also further encouraged the participation of new societal actors in the formulation of the EU's negotiating position for the Doha Round. As a response to growing dissatisfaction and criticism asserted by various NGOs towards globalization and further trade liberalization, it was noteworthy that Commission established a 'Civil Society Dialogue' with consultation purposes (Gerlach, 2006; Young & Peterson, 2006; Elsig, 2007). By this way EU might have tried to avoid the repetition of undesired events which was experienced during the Seattle Ministerial.

### **5.1.3. EU in the Doha Development Round**

Doha Development Round was officially launched in the Fourth WTO Ministerial meeting in Doha, Qatar in November 2001. For the first time in the

history of GATT/WTO, a trade round aimed to emphasize the link between trade and development through a declaration (Lanoszka, 2003; Evenett, 2007a; Narlikar, 2010). In fact, Doha Declaration consisted of two parts. First one was devoted to developmental considerations while the remaining part listed the broader work programme of the Round which was mostly in the interest of the developed world.

Firstly, declaration highlighted the importance attached to the needs of developing and least developed countries. It stated that:

We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO Members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. (WTO, 2001b)

Narlikar (2010) and Evenett (2007a) point out that such developmental considerations prove the increased weight and improved collectivity of developing countries in the governance of multilateral trade. Nevertheless, if more attention is paid to the broader work programme of the round, it becomes evident that interests of the developed world were placed at a more dominant position. Table 5.1 lays out the original Doha agenda consisting of 19 subjects to be negotiated with initially 140 participants.<sup>41</sup> First column lists the subjects which are in the interest of the developing countries. Inclusion of subjects such as implementation problems regarding WTO Agreements, new interpretation of TRIPs Agreement, special and differential treatment or capacity-building indicates that some of the problems culminated since the conclusion of the Uruguay Round were aimed to be addressed in the Doha Round in a way more beneficial to the developing world. Subject of TRIPs Agreement deserves a particular attention here. Declaration promised that provisions of this agreement would be interpreted in a manner which would take into account the public health concerns of the developing and least-developed countries regarding access to not only existing medicines but also to the research and development of new ones (WTO, 2001b, p. 4). It is argued that EU played a leading role in the new interpretation of the TRIPs Agreement by presenting itself as

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<sup>41</sup>Currently WTO has 155 members except the pending accession of Russia.

the “champion of development” under its doctrine of managed globalization (Meunier & Nicolaidis, 2005, 2006; Young & Peterson, 2006; Woolcock, 2005).

**Table 5.1: 2001 Doha Work Programme**

<b>Subjects in the Interest of Developing World</b>	<b>Subjects in the Interest of Developed World</b>
Implementation-related issues and concerns	Services
New interpretation of TRIPs Agreement	Trade and investment
Small economies	Trade and competition policy
Trade, debt, and finance	Transparency in government procurement
Trade and transfer of technology	Trade facilitation
Technical cooperation and capacity-building	Trade and environment
Least-developed countries	Electronic commerce
Special and differential treatment	
<b>Subjects in the Interest of Both Groups with Diverging Positions</b>	
Agriculture	
Market access for non-agricultural products (NAMA) <sup>42</sup>	
WTO rules (on subsidies, anti-dumping/countervailing measures, RTAs)	
Dispute Settlement	

Source: Own interpretation based on (WTO, 2001b).

Although developed world under the leadership of the EU seemed more sensitive to the interests of the South, second column of the Table 5.1 indicates that their wider interests (including those of EU) lied in other areas such as further liberalization of services as well as the inclusion of Singapore issues into the Doha

<sup>42</sup>NAMA stands for ‘Non-Agricultural Market Access’, involving tariff cuts and elimination of non-tariff barriers in industrial goods, textile, footwear, chemicals, manufactured products, fisheries, forestry products, jewellery, fuels and mining products.

Agenda despite the opposition of emerging countries in the Seattle Ministerial. It is further argued that developmental considerations were actually emphasized in order to convince the South to agree on the expansion of the WTO agenda and further trade liberalization (Meunier, 2007, p. 910).

During the negotiations, for the EU, there were two priority areas to be negotiated for further liberalization. These were trade in services and Singapore issues. To begin with, EU had ambitious interests regarding further liberalization of trade in services (Poletti, 2011; Dür, 2008a). Major reason behind this was the fact that services sector was the most competitive EU sector in the world and EU aimed to improve its comparative advantage further in this area by addressing foreign market access barriers (Vander Stichele et al., 2006; Poletti, 2011; Leal-Arcas, 2008). Indeed, EU was facing high trade barriers particularly in developing countries against its exports of services in the form of domestic regulations, technical standards, licensing requirements and national discrimination (Leal-Arcas, 2008, p. 380). As a response, particularly retail and financial services sectors lobbied the Commission through European Services Forum (ESF) which was established in 1999 in order to defend EU's interests in negotiations on GATS Agreement (Vander Stichele et al., 2006; Dür, 2008a; Poletti, 2011). Industrial interests also pressured the Commission for further liberalization of services since they considered that improved competitiveness of the EU industry also depended on the liberalization of this sector (Poletti, 2011; Dür, 2008a). Commission negotiated with a defensive position only with regard to sensitive audio-visual and cultural sectors under the pressure of import-competing groups (Dür, 2008a).

Singapore issues which consist of investment, competition, government procurement and trade facilitation were another priority area for the EU (Poletti, 2011; Dür, 2008a; Young, 2011). Since these subjects were regarded as 'cross-cutting' (WTO, 2011b), representatives of services and industrial sectors such as ESF, ERT and UNICE<sup>43</sup> also played an influential role in formulation of

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<sup>43</sup>UNICE stands for Union of Industrial and Employers' Confederations of Europe. It changed its name into Business Europe since 2007.

Commission's negotiating position for the EU during the negotiations (Poletti, 2011; Dür, 2008a).

US, on the other hand, pursued a similar agenda to that of the EU. It shared a united position with EU with respect to subjects such as further liberalization of services and addressing Singapore issues (Beder, 2010, p. 510; Fergusson, 2008; Evenett, 2007a). Beder (2010) argues that this largely united position of the EU and US regarding issue expansion and further trade liberalization resulted from the cooperation provided by Transatlantic Business Dialogue which consists of influential business representatives in both parties.

In addition to these two priority areas, discussions over other subjects such as market access to non-agricultural products, agriculture, improvement of WTO rules regarding subsidies/anti-dumping measures and reform of the Dispute Settlement mechanism continued during the negotiations. In fact, it is usually argued that insistence of EU and US in terms of the continuing expansion of the WTO agenda was strategic in a sense that they aimed to increase their bargaining positions regarding priority areas in exchange for their concessions on sensitive subjects such as agriculture (Young, 2011; Dür, 2008a). Although negotiations over these subjects were in the interest of both the developed and developing countries as stated in the last part of Table 5.1, positions of the two camps differed to a large extent, leading to deadlock on the successful conclusion of the Doha Round. Moreover, during the negotiations, even positions of the countries within the same camp differed with respect to certain issues such as agriculture and strengthening of WTO rules on anti-dumping measures. For instance, while EU was a strong advocate of further strengthening of WTO rules under the framework of its doctrine of managed globalization, US had a mostly defensive position in this regard, particularly with respect to reform on anti-dumping measures (Evenett, 2007a; Fergusson, 2008).

