

# The Political Economy of EU Interregionalism

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# **The Political Economy of EU Interregionalism**

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## **Abstract**

This thesis examines EU trade policy within the context of the relationships which the EU has established with regional organizations in other parts of the world. For many years these interregional relationships have served as mechanisms through which the EU has attempted to achieve broad political and economic cooperation. Until quite recently, however, the issue of reciprocal trade liberalization was not on the interregional agenda in the majority of cases as the EU prioritized multilateralism within the World Trade Organisation (WTO).

Since 2006 in particular, however, the EU has implemented a new approach to trade policy which has involved Preferential Trade Agreement (PTA) negotiations being launched with several other regional organizations. This thesis aims to account for this change in approach. I argue that the EU pursuit of PTAs at the interregional level can be explained by the lack of progress which has taken place within multilateral negotiations *in conjunction* with the increasing spread of PTAs concluded by other major economies.

Despite much initial optimism regarding the potential for interregional PTAs, however, few have been successfully concluded. I find that the increasing divergence of preferences among potentially affected domestic interest groups in developed and developing countries which has hindered multilateral agreement in recent years has also served to obstruct the conclusion of interregional PTAs in the majority of cases. The EU, in line with its new competitiveness driven approach to trade policy, has therefore increasingly resorted to bilateral PTA negotiations in order to advance the liberalization agenda. The puzzle is that this has occurred in some cases but not in others.

I find that the decision to switch from an interregional to a bilateral approach to trade negotiations in certain cases has closely correlated with the observable expressed preferences of influential business and industry associations within the EU. As such I argue that EU interregional trade policy must be examined within the context of both challenges and opportunities presented by the global economy as well as the preferences of organized domestic interest groups.

This thesis presents a comparative case study analysis of the EU's relationships with four different regional groups – the Association of Southeast Asian Nations (ASEAN), the Comunidad Andina de Naciones (CAN), the Mercado Común del Sur (Mercosur), and Central America. The major aims of the study are to account for the decision to launch PTA negotiations at the interregional level, the low rate of success which has been achieved, and the decision to commence bilateral negotiations in place of an interregional approach in certain cases.

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## **Abbreviations**

AA	Association Agreement
ACFM	Andean Council of Foreign Ministers
ACP	Africa, Caribbean and Pacific (Groups of countries)
AIS	Andean Integration System
AEM	ASEAN Economic Ministers
ALBA	Alianza Bolivariana para los Pueblos de Nuestra América
APC	Andean Presidential Council
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
ATPA	Andean Trade Preferences Act
BCC	Bi-regional Cooperation Council
BIT	Bilateral Investment Treaty
BNC	Bi-regional Negotiations Committee
CACM	Central American Common Market
CAFTA	Central American Free Trade Association (with US)
CAN	Comunidad Andina de Naciones (Andean Community of Nations)
CAP	Common Agricultural Policy
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum (ACP countries)
CCP	Common Commercial Policy
CET	Common External Tariff
CFSP	Common Foreign and Security Policy
CMC	Common Market Council (Mercosur)
CU	Customs Union
DDA	Doha Development Agenda
DG	Directorate General
DSM	Dispute Settlement Mechanism
EBA	Everything But Arms
EC	European Communities
EEC	European Economic Community

ECSC	European Coal and Steel Community
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EMIFCA	EU-Mercosur Interregional Framework for Cooperation Agreement
EP	European Parliament
EPA	Economic Partnership Agreement
EPC	European Political Cooperation
ESDP	European Security and Defence Policy
ESF	European Services Forum
EU	European Union
FEALAC	Forum of East Asia – Latin America Cooperation
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
G20	Group of 20 (developing countries within WTO)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GMC	Common Market Group (Mercosur)
GSP	Generalized System of Preferences
IBSA	India, Brazil, South Africa Dialogue Forum
IMF	International Monetary Fund
ILO	International Labour Organization
INTA	Committee on International Trade
IPE	International Political Economy
IPR	Intellectual Property Rights
IR	International Relations
ISI	Import Substitution Industrialization
JCC	Joint Cooperation Committee
JSG	Joint Study Group
LA	Latin America
LAC	Latin America and the Caribbean

LAFTA	Latin American Free Trade Association
MEBF	Mercosur-EU Business Forum
MERCOSUR	Mercado Común del Sur (Common Market of the South)
NAFTA	North America Free Trade Agreement
NGO	Non-Governmental Organisation
NIC	Newly Industrialized Country
NTB	Non-Tariff Barrier
OAS	Organisation of American States
OAU	Organisation of African Unity
ODA	Official Development Assistance
ODECA	Organización de Estados Centroamericanos
OECD	Organization for Economic Cooperation and Development
PTA	Preferential Trade Agreement
PCA	Partnership and Cooperation Agreement
QMV	Qualified Majority Voting
RSP	Regional Strategy Paper
RTA	Regional Trade Agreement
SAA	Stabilization and Association Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Cooperation
SDT	Special and Differential Treatment
SEA	Single European Act
SEM	Single European Market
SICA	Sistema de la Integración Centroamericana
SPA	Strategic Partnership Agreement
SPS	Sanitary and Phyto-sanitary
TBT	Technical Barriers to Trade
TEP	Transatlantic Economic Partnership
TPA	Trade Promotion Authority
TPC	Trade Policy Committee
TPP	Trans-Pacific Partnership
TREATI	Trans-regional EU-ASEAN Trade Initiative
TRIPS	Trade Related Aspects of Intellectual Property

UN	United Nations
US	United States
WTO	World Trade Organization

## Introduction

A central component of European Union (EU) external relations has long been the establishment of formal relationships with other regional organizations.<sup>1</sup> This process is referred to as interregionalism and it is driven by a combination of political and economic motivations. In a 2005 speech Javier Solana, the EU High Representative for the Common Foreign and Security Policy (CFSP), highlighted several of the major aims of such an approach stating that:

The African Union, Mercosur, ASEAN, these are all examples of strengthening regional regimes, explicitly taking their inspiration from the EU. We are deepening our relations with these other regional players and, where possible and relevant, we are giving our support for their further development. In the years ahead, these inter-regional dialogues will steadily reshape the nature of international politics and forge new mechanisms to manage global interdependence and tackle cross-border problems (Solana, 2005).

Interregional relationships between the EU and other regional organizations were initially characterized by official statements of intent, semi-regular summit meetings, and loosely binding cooperation agreements in pursuit of such objectives. More recently, however, attempts have been made to negotiate comprehensive preferential trade agreements (PTAs) on an interregional basis. Trade negotiations were launched with the Gulf Cooperation Council (GCC) and the Common Market of the South (Mercosur) during the 1990s and with several other regional organizations following the shift to the more proactive and competitiveness driven approach to EU trade policy which was officially outlined in the 2006 *Global Europe* report (EC, 2006b).

In this thesis I first attempt to explain why the EU has decided to pursue PTAs with a broad range of partners at the interregional level given the fact that such agreements were traditionally reserved for incoming and potential member states as well as selected countries located within the broader EU neighbourhood. Between 1999 and 2006 in particular the EU's prioritization of multilateralism was evidenced by the de facto moratorium which was implemented on the launch of new PTA negotiations. As such, the increasing pursuit of preferential trade liberalization at the interregional level since the mid-2000s warrants explanation.

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<sup>1</sup> Formerly European Economic Community (EEC) and European Community (EC).

In almost all cases EU interregional trade negotiations have however failed to result in agreement and I therefore also seek to account for the low rate of success which has been achieved in this regard. EU-Mercosur negotiations have still not been concluded at the time of writing and have therefore currently been ongoing for longer than any of the multilateral bargaining rounds within the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) which involve a much larger number of participants. In fact the EU has only concluded two reciprocally negotiated PTAs on a region-to-region basis to date – the Association Agreement (AA) with Central America (2012) and the Economic Partnership Agreement (EPA) with the Caribbean Forum (CARIFORUM) group of African, Caribbean, and Pacific (ACP) countries (2008)<sup>2</sup>. This gives some indication of the difficulty the EU has encountered in fulfilling trade policy objectives at the interregional level despite much initial optimism to the contrary and has led some analysts to question the logic in maintaining such an approach (e.g. Doctor, 2007).

The EU has in fact commenced a bilateral approach to negotiations with the individual members of certain other regional organizations such as the Association of South East Asian Nations (ASEAN) and the Andean Community (CAN) in order to advance the liberalization agenda. Such a strategy runs counter to the Commission's long standing preference for dealing with countries in other parts of the world on an interregional basis where possible. A further puzzle is that this has occurred in some cases but not in others.

This thesis undertakes a comparative case study analysis of four of the major EU interregional partnerships in which PTA negotiations have taken place in order to attempt to explain the decision to launch such negotiations at the interregional level and the low rate of success which has been achieved. In addition, an attempt is made to explain why bilateral PTA negotiations have recently started to replace an interregional level approach in certain cases but not in others.

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<sup>2</sup> The EU had previously concluded a range of agreements on a regional basis with the African, Caribbean, and Pacific (ACP) countries such as the Yaoundé (1963, 1969) and Lomé (1975, 1979, 1984, 1989) Conventions. The ACP countries in these cases, however, did not represent pre-defined regional groups and as such these agreements fall under what is termed 'hybrid-interregionalism' as opposed to 'pure interregionalism' which is the focus of this thesis (Hanggi, 2006). In addition, these agreements involved the unilateral provision of preferential access to the EU market in comparison to the reciprocally negotiated agreements aimed for more recently.

## **Argument in brief**

The emerging literature on interregionalism offers valuable insights into the process of interaction between regional organizations and the broad roles this interaction may play in international relations (Doidge, 2011; Edwards and Regelsberger, 1990; Hänggi, 2000, 2006; Hänggi, Roloff, and Rüländ, 2006a; Hardacre and Smith, 2009; Soderbaum and Van Langenhove, 2005; Rüländ, 2010). Less attention has however been devoted to situating interregionalism within the context of the pursuit of PTAs more specifically. In a 2004 edited volume by Aggarwal and Fogarty competing potential explanations for trade policy at the interregional level are evaluated in relation to the EU's relationships with several other regions. The process of negotiation in each such case, however, is not examined in detail. In addition, the EU's approach to trade policy has changed dramatically since the mid-2000s which has resulted in a much more ambitious agenda in terms of interregional PTAs. This thesis represents one of the first systematic comparative studies of EU trade policy which incorporates in depth analysis of the negotiating process at the interregional level within the context of the EU's more competitiveness driven approach to trade policy.

In each of the case studies undertaken the objectives of the EU in engaging in interaction on an interregional basis are explored in detail. The aim is to identify what the EU has aspired to achieve through interregionalism at different points in time and in particular to determine why trade negotiations have been launched at the interregional level with certain other regional organizations from the late 1990s onwards.<sup>3</sup> The successful conclusion of the Uruguay Round of GATT negotiations in 1994 had resulted in the creation of the WTO and the implementation of multilateral rules covering a much broader range of trade issues than ever before. This seemed to herald the start of a new era of increased multilateral trade cooperation as more and more countries signed up to the various WTO agreements (Messerlin, 2013b). Somewhat surprisingly, however, the period since then has witnessed the increasing spread of PTAs which has sparked intense debate regarding whether or not such preferential agreements represent 'stepping stones' or 'stumbling blocs' to more

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<sup>3</sup> The EU had launched FTA negotiations with the GCC in 1991, however, talks did not progress much beyond the preparatory stages prior to being suspended and later re-launched in 2002.

widespread multilateral liberalization (Bhagwati and Panagariya, 1996; Mansfield and Milner, 1999; Oye, 1992; WTO, 1995).

I argue that the EU has increasingly attempted to fulfill trade policy objectives through interregional PTAs due to the fact that the EU's major economic competitors have actively been pursuing preferential agreements with a range of other states. The decision to commence negotiations with Mercosur in the late 1990s for example can be clearly linked to US ambitions to establish the hemispheric Free Trade Area of the Americas (FTAA). The urgency attached to countering the trade policy activity of EU competitors was accentuated as a result of the poor progress made in the Doha Round of WTO negotiations during the 2000s. The 2006 *Global Europe* report placed specific emphasis on the need for the EU to seek out preferential agreements with important emerging economies given the fact that EU competitors such as the US and Japan were actively negotiating and concluding PTAs with many such countries. Importantly, however, the EU's new approach to trade policy was developed in extremely close consultation with major EU firms and business and industry associations (EC, 2006d).

The fact that many of the regions and countries with which the EU has sought to conclude PTAs in recent years are relatively small in terms of market size, however, suggests that explanations for the pursuit of such agreements may be somewhat more complex than simply expanding or protecting access for EU exporters. Unwavering commitment to multilateralism alone threatened not only the market share of EU producers in comparison to their competitors in other major economies, but also the potential for first-mover advantages for EU services providers in several Latin American and Asian emerging economies (Manger, 2009).

In addition, geo-political and geo-economic considerations can also be perceived to have played a role in determining EU interregional trade policy. EU policymakers have sought to respond to developments within the international system as well as to domestic pressures from societal interest groups. These systemic and domestic drivers of EU trade policy have been somewhat neglected in the academic literature in comparison to explanations which focus on the preferences of policymakers themselves and the EU institutional framework (e.g. Elsig, 2007; Nicolaïdis and Meunier, 2002; Meunier, 2005; Woolcock, 2005).



Within interregional trade negotiations the divergent preferences of the EU and its partners in terms of trade and investment liberalization have generally proven no easier to overcome than at the multilateral level. The refusal of the EU to extensively liberalise sensitive sectors such as agriculture has meant that it has had relatively few bargaining chips to offer its negotiating partners in return for their meeting the EU's long list of demands (Kleimann, 2013: 5). Since the mid-2000s the Commission has been granted authority to pursue PTAs with a range of partners conditional on these agreements including deep WTO-plus liberalization commitments in areas such as public procurement, competition policy, and services liberalization. In most cases the EU's interregional partners have been unwilling to accede to EU demands in this regard. The weakly institutionalized nature of regional organizations in other parts of the world often means that their members are unable to arrive at anything more than a lowest common denominator position in trade negotiations. I argue that the divergent preferences of domestic interest groups within the EU and its partner regions have constrained the capacity of negotiators to conclude agreements in the majority of cases. In addition, I argue that the increasing predominance of commercial considerations in comparison to more normative objectives in EU interregional trade policy is evidenced by the fact that the EU has in several cases been willing to suspend an interregional approach given the difficulties faced in concluding a region-to-region agreement.

The EU has more recently started to pursue bilateral PTAs with the individual member states of certain partner regional organizations such as ASEAN and the CAN. The puzzle is that this has occurred in some cases but not in others. An interregional approach has been maintained with Mercosur for example despite the fact that AA negotiations have been ongoing for more than a decade without success. I argue that the decision to adopt a bilateral approach has again been in line with the expressed preferences of influential EU firms and business and industry associations. The PTAs concluded between other major economies such as the US and Japan with a range of countries in Asia and Latin America during the early 2000s threatened significant trade diversion in the absence of an EU response. In this regard, developments in EU interregional trade policy lend weight to the theory that governments pursue 'protection for exporters' (Baccini and Dür, 2012: Dür, 2007, 2010) when there is a potential for trade diversion as a result of trade agreements

concluded by other countries. Given the slow progress being made in the Doha round of WTO negotiations *and* interregional negotiations the EU could no longer afford to rely solely on either the multilateral or interregional framework.

Finally, I argue that the pursuit and conclusion of bilateral PTAs with selected individual members of EU partner regional organizations is likely to have negative implications for the long standing EU objective of promoting and supporting the integrative process among these groups of countries. The pursuit of comprehensive trade liberalization agreements at the interregional level has involved the relegation in importance of the broader foreign policy and normative objectives which have traditionally been associated with the process. While the EU's normative agenda continues to be emphasized in the official discourse, EU interregionalism in practice is now primarily concerned with expanding market access for EU firms through deep WTO-plus PTAs.

Much of the existing literature on interregionalism has tended to examine the process through the lens of broad systemic theories of international relations (IR) (Doidge, 2007, 2011; Hänggi, 2000, 2006; Hardacre and Smith, 2009; Rüländ, Hänggi, and Roloff 2006; Rüländ, 2010). This thesis adopts a much more focused approach which also draws upon the literature from the field of International Political Economy (IPE). While theoretical and empirical accounts of interregionalism which adopt an 'outside-in' systemic perspective offer valuable insights into the initiation of interregional dialogues and the broad roles these relationships can play in international relations, the more recent pursuit of PTAs at the interregional level must be considered within the context of the preferences of domestic interest groups in addition to the role played by systemic, institutional, and ideational factors in determining trade policy. In other words it is argued that an 'inside-out' approach is required in conjunction with an 'outside-in' perspective in order to fully capture the dynamics of interregional interaction in terms of trade policy.

The findings of the study contribute to the emerging literature on the roles interregionalism plays within the evolving architecture of EU trade policy as well as the IPE literature on international trade more generally. In addition, the conclusions reached in the thesis hold the potential to contribute to policy making debates within both the EU and other regional organizations regarding the formulation and

implementation of interregional trade policy. In particular I argue that the future success of interregional endeavors will require a lowering of ambition in terms of trade policy objectives. By focusing interregional cooperation on the promotion and strengthening of the integrative process within the EU's counterpart regions, the prospects for the future negotiation of comprehensive interregional PTAs will be enhanced.

### **Research questions**

Interregionalism is a relatively new area of scholarly enquiry. Nevertheless several important studies have been undertaken which have sought to identify the factors which explain its emergence as a distinct level of interaction and the specific roles or functions which it might fulfill (Aggarwal and Fogarty, 2004a; Doidge, 2011; Hänggi, 2000, 2006; Hänggi, Roloff, and Rüländ, 2006; Hardacre and Smith, 2009; Soderbaum and Van Langenhove, 2005; Rüländ, 2010). In Chapter 1 an extensive literature review is undertaken which situates interregionalism within the context of both regionalism and globalization and examines the nascent efforts at theoretical and empirical analysis of the process.

A primary focus in the existing literature has been on identifying the gaps which interregionalism may be capable of filling in international relations and global governance. Interregional relationships have often been examined in relation to their capacity to act as a middle ground between the global and regional level. In this regard the process has been ascribed five broad potential roles (Hänggi, 2006; Rüländ, 2002, 2010). These are balancing, institution building, rationalizing, agenda setting, and collective identity building.

Balancing in terms of interregionalism involves the establishment of interregional relationships in order to strengthen the economic and political influence of regional actors in their own right as well as in relation to other states and regions. Institution building relates to regional organizations and their constituent nation states attempting to manage increasingly complex interdependence through the formation and institutionalization of interregional relations. Rationalizing and agenda setting refer to the capacity of interregionalism to promote and enhance cooperative endeavours at the multilateral level. While rationalizing refers to the utilization of interregionalism as a platform to overcome disagreements encountered in relation to

specific issues at the multilateral level agenda setting refers to attempts to bring new issues under negotiation. Both these functions relate to the idea that interregionalism can act as a ‘clearing house’ for global multilateral forums (Rüland, 2002, 2010; Dent, 2004). Identity strengthening refers to the idea that by engaging as a region in dialogues with other regional groups and organizations, the identity of the members of that region is strengthened as the member states interact and attempt to coalesce around common positions. As Rüland (2006: 303) states ‘interregional interaction may thus sharpen differences between self and other, create pressures to overcome diversity in order to increase the efficiency and effectiveness of collective action and thus help galvanize regional solidarity on the basis of shared norms.’

While the extent to which EU interregionalism has succeeded in fulfilling these broad functional roles proposed in the existing literature is also examined in this thesis, the primary aim is to develop better understanding of the role played by interregionalism within the context of EU trade policy. Specifically the study is concerned with identifying the trade policy objectives the EU has attempted to fulfill through its engagement with other regional actors and how successful it has been in this regard. In relation to the potential of interregionalism to act as an intermediary level in terms of trade policy Aggarwal and Fogarty (2004b: 1) pose two important questions:

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

This study seeks to account for the formulation and implementation of interregional trade policy and also to determine the factors which have prompted the decision to adopt a bilateral approach to PTA negotiations with the members of certain EU partner regions.

In pursuit of these broad aims the following specific research questions are addressed.

1. *What objectives does the EU seek to fulfil through interregionalism?*
2. *What explains the success or failure of EU interregional trade policy objectives?*
3. *What explains the shift to a bilateral approach to trade negotiations with the members of certain EU partner regions but not with others?*

These research questions are addressed through the detailed examination of the EU's relations with four other regions – the ASEAN, the CAN, Mercosur, and Central America. The EU has attempted to negotiate comprehensive PTAs with each of these groups and as such the examination undertaken represents one of the first systematic comparative studies of trade negotiations at the interregional level. The decision to adopt a qualitative case study approach rather than to conduct a large-n quantitative analysis of the full range of EU interregional relationships was taken due to the small number of such relationships in which PTA negotiations have taken place<sup>4</sup>. Furthermore a qualitative approach was deemed more suitable for highlighting variation in the decision making process in terms of interregional trade policy. The justification for the research design is discussed in more detail in the section on methodology.

I find that, in addition to seeking a framework through which to manage its commercial interests, the EU initially adopted an interregional approach to external relations in order to promote its political and economic influence, to strengthen its identity as an actor in international relations, and to promote the process of regional integration elsewhere. In this regard the empirical analysis has provided evidence in relation to the balancing, institutional capacity building, and identity formation functions which are proposed in the existing theoretical literature (Rüland, 2002, 2010). While the EU was granted competence over trade policy making early on this was not the case with foreign policy more generally. Interregionalism was therefore

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<sup>4</sup> The EU has attempted to negotiate PTAs with 12 of its interregional partners. These are ASEAN, the CAN, Central America, Mercosur, the GCC, and the seven groups of ACP countries with which EPA negotiations have taken place. The EU's trade negotiations with the groups of ACP countries as well as those with the North African Mediterranean countries are more appropriately classed as 'hybrid interregionalism' (Hanggi, 2006). As such aside from the cases examined in this thesis, the EU's FTA negotiations with the GCC represent the only other case of 'pure interregional' PTA negotiations.

utilized as a mechanism through which to pursue a range of geopolitical, foreign policy, and normative objectives.

The decision to launch AA and FTA negotiations with various regional organizations starting in the 1990s has primarily been motivated by the objectives of safeguarding and expanding opportunities for EU firms and producers in terms of both trade in goods and services. In this regard the EU has sought to counter the trade policy activity of other major economic powers, the US in particular. The importance attached to fulfilling trade policy objectives through preferential agreements has been accentuated as a result of the lack of progress achieved within WTO negotiations during the current Doha round in conjunction with the rapid spread of PTAs between EU competitors and a range of emerging economies. The focus of interregional policy formulation has therefore shifted to embrace the EU's new trade policy agenda.

In attempting to explain interregionalism through an IR theory centered functional approach existing studies have focused on the extent to which the EU seeks to implement the specified functions of interregionalism. The tendency has been, however, to focus on the EU member states and institutions as the principal actors with insufficient attention devoted to the role played by societal interest groups in determining the objectives of EU policymakers. Exceptions in this regard include studies by Aggarwal and Fogarty (2004a, 2006), Dent (2006), Doctor (2007), Faust (2006), Robles (2006), Santander (2005), and Sanchez-Bajo (1999). In fact, domestic business and industry preferences are a key factor to consider when analyzing recent developments in EU trade policy and interregional trade policy more specifically. While the Commission was the main actor involved in proposing the launch of interregional PTA negotiations in each case, coalitions of organized interest groups played a central role from early on in terms of shaping the specific trade policy goals pursued in these negotiations.

In terms of explanations for the success or failure of interregional PTA negotiations I find that achieving agreement depends in large part on the ability of negotiators to craft agreements which are compatible with the competing preferences of influential domestic interest groups within both the EU and its partner regions. In the existing literature the failure of interregional PTA negotiations has most often been attributed

to the lack of capacity of the EU's partner regions to develop coherent positions when engaging as a group with the EU (e.g. Doidge, 2007a, 2011; Hardacre and Smith, 2009). Doidge (2011: 171) argues for example that 'given the current limited capacities of the majority of regional organizations as international actors, let alone looser aggregations of states, this has meant in practice that the high-end functions of a globally active interregionalism have remained mostly absent.' In this thesis I argue, however, that while partner coherence is an important factor to consider in this regard, the lack of success in interregional negotiations has in large part been due to the extent of the divergence of preferences in terms of trade and investment liberalization which exists between the EU and the member states of its partner regions.

EU interregional PTA negotiations have most often failed due to the existence of similar obstacles to those which have hindered the conclusion of further multilateral agreements since the mid-1990s. Under the terms of the *Global Europe* strategy the EU demands broad WTO-plus concessions from its PTA negotiating partners. At the same time, however, the EU itself has proven continually unwilling to meet the demands of its partners for further liberalization in sensitive sectors such as agriculture. The hope was that negotiations at the interregional level would serve to facilitate agreement by means of reduced numbers; however, in the majority of cases this has not proven to be the case. I have found no evidence of EU interregionalism having fulfilled the rationalizing and agenda setting functions proposed in the literature (Rüland, 2002, 2010).

And finally in relation to the third research question, I find that the increasing shift to bilateralism within the EU's interregional relationships is indicative of the EU seeking to reduce numbers further in order to better exert its leverage and achieve agreement. Importantly, however, while the EU's adoption of selective bilateralism in place of a prior insistence on pure interregionalism is merely representative of EU commercial considerations taking priority, this may hold serious implications for the nature of EU interregionalism which are not necessarily reflected in the official discourse.

While matching the trade policy activity of EU competitors may be more achievable through a bilateral as opposed to an interregional approach, due to the increased

leverage which the EU possesses, this is likely to be at the expense of institution building and identity strengthening within the partner region. EU trade policy has traditionally differentiated itself from that of other major economic powers by virtue of the embedding of trade and investment objectives within broader efforts to bring about sustainable development, democracy, and respect for human rights. This resulted in terms such as ‘normative power Europe’ (Manners, 2002, 2008). The adoption of a much more competitiveness driven approach to trade policy since the mid-2000s suggests, however, that EU policy is gaining increasingly more in common with the strategy of ‘competitive liberalization’ (Bergsten, 1996a) more often associated with US trade policy. Meunier and Nicolaidis (2006: 911) refer to this stating that ‘the EU and the US are not markedly different in the way they exercise “power in trade” at the bilateral level through agreements over market access for their goods, services and capital in other markets.’

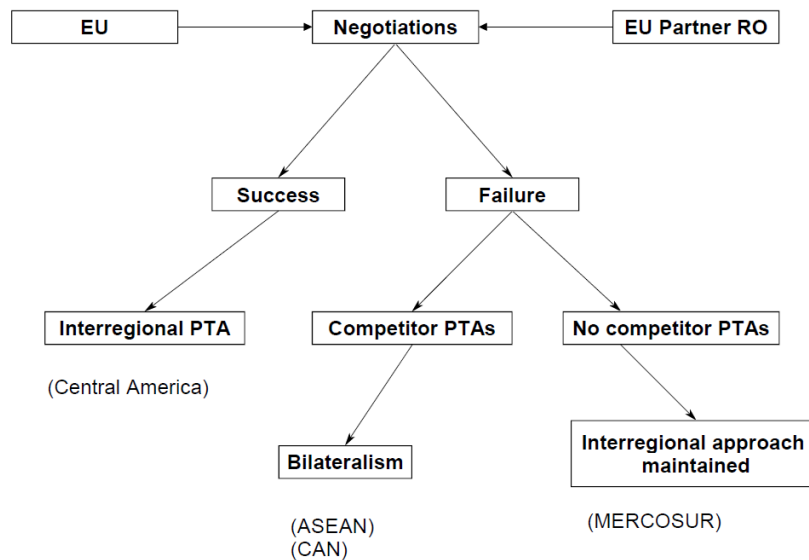
### **Dependent variable: EU Interregional trade policy**

The dependent variable is EU interregional trade policy. This is examined in relation to both its formulation and implementation. The EU can clearly be seen to have pursued several distinct objectives through its relationships with other regional organizations. These objectives have varied over time. In addition, the manner in which interregional policy has been successfully implemented in line with these objectives has also varied over time and across cases.

In each of the interregional relationships under examination EU policy initially aimed at strengthening its political and economic influence, institutionalizing political and commercial cooperation, promoting regional integration both within the EU itself and within the partner region, and fostering the EU’s identity as an actor in international relations. Following the structural changes which emerged with the end of the Cold War, externally-oriented balancing also became a key concern. The EU sought to match US diplomatic and economic investment in Asia and Latin America by strengthening its own ties with groups of countries in these regions. This resulted in a range of political and economic cooperation agreements being successfully concluded in each of the interregional partnerships examined. Importantly, however, these agreements did not generally address the issue of reciprocally negotiated trade liberalization. As such the Commission enjoyed a much greater degree of freedom to maneuver in terms of the pursuit of interregional policy objectives.



Since the mid-2000s EU interregional trade policy objectives have changed dramatically. Following the rapid spread of PTAs among major economies such as the US, Japan, and China and a wide range of other countries in Asia and Latin America the EU has in recent years abandoned its multilateralism-first strategy and joined the scramble for preferential agreements in order to safeguard EU commercial interests. Having already developed an extensive network of relationships with regional groups in many parts of the world it was deemed a logical decision to pursue preferential trade liberalization at an interregional as opposed to a bilateral level. In addition, as a result of the lack of progress being made during the Doha round of WTO negotiations the utilization of interregionalism as a potential mechanism to overcome multilateral deadlocks came under increasing consideration. These changing motivations prompted first the upgrading of the importance the EU attributed to its interregional partnerships and eventually the launch of AA and FTA negotiations with certain regional organizations. Very few of these interregional trade negotiations have achieved success however. Figure 1.1 presents a simple illustration of the variation which has been encountered in the cases under examination this regard as well as the subsequent decision to engage in bilateralism with selected partners.



**Figure 1.1 Variation in interregional PTA negotiations**

In only one of the four interregional relationships examined in the case study chapters, that between the EU and Central America, has an interregional PTA been

concluded. I argue that the successful conclusion of such agreements is dependent upon the effect of several explanatory factors. Most importantly, however, it is required that the divergence of preferences which has hindered multilateral agreement during the current Doha round can be overcome. To date this has not proven possible in the majority of interregional negotiations. The domestic political costs which would be entailed by EU policymakers in meeting the demands of its negotiating partners have prevented agreement in certain cases. In EU-Mercosur negotiations for example, EU negotiators have been unwilling to agree to Mercosur demands in relation to the reduction of agricultural subsidies due to the political sensitivity of this issue.

The failure of negotiations in other cases has been down to the unwillingness of the EU's negotiating partners to accept the EU's far reaching demands in relation to the liberalization of areas such as public procurement and services. This has been the case with both ASEAN and the CAN. While the Commission undertakes the negotiation of PTAs at the interregional level it must operate within the confines of the mandate granted to it by the member states. In addition, the member states closely supervise negotiations through the utilization of various oversight mechanisms. The preferences of the member states in this regard are in turn closely constrained by the competing demands of domestic interest groups for which proposed agreements may hold serious distributive consequences. EU negotiators were able to conclude an AA with Central America due to the fact that this agreement was supported by a majority of domestic interest groups within the EU. The preferences of globally competitive EU firms and services providers were reflected in the terms of the agreement. And while primary products and agricultural goods make up the majority of Central American imports to the EU these countries posed much less of a threat to EU producers in comparison to the larger members of other regional organizations.

The increasing prevalence of selective bilateralism with the members of certain interregional partners in the absence of a successfully concluded region-to-region PTA marks a further significant variation in terms of the EU's interregional trade policy. In three of the four cases of interregionalism examined in the thesis PTA negotiations at the region-to-region level have so far proven unsuccessful. In two of these unsuccessful cases, those between the EU and ASEAN and the EU and the

CAN, the EU has therefore concluded or is negotiating PTAs with a subset of the members of the partner region.

In its relationship with Mercosur, however, the EU has maintained a strictly interregional approach despite almost two decades of fruitless attempts to conclude an AA. Potential trade diversion in particular has motivated the decision to adopt a bilateral approach with the members of certain regional organizations. At the same time as which the EU's interregional PTA negotiations were ongoing, EU competitors such as the US, China, and Japan were in the process of concluding bilateral PTAs with a range of countries in Asia and Latin America. The EU eventually felt compelled to respond by seeking its own bilateral agreements with certain partners given that the successful conclusion of interregional negotiations did not appear to be likely any time soon. Importantly, however, the decision to respond to the trade policy activity of other major economic powers correlates in large part with the observable expressed preferences of organized interest groups within the EU.

### **Independent variables**

This study undertaken in this thesis involves the detailed comparison of four cases of EU interregionalism each of which spans a period of several decades. The factors which explain the variation in EU trade policy within each of these relationships can therefore be perceived to have changed over time. The EU institutions, the member states, as well as domestic interest groups may all play a role in terms of the formulation and implementation of policy. The preferences of these actors may in turn be shaped by a combination of interests and ideas. The success or failure of interregional PTA negotiations also obviously depends upon the preferences of the EU's negotiating partners. And given that other regional organizations are based upon weakly institutionalized intergovernmentalism, their ability to present a coherent position in negotiations may also have an important bearing in this regard.

In addition to actor preferences, however, the manner in which trade negotiations are undertaken must also be taken into account. There are different perspectives on the level of autonomy the Commission enjoys in trade negotiations (Coleman and Tangermann, 1999; De Bièvre and Dür, 2005; Meunier and Nicolaïdis, 1999). This in turn may have an important bearing on the success or failure of interregional PTA

negotiations. The manner in which policy is implemented through the EU institutional framework is assessed in the analysis of trade policy presented in Chapter 2.

In general four broad categories of variables which may play a role in terms of the formulation and implementation of EU interregional trade policy can be identified.<sup>5</sup> Firstly, *systemic factors* may shape the objectives of policymakers. Secondly, the *preferences of domestic interest groups* may determine the specific policies pursued by the EU member states and the Commission. The preferences of these interest groups may themselves be determined by systemic factors. Thirdly, rather than simply serving as the agents of the member states the independent material *preferences of the EU institutions* themselves might determine interregional trade policy. And finally the *ideational preferences* of different actors might play a role in this regard.

#### *Systemic factors*

A first potential set of explanations for EU interregional trade policy focuses on challenges and opportunities presented by the international system. Such a perspective has been adopted in much of the existing literature on interregionalism. Several studies have considered the EU's utilization of interregionalism as a mechanism to respond to developments at the international level through both balancing behaviour and institution building (Aggarwal and Fogarty, 2004a; Farrell, 2005; Hänggi, 2002; Roloff, 2006; Rüländ, 2002, 2010).

Balancing refers to the idea that the Commission, acting on the part of the member states, has developed a network of relationships with regional organizations in other parts of the world in order to enhance the EU's capabilities as an economic and foreign policy actor (Rüländ, 2010). In addition, it has been argued that EU interregional policy has often been determined in reaction to the trade and foreign policy activity of other major economic powers. The development of the relationship between the EU and Mercosur for example has been explained as a response to US ambitions to create a hemispheric Free Trade Area of the Americas (FTAA) (Doctor, 2007; Santander, 2005). Similarly, the establishment of the Asia-Europe Meeting

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<sup>5</sup> These variables are derived from and build upon potential explanations for EU interregional trade policy put forward by Aggarwal and Fogarty (2004b).

(ASEM) in 1996 has been perceived as an EU response to the creation of the APEC forum as well as an Asian response to the strengthening of the transatlantic alliance (Dent, 1997; Hänggi, 1999; Rüländ, 1999).

Institution building motivations refer to attempts to forge closer political and economic ties with other regions in response to the shared challenges posed by accelerating globalization (Hänggi, 1999; Rüländ, 2002, 2010). The search for new mechanisms to deal with interdependence has become increasingly prominent in recent years especially as a result of the lack of progress being made in multilateral WTO negotiations. The increasing spread of PTAs among all countries has been perceived to be a response to the increasing inability of multilateralism to effectively achieve cooperation in this regard (Mavroidis, 2013).<sup>6</sup> Both the balancing and institution building explanations as proposed in the existing literature conceive of the EU as a single coherent actor which responds to developments in the international system in line with the predictions of realist and liberal institutionalist theories.

#### *Preferences of domestic interest groups*

A second potential set of explanations focuses on the idea that EU interregional policy is determined in response to the competing demands of organized domestic interest groups. Much of the literature on international trade focuses on the idea that governments formulate trade policy in response to the balance of preferences among such groups (Chase, 2005; Dür, 2007, 2010; De Bièvre and Dür, 2005.; Milner, 1988; Mansfield and Milner, 1999). Interest groups within the EU can seek to achieve their preferred policy outcomes by lobbying not only member state governments but also the EU institutions themselves. The increased competence granted to the European Parliament over trade policy under the terms of the Lisbon Treaty has indeed broadened the access of such domestic interest groups in this regard.

Focusing on the ideational and material preferences of the member states and Commission can explain a lot about the initiation of interregional dialogues based on informal cooperation. The preferences of domestic interest groups must be taken into

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<sup>6</sup> As Manger (2009: 220) points out, however, 'while stalling multilateral negotiations have surely convinced countries of the need to find alternative venues, this explanation can only be a partial account'. The trend towards preferentialism was well underway prior to the difficulties experienced in concluding the Doha Round during the past decade for example.

consideration, however, when examining the pursuit of trade policy at the interregional level. It is important to note, however, that while an ‘outside-in’ systemic perspective on its own does not provide a satisfactory framework for the analysis of interregionalism neither does an ‘inside-out’ approach wield complete explanatory power.

Recent studies have attempted to combine consideration of the effect of interest groups with that of systemic factors in relation to trade policy (e.g. Heron and Siles-Brügge, 2012). It may be argued that domestic interest groups themselves formulate their preferences in response to challenges and opportunities in the international system. In this thesis I argue that a similar combined focus on domestic interest groups and systemic influences on the preferences of the member states and the Commission holds the most explanatory power in relation to EU interregional trade policy formulation and outcomes. While such an approach has been adopted by selected authors in single case studies of interregional partnership this thesis represents the first systematic comparative analysis of the EU’s pursuit of trade policy at the interregional level.

#### *Preferences of the EU institutions*

Rather than simply acting as a conduit through which the member states and interest groups seek to achieve their objectives the preferences of the EU institutions themselves may play a role in the determination of interregional trade policy (Coleman and Tangermann, 1999; Garrett and Tsebelis, 1997; Vahl, 1997; Woll, 2006). The Commission may be perceived to have sought to develop its capacity as an actor through the pursuit of as wide range of bilateral and interregional relationships as possible. In this regard it can be argued that the Commission’s desire to gain greater competence over both trade policy and foreign policy resulted in the development of a network of interregional relationships starting in the 1970s and the more recent attempt to upgrade many of these relationships through establishing interregional PTAs.

The Council too has arguably sought to expand the influence of the EU in a geo-political and geo-economic sense through more coherent action at the regional level. And as a result of the increased competence over trade policy granted to the European Parliament under the terms of the Lisbon Treaty it too must be considered

in an analysis of interregional policymaking. While the official EU position remains that a multilateral approach to trade liberalization under the auspices of the WTO remains the priority (EC, 2010d), bureaucratic competition in relation to competence over trade policy may be an important factor to consider in attempting to explain EU PTAs (Aggarwal and Fogarty, 2004b: 10-11).

### *Ideational preferences*

A final set of explanations focuses on the ideational preferences of policymakers. The ‘collusive delegation’ argument posits that the member states are driven by a fundamental liberal ideology and have delegated responsibility over policy making to the Commission in order to ‘insulate’ the policy making process from the influence of domestic interest groups (Meunier, 2005; Nicolaïdis and Meunier, 2002; Woolcock, 2005). In terms of trade policy the theory of collusive delegation suggests that member state delegation enables the pursuit of liberalization by limiting the access of protectionist forces.