Among the most hotly debated issues, agriculture constituted the biggest challenge for the EU, US and the South which held strongly divergent positions (Fergusson, 2008; Meunier & Nicolaidis, 2005; Lanoszka, 2003). EU has long adopted a defensive position on liberalization of its highly protected agricultural



sector since its first participation in GATT rounds. During the Doha Round, it had to maintain this position due to the existence of divergent interests among its domestic groups and inter-institutional conflicts which made it difficult to reach a satisfying consensus (Damro, 2007; Da Conceição-Heldt, 2011). On the one hand, traditionally protectionist Member States such as France, Spain, Portugal, Italy and Greece were strongly against the liberalization of this sector while more liberal members such as United Kingdom, Denmark, Sweden and the Netherlands were arguing for concessions in order to secure further liberalization in other areas such as services (Da Conceição-Heldt, 2011). Moreover in parallel to the diverging attitudes of the Member States, Commissioners for agriculture and trade held different positions as well (Damro, 2007).

US had a relatively more liberal position regarding its offers to cut agricultural tariffs and subsidies compared to those of EU (Evenett, 2007a; Leal-Arcas, 2008). Still, dissatisfied with the negotiating positions of both the EU and the US, developing countries asked them to agree on a common proposal for further cuts (Evenett, 2007b; Woolcock, 2005). Until the Cancun Ministerial meeting in 2003, EU tried to formulate a new offer by realizing a major domestic reform in its Common Agricultural Policy. Due to its more pro-liberalization attitude, Commission played an influential role in persuading the protectionist Member States (Da Conceição-Heldt, 2011). Nevertheless, CAP reform was still limited in terms of market access as a result of resistance exerted by some Member States such as France (Young & Peterson, 2006; Young, 2011; Da Conceição-Heldt, 2011; Damro, 2007; Leal-Arcas, 2008; Conconi, 2009). Thus, joint proposal of the EU and US which was shaped by EU's CAP reform was strongly rejected by the G20 group of countries under the leadership of Brazil and India at the Cancun Ministerial (Woolcock, 2005; Evenett, 2007b; Leal-Arcas, 2008). Other coalitions which were formed by poorer developing countries such as G33 and G90 were also against the offer of the EU and the US (Evenett, 2007b; Leal-Arcas, 2008). Moreover, continuing insistence of both the EU and the US for further expansion of the WTO agenda despite their limited concessions on the agricultural sector resulted in

dropping of the three Singapore issues (investment, competition, transparency in government procurement) out of the work programme of Doha Round as a result of veto power used by Brazil and India (Narlikar, 2010; Conconi, 2009; Lanoszka, 2003; M. Baldwin, 2006).

As disagreements over the same issues continued, Doha Round was officially suspended in 2006 and has not yet reached to a successful conclusion despite some attempts being made at various Ministerials. Literature points to various reasons behind this deadlock but two categories of arguments prevail the most. One category emphasizes governance-related problems and inefficiencies while the other puts the blame on self-interested WTO members.

To begin with, it is argued that problems and inefficiencies in the current WTO governance are the major reason behind the deadlock in Doha Round (Narlikar, 2010; Capling & Higgott, 2009; Lanoszka, 2003). Authors mostly refer to the lack of leadership and consensus-based decision making system of the WTO. Narlikar (2010) and Capling and Higgott (2009) argue that currently no major trade power can exercise effective leadership. In fact, it has already been mentioned that US had ceased to be the leading actor in the launch of the Doha Round. Countries such as Brazil and India, on the other hand, constituted a major challenge to the status quo by forming assertive coalitions rather than exercising leadership roles. Narlikar (2010) emphasizes that problem with powerful coalitions is that they do not make concessions, often translating into deadlock. Although EU assumed a leadership role at the beginning by contributing to the launch of the Doha Round with its doctrine of managed globalization formulated by the Commission, during the negotiations internal divisions among major domestic actors over significant issues such as agriculture led to the weakening of its bargaining power (Young, 2011; Da Conceição-Heldt, 2011). Therefore, it could not utilize its assumed leadership for a successful conclusion of the Round.

Another problem which is mentioned with respect to WTO governance is that traditional consensus-based decision-making does not respond to the changing nature of the international trading system effectively (Lanoszka, 2003; Narlikar,

2010). It is pointed out that while in the earlier rounds decisions could easily be taken by limited number of members under the leadership of EU and the US, currently expansion of the membership and increased assertiveness of emerging countries which do not hesitate to use their veto power make it impossible to reach consensus (Narlikar, 2010; Lanoszka, 2003; Young & Peterson, 2006; Young, 2011).

Second category of arguments rather points to selfishness of EU and the US which act under pressures of powerful corporate interests and business representatives (Leal-Arcas, 2008; Vander Stichele et al., 2006; Dür, 2008a; Beder, 2010). It is argued that developmental considerations of EU and the US are not credible and legitimate in the eyes of the developing world since their positions on further liberalization of trade and expansion of the WTO agenda actually undermine the interests of the developing countries (Meunier & Nicolaidis, 2005, 2006; Evenett, 2007a; Young, 2011; Meunier, 2007). As a result, it becomes highly difficult to conclude the current Doha Round.

## **5.2. EU's Strategy Shift to Bilateralism/Inter-regionalism in 2006**

This section is devoted to the strategy of bilateralism/inter-regionalism which has been mostly preferred by the EU since the suspension of Doha Round in 2006. In the first sub-section, EU's Global Europe strategy is evaluated while in the second sub-section, continuing rise of bilateralism triggered by the recent crisis is emphasized.

### **5.2.1. 'Global Europe': Re-Assessing Strategy Options**

After the suspension of the Doha Round in 2006, EU had to re-assess its trade strategies under two major external pressures, one being related with WTO and the other originating from its major competitors. First of all, EU felt highly disappointed with the course of the Doha Round negotiations. Beyond the concern for the deadlock in the Round, exclusion of the three main Singapore issues from the negotiation agenda had proved costly for the EU whose major interest lied in addressing those subjects in order to facilitate trade with distant markets

(Koopmann & Wilhelm, 2010; Woolcock, 2007; Özer, 2011; Heron & Siles-Brügge, 2012). Thus, even if Doha talks had progressed, EU would probably consider alternative options to multilateralism in order to address barriers originating from national regulations on investment, competition and government procurement.

Secondly, there was the more urgent problem of catching up with major competitors which had been pursuing bilateral FTAs since the beginning of the new millennium (Sbragia, 2010; Koopmann & Wilhelm, 2010; Leal-Arcas, 2008; Özer, 2011; Woolcock, 2005, 2007). In fact, it was observed that there was a dramatic increase in the number of FTAs which had been decided or concluded in the Asia-Pacific region since 2000 (Aggarwal & Urata, 2005; Aggarwal & Lee, 2010). Since most of these FTAs involved EU's major competitors such as US, Japan and China alongside significant emerging and developing markets with high economic potentials, EU had to pay close attention in order not to harm its competitive position vis-a-vis those partners.

US had been pursuing an ambitious FTA policy under its strategy of competitive liberalization since 2001 under Bush Administration (Evenett & Meier, 2008; Feinberg, 2006; Sbragia, 2010; Meunier, 2007). Major reason behind the explicit preference for bilateral FTAs was the consideration that US fell behind its main competitors in pursuing preferential arrangements since the mid-1990s (Feinberg, 2006; Evenett & Meier, 2008; Sbragia, 2010). As a response US initiated 17 FTA negotiations between the years 2000-2006 with various partners in Latin America, Asia, Middle East and Africa.