A further perspective put forward in the interregionalism literature is that the process has been driven by a desire to reinforce the sense of a common identity at the EU level through the process of collective engagement in external relations. Several studies argue that the EU promotes the process of regional integration elsewhere due to the normative belief in the capacity of the process to promote development and economic and political cooperation elsewhere in line with the European experience (Gilson, 2005; Rüländ, 2002). This may of course be closely linked to the goal of facilitating the creation of more integrated regional markets in which European firms could operate with less restriction. In any regard the EU has long provided both technical and financial support to regional integration processes in its partner regions. Aside from such material support it may also be argued that the very process of interregional interaction itself serves to strengthen the identity of both the EU’s partners and the EU itself due to the fact that this interaction takes place on a region-to-region level (Doidge, 2011).

## **EU Partner Preferences**

This thesis is primarily concerned with identifying the drivers of interregional trade policy objectives and outcomes from an EU perspective. Importantly, however, the preferences of the EU's partners at the interregional level must also be taken into consideration in attempting to explain developments within these relationships.

The regional groups with which the EU negotiates are all intergovernmental in nature. These regions are therefore represented in international trade negotiations by national level policymakers in comparison to the supranational level policymakers which represent the EU. In evaluating the decision to establish interregional relationships and to launch interregional PTA negotiations, the preferences of these policymakers must therefore be taken into account.

It is important to point out that the majority of developing countries have for many years been granted preferential market access in the EU and other major economies under the terms of schemes such as the Generalized System of Preferences (GSP). The question then arises as to why these countries are interested in concluding PTAs, given that the predicted increases in market access gains under the terms of such agreements are relatively limited (Manger and Shadler, 2014).

There are competing perspectives on why the leaders of developing countries might seek to further institutionalize trade cooperation with major economies such as the EU and the US (e.g. Baccini and Urpelainen, 2014; Manger and Shadlen, 2014). Of course, the preferences of political leaders in developing countries may themselves be shaped by the demands of influential business and industry lobby groups as is the case in the EU. While firms and producers from these countries enjoy extremely preferential access to the EU market under the GSP scheme this access is often more restricted for sensitive sectors such as agriculture and textiles.

In negotiations such as those between the EU and Mercosur, for example, agricultural producers in the Southern Cone countries therefore have a strong interest in the conclusion of a broad agreement which would expand their market access and have directed their lobbying efforts accordingly. To date, however, PTAs between the EU and less developed countries have not in general resulted in a large degree of liberalization of sensitive sectors and as such there is little reason for producers in such sectors in these countries to expect to achieve this. On a whole there is much



less intense demand for PTAs among interest groups in developing countries in comparison to the EU.

An alternative perspective is that political leaders in developing countries seek PTAs with major economies as an element of their reform agendas. The logic is that such agreements can act as mechanisms to lock-in political and economic reform commitments and thus serve as signalling devices for potential foreign investors (Maggi and Rodriguez-Clare, 1998; Baccini and Urpelainen, 2014). Liberalizing policies become a much more credible commitment once they have been enshrined in international treaties that are costly to violate (Fernandez and Portes, 1998). The idea is that these stronger commitments will result in increased levels of inward investment (Buthe and Milner, 2008).

Yet another perspective is that the leaders of developing countries seek PTAs with major economies such as the US and the EU due to the fact that the preferential market access offered to such countries under schemes such as the GSP is designed and implemented by the more powerful partner and is not sufficiently reliable or stable (Manger and Shadler, 2014). The unilateral preferences provided under such schemes are temporary in nature and their implementation is subject to a large degree of flexibility. Developing country governments may therefore have an incentive to seek PTAs with the EU and the US not only to attempt to achieve increased market access but also simply to lock in existing market access provisions.

In terms of the hypotheses examined in this thesis more specifically then, the decision to launch interregional PTA negotiations and the increasing prevalence of bilateral negotiations between the EU and certain countries may be partly explained by examining the preferences of the EU's partners themselves rather than simply focusing on the EU's objectives. This is especially the case whenever the EU is engaged with larger developing economies. With the rise of China and other emerging markets during the past two decades these larger economies have in many cases developed ties with alternative trading partners and their dependence on the US and EU markets, while still important, has become less intense (Genna, 2010).

In the case of the CAN, the governments of both Colombia and Peru were both in the process of attempting to implement liberal economic reforms during the period under examination. It may therefore have been the case that these countries decided to

pursue bilateral PTAs with the US and the EU in order to drive forward the reform process. PTAs may facilitate reform in this regard by acting as signalling devices which help to make commitments to reform more credible to potential investors (Baccini and Urpelainen: 2014). In addition, the predicted gains from liberalization entailed in PTAs can enable the provision of side-payments to those sectors of the economy which might stand to lose out from liberalization (ibid.).

The preferential access granted to the Andean countries under the GSP scheme had been reduced considerably since the early 2000s and this may have provided a further incentive for the member state governments of the CAN to seek bilateral agreements with the EU given the difficulties encountered in concluding the interregional level negotiations.

A similar focus on the preferences of the ASEAN member states themselves might also wield a certain amount of explanatory power in relation to the EU's decision to adopt a selective bilateral approach to negotiations in this case.

While the preferences of both the EU and its partners at the interregional level may be relevant in terms of attempting to explain interregional trade policy outcomes, the approach taken in this thesis focuses on the EU. The overarching objective is to examine the extent to which the EU's new approach to trade policy, which has been implemented since the mid 2000s, has played a role in terms of developments within interregional relationships.

### **Case selection**

This thesis involves the detailed examination of the relationships between the EU and four other regions – ASEAN, the CAN, Mercosur, and Central America.<sup>7</sup> The decision to focus exclusively on cases involving the EU was taken due to the fact that the primary aim of the thesis is to systematically examine how the EU's new and more competitiveness driven approach to trade policy has manifested itself within the context of interregionalism and to identify the factors which determine success or failure in terms of EU interregional PTA negotiations.<sup>8</sup> Much scholarly attention has been devoted to the process of interregionalism as a component of EU external

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<sup>7</sup> A comprehensive list of major interregional relationships in existence is provided in Appendix A.

<sup>8</sup> PTAs have been concluded between several other pairs of regional organizations including CAN-Mercosur (2004), ASEAN-ANZCERTA (2009), EFTA-GCC (2009), EFTA-SACU (2006), and Mercosur-SACU (2004, 2008).

relations. There have been fewer attempts, however, to comparatively examine the EU's pursuit of specific trade policy objectives at the interregional level. An edited volume by Aggarwal and Fogarty (2004a), which is one of the few exceptions in this regard, was undertaken prior to the implementation of the EU's new approach to trade policy which emerged during the mid-2000s.

In selecting my cases I attempted to deal with the problem posed by few cases, many variables by choosing cases which are well matched on variables that are not central to the study and which differ in terms of the key variables that are the focus of the research. The trajectories of the EU's relationships with each of the selected partner regional organizations were initially closely comparable. Since their establishment several decades ago the EU has sought to promote its power and influence in Asia and Latin America through each of these group-to-group partnerships. It has also been a long standing goal of the Commission to strengthen the EU's identity as well as that of regional actors more generally through the provision of support for regionalism. During the 1980s and 1990s a range of second and third generation cooperation agreements were concluded with each of the chosen interregional partners. And starting in the late 1990s the EU has sought to upgrade its relationship with the partner in each of the four cases through the negotiation of interregional PTAs.

The timing of the launch of PTA negotiations in each case closely coincided with the major developments in the trade policy activity of other major economies. An AA with Mercosur first came under consideration during the mid-1990s shortly after the North American Free Trade Area (NAFTA) had been established. The US was aiming to extend this scheme across the entire American hemisphere to create the Free Trade Area of the Americas (FTAA) and negotiations with Mercosur were launched in 2000. FTA negotiations were launched with ASEAN in the wake of a range of PTAs having been concluded by ASEAN members with China, the US, and Japan during the first half of the 2000s. AA negotiations with Central America commenced following the conclusion of the Central American Free Trade Area (CAFTA) between the Central American countries and the US in 2004. And AA commenced with the CAN shortly after the US commenced FTA negotiations with Colombia and Peru in 2006. The examination of the EU's relationships with each of

the above regional organizations is therefore intended to highlight the reactive nature of EU trade policy.<sup>9</sup>

PTA negotiations have, however, only been successfully concluded with Central America and not with ASEAN, the CAN, or Mercosur. I find that the divergence of trade policy preferences between the EU and the Central American countries was much less intense than in each of the other cases. More specifically there was less opposition among domestic interest groups within both the EU and the Central American countries in relation to the proposed agreement and negotiators from each side were able to table liberalization offers which their counterparts deemed acceptable. Central American agricultural producers pose little threat to their EU counterparts in comparison to those in Argentina and Brazil for example. In addition, the Central American countries were already somewhat experienced in terms of the liberalization of services, investment, and public procurement as a result of having previously concluded an FTA with the US. Furthermore, the Central American countries were better able to coordinate in negotiations in comparison to other regional organizations as a result of their prior negotiating experience in concluding this agreement with the US.

In two of the three relationships which have failed to deliver an interregional PTA (EU-ASEAN and EU-CAN) the EU has more recently adopted a selective bilateral approach to negotiations. In the case of EU-Mercosur, however, a strict interregional approach has been maintained. This represents further variation in terms of interregional policy. I find that the main explanation for this difference in approach is related to the trade policy activity of EU competitors and the demands this provokes from EU interest groups. The US, Japan, and China had established a range of PTAs with several of the ASEAN countries during the 2000s and this necessitated that the EU suspended the interregional approach in order to defend its commercial interests in the region. Similarly in its relationship with the CAN the shift to a bilateral approach appears to have been motivated by the necessity to match US PTAs with Colombia and Peru. No major economic powers have concluded PTAs with the members of Mercosur in comparison and I argue that this explains the EU's

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<sup>9</sup> The EU decision to re-launch FTA negotiations with the GCC in 2002 also occurred at the same time as which the US was preparing to negotiate FTAs with several members of this group. The US concluded FTAs with Bahrain and Oman in 2006 and the EU has since intensified its efforts to conclude its own FTA with the GCC.

ability to adhere to the interregional framework despite the overwhelming obstacles which have been encountered in achieving agreement. For now EU and Mercosur political leaders as well as domestic interest groups within both regions have been content with the prevailing status quo.

It is important to note that this study has not examined a case of EU interregionalism in which PTA negotiations have not been launched. This is because the major aim of the study was to account for the success or failure of PTA negotiations and the reasoning behind the move to bilateralism in certain cases of failure.

### **Excluded Cases**

Aside from the EU's EPA negotiations with groups of ACP countries and the FTA negotiations with the Gulf Cooperation Council (GCC), the cases examined are the only EU interregional relationships which have involved reciprocal PTA negotiations.<sup>10</sup> The chosen cases are thus representative of the most ambitious interregional relationships in terms of EU trade policy.

### *EU-ACP*

The decision was taken to exclude consideration of the EU negotiations with the ACP countries due the unique nature of these cases. The EU and the specific ACP EPA groupings do not have long standing relationships which have evolved to the point of launching trade negotiations as is the case with the other partnerships examined in the thesis. Rather, the EU decided to negotiate interregional PTAs with these sets of countries as part of an overall strategy of achieving WTO compatibility in its trade relationship with the ACP group. Following the successful challenge to the EU's preferential treatment of ACP countries under the Lomé agreement during the 1990s the plan was to negotiate reciprocal PTAs with sub-regional groups of these countries in order to enable the EU to achieve compatibility with Article XXIV of the GATT within its relationships with the ACP countries.<sup>11</sup>

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<sup>10</sup> The EU's negotiations with the North African Mediterranean countries which aimed at creating an EU-Mediterranean (Euromed) FTA are not categorised as interregional negotiations given that they have primarily taken place on a bilateral rather than a region-to-region basis.

<sup>11</sup> The preferential access offered to ACP countries under the Lomé Convention was challenged by the US within the WTO in 1995 on the grounds that it violated the Most Favored Nation (MFN) principle. The WTO Dispute Settlement Body established a panel to on the issue and found that the agreements between the EU and ACP were indeed not compatible with WTO regulations. The US agreed to allow the EU a transitional period within which to implement alternative arrangements.

This does not mean that the EPA negotiations are not driven by independent political and economic objectives. In fact, the inclusion of these cases in this study would be likely to yield results consistent with the central hypotheses. The EPA negotiations are aiming for agreements which are highly comparable with the EU's other PTAs (Heron and Siles-Brugge, 2013). By means of achieving permanent trade policy reforms in the ACP through the requirement for reciprocity, such agreements would make these countries more attractive hosts for foreign investors and thereby contribute to fulfilling the EU objective of integrating developing countries more fully into the global economy (Ravenhill, 2004). In addition, the proposed EPAs contain extensive WTO-plus provisions such as the controversial Singapore Issues which were dropped from the multilateral agenda as a result of the collapse of the Cancún Ministerial in 2003.<sup>12</sup> The pursuit of these objectives has been consistent with the preferences of globally competitive EU firms and producers as aggregated in the 2006 *Global Europe Strategy*.

While the long term aims of negotiating PTAs with the ACP countries may therefore be comparable to those in the other cases examined in this thesis, however, the context in which these negotiations were launched was markedly different. The EU had become unwilling to defend its preferential treatment of these countries under the previous Lomé agreement due to the potential negative effects this might have for its relationships with other WTO members. This was the main factor which resulted in the launch of negotiations. The ACP countries themselves for the most part perceived few benefits in the proposed institutional changes and as Ravenhill (2004: 185) states, 'it was more a matter of having to accept an unpalatable alternative forced on them by the power asymmetries in the relationship'. As such the dynamics of interaction in these cases are not comparable to the EU's other interregional trade negotiations.

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<sup>12</sup> These four issues are trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation. Due to the staunch objections of many developing countries, however, all of these issues, apart from trade facilitation, were eventually dropped from the multilateral agenda.

## *EU-GCC*

The EU's interregional relationship with the GCC was also excluded from consideration due to the unique nature of this case. EU trade policy decision making in this instance in fact appears to run counter to the hypothesis that the EU will resort to bilateralism whenever individual member states of its interregional partners have concluded PTAs with the US. In 2006 the US concluded bilateral agreements with Bahrain and Oman, both of which are members of the GCC. And despite the fact that the EU's interregional negotiations with this group had not yet proven successful no reaction took place on the part of the EU in terms of seeking its own bilateral PTAs with these countries.

This was due to the fact that the US agreements with Bahrain and Oman did not provoke a strong demand from European firms and producers for the EU to seek defensive agreements. Trade between the EU and these countries is overwhelmingly based upon the import of petroleum and chemical based products and the export of machinery and transport equipment.<sup>13</sup> Petroleum trade was excluded from the negotiations and, in addition, a large share of EU exports to the GCC are already exempt from tariffs. As such, the US trade agreements with Oman and Bahrain did not pose a large threat of trade diversion. The central argument made in this thesis is that EU policymakers are likely to seek PTAs in response to developments within the global economy *in conjunction* with demands from potentially affected domestic interest groups.

The proposed EU-GCC PTA has been based as much upon geo-political considerations as economic interests (Antkiewicz & Bessma Momani, 2009). In fact, the EU's insistence on the inclusion of political conditionality in the terms of the proposed interregional PTA has proven to be one of the principal obstacles to concluding the agreement. The EU's major aim is to promote stability in the Middle-East and this has intensified since the early 2000s. A key element of this strategy has been the maintenance of an interregional approach. EU officials were indeed highly critical of the US decision to conclude bilateral PTAs with members of the GCC (ibid.: 231). In the absence of demands from European societal-interest groups for

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<sup>13</sup> [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113482.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113482.pdf) Accessed 20/09/2014

EU negotiators to adopt a bilateral approach the EU has been able to continue with its preferred level of interaction with this group.

### **Methodological considerations**

This thesis has employed a comparative case study approach in order to address the research questions stated above. Such an approach was deemed the most useful and appropriate as it enables the identification of regular patterns of behaviour (Lijphart, 1971) and the central aim of the study was to do just that in terms of the EU's relationships with other regional organizations. To implement the comparative approach, qualitative process tracing was undertaken within each case study (See George and McKeown, 1985; George and Bennett, 2005). Process tracing involves incorporating historical narratives with theory and explanation and rather than simply comparing variation across variables in each case it enables research to 'investigate and explain the decision process by which various initial conditions are translated into outcomes' (George and McKeown, 1985: 35). It is a 'method [that] attempts to identify the intervening causal process - the causal chain and causal mechanism - between an independent variable (or variables) and the outcome of the dependent variable' (George and Bennett, 2005: 206).

A process tracing approach enabled the development of a much more nuanced understanding of interregionalism than could have been achieved through quantitative methods. The strength of process tracing is that it is 'fundamentally different from statistical analysis because it focuses on sequential processes within a particular case, not on correlations of data across cases' (ibid.: 13).

In each of the interregional relationships under examination the relationship between the EU and a partner regional organisation is evaluated over time in an attempt to isolate the specific explanatory variables and causal mechanisms which account for first the establishment of the relationship, second the decision to launch PTA negotiations, and third the success or failure of those negotiations. In the event of negotiation failure it is also necessary to identify the factors which explain the adoption of selective bilateralism or adherence to a strictly interregional approach. Process tracing is especially suitable for mapping the decision making process in this regard. As Collier (2011: 823) states 'process tracing can contribute decisively both to describing political and social phenomena and to evaluating causal claims.'



Data collection for the study involved the analysis of official policy documents, summaries of trade negotiations, texts of trade agreements, and speeches by key EU officials. In addition, two extensive interviews were undertaken with EU policy making elites. This qualitative research provided a wealth of information on the EU's interregional policy and allowed for detailed description of the policy making process at various points in time. Collier (*ibid.*: 824) stresses the importance of detailed and careful description in this regard:

Process tracing inherently analyzes trajectories of change and causation, but the analysis fails if the phenomena observed at each step in this trajectory are not adequately described. Hence, what in a sense is “static” description is a crucial building block in analyzing the processes being studied.

The thesis looks at the relevance and strength of international and comparative political economy theories in explaining variation in the EU interregional policy at different points in time. Process tracing enabled the detailed analysis of the effect which the preferences of different actors have had on EU interregional policy making and implementation as it gives close attention to sequences of independent, dependent, and intervening variables (*ibid.*). With its complex structure, the EU decision-making process encompasses closely affiliated causal relations which have been developed and extended over time. The research aims at exploring the linkages between different elements of the EU decision-making process in the context of interregionalism.

### **Contributions and ramifications**

This thesis represents one of the first systematic comparative analyses of EU trade policy at the interregional level and in this regard aims to contribute to the existing scholarly literature in several specific ways. The case studies undertaken involved the comprehensive examination of the negotiating process between the EU and four other regional organizations. In comparison to studies on PTA negotiations more generally these interregional negotiations have received little attention in the scholarly literature to date.

The argument presented has served first and foremost to verify the idea that EU trade policy is often formed in response to a combination of systemic and domestic-societal influences (Dür, 2007, 2010; Heron and Siles-Brügge, 2012). These factors have been somewhat neglected in the literature in comparison to theories which

focus on the preferences of policymakers and the role played by the EU institutional framework. The reactive nature of EU trade policy at the interregional level indicates that agreements are pursued not only to attempt to take advantage of perceived opportunities but also to guard against potential losses (Baldwin, 1993; Baccini and Dür, 2012; Dür, 2007, 2010).

I find that demands for defensive PTAs often emerge from potentially affected domestic interest groups whenever trade diversion is threatened by the PTAs concluded by other major economies. While focusing on the material and ideational preferences of EU policymakers themselves can go some way to explaining the establishment of interregional relationships and certain aspects of policy pursued at the interregional level, the potential outcomes of trade policy are for the most part constrained by the requirement to craft agreements which match the preferences of domestic interest groups. Interregional PTAs must meet the level of ambition demanded by the EU in line with the preferences of influential business and industry associations as aggregated in the 2006 *Global Europe* strategy if they are to be successfully concluded. In addition, if the domestic political costs of proposed agreements are perceived to be too high then those agreements are bound to fail.

In comparison to much of the existing literature which has focused on the lack of capacity of the EU's interregional partners in accounting for the failure of interregional trade negotiations (Hardacre and Smith, 2009; Doidge, 2011) this thesis offers a more straightforward explanation. During the current Doha round of WTO negotiations an extreme divergence has become apparent in relation to the preferences of developed economies such as the EU and US and less developed and emerging countries in Asia, Africa, and Latin America. This preference divergence has also been encountered to the same extent at the interregional level and this has proven to be the main obstacle to agreement in most cases. Even if the EU's interregional partners possessed superior regional institutional capacity, it is likely that these same obstacles would still exist given their origins in domestic interest group opposition within the partner regions themselves. Ascribing responsibility for negotiation failure to the lack of capacity of the EU's interregional partners serves to absolve the EU from responsibility for making overly ambitious demands in PTA negotiations in line with the *Global Europe* strategy. The shift to a bilateral approach is designed not only to facilitate agreement through a reduction in numbers but also

to enable the EU to better exert its leverage in order to achieve its preferred trade policy outcomes.

This study also contributes to the emerging body of literature which has attempted to frame interregionalism from both a theoretical and an empirical perspective. The analysis undertaken has considered the extent to which the EU and its partners have aspired to achieve certain objectives through interregionalism and how successful they have been in this regard. The case studies have served to provide empirical testing of the roles ascribed to interregionalism in studies such as those by Rüländ (2002, 2010), and Hänggi (2006). I find that in a broad sense interregionalism has served to act as a mechanism for the promotion of the EU's political and economic influence in other parts of the world. In this regard it is also found that interregionalism has also played a key role in strengthening the EU's identity as an actor in international relations.

The process has also served to promote regionalism within the regions with which the EU engages. The EU has contributed significant technical and financial assistance to groups such as ASEAN and Mercosur in order to support the regional integration process among their member states. Regionalism is also promoted simply by requiring these individual countries to coordinate their positions within the interregional framework. While engaging with the EU over the course of several decades has served to increase the visibility of other regional organizations, however, there has been little in the way of the emergence of common identities among their member states. Rather the EU has served as a model for the implementation of specific functional forms of cooperation. An important point is that the existing literature has generally tended to examine interregionalism in isolation as a level of interaction. In this thesis it is argued that it needs to be considered as one part of a wider strategy of international engagement.

The main conclusions which are reached in the thesis are limited to the cases of EU interregionalism under examination. These conclusions cannot therefore be held to be directly applicable to the relationships between all pairs of regional organizations. The four case studies which were undertaken have, however, provided an in-depth analysis of four of the most advanced and ambitious interregional partnerships currently in operation. Each of these relationships links the EU with another

comparatively well developed regional group. As such the conclusions put forward in relation to interregionalism hold the potential to promote better understanding of interregional relations more generally. In addition, the detailed comparison between what the EU has sought to achieve in its interregional relationships and what has been achieved in reality may serve to inform policymakers in the future formulation and implementation of interregional strategies. The thesis provides a valuable source of reference which should enable better understanding of the complexities of this new level of international relations.

### **Structure of the thesis**

Chapter 1 situates interregionalism within the context of the two waves of regionalism which have taken place in the period since the end of the Second World War. The chapter first considers the development of regionalism and interregionalism in the bi-polar system of the Cold War era. Interregionalism during this period was very much an EU-centred phenomenon. The second section analyses the new approach to regionalism which emerged in the late 1980s. This new wave of regionalism involved the establishment of much more open and externally oriented regional organizations which in turn resulted in the creation of a much denser and widespread network of interregional relations. An overview is provided of the typologies of interregionalism which have been proposed in key studies on the process. In the final section potential explanations for EU trade policy decision making at the interregional level are outlined.

Chapter 2 examines interregionalism within the context of EU trade policy more specifically. The first section provides an overview of the trade policy making process within the EU and assesses how this has changed under the terms of iterative treaty reforms. The effect which systemic and domestic-societal factors have had on the evolution of EU trade policy is also considered. An overview is also presented of the various multilateral, interregional and bilateral agreements currently in existence and as well as those presently being negotiated. The relationship between EU bilateralism, interregionalism and multilateralism is then examined in detail. The aim is to assess in why trade agreements may be pursued at one level in preference to others. The final section offers some conclusions regarding the variation in the nature of EU trade policy and the implications which this may have for both the EU itself and its trading partners.

Chapter 3 is a case study of the relationship between the EU and ASEAN. The chapter first traces the evolution of the relationship between the two regional organizations from the early 1970s up until the early 1990s. The second section looks at the negotiation and conclusion of PTAs between members of ASEAN and EU competitors. The upgrading of the interregional relationship, on the part of both the EU and ASEAN, which took place from the mid 1990s onwards is examined in an attempt to identify the factors which led to the launch of PTA negotiations in 2007. The negotiating process is analyzed in an effort to provide an explanation for the eventual suspension of talks in 2009. The final section examines the change to a bilateral approach before some conclusions are offered regarding the implications this has had for both the EU and ASEAN.

Chapter 4 is a case study of the relationship between the EU and the CAN. The first section examines the establishment of the CAN in the late 1960s and traces its development from an inward looking integration scheme which involved the pursuit of development through Import Substitution Industrialization (ISI) to a much more open regional organization in the 1990s which sought integration with the global economy and became an attractive partner for the EU in terms of pursuing trade cooperation. The trajectory of the EU relationship with the CAN up until the commencement of AA negotiations in 2007 is examined. As was the case in the EU-ASEAN relationship the launch of negotiations with the CAN is explicitly linked to the PTA activity of EU competitors, in this case the conclusion of PTAs between the US and both Colombia and Peru. The negotiating process is then examined in detail before the shift to selective bilateralism in this case is also assessed. As in the previous chapter conclusions are put forward regarding the implications which the move away from pure interregionalism has had for both the EU and the Andean countries.

Chapter 5 is a case study of the relationship between the EU and Mercosur. Unlike the three other EU partner regional organizations examined in the thesis Mercosur was formed during the second wave of regionalism. The chapter first examines the process of regionalism in the Southern Cone which commenced in the early 1990s. The second section traces the relationship between the EU and Mercosur prior to the launch of AA negotiations in early 2000. These negotiations broke down in 2004 and the third section analyses developments in the relationship between the two regional

organizations during the interim period. The fourth section examines the second stage of negotiations which commenced in 2010. Conclusions are put forward regarding the factors which have to date obstructed the successful conclusion of the AA as well as for the fact the EU has so far not adopted a bilateral approach with Mercosur in comparison to the previous two cases.

Chapter 6 is a case study of the relationship between the EU and Central America. An overview of the integration process in Central America during the first and second waves of regionalism is presented. As was the case with both ASEAN and the CAN a clear differentiation can be observed in this regard between the more closed and inward oriented scheme which first emerged and the more open and globally oriented organization which has existed since the mid 1990s. The development of the EU's relationship with Central America from its roots in the Central American peace process in the mid-1980s is examined in detail. This is followed by an analysis of the period leading up to the launch of AA negotiations in 2007. The negotiating process is examined in detail and explanations are offered for the successful conclusion of the AA in 2010.

The concluding chapter summarizes the findings from each of the case study chapters and collates the implications of these findings for each of the research questions posed in the introduction. More specifically the potential explanations proposed in Chapter 1 are examined in relation to each of these research questions. The major findings are that the EU has indeed pursued PTAs at the interregional level as part of the recent overall change to a more competitiveness driven approach to trade policy and that this has correlated in large part with the expressed preferences of domestic interest groups which have in turn been influenced by challenges and opportunities in the global economy. The failure of the majority of interregional PTA negotiations is attributable to the divergence of preferences between the EU and its negotiating partners. Again the influence of domestic interest groups is of key importance in this regard. And finally it is found that bilateral PTAs have been pursued with the members of some regional organizations but not others in response to the trade policy activity of other major economies.

# **Chapter 1: Interregionalism in the global economy**

## **1.1 Introduction**

The emergence of interregionalism during the second half of the twentieth century is inherently linked to both the acceleration of globalization and the formation and evolution of regional organizations. In this regard Hänggi et al. (2006: 11) state that:

Economic globalization created new competitive pressures to which nation states respond with regional cooperation. The emerging regional blocs, however, are characterized by (economic) power disequilibria, to which regional organizations seek to adjust by (institutional) balancing. It is this management of interdependence and polarization through balancing and bandwagoning which in the first place give rise to the emergence of flexible interregional structures of cooperation.

The process was initially driven by the EEC which soon after its establishment began to develop a network of relationships with other regions starting with the group of East African states, Madagascar and Mauritius under the Yaoundé Convention (1963). Indeed until quite recently interregionalism remained very much an EU centred phenomenon. Although regional organizations were formed in many other parts of the world early on they were initially much more internally focused and in any regard lacked the necessary coherence to collectively engage in external relations in a proactive manner. Furthermore most of these schemes came to be considered failures in terms of fulfilling their stated policy objectives and many were either disbanded or became obsolete by the early 1980s (Fawcett, 1995: 15).

The late 1980s and early 1990s saw a renewed interest in regional integration, however, which spurred the establishment of many new regional organizations as well as the re-launch of earlier schemes. The end of Cold War bi-polarity and the acceleration of neo-liberal globalization prompted many states to seek to better leverage their positions in the global economy as well as to reassert domestic control through regional cooperation initiatives (Mansfield and Milner, 1999).

An intrinsic characteristic of these new and re-launched regional organizations was their external orientation (Doidge, 2011). Regional groups in many parts of the world started to develop relationships with one another as well as with other states and

while the EU has remained the principal actor in terms of interregionalism a much more interconnected system of region-to-region interaction has emerged.<sup>14</sup>

Interregionalism has evolved to become an important distinct level through which regions and their constituent member states attempt to fulfill a broad range of objectives. The focus of interregional partnerships has expanded from low level informal economic and political cooperation to the pursuit of comprehensive trade liberalization agreements in several cases. In this regard the proliferation of new interregional relationships and attempts to implement trade policy through interregional agreements since the late 1990s can be linked to the lack of progress which has taken place within the multilateral WTO framework and the increasing trend towards preferentialism.<sup>15</sup>

This chapter aims to situate interregionalism within the context of international relations over the course of the past several decades in order to facilitate better understanding of its potential motivations, forms and impacts. To structure such a comprehensive analysis the chapter is divided into three distinct sections. The first section analyses the initiation and implementation of regionalism and interregionalism in the period since the end of the Second World War. The second section discusses the typology of interregional relations which has been developed by scholars such as Aggarwal and Fogarty (2004b), Hänggi (2000, 2006), and Rüländ, (2002, 2010). The final section evaluates competing theoretical explanations for interregional trade policy with a particular focus on EU attempts to fulfil trade policy objectives at the interregional level. I argue that while the IR theory centred approach traditionally adopted in the literature on interregionalism may be suitable for explaining the initial formation of relationships between regional organisations and the roles these relationships played prior to the late 1990s, a domestic political economy perspective which considers the influence exerted by societal interests in determining trade policy objectives is required in order to adequately capture the dynamics of trade policy at the interregional level.

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<sup>14</sup> See Appendix A.

<sup>15</sup> By 2009 approximately 393 identifiable PTAs were in force and the majority of these had been concluded since 1990 (Dur, Baccini, and Elsig, 2014).



## **1.2 Regionalism and interregionalism**

In order to better understand the process of interaction between regions it is first necessary to trace the emergence of regional integration which has taken place within the context of increasing interdependence during the second half of the twentieth century. Regionalism is a state led response to both regionalization and the overarching phenomenon of globalization (Mansfield and Milner, 1999; Mattli, 1999). Interregionalism can therefore be perceived as an extension of this whereby regional organizations and their constituent nation states have sought new ways in which to manage their economic and political relations (Aggarwal and Fogarty, 2004b; Hänggi et al., 2006; Roloff, 2006; Rüländ, 2010). Chronological analysis of regionalism often includes reference to schemes such as the German Zollverein and the Austrian Customs Union of the 1800s as well as the imperial schemes of the interwar period (Mansfield and Milner, 1999: 596-597). Indeed the process of regionalism could be considered to include the empires and spheres of influence created by major powers during many different periods. Regional organizations as they exist today, however, have emerged in two distinct waves in the post-war period (Bhagwati, 1993).

The first of these waves of regionalism commenced within the context of bi-polarity and fledgling attempts at multilateralism and involved the establishment of security oriented alliances as well as many inward-oriented economic integration schemes whereby groups of countries implemented common protectionist trade policies in order to facilitate industrialization and economic growth in line with the prescriptions of ISI (Bhagwati, 1993; Pomfret, 1988).

A later second wave of regionalism took off in the late 1980s and in contrast to the first wave has most often been associated with the implementation of models of open regionalism whereby groups of states attempt to utilize the integrative process in order to better engage with the global economy as opposed to shielding themselves from it (Bowles, 1997). In addition, regionalism during the second wave has come to be associated with a much broader range of political and economic objectives including inter alia the promotion of democracy, environmental protection, energy cooperation, and joint infrastructure projects (Hettne, 1999; Pevehouse, 2005; Soderbaum and Van Langenhove, 2005).

The shift from an inward to an outward orientation has contributed directly to the phenomenon whereby regional organizations have started to attempt to establish themselves as coherent actors in international relations and develop relationships with other states and groups of states. As such interregionalism can be considered a corollary of new or open regionalism (Hettne, 2003: 7). Interregionalism did appear during the first wave of regionalism; however, during this period the process was driven almost exclusively by the EU which formed a network of relationships with other regional organizations as they came into existence. While the EU was actively engaged in external relations most other early regional organizations were reactive rather than proactive in this regard. In other words interregionalism was initially an actor-centred phenomenon (Edwards and Regelsberger, 1990).

Over the course of the past two decades, however, the widespread institutionalisation of relations between a much more diverse range of regional groups has taken place. As Doidge (2007: 230) puts it ‘the days of the hub-and-spokes system [centred on the EU] are gone with ASEAN, MERCOSUR and the Andean Community having led the charge to develop new hubs. Interregional relationships have become an indelible feature of the international system.’ As a result of first the end of the Cold War and more recently the slow progress in negotiations towards further multilateral agreements, new space for cooperation on political and economic issues has emerged and states have attempted to address this by pursuing a range of regional and interregional arrangements. Interregionalism has evolved from an actor-centred to a system-centred process (Hänggi, 2006: 32). Below I provide a brief overview of the first and second waves of regionalism and examine how the open regionalist model associated with the second wave has spurred the establishment of the dense network of interregional relationships which exists today.

### **1.2.1 The first wave of regionalism**

The first wave of regionalism emerged in the period after the Second World War.<sup>16</sup> While regionalism was adopted as a strategy intended to provide collective benefits for its participants as opposed to solely serving the interests of great powers as under the earlier imperial schemes, ‘regional agencies were subordinated to the broader purposes of the East-West conflict, indeed many were specifically designed to serve

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<sup>16</sup> An overview of all the major regional integration schemes which emerged during the first and second waves of regionalism is presented in Appendix B.

the interests of one of the two superpowers' (Fawcett, 1995: 13). Examples in this regard include inter alia the Warsaw pact and the Organization of American States (OAS). Indeed the emergence of the EU, which can be traced to the establishment of the European Coal and Steel Community (ECSC) and the EEC in the 1950s, is perceived as having been based on both the desire of European states to regain power and security through economic development and as an element of US strategy in the bi-polar international system (Mattli, 1999: 70-71). In this regard the initiation of regional cooperation in Europe is explained as a response to the burgeoning threat of the Soviet Union on the part of both European nations and the US (Mearsheimer, 1990: 10). With the emergence of bi-polarity, competition between European states for relative gains became less significant given that their security now depended on the policies of others (Waltz, 1979: 70).

The United States is also perceived to have sought to promote the reconstruction of Europe through the Marshall Plan in order to facilitate US export led growth and is considered to have played a hegemonic role in promoting European regionalism in this regard (Mattli, 1999: 71). Telò (2007: 3) argues that the US was attempting to lay the foundations of a new US-centred multilateral order. He states that 'the double aim of containing the Soviet threat and of creating a transatlantic community made it possible to harmonize the interests and ideals of the US New Deal, associating realism and idealism, namely peace, prosperity and democracy' (ibid.).

While systemic factors undoubtedly provided much of the impetus for European integration consideration must also be taken of the internal drivers of regionalism. Haas (1958) developed a neo-functional theory of integration which emphasized the potential for spillover which existed due to the functional links between policy areas and the role played by supranational institutions in facilitating deeper integration in this regard. In later years liberal intergovernmentalism (Hoffman, 1966: Moravcsik, 1993, 1997) focused attention of the role played by economic interdependence among countries in driving political leaders to engage in regionalism. Both approaches emphasize the fact that interdependence drives the process of regionalism. The main area where intergovernmentalism differs is in its perception that increases in power at the supranational level result solely from the decisions of national governments as opposed to spillover. In addition, intergovernmentalism rejects the notion that supranational institutions can come to be on an equal footing

with national governments. In any regard the endurance of regional cooperation in the period after the end of the Cold War has been at odds with the predictions of realist scholars (Mearsheimer, 1990) and has lent weight to such functional and liberal intergovernmental approaches.

The early success of the European experience with regional integration inspired other groups of countries in Latin America, Asia and Africa to address their own shared security and economic challenges by engaging in regionalism during the 1960s and 1970s. Initially several continental level organizations emerged including inter alia the Latin American Free Trade Association (LAFTA) and the Organization of African Unity (OAU). These large multipurpose schemes were later superseded by more focused sub-regional initiatives such as the ASEAN, the CAN, the GCC, the Central American Common Market (CACM), and the Economic Community of West African States (ECOWAS).

In addition to addressing security concerns, the integration processes which emerged among developing countries during this period were often motivated by a desire to collectively attempt to rectify perceived structural imbalances in the global economic system (Bhagwati, 1993: 28; Fawcett, 1995: 15). Many early regional organizations were created in order to attempt to strengthen the position of developing countries in international economic relations. The idea was that regionalism held the potential to end the exploitative and dependent relationship between developing countries of the South and the industrialized North. In line with the recommendations of development economists such as Raúl Prebisch (1950, 1959) many of these early regional organizations aimed at promoting the development of their members through coordinated action. While these organizations were not homogenous they did share certain common characteristics and in this regard regionalism during the first wave is often termed 'closed regionalism' due to its extensive inward-orientation.

The members of the regional organizations established during this period sought to create large protected internal markets in order to shield domestic producers from outside competition and to promote industrialization. Bhagwati (1993: 28) posits that the rationale behind these strategies was that 'given any targeted level of import-substituting industrialization, the developing countries with their small markets

could reduce the cost of this industrialization by exploiting economies of scale through preferential opening of markets with one another.’ This was to be achieved through the selective liberalization of internal trade in conjunction with the implementation of high external tariffs, import quotas and capital controls. By the mid-1970s a large number of states in Latin America, Asia, and Africa were members of at least one regional organization.

### **1.2.2 Early interregionalism**

Following the establishment of integration schemes in many parts of the world during the first wave of regionalism the process of interregional interaction emerged during the 1970s.<sup>17</sup> Interregionalism was, however, initially centred on the relationships which the EC developed with other regional organizations and groups including inter alia ASEAN (1978), the GCC (1980), the CAN (1983), and CACM (1984).<sup>18</sup> In proactively seeking to engage as a regional actor in external relations the EC was the exception. In relation to the fact that early interregionalism was an EC dominated process Hänggi (2006: 32) states that:

In short, the earlier interregional relations – old interregionalism – were a novel and specific mode of international cooperation developed and dominated by the most advanced regional organization, which at the time was cautiously emerging as a new kind of international actor within the narrow framework of systemic bipolarity. Though a novel approach and one of global scope, old interregionalism was an actor-centered phenomenon of rather limited relevance for the international system.

The majority of other early regional organizations were not externally oriented to the same degree as the EC and while they were attracted to develop closer ties with the EC due to the potential for large market access gains they did not seek to institutionalize relationships among themselves (Doidge, 2011: 6-11). As will be seen in the later case studies, the member states of Latin American, Asian and African regional organizations were initially much more concerned about internal development and devoted few resources to collective external relations. The development strategies which they adopted were often based upon the logic of dependency theory and did not include much scope for seeking to institutionalize ties

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<sup>17</sup> The EC first engaged African countries as a group under the terms of the 1963 Yaoundé Convention, however, these African countries had not formally engaged in the process of regionalism and as such their relationship with the EC is classed as hybrid-interregionalism (Hänggi, 1999).

<sup>18</sup> See Appendix A.

with more economically dominant partners (ibid.). In addition, the institutional structure of these regional organizations was firmly intergovernmental and there was little enthusiasm for pooling sovereignty at either the regional or interregional level. This resulted in a hub-and-spokes type network of interregional relationships in which the EC was the central partner. This network mainly consisted of weakly institutionalized relationships based on loosely termed and non-binding cooperation agreements. While the EC did start to pursue PTAs outside the GATT system with certain countries during the 1970s, trade liberalization did not come onto the agenda in its interregional relationships until the era of open regionalism during the 1990s.

The EC was motivated to develop these early interregional relationships by both the aim of expanding its power and influence and the desire to establish itself as a more visible and coherent actor in international relations. Both the member states and the Commission shared this objective. The European Political Cooperation (EPC) mechanism was introduced in 1970 and served as the basis of regional level foreign policy until it was superseded by the Common Foreign and Security Policy (CFSP) in 1993.<sup>19</sup> The aim of this mechanism was to further political unification through cooperation on foreign policy issues. The EC's motivations for implementing EPC were outlined in the Davignon Report (Council, 1970) and highlight the dual aim of promoting further internal political integration in addition to enabling the development of the EU's capacity to act coherently on the part of the member states in international affairs. The normative aspirations of the EC in terms of facilitating development elsewhere through external relations are also apparent:

United Europe, conscious of the responsibilities incumbent on it by reason of its economic development, industrial power and standard of living, intends to step up its endeavours on behalf of the developing countries with a view to setting international relations on a basis of trust (ibid.: P1, Article 4).

The first fact is that, in line with the spirit of the Preambles to the Treaties of Paris and Rome, tangible form should be given to the will for a political union which has always been a force for the progress of the European Communities (ibid.: P1, Article 7).

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<sup>19</sup> European Political Cooperation (EPC) was intended to enable the EU to engage in foreign policy separately from the external relations commitments linked to the EU treaties such as the Common Commercial Policy (CCP). In 1973 the EU released the 'Document on the European Identity' which laid out European foreign policy aspirations in terms of which countries and regions the EU would engage with and what this engagement would entail (Woolcock, 2010).

The second fact is that implementation of the common policies being introduced or already in force requires corresponding developments in the specifically political sphere, so as to bring nearer the day when Europe can speak with one voice. Hence the importance of Europe being built by successive stages and the gradual development of the method and instruments best calculated to allow a common political course of action (ibid.: P1, Article 8).

The third and final fact is that Europe must prepare itself to discharge the imperative world duties entailed by its greater cohesion and increasing role (ibid.: P1, Article 9).

The main feature of EPC was consultation among the member states on foreign policy issues; however, a more functional collective approach to external relations was realized in the development of an interregional strategy. While the Commission had since the EEC's establishment been endowed with the capacity to conclude AAs with other states and regions very few resources had been devoted to external relations beyond the trade realm prior to the 1970s. In developing a network of group-to-group relationships the Commission was seeking to assert its capacity to independently engage in external relations in a broader sense.

A second major motivating factor for the pursuit of interregionalism was a belief that the positive European experience of integration could be replicated elsewhere and supported through interregional interaction. The positive impact of regional integration is alluded to in the above statements from the Davignon Report in particular the classification of political union as a 'force for the progress of the European Communities'. In the early cooperation agreements concluded between the EC and various partner regional organizations the promotion of regional integration is emphasized clearly:

Affirming their common commitment to support mutually the efforts of ASEAN and the Community to create and strengthen regional organizations committed to economic growth, social progress and cultural development and aiming to provide an element of balance in international relations (EC-ASEAN, 1980).

The main objective of the members of EC partner regional organizations on the other hand was to secure access to the large integrated European market and indeed this continues to be the case. In addition, as was the case with the EC, emergent regional organizations in other parts of the world also sought to strengthen their identity as actors through the process of engaging with the EC on a region-to-region basis. One of the key motivating factors behind regional integration among groups of

developing countries was to endow their member states with greater leverage in international relations through coordinated action. By engaging in foreign relations as groups it was hoped to increase coherence in terms of collective action.

In addition, the EC was perceived to be the most successful example of regional integration at this time and its interregional partners hoped to learn from the European experience. As already stated, however, the majority of regional organizations established during the first wave of regionalism did not possess the same capacity as the EC to proactively engage in external relations. In summary then, interregionalism during the first wave of regionalism consisted of the network of group-to-group dialogues maintained by the EC with other regional actors where they existed. It was not until the second wave of regionalism which emerged with the context of structural changes in the international system from the mid-1980s onwards that the process of interregional interaction became more widespread.

### **1.2.3 The second wave of regionalism**

The majority of the regional organizations established during the first wave of regionalism were ultimately considered failures in terms of fulfilling their stated trade and development objectives (Bhagwati 1993: 29). It must be recognised also, however, that major systemic shocks including the collapse of the Bretton Woods system, the oil crises, and the debt crises, limited the ability of groups of developing countries in particular to make much headway in terms of economic development through earlier regional schemes. By the early 1980s many of the regional organizations founded during the first wave had either been disbanded or had fallen into obsolescence.

As a result of the structural changes which emerged with the end of the Cold War and the perceptible increase in neo-liberal globalization from the late 1980s onwards, however, groups of states in many parts of the world once again sought to respond to domestic and systemic challenges through the process of regionalism (Richards and Kirkpatrick, 1999: 685). In relation to the space which emerged for new forms of organisation Fawcett (1995: 18) argues that ‘the collapse of the old bipolar system and the easing of the antagonism which characterized it provide one of the most obvious explanations for the new interest in regional, and indeed in all forms of international cooperation.’ Regionalism is a formal process and as Hveem (2003: 83)



puts it 'refers to a programme, an ideology, to a situation where there exists a clear idea of a region, a set of goals and values associated with a specific project that an identifiable group of actors wish to realize.' While preferential trade liberalization has been the basis on which the majority of regional integration schemes and PTAs have been established during the second wave of regionalism, participating states have often been motivated by a range of factors including inter alia promoting trade and investment, increasing their bargaining power, implementing economic and political reform, and enhancing security (See for example Baccini, 2010; Mansfield, 1993; Mansfield and Solingen, 2010; Pevehouse 2005)

The EU has played an influential role during both waves in terms of inspiring regionalism elsewhere. As Telò (2013: 7) puts it 'to some extent, the success story of the manner in which the European Union copes with both traditional internal conflicts and national diversities, by transforming states' functions and structures, plays an important role as a reference (neither as a model nor as a counter-model) for new regionalism elsewhere.' Initially groups of developing states had sought to replicate the success achieved by the ECSC and the EEC in promoting peace and development in Europe. And following the re-launching of European integration with the Single European Act (SEA) in 1986 and the Single European Market (SEM) in 1992 the EU once again became an inspiration for the establishment of similar schemes elsewhere as well as the re-launch of defunct schemes which had been established in the 1960s and 1970s.

In addition, as will be discussed below in relation to interregionalism, the creation of a large internal integrated market increased the EU's attractiveness as a partner for states and regional organizations in other parts of the world seeking increased market access as part of their trade and development strategies. It is important to note also that the revival of regionalism was also very much facilitated by the fact that the US started to engage in the process whereas during the 1970s and early 1980s it had been notably absent. The US conversion to regionalism was highlighted in particular by the establishment of NAFTA in 1994.

Faced with the emergence of expansive integrated blocs, on the part of both the EU and the US, many groups of developing countries approached regionalism as a solution to their perceived marginalization in the world economy in the post-Cold

War era. As Fawcett (1995: 22) argues ‘developing countries have lost their value as bargaining chips in a world where the USA and Soviet Union had once courted them for their favours. Neither aid, nor trade, nor security are assured in the post-Cold War order.’ Having engaged in regionalism in order to avoid marginalization a natural next step for developing country integration schemes has been to seek formal agreements and alliances with powerful states and regional actors such as the US and the EU. In this regard interregionalism since the 1990s has very much been a predictable next step in the process of regionalism.

The integration schemes which emerged during this second wave of regionalism were markedly different from those associated with the first wave. The process of regional integration since the early 1990s has become much more outward oriented and multi-dimensional and is therefore often referred to as ‘open regionalism’ or ‘new regionalism’. In attempting to differentiate the new regionalism from that of the earlier first wave Breslin and Higgott (2000: 340) argue that ‘rather than building (or joining) regional arrangements to enhance independence from the global economy, many developing states now see regionalism as a measure to ensure continued participation in it.’

Regionalism during the second wave has generally focused more on ‘negative integration’ as opposed to ‘positive integration’ (Scharpf, 1996). Whereas positive integration refers to increasing state regulation, negative integration refers to the reduction of such activity through deregulation and the breaking down of barriers to cross border exchange.<sup>20</sup> The spread of open regionalism coincided with the initiation of neoliberal reform in many countries and regional integration was often pursued to facilitate the implementation of structural changes as well as to create more attractive markets for inward investment. Whereas regionalism had previously been focused on the internal development of member states through mainly protectionist policies, open regionalist strategies are concerned with promoting welfare gains through integrating groups of countries into the global economy as opposed to shielding them from it. While in some cases this outward orientation has been a conscious choice of the member states involved, it has also often been a direct

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<sup>20</sup> The agenda of both the EU and the US in relation to PTAs currently, however, is premised on large part on the establishment and enactment of a broad range of regulations in areas such as competition policy, intellectual property rights, and standards.

result of the policy-space imposed on countries by multilateral institutions such as the World Bank and the International Monetary Fund (IMF) which themselves are controlled by the most powerful state actors. In this regard Doidge (2011: 12) argues that ‘open regionalism is increasingly the only acceptable regionalism.’ It should also be pointed out that regionalism in the modern era has been as much a strategic response to market forces as having been motivated by the ideologies of political leaders.

#### **1.2.4 New interregionalism**

It was within the context of the proliferation of new regional organizations during the second wave of regionalism that new interregional relationships also started to flourish from the early 1990s onwards. Regionalism has been a state led response to systemic and domestic challenges in the post Cold War period and the pursuit of formal institutionalized ties among regional groups has been a logical next step in this regard (Hettne, 2003). In terms of interregionalism the idea is that by acting as a middle ground between the regional and global levels, interaction on a regional basis can facilitate the fulfillment of certain objectives which have proven more elusive at either a bilateral or multilateral level (Aggarwal and Fogarty, 2004b). The EU has maintained its role as a key driver of interregional relations. Older interregional relationships such as those between EU-ASEAN, EU-CAN and EU-Central America were re-launched while relationships were also established with new regional actors as in the case of EU-Mercosur. In addition, however, regional organizations elsewhere also started to engage with one another. In relation to this Doidge (2013: 15) states that:

As these new regionalisms have themselves become increasingly internally coherent and institutionalized, so too have they sought to express themselves more clearly in the external policy space. The result is that the proliferation of new regionalisms has been accompanied by the development of an ever-denser network of external relations including, prominently, interregional relations.

The majority of existing interregional relationships were initiated during the second wave of regionalism. The fact that interregionalism has evolved from an actor-specific process to a more generally applied level of interaction is referred to by Hänggi (2006: 32) who states that:

As a system-centered phenomenon, new interregionalism tends to have a much greater impact on the international system. The rapid growth of the network of

interregional relationships in the past decade and the gradual integration of almost all countries to a greater or lesser extent into this network seem to make new interregionalism a lasting feature of the international system.

Despite the widespread development of partnerships between regional groups, however, the EU remains the principal actor in interregionalism. Aggarwal and Fogarty (2006: 327) go as far as to state that ‘the EU is the patron saint of interregionalism in international economic relations.’ During the past decade, however, a range of interregional relationships have been established between regional organizations in many other parts of the world and PTAs have been concluded within these partnerships in several cases.<sup>21</sup>

In terms of motivating factors for renewed engagement in interregionalism the EU has maintained its objective of promoting regionalism elsewhere as it attempted to do in its network of group-to-group relationships during the 1970s and 1980s. While this objective continues to be based upon the normative belief in the capacity of regional integration to facilitate economic development and political cooperation the EU has also been attempting to encourage the establishment of more coherent regional partners with which it can more efficiently pursue political and economic cooperation and trade liberalization. The EU has increasingly sought to negotiate comprehensive agreements which incorporate substantial trade liberalization commitments with several of its interregional partners due to the obvious advantages this entails in comparison to attempting to conclude bilateral agreements with individual countries. In providing technical and financial support for integration to its interregional partners a key aim is to enable the creation of liberalized regional market places in order to realize the obvious benefits this would entail for EU enterprises. Such concerns have become more salient given the lack of progress made in achieving new multilateral agreement in recent years.

A further motivating factor for the EU has been to respond to the trade policy activity of its key competitors. The pursuit of closer ties with ASEAN for example and the establishment of the Asia-Europe Meeting (ASEM) in the 1990s can be considered a strategic response on the part of the EU to the US led transregional Asia Pacific Economic Cooperation (APEC) forum (Rüland, 2010: 1274). Indeed the

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<sup>21</sup> These include CAN-Mercosur (2004), ASEAN-ANZCERTA (2009), EFTA-GCC (2009), EFTA-SACU (2006), and Mercosur-SACU (2004, 2008).

Asian participants in ASEM are perceived to have embraced participation in this forum due to balancing concerns arising from the enhanced links pursued between the EU and North America represented by the New Transatlantic Agenda launched in 1995 (ibid.).

For Latin American, Asian, and African regional groups the prospect of economic and political marginalization continues to be a key motivating factor in terms of interregionalism. The perceptible ‘triadisation’ of economic relations in particular between the EU, North America and East Asia during the 1990s prompted regional organizations such as Mercosur, the Andean Community, and ASEAN, to seek to develop interregional ties not only with the EU and the US but also among themselves. ASEAN and Mercosur in particular have themselves become hubs in the evolving network of relations between regional groups.

In terms of trade policy more specifically the member states of other regional organizations have been keen to enter into PTAs with the EU in order to protect and expand their access to the large internal EU market. The majority of countries with which the EU has been negotiating interregional PTAs already enjoy extremely preferential access to the EU market under schemes such as the GSP and the Everything but Arms (EBA) initiative. The unilateral and temporary nature of the preferential access granted under such schemes, however, has meant that groups of countries in Asia, Latin America, and Africa have come to favour the pursuit of reciprocally negotiated PTAs which offer more secure market access. As the brief discussion of motivations behind the current growth of interregionalism illustrates, participants in the process can in fact be perceived to have pursued a broad range of functional objectives.

### **1.3 Forms of interregionalism**

While interregionalism can be most basically defined as the process of the interaction between two regions the empirical reality is of course much more complex. Interregional relationships exist not only between pairs of formal regional organizations but also sometimes include more loosely amalgamated groups of states. And while some interregional relationships focus on achieving informal cooperation on a narrow range of topics others involve attempts to institutionalize formal commitments covering a broad spectrum of political and economic issues.

Various attempts have been made to define a typology of the different relationships which exist in this regard (Aggarwal and Fogarty, 2004a; Hänggi, 2000, 2006; Rüländ, 2002, 2010). In terms of the specific forms of interregionalism a first category involves relationships between two regional organizations. This has been termed ‘old interregionalism’ (Hänggi, 2000, 2006), ‘bilateral interregionalism’ (Rüländ, 2002, 2010), and ‘pure interregionalism’ (Aggarwal and Fogarty, 2004a). Examples in this regard include EU-ASEAN, EU-Mercosur, and ASEAN-Mercosur. Aggarwal and Fogarty do, however, apply the caveat that for a relationship to be considered ‘pure interregional’ it must involve two customs unions (CUs) or free trade areas (FTAs) so whereas EU-Mercosur would fall into this category EU-Rio Group would not.

A second type of interregionalism is that involving a regional organization and a more loosely amalgamated group of states. Examples include the ASEM or the EC partnerships with the ACP states. These relationships have been termed ‘hybrid interregionalism’ (Aggarwal and Fogarty, 2004), ‘biregionalism’ (Hänggi, 2000, 2006), and ‘transregionalism’ (Rüländ, 2002).

And a final category involves no regional organizations per se but one or two more loosely organized groups of states. Examples here include APEC, the Forum of East Asia – Latin America Cooperation (FEALAC) and the Trans-Pacific Partnership (TPP). These are commonly referred to as ‘transregionalism’ (Aggarwal and Fogarty, 2004; Hänggi, 2000, 2006; Rüländ, 2002, 2010).

Hänggi (2000, 2006) also defines a fourth category which refers to relations between regional organizations and single states and term this ‘hybrid interregionalism.’ Examples include EU-Mexico, EU-South Korea, ASEAN-China, and ASEAN-USA. In this thesis, however, such relationships are simply referred to as bilateralism. The sources referred to above provide a comprehensive analysis of these various types of region-to-region arrangements. For the purposes of this thesis, however, interregionalism is simply defined as the process of interaction between two groups of states from different regions. The four later case studies involve the EU and regional organizations which are all either CUs or FTAs. As such the analysis which is undertaken may be deemed to apply to ‘bilateral interregionalism’ or ‘pure interregionalism’ if following the typologies adopted in the existing literature.

#### **1.4 Explanations for EU interregional trade policy**

The existing literature on interregionalism has generally tended to examine the process through the lens of traditional IR theories such as realism, liberal institutionalism and social constructivism (Doidge, 2007, 2011; Hänggi, 2000, 2006; Hardacre and Smith, 2009; Rüländ, Hanggi, and Roloff 2006; Rüländ, 2010). Regional organizations and their constituent member states are perceived to be the principal actors involved in driving the process and interregional interaction is examined in relation to the material and ideational preferences of policymakers. While these studies offer valuable insights in terms of the initial establishment of interregional relationships, and the broader roles the process can play in international relations and global governance, they hold less explanatory power when it comes to capturing the interplay of the specific political and economic forces which underlies the negotiation of PTAs between regional organizations and which is the primary focus of this thesis.

Several studies of specific cases of interregionalism have adopted an approach which focuses more on the domestic drivers of interregional policy formulation and outcomes (Aggarwal and Fogarty (2004a), Dent (2006), Doctor (2007), Faust (2006), Santander (2005), Sanchez-Bajo (1999)). These studies devote greater attention to the extent to which policy making at the interregional level reflects the preferences of influential organized domestic interest groups. In general, however, the existing literature on interregionalism has not attempted to situate the pursuit of PTAs at the interregional level within the context of the significant change in approach to trade policy adopted by the EU since the mid-2000s. In 2006 an official EU publication entitled *Global Europe: Competing in the World* marked a qualitative and quantitative shift in EU trade policy from a strategy primarily focused on multilateral trade liberalization to one which called for a more aggressive approach to preferential agreements. The EU's pursuit of several new PTAs with other regional organizations since then indicates that interregional trade policy must be examined within the context of this new more competitiveness driven approach. And as will be argued throughout this thesis, the *Global Europe* strategy can clearly be seen to have been influenced by both challenges posed within the global economy as well as the expressed preferences of domestic interest groups. This section presents an overview of potential explanations for EU interregional trade policy

which draws upon literature from the fields of IPE and EU studies more specifically. The specific determinants of EU trade policy can of course, however, vary across cases (Dür and Zimmerman, 2007).

A first potential explanation for EU interregional trade policy focuses on the role played by the EU member states themselves. The specific objectives of EU governments may derive from both ideas and interests. In terms of ideas determining preferences it may be argued that EU political leaders push for broad liberalization due to a belief in the economic efficiency of breaking down barriers to trade. In this regard Young (2007: 795) states that in recent years there has been a 'greater acceptance among national and European officials and politicians of the benefits of free trade'. The so-called 'collusive-delegation' argument posits that the member states are driven by a fundamental liberal ideology and have delegated responsibility over policy making to the Commission in order to insulate the decision making process from the influence of domestic interest groups (Meunier, 2005; Nicolaïdis and Meunier, 2002; Woolcock, 2005). The idea is that such delegation enables the pursuit of trade liberalization by limiting the access of protectionist forces to policymakers.

Other studies in comparison have argued that the Member States are ideologically protectionist despite overwhelming rhetoric to the contrary (Kahler, 1985; Messerlin, 2001). And Dür (2008b) in fact challenges the collusive-delegation hypothesis and argues that delegation may in fact serve to strengthen the ability of special interest groups to influence trade policy by virtue of the fact that it makes the policy making process less transparent and therefore subject to less scrutiny by voters. Dür points to the fact that policymakers continue to protect sensitive sectors of the economy as evidence that policy is formed in response to the competing demands of interest groups (ibid.).

An alternative perspective is that the geopolitical and foreign policy interests of political leaders play a key role in determining trade policy (Antkiewicz and Momani, 2009; Messerlin, 2001; Sapir, 1998). In this regard Sbragia (2010: 369) argues that the EU and the US are 'geo-economic actors each interested in maximizing its geo-economic power and in using trade policy as a strategic instrument to enhance its international power vis-à-vis other states'. As a result



Sbragia (ibid.: 370) argues that ‘rather than emphasizing the domestic and intra-institutional politics of trade policy (as existing literature does), scholars should consider how ‘positional competition’ between the EU and the US shapes the trade policies of both’. Such a perspective clearly ties in with the balancing role ascribed to interregionalism (Rüland, 2002, 2010). Zimmerman (2007) argues that delegation to the Commission in trade negotiations enables it to pursue geopolitical objectives in line with the preferences of the member states. The idea is that while the EU may not be an actual ‘unitary’ actor the level of autonomy granted to the Commission enables it to behave as one.<sup>22</sup> In terms of the choice to pursue preferential agreements more specifically Aggarwal and Fogarty (2004b: 12) argue that EU policymakers may be more inclined to favour interregional and bilateral PTAs due to the fact that as the dominant partner in such arrangements, the EU is better able to exert its leverage in comparison to the increasingly complex multilateral negotiating environment

Gruber (2001) focuses attention on power-politics in relation to PTA formation more specifically. He argues that even though the decision to sign up to a PTA is voluntary, this does not always mean that states concluding such agreements expect to gain from membership. Rather it is often the case that joining the PTA is perceived to be the lesser of two evils in comparison to remaining outside the agreement. This ties in with the idea that major trading powers such as the EU and the US can threaten the existing status quo in attempting to garner support for proposed trade agreements (Genna, 2010). EU plans to significantly reduce the scope of the GSP scheme, which offers tariff free access for exports from a large number of developing countries, is perceived by certain analysts as having been motivated by the aim of pushing developing countries into reciprocally negotiated PTAs (Garcia, 2013).

A second potential explanation is that the preferences of the EU institutions themselves play a key role in the determination and implementation of interregional trade policy. The Commission may be perceived to have sought to develop its capacity as an actor through the pursuit of as wide a range of bilateral and

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<sup>22</sup> In an analysis of the trade negotiations prior to China’s accession to the WTO, Zimmerman argues that the Commission was able to sidestep the demands of certain interest groups in its pursuit of relative gains (2007: 824).

interregional relationships as possible (Aggarwal and Fogarty, 2004b: 10-11; Doctor, 2007: 291). In this regard it can be argued that the Commission's desire to gain greater competence over both trade policy and foreign policy resulted in the development of a network of interregional relationships starting in the 1970s and the more recent attempt to upgrade many of these relationships through establishing interregional PTAs.

The initiation of new PTA negotiations with several regional organizations took place following the shift to a more competitiveness driven approach to trade policy marked by the publication of the 2006 *Global Europe* report. The fact that this change in approach took place without an official mandate from the EU member states may appear to indicate Commission autonomy in terms of trade policy. Meunier (2007: 913) argues, however, that the Commission primarily plays a role in 'repackaging' the interests of the member states and that the moratorium on new PTA negotiations implemented in the late 1990s was more a case of the member states granting a degree of leeway to the Commission to pursue Lamy's strategy of 'managed globalization' rather than being representative of the Commission playing a truly independent role in terms of trade policy. Once it became apparent that the EU could no longer rely on a multilateralism-alone strategy the Commission changed the EU approach in line with the specific interests of the member states. In addition, Meunier points to the fact that the *Global Europe* strategy itself was formulated in extremely close consultation with EU business interest groups which lends further weight to the argument that the Commission's primary role is as a 'repackager' of interests (ibid.: 920).

Dür (2007: 850) also casts doubt on the ability of the Commission to independently pursue trade policy objectives. In an analysis of the EU's trade negotiations with Chile and Mexico he finds no evidence that the Commission attempted to implement objectives which diverged from the preferences of the member states.

Elsig (2007) agrees that the content of trade agreements depends primarily on the preferences of interest groups; however, he also argues that the level at which the EU pursues these agreements is very often shaped by the preferences of the Commission itself. Elsig uses Principal-Agent (PA) analysis to highlight Commission autonomy

in selecting between multilateral and bilateral levels of interaction with EU trading partners.

In comparison to theories which focus on the preferences of policymakers themselves in determining trade policy a third potential explanation is that potential distributional consequences drive domestic interest groups to lobby either in favour of or in opposition to certain policies. De Bièvre and Dür, (2005: 1274) argue that ‘political actors, whether principals or agents, do not have a specific trade policy preference independent of constituency demands. They rather act as office seekers, avoiding the mobilization of political enemies’. This implies that policymakers must try to satisfy the demands of those interests within society for whom the costs and benefits of trade policy are most concentrated. In practice this refers to the interests of import-competing and export-oriented firms rather than the population at large and therefore involves pursuing a trade policy strategy which involves diffuse costs. De Bièvre and Dür (ibid.) find that this is in fact the case as although the EU member states have delegated increasing competence over the pursuit of trade liberalization to the Commission so too have they delegated competence over protectionism through the expansion of trade policy instruments. In addition, the mechanisms through which the member states can supervise and control the Commission in trade negotiations have been maintained in conjunction with increasing delegation.

The influence exerted by interest groups may of course depend upon the specific commitments under discussion in proposed agreements. In this regard Young (2007: 802) states that ‘where the EU’s regime is more liberal or more developed than the multilateral regime – most services and the Singapore issues – non-traditional trade actors have not resisted an aggressive approach pushed by firms or the Commission. Where liberalization challenges the EU’s regime – agriculture and some service sectors – however, the new trade actors have complicated trade politics and made the EU’s position protectionist’ (ibid.). Policymakers from this perspective need to consider the needs of the potential winners and losers in terms of trade policy decisions in order to maximise their chances of re-election. Preference is therefore obviously given to the interests of more powerful and better organized interest groups. Baccini and Dür (2012: 63) argue that ‘among the many tactics open to interest groups to influence election campaigns are reducing or increasing campaign contributions and providing or withholding policy-relevant information. They can

also make use of outside lobbying that aims at alerting public opinion to a specific issue, which in turn may shape a candidate's chances of re-election'.

Grossman and Helpman (1994, 1995) pioneered an approach to explaining trade policy which is centred on the role played by organised domestic interest groups in this regard. In attempting to explain why protectionism remains prevalent despite the dominance of economic arguments in favour of free trade they focus on the influence of such groups in determining trade policy outcomes (1994). The idea is that lobbies represent industry interests and that these lobbies and policy makers participate in a two stage game. Lobbies choose their political contribution schedules in the first stage and the government sets its policy in the second, knowing that contributions depend on selected policies. In this way policy makers offer 'protection for sale'.

In relation to PTAs more specifically Grossman and Helpman argue that the decision on whether or not a country chooses to pursue and conclude a PTA is dependent upon the extent of domestic interest group support for the proposed agreement (1995). Interest group support or opposition to PTAs in turn depends upon the predicted distributive consequences. Support can be garnered for PTAs by excluding liberalization commitments in sensitive sectors. Indeed despite the WTO requirement that PTAs must involve the liberalization of substantially all trade, the majority of existing PTAs exclude coverage of politically sensitive industries. And in its interregional negotiations with partners such as Mercosur the EU's refusal to make concessions in relation to issues such as agricultural subsidies has proven to be one of the most serious obstacles to agreement.

Grossman and Helpman's model does not, however, incorporate consideration of the role played by the trade policy of other countries in determining policy formulation. In the current era of increased international competitiveness, affected domestic interest groups may often respond to PTAs concluded by other countries by lobbying policymakers to pursue similar agreements in order to guard against potential or actual losses. Dür (2007, 2010) developed an explicit model of interest groups influence on trade policy which he termed 'protection for exporters'. Building from propositions by Baldwin (2006), Gruber (2000), and Oye (1992) on how trade diversion affects outsiders, Dür suggests that external developments significantly impact on domestic interests and that lobbying by affected interests is a key

determinant of trade policy.<sup>23</sup> Baccini and Dür (2012) subjected the ‘protection for exporters’ argument to rigorous quantitative analysis and found strong support for the idea that potential trade diversion plays an important role in terms of mobilizing exporters to lobby governments to pursue defensive agreements.

The ‘protection for exporters’ argument does not attribute much explanatory power to broader foreign policy and political ambitions in terms of trade policy decision making. Dür (2007: 837) states, however, that ‘it may be that in a specific case neither exporting nor import competing interests are mobilized, as the latter are little concerned about an increase in imports from a specific third country and the former see no threat to their access to the foreign market. In such a scenario, decision-makers are free to pursue trade policies that are in line with their preferences; it is in this situation that geopolitical interests should have the largest influence’. This perspective correlates with the idea that in certain interregional relationships the EU has been able to maintain a broad approach focused on expanding the EU’s power and influence and promoting the process of regional integration elsewhere while in other cases an interregional approach has been replaced by bilateralism in order to respond to demands to protect EU commercial opportunities.

In terms of the levels at which PTAs are pursued Aggarwal and Fogarty (2004b: 8-9) argue that interregional agreements will be considered a second-best option by globally competitive firms whose first preference will be for broad multilateral liberalization. Recent studies have, however, challenged the view that multilateralism will always be preferred to preferentialism by globally competitive firms. Manger (2009) argues that services firms in particular will often prefer PTAs, either bilateral or interregional, due to the fact that the discriminatory nature of such agreements can provide important first mover advantages in newly liberalized emerging economies prior to more general liberalization within the context of WTO agreements. Manger (2009: 33) also argues that ‘for whatever reasons a PTA is proposed, any agreement of economic relevance will have distributive effects.

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<sup>23</sup> The idea is that exporter-oriented producers will lobby governments for PTAs as a result of the potential or actual trade diversion implied by PTAs concluded between other countries. While domestic protectionist interest groups remain influential, the mobilization of export interests is likely to enable the acceptance of a balance of concessions that might previously have been rejected because of domestic opposition. This contrasts with the more traditional explanation for PTAs which posits that countries seek agreements in order to create new opportunities rather than to defend or better regulate existing interests.

Accordingly, even if governments decide to pursue a PTA for non-economic reasons, such as strengthening ties with an ally, if the PTA affects trade and investment they usually need the support of important social groups. Governments will therefore be receptive to the economic interests of these groups, among the most important of which are firms.’ The same obviously holds true for EU interregional PTAs pursued for geopolitical reasons.

Several studies have explained the EU’s decision to launch PTA negotiations with groups such as Mercosur and the CAN as having resulted from an EU desire to strengthen its political and economic influence in Latin America in response to US ambitions to create a hemispheric FTAA (Doctor, 2007; Santander, 2005). While responding to US influence in Latin America may indeed have been a motivating factor in terms of the decision to pursue PTAs in these cases, the negotiations themselves must operate within the confines of the competing demands of domestic interest groups. It has in fact been a lack of domestic interest group support which has hindered the conclusion of agreements in many cases.

Protected exporters are predicted by Aggarwal and Fogarty (2004b: 8-9) to favour interregionalism as a second best option after straight bilateralism. The logic is that the EU will be better able to exert its leverage in preferential negotiations in comparison to multilateral negotiations in order to minimise access granted to the EU market in return for liberalization by its partners. The inability of the EU to conclude the majority of its interregional PTA negotiations can indeed generally be linked to the opposition of organised groups of domestic exporters threatened by the proposed agreements. In several cases a bilateral approach has now been adopted in order to enable the crafting of agreements which are better supported by EU protected exporters.

The review of the literature undertaken in this section illustrates the fact that there is a distinction between studies which emphasis the domestic-societal drivers of EU trade policy and those which adopt a systemic perspective. The approach taken in this thesis, however, is one which seeks to build on studies which have sought to combine domestic and systemic explanations (e.g. Heron and Siles-Brügge, 2012). It is argued that the more competitiveness driven approach to EU trade policy since the mid-2000s resulted from a combination of the PTA activism of other major

economic powers in conjunction with demands from domestic interest groups. The potential explanations discussed above shall be examined in relation to the EU's formulation and implementation of trade policy at the interregional level. While the relative preferences of the member states, domestic interest groups, and the EU institutions may all play a role in determining the success or failure of interregional PTA negotiations, however, it is obviously also important to consider the preferences of the regional organisations with which these negotiations take place. In addition, the majority of other regional organisations are much less coherent than the EU in terms of their ability to overcome economic and ideological divergence among their member states and as such counterpart coherence is also an important factor to consider.

## **1.5 Conclusions**

This chapter has presented an overview of interregional relations in order to further understanding of what interregionalism might offer to actors in international relations that other levels of interaction do not. Interregionalism is a corollary of new regionalism and has been pursued by regional groups and their constituent member states in order to act as a mechanism through which to fulfill several specific policy objectives. Interregionalism, like regionalism, is part of the state led response to addressing the economic and political challenges encountered in the international system in an era of accelerating interdependence. In this regard Hänggi (2000:13) states that 'the causal factors of regionalism, and of interregionalism alike, are the ongoing processes of globalization and regionalization.'

In the first section of this chapter the emergence of interregionalism was situated within the context of the two waves of regionalism which have taken place in response to the structural changes which have emerged in the international system in the period since the end of the Second World War. During the post-war period a bi-polar division emerged as the international system came to be dominated by the two superpowers – the US and the Soviet Union. European nations sought to respond to the new political and economic challenges posed by bi-polarity by engaging in the process of regionalism. This strategy was supported and indeed encouraged by the US in line with its own security and economic ambitions. Perceptible European success in fostering peace and economic development through integration inspired groups of countries in many other parts of the world to similarly attempt to address

shared problems through their own regional level coordination and cooperation. By the early 1970s a large number of countries were a member of one form or another of regional organization. The EU from early on sought to assert itself as an actor in international relations and actively pursued relations with third party states and regional groups where they existed. The majority of regional groups elsewhere were initially much more internally oriented in comparison to the EU and did not engage in external relations on the part of their constituent nation states in a proactive sense. This resulted in a hub-and-spokes style interregional network with the EU at its centre. Interregionalism during the first wave of regionalism was therefore very much an actor-centred phenomenon.

The world changed in the late 1980s with the end of the Cold War and the acceleration of neoliberal globalization. This resulted in a new drive to respond to systemic changes through regionalism which was once again led by the EU. New regional organizations emerged in many parts of the world and older schemes which had become obsolete were re-launched. It was not only the increasing number of regional organizations which facilitated the emergence of a new wave of interregionalism, however, but also the widespread shift from internally oriented to externally active form of regionalism, commonly referred to as new regionalism or open regionalism.

In the second section the typologies of interregionalism proposed in several of the key studies on the process were discussed. The consensus in these studies is that interregionalism in its purest sense refers to relations between two formal regional organizations which are both either CUs or FTAs. Such interregionalism is held to offer the greatest promise in terms of fulfilling interregional functions given that it generally involves partners with the greatest degree of coherence or actorness. The case studies presented in later chapters focus on pure interregional relationships within the context of EU trade policy in order to ascertain what in fact these advanced region-to-region partnerships have been able to achieve to date.

The final section presented a comprehensive overview of competing explanations for EU interregional trade policy. The major functions attributed to interregional relations in the existing literature include balancing and bandwagoning, institution building, rationalizing and agenda setting, and identity creation. It is argued in this



thesis, however, that a much more focused political economy approach is required in order to explain the EU's pursuit of PTAs at the interregional level. In relation to EU trade policy what is important is not only the preferences of the relevant actors but also the manner in which trade policy objectives are pursued through the existing institutional framework. This issue is discussed in detail in Chapter 2 which situates EU interregionalism within the context of trade policy making. In addition, the preferences and negotiating capacity of the EU's partner regional organizations also obviously has an important bearing on the outcome of PTA negotiations. These factors are considered in each of the relevant case study chapters.

## **Chapter 2: EU trade policy and interregionalism**

### **2.1 Introduction**

Since its establishment in the 1950s the EU (formerly EEC and EC) has been responsible for trade policy making on the part of the member states. And for the majority of the time since then the focus of the Commission in relation to external trade has primarily been on achieving the maximum possible benefits for domestic firms and producers through multilateral negotiations under the auspices of first the GATT and later the WTO. This has involved the pursuit of market opening for certain sectors and industries and the implementation and maintenance of protectionist policies for others. Trade agreements below the multilateral level were until quite recently mostly reserved for incoming and potential members as well as for selected countries within the broader EU neighbourhood.<sup>24</sup> From the early 1990s onwards this started to change, however, as PTAs came to be proposed, negotiated and concluded with several countries and groups of countries most of which have no possibility of joining the EU. This was in line with a general trend towards a preference for PTAs within the global economy. The paradox is that this has occurred despite the conclusion of the WTO Uruguay Round agreements in 1994 which seemed at the time to herald the start of a new era of increased multilateral trade cooperation (Messerlin, 2013b).

Within the EU a re-prioritization of multilateralism took place in 1999 as evidenced by the de facto moratorium on new PTA negotiations implemented under Trade Commissioner Pascal Lamy. This was, however, replaced by a much more competitiveness driven approach under the new Trade Commissioner Peter Mandelson from 2004 onwards which has involved the pursuit of PTAs with a much broader range of partners than ever before, including agreements with several other major regional organizations. This chapter attempts to situate the pursuit of interregional PTAs within the context of the increasing trend towards preferentialism in EU trade policy. In doing so the aim is to address in a preliminary manner the research questions posed in the introduction. This is a necessary first step prior to the assessing how interregional trade policy actually manifests itself in the specific

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<sup>24</sup> The EU has a long tradition of offering preferential market access to many of its former colonies under the terms of the Yaoundé and Lome conventions. The Cotonou agreement outlined the aim of replacing this unilateral preferential access with reciprocally negotiated PTAs.

relationships which the EU has developed with other countries on a region-to-region basis.

This chapter is organized into six sections. The first section assesses how the dynamics of EU trade policy making have changed under the terms of iterative treaty reforms. The effect which systemic and domestic level variables have had on the evolution of EU trade policy in this regard is also considered. The second section examines in detail the EU's new more competitiveness driven approach to trade policy which has emerged since the mid-2000s. The third section presents an overview of the major multilateral, interregional and bilateral agreements to which the EU is a party as well as those presently being negotiated. The fourth section analyses in detail the relationship between multilateralism, interregionalism, and bilateralism within the context of EU trade policy. The aim is to assess in more detail why trade agreements may be pursued in at one level in preference to others. The final section offers some conclusions regarding the variation in the nature of EU trade policy and the implications which this may have for both the EU itself and its trading partners.