Table 5.2 lists these 17 FTA initiatives with their dates of start of negotiations. One point deserves particular attention here. Except for Chile and Morocco, EU had not yet entered into preferential relations with most of US' new FTA partners. These included certain Latin American countries or groupings such as Central American Free Trade Area (CAFTA), Dominican Republic, Panama, Colombia, Ecuador, Peru and Bolivia (the latter four being members of Andean Community); emerging markets in Asia such as Singapore, South Korea, Thailand and Malaysia; and some members of the Gulf Cooperation Council (GCC) which included Bahrain, United

Arab Emirates (UAE) and Oman. In addition to their possible trade and investment diverting effects, what was a major concern to the EU was that these FTA initiatives had a broad coverage and WTO-Plus character aiming to address various issues such as services, investment, government procurement, intellectual property rights, competition, trade facilitation, technical barriers to trade as well as labour rights and environment (Evenett & Meier, 2008; Woolcock, 2005; Feinberg, 2006).

**Table 5.2: US' FTA Negotiations under the Strategy of Competitive Liberalization (2000-2006)**

<b>FTA Partners</b>	<b>Date of Start of Negotiations</b>
Singapore	December 2000
Chile	December 2000
CAFTA - Dominican Republic (DR)	January 2003 (DR was included in January 2004)
Morocco	January 2003
Australia	March 2003
South African Customs Union (SACU)	June 2003
Bahrain	January 2004
Panama	April 2004
Colombia	May 2004
Ecuador	May 2004
Peru	May 2004
Bolivia	(observing Andean negotiations)
Thailand	June 2004
United Arab Emirates (UAE)	March 2005
Oman	March 2005
Korea	June 2006
Malaysia	June 2006

Source: (Evenett & Meier, 2008)

In the East Asia, major competition to form strategic FTAs with emerging markets has been continuing between Japan and China since the beginning of 2000 (Eckhardt, 2005; Manger, 2005; Leal-Arcas, 2011; Pempel & Urata, 2006). Intensification of bilateralism and regionalism in this region originated from two major reasons. On the one hand, formation of close ties and building of interdependent relations were to a large extent a response to the Asian financial crisis of 1997-98 (Ong, 2010). On the other hand, governments of Japan and China had to act under the pressures of their own export-competing interests which were demanding FTAs with strategic partners in the face of worldwide increase in preferential relations (Kimura, 2006; Pempel & Urata, 2006; Manger, 2005).

In fact, particularly Japan had long been a strong supporter of multilateralism first approach (Manger, 2005). Nevertheless, acting under these pressures, it announced its intention to form its first FTA with Singapore in 2000, finally concluding it in 2003 (Manger, 2005). Between the years 2000 and 2006, Japan also aimed to start negotiations with Mexico, South Korea, Thailand, Malaysia, Philippines, Indonesia and Australia (Manger, 2005; Pempel & Urata, 2006).

In competition with Japan, China started to pursue an ambitious FTA policy as well, involving significant markets such as ASEAN, Hong Kong, New Zealand, Australia and Singapore (Erixon et al., 2008). Indeed, after the entry into force of China-ASEAN FTA, bilateral and regional initiatives in the region intensified (Pempel & Urata, 2006, p. 91). However, Erixon et al. (2008) and Sally (2010) point out that Chinese FTAs are actually 'trade-light', meaning that these initiatives were realized mostly due to foreign policy considerations and did not have expansive trade coverage. Still, competitors of China followed these developments by paying close attention and often with concern.

In the case of EU, above-mentioned developments meant that continuing adherence to multilateralism first approach under the doctrine of managed globalization would indeed yield costly results with respect to its competitiveness in the short-term (Meunier, 2007; Jacoby & Meunier, 2010). Moreover, EU was falling short of the main targets of the Lisbon agenda with declining rates of growth

(Woolcock, 2011; Jacoby & Meunier, 2010). In brief, EU had failed to manage globalization with its multilateralism first approach and there was a need for reassessing its trade policy options. Consequently, with Peter Mandelson being the new Trade Commissioner (2004-2008), Commission prepared a new trade policy agenda for the EU with a specific focus on the bilateral/inter-regional alternative (European Commission, 2006). Commission's new trade agenda under the title of 'Global Europe: Competing in the World' highlighted the urgent need to "adapt the tools of EU trade policy to new challenges, to engage new partners, to ensure Europe remains open to the world" and vice versa (European Commission, 2006, p. 2). In order to achieve growth, create jobs and maintain competitiveness, Commission underlined that new FTAs should be driven by pure economic and commercial motivations rather than foreign policy or developmental concerns (European Commission, 2006, p. 9). Thus, it stated that:

The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers). We should also take account of our potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies as well as the risk that the preferential access to EU markets currently enjoyed by our neighbouring and developing country partners may be eroded. (European Commission, 2006, p. 9)

Based on these criteria, priority for 'new generation FTAs' would be granted to new partners which consisted of ASEAN, South Korea, India, Russia, Andean Community, Central America as well as MERCOSUR and Gulf Cooperation Council (GCC) with whom negotiations had already started at the beginning of the new decade (European Commission, 2006, 2007). It is worth noting that all of these priority partners were already involved in bilateral FTA negotiations with EU's major competitors such as US, China and Japan. By taking into account these selected partners, EU aimed to avoid possible trade and investment diversion effects. Moreover, in order to respond to the disappointment encountered in the

Doha Round negotiations, EU's new generation FTAs would be WTO-Plus covering various areas such as excluded Singapore issues, services, intellectual property and technical barriers to trade (European Commission, 2006). By this way, EU would continue to manage globalization with a more "realistic" trade strategy which would yield quicker results (Meunier, 2007, p. 921). Although EU's re-turn to bilateralism in 2006 is often regarded as a policy shift from Lamy's multilateralism first approach, Meunier (2007) argues that when assessed under the framework of managed globalization, it was rather a "logical continuation" of the same doctrine (p. 920).

If EU's bilateral/inter-regional approach in the new century is evaluated with comparison to the previous one, two striking differences attract attention. First one is regarded with the influence of the domestic actors while second one is about the aim and scope of the new generation FTAs. To begin with, while during the mid-1990s preferential relations with distant countries/regions had been formed under the pressures of Member States and interest groups, in 2006, Commission played a significant role in EU's return to the strategy of bilateralism/inter-regionalism, acting on its own initiative under external pressures (Elsig, 2007). In this case, interest groups and Member States had a supporting role by almost uniformly granting their consent to the new strategy initiated by the Commission (Özer, 2011; Woolcock, 2005). Secondly, new FTAs were driven by pure commercial motivations rather than additional foreign policy objectives as in the 1990s (De Ville, 2011; Meunier, 2007). Moreover, new FTAs did not only target market access to distant countries/regions in order to avoid trade and investment diversion but in fact they mostly aimed to address the excluded Singapore issues -i.e. investment, competition policy and transparency in government procurement through the alternative of bilateralism/inter-regionalism (R. E. Baldwin, 2011). In other words, transformations in the nature of the international trade resulted in changes in the aim and scope of the new generation FTAs.



### **5.2.2. Global Economic and Financial Crisis: A Catalyst in the Continuing Rise of Bilateralism**

EU had launched bilateral/inter-regional FTA negotiations with ASEAN, Andean Community, Central America, India, and South Korea in 2007 while it intended to make progress in the on-going negotiations with MERCOSUR. Nevertheless, in the initial years, negotiations rather continued slowly with particularly ASEAN, Andean Community, India and MERCOSUR.