## **2.2 Trade policy making in the EU**

During the establishment of the EEC in the late 1950s the founding member states realized that creating an integrated common market would necessitate a coordinated approach to both internal and external trade and that certain responsibilities for trade policy making would need to be delegated to the supranational level from the beginning (Dür and Zimmerman, 2007; Meunier, 2000). A Common Commercial Policy (CCP) was defined in the 1957 Treaty of Rome. The Commission, as opposed to national governments, was to be responsible for coordinating the internal trade between the organization's members as well as negotiating the liberalization of external trade with third parties.<sup>25</sup> The Commission has since then acted on behalf of the member states in various bilateral, interregional and multilateral trade negotiations. In relation to the granting of control over trade policy making to the Community level Woolcock (2005: 5) states that 'in response to what was in effect

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<sup>25</sup> While the Commission has therefore often been perceived to be representative of an agent of liberalization it was also delegated responsibility to conduct investigations into issues such as anti-dumping in response to complaints from European import-competing producers and to impose countervailing duties when deemed appropriate (Dür and De Bièvre, 2005).

an external and largely US-driven trade agenda member state governments pragmatically accepted that the Commission should act as the negotiator for the EU as a whole and were willing to leave aside the issue of legal competence until the ratification stage of negotiations.’

The CCP has been updated several times since the late 1950s under the terms of various treaties and the balance of power in trade policy making between the EU institutions has been continually redefined. Furthermore, the actual rules through which the preferences of the member states are aggregated in order to arrive at common Community positions have been open to change and strategic manipulation (Meunier, 2000: 107).

While the EU has actively represented the interests of the member states in trade policy from the beginning, however, it has played a much less coherent role in foreign policy more generally. As a result of the EU’s lack of capacity in terms of foreign policy, trade policy has therefore often been used as a mechanism to fulfill certain foreign policy objectives. This has especially been the case within the EU’s interregional relationships. Dealing with groups of countries in Asia, Africa, and Latin America on a region-to region basis has long been a central component of EU foreign policy which has differentiated the EU from other major economic powers.

This section presents an overview of the evolution of the EU institutional framework in an attempt to account for how this might impact upon the variation in terms of trade policy formulation, implementation, and outcomes. Particular attention is devoted to identifying the principal actors involved in determining trade policy objectives in terms of both the EU’s official position as well as the implementation of trade policy in practice.

### **2.2.1 Trade policy making process**

Prior to the 2009 Lisbon Treaty trade policy making under the CCP operated on the basis of what was known as the Community method. This has now been superseded by the Ordinary Legislative Procedure (OLP).<sup>26</sup> Prior to the start of trade negotiations the Commission first consults the member states, the European Parliament, various expert panels, and societal interest groups including business and

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<sup>26</sup> The major change which this has entailed has been the granting of joint decision making power over trade policy to the European Parliament.

industry organizations.<sup>27</sup> Based upon these consultations a draft negotiating mandate is prepared which is discussed by the Trade Policy Committee (TPC).<sup>28</sup> Council authorization is currently primarily dependent upon a qualified majority vote (QMV) but it is generally preferred to establish a consensus as opposed to relying on an actual vote.<sup>29</sup> The European Parliament (EP) plays no role in authorizing negotiations. It may only issue reports and recommendations in relation to proposed agreements. The Commission itself then leads the negotiations although it is required that regular consultation takes place between the Commission and the Council's TPC. The Commission must now also report regularly to the EP's International Trade Committee (INTA) during negotiations.

Once negotiations have been successfully concluded the final decision on whether or not to adopt an agreement rests with the Council where again although a QMV is generally required, it is preferred to work on the basis of consensus. In this regard Woolcock (2010: 8) states that 'the established rules of the game in trade policy have been that the Council works until an agreement is reached that all can accept.' Under the terms of the Lisbon Treaty the European Parliament must now also authorize all new agreements presented to it by the Commission.<sup>30</sup> The increased participation of the Parliament has had important implications for EU trade policy in that domestic interest groups can now seek to channel their influence through Parliamentary representatives in addition to directing lobbying directly towards the member state governments and the Commission (Woolcock, 2011: 8).

The delegation of authority from the member states to the Commission has proceeded in an iterative fashion as various treaties have updated the CCP and the extension of QMV has served to mitigate extreme positions and may be considered to have strengthened the Commission's hand in trade negotiations (Nicolaïdis and Meunier 2002: 175; Meunier 2005: 8–9; Woolcock 2005: 247; Zimmermann 2007: 163). The 1987 SEA involved an important shift in decision making power. Prior to

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<sup>27</sup> In most cases, the Commission also engages in informal dialogue with prospective partners regarding the content of a proposed agreement. This is known as a scoping exercise.

<sup>28</sup> This was known as the Article 133 Committee prior to the implementation of the Lisbon Treaty.

<sup>29</sup> Prior to the Lisbon Treaty, agreements including issues such as services liberalization and intellectual property rights were officially subject to a unanimous vote and member state approval as they did not fall under exclusive EU competence.

<sup>30</sup> Prior to the Lisbon Treaty the EP did have to approve certain trade agreements if they entailed budgetary implications or institutional creation. In practice this applied to bilateral and interregional PTAs as opposed to multilateral WTO agreements.

this the ratification of external trade agreements depended upon a unanimous vote within the Council which effectively meant that each member state could exercise veto power. In relation to this Meunier (2000: 109) states that ‘when each member state possesses the power of veto, whether at the outset or at the ratification stage, the common position eventually reached is the lowest common denominator.’ The SEA implemented QMV for agreements covering trade in goods and therefore resulted in a considerable transfer of responsibility over trade policy making from the national level and meant that member states had lost their veto power over many trade issues. The Uruguay round of GATT negotiations broadened the multilateral agenda to include issues such as services and intellectual property rights (IPR); however, there was disagreement between the Commission and the member states regarding competency over these areas.<sup>31</sup> The 1997 Treaty of Amsterdam formally delegated responsibility to the Commission to negotiate agreements on services and IPR. The ratification of such agreements, however, still required a unanimous Council vote as well as the approval of the member states. The 2001 Nice Treaty modified this by only requiring a QMV Council vote for agreements covering these areas. Finally under the terms of the 2009 Lisbon Treaty exclusive competence was granted to the EU over not only services and IPR but also Foreign Direct Investment (FDI). Unanimous voting within the Council now only takes place in very limited specific circumstances.<sup>32</sup> And a simple majority vote is taken in the European Parliament in place of individual voting within each national parliament.<sup>33</sup> A key issue to consider at this point is how the EU institutional environment as described above affects trade policy decision making.

A first perspective is that increased delegation has meant that, given the long running impasse in multilateral negotiations, the Commission has sought to further increase

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<sup>31</sup> This resulted in the issue being brought before the European Court of Justice. The Court decided that under the existing framework the Commission and the member states shared competence over these new areas on the liberalization agenda (Young, 2007).

<sup>32</sup> A unanimous vote in the Council is now only required under three circumstances: 1) where commitments on cultural/audiovisual services risk undermining the EU’s cultural and linguistic diversity; 2) where commitments on social, educational or health services risk seriously disturbing the national organization of these services and impeding member governments’ ability to deliver them; 3) where unanimity is required for the adoption of internal rules.

<sup>33</sup> Prior to the Lisbon treaty each member state parliament was required to approve so called ‘mixed-competence’ agreements which included provisions over which the member states and the EU shared competence. The only remaining areas of mixed competence are those relating to non-trade-related intellectual property rights and issues linked to transport policy.

its competence in a functional sense by proposing agreements with as broad a range of partners as possible and by seeking to incorporate provisions on a wide range of trade and trade related issues in proposed agreements (Aggarwal and Fogarty, 2004b: 10-11; Meunier, 2007: 908). The extension of greater responsibility over many aspects of trade policy to the Commission since the 1990s has indeed coincided with both a greater number of PTAs being pursued as well as increased attempts to utilize trade policy as a mechanism for the fulfilment of a broader range of objectives. Peterson and Bomberg (1999: 104) argue for example that during the 1990s agreements with partners in different regions were championed by the various Commissioners in the external relations directorates as a way of increasing their own competences.

While the Commission does not have the final say on trade agreements the most logical manner in which it can extend its own bureaucratic competence is by seeking to launch as many negotiations as possible and attempting to iteratively broaden the range of issues which these agreements address. Where interregional PTA negotiations have not succeeded therefore the logic is that it has been increasingly in the Commission's interest to launch bilateral level negotiations in order to maintain momentum. It should also be emphasized that the Commission alone holds the power to propose a trade negotiating mandate and this agenda setting capability may be considered to endow it with great leverage over trade policy making (Garrett and Tsebelis, 1997; Kerremans, 1996; Pollack, 1997).

The broadening of the EU trade policy agenda and the extension of competence to the Community level has, however, created obstacles as well as opportunities for new trade agreements. Elsig (2002: 205) points out that the 'CCP has often been characterized as a stronghold of the Community, yet a continuous reluctance on the part of the member states to grant the Commission the necessary autonomy to negotiate on behalf of the EC has been noticeable since the very beginning.' Especially as more sensitive issues such as services and investment have been brought under exclusive EU competence, the friction between the domestic and supranational level has intensified. As the trade agenda has evolved to include new issues, which go beyond the flow of goods across borders, 'difficulties to delineate responsibilities became more acute given that this new trade agenda now involves

key policy areas deeply rooted in the domestic policy-making processes' (Jordana and Bianculli, 2007: 393).

Despite the fact that institutional changes in terms of trade policy making have shifted greater levels of competence over trade policy to the Community level, many new trade issues provoke strong domestic political economy responses and as a result trade policy has become more controversial and politicized in recent years (Brühlhart and Matthews, 2007: 922). In trade negotiations at all levels domestic political constraints have in many cases hindered the EU's ability to accede to the demands of its negotiating partners in this regard. A key demand of developing countries has been for the reduction of EU agricultural subsidies in return for the opening of services and procurement markets. Despite an overt desire to achieve such market opening the Commission has generally been unwilling to make concessions which would result in agreements being rejected by the Council and the Parliament. In the same manner the Commission will not present agreements for ratification which do not meet the deep WTO-plus liberalization commitments demanded under the *Global Europe* strategy. Domestic interest groups enjoy liberal access to the EU institutions and the Commission in fact actively seeks out input from these groups as part of the policymaking process in order to craft agreements which will be deemed acceptable at the ratification stage (De Bièvre and Dür, 2005; Gerlach, 2006).

The extent to which the domestic political economy constraints faced by the Commission can serve to impede the conclusion of interregional AAs will be discussed in detail in the case study chapters. In addition, it has become apparent that it is in bilateral level negotiations with individual countries that the EU finds it has the greatest leverage to achieve its objectives while having to make the minimal level of concessions in return. From this perspective bilateral PTAs have increasingly come under consideration in response to demands from domestic interest groups rather than simply as a result of independent Commission preferences for such agreements.

### **2.2.2 EU trade policy as foreign policy**

During its early years EU foreign policy was primarily focused on extending and consolidating the internal integration process. External Community level



relationships, apart from trade relationships, were generally confined to those with potential members as well as former European colonies. In this regard Farrell (2007: 303) argues that the reluctance of member states to transfer competence for foreign and security policy to a supranational level meant that ‘external relations were characterized principally in an expansion in the number and range of trade agreements under the leadership of the European Commission.’

At the same time, however, many analysts (Baldwin, 2006; Messerlin, 2001; Meunier and Nicolaïdis, 2006) argue that the EU has used trade policy as a mechanism to fulfill foreign policy objectives and that it has continued to do so even after the implementation of the CFSP and changes entailed by the Lisbon Treaty<sup>34</sup>. Peterson (2007: 2) contends for example, that ‘the EU now has a lengthy track record of using economic policy instruments – economic sanctions, development policy, various mechanisms for promoting regional cooperation – to pursue what could only be called foreign policy goals, including security, development, human rights, and environmental protection.’ This is confirmed by the fact that the EU generally seeks to conclude agreements based upon a three pillar structure which includes measures related to cooperation and political dialogue in addition to trade liberalization commitments. Another point to consider is that the ultimate responsibility for EU trade policy making has always rested with the Foreign Relations Council – it is EU foreign ministers and not EU trade ministers who take the final decision on whether or not to adopt trade agreements negotiated by the Commission.<sup>35</sup>

The primary manner in which foreign policy has been approached through trade policy has been through the imposition of conditionality, in other words linking the terms of privileged market access with specific political commitments.<sup>36</sup> For the

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<sup>34</sup> The Lisbon Treaty aimed to make EU foreign policy more coherent and visible through the creation of the position of High Representative for Foreign Affairs and Security Policy, and the development of the Common Security and Defence Policy. The reform of the EU’s three pillar structure under the new treaty did not, however, have the same implications for foreign policy as it has had for trade policy. Decision making power for the CFSP continues to reside solely with the Council and voting remains primarily on the basis of unanimity.

<sup>35</sup> Prior to the implementation of the Lisbon Treaty trade agreements were subject to the approval of the General Affairs and External Relations Council (GAERC). This has now been split into the General Affairs Council and the Foreign Relations Council.

<sup>36</sup> Conditionality can also refer to linking preferential market access to economic commitments such as fully implementing the terms of SAPs.

EU's partners a primary reason that they may be willing to accept economic and political conditionality in trade agreements is that it can act as a signaling device which enhances policy credibility in order to attract increased trade and investment. In this regard Baccini (2010: 196) states that 'by joining a PTA with the EU, LDCs can gain access to one of the largest and richest markets, lock in political and economic reforms, and improve their competitiveness in the global economy. This combination of elements of foreign policy and development shows that the EU's selection of trade partners has crucial political implications.'

Conditionality is now a feature of all EU PTAs, not only those between the EU and prospective members. It does not feature, however, in multilateral negotiations. This has increased the attractiveness of interregional and bilateral negotiations to those within the EU seeking to achieve foreign policy objectives through trade policy. The EU utilizes access to its large internal market as a bargaining chip in order to not only achieve increased market access elsewhere but also to obtain the changes it is seeking in the domestic policies of trading partners (Meunier and Nicolaïdis, 2006: 907). In this regard it can be argued that bilateral and interregional agreements 'allow the EU to pursue its broader foreign policy following economic, historical, development, and geo-political considerations, without depending on the success or failure of multilateral rounds' (Jordana and Bianculli, 2007: 387).

It is understandable that the EU would seek to link trade preferences and political issues with prospective members and states bordering the EU. Obviously the aim is to ensure that such states strive towards economic and political stability. The insistence of the same in agreements with countries which have no prospect of EU membership is somewhat more puzzling however. In relation to the 2000 EU-Mexico Global Agreement for example Szymanski and Smith (2005: 176) argue that 'the EU was remarkably insistent (for a regional economic organization) on linking its trade strategy to other political goals, and it seemed quite willing to abandon the agreement rather than violate these principles.' This is consistent with the idea that the EU has essentially been attempting to implement foreign policy through trade policy and export EU good governance norms to other states and regions (Baldwin, 2006; Messerlin, 2001; Meunier, 2010). In terms of the functions of interregionalism discussed in the previous chapter the idea is that the EU uses the process to promote

political and economic integration elsewhere as well as to strengthen both its own identity and those of the regional organizations with which it interacts.

Promoting identity creation and regional integration has the dual aim of encouraging development in line with the European experience as well as facilitating the establishment of coherent groups with which the EU can more efficiently negotiate trade liberalization. In this regard Meunier and Nicolaïdis, (2006: 911) argue that ‘as a growing number of countries in the world join regional trading blocs, the EU seeks to realize economies of scale through bloc-to-bloc deals.’ A primary goal of interregionalism has therefore been to aid the consolidation of EU partner regions. This is aimed to be achieved directly through the provision of technical and financial support for regional integration processes as well as indirectly by requiring that partner regional organizations develop greater institutional coherence in order to engage with the EU as a single group (Maur, 2005).

The EU considers promoting regionalism through interregionalism to be an efficient mechanism for enhancing peace, consolidating democracy, promoting economic and political stability as well as integrating countries into the global economy (EC, 2007a). Interregional engagement with the EU has provided an incentive for many regional groups to more closely coordinate their positions especially because the EU has frequently mandated that all AAs with regional organizations would require a sufficient level of integration in partner regions. The EU has been dubbed an ‘external federator’ in this regard (Doidge, 2011: 47). At the same time, engaging in interregionalism enables the EU to consolidate its own position as an established actor in international relations. Bargaining over and signing agreements with other regional groups has required the development of a more coherent relationship among EU institutions.

Especially in recent years, however, it has become apparent that attempting to link trade policy and foreign policy through three pillar agreements has often not progressed as planned. Baldwin (2006: 928) states that ‘when trade policy is used for purposes other than economic objectives, EU trade politics becomes less easy to manage, and it may become harder to “get things done”.’ In most cases, however, the political dialogue and cooperation chapters of proposed AAs have proven easiest to conclude. Difficulty in achieving consensus on the trade provisions has proven to be

the biggest obstacle to proposed agreements. The EU is faced with increasingly ambitious demands for liberalization on the part of developing and emerging economies. This is especially the case when coalitions of such countries organize within the context of multilateral and interregional negotiations.

A further problem for the EU is that it has found itself with less bargaining power when negotiating with such coalitions due to the fact that these countries already enjoy very preferential market access to the EU at least in terms of tariffs (Kleimann, 2013). While EU plans to reduce the scope of this access by scaling back the coverage of the GSP have motivated many developing countries to negotiate with the EU it has not been enough to result in the conclusion of the majority of proposed interregional PTAs. The current shift from multilateralism and interregionalism to competitive bilateralism is indicative of an acknowledged need for economic pragmatism at the expense of certain foreign policy objectives. Despite the official stated aim of exporting norms such as democracy, respect for human rights, and especially promoting regional integration and economic development through region-to-region agreements, the EU has been required to revert to bilateralism in order to defend its economic interests. Adopting this bilateral approach has meant in practice sacrificing or relegating certain normative goals which it was hoped to achieve through interaction on an interregional basis. This is despite the fact that the pursuit of such goals remains an officially stated aim with the EU's official discourse.

Especially in the current era of increasing interdependence and competitiveness the interests of the EU institutions appear to be becoming more streamlined. The Commission has often been considered to be more pro free trade than the Council. At the same time, however, the Commission's objectives have not always been clearly discernible. Meunier (2007: 908) argues that 'the preferences of the Commission have themselves several determinants, such as bureaucratic competition between the various directorates, the will of the Commissioner to imprint his personal touch and leave a legacy, the defence of the interests of the Member State that nominated the commissioner, the Commission's efforts to expand its power vis-a-vis the other European institutions and the goal to preserve popular support for European integration.'

In any regard there currently appears to be somewhat of a consensus emerging among the EU institutions regarding the need to prioritize the fulfillment of commercial objectives through PTAs given the increasingly competitive nature of the global economy. As a result of various internal and external factors EU policy has currently often shifted in favour of a bilateral-interregional as opposed to a pure interregional approach. This is part of what Hardacre and Smith (2009) term 'complex interregionalism.' The question is whether or not the EU is embarking upon a US style strategy of divide-and-conquer or rather is seeking to construct region-to-region PTAs in a piecemeal fashion while ensuring that European economic interests are not harmed as a result of PTAs concluded between important emerging economies and EU competitors. Such countries have been more than willing to court both the US and the EU. Sbragia (2010: 370) argues that 'the territorial spread of US and EU trade agreements indicates that states seeking access to the largest markets now accept the economic models and rules favoured by the strong.' The key question is whether or not bilateral PTAs will prove conducive to the future conclusion of interregional accords. This is of course a similar question to that which is posed when contemplating the relationship between regionalism and multilateralism.

### **2.3 The EU's *Global Europe* strategy**

EU trade policy has undergone major changes since the creation of the WTO in 1995. As discussed above, the institutional environment has evolved under various treaties and competence over many aspects of trade policy has increasingly been transferred from the member states to the Community level. These institutional changes have had substantial consequences in terms of trade policy decision making. In addition, however, a range of other internal and external factors have served to influence changes which have taken place in terms of the formulation and implementation of EU trade policy.

#### *Response to the trade policy of other major economies*

The publication of *Global Europe: Competing in the World* (EC, 2006b) officially marked a change in direction in terms of the EU's approach towards trade policy. This report outlined that the de facto moratorium on the initiation of new PTA negotiations, which had been in place since 1999, had come to an end. In particular,

it was emphasized that the EU needed to take steps to respond to the trade policy activity of other major economies. It was stated that ‘where our partners have signed FTAs with countries that are competitors of the EU we should seek full parity at least (ibid.: 11). Unwavering EU support for multilateralism, which had previously been understandable given the position of the EU as the largest trading entity in the world and the fact that the EU along with the US had dominated multilateral trade negotiations under the GATT/WTO, was no longer a pragmatic policy option given the abject failure of the Doha Round of negotiations as well as the rapid spread of competitive liberalization agreements involving key EU competitors (Gavin and Sindzingre, 2009: 10).

The adoption of a more competitiveness driven approach to trade policy was clearly motivated by the fact that other major economies including the US were actively pursuing PTAs with a range of emerging economies in Asia, Africa, and Latin America. Woolcock (2007: 5) argues that ‘from about 2000 the US interpretation of competitive liberalization has been one that saw FTAs more as an alternative to multilateral liberalization.’ In 2002 the Bush Administration in the US had restored Fast Track Negotiating Authority (or Trade Promotion Authority) which had not been in effect since 1994.<sup>37</sup> This meant that while the US Congress retained the power to approve or reject trade agreements it lost the capacity to amend or filibuster their terms. The US government was therefore in a position to pursue a much more activist PTA policy and started negotiations with several countries including Singapore, Thailand, Chile and Australia. Such PTAs were intended to speed up the pace of liberalization both regionally and multilaterally (Woolcock, 2008: 128).

Continued EU aversion to bilateral agreements would therefore have risked the loss of EU market share in emerging economies by putting EU exporters and investors at a comparative disadvantage. As Sbragia (2007: 3) argues, ‘the American strategy forced the EU to turn its attention to bilateral and interregional agreements in Latin America rather than rely exclusively on the multilateral agreements upon which the EU had relied outside of its traditional area of focus.’ Acar and Tekce (2008: 275) echo these sentiments stating that ‘regarding the fact that the biggest competitor, the US, had been pursuing PTAs with many countries, especially with developed and

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<sup>37</sup> TPA was again rescinded for new agreements in July 2007.

emerging markets in East Asia, the EU had to act as soon as possible to avoid trade diversion and a shift in the EU's trade strategy had already become inevitable.'

Importantly, however the EU's new approach to trade policy did not come about simply as a result of a realization within the Commission of the need to respond to the trade policy activism of other major economies. Rather the Global Europe strategy represents a repackaging of the demands of influential organized interest groups within the EU. The Commission engaged in extensive consultation with major business and industry groups within the EU prior to the launch of the new approach to trade policy.

#### *Response to the trade policy preferences of interest groups*

The change in direction which has taken place in EU trade policy since the mid-2000s can be clearly linked to changing patterns of international trade and the accompanying shift in the trade policy preferences of powerful multinational firms. The increasing geographical fragmentation of production has resulted in demands for institutional changes in order to improve operational efficiency and protect investments.<sup>38</sup> While the Uruguay Round agreements broadened the liberalization agenda through the inclusion of commitments in a wide range of new trade related areas, efforts to expand upon this success during the current Doha Round have so far proven unsuccessful. Globally competitive firms are especially interested in the creation of new opportunities for investment and the reduction of barriers to intra-industry trade.

Baldwin (2011) argues that international trade has become much more complex in recent years and that existing multilateral trade rules are not sufficient to oversee this complexity. He refers to the 'trade-investment-service nexus' which has emerged as a result of the increasing spread of global supply chains which has been fostered by the ICT revolution and the existence of large wage differentials. While supply-chains have long existed between developed countries the changing structure of the global

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<sup>38</sup> The increasing fragmentation of production chains has led to an increase of trade flows in intermediate goods. In 2009, trade in intermediate goods represented more than 50 per cent of non-fuel world merchandise trade. The gradual reduction in the use of tariffs has not been accompanied by a similar reduction in the use of non-tariff measures. Multinational firms therefore have a large interest in trade agreements at all levels which hold the potential to reduce such barriers to trade (WTO, 2010).

economy has increasingly involved the expansion of linkages between developed and developing economies. Developed countries have long had a tradition of protecting property rights, legal transparency, and good infrastructure. A big issue arose, however, when many emerging economies with poor governance structures started to participate in new trade patterns. Developing country governments have increasingly agreed to reform in exchange for the chance to gain investment. In this regard, Baldwin (ibid.: 3) argues that the rapid proliferation of PTAs in recent years has been less about market access and more about the promulgation of regulatory reform designed to increase the efficiency of global supply chains:

As the WTO was otherwise occupied, the incipient governance gap was filled by uncoordinated developments elsewhere – primarily in deep regional trade agreements, bilateral investment treaties, and autonomous reforms in emerging economies. In a nutshell, 21st century regionalism is not primarily about preferential market access as was the case for 20th century regionalism; it is about disciplines that underpin the trade-investment-service nexus. This means that 21st century regionalism is driven by a different set of political economy forces; the basic bargain is “foreign factories for domestic reforms” – not “exchange of market access”.

Since the early 1990s remarkable changes have indeed taken place in terms of the politics of trade liberalization. Developing countries, which had traditionally opposed the wide-scale opening of their economies, signed up to a range of new multilateral agreements during the Uruguay Round of multilateral negotiations which culminated with the establishment of the WTO in 1995. In addition, however, many developing countries also started to implement a range of policies outside the multilateral framework which have facilitated the spread of global production chains. These policies have included the unilateral lowering of tariffs as well as the conclusion of PTAs and Bilateral Investment Treaties (BITs) which incorporate deep liberalization commitments in areas such as investment, competition policy, and intellectual property rights.

The liberalization of trade in such a manner is consistent with the preferences of large multinational firms. The global supply chains which have been established by such firms mean that there has been an increasing interest in the reduction of tariffs on intermediate goods as well as in the establishment of legal frameworks which facilitate and protect direct investment by firms in host countries. In this regard Manger (2009: 14) states that:



FDI flowing from developed to developing countries changes the incentives for governments in both, motivating them to pursue bilateral and regional options because they satisfy the political demands of multinational firms. As these firms invest in developing countries to produce goods for developed markets, they call for the reduction of barriers at home and abroad because it facilitates vertical integration, or the specialization of production according to technological capacity and labor cost.

I argue that the changes which have taken place in the EU's approach to trade policy during the 2000s can be directly linked to the changes which have taken place in terms of the policy preferences of large multinational firms. For example, in a 2010 Communication from Vodafone to the Commission it was stated:

Trade policy, including that related to services, has been dominated by the issue of market access. While market access issues remain important, it is not enough merely to create an initial opportunity to develop trade. A fully developed trade policy would take into account the broader and more strategic issue of ensuring consistent and reasonable treatment of EU firms after the establishment of trading and investment relationships. This is particularly the case for trade and investment in services.<sup>39</sup>

Similar statements can be found in the position papers of multinational firms in many sectors released before and after the implementation of the EU's *Global Europe Strategy*.

In early 2006 an impact assessment report was published which highlights in detail the process of consultation with such groups (EC, 2006d). In relation to interest group demands for a more activist EU approach to trade policy outside the multilateral framework it was stated that:

Regarding market access, business representatives requested more action at bilateral level, especially to tackle non-tariff barriers, notably towards emerging countries where both current barriers and future markets are located. Attention to be given to countries which have already or are negotiating free trade agreements (FTAs) with EU competitors and where we are losing market share (ibid.).

The increased importance of the rise of emerging economies in terms of influencing US and EU trade policy is alluded to by Dür (2010: 187) who argues that 'the choice of strategy by the United States and the EU has been partly shaped by the increasing clout of emerging countries in WTO negotiations, which has contributed to the stalemate of multilateralism.'

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<sup>39</sup> [http://trade.ec.europa.eu/doclib/docs/2010/september/tradoc\\_146599.pdf](http://trade.ec.europa.eu/doclib/docs/2010/september/tradoc_146599.pdf) Accessed 20/09/2014

The idea of pursuing preferential agreements in order to protect or to reclaim EU market share was not new. The EU had responded to the creation of NAFTA in the early 1990s by completing an FTA with Mexico for example. Since 2006, however, the EU has started to act in a pre-emptive manner on several fronts in order to avoid losing out as a result of potential future PTAs involving key European competitors. Sbragia (2010: 370) argues that ‘first implemented by negotiating new FTAs with trading partners in both Asia and Latin America, the new EU strategy exemplified the type of competitive interdependence now characteristic of the EU-US relationship in third markets.’ Rather than waiting to respond to moves by its competitors the EU has increasingly started to take the initiative in order to secure market access in emerging economies (Acar and Tekre, 2008). Reinforcing the theory of competitive liberalization Baldwin and Carpenter (2009:10) have argued that ‘since 2004 a series of negotiations have been launched by the EU and US to preferentially liberalize several of the most important inter-bloc trade flows. If only some of these initiatives succeed discrimination will appear and this historically has triggered a domino effect that tends to induce further liberalization.’

While the Commission reaffirmed its commitment to multilateralism in *Global Europe* it also made it clear that new PTAs would be pursued if they held the potential to promote market openness in emerging economies and included measures going beyond those entailed in the existing WTO agreements (EC, 2006b: 10-12). Nearly all negotiations launched since have been based primarily on such deep liberalization considerations. The range of PTAs which the EU has since pursued are far more ambitious in nature than previous trade agreements and include extensive provisions on Non-Tariff Barriers (NTBs), services, government procurement and intellectual property for example. The idea was that PTAs could serve to complement and drive, rather than replace, multilateralism by going beyond the provisions of existing WTO agreements. Gavin and Sindzingre (2009: 14) argue that ‘the new approach has emerged from ideas about Europe’s competitiveness which is no longer understood in purely internal terms but is also related to external factors – especially trade liberalization.’

The Commission was given the green light to engage in PTA negotiations with specific countries and regional organizations; however, it was also emphasized that the Doha Development Agenda (DDA) remained the priority and that therefore

agreements which risked negatively affecting the multilateral agenda were off limits (EC, 2006b). The further deadlock which has emerged in multilateral negotiations since then, however, has meant that the EU today is actively pursuing PTAs with several major OECD countries including the US and Japan. An EU- Canada FTA was concluded in 2013. The pursuit of such agreements are clearly evident of the lack of confidence which exists among the major economies regarding successfully overcoming the divergence of ambitions which until recently had impeded any new agreements being reached during the Doha Round.

Among the PTA targets identified in *Global Europe* were South Korea, India and ASEAN. The US had signed an FTA with Singapore, the EU's largest trading partner among the ASEAN economies, in 2003 and was at an advanced stage of negotiations towards an FTA with South Korea while both China and Japan were involved in dialogues towards liberalization with the ASEAN countries as a group. ASEAN and India had concluded a Framework Agreement for Comprehensive Economic Cooperation in 2003 while China and India had launched official talks to explore the potential of a PTA in 2004. Initially the EU aimed to maintain an interregional approach, where such relationships existed, while pursuing PTAs under the *Global Europe* strategy. The rapid subsequent initiation of bilateral PTA negotiations between the EU and the partners mentioned above appears to verify the sentiments of Zimmerman (2007: 815) who argues that 'official statements as well as actual policy suggests the EU might use its trade policy strategically to position its economy so as to be able to respond better to the emerging powers of Asia and the US.'

EU preference formation in terms of interregional trade policy has come to be shaped more by the demands of domestic interest groups and systemic challenges and opportunities and less by normative goals such as exporting the EU model of integration. The shift from interregional to bilateral negotiations with the members of ASEAN and the CAN lends support to such an argument in that previous normative concerns have been relegated in importance by more pressing geo-economic and geo-political goals. Peterson (2007: 3) argues that 'for purists, EU foreign policy objectives intrude, as they should not, on trade politics, which should be used narrowly to defend European economic interests.' This alludes to the view that despite the establishment of the CFSP under the Maastricht Treaty, the EU had

continued to attempt to link foreign policy goals with trade agreements negotiating under the CCP.

The shift to a bilateral approach with the individual members of groups with which the EU had previously been attempting to conclude interregional PTAs is indicative of the growing sentiment within the EU that the normative aspirations which accompanied the economic objectives of such agreements needed to be put to one side temporarily as a result of the necessity to respond to the moves of key EU competitors in establishing preferential agreements with important emerging economies. Peterson essentially contends that the EU has to date lacked the ability to coordinate sufficiently to implement a coherent foreign policy through trade policy. In relation to interregional PTA negotiations, for example, he concludes that the EU 'has relatively little to show for these efforts other than a desire – which can look half-hearted when it conflicts with other objectives – to replicate European style regional cooperation in other parts of the world' (Peterson, 2007).

The next section presents a brief overview of the major multilateral and preferential trade agreements to which the EU is a party and attempts to explain the observable variation in the level at which agreements are pursued within the context of the new EU approach to trade policy.

## **2.4 Overview of EU trade agreements**

The various trade agreements to which the EU is a party have been pursued and concluded with both economic and political objectives in mind. Commercial considerations include inter alia expanding market access for EU firms by means of tariff reductions, the liberalization of services and public procurement markets, and achieving agreement on the streamlining of regulatory issues. In this regard the EU is very much attempting to push the adoption of a regulatory framework which offers the maximum benefits to EU enterprises (Maur, 2005). Given that average applied border tariffs have been reduced to historically low levels one of the main areas in which EU industry can benefit from trade agreements is through breaking down NTBs and achieving agreement on common rules on competition policy, standards, intellectual property rights, and investment. This has become increasingly important in the current era which has involved the rapid growth of international production chains (Galar, 2013).

Many agreements also incorporate developmental considerations and include measures which aim at providing special and differential treatment (SDT) to developing countries and encouraging such countries to better integrate internally as a group, and with the world economy at large. And some agreements entail broader foreign policy and security considerations and aim at promoting economic growth and political stability in the European neighbourhood or expanding the relative influence of the EU in regions such as Asia and Latin America. This relates to the idea of utilizing trade agreements as ‘soft power’ mechanisms through which to achieve economic and institutional power (Leonard, 2005; Manners, 2002). More often than not, however, the content of agreements is motivated by a combination of such factors. There is generally both a political and an economic rationale behind EU PTAs in particular. Regardless of the motivation behind the pursuit of trade agreements, however, they must also be negotiated and concluded within the framework of the domestic political economies of the countries involved. The major agreements which the EU is negotiating or has concluded at each level of interaction are now discussed briefly.

#### **2.4.1 EU trade policy within the WTO**

Before turning specifically to interregional and bilateral PTAs this section briefly considers EU trade policy within the context of the WTO in order to shed some light on the gaps which agreements at other levels may be attempting to fill. The WTO is a rules based framework which currently incorporates 160 member states. While WTO agreements therefore offer the best possibility of liberalizing trade with as many countries as possible the large membership of the organization has also made it increasingly difficult to conclude such agreements. This has especially been the case since the late 1990s as US and EU hegemony within the organization has been reduced in the face of more organized collective action by other WTO members (Young, 2007). In addition, the increasingly expanding range of topics under discussion has also served to make reaching agreement more difficult. Nevertheless achieving further multilateral agreement remains the EU’s officially stated priority (EC, 2010d). At present the WTO oversees more than 60 specific agreements which regulate various aspects of the trade policy of its members. The major topics addressed during each round of GATT/WTO negotiations are summarized in Table 2.1 below.

<b>Table 2.1: Subjects covered in each GATT Round</b>		
<b>Year(s)</b>	<b>Place/Name</b>	<b>Subjects covered</b>
1947	Geneva	Tariffs
1949	Annecy	Tariffs
1951	Torquay	Tariffs
1956	Geneva	Tariffs
1960-1961	Dillon Round	Tariffs
1964-1967	Kennedy Round	Tariffs and Antidumping
1973-1979	Tokyo Round	Tariffs, Non-Tariff Barriers (NTBs)
1986-1994	Uruguay Round	Tariffs, NTBs, Services, Intellectual Property Rights (IPR), Agriculture, Textiles and Clothing, Dispute Settlement, Establishment of WTO
2002-	Doha Round	Tariffs, Agriculture, Services, IPR, Public Procurement, Dispute Settlement, Trade and Environment, Competition Policy, E-Commerce, Other issues

**Source:** WTO website. Accessed 20/12/2013

The early rounds of multilateral trade negotiations focused on reducing tariffs on industrial products. While the Tokyo Round included non-tariff measures for the first time it was not until the Uruguay and Doha Rounds that non-manufacturing trade and regulatory issues really came onto the agenda. The Uruguay Round resulted in the creation of the WTO as an organization to oversee the implementation of multilateral trade treaties. In addition, to introducing measures to reduce NTBs, agreements were concluded which covered agricultural tariffs, trade in services (General Agreement on Trade in Services (GATS)), and the protection of intellectual property (Trade Related Aspects of Intellectual Property Rights (TRIPS)) for the first time. A dispute settlement mechanism (DSM) was also introduced to act as an instrument of mediation in the case of disputes over unfair trade practices.

As already stated, the average applied border tariffs for manufactured goods are currently at historically low levels. It is important to remember, however, that many countries which apply low average tariffs continue to levy high tariffs on selected imports. These are referred to as tariff peaks and their reduction is a key focus of trade negotiations nowadays. Such tariff peaks exist for a reason, however, and any discussion of their removal or reduction within negotiations has provoked strong domestic political opposition within both the EU and its partners. The inability of

negotiators to reach agreement on the further reduction of tariffs and the elimination of tariff peaks and domestic support during the latest Doha Round has meant that PTAs have been increasingly adopted to advance this agenda.

In addition, Evans et al. (2006: 3) argue that ‘most of the new wave of RTAs have involved much more than removing border policies that limit the sale of commodities across international borders.’ Areas such as trade in services, FDI and government procurement have not been liberalized multilaterally in the same manner as trade in goods. Competition policy, the protection of intellectual property, and labour and environmental standards are not yet subject to as stringent rules as those applied to other areas. As a result, especially during the current Doha Round the EU has become increasingly preoccupied with bringing such issues under the remit of multilateral agreements and pushed for the inclusion of the so-called Singapore issues in the Doha Round of negotiations. These four issues are trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation. Due to the staunch objections of many developing countries, however, all of these issues, apart from trade facilitation, were eventually dropped from the agenda. Having felt that the Uruguay Round agreements had provided asymmetrical benefits in favour of the WTO’s more developed members, developing countries had become more wary about new areas of trade proposed for inclusion by the EU and the US in particular (Evenett, 2007; Sandrey, 2006). It was primarily as a result of differences over the inclusion of the Singapore Issues that the 2003 WTO Ministerial Conference at Cancún failed to reach an agreement. In relation to the lowering of ambition that excluding these issues entailed McGuire and Lineque (2010: 1335) argue that ‘from the perspective of EU firms, the Doha Round now looked seriously unbalanced: emerging market firms might gain greater access to Europe without EU firms gaining significant new ground in emerging markets.’

Achieving regulatory convergence and establishing greater opportunities and protection for investment is a key element of the trade policy goals of both the EU and the US. The difficulty which has been encountered in achieving agreement on these areas within the WTO has therefore been a major motivating factor in the current scramble for PTAs. The EU has since the mid-2000s been attempting to push for regulatory convergence and the liberalization of new areas of trade through a bilateral and interregional approach in which it has greater leverage. Heydon and

Woolcock (2009: 3) argue that ‘with multilateral negotiations becoming increasingly complex and protracted, trade deals among selected partners are seen, rightly or wrongly, to hold the promise of quick and comprehensive improvements in market access and rules for trade and investment.’ The central idea is that the EU might utilize PTAs to shape the rules governing world trade in a hegemonic manner and to achieve liberalization in areas which proved divisive within the WTO negotiations.

Other analysts (Baldwin and Jaimovich, 2008) argue, however, that PTAs have proliferated contagiously in recent years as a result of fear of trade diversion rather than simply as a result of WTO deadlocks. Despite the fact that agreement has finally been achieved on certain issues within the Doha Round, most notably on trade facilitation, the drive for PTAs is not likely to slow any time soon.

#### **2.4.2 EU bilateral and interregional preferential trade agreements**

EU PTAs were traditionally generally reserved for incoming and prospective members as well as certain states within the broader European neighbourhood. Since the late 1990s, however, the EU has successfully concluded bilateral and, less commonly, interregional PTAs with a range of partners across the globe. Rather than use a rigid template for PTAs a flexible approach is adopted and each agreement implements different trade liberalization schedules and regulations for the conduction of trade. Similarly the political clauses contained in each agreement differ depending upon the partner. Since the mid 2000s, however, all EU PTAs must adhere to certain criteria. They must aim at substantial market opening and include deep provisions on a broad range of trade issues which equal or go beyond WTO commitments (EC, 2006b). In general EU PTAs can be roughly divided into three broad categories.

1. Agreements with countries that are candidates for or that could potentially become candidates for accession into the EU.
2. Agreements with other bordering or near-bordering countries.
3. Agreements with distant countries or regional groups.

The first category of PTAs listed in Table 2.2 refers to those agreements involving potential future members of the EU itself.<sup>40</sup> In 1994 the European Economic Area

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<sup>40</sup> This table excludes the accession agreements completed between the EU and the 16 countries which have expanded the membership of the EU from 12 to 28 Member States. These countries are



(EEA) was established to replace the previous FTAs between the EU and Iceland, Liechtenstein and Norway. During the 1990s the EU also formed Customs Unions (CUs) with Andorra, Turkey and San Marino and an FTA with the Faroe Islands. The EU has completed preferential agreements with the Balkan countries of Albania, Bosnia and Herzegovina, Serbia and FYR Macedonia.<sup>41</sup> Negotiations have recently commenced with Kosovo. The agreements with these countries are referred to as Stabilization and Association Agreements (SAAs) and they include specific provisions related to domestic political and economic reforms which the EU demands must be implemented before a country can be considered for EU membership.

**Table 2.2: EU PTAs with potential future members**

<b>Partner</b>	<b>Nature of Agreement</b>	<b>Date of Entry into Force</b>	<b>Comments</b>
Iceland, Liechtenstein, Norway	European Economic Area (EEA)	01-01-1994	EEA replaced previous individual FTAs
Andorra	CU	07-07-1991	
Turkey	CU	31-12-1995	
San Marino	CU	01-12-1992	
Faroe Islands	FTA	01-01-1997	Replaced 1991 agreement
FYR Macedonia	SAA	01-05-2004	
Albania	SAA	01-12-2006	
Bosnia and Herzegovina	Interim Agreement	01-07-2008	SAA Implementation Frozen
Montenegro	SAA	01-05-2010	
Serbia	SAA	01-09-2013	
Kosovo	SAA	N/A	Negotiations commenced 28-10-2013

**Source:** EC, Overview of Regional Trade Agreements 2014. CU = Customs Union, FTA = Free Trade Agreement, SAA = Stabilization and Association Agreement.

Table 2.3 below lists PTAs which exist between the EU and other bordering or near-bordering countries. Since the late 1990s the EU has concluded comprehensive three

Austria, Finland, Sweden, Cyprus, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria, and Romania.

<sup>41</sup> The EU-Bosnia and Herzegovina SAA is currently suspended.

pillar AAs with several countries in the Euro-Mediterranean area which replaced earlier more basic cooperation agreements. These agreements are intended to link these countries to the EU in terms of political and economic cooperation without offering the prospect of future EU membership. In addition to improving economic cooperation the EU is primarily concerned with promoting political reform and economic development in these countries in order to increase stability in the Mediterranean region due to its geographic proximity. As Woolcock (2007: 3) states ‘by assisting economic development the Euro-Med process was intended to check large scale outward migration from the region and provide the economic basis for political stability thus tackling the potential causes of fundamentalism and instability in the region.’

<b>Partner</b>	<b>Nature of Agreement</b>	<b>Date of Entry into Force</b>	<b>Comments</b>
Algeria	AA	01-09-2005	Part of Euro-Med Process
Egypt	AA	01-06-2004	Part of Euro-Med Process
Israel	AA	01-06-2000	Part of Euro-Med Process
Jordan	AA	01-05-2002	Part of Euro-Med Process
Lebanon	AA	01-06-2006	Part of Euro-Med Process
Morocco	AA	01-03-2000	Part of Euro-Med Process
Palestinian Authority	AA	01-07-1997	Part of Euro-Med Process
Syria	Cooperation Agreement	01-07-1977	Part of Euro-Med Process
Tunisia	AA	01-08-1998	Part of Euro-Med Process
Ukraine	AA	Pending	
Armenia	AA	N/A	Negotiations are ongoing
Georgia	AA	N/A	Negotiations are ongoing
Moldova	AA	N/A	Negotiations are ongoing

**Source:** EC, Overview of Regional Trade Agreements, 2014. AA= Association Agreement.

Unlike the partners of SAAs, however, those of AAs are not expected to subscribe to the full EU *acquis communautaire*, the accumulated body of EU law. These

associated countries receive duty free access to the EU for manufactured goods while preferential treatment is granted to exports of agricultural products. The EU did negotiate and conclude an AA with Syria in 2004; however, this was never signed and ratified. As such the earlier cooperation agreement continues to govern economic relations between Syria and the EU.<sup>42</sup> The EU has also negotiated and concluded an AA with Ukraine. This was initialed in mid-2012 and was due to be officially signed in late 2013 prior to the outbreak of the current Ukrainian political crisis. The agreement was finally signed in March 2014. Negotiations towards AAs are also at an advanced stage with Armenia, Georgia, and Moldova. It is unclear if and when these states may be considered for EU membership. Table 2.4 below lists EU PTAs with distant countries and regional groups while Table 2.5 lists such PTAs which are currently under negotiation or consideration.

**Table 2.4: EU PTAs with distant countries and regional groups**

<b>Partner</b>	<b>Nature of Agreement</b>	<b>Date of Entry into Force</b>	<b>Comments</b>
South Africa	TDCA	01-01-2000	
Mexico	EPPCCA	01-07-2000	
Chile	AA	01-02-2003	
South Korea	FTA	01-07-2011	FTA has only been provisionally applied
Central America	AA	01-08-2013	Interregional Agreement
Colombia and Peru	MPA	01-03-2013	Multiparty Agreement which it is hoped will eventually expand to include the other members of the Andean Community
Canada	FTA	Pending	
Singapore	FTA	Pending	FTA was initialed on 20-09-2013.
CARIFORUM	EPA	Pending	Interregional PTA

**Source:** EC, Overview of FTA and other negotiations, 2014. TDCA = Trade, Development, and Cooperation Agreement, EPPCCA = Economic Partnership, Political Coordination and Cooperation Agreement, EPA = Economic Partnership Agreement, MPA = Multiparty Agreement

<sup>42</sup> EU economic cooperation with Syria has, however, been suspended since 2011 due to the ongoing political crisis.

The logic underpinning EU PTAs with counties in Tables 2.2 and 2.3 is more or less obvious. Of particular interest, however, are those agreements concluded between the EU and other countries located in geographically distant locations. For sure these next generation PTAs are primarily driven by commercial considerations which have become more prominent given the slowdown in WTO negotiations and the resultant scramble for preferential agreements which has taken place during the past decade in particular.

<b>Table 2.5: EU PTAs under negotiation or consideration</b>		
<b>Partner</b>	<b>Nature of Proposed Agreement</b>	<b>Comments</b>
Mercosur	AA	Negotiations commenced in 1999 and are ongoing
GCC	FTA	Negotiations commenced in 1991 and are ongoing
ACP EPA Groups	EPA	An interregional approach was adopted in 2003. Several states have signed interim agreements. Negotiations are ongoing
ASEAN	FTA	Negotiations commenced in 2007. In 2009 it was decided to adopt a bilateral approach.
Andean Community	FTA	MPA concluded with Colombia and Peru in 2010 which it is hoped will eventually expand to include the other members of the Andean Community
India	FTA	Negotiations commenced in 2007 and are ongoing
Malaysia	FTA	Negotiations commenced in 2010 and are ongoing
Vietnam	FTA	Negotiations commenced in 2010 and are ongoing
Japan	FTA	Negotiations commenced in 2013 and are ongoing
Thailand	FTA	Negotiations commenced in 2013 and are ongoing
USA	TTIP	Negotiations commenced in 2013 and are ongoing
China	PCA	Negotiating modalities yet to be agreed

**Source:** EC, Overview of FTAs and other trade negotiations, 2014.

The EU has concluded PTAs with South Africa (2000), Mexico (2000), Chile (2003/2005), South Korea (2010), Peru (2010), Colombia (2011), the Central American States (2011), CARIFORUM (2008), Canada (2013, Pending Implementation), and Singapore (2013, Pending Implementation). Many of these agreements also include political dialogue and cooperation chapters. This is despite

the fact that none of these countries have any foreseeable prospect of EU membership nor are located in the EU neighbourhood. The inclusion of such non-economic provisions in PTAs is indicative of EU normative and foreign policy objectives being pursued through trade policy as was discussed earlier in this chapter. Where possible the EU has tried to achieve both economic and political goals through agreements. In the current era of increased competitiveness, however, the EU has come under pressure to focus more on commercial considerations especially where disagreements over political clauses have hindered the conclusion of agreement. This also applies to the issue of sticking with an interregional approach in order to promote regional integration when bilateralism holds the potential to more rapidly achieve economic objectives.

The EU has also completed an interregional Economic Partnership Agreement (EPA) with the CARIFORUM group of states. Following the conclusion of the Cotonou Agreement the EU launched interregional PTA negotiations with seven individual groups of ACP countries.<sup>43</sup> The majority of these countries are former colonies of EU Member States and these agreements have a historical and developmental rationale. Special and differential treatment (SDT) is accorded to these partners in comparison to those in other categories and, in addition, the EU grants unilateral preferential treatment under the GSP and EBA initiatives. The new aim, however, is to eventually supersede such schemes with reciprocally negotiated interregional trade agreements. According to the EU Commission, an interregional approach has been adopted with the ACP countries in order to promote the integration of these economies as a step towards economic development and eventual integration with the global economy at large (EC, 2010d). The shift from unilateral preferences to the negotiations of reciprocal agreements with the ACP countries is, however, a further example of the relegation of EU ideational and normative concerns in comparison to more realist oriented material considerations (Garcia, 2013). Heron and Siles-Brügge (2012) find that the provisions aimed at services and investment liberalization in the EPAs for example, are identical to those included in the EU's supposedly more commercially oriented trade agreements.

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<sup>43</sup> The Cotonou Agreement (2000) is a treaty between the EU and the African, Caribbean, and Pacific Group of States (ACP). The stated aim of the agreement is the reduction and eventual eradication of poverty, the promotion of sustainable development, and the gradual integration of ACP countries into the world economy.

In terms of interregionalism the empirical analysis of EU PTAs in this section has highlighted the fact that the EU has concluded very few agreements with its interregional partners. Only two interregional PTAs have been concluded to date – the AA between the EU and Central America and the EPA between the EU and CARIFORUM.<sup>44</sup> Negotiations have also taken place between the EU and Mercosur, ASEAN, the CAN, the GCC, and the six other groups of ACP countries. To date these have proven unsuccessful, however, and the EU has increasingly opted for a bilateral approach with the members of certain interregional partners.

## **2.5 Variation between multilateralism, interregionalism, and bilateralism**

In order to attempt to explain the variation in the nature of EU trade policy decision making it is first necessary to distinguish between multilateralism, interregionalism, and bilateralism as distinct levels of interaction at which the EU engages with other countries within the global trading system. As Bretherton and Vogler (2006: 171) state ‘the implications of the shifting choices between and within these levels of international relations are an important phenomenon to address in the study of diplomacy.’ More specifically in terms of trade policy it is important to assess whether the EU’s objectives differ dependent upon the level at which it negotiates trade agreements with other countries. This section briefly discusses whether the EU’s pursuit of trade agreements at different levels is simply a matter of pragmatism in terms of getting the job done, or alternatively represents the prioritization of specific goals which it is felt are best achieved at one level of interaction in comparison to others.

Much scholarly attention has focused on the question of why countries pursue regional and preferential trade agreements. The major competing theories in this regard were discussed briefly in Chapter 1. Less attention has been devoted to the issue of why states prefer to negotiate PTAs at different levels. In a detailed analysis of regional integration Mansfield and Milner (1999: 606-607) argue that political leaders may choose to pursue regional trade arrangements when they face domestic opposition to unilateral or multilateral trade liberalization. In this thesis I contend

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<sup>44</sup> Previous interregional agreements between the EU and loosely aggregated groups of other states, such as the Yaoundé and Lomé agreements are excluded from consideration due to the fact these involved the provision of unilateral preferential market access on the part of the EU in comparison to the reciprocally negotiated interregional PTAs currently aimed for.

that a similar argument can be made in terms of interregionalism and bilateralism. While a set of several specific objectives are associated with interaction at the interregional level, including most prominently the promotion of regional integration elsewhere, the EU has increasingly adopted a bilateral approach due to the fact that it has been unable to conclude PTAs at the interregional level in the majority of cases.

### *Multilateralism*

The official EU position remains that multilateralism under the auspices of the WTO is the priority in terms of achieving trade liberalization (EC, 2010d). Given the EU's position as one of the world's leading trading powers, the attraction of multilateral agreements as opposed to preferential agreements is more or less intuitive. Simply put, multilateral agreements serve to liberalize trade at the broadest possible level given the fact that the majority of countries now participate within the WTO framework. While the extent to which different firms and producers are globally competitive may influence their preferences in terms of the breadth and depth of liberalization, the until recent hegemonic position of both the US and the EU within multilateral negotiations meant that large market access gains could generally be achieved in return for a minimal level of market opening in sensitive sectors (Young 2007). The perceived asymmetrical gains on the part of developing countries under the terms of the Uruguay round agreements, however, resulted in much greater organized opposition to US and EU demands during the current Doha round and necessitated a change in approach (Narlikar and Tussie, 2004).

The failure of the WTO talks in Cancún in 2003 in particular has been cited as a marking a critical juncture in the transition of EU trade policy to more specific and focused negotiations at levels below multilateralism (Hänggi et al., 2005; Soderbaum et al., 2005). Over the course of the decade which followed, as the Doha round continued to progress slowly, the EU came to favour a strategy of seeking preferential agreements with key countries and regional groups in Asia, Africa and Latin America and the Commission indeed demanded a mandate to pursue such bilateral and interregional agreements regardless of whether or not multilateral negotiations remained stalled or not (Allen and Smith, 2007: 167). In 2004 the then Trade Commissioner Pascal Lamy alluded to the potential for a change of tack in EU trade policy:

The WTO has too often been the sole focus for efforts to strengthen international governance, which risks weakening its legitimacy both internally within the Union, and in the outside world. I don't believe the WTO can or should remain the sole island of governance in a sea of unregulated globalization (Lamy, 2004).

And in 2006 the Commission officially unveiled its new trade policy strategy 'under which the EU would pursue bilateral FTAs with major economies in order to secure the market access and competitiveness of European companies in important markets' (Acar and Tekce, 2008: 275). Importantly, however, while the EU's new approach to trade policy was implemented by the Commission the change in approach itself was prompted not only due to the shifting preferences of the member states and the Commission themselves but also as a result of the expressed preferences of domestic interest groups (Heron and Siles-Brügge, 2012; Meunier, 2007).

Reflecting on the EU's multilevel approach to trade policy Meunier and Nicolaïdis (2006: 907) accuse the EU of being 'conflicted between its own guiding principles, which often appear to contradict one another – such as championing multilateralism while blanketing the planet with bilateral trade agreements, or promoting the cause of economic development while protecting European agriculture.' On the other hand, Hardacre and Smith (2009: 172) contend that engagement in bilateralism and interregionalism does not contradict support for multilateralism due to the fact that bilateral and interregional agreements must operate within the confines of WTO obligations. From this point of view shifting between levels of interaction is simply representative of pragmatically attempting to fulfill trade policy objectives by utilizing all available means – in other words a form of forum shopping.

### *Interregionalism*

As discussed in Chapter 1, EU centred group-to-group dialogues have taken place since the 1970s. Early EU interregionalism was much more one sided and, in addition to providing a framework through which the EU could efficiently manage its commercial interests, focused on the provision of development assistance and unilateral preferential market access and the promotion of regional integration. Since the mid-1990s, however, EU interregional relationships have been much more comprehensive in nature and came to be considered as a suitable level of interaction through which to pursue reciprocally negotiated PTAs. In addition, EU interregionalism, at least on paper, has become much more multidimensional and



nowadays aims at promoting a range of norms such as democracy, human rights and sustainable development.<sup>45</sup>

Interregional PTAs appeared to offer the EU the potential to fulfil the long standing foreign policy and geopolitical objectives associated with this level of interaction as well as to more efficiently achieve increased market access and regulatory harmonization in comparison to bilateral PTAs with individual countries. In terms of trade policy objectives, however, there has been a large gap between what the EU has sought to achieve through its interregional relationships and what has been attained in reality.

Attempts to conclude interregional trade agreements have encountered many of the same obstacles which have hindered multilateral agreement during the Doha Round of the WTO. In both forums the EU has generally remained steadfast in its refusal to liberalize sensitive sectors to the extent demanded by its partners in return for further market opening. In most cases interregional PTA negotiations have failed due to the inability of policymakers within both the EU and counterpart regions to craft agreements which satisfy the demands of potentially affected domestic interest groups.

In addition, the partner regions with which the EU has negotiated have often lacked the capacity to develop coherent positions within negotiations to the extent that they can match the level of ambition demanded by the EU in this regard. Extreme variation in levels of economic development among the members of counterpart regions mean that these countries often have divergent trade and development preferences and the weakly institutionalized nature of the majority of counterpart regions makes it difficult for their members to arrive at much more than a lowest common denominator position in trade negotiations. This has not been compatible with the EU pursuit of comprehensive WTO-plus PTAs as mandated by the *Global Europe* strategy. In both multilateral and interregional negotiations neither the EU nor its partners have been willing to make the concessions demanded by the other. In many cases it is still hoped that impasses may eventually prove easier to overcome at

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<sup>45</sup> Grugel (2004: 608) argues that new inter-regionalism aims to achieve political and institutional reform and social inclusion rather than simply institutionalizing economic cooperation. From this perspective interregionalism is perceived to be capable of addressing power inequalities between Europe and the South.

the interregional level, however, while in others bilateralism has been adopted as a solution to overcome interregional deadlocks. It is interesting to note that a general trend has emerged whereby periods during which multilateral trade talks have stalled have ended to coincide both with periods of increased interregional activity as well as with periods in which formulating interregional accords has proved more difficult due to the fact that the same barriers to agreement tend to exist in both forums (Doctor, 2007: 290). And importantly the EU's capacity to maintain a steadfast commitment to interregionalism has come to be challenged by the spread of PTAs between members of EU partner regional organizations and key EU competitors.

### *Bilateralism*

While the process of interregionalism has flourished since the 1990s, at least in terms of the expansion of the number of relationships, the EU has simultaneously started to develop a complex network of bilateral relationships and PTAs with individual states. The majority of EU bilateral agreements have been concluded since the establishment of the WTO in 1995. The puzzle is that while the EU is often prepared to engage with certain states at a bilateral level it refuses to do so with others and insists that dialogue towards any agreement must take place within an interregional context.

In its relations with the Southern Cone countries, for example, the EU has established a bilateral strategic partnership with Brazil but remains insistent that trade liberalization negotiations must take place solely within in the framework of the negotiations towards an EU-Mercosur Association Agreement. In its relations with both ASEAN and the CAN, however, the EU has agreed to pursue bilateral trade liberalization outside the interregional framework. And in Southern Africa the EU has signed a PTA with South Africa while restricting its relationship with the other member states of the Southern African Development Cooperation (SADC) and the Southern African Customs Union (SACU) to the interregional level.

It is a key proposition of this thesis that EU competitor PTAs are an important explanatory variable in this regard. The threat posed to EU commercial interests by trade agreements concluded by the US, China, and Japan in particular resulted in potentially affected sectors and industries rallying for a change in the EU's approach to trade policy.

There may be course, however, be different logics underlying the various EU bilateral partnerships with countries which are not potential members or are located in the European neighbourhood. Bilateral relationships might sometimes be established in order to function as a mechanism to promote interregionalism. The EU-Brazil strategic partnership has not addressed the issue of trade liberalization due to the fact that the EU is still hopeful of achieving agreement on this with the Mercosur as a whole. The fact that plans for the FTAA have not progressed and EU competitors have not concluded PTAs with the major Mercosur members, Brazil and Argentina, has meant that the EU has so far stuck with an interregional approach despite the lack of success in concluding an agreement. The establishment of a bilateral PTA between the EU and Brazil would potentially undermine the entire Mercosur process. The Mercosur institutional framework in fact prohibits its member states from entering into their own bilateral trade agreements. Both EU and Brazilian officials have therefore emphasized that the strategic partnership is intended to supplement rather than replace EU-Mercosur interregionalism. The EU in fact hopes to utilize this bilateral relationship to act as a spur to interregionalism (EU, 2007d).

The EU can be also seen to have sought the adoption of comprehensive bilateral PTAs with its more important strategic and commercial partners when negotiations towards substantive agreement at the interregional level are deemed to have failed or indeed whenever a partner country is not located in a region with which the EU is negotiating with at the interregional level.<sup>46</sup> Hardacre and Smith argue that ‘it appears that if the interregional approach is not proving fruitful, then the EU will consider a bilateral option when there are pressing relative economic concerns, such as the countries in question signing agreements with the EU’s competitors’ (2009: 182). This has been the case of both ASEAN and the CAN. The EU has also concluded a fully comprehensive trade and cooperation agreement with Mexico. While Mexico is a member of NAFTA the EU does not engage with this organization on an interregional level and the agreement concluded between the EU and Mexico was therefore intended to protect EU business interests in the Mexican

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<sup>46</sup> The EU has no interregional relationship with NAFTA, for example, and has therefore developed bilateral ties with the USA, Canada and Mexico.

market which had been negatively affected by the establishment of the NAFTA in the early 1990s.

The EU is more likely to engage in interregionalism with counterpart regional organizations which possess adequate coherence to take part in negotiations aimed at concluding substantive agreements.<sup>47</sup> If a country deemed to be an important strategic or commercial partner is not a member of such a regional organization or if interregional negotiations have ended in deadlock then a bilateral approach is often taken. This correlates with the view that ‘far from being locked into a specific foreign policy doctrine, the EU uses any type of policy that it has at its disposal and which appears to be most suited to a given objective’ (Rigner and Soderbaum; 2010: 50).<sup>48</sup>

While the EU has tried to privilege the interregional level of relations, slow progress in interregional dialogues has forced Brussels to return to the bilateral level of relations with key partners. While this may be deemed both a logical and pragmatic step in terms of fulfilling trade policy objectives it raises questions regarding the potential for the EU to fulfill certain foreign policy and normative objectives which for many years have differentiated EU trade policy from that of other major economic powers.

## **2.6 Conclusions**

While the EU remains a committed participant in the multilateral global trading regime overseen by the WTO it has in recent years also started to pursue the development of an extensive network of PTAs at both the interregional and bilateral level. This change of direction in terms of trade policy has taken place within the context of increasing interdependence as a result of accelerating globalization, a lack of progress towards new WTO agreements, and institutional evolution within the EU itself.

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<sup>47</sup> In an analysis of the variation in the level at which the EU conducts its external relations Doidge argues that ‘the shape of interregionalism and the function it performs in the international system is dependent upon the nature of the actors involved’ (2007: 231).

<sup>48</sup> In a similar vein Acar and Tekre (2008: 279) contend that the EU pragmatically adapts itself when dealing with each potential partner in order to evaluate the optimum strategy to ‘deepen integration, expand its share in world exports, incorporate dialogue on universal issues such as migration and the environment and promote good governance and development cooperation.’

Until very recently multilateralism within first the GATT and later the WTO system remained the primary focus of the Commission which is responsible for engaging in trade policy on the part of the member states. The EU's institutional framework has involved the delegation of responsibility to the Commission in this manner from the very beginning. In addition to multilateralism the process of EU enlargement through the years had involved the conclusion of bilateral trade agreements with prospective member states and from the early 1990s the EU also started to pursue PTAs with a range of countries located in the broader European neighbourhood. Interregionalism on the other hand emerged as a strategy through which the EU could promote more general economic and political cooperation with groups of countries particularly in the developing world. In doing so there were two primary objectives.

The first was to strengthen the influence and the identity of the EU as an actor in international relations. In comparison to trade policy the EU has had relatively little competence over foreign policy and therefore sought to assert itself through interregional interaction. Given the position of the EU as the most developed regional organization in the world and its preeminent role in seeking to develop region-to-region level ties, a hub-and-spokes system of interregionalism emerged with the EU at its centre.

A second motivating factor for the EU was to facilitate the spread of regionalism elsewhere through the process of interregional interaction. This was due to the normative belief in the capacity of regionalism to foster peace and economic development elsewhere as it had done in the EU itself. In terms of the objectives of interregionalism outlined in the previous chapter, the EU initially sought to fulfill primarily self-focused balancing, institution building and identity building through the interregional framework. Starting with Mercosur in the mid-1990s, however, the EU adopted a much more ambitious approach to interregional relations and sought to move beyond low level functional cooperation to the negotiation of a comprehensive AA comprising substantial trade liberalization commitments. Interregionalism became much more about strengthening EU material interests and balancing against EU competitors especially within the context of the East Asia-North America-EU triangle. The normative agenda remained intact, however, as despite the difficulty encountered in achieving agreement on PTAs at the interregional level the EU continued to devote substantial resources to this level of interaction including the

provision of technical and financial assistance towards other regional integration processes. Perhaps most importantly the EU remained steadfast in its insistence on dealing with groups of countries in both Asia and Latin America on an interregional as opposed to a bilateral basis. This was in stark contrast to the US which is perceived to have sought to undermine rather than support regional initiatives in Latin America in particular (Santander, 2005; 292; Hettne, 2007: 114).

In the mid-2000s a much more competitiveness driven approach to EU trade policy emerged which was outlined in the official 2006 *Global Europe* report. Having remained fully committed to multilateralism while other economic powers had started to pursue an extensive range of PTAs for several years the EU finally felt compelled to defend its commercial interests. PTA negotiations were launched with several individual countries and also importantly with several further regional organizations with which the EU had had longstanding ties. While the EU did successfully conclude bilateral PTAs with several individual countries including Mexico, South Africa, and Chile, interregional level negotiations have so far proved more difficult. To date the EU-Central America Association Agreement and the EU-CARIFORUM Economic Partnership Agreement represent the only successfully concluded interregional agreements in this regard.

As already stated, the pursuit of PTAs with other regional organizations was driven by strong balancing concerns on the part of the EU in addition to the aim of overcoming multilateral deadlocks. And while the EU's interregional negotiations with groups such as ASEAN and the CAN encountered many obstacles, the individual members of these groups were concluding bilateral PTAs with EU competitors which served to intensify balancing concerns. This resulted in the decision being taken by the Commission to also adopt a bilateral approach with the above mentioned regions. This decision was taken, however, in light of the demands of domestic interest groups within the EU that steps be taken to protect EU commercial interests.

The evolution of EU trade policy from multilateralism to interregionalism and now increasingly to bilateralism may be deemed both logical and pragmatic in terms of achieving the maximum benefits for EU firms while minimizing the concessions which have to be made. The issue is, however, that the EU has always attempted to

differentiate itself from other major economic powers in approaching trade policy with a much broader range of objectives in mind. In addition to seeking to secure market access and achieve regulatory convergence the EU officially claims to seek to promote economic development, political stability and a wide range of governance norms in developing countries (Borzel and Risse, 2009). Supporting regional integration processes elsewhere has been a key mechanism in this regard. A key issue is whether or not the current approach of negotiating preferential agreements with selective members of regional organizations in place of a prior insistence on an interregional approach is compatible with the fulfillment of all these broad aims.

## **Chapter 3: The European Union and the Association of South East Asian Nations**

### **3.1 Introduction**

The EU and ASEAN commenced negotiations towards an FTA in July 2007 following more than three decades of interregional cooperative endeavours. The decision to pursue this agreement was taken within the context of the new approach to EU trade policy which was outlined in the 2006 *Global Europe* report as discussed in the previous chapter. *Global Europe* provided for PTAs to be pursued with countries and regions with large market potential, in terms of economic size and growth, and high levels of protection against EU export interests. In addition, it was stipulated that the EU should take steps to pursue defensive agreements in cases where PTAs concluded by other major economies threatened EU commercial interests (EC, 2006b). In line with these criteria ASEAN was identified as a priority partner with which to pursue an FTA. ASEAN itself had also adopted a more coherent and active approach to preferential trade negotiations following the adoption of the ASEAN Charter in 2007. Despite great initial optimism, however, negotiations broke down in 2009 and the EU soon after commenced bilateral level FTA negotiations with several of the individual members of ASEAN despite having previously insisted that it would only deal with the group on a region-to-region basis.

The failure to conclude an interregional FTA resulted from the refusal of ASEAN governments to agree to the far reaching trade liberalization commitments demanded by the EU. The divergent preferences of the ASEAN member states themselves made it difficult for the organization to arrive at anything more than a lowest-common denominator position in negotiations. The decision to pursue bilateral FTA negotiations with members of ASEAN was very much in line with the expressed preferences of domestic interest groups who feared that maintaining an interregional approach might result in negotiations being drawn out over several years without success as had occurred in the EU's negotiations with Mercosur (BusinessEurope, 2007, 2010). The expanding network of PTAs between ASEAN members and other major economies such as the US, China, and Japan implied a potential for trade diversion at the expense of EU firms and producers. While the official EU position is that its own bilateral FTAs with ASEAN members will act as stepping stones to a future interregional agreement it may be argued that bilateralism does not have the



same potential as interregionalism to promote closer regional integration within ASEAN. As such the implications of a bilateral approach may be markedly different than those of interregional interaction.

The first section of this chapter traces the evolution of the relationship between the EU and ASEAN in detail. The second section analyzes the factors which led to the launch of FTA negotiations in 2007 as well as the course of the negotiations themselves. The third section examines the change to a bilateral approach. The final section offers some conclusions regarding the implications this has for both the EU and ASEAN.

### **3.2 The EU and ASEAN**

The relationship between the EU and ASEAN is one of the oldest formal interregional relationships currently in existence. The interaction between these two regions can be classified as having undergone three phases of development (Forster, 2000: 790; Neves, 2004: 13). A timeline of the key events and agreements related to EU-ASEAN interregionalism is presented in Table 3.1 below.

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**Table 3.1: Overview of ASEAN-EU interregionalism**

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<b>1972</b>	1st Interregional Dialogue in Brussels
<b>1975</b>	Joint Study Group (JSG) established
<b>1978</b>	1st ASEAN-EEC Ministerial Meeting (AEMM)
<b>1980</b>	2nd AEMM EC-ASEAN Cooperation Agreement Joint Cooperation Committee (JCC) established
<b>1985</b>	1st Meeting of Economic Ministers
<b>1994</b>	11th AEMM New Asia Strategy launched
<b>1996</b>	Asia-Europe Meeting (ASEM) launched
<b>2003</b>	14 <sup>th</sup> AEMM 'A New Partnership with Southeast Asia' Trans Regional EU ASEAN Trade Initiative (TREATI)
<b>2005</b>	15th AEMM Vision Group established
<b>2007</b>	16th AEMM EU Council authorizes EU Commission to launch FTA negotiations Joint Committee (JC) established to work on the logistics of a potential agreement
<b>2007-2008</b>	Several interregional FTA bargaining rounds
<b>2009</b>	Interregional FTA negotiations suspended

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The first phase of the relationship (1972-1980) primarily involved laying the foundations for regular institutionalised cooperation between the regions. It was in fact ASEAN which most actively sought a closer relationship with the EC due to fears of losing preferential Commonwealth trade privileges following Britain's upcoming accession to the EU in 1973 (EC, 1979a). A first low-level interregional dialogue was held in Brussels in 1972. Further informal meetings took place in Bangkok in 1973 and in Jakarta in 1974. These discussions resulted in the establishment of an interregional Joint Study Group (JSG) in 1975 with the professed aim of exploring the potential of interregional cooperation in various areas including trade promotion and cooperation, regional integration, economic development, multilateral trade negotiations and the Generalized System of Preferences (GSP) (ibid.).

Both the EC and the members of ASEAN made it clear from early on that they preferred to deal with each other on an interregional basis. In particular, ASEAN's 1976 Treaty of Amity and Cooperation and the Declaration of ASEAN Concord served to enhance the group's attractiveness as a partner for the EC at the interregional level (EC, 1976; 1979a). In functional terms the creation of an ASEAN Secretariat and the post of Secretary General also facilitated coordination among the ASEAN member states in this regard (ibid.). The first interregional ministerial level summit was held in Brussels in 1978. Following this meeting the Commission made a formal proposal to the Council for the conclusion of an agreement with ASEAN. In this proposal the perceived benefits to both the EC and ASEAN were outlined as follows:

From the Community viewpoint a formal cooperation agreement would facilitate and encourage European participation in the economic growth of one of the most rapidly-developing areas of the world which is also a major source of raw materials. For the ASEAN countries an agreement with the Community would help them to achieve a better balance as between their different economic partners and would provide an impetus to their internal economic integration. This would in turn strengthen the political stability of the region, which is a vital element in preserving the peace of the whole of South East Asia (EC, 1979b).

The objectives outlined here clearly correlate with several of the functions of interregionalism put forward in the existing literature (Rüland, 2002, 2010). The EC sought to increase its presence in the emerging economies of South East Asia in line with the balancing function. Official reports on the relationship with ASEAN at this

time make overt reference to the record levels of economic growth achieved by ASEAN members and to the declining EC share of trade and investment with the group (EC, 1979a, 1981, 1983). These documents all also make reference to the importance of ASEAN as a source of raw materials. It was hoped that creating institutional links between the regions would serve to promote EC interests in the region and at the same time offer benefits to the ASEAN member states. The EC perceived itself to be offering the ASEAN countries the opportunity to diversify their economic relationships, to promote industrialisation, and to strengthen their internal integration in order to realise substantial economic and political gains.

Following the Commission's recommendations the interregional relationship was formally institutionalised with the signing of a Cooperation Agreement. The negotiations were concluded rapidly having been launched in November 1979 and concluded in March 1980. This agreement made provisions for a ministerial conference every second year, meetings of senior officials between ministerial meetings and the establishment of a Joint Cooperation Committee (JCC) which would meet every eighteen months to discuss commercial, economic and developmental issues. Gilson (2005: 319) argues, however, that despite the official rhetoric which emerged from these early summits they were typical of 'old' interregionalism in that the aim was simply to manage European interests without any suggestion of an equal partnership being formed between the EU and the partner region. The EC did, however, from early on devote substantial financial and technical resources to both ASEAN's integration process as well as economic development. In particular the EC offered extremely preferential market access to exports from ASEAN countries under the terms of the GSP scheme. And in an effort to promote intra-ASEAN trade the EC agreed to allow for cumulative rules of origin.<sup>49</sup>

The second phase of the EU-ASEAN relationship (1980-1994) was initially dominated by security issues and the provision of aid to the lesser developed countries in the region. The EC sided with ASEAN against the looming Communist threat which had intensified following the Vietnamese occupation of Cambodia in

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<sup>49</sup> Rules of origin refers to the value-added content required for products to be eligible for preferential treatment under the terms of trade agreements. Cumulative rules in this regard allow for reduced value-added content in the case that value is added in other members of a regional group.

1978 (Rüland, 2001: 12). Proposals for expanding economic cooperation did emerge during the mid-1980s, however, and Robles states (2004: 99) that ‘the first meeting of economic ministers in 1985, which declared a gradual shift from development assistance to economic cooperation, seemed to herald the start of a less asymmetrical relationship.’ The impetus for closer cooperation had again primarily come from ASEAN which hoped to achieve a balancing function, in terms of diversifying its economic partners, through the interregional relationship. The EC was, however, primarily focused on further internal integration at this point in time. The interregional economic dialogue with ASEAN was therefore relegated somewhat in importance until the mid-1990s. Forster (2000: 791) argues that ‘especially between 1990 and 1994, priority was given to internal reforms that led to the negotiation of the Treaty on European Union and then to managing the enlargement of the Union. It was only once these issues were under way that the Commission turned its attention to geographically more distant regions.’

By the mid-1990s the level of trade between the two regions had increased dramatically as a second group of Newly Industrialized Countries (NICs) started to emerge in what was a period of record economic growth in Southeast Asia. The ASEAN member states had established the ASEAN Free Trade Area (AFTA) in 1992 and, in addition, the integration model in ASEAN had become much more outward oriented in line with the trend for open regionalism (Aggarwal and Chow, 2010: 272). Barriers to trade and investment were reduced significantly and the members of ASEAN became much more proactive in seeking economic and political ties with other countries and regions. As a result the EU started to devote greater attention to ASEAN. In 1994 the EU launched its *New Asia Strategy* based upon the increasing recognition that developments within Asia were ‘dramatically changing the world balance of economic power’ (EC, 1994a: 1). This can be considered the starting point of the third and current phase in EU-ASEAN relations which has involved the development of a much more comprehensive and multidimensional partnership.

The EU was aiming to ‘pursue market opening for both goods and services and to overcome obstacles to European trade and investment by encouraging a favourable regulatory environment for business in Asia’ (ibid.). The EU-ASEAN trade relationship during the 1970s and early 1980s had been one in which ASEAN

exports to the EU primarily consisted of raw materials, basic manufactures and low end consumer goods and EU exports to ASEAN primarily consisted of high technology products, transport equipment and machinery. This had gradually changed, however, and by the 1990s the commodity structure of trade had become more equal as transnational companies set up global production networks and intra-industry trade increased (Lindberg and Alvstam, 2008: 12).

While all the ASEAN countries had been accorded preferential treatment under the GSP this had been reduced in the early 1990s and Singapore had in fact graduated from the scheme. The ASEAN countries themselves therefore also had a strong interest in strengthening the terms of their relationship with the EU. And the EU was at this stage cognisant of the necessity to take steps to secure its economic interests in Asia:

A re-evaluation of the EU's policies towards Asia cannot take place in a vacuum. All of the major international actors have an interest in the region, more so even than the EU whose interest in the first instance is primarily economic. The Union must therefore be aware of the actions and ideas of others if it is to safeguard its interests and maximise the potential of its own policies. (EC, 1994a: 16).

The APEC forum had been established in 1989 and Forster argues (2000: 791) that 'part of the motivation for re-evaluating the EU-ASEAN relationship was therefore the need to embrace the growth of Asian power and to match US diplomatic investment in the region, creating a third leg of a triangular relationship between North America, Asia and Europe.' In terms of the functions of interregionalism balancing concerns played a huge role in determining EU policy towards ASEAN during the mid-1990s. Interestingly, however, although such economic balancing concerns had prompted the development of the new EU approach in Asia, within the EU-ASEAN relationship in particular, political issues also came to assume a position of increased importance. The European Parliament and Council of Ministers premised their support for new trade strategies on the inclusion of conditionality related to democracy, human rights, fair trade and environmental issues. Conditionality has therefore been a key feature of the new phase in the EU-ASEAN relationship. During the 1970s and 1980s the EC had avoided tackling issues which ASEAN members would have perceived as encroaching on national sovereignty. From the 1990s, however, both governmental and societal actors within the EU

became increasingly vocal about the right to self-determination in East Timor and respect for human rights and political freedom in Myanmar (Robles, 2006: 109). The effort to transpose what were perceived as Western values led to conflict, however and Rüländ (2001: 18) argues that ‘when finally around 1993, ASEAN began to counter Western universalism with Asian cultural relativism through propagating the now infamous Asian value hypothesis, ASEAN-EC relations were caught in a stalemate.’ Furthermore, liberalisation within APEC failed to develop as expected and the organisation operated more as a talking shop than as a liberalising and integrative mechanism. The EU was under less pressure to balance against the US centred organization and therefore concentrated on multilateralism between 1999 and 2006 (Interview 2). The EU mainly used its interregional relationship with ASEAN to push for the full implementation of Uruguay Round agreements such as the TRIPS.