In the case of ASEAN group of countries, a number of political and economic problems slowed down the course of negotiations. On the one hand, military dictatorship and human rights infringements in Burma (Myanmar) impeded EU to continue relations with the region as a regional block including Burma (Gilson, 2005; Ahearn, 2011; Leal-Arcas, 2008). On the other hand, differences in the level of economic development among the ASEAN members were another impediment to an inter-regional approach since EU wanted to exclude Laos and Cambodia, considering them as least-developed countries (Ahearn, 2011). As a result, region-to-region negotiations were decided to be “paused” in 2008 (Ahearn, 2011, p. 9).

Regarding Andean Community which is composed of Bolivia, Colombia, Ecuador and Peru, EU encountered with problems as well (Ahearn, 2011; Sbragia, 2010; Özer, 2011). Governments in Bolivia and Ecuador strictly opposed to the targets determined by the EU with respect to the final FTA (Ahearn, 2011; Özer, 2011). Particularly Ecuador disagreed with provisions regarding intellectual property rights and EU’s banana regime (Ahearn, 2011, p. 9). Thus, challenges encountered in multilateral WTO negotiations repeated themselves in that case, too.

Negotiations with MERCOSUR and India were not progressing satisfactorily, either (Evenett, 2007b; Leal-Arcas, 2008; Özer, 2011). There were two fundamental reasons behind this situation. Firstly, India, and Brazil within MERCOSUR had already proved to be challenging partners during the Doha Round of negotiations. In the case of bilateral/inter-regional negotiations, these countries continued to oppose to similar issues as EU insisted on including those subjects such as agriculture, intellectual property and Singapore issues, which had already been rejected by

Brazil and India (Özer, 2011; Ahearn, 2011). Secondly, as pointed out by Evenett (2007a, 2007b) and Leal-Arcas (2008, 2011), both Brazil and India had a low record of preferential agreements since they rather preferred multilateralism as active players in WTO. Thus, these countries were not much willing to negotiate with EU bilaterally/inter-regionally. Subsequently, negotiations with both MERCOSUR and India continue at a slower pace with unpromising results.

Upon this background, picture was further complicated by the dramatic outbreak of the global economic and financial crisis which marked the end of the last decade. Volume of global trade declined by 12.2 per cent in 2009 compared to the previous year and it was the sharpest decrease experienced since the end of the Second World War (Koopmann & Wilhelm, 2010). In this context, enthusiasm for the multilateral option, which has already been in deadlock since 2006, would be at its weakest point according to Leal-Arcas (2011) and Garret (2010). As for the bilateral/inter-regional option, the fear was that increase in world-wide protectionist tendencies would slow down the negotiations as import-competing interests would try to impede the process (Siles-Brügge, 2011; De Ville & Orbie, 2011; Elsig & Dupont, 2012).

In fact, contrary to expectations, impact of the recent crisis on bilateralism has been a positive one particularly for the EU. Commission reconfirmed its 2006 Global Europe strategy in a new communication in 2010 (Woolcock, 2011) by underlining that further trade opening can actually contribute to economic growth and job creation in the context of global economic and financial crisis (European Commission, 2010). In order to achieve immediate results, top priority would be granted to the conclusion of on-going FTAs as well as the launch of new and ambitious bilateral initiatives with particularly strategic partners in Far East Asia (European Commission, 2010). By this way, Commission also believed that further liberalization through bilateral channel would additionally contribute to the future progress in the Doha Round by emphasizing that “the bilateral is not the enemy of multilateral” (European Commission, 2010, p. 5).

By aiming immediate results in the urgency of the crisis context, preference for bilateralism rather than inter-regionalism led to concrete steps regarding on-going negotiations. EU successfully concluded bilateral FTAs with South Korea (2010) and each of the Andean Community members (2011). Moreover stalled negotiations with the ASEAN region were re-opened at the bilateral level with the start of FTA negotiations with Singapore and Malaysia (2010). Commission also considers opening negotiations with the rest of the ASEAN members including Vietnam, Philippines, Thailand and Indonesia as soon as possible (European Commission, 2012c).

Among these cases, immediate conclusion of the EU-South Korea FTA in the context of economic and financial crisis and intensification of bilateral relations with individual ASEAN members deserve particular emphasis. To begin with, successful conclusion of the EU-South Korea FTA was considered as a “historical” case since it was the first FTA signed by the EU with a developed country outside Europe (De Ville & Orbie, 2011, p. 14). Nevertheless, this FTA drew much attention due to the extraordinary circumstances in which it was concluded. To be more specific, in the context of severe economic and financial crisis as well as under the pressures of protectionist import-competing sectors, it was highly unlikely that the FTA would be concluded easily (Siles-Brügge, 2011; Elsig & Dupont, 2012; De Ville & Orbie, 2011). However, Commission played an influential role by strategically pointing to the benefits of the agreement in question (Siles-Brügge, 2011; Elsig & Dupont, 2012). By this way, not only did Commission aim to gain the support of the export-competing sectors but it also wanted to utilize this support to avoid any opposition from protectionist import-competing groups, European Parliament<sup>44</sup> and the Member States (Siles-Brügge, 2011; Elsig & Dupont, 2012). Accordingly, Commission emphasized the possible trade and investment diversion impacts of the US-South Korea FTA in order to build a strong coalition with the export-competing interests. As a result, major business representatives and interest

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<sup>44</sup>After the entry into force of the Lisbon Treaty in 2009, Commission officially needed the approval of the European Parliament as well in order for the EU-South Korea FTA to take effect.

groups expressed their enthusiasm for an immediate conclusion of the FTA (Siles-Brügge, 2011; Elsig & Dupont, 2012; De Ville & Orbie, 2011).

In the process of negotiations, on the other hand, certain Member States under the pressures of their import-competing sectors opposed to the agreement. Particularly, car sectors in Italy, Germany, Hungary, Czech Republic, Spain and Portugal were strictly against the conclusion of the FTA with South Korea by considering that it would harm the competitive position of the European car industry in the face of competition with the Korean market (Siles-Brügge, 2011; Elsig & Dupont, 2012; Özer, 2011; De Ville & Orbie, 2011). As a response, Commission made use of a strategic discourse through which it emphasized the need for further liberalization to fight with the repercussions of the economic and financial crisis (Siles-Brügge, 2011). It argued that certain concessions were needed in order to benefit from further liberalization of services and investment in South Korea (Siles-Brügge, 2011). Subsequently, Commission could convince all the major domestic actors within the EU and FTA entered into force in 2011.

It is pointed out that EU-South Korea FTA was the most ambitious and expansive FTA ever concluded by the EU so far (Elsig & Dupont, 2012; Siles-Brügge, 2011). In addition to a high level of liberalization in trade in industrial and agricultural goods, services and investment, the FTA addressed various issues such as elimination of major technical barriers to trade in car, pharmaceutical and electronics sectors, easy access to government procurement, protection of intellectual property rights, strong competition rules, trade facilitation as well as effective and fast dispute settlement (European Commission, 2011).

Intensification of bilateral relations between the EU and the individual ASEAN members was another noteworthy case in the context of global crisis. Two major reasons are highlighted in the literature. Firstly, it is emphasized that global economic and financial crisis has not hurt the Asian economies and financial markets as much as the Western world (Sally, 2010; Ong, 2010). On the contrary, Asian markets have been continuing to rise and improve their potentials. Secondly, the crisis has had a catalyst impact on the rise of bilateralism and interdependence

within the region (Ong, 2010). Wai (2011) and Ong (2010) point out that China has been a driving force behind the Asian bilateralism with its various FTA initiatives. Moreover, since the crisis, individual ASEAN members have been approaching to China with bilateral FTA offers despite the existence of a Chinese FTA with the whole ASEAN group, considering China as the potential super power in the aftermath of the crisis (Ong, 2010). As a result, both the US and the EU have started to follow these developments with close attention. As US interest in the region has recently been revitalized under Obama Administration (Ong, 2010), EU does not want to miss any opportunities regarding such a strategic region. As a result, there is a broad consensus within the EU with respect to the urgent need to improve relations with the strategic partners. On the one hand, Member States and the Council share the same attitude with the Commission by emphasizing the benefits of further liberalization (European Commission, 2010). On the other hand, export-competing interests and business representatives express their active support for the on-going bilateral negotiations with individual ASEAN members (ESF, 2010, 2011). For instance, regarding the launch of the EU-Singapore FTA negotiations, European Services Forum (ESF) explicitly stated that:

The European Services Forum (ESF) agrees with the decision to modify the EU negotiating strategy with the ASEAN region from a region-to-region to a bilateral approach. ESF members have enormous difficulties in penetrating the services markets of many ASEAN countries, most of which are emerging economies of potential interest to our member-companies. However, experience of regional trade negotiations with unwilling partners to engage at regional level has obvious limitations. ESF therefore welcomes the EU decision to launch separate trade negotiations with Singapore. (ESF, 2010, p. 1)

In sum, under the pressure asserted by global economic and financial crisis and increased competition with major competitors, EU has been pursuing a strategy of bilateralism rather than inter-regionalism or multilateralism since the outbreak of the crisis. While Commission often acts as a policy initiator, other major domestic actors within the EU share a unified position in this respect.

### **5.3. Changing Nature of Protectionism in the New Millennium and Re-Emergence of Crisis-Related Protectionism**

This section is devoted to the changing nature of the strategy of protectionism in parallel to the transformations in the nature of the international trading system and re-emergence of or increase in the use of trade restricting instruments within the EU in the context of recent economic and financial difficulties. To begin with, as mentioned before, emergence of protectionism in the EU as a strategy to temporarily restrict trade dates back to 1970s. Until then protectionism was classical in the sense that it involved multilaterally agreed exemptions from tariff and quota reductions in sensitive sectors such as agriculture, textile, steel and automotive. Nevertheless, starting from the 1970s, transformations in the nature of the international trading system and shifts in competitive advantage in certain sectors resulting from the rise of Asia drove the EU to deploy certain instruments in order to protect its domestic market under those pressures. Moreover, as demonstrated by the cases of economic crises of 1970s and 1980s, utilization of various instruments which were not necessarily designed for protectionism had a general tendency to increase in those times.

It has also previously been emphasized that choice of trade restrictive instruments depends on the nature of the international trading system and associated multilateral trade rules. Accordingly, while during the years between 1970s and 1980s, mostly preferred instruments to temporarily restrict trade were VERs and import quotas, in the mid-1980s, anti-dumping measures emerged as the most commonly used trade restrictive instrument.

Imposition of anti-dumping measures is not exclusively crisis-related. In fact it is commonly argued that EU has always been deploying trade defence instruments under the claims of unfair trade against its major competitors even if trade is practised fairly (Davis, 2009; De Ville & Orbie, 2011). Thus, it is no surprise that mostly targeted country by the EU is China (Davis, 2009). China and emerging Asian exporters are commonly exposed to dumping complaints which are expressed by organized import-competing groups within the EU (Davis, 2009; De Bievre &

Eckhardt, 2011; Woolcock, 2005). Therefore, Commission can hardly resist the pressures of these groups (Woolcock, 2005; De Bievre & Eckhardt, 2011). Indeed, Commission's failing attempt to reform EU's anti-dumping rules in 2006 is a clear example in this regard (De Bievre & Eckhardt, 2011). This reform proposal had to be abandoned by the Commission in 2008 as a response to the pressures of organized import-competing interests which lobbied both to the Commission and their respective national governments (De Bievre & Eckhardt, 2011).

As anti-dumping policy is well established within the EU, fears regarding the possible increase in anti-dumping investigations which would be initiated by the EU in times of economic and financial difficulties were frequently expressed in the initial years of the recent global crisis (Capling & Higgott, 2009; Davis, 2009). Nevertheless, several studies found that although use of trade defence instruments such as anti-dumping measures substantially increased during the recent crisis at both EU and global levels (Voon, 2010; Barfield, 2009; Kee et al., 2010), they had a rather negligible impact on the world trade, resulting in a less than 2 per cent decline (Kee et al., 2010; De Ville & Orbie, 2011; Erixon & Sally, 2010; Evenett, 2009). Subsequently, Kee et al. (2010) concluded that concerns for the rise of protectionism were baseless.

While impact of the trade defence instruments on the decline of world trade during the recent crisis was considered insignificant, analysis on the re-emergence of crisis-related protectionism within the EU necessitates taking into account different instruments in the new century (Enderwick, 2011; Erixon & Sally, 2010; Evenett, 2009; Barfield, 2009; Sally, 2010). According to Enderwick (2011), there is a need for differentiating between 'traditional' protectionism of the previous century and a more recent phenomenon of 'global' protectionism. A simplified version of the author's comparison between two different types of protectionism is given in Table 5.3. Here comparison is done by taking into account the differences in their scope, coverage, locus and instruments. Accordingly, there are four major differences between 'traditional' and 'global' protectionism. Firstly, while scope of traditional protectionism covered trade in goods and services; that of global protectionism

additionally covers foreign direct investment, movement of capital and movement of migrant workers. Secondly, in terms of coverage, traditional protectionism was comprehensive while global protectionism is selective in the sense that it “seeks the benefits of globalization but avoidance of the costs” (Enderwick, 2011, p. 327). Thirdly, locus of traditional protectionism was import-competing producers. In other words, it resulted from the pressures of these groups. Global protectionism, on the other hand, responds to the additional pressures of national leaders, employees and consumers. Lastly, in terms of the instruments used, traditional protectionism utilized tariffs, quotas and non-tariff barriers while global protectionism also involves state aids, subsidies, FDI restrictions, interventionist government policies, and technical standards.

**Table 5.3: Traditional versus Global Protectionism**

<b>Compared by</b>	<b>Traditional Protectionism</b>	<b>Global Protectionism</b>
Scope	Trade in goods and services	FDI, movement of capital, movement of workers
Coverage	Comprehensive	Selective
Locus	Import-competing producers	National leaders, employees, consumers
Instruments	Tariffs, quotas, non-tariff barriers	State aids, subsidies, FDI restrictions, interventionist government policies, and technical standards

Source: (Enderwick, 2011)

According to Enderwick (2011) global protectionism is not exclusively crisis-driven, either. It has emerged in the new century as a result of two major international developments, one being economic and the other being political. Firstly, continuing rise of emerging economies and intensification of global competition have driven all countries to protect themselves from the costs of



globalization (Enderwick, 2011, p. 331). Secondly, events of 9/11 led to an increase in the concerns for national security, which explains the emergence of new instruments of protectionism such as restrictions on FDI, offshore sourcing and movement of migrants and workers (Enderwick, 2011, p. 332).