In 1996 the Asia Europe Meeting (ASEM) was established. The ASEM originally comprised the members of ASEAN, Japan, China and South Korea on one side and the EU on the other. Perhaps even more so than the EU-ASEAN dialogue the ASEM was perceived to have emerged due to systemic balancing concerns, not only on the part of the Europeans but also on the part of East Asian countries which had become more wary of US ambitions in the APEC forum (Hänggi, 2000, 2006; Roloff 1998, 2001). The ASEM was not very successful, however, in achieving real gains in cooperation and it played a bigger role in facilitating high level political exchange than in institutionalising trade cooperation (Interview 2). It did, however, give a major boost to East Asian regionalism as its Asian members were required to collaborate closely in negotiations and this led to both the strengthening of ASEAN itself as well as the development of a more formal relationship between ASEAN and China, Japan and South Korea – which came to be referred to as ASEAN Plus Three.

The real spur to developing a closer EU-ASEAN relationship and the decision to negotiate an interregional FTA, was the fact that since the early 2000s key EU competitors including the US, Japan and China had concluded or were negotiating a range of competitive liberalisation agreements with the members of ASEAN. In conjunction with the lack of progress being made in multilateral WTO negotiations this prompted the EU to develop a new approach to trade policy not only in Asia but

also in Latin America as will be discussed in subsequent chapters. The 2006 *Global Europe* report issued by the EU Commission signified a change of tack in EU trade policy under which new FTA negotiations with selected partners would be permitted in conjunction with continued support for multilateralism. The EU Council supported the new approach to trade policy:

Building on the platform of the WTO and in parallel to our efforts to resume the DDA negotiations, there is a need for complementary mechanisms that allow us to continue to achieve additional improvements in market access and business environment, particularly with our future major trading partners. (Council, 2006: 20).

It was in this context of EU competitor PTA activism and multilateral inertia that negotiations towards an EU-ASEAN FTA later commenced.

### **3.3 EU competitor PTAs with ASEAN**

Developments in the EU's approach to trade policy with ASEAN can be clearly linked to the trade policies of its competitors in the region. The US has also had a long standing relationship with ASEAN having established a dialogue with the organization in 1977. Nineteen US-ASEAN summits have taken place in total since then. Similarly to the EU the main concerns in the early years were with supporting the group as a bulwark against communist states and with managing its trade and aid relationships in the region. Unlike the EU, however, the US has always preferred to pursue formal agreements with the ASEAN states on a bilateral one-to-one basis. Nathan (2007: 2) argues that 'the United States has largely been sceptical of ASEAN. It has been sceptical of the ability of ASEAN to deliver concrete results, and thus places a greater emphasis on bilateralism vis-à-vis Southeast Asian countries.' As such little institutionalisation has taken place between the US and ASEAN as a group.

In December 2000 under the Clinton administration negotiations towards a US-Singapore FTA were launched. The agreement was concluded in late 2003 and implemented on January 1 2004. It eliminated tariffs on the trade of almost all goods and also included market access measures and other provisions related to trade in services, investment, intellectual property rights, government procurement, licensing of professionals, telecommunications, worker rights, the environment, capital controls, and dispute settlement. . The US-Singapore FTA is in fact accorded one of

the highest ranks in terms of the depth of commitments in a comprehensive new dataset on the content of trade agreements compiled by Dur, Baccini, and Elsig (2014). As such this agreement held a large potential for trade diversion for EU exporters. Both bilateral trade and investment between the US and Singapore increased significantly in the period after the FTA took effect. US exports to Singapore increased by 68 percent between 2003 and 2008 while US investment in the country more than doubled during the same period (Nanto, 2008). Similar FTAs are under consideration and negotiation between the US and Thailand, Malaysia and Indonesia. Interviews with officials from DG Trade confirmed that the EU decision to negotiate a trade agreement with ASEAN was directly motivated by the agreements concluded by the US and other EU competitors (Interviews 1 and 2).

Japan has also been active in terms of concluding agreements with states in Southeast Asia. It entered into PTAs with Singapore (2002), Malaysia (2005), Brunei (2007), Indonesia (2007), Thailand (2007) and Vietnam (2008). In 2008 Japan also concluded an Economic Partnership Agreement (EPA) with the ASEAN group as a whole. This agreement co-exists with its bilateral PTAs in an attempt to simplify the bilateral web of agreements between individual countries. Indicative of the greater leverage large economies have when engaging in trade negotiations on a bilateral basis, Japan's bilateral PTAs with the members of ASEAN contain much deeper provisions than the agreement with the group as a whole (Dur, Baccini, and Elsig, 2014).

The Trans Pacific Partnership (TPP) is also important in the context of EU-ASEAN relations. This is a multiparty FTA which was launched by New Zealand, Chile, Singapore and Brunei in 2006. The US, Australia, Malaysia, Vietnam, Peru, Mexico, Canada, Japan and Taiwan are currently negotiating membership. If these negotiations are concluded the TPP would link four of the ASEAN economies, including the EU's largest trading partner in the group - Singapore, in a FTA with major EU competitors. This would obviously have the potential to negatively impact upon European economic interests in ASEAN (Interview 2).

Furthermore there have been calls from both within the US and within ASEAN for a separate FTA between the two regardless of how the TPP progresses. The EU share of the ASEAN market has declined significantly in recent years. Despite US and



Japanese PTA activity in Southeast Asia to date, however, both countries have also experienced a serious decline in their share of imports by ASEAN members. Table 3.2 illustrates this loss of market share. The US share of ASEAN imports declined from 14 percent to 8.7 percent between 2000 and 2010 while that of Japan fell from 18.6 percent to 11 percent.

**Table 3.2: ASEAN imports from the EU, the US, China and Japan in millions of dollars (and as a share of total ASEAN imports)**

	1990	2000	2002	2004	2006	2008	2010
<b>The EU</b>	25,542 (15.6)	40,896 (11.1)	40,114 (11.3)	56,550 (11.3)	67,731 (10.1)	93,741 (9.9)	90,200 (9.4)
<b>The US</b>	23,577 (14.4)	51,609 (14.0)	46,375 (13.1)	56,018 (11.2)	70,110 (10.5)	84,978 (9.0)	83,397 (8.7)
<b>China</b>	4,151 (2.5)	17,334 (4.7)	23,574 (6.7)	42,902 (8.5)	71,328 (10.7)	114,143 (12.1)	138,235 (14.5)
<b>Japan</b>	33,405 (20.5)	68,511 (18.6)	55,764 (15.7)	72,975 (14.5)	76,434 (11.4)	103,592 (11.0)	112,867 (11.8)

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/10/2012

The main winner in terms of gains in the ASEAN market in recent years has been China. China concluded a comprehensive FTA with all members of the group in 2002. Although this did not enter fully into force until 2010 Chinese exporters almost trebled their market share during the first decade of the 2000s. China also signed a further bilateral FTA with Singapore in 2008 which entailed a more rapid reduction of tariffs than is scheduled in their earlier agreement. The EU saw its share of ASEAN imports decline from 11.1 to 9.4 percent between 2000 and 2010 and the timing of the EU decision to pursue an interregional FTA with ASEAN coincides almost exactly with the conclusion of several of the above discussed PTAs between members of ASEAN and the US, Japan and China. Cuyvers (2007: 4) contends that the Commission recommendation to adopt a new trade policy strategy and EU Council approval of mandates for new FTAs meant that ‘there can be no doubt that the EU-ASEAN FTA negotiations are closely linked to increasing EU concerns about economic interests in South-East Asia being jeopardized by the negotiations of the US, China and Japan of their bilateral FTAs with ASEAN countries, a region which is considered as becoming the world’s future leading exporter.’ And given the difficulty experienced in completing a region-to-region agreement it was little surprise that the EU later opted for a bilateral approach. This may have come at the expense of promoting regional integration within ASEAN by insisting that the members of the organization coordinate as a group in negotiations.

### **3.4 Towards an EU-ASEAN FTA**

ASEAN was first officially identified by the EU as a potential FTA partner in the 2003 Commission communication *A New Partnership with South East Asia* (EC, 2003c). The TREATI (Trans-Regional EU ASEAN Trade Initiative) was launched under the terms of this communication. TREATI is an interregional institutional framework for dialogue and regulatory cooperation which was developed to serve as a mechanism for enhancing EU trade relations with ASEAN. In 2004 the Commission was authorized by the Council to explore the implications of an FTA with ASEAN (Council, 2004). Given the long standing interregional relationship between the two organisations it was decided to adopt a region-to-region approach in FTA negotiations as opposed to dealing with individual countries on a bilateral basis. As has been the case in the EU's relationships with other regional organisations the decision to engage with regions as opposed to countries is premised on two main perceived benefits. Firstly, to promote regional integration in order that groups of countries elsewhere may realise the benefits of this process in line with the European experience. And secondly, due to the efficiency gains the EU itself can achieve from dealing with countries at the regional level as opposed to dealing with each country on a one to one basis. This is especially the case when it comes to negotiating trade liberalization (Interviews 1 and 2). In fact, in 2002 a request by Singapore to initiate FTA talks with the EU had been rejected primarily as the EU did not want to risk alienating the other member states of ASEAN by entering into such an agreement (Van der Geest, 2004: 34). The EU remained committed to interregionalism as a second best strategy compared to a wholly multilateral approach. The fact that ASEAN had been able to coordinate as a group and complete a FTA with China in 2002 as well as the fact that ASEAN negotiations with Japan, India and South Korea appeared to be progressing well lent support to the Commission's decision to adopt a similar strategy and engage in FTA talks with ASEAN as a whole (Camroux, 2010).

Since the late 1990s a persistent trade imbalance in ASEAN's favour had existed and interregional interdependence had declined somewhat as the countries of Southeast Asia increasingly focused on relations with each other and with countries in Northeast Asia, China in particular (Lindberg and Alvstam, 2008: 5). As can be seen in Table 3.3 below, the share of the EU in ASEAN trade had declined from 15

percent in 1997 to 11.9 percent in 2005 while the corresponding share of ASEAN in EU external trade had declined from 6.3 percent to 5.0 percent in the same period.

**Table 3. 3: ASEAN-EU trade 1997-2007 (percentages)**

	1997	2002	2005	2006	2007
<b>Share of EU in ASEAN trade</b>	15.0	13.0	11.9	11.5	11.5
<b>Share of ASEAN in EU trade</b>	6.3	5.9	5.3	5.0	5.0

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/12/2012

The domino theory of regionalism (Baldwin, 1993) posits that a pair of trading partners should be more likely to sign a new PTA if either of them recently completed a PTA with countries or groups of countries which are the partners' trading rivals. As a result of overtures by the US, Japan and China into Southeast Asia, as described in the previous section, the EU felt increasingly concerned about safeguarding its economic interests in the region. Dür (2007, 2010) makes the argument based upon exclusion more explicit and posits that domestic exporters in excluded countries will lobby for agreements as a result of PTAs concluded by others. Indeed, business groups within the EU did lobby extensively in favour of the proposed agreement. In a 2006 report by the Union of Industrial and Employers' Confederations of Europe (UNICE) it was stated that:

Industry cannot afford to ignore the proliferation of bilateral and regional free trade agreements among its major trading partners. Without prompt action, the trend to is likely to have a considerable negative impact on EU market share in major high-growth markets around the world and a consequent effect on competitiveness, growth and jobs in Europe (UNICE, 2006: 2).

And in a 2007 report by the group BusinessEurope it was stated that:

BUSINESSEUROPE supports an EU-ASEAN free-trade agreement, which would ensure comprehensive liberalisation of trade in goods and services and an improvement in business conditions, including investment beyond what could be accomplished in the WTO framework (WTO+) (BusinessEurope, 2007: 3).

The need for an EU agreement with ASEAN in order to protect against the potential losses of PTAs between other major economies and the ASEAN states was also referred to specifically in this report:

ASEAN and/or individual ASEAN members have been actively involved in negotiating economic agreements with countries around the world. Any EU-ASEAN FTA should ensure, as a minimum, a level playing field for EU companies in ASEAN equal to that enjoyed by its main competitors, without discrimination (ibid.: 4).

In a recent study on East Asian regionalism, however, Ravenhill (2010: 179) questions the relevance of economic domino theory in accounting for recent trade agreements arguing that ‘the weight of evidence suggests that economic factors in many instances have been less important than states’ use of economic instruments to pursue political objectives.’ The low share of most ASEAN members in the total trade of the EU might indicate that economic concerns alone are unlikely to have justified the pursuit of an interregional PTA. At the same time, however, ASEAN counts among its members some of the most rapidly expanding and emerging economies and, in addition, an agreement with ASEAN could also serve as a gateway through which the EU could access larger Asian markets such as China and Japan (Interview 2).

From the point of view of ASEAN an agreement with the EU was seen as an opportunity to secure market access in one of its major export destinations and to undertake structural reform in order to increase ASEAN competitiveness. Access to a single regional market, which itself evolved through a process of regionalism, is a key bargaining tool which the EU can utilise in contrast to ASEAN which has not yet achieved a regional market (Robles, 2006).

At the Sixth Consultation between the ASEAN Economic Ministers (AEM) and the EU in 2005 it was formally decided to explore the specific potential benefits of an interregional FTA. An EU-ASEAN Vision Group was established and charged with preparing an FTA feasibility report. At the Seventh AEM-EU Consultation in May 2006 the Vision Group presented its findings which strongly recommended the initiation of negotiations for an FTA in accordance with WTO rules as well as the expansion of existing ASEAN-EU economic cooperation:

Given the nature of the obstacles currently hindering trade and investment between the EU and ASEAN, as well as the characteristics of existing inter-regional flows, the probability seems high that a wide range of the anticipated positive effects would materialise if an ASEAN-EU FTA were to be established. As a result, the economic case for an ASEAN-EU FTA appears to be quite compelling. (Vision Group Report, 2006: 8).

The report also referred to the potential strategic benefits for both sides from an agreement:

The trade diversion potential of inter-Asian countries FTAs should not be underestimated. In order to avoid potential discrimination, the EU therefore has a strong interest in starting a negotiation with ASEAN, eliminating any possible strategic cost associated with not proceeding. (ibid.: 9).

For ASEAN, engaging in negotiations with the EU could be an important element in its strategy to compete with China. (ibid.: 9).

In addition, a quantitative study commissioned by the Vision Group concluded that an EU-ASEAN FTA would have positive effects for both parties. Calculations based upon a Computable General Equilibrium (CGE) model forecast that EU exports to ASEAN would increase by 24.2 percent while ASEAN exports to the EU would increase by 18.5 percent. The study also found, however, that traditional tariffs did not represent the most serious obstacle to future trade between ASEAN and the EU and that rather the elimination of NTBs as well as the liberalisation of the services sector and investment would provide the best prospects for the growth of trade between the two regions. Such a recommendation tied in with the stated EU desire to ensure that all future FTAs would be WTO-Plus and act as building blocks towards more extensive multilateral liberalization. In this regard, Peter Mandelson (2006b: 3) had delivered a speech in which he stated that ‘beyond Doha we need to start thinking about how we can complement the WTO system through deeper bilateral relations – not as an alternative to multilateral openness but as a way of adding to what we are able to achieve at the WTO level.’

The *Global Europe* report, which advocated a more aggressive EU trade policy, was published on 4 October 2006 and later that same year, on 6 December, the EU Commission announced that a draft mandate had been finalised for negotiating a FTA with ASEAN.<sup>50</sup> While in recent years the EU had usually aimed at completing three pillar AAs with interregional partners this was not to be the case with ASEAN. The EU instead planned to start straightforward FTA negotiations straight with the ASEAN group indicating the sense of urgency the EU attached to securing its foothold in the region. In any regard, several of the ASEAN countries were already

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<sup>50</sup> At this time it was also announced that draft negotiating mandates had also been finalized for bilateral FTAs with Korea and India as well as for interregional agreements with Central America and the Andean Community (CAN).

in the process of negotiating Partnership and Cooperation Agreements (PCAs) with the EU and it was planned to build upon these agreements as opposed to negotiating new chapters on cooperation and political dialogue within the FTA framework. At the insistence of the EU Council each member of ASEAN would be required to sign and implement one of these PCAs prior to the full implementation of any FTA.

The Commission's mandate for FTA negotiations had the stipulation that Myanmar was to be completely excluded from talks as a result of its repressive domestic political regime. The EU realized that this would be difficult for the ASEAN side to accept due to their principle of non-interference and decided therefore to initially exclude not only Myanmar but also Laos and Cambodia, the other two LDC members of ASEAN. It was hoped that the decision to exclude LDCs from the negotiations as opposed to singling out Myanmar for exclusion would prove more acceptable to ASEAN (Interview 2). This logic was reinforced by the fact that both Cambodia and Laos benefitted from the EU's Everything but Arms (EBA) initiative and so already had extremely preferential access to the EU market (*ibid.*). While the ASEAN countries preferred that all ASEAN members would take part in the FTA talks from the beginning the option of completing an EU-ASEAN minus 3 FTA was deemed preferable to each of the seven countries negotiating individual bilateral FTAs with the EU. The EU Commission proposed to aim for the completion of the FTA negotiations within two years and that a ten year transition period would be imposed, with the liberalisation of services possibly being subject to an extension of this timeframe. Longer time periods of transition were proposed for certain ASEAN countries in order to satisfy the requests for Special and Differential Treatment (SDT) which the 2006 Vision Group Report as well as the EU Council and EU Parliament had made:

While the emphasis shall be placed on the regional dimension, cooperation arrangements must take into account the differentiated levels of development and integration in each country, with a view to narrow the development gaps among members, through human resources development, technical assistance and capacity building. (Vision Group Report, 2006: 14).

#### **3.4.1 The FTA negotiating process**

The EU Council approved the mandate proposed by the Commission in April 2007 and negotiations were officially launched at the EU-ASEAN Economic Ministers meeting in Brunei in May of that year (EC 2007c). A Joint Committee (JC) of senior

officials from both the EU and ASEAN was set up to work on the content and schedule of the FTA. The JC first met in Vietnam in July 2007. The discussions focused on identifying the specific trade issues which were to be incorporated in the proposed agreement. Reaching consensus in terms of coverage proved difficult, however, due to divergent trade preferences among the parties as well as the different approaches to engaging in FTA negotiations traditionally adopted by each side. It became apparent from early on that the EU was seeking a much more ambitious agreement than the ASEAN states (Interview 2).

ASEAN FTAs usually incorporated IPR and competition issues in a cooperation chapter as opposed to the trade chapter itself and furthermore ASEAN had never negotiated public procurement liberalization and other such issues in its previous FTAs. In addition, ASEAN was used to negotiating trade in goods first followed later by trade in services and investment. The standard EU approach was to consider all areas in tandem from the beginning. The divergent interests of ASEAN member states in terms of trade preferences made the task of formulating a coherent regional position which matched the EU's expectations very difficult (ibid.).

As a result the establishment of working groups for specific trade issues was postponed. The EU proposed organizing a series of seminars under the TREATI framework in order to share the experiences of the EU and assist negotiators from ASEAN Member Countries. The Seminars were to cover topics including liberalization of services, liberalization of services in telecommunications and the financial sector, technical barriers to trade (TBTs), trade facilitation, trade and competition, sanitary and phytosanitary (SPS) measures, and economic integration.

The JC met for a second round of talks in October 2007 and some progress was made in terms of reaching consensus on coverage. Both sides agreed that in addition to trade in goods the FTA would contain provisions related to trade in services, investment and competition policy. Disagreement arose again, however, during the third round of negotiations held in January 2008 when it became obvious that the EU still foresaw the inclusion of a much broader range of topics under each section of the agreement than ASEAN. In terms of sustainable development for example, the EU proposed that both sides promote environmental protection in accordance with existing multilateral environmental agreements. The EU also sought measures

related to labour protection in accordance with the International Labour Organization (ILO) core labour standards. Such demands proved controversial among the ASEAN member states given the extent to which they perceived these issues to infringe on national sovereignty (ibid.). In addition, ASEAN reiterated its reluctance to include extensive provisions related to areas such as procurement and competition policy in the proposed agreement.

During the fourth round of talks held in April 2008 in Bangkok the negotiators reached agreement in relation to further issues such as SPS measures and dispute settlement. Expert groups also met to discuss rules of origin, customs, and trade facilitation and sought a further exchange of information and technical discussions. Areas on which views diverged were services and establishment, intellectual property, and again, sustainable development. Experts in these areas agreed to continue efforts to better understand each others' systems and practices. In May 2008 the European Parliament released a report on the progress being made in the negotiations. The main points raised were in relation to the slow pace of the negotiations and on the need to stand firm in terms of seeking a deep WTO plus agreement in line with the specifications in the *Global Europe* strategy. In relation to the Parliament's report the EU Trade Commissioner Peter Mandelson referred to areas in which the EU encountered problems in terms of trade and investment with the ASEAN states:

The dynamism of the ASEAN economies is certainly an opportunity for Europe. However, a lot of that opportunity is still potential rather than real. EU businesses trying to trade or invest in South East Asia still face tariff and non-tariff barriers and markets tilted against foreign services providers, especially in public procurement markets. The same is true for Foreign Direct Investment in general. They also find that their intellectual property rights are poorly protected and the general transparency of markets is fairly low (Mandelson, 2008).

Mandelson emphasized that the proposed agreement would need to incorporate a range of measures to tackle these issues:

This is the strongest possible argument for a free trade agreement that is deep rather than quick and dirty. I don't believe in FTAs as quick political fixes. The Global Europe trade strategy is about new trading opportunities, new exports, new jobs. This negotiation was launched on the basis of evidence that we could achieve those things if we were willing to be ambitious. We are right to reject the idea of an FTA covering certain tariffs only. I could not agree more with this report's call for ambition in this negotiation (ibid.).



By the fifth round of talks held in the Philippines in June 2008, further consensus was reached in relation to rules of origin and TBTs and both sides agreed to present draft texts on these at the next meeting. The EU also agreed for the need to provide special and differential treatment for ASEAN members in terms of their liberalisation scheduling commitments. Disagreement still existed in relation to several key issues, however, including inter alia services and establishment, competition, public procurement, intellectual property rights and sustainable development. ASEAN argued that the EU proposal in relation to intellectual property was overly ambitious in that it was very much a TRIPs plus agreement. Several ASEAN members also declared that they would not negotiate on procurement and competition policy. The sixth meeting of the JC took place in Hanoi in October 2008, however, no progress was made in terms of resolving the divergent preferences of the EU and ASEAN and at a meeting of EU and ASEAN economic ministers in May 2009 it was decided to suspend the negotiations. In relation to the breakdown in negotiations a senior official from DG Trade stated that:

Despite what we had agreed in the Vision Group we ended up very much close to the lowest common denominator anyhow, and that continued. So at a certain point there was a sense that it was not going anywhere. So either we will just have to stop or we take the decision to start negotiating bilaterally with ASEAN countries (Interview 2).

### 3.4.2 The shift to bilateralism

One of the major obstacles which resulted in the suspension of the interregional approach was the difficulty ASEAN had encountered in achieving consensus due to the differentiated levels of development and trading preferences of the groups' members. Table 3.4 below displays various indicators which serve to illustrate this divergence.

**Table 3.4: Divergence among ASEAN members: various indicators**

<b>2009</b>	<b>GDP (Mn US\$)</b>	<b>GDPPC (PPP) (US\$)</b>	<b>Total Trade (Mn US\$)</b>	<b>Trade/GDP (%)</b>	<b>FDI Inflows (Mn US\$)</b>
<b>Brunei</b>	10,759	36,177	9,568	89	370
<b>Cambodia</b>	10,359	1,788	8,887	86	530
<b>Indonesia</b>	546,865	4,371	213,339	39	4,877
<b>Lao PDR</b>	5,579	2,250	2,962	53	319
<b>Malaysia</b>	193,108	12,353	280,221	145	1,381
<b>Myanmar</b>	24,973	1,138	10,191	41	579
<b>Philippines</b>	161,358	3,592	83,869	52	1,948
<b>Singapore</b>	182,702	52,872	515,617	282	16,809
<b>Thailand</b>	264,323	7,944	286,267	108	4,976
<b>Vietnam</b>	96,317	3,124	125,922	131	7,600
<b>ASEAN</b>	1496341	4,873	153,6843	103	39,387

Source: ASEAN Statistical Yearbook (2012)

In 2009 Singapore had a GDP per capita (PPP) of \$52,872 compared to \$12,353 for Malaysia and \$3,124 for Vietnam. Volume of trade varies significantly from around 3 billion euro per annum for Lao to more than 500 billion per annum for Singapore. In terms of trade dependence, measured as the ratio of trade to GDP, the group ranges from Indonesia at 39 percent to Singapore at 282 percent. These countries are therefore obviously likely to have different priorities when it comes to trade, investment and development strategies and divergent preferences in relation to trade liberalization. Astuto argues that 'since the beginning there were doubts about the choice of negotiating one regional agreement instead of seven bilateral deals and the negotiations were probably affected by those doubts' (2010: 2). The divergent trade and investment liberalization preferences of the ASEAN countries made it difficult, if not impossible, for the group to present offers during the negotiations which were acceptable to the EU in light of the EU's own diversity in this regard.

In relation to the difficulty encountered in concluding an interregional agreement an official from DG Trade stated that:

We would have been happy to do it regionally if it was possible to do it without having to start at the very bottom and building up which some countries arguably do and are fine with it. In our system, with 27 members it's becomes very difficult because you have to give up on big chunks if you're going to do that. And with our 27 members we have a much more varied set of stakeholders that have to be content with the deal we get in an FTA than a country like New Zealand which is much more narrow (Interview 2).

The differentiated levels of development among ASEAN members prevented the group from coordinating their policy position at anything other than the lowest common denominator. This in turn prevented the achievement of a deep agreement going beyond the WTO agreements which *Global Europe* had demanded that all new PTAs needed to be based upon. This can be considered a primary motivation behind the EU decision to switch to a bilateral approach as it was officially stated that:

One difficulty in the region-to-region negotiations arose from significant structural differences within ASEAN which meant that existing levels of liberalisation and negotiation objectives differed widely among countries in the group (EC, 2010b).

Of course within the EU there is also massive variation between the member states in terms of levels of economic development, trade dependence and trade preferences. When it comes to trade policy making, however, the Commission is charged with coordinating both internal regulations as well as external negotiations and is generally able to ensure the establishment of a unified position when bargaining over liberalization. While ASEAN does encompass a large number of regional institutions which seek to facilitate regional cooperation, the reality is that national sovereignty takes priority and ASEAN lacked any real formal rules until the 2008 ASEAN Charter and it has even been described as a 'regional delusion' by some realist scholars (Jones and Smith, 2006). Camroux (2010: 61) agrees stating that 'it is diverging views of national sovereignty that are a stumbling block in developing interregional relations between the EU and ASEAN.' The 2008 Parliament report referred to ASEAN's lack of capacity stating that:

In the light of reports of recent negotiating rounds, the prospects for an early and ambitious agreement with ASEAN may be undermined by a lack of negotiating capacity, difficulties in developing a common position that reflects the collective interests of the region and a lack of political will.

And in his 2008 speech the EU Trade Commissioner Peter Mandelson conceded that the interregional approach was not progressing as planned and referred to the need for the EU to alter its approach in order to protect European interests as a result of the PTAs concluded by EU competitors. He stated that:

At the same time of course, our major competitors are picking off individual countries in the region one by one. Japan, Australia and the USA are all active. We should not give up the regional approach. But we are in the process of introducing some flexibility in this regional framework, a dose of "variable geometry" that takes into account the different levels of development within ASEAN and that could allow us to go faster with individual ASEAN members. This would be economically sound and could pave the way for others to join later (Mandelson, 2008).

In December 2009 the EU Council authorised the Commission to commence FTA negotiations with individual ASEAN countries. This move was supported by EU business and industry groups which were concerned that their commercial interests in the ASEAN member states might be threatened as a result of EU competitor PTAs with the group. In a 2010 communication from the European Services Forum (ESF) to the Commissioner it was 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.<sup>51</sup>

The extent to which EU businesses felt that their interests could be threatened as a result of EU competitor PTAs with the members of ASEAN is also referred to:

Furthermore, it is fully acknowledged that Singapore has already signed and is implementing trade agreements with significantly advanced commitments on services and investments with major EU competitors like Australia, New Zealand and the United States. The EU negotiators should therefore do their utmost to secure from their Singaporean counterparts similar commitments to those obtained in the above mentioned agreements, so that existing discrimination between European businesses and those from other partners in the Singaporean markets are eliminated.<sup>52</sup>

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<sup>51</sup> <http://www.esf.be/new/wp-content/uploads/2010/07/ESF2010-18-ESF-Priorities-for-EU-Singapore-FTA-Final.pdf> Accessed 20/10/2012

<sup>52</sup> *Ibid.*

The EU is the largest inward investor in the ASEAN region.<sup>53</sup> This investment is, however, heavily concentrated in specific ASEAN countries. The majority of EU firms operating in ASEAN maintain headquarters in Singapore from which to serve the broader regional market.<sup>54</sup> The PTA with Singapore was therefore intended not only to improve market access for EU exports to Singapore but also to facilitate the expansion of EU firms located in Singapore which export to third parties, including to the EU itself. In a 2013 economic impact assessment of the agreement undertaken by the EU Commission it is stated that:

It [Singapore] is an important entrepot at the junction of key East-West trade routes, linking Europe and East Asia. The WTO estimates that some 45% of Singapore's merchandise exports may be re-exports..... Even where Singapore's port is not directly involved in the flow of goods between other ASEAN countries and the EU, Singapore's services sector may well be involved in the logistics, in providing finance or giving legal advice.<sup>55</sup>

It comes as little surprise therefore that Singapore was selected as the first individual ASEAN country with which to negotiate an FTA when the EU decided to adopt a bilateral approach.<sup>56</sup> Four further ASEAN countries which are major hosts of EU FDI – Indonesia, Malaysia, the Philippines and Thailand – are among the top-10 priority countries ESF members want to open up.<sup>57</sup> These countries are all key participants in international production sharing and production networks.

EU firms locating in ASEAN engage in both horizontal and vertical FDI. ASEAN as a region has displayed extremely high levels of economic growth in recent years and has seen the emergence of a burgeoning middle-class. This has resulted in extensive market-seeking investment by firms which set up production facilities in order to serve local markets. In addition, however, ASEAN has become increasingly attractive as a production base and it is estimated that there is a lot of scope for increased future investment in this regard especially if plans for increased intra-

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<sup>53</sup> <http://www.asean.org/images/resources/Statistics/2014/ForeignDirectInvestment/Aug/Table%2027.pdf> Accessed 20/09/2014

<sup>54</sup> The EU Commission reported in 2013 that more than 9300 EU companies, active in a range of industrial and services sectors, have established themselves in Singapore and use it as a hub to serve the region (EC, 2013).

<sup>55</sup> [http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc\\_151724.pdf](http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151724.pdf) Accessed 20/09/2014

<sup>56</sup> In fact the six ASEAN member states with which the EU is currently attempting to conclude bilateral FTAs are those countries in the region which are the largest recipients of FDI by EU firms.

<sup>57</sup> <http://www.esf.be/new/wp-content/uploads/2010/07/ESF2010-18-ESF-Priorities-for-EU-Singapore-FTA-Final.pdf> Accessed 20/09/2014

regional integration come to fruition. In an Economist Corporate Network (ECN) report published in 2013 it is stated that:

The investment deficit has created huge pent-up demand for infrastructure, for housing, and for factories. This pent-up demand will drive high levels of investment activity for many years, fuelling economic growth in the short-term through construction activity, as well as in the long-term by raising the region's future productive capacity.

The potential for increased EU investment, however, will depend on how measures to improve market integration progress. As is the case in all its interregional relationships, EU policymakers have stressed the need for higher levels of integration among the ASEAN countries. While this may be explained with reference to the EU's normative agenda of enabling countries in other parts of the world to enjoy the economic and political benefits of regionalism, a more convincing explanation is that such an approach is extremely consistent with the interests of EU multinational firms which are seeking to make their participation in global value chains more predictable and efficient. Indeed, as Baldwin (2011) argues, it is more appropriate to refer to 'regional value chains' rather than 'global value chains' given their concentrated nature. EU firms have a keen interest in removing barriers to trade and investment not only between the EU and ASEAN but also between the ASEAN countries themselves.

EU firms operating in ASEAN face two major obstacles in terms of trade and investment. Firstly, the ASEAN region itself is relatively poorly integrated. Despite the establishment of the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area (AIA) during the 1990s, nationalism and protectionism remain strong and firms are required to adopt a strategy which is tailored to specific countries. Barriers to trade between ASEAN countries mainly exist in the form of NTBs. EU firms have therefore been strongly in support of the planned ASEAN Economic Community (AEC) which is scheduled to be concluded and implemented by 2015. It is hoped that further intra-regional integration will lead to significant efficiency gains in terms of the supply-chains maintained by EU firms within the region (EC, 2013).

A second major obstacle faced by EU firms operating in ASEAN are the barriers to trade which exist between the two regions themselves. Given the fact that global

supply chain trade between EU and ASEAN countries has seen significant increases in recent years there is a strong interest in removing remaining tariff and NTBs to trade in goods and services as well as making the environment for investment more predictable.

Statements from representatives of key EU firms and sectors in relation to the EU-ASEAN FTA highlight the preferences of commercial enterprises in this relationship. The financial services, automotive, and telecommunications sectors in particular have a strong interest in the further institutionalization of trade and investment ties between the two regions. TheCityUK is a representative organization for UK financial services firms. In a 2010 Communication to the Commission it was stated that:

In TheCityUK's view, the EU's programme for enhanced bilateral trade relationships should focus, in the first instance, on trading partners showing the greatest potential for economic growth in the coming decades. In the case of services, it should also aim at "GATS plus" FTAs enshrining a degree of market access and national treatment going deeper than the objectives of the Doha Round: these commitments should be negotiated on a "negative list" basis for added comprehensiveness. The first priority is to complete FTA negotiations with each of the significant ASEAN markets<sup>58</sup>.

The European economy is increasingly dependent on the extent to which its businesses participate in global value chains....these value chains have tended to underline the extent to which the supply and or consumption of goods and services form an integral transaction in which goods-supply and service-provision operate together in trade flows along global trade corridors: if the benefits of these value chains are to be shared by European producers, consumers and jobholders, the EU and its trading partners must adopt an open and flexible approach to trade negotiations embracing all components of the value chain, rather than forcing trade negotiations into sequenced and artificial subdivisions by sector or type of economic activity<sup>59</sup>.

In terms of the automotive sector, barriers to EU exports of cars and auto-parts exist in the form of both high tariffs which are implemented by many ASEAN countries, and technical barriers to trade (TBTs). TBTs in this regard refer to the fact that a country either recognises standards different from those used in the EU or, while recognising similar standards, doesn't recognise international type approvals or requires additional testing and certification. Of particular benefit for automakers is the commitment in the agreement with Singapore for the elimination of the

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<sup>58</sup> [http://trade.ec.europa.eu/doclib/docs/2010/september/tradoc\\_146602.pdf](http://trade.ec.europa.eu/doclib/docs/2010/september/tradoc_146602.pdf) Accessed 20/09/2014

<sup>59</sup> *ibid.*

requirement for duplicate quality testing of cars and auto-parts. This has served as an effective technical barrier to EU exports to Singapore. Importers of new cars or car parts from the EU no longer need to test these again when they are imported into Singapore.

The EU-Singapore FTA concluded in 2013 and the agreements being negotiated with other individual members of ASEAN contain extensive provisions in line with the preferences of large multinational firms operating in the region. In the agreement with Singapore, for example, there are extensive provisions on services and procurement which go beyond those included in multilateral agreements. It was agreed to implement an advanced regulatory framework for many services sectors such as telecommunications, courier and postal services, financial services, and international maritime transport. In addition, it provides for a high level of protection of intellectual property rights and will establish a modern regulatory framework for exporters with rules on enhanced transparency and competition (EC, 2013). While Singapore already applied zero tariffs on most imports it agreed to bind these tariff rates as well as to remove many NTBs and TBTs. Overall the measures contained in the agreement will serve to reduce transaction costs and facilitate further investment by EU firms in the ASEAN region.

#### *Prospects for a future interregional agreement*

A 2010 Commission report on the progress of the *Global Europe* strategy refers specifically to the fact that ‘the purpose of these bilateral FTAs is to serve as building blocks for the long term objective of an agreement within the regional framework’ (EC, 2010b: 8). The report also stated that ‘it is ultimately for the ASEAN countries to make their own assessment and express their readiness to engage in a comprehensive FTA with the EU’ (ibid.: 8).

It has become apparent, however, that the EU strategy shares many characteristics with the US approach of competitive liberalisation (Bergsten, 1996a). The EU clearly hopes that by concluding bilateral PTAs with the larger members of ASEAN that the other members will feel pressured into finalising their own agreements with the EU for fear of exclusion. The idea is that the conclusion of initial agreements will act as a pull factor as opposed to seeking to push the members of ASEAN towards an agreement:



And there is some competition among the ASEANs also of course. They do want to be the ones who negotiate first of course. They're also competitors even though they happen to be in the same regional grouping. There is a domino effect to them signing agreements (Interview 2).

To date PCAs have been concluded between the EU and Indonesia (2009), the Philippines (2010), Vietnam (2012), Thailand (2013), and Singapore (2013). As stated earlier these PCAs are a prerequisite prior to the establishment of a FTA. Full FTA negotiations have not yet started with Indonesia and the Philippines, however, FTA talks have commenced with Vietnam (June 2012) and Thailand (March 2013). Negotiations towards an FTA with Singapore were concluded in December 2012.

These negotiations were not without problems, however, and took over 2 years in total to reach agreement. The major sticking points were the reluctance on the part of Singapore to include social clauses in the agreement as well as EU demands for a reform of Singaporean banking secrecy laws. In order to overcome disagreement the EU agreed to conclude the FTA prior to the conclusion of the PCA. This contravened the earlier EU position in which it had been insisted that each ASEAN member needed to negotiate a PCA prior to concluding an FTA. Negotiations towards a PCA and an FTA with Malaysia are ongoing. Despite the extensive bilateral interaction the EU has consistently reaffirmed the goal of an interregional FTA. The EU Trade Commissioner Karel De Gucht in a 2012 speech delivered at the EU-ASEAN Business Summit stated that:

I want to make very clear that as we engage in these negotiations our overarching goal of regional integration remains clear. That goal is made even more important by the programme to build an ASEAN Economic Community by 2015, which we fully support. We have momentum now. I hope we can use it to get to the critical mass that will allow us to come back to the regional process very soon.

Since the suspension of interregional negotiations the EU has in fact sponsored a €2.5 million technical cooperation programme aimed at boosting ASEAN integration and preparing the group for participation in FTA negotiations. Although tentative signs of political reform in Myanmar might eventually reduce EU reticence to allow that state to participate in interregional FTA talks the fact remains that ASEAN itself is unlikely to fare any better in terms of coordinating its position in negotiations with the EU. A key question is whether it was primarily economic as opposed to political obstacles which blocked progress in interregional talks. At a 2012 ASEAN-EU

Ministerial Meeting the Hungarian Foreign Minister Janos Martonyi stated that ‘I think the real issue is not political, politically there is no obstacle whatsoever. The issue here is economic, and it is that ASEAN is a very much diverse group of countries.’<sup>60</sup> A senior official from DG Trade stated, however, that while the breakdown in interregional negotiations may have had an economic basis it was also down to a lack of political economic vision on the part of ASEAN (Interview 2). In addition, ASEAN has lacked political leadership on the part of its larger member states in recent years which may have helped to overcome differences among the member states (ibid.).