If global protectionism is about avoiding the costs of globalization, further liberalization, increased interdependence and competition, it can well be included within the strategies of EU as another alternative to manage globalization. In fact, as pointed out by Enderwick (2011), EU and its major competitors such as US, China, India, Brazil and Russia are the main global protectionists even though most of them have driven the process of globalization themselves. While these countries deploy new instruments to manage the everyday costs of globalization in the new millennium, global or 'non-traditional' protectionism has been on the rise since the outbreak of the recent crisis (Erixon & Sally, 2010; Evenett, 2009; Sally, 2010; Barfield, 2009; Koopmann, 2009). Authors such as Erixon and Sally (2010), Sally (2010) and Evenett (2009) examine crisis-era government interventions in the form of huge bank bailouts, fiscal stimulus packages as well as the increased use of state aids, subsidies, FDI and public procurement restrictions, 'buy national' policies, restrictions on migrant workers and technical standards as the main indicators of recent protectionism. They argue that major restrictions on world trade during the recent crisis resulted from the use of new instruments rather than traditional measures. Moreover, it is emphasized that increase in the use of such instruments during the crisis is more worrisome in three respects. Firstly, their use entails discretion, lack of transparency and predictability. Secondly, WTO rules on these instruments are either weak or non-existent. Lastly, it is expected that medium-term impacts of these instruments on global competition, foreign business and consumers will be huge.

In the case of EU, Erixon and Sally (2010) find that EU ranks at the top in terms of the number of protectionist instruments it has imposed on others. While it is well known that fiscal stimulus packages and bank bailouts have been aggressively used by the EU in order to fight with the severe impacts of the crisis on

most of the Member States, use of technical standards and regulatory barriers have also increased within the EU as a response to domestic pressures (Erixon & Sally, 2010, p. 118; Sally, 2010). Moreover, as in the case of anti-dumping investigations, imposition of technical standards and regulatory barriers by the EU often targets China (Erixon & Sally, 2010; Evenett, 2009). Considering that recent crisis has mostly hurt the Western world rather than Asia and that EU's competitive position vis-a-vis emerging Asian markets has largely deteriorated during the crisis, this does not come as a surprise.

In sum, since the beginning of the new millennium, nature of the strategy of protectionism has changed globally by the ascendance of new types of instruments. While these instruments are used every day to manage the costs of globalization, their usage has significantly increased both within the EU and in the rest of the world during the recent economic and financial crisis.

#### **5.4. Shuttling Among Trade Strategies: Commission's Response to External Challenges**

Since the start of the new Millennium until present, EU's choice of trade strategies has displayed a rather different trend. Unlike the trend during the first two periods when EU either explicitly preferred 'multilateralism first' or 'bilateralism/inter-regionalism first' approach; since 2000, EU has been in an attempt to respond to new challenges by switching from one strategy to another depending on the prevailing circumstances. As a result, during this period, EU firstly returned to 'multilateralism first' approach, later it moved to 'bilateralism/inter-regionalism first' strategy while it has deployed certain trade restrictive measures as well. After the outbreak of the global economic and financial crisis in 2008, EU's preference for particularly bilateralism and some degree of protectionism is noteworthy. Similar to the trend in first two periods, on the other hand, external factors were the major drivers of these strategies. Nevertheless, content of the strategies was to a large extent formulated by the Commission acting

as the major initiator rather than a balance of interests among various domestic actors.

To begin with, in EU's recommitment to multilateralism and active participation in the Doha Round, major external factors such as continuing globalization, intensification of multipolarity, increasing activeness of emerging nations, and rise in the number of preferential arrangements since the mid-1990s played a significant driving role. Nevertheless, as different from the previous cases, this time, Commission and particularly the Trade Commissioner Pascal Lamy acted on its own initiative in order to respond to these external challenges. Lamy's doctrine of managed globalization has marked the EU's approach to multilateralism and other strategies.

In EU's move to bilateralism/inter-regionalism in 2006 and its explicit preference for bilateralism after the outbreak of the recent global crisis, external factors motivated the Commission to take the initiative and formulate the bilateral/inter-regional policies of the EU as well. While suspension of the Doha Round, exclusion of the Singapore issues from the WTO agenda and opposition of developing countries drove the Commission to formulate the bilateral/inter-regional Global Europe strategy; intensification of competition over the Asia-Pacific region where EU's major competitors have been actively involved and outbreak of the global crisis in 2008 similarly led the Commission to encourage bilateralism with strategic markets in order to contribute to EU's growth and maintain its competitiveness.

Lastly, it has been observed that EU has had to adopt certain new trade restrictive measures in order to respond to the newer challenges asserted by intensified globalization. Nature of the protectionism has changed so as to involve new protectionist instruments such as government interventions or technical standards. While these instruments have been used globally on a daily basis, outbreak of the crisis has led the EU institutions and Member State governments to protect the domestic market of the EU by deploying huge bank bailouts, state aids,

subsidies and technical standards. In this case, EU institutions has acted both on their own initiative and under the pressures of affected domestic interests.

## CHAPTER 6

### CONCLUSION

This thesis has aimed to investigate the changing dynamics and determinants of *four* major EU trade strategies, which have been categorized as multilateralism, bilateralism/inter-regionalism, unilateralism and protectionism. This is done by examining the findings and determining the shortcomings of existing literature on the topic and developing an alternative analytical framework for a more interactionist analysis of EU external trade policy.

Chapter 2 is devoted to developing the analytical framework to be used in investigating the changing dynamics and determinants of EU trade strategies. Firstly, the main arguments of three major categories of explanations, each of which are based on a distinct approach regarding the determinants of EU trade policy in general and trade strategies in particular are reviewed. Elaboration on each one of the institutionalist, pluralist and systemic approaches has made it clear that although these approaches provide some insight into the study of EU trade strategies, their analyses often fall short of a broad coverage as they focus on the role of only one major determining factor behind the choice of EU trade strategies. To be more specific, while institutionalist approach highlights the impact of the core EU institutions; pluralist approach examines the roles of special interest groups and their lobbying activities. In contrast to the first two approaches which focus on internal dynamics, systemic approach investigates the influence of external constraints and opportunities resulting from international/global systemic factors and strategies of EU's major competitors on the EU policy-making process. As a result, these approaches often arrive at contradictory conclusions with respect to the determinants of EU trade strategies.

In order to demonstrate that arguments of distinct approaches can well be complementary with each other, Chapter 2 has attempted to develop an interactionist

model by building on the insights provided by each one of these approaches and eliminating their shortcomings. Accordingly, as different from the former studies, this chapter has suggested an analysis with a broader coverage in which *multiple factors* are taken into account in order to fully comprehend the distinct roles played by various factors in the evolution and determination of *multiple EU trade strategies*. In this regard, impact of both the external elements such as international/global systemic factors and the strategies of the EU's major competitors, and internal dynamics such as domestic interests in the EU and the decisions of core EU institutions have been highlighted.

Then, an interactive dimension has been added to the analysis with a broad coverage. By this way, direction of influence among various determinants of EU trade strategies and complementary aspects of distinct approaches have been presented. To begin with, it has been suggested that EU, its major competitors and the international/global systemic factors are interconnected with each other by a reciprocal relationship. Accordingly, it has been argued that both the EU and its major competitors give existing systemic factors their shape by affecting the nature of the international trading system as key participants in WTO trade negotiations and transform the global economic/financial situation through their individual economic performances. On the other hand, after giving these international/global systemic factors their shape, both the EU and its major competitors can hardly avoid being affected by these factors which now create pressures over them. Moreover, acting under the influence of similar external constraints or opportunities, both the EU and its major competitors additionally affect each other through their responsive policies.

In the specific case of EU trade policy-making process, interaction and direction of influence between the external and domestic elements have been structured as follows: International/global systemic factors and major EU competitors function as two major external constraints or opportunities, forcing both the domestic actors of the EU with various interests and the core EU institutions to consider shifts from previously dominant trade strategies to others. At this level, one

possibility is that domestic actors with their interests at stake under these circumstances might try to convince the EU institutions to deploy a trade strategy which will be beneficial to themselves. Alternatively, being subject to external pressures, EU institutions might decide to adopt certain trade strategies on behalf of the common interest of the Union as a whole by acting on their own initiative.

Having developed an analytical framework to investigate the changing dynamics and determinants of EU trade strategies, each of the following three chapters has been devoted to a certain time period during which EU trade strategies displayed different trends. First time period covers the years between 1958 and 1995, during which multilateralism was dominant. Second period focuses on the years between 1995 and 2000 when EU preferred the strategy of bilateralism/inter-regionalism over the others. Third time period starts from the beginning of the new century and continues until present with a mix of various EU trade strategies. The interactionist model has been very instrumental in revealing the complex relationship among the multiple determinants of different EU trade strategies within all these periods.

Chapter 3 has focused on EU's commitment to multilateralism during the period of 1958-1995. Under the framework of the interactionist model developed previously, this chapter has firstly examined the international/global systemic factors leading to the establishment of GATT. The analysis has revealed that fragmented and protectionist nature of the international trading system which had been shaped by the trading nations in the pre-GATT period as well as the global economic and financial crisis which was experienced after the Great Depression constituted the determining factors behind the creation of GATT and the resulting worldwide commitment to multilateralism.

Further investigation into the participation of EU in the Dillon, Kennedy, Tokyo, and Uruguay Rounds in Chapter 3 has revealed that EU's commitment to multilateralism resulted from an interaction between the external and domestic factors. While global support for a multilateral trade regime, leadership of US, and continuously improving economic conditions in the post-war period had led to the

active support of domestic actors within the EU to the strategy of multilateralism; negotiating position of the EU during the earlier rounds have been shaped by the attempts of core EU institutions to balance the defensive and offensive interests of domestic groups and the Member States. It has been observed that only during the Uruguay Round, offensive interests largely outweighed the defensive interests within the EU as further liberalization and improved market access continued to come into prominence.

In addition to EU's 'multilateralism first' approach adopted until the conclusion of the Uruguay Round in mid-1990s, Chapter 3 has also shed light on the choice of strategies of protectionism, bilateralism/inter-regionalism and unilateralism by EU under certain circumstances and due to specific reasons. In the case of protectionism, it has been observed that EU made use of certain trade restrictive instruments under the pressures of domestic interests in order to respond to the challenges created by the crises of 1970s/1980s and global competition. Regarding the strategies of bilateralism/inter-regionalism and unilateralism, on the other hand, EU entered into preferential relations with only close neighbours, potential members and former colonies. In those cases, economic interests of Member States as well as their foreign policy considerations played an influential role.

Chapter 4 has been devoted to the noteworthy emergence of bilateralism/inter-regionalism in the EU as a dominant alternative to the strategies of both multilateralism and unilateralism. First section of this chapter underlined that intensification of globalization and global competition, expansion of the multilateral trade agenda, coming into prominence of multinational corporations and their offensive interests for further liberalization indicated the changing nature of the international trading system which favours immediate market access to distinct markets. In addition, transformations in the economic performances of major trade competitors which put the emerging markets such as Brazil, India, and China in an advantageous position at the expense of US and the EU led to the intensification of concerns regarding competitiveness in the latter two.



As a result of the systemic pressures, major competition to secure foreign market access and maintain competitiveness by forming bilateral/inter-regional relations with distant countries/regions was observed between the EU and the US. Indeed, with the initiatives of NAFTA, FTAA project, and APEC, US drove the EU to negotiate FTAs with Mexico, Chile, MERCOSUR and to establish ASEM. However, in terms of internal dynamics, cases showed certain differences. In the case of Mexico, clear threat of trade and investment diversion asserted by NAFTA led to the mobilization of export-competing groups to pressure the Commission for an FTA negotiation. In the cases of Chile and MERCOSUR, prospects for FTAA led the Commission to act on its own initiative to propose the opening of negotiations while domestic interest groups and Member States only got involved after the negotiations were launched. In the case of ASEM, Commission responded to APEC on its own initiative as well by proposing the strengthening of relations with Asia and encouraged the business groups to get involved during the whole process. Nevertheless, during the mid-1990s, Asia could not turn into a priority case for the domestic interests mostly due to the lack of an actual threat asserted by APEC.

In addition to the responsive initiatives of the EU to counter-balance the preferential activities of the US in Latin America and Asia, only during this period EU developed its first market access strategy based on the concept of competitiveness. By this way, EU could officially adopt a 'bilateralism/inter-regionalism first' strategy in order to improve its competitiveness under the pressures of influential business representatives and corporate interests.

The reasons behind the emergence of bilateralism/inter-regionalism as an alternative to unilateralism are investigated in the second section of Chapter 4. Under the framework of the interactionist model, it has been demonstrated that a general paradigm shift in development cooperation from unconditional support towards a neo-liberal content favouring conditionality and creation of a rule-based trading system under the newly established WTO coupled with the changing commercial and geo-strategic interests of the Member States led to the transformation of relations between the EU and its former colonies. As a result,

unilateral preferences which had previously been granted by the EU to the ACP region and Maghreb/Mashreq countries were replaced by FTA negotiations leading to bilateral/inter-regional agreements requiring reciprocity.

Finally, developments which were observed during the first WTO Ministerial Meetings held in Singapore and Seattle as elements of multilateralism have been briefly examined in Chapter 4. By underlining the strong opposition asserted by NGOs and emerging nations to the expansion of the WTO agenda and further liberalization of world trade, last section of this chapter has aimed to prepare the ground for a further understanding of the challenges to be experienced by the EU regarding its strategy of multilateralism during the new Millennium.

Chapter 5 has analysed the attempts of the EU to address the challenge of globalization in the post-Seattle period by switching among different trade strategies under different circumstances. Firstly, it has been argued that EU actively re-committed itself to multilateralism by adopting a leadership role in the launch of the Doha Development Round at the beginning of the new century. In addition to the EU leadership, continuously increasing dissatisfaction of the developing and emerging countries regarding the current state of affairs in the multilateral trade relations, rise of bilateral/inter-regional FTAs since the mid-1990s and terrorist attacks in September 11 having both political and economic consequences in the world all resulted in the launch of Doha Round with a specific emphasis on developmental issues.

Then, role of the Commission and the doctrine of 'managed globalization' developed by Trade Commissioner Pascal Lamy have been elaborated on in order to provide insights into EU's negotiating position during the Doha Round and its level of support for the remaining trade strategies. Accordingly, it has been argued that Lamy's doctrine explicitly favoured a 'multilateralism first' approach in order for the EU to effectively address the challenges encountered in the post-Seattle era. Under the objective of demonstrating EU's commitment to multilateralism, Lamy put a moratorium on the launch of new bilateral FTAs until the completion of the Doha Round. As a second best option, the doctrine allowed for the conclusion of

previously launched inter-regional negotiations and opening of new ones since the strategy of inter-regionalism rather than bilateralism was considered to be complementary to multilateralism. Finally, the doctrine had a unilateral pillar with a developmental focus which aimed to improve the credibility of the EU in the eyes of the developing world. Subsequently, examination of the doctrine of managed globalization has shown that Commission as the main agenda-setter had an influential role in securing the support of domestic actors for EU's participation in the Doha Round.