### **3.5 Conclusions**

This chapter has examined the interregional relationship between the EU and ASEAN. For almost three decades the relationship between these two regional organizations has been pursued primarily in an interregional context. The motivations of both the EU and ASEAN were identified at key points in time in an attempt to better understand the objectives of each regional actor. The analysis of official EU documentation revealed that the EU’s principal motivation was initially to promote its political and economic influence in South East Asia. This objective has intensified since the mid-1990s in particular as a result of the threat posed by the trade policy activity of EU competitors.

In addition, it has been a consistent aim of the EU to promote regionalism in Southeast Asia in order to enable the integration of the developing ASEAN nations into the global economy, to facilitate democratisation and economic growth as well as to legitimate the role of regional organisations as actors in international relations. ASEAN has long been considered one of the regions with the greatest potential to emulate the EU model of integration.

In later years the focus of the relationship changed as a result of the slow progress being made in multilateral trade negotiations and the PTA activism of EU competitors. In addition to the above mentioned motivations the EU came to perceive interregional level relations with ASEAN as having the potential to act as an efficient platform for formally institutionalising trade liberalisation commitments as well as pushing through liberalisation in areas such as trade in services,

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<sup>60</sup> ‘Diverse Economies halt EU-ASEAN Trade Talks’, The Brunei Times, 28/04/2012.

competition policy and public procurement. It came down to the fact that achieving these goals with a group of countries was a much more efficient target than seeking to negotiate individual agreements with each member of ASEAN.

This desire to formally institutionalise the trade relationship between the two regions had increased in the first years of the twenty first century as a result of the spread of competitive liberalisation agreements between ASEAN and key EU competitors at both a bilateral and interregional level. ASEAN members had concluded PTAs with a wide range of partners by the early 2000s including the US, Japan and China. In line with Dür's (2007, 2010) theory of 'protection for exporters' the EU felt compelled to pursue its own agreement not only to achieve predicted gains but also to protect EU exporters from potential losses as a result of competitor PTAs. The EU also sought an FTA with the ASEAN as a solution to correcting the persistent trade imbalance between the regions.

In its early years the EU-ASEAN relationship worked well in terms of performing the roles aimed for by both partners. The EU effectively projected its political and economic influence through the holding of semi-regular summit meetings and the conclusion of several low level cooperation agreements. The predominance of balancing concerns over institution building motivations is, however, evidenced by the low level of interregional institution building which took place between the EU and ASEAN during the 1980s and 1990s. The EU also devoted considerable technical and financial resources to supporting the integration process in ASEAN and the result has been that, despite its ups and downs, ASEAN has endured and evolved as a regional organisation while the majority of other schemes established during the first wave of regionalism have not. It should be emphasised that this has had as much to do with the efforts of the ASEAN member states themselves as it has had to do with EU support. EU support for ASEAN regionalism has, however, clearly also played a role.

From 2003 both the EU and ASEAN had assessed the feasibility and potential benefits of concluding an interregional FTA. A Joint Vision Group was established in 2006 and the qualitative and quantitative reports which resulted from this study supported the pursuit of an agreement. Several rounds of talks towards an FTA took place between 2007 and 2009; however, the negotiations did not move much further

than the preparatory stage. In this particular case attempts to conclude an interregional FTA floundered due to the different levels of ambition in terms of the coverage of the proposed agreement. In addition, the divergence among ASEAN members in terms of their levels of development and trade preferences meant that they were unable to arrive at much more than a lowest common denominator position which proved unacceptable to EU negotiators given the requirements for deep WTO plus PTAs as outlined in the *Global Europe* report.

In mid-2009 the interregional negotiations were suspended and departing from an insistence on a wholly interregional approach the EU decided to engage bilaterally with individual ASEAN members. This change in strategy was supported by and in fact influenced by the EU Council and Parliament. EU business and industry groups had exerted pressure on EU policymakers to pursue bilateral PTAs, with Singapore in particular, in order to guard against the potential negative effects of US, Chinese and Japanese PTAs with ASEAN members. Once again the evidence lends support to Dür's 'protection for exporters' argument.

The change in EU strategy was, however, motivated by a range of factors particularly a concern about losing market share and political influence as a result of the slow pace of multilateral negotiations in conjunction with EU competitor PTAs. In the next chapter it will be shown that a similar range of factors prompted a shift from a fully interregional approach to a selective multiparty approach in the case of the EU and the CAN.

The EU move to bilateralism with certain members of ASEAN can be explained as a strategic response to the PTAs concluded between EU competitors and members of the group. It is officially claimed that the bilateral PTAs with ASEAN members will act as building blocks towards a full scale interregional agreement. It remains to be seen, however, whether or not bilateralism will indeed serve to promote the institutionalisation of EU-ASEAN interregionalism. Given the choice between satisfying commercial objectives and broader foreign policy objectives the former clearly appear to be winning out. Officially the EU claims that here too an interregional agreement remains the end objective. Having adopted a divide-and-conquer approach, however, ASEAN may have lost the opportunity to gain the experience which comes from successfully negotiating as a group.

## **Chapter 4: The European Union and the Andean Community of Nations**

### **4.1 Introduction**

This chapter examines the relationship between the EU and the Andean Community (Comunidad Andina (CAN) in Spanish).<sup>61</sup> The EU has had a long standing interregional relationship with this regional organization with the first agreements between the two groups on a region-to-region basis dating back to the early 1980s. And as is the case with ASEAN, the EU commenced negotiations towards ambitious reciprocal trade liberalization with the CAN as part of an interregional AA following the change of strategy in EU trade policy announced in the 2006 *Global Europe* report which was discussed in Chapter 2.

Negotiating on an interregional basis here too proved difficult, however and the EU once again abandoned a prior insistence on interregionalism and decided to engage with a subset of the individual members of the CAN. Following several rounds of negotiations outside the interregional framework the EU concluded a multiparty PTA with Colombia and Peru in 2010. This chapter assesses the EU's change of strategy and attempts to determine the factors which resulted in the launch of interregional PTA negotiations, the failure of these negotiations to result in agreement, and the decision to shift from pure interregionalism to selective bilateralism.

The case study presented serves to reinforce the findings of the previous chapter on the EU and the ASEAN namely that, in terms of interregionalism the reality of what has been achieved has not lived up to the ambitious objectives formulated within EU trade policy. As was the case with ASEAN, the member states of the CAN were unable to arrive at a common position in negotiations which matched the deep liberalization agenda pushed by the EU. In this case, however, political factors in addition to economic factors also played a major role in terms of the divergent preferences of CAN member states. An observable ideological division emerged between Colombia and Peru on the one hand and Ecuador and Bolivia on the other. Both Colombia and Peru had previously concluded FTAs with the US and it was these same two countries which the EU negotiated and concluded a PTA outside the interregional framework.

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<sup>61</sup> The CAN was originally known as the Andean Pact; however, the term CAN is used throughout for consistency.

I argue that the EU aim of promoting the political and economic development of a group of countries through regional integration, which while still present in the official discourse, was again in this case superseded by more pressing economic and strategic balancing concerns. While the EU previously aspired to fulfilling these multiple objectives through engaging with the CAN interregionally, the difficulty in concluding the trade chapter of the proposed AA in conjunction with the PTA activism of the US in the Andean region necessitated a more selective and pragmatic approach.

An overview of the integration process within the Andean region is first presented in order to trace the development of the CAN from an inward oriented scheme designed to promote industrialization through ISI to a much more outward oriented scheme based upon the principles of open regionalism. In the second section the establishment and evolution of the interregional relationship between the EU and the CAN is examined from an empirical and theoretical perspective. In the third section the negotiations towards an interregional AA are analyzed in detail. Finally the shift to a bilateral approach is examined and conclusions are drawn regarding the implications of this for the EU-CAN relationship and for EU external relations more generally.

## **4.2 Overview of Andean integration**

The Andean Pact, the precursor to the CAN, was established in 1969 with the signing of the Cartagena Agreement by Bolivia, Peru, Ecuador, Colombia and Chile. Venezuela became a member in 1973. The integration scheme primarily emerged due to the dissatisfaction of these countries with the performance of the Latin American Free Trade Association (LAFTA)<sup>62</sup> (Khazeh and Clark, 1990: 318). A founding principle of the CAN was therefore that of differential treatment aimed at balancing the asymmetries among the member countries and the Cartagena Agreement incorporated measures which accorded this to Bolivia and Ecuador in particular. The history of the CAN can be broadly classified into two phases of development which are considered separately below.

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<sup>62</sup> The Latin American Free Trade Association (LAFTA) was created in the 1960 Treaty of Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. Bolivia, Colombia, Ecuador, and Venezuela. The LAFTA had been perceived to primarily benefit the larger and more industrialized states of Latin America such as Brazil and Argentina in comparison to the less developed Andean countries (Adkisson, 2003: 371; O'Keefe, 1996: 812).

#### **4.2.1 Andean integration during the first wave of regionalism**

Originally Andean regional integration was consistent with other schemes which emerged in what is commonly referred to as the first wave of regionalism. The organization was initially very inward oriented and the economic policy which predominated was that of ISI with extremely high tariffs levied on certain imports. The founding members sought 'to promote the balanced and harmonious development of the Member Countries under equitable conditions, through integration and economic and social cooperation; to accelerate their growth and the rate of creation of employment; and to facilitate their participation in the regional integration process looking ahead toward the gradual formation of a Latin American Common Market'.<sup>63</sup> The Cartagena Agreement set the goal of implementing an intra-regional FTA as well as a common external tariff (CET) by December 31, 1975. It was further planned to develop a coherent regional state led industrial policy.<sup>64</sup> It was hoped that the integration of the Andean countries would serve to promote economic growth, create employment, and to reduce the member states' external vulnerability in the international economic system.

The founding treaty created a number of regional institutions and official bodies. These have evolved over the years as a result of various treaties updating the CAN institutional framework. Currently the main intergovernmental institutions are the Andean Presidential Council (APC), which is the highest level official body, the Andean Council of Foreign Ministers (ACFM), and the Commission of the Andean Community. The APC is composed of the Presidents of each member state and has an annual rotating chairmanship. The Commission is made up of the member state's Ministers of Trade. Specific technical advisory boards exist to deal with business, labour and development issues. The most important Community level bodies are the General-Secretariat, the Andean Parliament, the Court of Justice, the Andean Business and Labour Advisory Councils and the Andean Development Corporation. As is the case in the EU, members of Community level bodies undertake to work independently of their country of origin. The Secretariat and the Court of Justice operate as dispute settlement mechanisms and sanctions such as raising tariffs may

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<sup>63</sup> Cartagena Agreement. Art. 1.

[http://www.comunidadandina.org/ingles/normativa/ande\\_trie1.htm](http://www.comunidadandina.org/ingles/normativa/ande_trie1.htm) Accessed 20 November 2012

<sup>64</sup> Ibid. Art. 57.

be imposed against members deemed to have violated regional legislation. However, despite the introduction of elements of supranationality to the regional institutional framework a defining feature of the CAN is the tenacity with which the member states continue to cling to their sovereignty.<sup>65</sup>

While the first few years of its existence saw a marked increase in intra-regional trade, various internal problems soon threatened the survival of the Andean integration project. In 1976 Chile decided to withdraw as the more pro-market and investment friendly liberal economic policies which had been adopted under the leadership of General Pinochet were at odds with the protectionist, state led development policies of the group (O’Keefe, 1996: 816). Various unresolved territorial disputes, especially between Peru and Ecuador, hindered member state cooperation. The oil crisis of 1979 and the Latin American debt crises which severely affected all CAN member states cast doubt on the sustainability of regional economic and industrial policy. Adkisson (2003: 373) argues also that ‘by the mid-1970s the regionalist sentiment was weakened as national power structures shifted. National rather than regional interests came to dominate regional-policy implementation decisions.’ The late 1970s and 1980s therefore came to be considered to have been a period of stagnation and resulted in proposals being tabled to adopt a new approach to integration.

#### **4.2.2 Andean integration during the second wave of regionalism**

The second distinctive phase of the history of the CAN is more consistent with models of open regionalism which emerged during the second wave of regionalism. As discussed in Chapter 1, the majority of regional integration schemes established since the late 1980s have been designed to enhance the participation of member states in globalization processes (Gamble and Payne, 1996: 251-252). The CAN indeed became more focused on engaging and integrating with the global economy at large and from the 1990s onwards started to develop an extensive network of external relations both with individual countries as well as with other regional organizations such as the EU and Mercosur.

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<sup>65</sup> The 1996 Trujillo Protocol introduced the direct applicability of CAN Community law to the member states.



In an attempt to reinvigorate Andean regionalism the 1987 Quito Protocol had scaled back the state led industrialization programs and a more liberal economic outlook was officially adopted at the 1989 Galapagos summit meeting. In terms of regional economic policy, the market and free trade came to predominate over state led industrial planning. Following further presidential summits during the early 1990s it was decided to set stricter deadlines for the implementation of the FTA and CET and to open up the region to FDI.<sup>66</sup> As can be seen in Table 4.1 below the CAN as a whole experienced a dramatic increase in FDI during the 1990s compared to the 1980s.

**Table 4.1: FDI flows to CAN (Percentage of GDP)**

<b>Country</b>	<b>1980-1989</b>	<b>1990-1999</b>
<b>Bolivia</b>	0.4	4.6
<b>Colombia</b>	0.9	2.4
<b>Ecuador</b>	0.5	2.5
<b>Peru</b>	0.3	3.1
<b>Venezuela</b>	0.1	2.5
<b>CAN Total</b>	0.44	3.04

Source: World Bank: World Development Indicators (WDI) Accessed 19/02/2013

A similar picture emerges in terms of trade. Table 4.2 below displays data on CAN exports and imports of goods during the 1980s and 1990s. While the level of CAN exports more or less stagnated during the 1980s it increased by around 50 percent during the 1990s. And while the level of CAN imports actually declined during the 1980s it more than doubled during the 1990s.

**Table 4.2: CAN trade, 1980-2000 (\$US millions)**

	<b>Total Exports</b>	<b>Total Imports</b>
<b>1980</b>	30,595	22,891
<b>1985</b>	24,300	16,272
<b>1990</b>	31,712	18,006
<b>1995</b>	39,962	38,593
<b>2000</b>	44,875	43,740

Source: IMF Direction of Trade Statistics Accessed 19/02/2013

Costoya confirms (2011: 83) that the 1990s ‘marked a shift in the Andean Pact toward the pragmatic and flexible market-oriented principles of integration that would become known as open regionalism.’ The CAN FTA finally became fully operational in February 1993 although member states continued to set their

<sup>66</sup> Nine Presidential Summits took place in 1989/1990 and the Andean Presidential Council (APC) was formally institutionalized in Machu Picchu in 1990.

individual tariff rates in relation to non-members.<sup>67</sup> Although negotiations towards implementing a CET were concluded in 1995 this has been subject to repeated delays and has not to date been fully implemented and as such it can be argued that the CAN does not yet represent a fully operational customs union.

In 1996 the Andean Pact was renamed the Andean Community of Nations under the terms of the Trujillo Protocol which introduced reforms to the original Cartagena Agreement. This Protocol also provided for the streamlining of regional institutions under what is termed the Andean Integration System (AIS). O'Keefe (1996: 812) argues that the reforms which were implemented were intended 'to cleanse the Andean Pact of legal norms and an institutional framework on now discredited import-substitution policies prevalent in Latin America during the Pact's founding in 1969.' The treaty also provided for the direct election of the Andean Parliament and made the APC and the ACFM described above part of the institutional environment. In addition, the direct applicability of Community law was introduced in an attempt to counteract the nationalistic tendencies which had hindered regional cooperation in the 1970s and 1980s. Such developments were indicative of an aspiration for a deeper EU style integration scheme as opposed to a shallower, institutionally bare organization such as NAFTA. It was as a result of this re-launching of the CAN as a group open to external trade and investment that it became a more attractive potential partner for both individual states and other regional organizations (Seco, 2011: 6).

During the 1990s the CAN begin to attempt to engage in foreign policy more coherently as it established more formal external relationships with the EU, the US and the Mercosur in particular. The CAN and Mercosur signed a framework agreement for the establishment of an interregional FTA in 1998. Negotiations towards this were launched in 2000 and concluded in 2004. Both sides agreed to phase out all import duties over a 15 year period in order to create a huge South American free trade area.<sup>68</sup>

While the second phase of development of the CAN has included both a reorientation of internal policy and an increase in extra-regional engagement, a

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<sup>67</sup> Peru did not fully participate in the FTA until 1997.

<sup>68</sup> In addition, all CAN member states are associate members of Mercosur and vice versa.

combination of both external and domestic political factors has again come to jeopardize the future of the Andean integration process.

US foreign policy in Latin America has been based upon an approach which seeks to undermine sub-regional integration schemes in the continent as part of its strategy to create the hemispheric FTAA. The failure of this ambitious undertaking prompted Washington to seek and conclude bilateral FTAs with a number of Latin American countries, including Peru and Colombia.<sup>69</sup> As a direct result of the conclusion of these agreements Venezuela withdrew from the CAN in 2006. Venezuela had successfully joined Mercosur in 2005, although this process wasn't officially completed until 2012, and had played a key role in the establishment of the Bolivarian Alliance for the Americas (ALBA).<sup>70</sup> Bolivia and Ecuador have also joined or sought to join alternative regional organizations in recent years. And as will be discussed in subsequent sections, the above mentioned bilateral FTAs between Colombia and Peru and the US were to have serious implications for the EU approach to its relationship with the CAN which is the main focus of this chapter.

Costoya (2011: 83) argues that 'the turn to the left and the new geopolitics, and specifically the creation of ALBA and the election of Morales in Bolivia and Correa in Ecuador (in November 2006), disrupted the general neoliberal orientation that had defined CAN since its creation with the Trujillo Protocol of 1996.' An ideological split occurred among the members of the CAN between Bolivia and Ecuador on the one hand and Peru and Colombia on the other. It can be surmised that this split rendered a region-to-region accord between the EU and CAN more unfeasible and later led Brussels to accept a bilateral approach with Peru and Colombia given that the US had already done so. The EU feared losing both influence and market access in the Andean region and that the US was taking the first steps towards creating a FTAA in piecemeal fashion. While the CAN may not be an important market for the EU in comparison to the likes of Mercosur for example, the risk was that permitting the US to gain a stronger foothold in the region unobstructed could result in the future reduction of EU influence in the Latin American region as a whole. The

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<sup>69</sup> The US was also engaged in negotiations with Ecuador although no agreement was reached.

<sup>70</sup> This scheme was proposed by Venezuelan President Hugo Chavez as an alternative to the FTAA in 2004. The current members are Venezuela, Cuba, Bolivia, Ecuador, Nicaragua, Dominica, Antigua and Barbuda and St. Vincent and the Grenadines.

following section traces the evolution of the relationship between the EU and CAN before looking at recent developments in greater detail.

### 4.3 The EU and the CAN

This section traces the evolution of the EU-CAN interregionalism since its inception. A chronological summary of the major developments in the relationship is presented in Table 4.3 below.

**Table 4.3: Overview of CAN-EU Interregionalism**

<b>Year</b>	
<b>1983</b>	Cooperation Agreement
<b>1991</b>	GSP-Drugs
<b>1993</b>	Updated Cooperation Agreement
<b>1996</b>	Declaration of Rome
<b>2000</b>	Rio Summit Meeting
<b>2002</b>	First Regional Strategy Paper (RSP) Madrid Summit Meeting
<b>2003</b>	Political Dialogue and Cooperation Agreement (PDCA)
<b>2004</b>	Declaration of Guadalajara
<b>2007</b>	Second Regional Strategy Paper (RSP)
<b>2007/2008</b>	Three rounds of negotiations towards an Association Agreement (AA)
<b>2008/2009</b>	Nine rounds of negotiations towards a Multiparty Agreement (MPA)
<b>2010</b>	EU-Colombia-Peru Multiparty Agreement (MPA)

In the 1970s initial informal links were established between the two organizations, however, EC political and economic interest in the sub-region remained relatively limited. The relationship was first institutionalized with the signing of a Cooperation Agreement in 1983. This accord provided a framework covering three areas: trade, development cooperation (technical and financial) and economic cooperation. A Joint Committee (JC) was established to meet on an ad-hoc basis to oversee cooperation in these areas. This was the first such institutional arrangement between the EU and a Latin American regional organization.

As was the case with ASEAN, the EC was motivated by three primary objectives in its early interregional endeavours with the CAN. Firstly, the EC was seeking to promote its economic and political influence through the development of a broad network of relationships with other countries and regions. A second goal was to strengthen the EC's identity as an actor in international relations. And a final aim was to promote regional integration elsewhere in order that other countries might achieve the same benefits which integration in Europe had enabled.

These aims are clearly referenced in the 1983 Cooperation Agreement as well as in other early interregional policy documents produced in relation to the EU-CAN relationship. The 1983 Cooperation Agreement aimed for example ‘to promote the intensification and consolidation of the integration process in the Andean sub-region’ (Art. 2), and ‘to strengthen and diversify generally their economic links’ (Art. 3(a)).

During the 1990s the EU adopted a new approach towards its international relations in Latin America as it did in Africa and Asia. This was due to the structural changes in the international system following the collapse of the Soviet Union as well as the increasing globalization of the international economy. As Santander (2010: 2) puts it, ‘the end of the Cold War offered the EU new international roles and a space in which to play them.’ Institutional changes within the EU itself also played a role in the development of a more coherent approach to external relations as discussed in Chapter 2.

In 1991 the EC granted duty free access to 90 percent of CAN exports under the so called GSP-Drugs scheme which was based on the principle of shared responsibility for efforts to control the illegal drugs trade.<sup>71</sup> This scheme was motivated by the perception that drug trafficking had served to undermine advances in development, democracy, and institution building in the Andean region. Preferential and duty free access was granted to the majority of CAN exports to the EC in return for a commitment by the member states to implement concrete policies designed to combat the drugs trade.

In 1993 the original Cooperation Agreement was updated in line with so-called EU ‘third generation’ agreements which sought to deepen and expand cooperation in trade and development and to extend cooperation to areas including health, the environment, infrastructure, social development and new areas of trade such as the protection of intellectual property and public procurement.<sup>72</sup> Respect for human rights and democracy was also mandated as a prerequisite for all new EU agreements. Important in the context of the functions of interregionalism is Article.

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<sup>71</sup> GSP-Drugs was replaced by GSP+ in 2006. This programme offers additional tariff reductions to developing countries that have implemented 27 key international conventions in such fields as human rights, labour standards, sustainable development and good governance.

<sup>72</sup> [http://www.sice.oas.org/TPD/AND\\_EU/negotiations/1993framework\\_e.pdf](http://www.sice.oas.org/TPD/AND_EU/negotiations/1993framework_e.pdf) Accessed 15 November 2012

26 of the agreement which states that ‘the Contracting Parties shall take steps to encourage the regional integration of the Andean countries’. In line with the institution building function discussed in Chapter 1 the EU sought to utilize a region-to-region approach to international relations in order to promote regional integration elsewhere. Both technical and financial assistance were provided for in the agreement in fulfillment of this objective.

The 1993 agreement established Joint Committees for follow-up activities in relation to the specified areas of cooperation as well as a Subcommittee on Trade, which have continued to operate in addition to the original Joint Committee. While a large part of the agreement refers to measures which might facilitate improved trade cooperation, however, no discussion of trade liberalization itself was on the interregional agenda at this point in time given the fact that EU trade policy was firmly focused on multilateralism within the context of the GATT negotiations.

A 1996 meeting which took place between EU and CAN representatives on the sidelines of the EU-Rio Group<sup>73</sup> summit resulted in the Declaration of Rome, an agreement which aimed at further intensified cooperation and political dialogue covering a broader range of areas.<sup>74</sup> This further diversification of the interregional agenda occurred shortly after the CAN had itself adopted a broader approach to regional integration under the terms of the Trujillo Protocol. Political and social rather than solely economic issues would henceforth be considered during interregional Joint Committee negotiations and in particular the promotion of regional integration was to be achieved through the use of a more widespread set of instruments. Greater levels of technical and financial support were agreed and it was decided to hold presidential and ministerial level meetings on alternate years in the future.<sup>75</sup>

As a result of more pressing economic concerns in other parts of Latin America during the late 1990s, however, EU attention came to be primarily focused on

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<sup>73</sup> The Rio Group was established in 1986 and comprises the members of the Andean Community, CACM and Mercosur as well as Mexico, Chile, Dominican Republic and various Caribbean nations. EU-Rio Group ministerial meetings are held every two years, alternately in each region and always during the year that there is no EU-LAC Summit of Heads of State and Government.

<sup>74</sup> [http://eeas.europa.eu/peru/docs/decl\\_rome\\_en.pdf](http://eeas.europa.eu/peru/docs/decl_rome_en.pdf) Accessed 20 November 2012

<sup>75</sup> The Presidential level meetings include the European Commission as well as the heads of state of EU and CAN members.

Mercosur, Chile and Mexico. In comparison to these partners the CAN represented and continues to represent a relatively insignificant market for the EU.<sup>76</sup> The shift in focus from the Andean region to the Southern Cone at this time was indicative of economic and strategic balancing considerations over-riding more normative political concerns such as promoting regional integration and development. This would occur again with the shift to selective bilateralism later in the 2000s. The preferential access which had been granted to the CAN under the GSP scheme had been reduced considerably by the early 2000s. And although the members of the CAN continued to receive some preferential market access under the scheme the concessions were unilateral and temporary and could potentially be revoked by the EU.

Andean imports from the EU had grown strongly during the late 1990s but contracted equally strongly in the first years of the 2000s. The trends for exports were the opposite. Total EU-CAN trade in 2003 was lower in absolute terms than a decade earlier. Although the CAN was running a trade surplus with the EU this was as a result of depressed import demand rather than strong Andean export performance. Investment in the CAN increased less rapidly during the early 2000s in comparison to the dramatic increases which had taken place during the 1990s. As a result, a feeling of frustration had developed among the Andean countries and calls emerged for an upgrading of the EU-CAN interregional relationship and a reciprocally negotiated AA which would provide more secure long-term market access and improve the prospects for increased FDI.<sup>77</sup> Prior to the launch of negotiations towards an AA in 2007 the Colombian President Álvaro Uribe referring to this aim of locking in preferences stating:

The unilateral preferences are incomplete and their time frame still uncertain. They are barely a few cautious privileges for the entry of products into a market, but lack a plan for cooperation and political dialogue. Furthermore, the uncertain nature of these preferences keeps investment from materializing. Those who are planning to invest first consider whether access to the markets is guaranteed for the long term is or merely a temporary privilege. Investors will have no confidence in the Andean

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<sup>76</sup> In 2010, the CAN represented approximately 1% of the EU's world trade whereas the EU totalled 12% of CAN's trade (IMF DOTS).

<sup>77</sup> Integration and trade in the Americas, IADB Report 2006. Available at <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=849354> Accessed 10 January 2013

Community if the privilege it is given to place products in the European Union is only a temporary one.<sup>78</sup>

A ministerial level meeting was held on the sidelines of the EU-Rio Group Summit in Rio de Janeiro in 2000. During this summit the representatives of the EU and the CAN held separate consultations and agreed to work towards greater political dialogue and cooperation (Adiwasito et al., 2006: 5). The first EU Regional Strategy Paper (RSP) for the CAN covering the period 2002-2006 highlighted strengthening Andean integration and tackling the causes of actual or potential conflicts in the region as the two main challenges facing the CAN (EC, 2002a). A total of 29 million euro in support was allocated for five key areas namely the harmonization of regional statistics, natural disaster prevention, technical assistance for trade, participation of civil society and air traffic security.

During the second EU-LAC summit in Madrid in May 2002 the EU and the CAN formally agreed to commence talks towards a Political Dialogue and Cooperation Agreement (PDCA). At this point in time, the EU priority in negotiating with the CAN as a group was to promote regional integration and broad economic and political cooperation rather than to push through comprehensive trade liberalization measures. At the launch of negotiations towards the PDCA Chris Patten, the EU external Relations Commissioner, stated that:

Politically, regional integration contributes to the stability of the region and fosters democracy and respect for human rights. In economic terms, as we have seen in Europe first-hand, integration means development and growth; we are ready to help others benefit from the same experience (EC, 2003b).

The agreement was completed quite rapidly and signed in Rome in December 2003 and was considered the first step towards preparing the way for an eventual AA.<sup>79</sup>

Article 2.2 of the PDCA states:

The Parties confirm their joint objective of working towards creating conditions under which, building on the outcome of the Doha Work Programme, a feasible and mutually beneficial Association Agreement, including a Free Trade Agreement, could be negotiated between them.

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<sup>78</sup> <http://www.comunidadandina.org/ingles/press/speeches/uribe17-9-07.htm> Accessed 10 January 2013

<sup>79</sup> [http://trade.ec.europa.eu/doclib/docs/2004/june/tradoc\\_117726.pdf](http://trade.ec.europa.eu/doclib/docs/2004/june/tradoc_117726.pdf) Accessed 15 January 2013



While the governments of the Andean countries were hopeful of commencing negotiations towards this in the near future at this point in time, the EU stressed that further CAN integration was required and that the issues of social cohesion and exclusion needed to be addressed before this could be considered.<sup>80</sup> Article 11.1 refers to this stating that ‘the Parties agree that cooperation in this field shall reinforce the process of regional integration within the Andean Community, in particular the development and implementation of its common market’. At this stage the scene was slowly but surely being set for the commencement of interregional AA negotiations; however, US overtures to individual states within the Andean region in addition to the lack of progress towards a new set of multilateral agreements within the WTO would soon prompt a more rapid advancement of the EU-CAN relationship.

#### **4.4 The US and the CAN**

Colombia first proposed the establishment of an FTA with the US in 2003, however, the Bush administration was initially reluctant to consider this as it was still hoped at the time to resume negotiations towards the FTAA and, in addition, that a successful conclusion would be reached in the WTO Doha round. By 2004 neither the FTAA nor the WTO talks were making much progress, however, and the US eventually changed course and agreed to consider bilateral FTAs with the Andean countries.

The share of the US in CAN trade had fallen quite sharply, from 42.8 percent to 35.4 percent, since the early 1990s. The decision to enter FTA negotiations was therefore based upon the desire to gain greater market access as well as to create new opportunities for investment. There was also the hope that concluding deals with the Andean countries might put pressure on Brazil, the main opponent of the proposed FTAA, to reconsider its position (Villareal, 2006: 2).

This was consistent with the logic of competitive liberalization (Bergsten, 1996a) and indeed in an address to Congress the US Trade Representative Robert Zoellick confirmed this stating that ‘negotiating an FTA with the Andean countries is a

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<sup>80</sup> [http://trade.ec.europa.eu/doclib/docs/2005/july/tradoc\\_124226.pdf](http://trade.ec.europa.eu/doclib/docs/2005/july/tradoc_124226.pdf) Accessed 15 January 2013

logical step under the Administration's promotion of competitive liberalization in the Hemisphere.’<sup>81</sup>

On the Andean side the hope was that FTAs with the US would draw in FDI and compensate for the loss of privileges granted to them under the Andean Trade Preferences Act (ATPA) which was due to expire in 2006. The ATPA had been introduced in 1991 in an attempt to promote economic development in the Andean region and lessen dependence on the narcotics trade by supporting more legitimate enterprises. In this sense it was comparable to the GSP-Drugs scheme implemented by the EU. And as was the case in its relationship with the EU, the CAN aspired to a reciprocally negotiated agreement which would grant more secure and long term preferences than the unilateral and revocable concessions which they were accorded under the ATPA. The potential threat of losing access to the EU and US market under the terms of their unilateral preference schemes can in fact be considered to have motivated the CAN members to seek reciprocally negotiated PTAs. This ties in with the idea that countries often seek to conclude PTAs not necessarily due to perceived welfare gains through the creation of new institutional structures but rather because the prevailing status quo has been removed from or is in danger of being removed from their choice set (Gruber, 2001).

The US commenced negotiations with Colombia, Peru and Ecuador in Cartagena, Colombia in May 2004. Bolivia participated as an observer. Following thirteen rounds of talks in total Colombia and Ecuador decided to withdraw, however, in December 2005 the US and Peru concluded a bilateral FTA.<sup>82</sup> The major point of contention for Colombia and Ecuador was that of US agricultural subsidies and tariffs. As has been the case in the EU’s interregional negotiations with the CAN and with other regional organizations, similar obstacles to agreement have been encountered as at the multilateral level within the WTO. Despite this, after arriving at a compromise over certain disagreements, Colombia and the US also concluded a

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[http://www.ustr.gov/archive/Document\\_Library/Press\\_Releases/2003/November/USTR\\_Notifies\\_Congress\\_of\\_Intent\\_to\\_Initiate\\_Free\\_Trade\\_Talks\\_with\\_Andean\\_Countries.html](http://www.ustr.gov/archive/Document_Library/Press_Releases/2003/November/USTR_Notifies_Congress_of_Intent_to_Initiate_Free_Trade_Talks_with_Andean_Countries.html)

Accessed 20/10/2013

<sup>82</sup> The US-Peru FTA was approved by Congress in 2007 and fully implemented in 2009.

<http://www.ustr.gov/trade-agreements/free-trade-agreements/peru-tpa/final-text>

Accessed 20/05/2013

bilateral FTA in November 2006.<sup>83</sup> Ecuador and the US have as of yet still reached no agreement.

The FTAs concluded between the US and both Colombia and Peru contained extensive provisions on not only tariff reductions but also IPR, competition, procurement, trade in services, investment, and standards. These FTAs are in fact accorded the highest rank on an index which attempts to capture the depth of commitments of trade agreements in a comprehensive new dataset compiled by Dür, Baccini, and Elsig (2014). As such these agreements held a large potential for trade diversion for EU exporters.

The fact that the US in effect divided the members of the CAN and signed agreements with only Peru and Colombia had a negative impact on the internal coherence of the regional organization and directly resulted in Venezuela renouncing its membership of the scheme. Under the CAN legal framework individual members of the group are permitted to enter into bilateral agreements with third parties. Following the conclusion of the FTAs between the US and Colombia and Peru, however, Bolivia stated its intention to sue both of these countries should the agreements be implemented. While the Cartagena Agreement does allow CAN members to enter into individual agreements with third parties, this applies only to cases where such agreements do not have an adverse impact on existing CAN regional legislation. While Bolivia's threat did not come to pass the momentum of Andean integration visibly slowed during the second half of the 2000s. Discussions related to the full implementation of the CET and the formation of the Andean Common Market have been put on hold.

Negotiations between the US and the Andean countries were occurring at precisely the same time as EU officials commenced assessment of the CAN as a potential candidate for an AA. And almost immediately after the US concluded FTAs with both Peru and Colombia, the EU commenced interregional AA negotiations with the group. This indicates that the economic balancing motivation for interregionalism posited by Rüländ (2002, 2010) might provide some explanation of EU policy towards the CAN at this point in time. Doidge (2007a: 232) refers to this arguing that 'in a system where power and conflict are defined increasingly in economic

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<sup>83</sup> The US-Colombia FTA was not approved by Congress until October 2011.

rather than military terms, interregionalism is viewed as a way of maintaining equilibrium in the international system, particularly between the triad of regional economic powers.’

Due to the fact that individual members of the CAN had concluded bilateral FTAs with the US a precedent had been set for the negotiations with the EU. The willingness of the EU to later complete a trade agreement with a subset of the members of the CAN would appear to indicate that the institution building and identity creation explanations for interregionalism came to hold less explanatory power in this particular case compared to the above mentioned balancing explanations. This is consistent with Hardacre and Smith (2009: 182) who argue that while the EU had attempted to deal with Latin American regional organizations on a region-to-region basis it had been forced to sign bilateral agreements due to pressing economic concerns.

The growing importance of competitiveness driven trade objectives can result in reduced attention being devoted to political and foreign policy objectives such as encouraging the development of groups of countries by means of fostering their regional integration. The EU had in fact specifically criticized the US approach to PTAs in Latin America following the conclusion of US negotiations with Colombia and Peru and emphasized the difference in terms of EU trade policy which seeks to support rather than undermine integration schemes in the region. The EU shift to a bilateral approach is indicative of a narrowing of this differentiation as EU and US policy in both Asia and Latin America have become less and less distinguishable from one another.

#### **4.5 Towards an Association Agreement**

The decision to formally commence negotiations towards an interregional AA must be considered within the context of both the trade policy of EU competitors as described above as well as the lack of progress in multilateral trade negotiations within the WTO and the resultant change in trade policy which the EU outlined in the 2006 *Global Europe* report. While the CAN had not been identified as a priority PTA partner in the report this changed given that certain members of the group were actively pursuing trade agreements with EU competitors.

The decision to commence AA negotiations was primarily driven by the Commission, however, EU business and industry groups had expressed support for the proposed agreement and were consulted in the preparation of trade impact assessments prior to the launch of negotiations. In comparison to the cases of ASEAN and Mercosur, however, there was less apparent urgency among interest groups for the conclusion of an agreement with the CAN. The CAN represents a relatively small market for EU exporters compared to the emerging economies of Southeast Asia and the Southern Cone. The decision to pursue the AA might therefore seem to indicate that a systemic perspective is also required in which the EU actively sought to balance against the US in realist fashion. The idea is that the US and the EU are in a state of competitive interdependence in terms of both market access and trade regulation and that positional competition in addition to domestic and institutional factors shape the trade policies of both.

As a result of the US moves to conclude bilateral FTAs with countries in the Andean region the EU soon made plans to defend its own interests by means of an interregional AA. Sbragia (2010: 368) argues that ‘FTAs negotiated by the US can disadvantage European traders and investors in third markets unless the EU protects them by negotiating its own corresponding FTAs.’ The lack of progress in interregional negotiations in conjunction with the pending conclusion of US FTAs with Colombia and Peru, however, coincided with both expressed interest group preferences for the EU to pursue bilateral PTAs and the Commission’s decision to do so. This ties in with the view that trade policy is often determined as a result of potential threats in addition to potential opportunities (Baldwin, 1993; Baccini and Dür, 2012; Dür, 2007, 2010).

Tables 4.4 and 4.5 below display the share of the EU and the US in CAN trade from 1990 onwards. By 2007 the EU’s share of CAN imports had declined by almost 50 percent since 1990. While the US had also suffered a reduction in its share of trade it still had almost three times that of the EU.

**Table 4.4: CAN-EU Trade 1990-2010 (Percentages)**

	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>	<b>2010</b>
<b>Share of the EU in CAN exports</b>	19.4	9.9	12.5	11.0	12.8	10.7	10.8
<b>Share of the EU in CAN imports</b>	23.4	15.3	16.3	15.8	12.2	12.0	11.9
<b>Share of the EU in CAN trade</b>	20.8	12.2	14.2	12.9	12.5	11.2	11.3

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/05/2012

**Table 4.5: CAN-US Trade 1990-2010 (Percentages)**

	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>	<b>2010</b>
<b>Share of the US in CAN exports</b>	45.9	47.0	41.1	39.7	42.6	41.1	34.7
<b>Share of the US in CAN imports</b>	37.3	31.2	28.0	28.7	25.1	24.3	26.5
<b>Share of the US in CAN trade</b>	42.8	40.3	35.2	35.4	35.6	34.0	31.1

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/05/2012

The conclusion of the FTAs between the US and Colombia and Peru held the potential to further erode the EU's market share in the Andean region and this prompted a response at both the domestic and Community level. Despite the fact that a significant change in approach to trade policy had been announced with more space for preferential negotiations, concluding a trade agreement with the CAN was not considered a priority prior to the US agreements. Statements from EU institutions from late 2006 onwards, however, highlight how this stance had changed. It was also at this point in time that it was decided to proceed with negotiations towards a similar agreement with Central America. In December 2006 the EU Trade Commissioner Peter Mandelson stated that 'these agreements will establish the foundations for deep trade and economic relations between the EU and the Andean and Central American countries. They will help build regional markets, attract investment and develop trade' (EC, 2006c).