Chapter 5's further elaboration on the Doha Round of trade negotiations has made it clear that although EU took into account the concerns of developing and emerging nations, it has not been able to turn this into action as it has continued to insist on the expansion of the trade agenda and further liberalization and facilitation of world trade at the expense of the developing nations. Moreover, its concessions regarding the agricultural sector have been regarded as insufficient by the South, which in turn impeded the successful conclusion of the round. It has been underlined that Commission's unconciliatory position regarding the liberalization of EU's Common Agricultural Policy originated from the pressures asserted by the Member States and domestic groups with highly defensive interests. Consequently, Doha Round has been suspended in 2006 with Singapore issues having been permanently dropped out of the work programme due to the opposition of developing and emerging nations.

Having examined the strategy of multilateralism, secondly Chapter 5 has continued with EU's shift to the strategy of bilateralism/inter-regionalism after the suspension of the Doha Round. The analysis under the framework of the interactionist model has demonstrated that exclusion of the Singapore issues from the WTO agenda as well as the preferential approach followed by EU's major competitors such as US, Japan and China drove the Commission to reformulate the trade strategies of the EU in a manner favouring the bilateral/inter-regional approach. With the support of Member States and interest groups, Commission initiated 'Global Europe' as a new policy prioritizing the immediate formation of

relations with strategic partners in Latin America and Asia by launching new generation FTAs with an ambitious WTO-Plus coverage. It has been further emphasized that EU's explicit preference for particularly the strategy of bilateralism rather than inter-regionalism has intensified since the outbreak of the global economic and financial crisis in 2008. In that case, too, Commission has played an influential role by encouraging the formation of new generation bilateral FTAs in order to contribute to economic growth and job creation within the EU, not to mention the traditional objective of maintaining competitiveness. In fact, EU's special focus on Asia was an explicit response to the strategies of its major competitors which favour Asian markets with growing potentials. Under these external pressures, interest groups and Member States have generally played a supporting role.

Finally, Chapter 5 has highlighted the changing nature of protectionism in the new century and re-emergence of the use of trade restrictive measures in the context of the global economic and financial crisis within the EU. It has been argued that while new trade restrictive instruments are used on a daily basis by the EU and its major competitors in order to manage the costs of globalization and maintain their respective competitive positions, use of these instruments has significantly increased within the EU as a response to the pressures of domestic groups since the breakout of the recent crisis.

As a result of the analyses conducted in Chapters 3, 4, and 5, this study has arrived at three major conclusions. First finding is about the evolution of EU trade strategies in general. Second finding, on the other hand, reveals the dominant trade strategies within the EU. Last finding sheds light on the question of what or who determines the EU trade strategies.

Firstly, it has been observed that in all the three periods covering the years between 1958-1995, 1995-2000, and 2000-present, transformations in the nature of the international trading system and that of multilateral trade relations also lead to parallel transformations in the nature of the strategies of bilateralism/inter-regionalism, unilateralism and protectionism followed by the EU. With respect to

the strategy of bilateralism/inter-regionalism, while until the mid-1990s EU preferred this strategy for mostly foreign policy considerations, during the mid-1990s the strategy was followed in order to gain better access to foreign markets. Since the suspension of the Doha Round, however, EU utilizes bilateralism/inter-regionalism in order to address those issues which have been excluded from the multilateral agenda or have not yet been covered by WTO agreements. Strategy of unilateralism on the other hand has progressively lost its significance since the creation of WTO. Currently, it only continues under a few WTO initiatives such as GSP and EBA. Finally, the nature of the strategy of protectionism has evolved since the creation of GATT until present. In the early years of GATT, protectionism was mostly classical in the sense that it was about obtaining exemptions from tariff cuts regarding sensitive sectors. In time protectionism as a strategy to temporarily restrict trade under certain circumstances emerged with the use of instruments such as VERs, import quotas or anti-dumping investigations. Since the beginning of the new century, however, new trade restrictive instruments such as bailouts, subsidies, FDI and public procurement restrictions or technical standards have come into prominence.

Secondly, as a result of the elaboration on strategy shifts observed within the EU since its foundation until present, it has become clear that among the four major trade strategies, only two of them have been dominantly utilized by the EU while the other two have been preferred occasionally. To be more specific, in all the three periods, EU favoured multilateralism and/or bilateralism/inter-regionalism over the others. Strategies of unilateralism and protectionism have rather been deployed under certain circumstances or due to specific reasons in parallel to the first two.

Finally, and most importantly, the analysis conducted under the framework of the interactionist model which has been developed in Chapter 2 has been quite instrumental in providing answers to the question of what or who determines the decision behind the choice among alternative EU trade strategies. It has been found that in all the three periods, external factors always triggered the shifts from previously dominant trade strategies to others. To be more specific, transformations

in the nature of the international trading system, fluctuations in global economic and financial situation and changes in the policies/strategies deployed by major competitors always drove the EU to re-assess its existing strategy options in a manner to effectively respond to these external pressures. Nevertheless, specific content of these strategies were determined by the relational dynamics among various domestic actors within the EU. In other words, inputs provided by core EU institutions and domestic interests gave their actual shape to various policies and initiatives which were followed under the strategies of multilateralism, bilateralism/inter-regionalism, unilateralism and protectionism. Although analysing the changing dynamics and determinants of EU trade strategies is a complex task which requires the examination of multiple factors in an interactive manner, it is expected that the interactionist model developed by this study can provide helpful insights to those who are interested in further research.

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## APPENDIX A



### TEZ FOTOKOPİ İZİN FORMU

#### ENSTİTÜ

Fen Bilimleri Enstitüsü	<input type="checkbox"/>
Sosyal Bilimler Enstitüsü	<input checked="" type="checkbox"/>
Uygulamalı Matematik Enstitüsü	<input type="checkbox"/>
Enformatik Enstitüsü	<input type="checkbox"/>
Deniz Bilimleri Enstitüsü	<input type="checkbox"/>

#### YAZARIN

Soyadı : Güner  
Adı : Selda Nil  
Bölümü : Avrupa Çalışmaları

**TEZİN ADI** (İngilizce) : Towards a More Interactionist Approach on the Changing Dynamics and Determinants of EU Trade Strategies

**TEZİN TÜRÜ** : Yüksek Lisans  Doktora

1. Tezimin tamamı dünya çapında erişime açılsın ve kaynak gösterilmek şartıyla tezimin bir kısmı veya tamamının fotokopisi alınsın.
2. Tezimin tamamı yalnızca Orta Doğu Teknik Üniversitesi kullanıcılarının erişimine açılsın. (Bu seçenekle tezinizin fotokopisi ya da elektronik kopyası Kütüphane aracılığı ile ODTÜ dışına dağıtılmayacaktır.)
3. Tezim bir (1) yıl süreyle erişime kapalı olsun. (Bu seçenekle tezinizin fotokopisi ya da elektronik kopyası Kütüphane aracılığı ile ODTÜ dışına dağıtılmayacaktır.)

Yazarın imzası .....

Tarih .....