It is notable, however, that many statements in relation to the proposed AA continued to place a strong emphasis on the EU's normative agenda in relation to interregionalism. In March 2007 the European Parliament issued a report outlining its recommendations regarding the negotiating mandate for proposed agreement. The report recommended a broad mandate and stated that the Council should:

Specify in the negotiating mandate that some of the aims of the association agreement between the EU and the CAN should be the establishment in time of an advanced free trade area, the pursuit of political dialogue and cooperation and, in addition, the promotion of sustainable human development, social cohesion, consolidation of democracy and the rule of law and full respect for human, civil, political, economic, and social rights, without neglecting the cultural and environmental dimension (European Parliament, 2007a).

In relation to supporting regional integration it was recommended that the EU should:

Include in the negotiating guidelines clear signals of support to the CAN members in their efforts to deepen all aspects of regional integration, fostering an agreement between regional blocs which would certainly not exclude the differentiated treatment which the development of the integration process within the CAN requires (ibid.).

The later Commission refusal to incorporate proper consideration of the need to provide differential treatment to the CAN member states, and the eventual shift from an interregional to a multiparty agreement, appear to directly contravene the Parliament's recommendations in this regard.

Support for the regional integration process in the CAN was of course also motivated by the EU desire to negotiate and achieve an agreement with a well integrated regional market. The 2004 Declaration of Guadalajara had made provisions for the assessment of the CAN integration process with a view to making certain improvements prior to starting negotiations towards the AA. This joint assessment of Andean integration was concluded in 2006 (EC, 2006a). Among the recommendations of this report were that the member states of the CAN take steps to streamline their customs procedures and develop a common customs code. While most goods circulate freely within the CAN there are still customs checks at each national internal border, mostly in relation to origin. The joint assessment recommended that a single administrative document be developed which would enable all imports into the CAN to circulate freely within the region. It was also recommended to invest in improvements to interstate roads and other regional infrastructure in this regard. Several other recommendations were made in the report all of which related to improving the operation of the CAN customs union and the liberalization of internal trade in relation to TBTs, competition policy, public procurement, services and investment, and dispute settlement. All of these measures were clearly intended not only to promote improvements in Andean economic

integration but also to promote the development of a closely integrated and internally liberalized economic bloc in advance of the negotiation of an interregional AA comprising a comprehensive trade chapter.

In April 2007 the EU published a second Regional Strategy Paper (RSP) for the CAN covering the period 2007-2013. The overarching theme of this report was that advances were still required in many aspects of regional integration in order to realize political and economic benefits in many areas. The report stated that:

Cooperation between the CAN countries in a vast number of sectors is strongly encouraged because of its effect on strengthening the integration system and thereby, political stability, economic growth and sustainable development in the region (EC, 2007b).

More specifically the EU emphasized that the CAN needed to strengthen economic integration, to promote social and economic cohesion, and to continue the fight against the illegal drugs trade. A total of €50 million was allocated in relation to supporting these objectives during the period covered by the RSP (ibid.). In June 2007 it was officially announced that negotiations were to be launched towards an interregional Association Agreement between the EU and the CAN (EC 2007e). In relation to this announcement Benita Ferrero-Waldner, European Commissioner for External Relations and Neighbourhood Policy stated that:

The future agreement as well as the future co-operation activities aim at supporting the Andean countries' efforts to increase levels of social cohesion by fighting poverty and exclusion. It also shows the willingness to work together on issues such as good governance, institution building and sustainable development<sup>84</sup>.

Here once again the emphasis is on normative concerns. In the build-up to the launching of AA negotiations interregional policy within the context of the EU-CAN relationship was very much framed in such a manner. This contrasts sharply with the actual provisions granted by the EU during the negotiations for SDT and the eventual decision to adopt a selective bilateral approach is indicative of the secondary importance attached to normative concerns in comparison to more overt economic and strategic balancing objectives.

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<sup>84</sup> [http://europa.eu/rapid/press-release\\_IP-07-834\\_en.htm](http://europa.eu/rapid/press-release_IP-07-834_en.htm) Accessed 12/08/2013



#### 4.5.1 Association Agreement negotiating rounds

The first round of negotiations took place in Bogotá, Colombia in September 2007.<sup>85</sup> The Colombian President Álvaro Uribe outlined the aspirations of the CAN in pursuing an AA with the EU stating that:

For us, these trade agreements are not ideological categories, nor are they born from political values. They are opportunities for our nations; they are opportunities to overcome poverty, to build equity, to give our nations easier access to frontier technology, easier access to markets with a high capacity for consumption.....Trade agreements boost investment, offer markets, create more opportunities, which, if well directed, can insert the large excluded masses in our countries into the vigorously growing economy and put them on the proper courses to overcome poverty and build equity.<sup>86</sup>

As with other EU AAs the agreement was planned to be based upon three pillars – political dialogue, cooperation and trade. During the first round fourteen working groups were set up in relation to each of the three pillars of the agreement. The negotiators stressed that the proposed agreement was much more than an FTA, however, the fact that eleven of these fourteen groups were dedicated to the trade pillar is indicative of the fact that commercial concerns were central.<sup>87</sup> The composition of these working groups was also indicative of the broad and comprehensive agreement which both sides hoped to conclude. The groups included tariffs, technical barriers to trade, competition policy, customs, SPS measures, agricultural market access, IPRs, government procurement, investment, and services. Importantly, however, the CAN indicated at this early stage that the proposed agreement would need to take into account the asymmetries which existed both between the EU and the CAN as a group, and between the members of the CAN itself. In particular the CAN negotiators indicated that Bolivia would not be prepared to adopt commitments in the areas of services, investment and movement of capital, procurement and IPR.<sup>88</sup> The major political dialogue and cooperation aims of the proposed agreement were also announced during the first round and these included inter alia promoting regional integration, strengthening democracy, poverty reduction, the promotion of social cohesion and sustainable human development.

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<sup>85</sup> [http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc\\_136512.pdf](http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136512.pdf) Accessed 20/10/2013

<sup>86</sup> <http://www.comunidadandina.org/ingles/press/speeches/uribe17-9-07.htm> Accessed 10/01/ 2013

<sup>87</sup> [http://www.sice.oas.org/TPD/AND\\_EU/negotiations/lronda\\_s.pdf](http://www.sice.oas.org/TPD/AND_EU/negotiations/lronda_s.pdf) Accessed 20/10/2013

<sup>88</sup> [http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc\\_136512.pdf](http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136512.pdf) Accessed 20/10/2013

The second stage of negotiations took place in Brussels in December 2007. During this round it was first stressed that the members of the CAN would need to take further steps to improve the functioning of their regional integration scheme prior to the successful conclusion of the proposed agreement.<sup>89</sup> The fourteen working groups met once again and in relation to the scheduling of tariff offers it was agreed that the first offers of market access for goods would be made by March 14 2008.<sup>90</sup>

The third round was completed in Quito, Ecuador in April 2008. The initial offers of tariff reductions were made during this round. The major theme of the talks was on reconciling the asymmetries both between the EU and the CAN and between the members of the CAN itself.<sup>91</sup>

The fourth round of talks was scheduled to take place in Brussels later that year, however, the negotiations were eventually suspended. Progress had been impeded by a range of disagreements. Ecuador had expressed extreme dissatisfaction at the toughening of EU immigration rules given the large Ecuadorian community within the EU.<sup>92</sup> Bolivia opted out of the negotiations due to EU insistence on the inclusion of provisions on a number of topics including trade in services, right of establishment and movement of capital, and public procurement. The issue of the protection of IPRs proved the most divisive issue among the members of the CAN. The concern was that in pushing for IPR provisions going beyond those of the WTO TRIPS agreement the EU was seeking to reduce the flexibility of the CAN countries to implement policies aimed at public health services provision.

The breakdown in the negotiations can be linked directly to the fact that since the early 2000s a notable division of the members of the CAN had occurred in a political and economic context (Seco, 2011: 12). Both Colombia and Peru had re-affirmed the neo-liberal development model and promulgated policies which further reduced state involvement in the economy. Market driven development, deregulation and privatization were the order of the day. In Ecuador and Bolivia, however, constitutional processes resulted in a move away from liberal policies and a

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<sup>89</sup> [http://www.sice.oas.org/TPD/AND\\_EU/negotiations/IIround\\_s.pdf](http://www.sice.oas.org/TPD/AND_EU/negotiations/IIround_s.pdf) Accessed 20/10/2013

<sup>90</sup> Ibid.

<sup>91</sup> [http://www.sice.oas.org/TPD/AND\\_EU/negotiations/IIIround\\_s.pdf](http://www.sice.oas.org/TPD/AND_EU/negotiations/IIIround_s.pdf) Accessed 20/10/2013

<sup>92</sup> <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a.Egcs.YOEtK> Accessed 20/10/2013

strengthening of the state. More regulated markets and nationalization had come to define the policies of both countries.

Costoya (2011: 81) argues that Bolivia's new trade strategy 'is an attempt to push beyond the primary export models of trade, unilateral tariff reductions and the unconditional openness to FDI that characterized the country's neoliberal experiment.' Specifically both Bolivia and Ecuador had turned away from the agenda of deeper integration which forms the basis of recent WTO and FTA negotiations. The rupture in the CAN in terms of economic policies has had political consequences and has hampered the ability of the organization to coordinate regional policy. It became increasingly difficult for the CAN to act as a group in terms of their external relations and this directly resulted in the shift in its relationship with the EU from one which was premised on a region-to-region agreement to one in which the EU was prepared to deal with willing individual CAN members.

Following the breakdown in the negotiations towards a fully fledged three pillar Association Agreement it was agreed to establish a more flexible framework. It was decided that the EU would continue negotiations with the CAN as a whole on political dialogue and cooperation. At the prompting of Colombia and Peru it was agreed that multiparty negotiations on trade would simultaneously be held with willing member states of the CAN. The EU's position is that the decision to negotiate with Colombia and Peru was their decision and not a demand made by the EU itself (Interview 1). The EU had during the course of the negotiations, however, rejected calls by Bolivia and Ecuador to slowdown the pace of the interregional negotiations in order to devote greater attention to SDT and the issue of sustainable development in particular.

Negotiations towards the so called Multiparty Agreement (MPA) commenced in January 2009 and involved the EU negotiating separately with Colombia, Peru and Ecuador. Several further rounds of talks took place between the parties, however, Ecuador withdrew following the fifth round. Following nine rounds of talks in total Colombia and Peru concluded agreements with the EU at the sidelines of 6<sup>th</sup> EU-Rio Group Summit held in Madrid in May 2010. Prior to being officially implemented the agreement had to be ratified by the European Parliament and in advance of this lobbying took place by interest groups in favour of and opposed to its terms. In a

communication from the ESF to the Parliament it was urged strongly that the MPA be adopted. The communication highlighted the importance of Colombia and Peru as commercial partners:

The Colombian, Peruvian and Central American markets are often falsely assumed to be only very modest in size, this is however a dangerous misperception, for the combined population of the eight countries included in the agreements is 118 million, with Colombia the largest accounting for 46 million. This is therefore a large potential market of consumers of middle income level per capita GDP and with impressive growth potential; Peru grew at 10% in 2008 and 9% in 2010 and Colombia averaged 4.6% annual growth between 2000 and 2008. Furthermore, the region's growth in services imports is increasing rapidly with Colombia, for example, seeing commercial services imports more than double between 2000 and 2010 to €6.1bn.<sup>93</sup>

The communication also stressed the importance of balancing against US PTA activity reinforcing the argument made in this regard throughout this chapter:

Moreover, it should be noted that with the US' recent approval of the US-Colombia FTA, the European Parliament must now be mindful of the competitive disadvantage European companies would face should the EU's own FTA not be consented to.<sup>94</sup>

Similar views were expressed in a joint communication to the Parliament's INTA by many other major business and industry associations including the European Automobile Manufacturer's Association (ACEA), European Telecommunications Network Operators (ETNO), and the European Textile and Apparel Confederation (EURATEX).<sup>95</sup>

In addition to the ESF, BusinessEurope was also strongly in favour of the proposed bilateral PTAs with Colombia and Peru. The automotive, extractive, telecommunications, construction, distribution and financial services sectors were predicted by these organizations to be the most likely potential beneficiaries.<sup>96</sup>

In 2009 a Sustainability Impact Assessment (SIA) was undertaken in order to gauge the potential impact of the proposed agreement.<sup>97</sup> The SIA estimated that Colombia

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<sup>93</sup> <http://www.esf.be/new/wp-content/uploads/2011/11/ESF2011-16-Colombia-Peru-Central-America-Final-Vital-Moreira.pdf> Accessed 10/11/2013

<sup>94</sup> Ibid.

<sup>95</sup> <http://www.esf.be/new/wp-content/uploads/2012/11/EU-Business-co-signed-letter-Colombia-Peru-FTA-Sept-2012-Final.pdf> Accessed 10/11/2013

<sup>96</sup> [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/433865/EXPO-INTA\\_ET%282012%29433865\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/433865/EXPO-INTA_ET%282012%29433865_EN.pdf) Accessed 20/09/2014

<sup>97</sup> [http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc\\_146014.pdf](http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc_146014.pdf) Accessed 20/09/2014

would experience the most growth in industrial output as a result of the implementation of the PTA. The largest gains were predicted to be in automobiles and parts (25%), followed by chemical, rubber and plastic products (8%), and textiles (7%). In Peru, similar to Colombia, increases in output were predicted in chemical, rubber and plastic products (5%), metals (5%), and textiles (4%). These increases were predicted to result from improvements in market access, again because of increased investment in these industries, including by European multinationals.

In line with the findings of the SIA EU automakers had a strong interest in the conclusion of the FTA. Companies such as Renault have affiliates located in Colombia which serves as an export platform to several other countries.<sup>98</sup> The MPA will result in the eventual elimination of tariffs on European made auto-parts and will indeed therefore result in significant reduced costs for EU automakers with assembly plants in Colombia.<sup>99</sup>

The agreement also provided for the reduction of tariffs on fully assembled car exports from the EU to Colombia and Peru. This will create significant market access opportunities for EU producers given the estimated growth potential of the car market in these countries.<sup>100</sup> Prior to the agreement fully assembled EU automobile exports to Colombia were subject to an average tariff of 35 percent. Tariffs on these exports are scheduled to be completely eliminated within an 8 year time frame.<sup>101</sup>

In terms of establishment the agreement offers EU investors market access and national treatment in agriculture and forestry, in the extraction of coal, oil, gas and minerals as well as in a wide range of services. Major EU firms are engaged in the Colombian petroleum market including Repsol, British Petroleum, Gold Oil, Global Energy Development, Royal Dutch Shell, Perenco, Total and Hocol. In fact, in 2007 Colombia's extractive industries accounted for more than half of all FDI in

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<sup>98</sup> <http://www.investincolombia.com.co/attachments/Automotive%20Industry%20in%20Colombia%20-%20April%202012.pdf> Accessed 20/09/2014

[http://www.just-auto.com/news/fta-colombia-europe-starts-1-august\\_id136707.aspx](http://www.just-auto.com/news/fta-colombia-europe-starts-1-august_id136707.aspx) Accessed 20/09/2014

<sup>99</sup> [http://europa.eu/rapid/press-release\\_MEMO-12-487\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-12-487_en.htm?locale=en) Accessed 20/09/2014

<sup>100</sup> [http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc\\_146014.pdf](http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc_146014.pdf) Accessed 20/09/2014

<sup>101</sup> [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/433865/EXPO-INTA\\_ET%282012%29433865\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2012/433865/EXPO-INTA_ET%282012%29433865_EN.pdf) Accessed 20/09/2014

the country.<sup>102</sup> There are also numerous European mineral oil companies among the investors in Peru. The PTA includes provisions on many WTO-plus issues such as investment protection, public procurement, and competition policy which will strengthen the legal security of their investments as well as providing opportunities for new investment.

The EU is also projected to make significant gains in terms of opportunities for its services providers under the proposed services liberalisation schedule. The EU is the leading source of FDI in the CAN countries and the opening of services to EU companies is therefore expected to result in an increase in European investment seeking to establish a commercial presence. The gains in services output for the EU are projected to be largest in the financial services, telecommunications, maritime, recreation and insurance sectors.<sup>103</sup>

It should be noted that extensive arguments were also made by groups opposed to the agreement. EU Trade Union groups and Non-Governmental Organizations (NGOs) called for the MPA to be rejected by the Parliament given the extent of labour rights violations in Colombia. In an open letter to the Parliament by the European Trade Union Confederation (ETUC) it was stated:

The international trade union movement is united in this call for a vote against the FTA. To do otherwise would disregard the appalling human rights record in Colombia and continued labour violations in Peru and would damage the EU's reputation as a leading force in the promotion of human rights and basic freedoms.<sup>104</sup>

While the agreement does contain commitments related to the enforcement of both labour and environmental standards critics argued that these were in fact weaker than those contained in the GSP+ scheme which previously provided the basis for trade relations between the EU and Colombia and Peru (TNI, 2011). The ratification of the US FTA with Colombia was held up due to similar protests and was only approved in 2011 having been signed in 2006. In any regard the Parliament approved the MPA and the agreement was officially signed in 2012. The

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<sup>102</sup> [http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc\\_146014.pdf](http://trade.ec.europa.eu/doclib/docs/2010/april/tradoc_146014.pdf) Accessed 20/09/2104

<sup>103</sup> Ibid.

<sup>104</sup> [http://www.etuc.org/sites/www.etuc.org/files/ETUC-TUCA\\_Colombia-Peru-3.pdf](http://www.etuc.org/sites/www.etuc.org/files/ETUC-TUCA_Colombia-Peru-3.pdf) Accessed 20/09/2014

agreement was provisionally implemented with Peru in March 2013 and with Colombia in August 2013.

#### **4.5.2 Overview of the Multiparty Agreement**

The agreement itself stresses respect for human rights and democracy as key principles. It establishes a FTA between the signatory states under Article XXIV of the GATT and Article V of the GATS. There are provisions for the substantial liberalization of financial services, professional services, maritime transport services and telecommunication services. The MPA furthermore incorporates provisions which go far beyond those of WTO agreements including the reciprocal opening of government procurement markets and the harmonization of competition policy. A Trade Committee was established to oversee the implementation of the agreement as well as subcommittees on market access, agriculture, technical barriers to trade, trade facilitation and rules of origin, government procurement, trade and sustainable development, sanitary and phytosanitary measures, and protection of intellectual property.

Reference is specifically made to the importance of CAN integration in terms of expanding the MPA to an interregional AA and the possibility of Ecuador and Bolivia joining at a future date is acknowledged in this regard:

Having regard to the aspirations of the signatory Parties to this agreement of achieving an association between the two regions once all the member countries of the CAN become parties to this Agreement, the Trade Committee will re-examine the relevant provisions, particularly this Article and Article 105, with a view to adapting them to the new situation and supporting regional integration processes.<sup>105</sup>

The important point is, however, that the accession clause incorporated in the MPA states that future negotiation with the other Andean countries must be on the basis of the commitments agreed with Colombia and Peru. Having stressed the importance of deeper integration among the members of the CAN as a prerequisite to commencing negotiations towards an AA, the decision to deal separately with Peru and Colombia has undoubtedly retarded the prospects for closer integration among the Andean countries in the immediate future.

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<sup>105</sup> MPA, Article 11.5 [http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc\\_147704.pdf](http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc_147704.pdf)  
Accessed 15/09/2013

Official statements from the governments of both Ecuador and Bolivia since the signing of the MPA initially stressed that entering into a FTA with the EU is not under consideration.<sup>106</sup> Ecuador has, however, since early 2013 commenced negotiations with the EU with a view to acceding to the MPA. This lends further weight to the proposition that EU trade policy is working to competitively liberalize trade with the members of regional groups with which negotiating an interregional PTA proved difficult.

In an interview with an official from the trade directorate of the EU Commission it was stressed that the decision to engage in selective bilateralism negotiations as opposed to maintaining a fully interregional approach was in line with the preferences of the Andean countries themselves (Interview 1). The preferences of the Andean countries, however, were determined by the EU refusal to slow down the pace of the negotiations in order to address the concerns of both Bolivia and Ecuador in relation to providing special and differential treatment to the members of the CAN in light of their asymmetries.

#### **4.6 Conclusions**

This chapter has undertaken a comprehensive analysis of the interregional relationship between the EU and the CAN. The Commission initiated formal ties with the CAN in the early 1980s in line with the objectives of promoting the EU's political and economic influence and supporting emerging processes of regional integration elsewhere. Initially EU interregional policy towards the CAN was determined and driven by the Commission itself with little involvement on the part of the member states.

The relationship played a balancing role in EU external relations by strengthening the EU's actor capabilities and matching US diplomatic and economic overtures in Latin America. Little to no institutionalization took place within the context of the relationship which was based upon low level cooperation agreements and semi-regular dialogues. Given that trade liberalization was not on the interregional agenda

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[http://www.cadenagramonte.cu/english/index.php?option=com\\_content&view=article&id=8631:coorea-toattend-mercosur-summit-in-uruguay&catid=3:world&Itemid=14](http://www.cadenagramonte.cu/english/index.php?option=com_content&view=article&id=8631:coorea-toattend-mercosur-summit-in-uruguay&catid=3:world&Itemid=14) Accessed 20/10/2013



with the CAN until the mid-2000s the process did not attract much attention on the part of organized domestic interest groups within the EU.

In terms of trade relations between the two regions the CAN countries received preferential access to the EU market under the terms of the GSP-drugs initiative. As has been the case with other groups of developing countries, the unilateral and temporary nature of such schemes has increasingly resulted in calls for more permanent preferential market access. Initial requests in the early 2000s on the part of the CAN to institutionalize more binding liberalization commitments under a PTA were rejected by the EU whose attention was primarily focused on multilateralism and in any regard did not consider the CAN to have achieved a sufficiently high level of integration.

Promoting further political and economic integration in the Andean region had since the beginning been one of the central objectives of EU interregionalism in the region. The EU's interregional trade policy towards Latin America in general was based upon supporting and engaging with regional organizations. This was in contrast to the US strategy of undermining Latin American integration schemes in line with its ambitions to create a hemispheric FTAA.

Following the 2006 change in trade policy strategy, however, the EU consented to pursuing an AA incorporating a PTA with the group. Several factors contributed to the EU's decision to seek to upgrade the relationship in this manner. The re-launch of Andean integration in line with the principles of open regionalism during the second half of the 1990s as described above made the group a much more attractive partner for the EU in terms of both trade and investment opportunities. Importantly, however, this was not enough to convince the EU to respond positively to CAN requests for an AA in the early 2000s given the EU's focus on multilateralism. This changed following the lack of progress which occurred in WTO negotiations during the current Doha Round especially as a result of the PTA activity of the EU's competitors.

The EU signalled a new approach towards trade policy in the 2006 *Global Europe* report and it is in this context that negotiations towards an AA were finally launched. The three pillar structure of the proposed agreement which incorporated political

dialogue and cooperation chapters in addition to a trade agreement tied in with the long standing broad Commission objectives in terms of interregional policy.

In comparison to the proposed PTA with ASEAN there was initially less observable demand among EU business and industry groups for a PTA with the CAN. This indicates that the pursuit of an AA with this group was driven in large part by the Commission itself in line with its geo-political, geo-economic, and foreign policy objectives. The liberalization commitments sought in the AA, however, were very much in line with the deep liberalization agenda which had been developed in close consultation with influential domestic interest groups. The liberalization of services, the opening of public procurement markets, and the protection of IPR, were central to the EU's demands and the inflexibility displayed by EU negotiators in regard to these areas is illustrative of the Commission's need to present PTAs for ratification which achieve market opening in line with the *Global Europe* strategy.

The inability of EU and CAN negotiators to conclude an interregional PTA was mainly due to the divergence of preferences between the two sides regarding the breadth of issues to be covered by the AA and the depth of the liberalization commitments entailed in the proposed agreement. Bolivia and Ecuador in particular were strongly opposed to EU demands in relation to the opening of public procurement markets and the issue of IPR. Peru and Colombia in comparison were more amenable to making concessions in these areas. The lack of internal coherence within the CAN made it difficult for the group to collectively arrive at common positions within the negotiations. The breakdown in interregional negotiations and the EU's subsequent launch of bilateral PTA negotiations with both Colombia and Peru correlated with the expressed preferences of influential business and industry lobby groups.

The adoption of a bilateral approach ran counter to the long standing Commission preference for conducting its external relations in Latin America on a fully interregional basis. Officially the underlying aims of interregionalism remained intact, specifically diversifying trade and investment links, promoting economic and political cooperation, and promoting the intra-regional integration of the CAN. As a result of the difficulty encountered in completing an interregional agreement, however, this aim was more or less cast aside. Having previously maintained that it

would deal with the CAN only on a region-to-region basis, commercial and strategic balancing considerations as well as the desire to push through agreement in new areas, such as the Singapore issues, prompted a re-evaluation of the EU approach.

The FTAs between the US and Colombia and Peru had hindered the future ability of the CAN to coordinate as a group, however of greater importance in this regard was the division which had emerged within the CAN since the early 2000s in terms of state driven versus market driven approaches to development. The future of the CAN itself looks uncertain given the extent of the divergence of the economic policies and strategies for international engagement adopted by its member states.

The 2006 FTAs between the US and Colombia and Peru directly resulted in Venezuela pulling out of the group. The danger is that Ecuador and especially Bolivia may do the same. The conclusion of the MPA between two members of the CAN and the EU will likely lead to an intensification of the divergence which exists within the group. Szegdy-Maszak (2009: 240) argues that ‘there is a tense political environment in the Andean region. Two conflicting political blocks are under development in the Andean community. On one side Colombia and Peru, on the other side Bolivia and Ecuador.’ This ties in with the view that ‘while the levels of institutionalization achieved in interregional agreements have been relatively ‘light’, the impact of the EU’s efforts to promote regional integration in other parts of the world has been significant – but sometimes in an apparently negative way’ (Hardacre and Smith, 2009: 179). Similarly Seco (2011: 8) who contends that ‘albeit endorsed formally and ex-post by the Andean Community, bilateral trade agreements almost inevitably kill the prospects for a common market.’

Officially the EU claims that an interregional AA remains the end objective. Having adopted a US style divide-and-conquer approach, however, the CAN as a group may not be able to reconcile sufficiently in order to coordinate in future. The terms of the MPA point to the coercion of Colombia and Peru to accept measures which have proved more difficult to push at the interregional and multilateral level. The agreement does not take the asymmetries between the EU, Colombia and Peru into account properly and does not include effective mechanisms to deal with these asymmetries. It is likely to have reduced Peru and Colombia’s policy space to pursue more equitable and sustainable development. It is especially important to note that

the MPA is solely a trade agreement. The other two pillars envisaged for inclusion in the Association Agreement, political dialogue and cooperation have been dropped completely despite the fact that both the negotiating mandate for the AA as well as the 2007 RSP had specifically declared that the promotion of Andean regional integration as well as social cohesion and sustainable development were core objectives. The terms of the commercially motivated MPA indicates that these objectives have at least for the time being been put to one side.

## **Chapter 5: The European Union and Mercosur**

### **5.1 Introduction**

This chapter assesses the relationship between the EU and Mercosur. This is a relatively new interregional relationship in comparison to those examined in the previous two chapters having only been established in the early 1990s. Despite this fact it has since evolved to become one of the most advanced of the EU's interregional partnerships.

As has been the case with both the ASEAN and the CAN, the EU's strategy in dealing with Mercosur can be clearly linked to progress being made or lack thereof in multilateral WTO negotiations and developments in the trade policy of EU competitors. Initially the proposed FTAA in addition to recurrent US offers to Argentina and Uruguay to join the NAFTA prompted the EU to seek to defend its interests in the Southern Cone and to pursue closer political and economic cooperation with the Mercosur group. In 1999 negotiations towards an AA were launched between these two regional organizations, however, these negotiations have been in progress for more than a decade without success.

In this chapter it is argued that the failure to conclude the AA to date has primarily been due to the inability of negotiators to craft an agreement which is compatible with the preferences of interest groups within both regions. Each side has sought increased market access in the very areas where the strongest defensive interests exist within the counterpart region (Messerlin, 2013a: 3). The members of Mercosur have been unable to coordinate sufficiently in the face of EU demands for broad liberalization of trade in industrial products, trade in services and public procurement.

Despite having been established more than two decades ago Mercosur continues to face serious internal difficulties which have had adverse consequences for the group's external agenda (Carranza, 2006). Although Mercosur is officially designated as a Customs Union (CU) there are hundreds of exceptions to the Common External Tariff (CET) which has presented huge problems in bargaining over the reduction of tariff rates with the members of the EU. In addition, unlike in the cases of EU-ASEAN and EU-CAN the proposed interregional PTA with Mercosur provoked strong domestic opposition among EU producers. The EU has

therefore failed to meet Mercosur demands for liberalization in the agricultural sector – one of the most politically sensitive sectors of the EU economy. Although the EU claims that the majority of agricultural products can already enter its market duty free it is precisely in those areas where the highest levels of protection remain that Mercosur is most anxious to achieve greater access. In this regard there is an inherent contradiction between the EU's liberal external agenda and the continuation of illiberal internal policies such as the protectionist Common Agricultural Policy (CAP) (Dudek, 2012).

A first phase of negotiations took place between 2000 and 2004 at the same time as which the sensitive areas of trade referred to above were under discussion within the WTO as part of the Doha round. As a result, the interregional level negotiations took second place and there was little possibility of the trade chapter of the agreement being concluded while the prospect of a new WTO deal remained alive. In addition, the impetus to conclude the AA diminished somewhat following the abandonment of plans for the hemispheric FTAA in the mid-2000s. Nevertheless, given the fact that Mercosur has so far remained intact and none of its members have entered into PTAs with EU competitors, the Commission has to date maintained its pursuit of an interregional as opposed to bilateral agreements and negotiations were re-launched in 2010. It is likely, however, that this will change if Mercosur continues to suffer from internal problems and especially if its larger members were to decide to enter into PTAs with major economic powers such as the US and China. It is also likely that if no AA is concluded in the years ahead and Brazil continues its economic ascent the EU will come to consider it important enough to both abandon the interregional approach as well as to challenge protectionist interest groups within the EU in order to conclude a bilateral PTA.

The first section of this chapter presents an overview of the process of regional integration among the Southern Cone countries in order to highlight the factors which made the Mercosur an attractive interregional partner for the EU during the early 1990s. In the second section the development of the interregional relationship is examined in order to identify the specific factors which motivated both the EU and Mercosur to engage at the interregional level. The third section analyses the build up to the launch of negotiations towards an AA in 1999. The fourth section examines

the negotiating process in detail and offers some explanations as to why the achievement of agreement has so far proven elusive.

## 5.2 Overview of Southern Cone integration

The main developments related to the formation and subsequent evolution of Mercosur are outlined in Table 5.1 below.

**Table 5.1: Timeline of Mercosur integration**

<b>1985</b>	Foz de Iguazu Joint Declaration	Argentina, Brazil
<b>1986</b>	Argentine-Brazilian Economic Integration Program (ABEIP)	Argentina, Brazil
<b>1988</b>	Treaty of Integration, Cooperation and Development	Argentina, Brazil
<b>1990</b>	Buenos Aires Act	Argentina, Brazil
<b>1991</b>	Treaty of Guadalajara	Argentina, Brazil
<b>1991</b>	Treaty of Asunción	Argentina, Brazil, Paraguay, Uruguay
<b>1994</b>	Ouro Preto Protocol	Argentina, Brazil, Paraguay, Uruguay
<b>2012</b>	Venezuela admitted as full member	

The origins of the organization can be traced to the detente which developed between Brazil and Argentina during the 1980s following the emergence of democratic regimes in both countries (Manzetti, 1993). The rivalry between these two large Latin American neighbours during the second half of the twentieth century had principally been based upon the disputed ownership of water resources as well as mutual suspicion over each other's nuclear defence spending. Following a summit meeting between Presidents Raúl Alfonsín and José Sarney at the border town of Foz de Iguazu in 1985, the Puerto Iguazú – Foz de Iguazu Joint Declaration was released with clearly stated measures to increase cooperation.<sup>107</sup> Of particular significance was the commitment to collaborate to put an end to nuclear competition. This proved successful and resulted in each country allowing inspectors from the other to visit their nuclear facilities and Wrobel (1999: 142) states that 'mutual presidential visits to hitherto secret nuclear installations, and the public declarations that followed, played a decisive role in assuring each other and the international community of their peaceful intentions'.

<sup>107</sup> <http://www.abacc.org.br/?p=534&lang=en> Accessed June 15 2013

A range of further initiatives were launched in the years following the Iguazu Declaration and these were formalised in the 1991 Treaty of Guadalajara which marked the total commitment of both sides to nuclear non-proliferation. The rapprochement which took place in terms of political and security cooperation had also enabled progress towards closer economic cooperation to proceed swiftly during these years. Early agreements concluded were the 1986 Argentine-Brazilian Economic Integration Program (ABEIP) and the 1988 Treaty of Integration, Cooperation and Development.<sup>108</sup> These agreements aimed to promote economic cooperation in various fields and eventually to establish a bilateral FTA, however, their impact was limited by the continuing debt crises and high levels of inflation which had ravaged many Latin American economies.

Of particular concern in both Argentina and Brazil were the high levels of capital flight and lack of new foreign direct investment as well as the lack of macroeconomic policy coordination (Manzetti, 1993: 103). This created an impetus for more rapid and structured integration to take place in order to tackle such problems collectively. The gradualist approach to integration based upon implementing change in piece-meal fashion through a series of narrow agreements was replaced. The Treaty of Asuncion which created the Mercosur group was concluded in March 1991 and entered into force that November. The signatory governments were Argentina, Brazil, Paraguay and Uruguay. Chile had been invited to participate in the scheme but declined the offer. It was hoped that coming together at the regional level would lead to improved economic situations in the member states and better leverage their further integration with the global economy (Perales, 2003: 86-87). In this regard the establishment of Mercosur was very much based upon the principles of open regionalism as discussed in Chapter 1.

The specific goals of the new organization were to enable the free movement of goods, services and factors of production, to adopt a CET, to promote macroeconomic and sectoral policy coordination, and to achieve the harmonization

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<sup>108</sup> Both Brazil and Argentina as well as Uruguay and Paraguay were also members of the Latin American Free Trade Association (LAFTA) created in 1960 and its successor the Latin American Integration Association (LAIA) established in 1989. Both these organizations were very limited in scope, however, with their main achievements being economic cooperation in various areas as opposed to substantive liberalization.



of domestic legislation (Art.1).<sup>109</sup> In the mid-1980s Presidents Sarney and Alfonsín had envisaged a Southern Cone political community of sorts, however, Mercosur's founding Treaty contained no political measures in this regard. As Malamud (2005: 422) points out, 'to be sure, the agreement was politically motivated; but the means were exclusively economic and trade based.' Two decades after its formation Mercosur is still weak in terms of a political agenda and instruments. It is therefore ironic that the organization's main achievements have been in the realm of politics as opposed to economics, including the consolidation of democracy in the Southern Cone as well as the abandonment of nuclear competition (ibid.: 426).

A broad consensus exists that Mercosur's emergence in the early 1990s is best explained by presidential diplomacy related to shared strategic interests as opposed to high levels of trade and investment interdependence between members of the prospective group (Gomez-Mera, 2005; Manzetti, 1993; Perales 2003). This perspective is verified somewhat by the low levels of intraregional trade which existed in Mercosur prior to its formation as illustrated in Table 5.2 below.

<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>
5.3	5.1	6.1	7.5	8.2	10.2
(10.1)	(8.7)	(9.0)	(10.6)	(11.1)	(13.1)

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/10/2012

While trade between Mercosur members had increased somewhat during the 1970s under the LAFTA, it had suffered a severe decline in the early 1980s following the oil and debt crises. Between 1986 and 1991, however, levels of intraregional trade increased from 10.6 to 13.1 percent of total trade indicative of the immediate, albeit limited, impact of initial closer economic cooperation. And during the 1990s following the formal establishment of Mercosur this increase in the level of trade continued, lending great legitimacy to the integration project. In comparison to trade between countries in other regions, however, the levels in Mercosur were and remain low.

In the early 1990s the newly elected Presidents Menem of Argentina and Collor de Mello of Brazil had adopted neoliberal economic policies in line with the so-called

<sup>109</sup> <http://www.worldtradelaw.net/fta/agreements/mercosurfta.pdf> Accessed June 15 2013

Washington Consensus and Carranza (2006: 813-817) argues that the creation of Mercosur should be perceived as ‘a state-led experiment in strategic regionalism that provided an opportunity for the Southern Cone countries to define an independent role in the emerging global economy.’ The tradition in the Southern Cone had been for protectionist closed economies under ISI and it took some effort for the national leaders of the Mercosur members to deal with the powerful business groups which opposed changing the protectionist status quo. Perales (2003: 75) therefore contends that, ‘Mercosur is an attempt by political elites in Argentina and Brazil to gain credibility for their trade policies and to recast the role of the private sector in the economies of these countries.’

Rather than having responded to clamours for more liberal economic policies from within their domestic constituencies the founders of Mercosur had created the organization in order to provide an external institutional backbone to lock in state led liberalization. The aim was to redefine the preferences of the private sector from above. In this regard the formation of Mercosur corresponds to the solution of a prisoner’s dilemma type action problem. Both Brazil and Argentina realized that serious macroeconomic change was required to address their various problems. It was important that the two coordinate policy. The reputation of the governments in both countries, however, was one of clientelism. Strong links between the state and private enterprise as well as the existence of highly mobilized domestic interest groups made commitments to implement policy change not very credible. The idea was that the Mercosur organization could act as a tool to formalize policy commitments in order to enhance their credibility.

As was the case in many other newly formed regional groups during the 1990s the integration model adopted in the Southern Cone was based upon the concept of open regionalism. Ambitious plans were put in place to liberalize trade by implementing first an FTA and eventually a customs union and a common market. Open regionalism aims to ‘enhance the potential for countries to attract foreign direct investment, as a result of the lure of larger markets to multinational corporations eager to take advantage of economies of scale’ (Tussie, 2010: 4). The first half of the 1990s did indeed see increased levels of both domestic and foreign investment as well as unprecedented levels of intraregional trade among the Mercosur countries themselves (Gomez Mera, 2005: 109). Table 5.3 below illustrates the increase in

trade among Mercosur members during the 1990s while Table 5.4 displays the large increases in inward investment received by the Southern Cone countries following the creation of Mercosur.

**Table 5.3: Mercosur intraregional trade (in billions (and as a share of total trade))**

1992	1993	1994	1995	1996	1997	1998	1999	2000
14.5	19.4	23.9	28.5	34.1	40.6	40.8	30.6	35.4
(16.3)	(19.0)	(19.3)	(19.6)	(21.6)	(22.5)	(23.1)	(19.8)	(20.7)

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/12/2012

**Table 5.4: Mercosur FDI inflows( in billions)**

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
2.9	3.6	6.4	7.8	6.4	11.3	17.7	28.2	36.3	55.8	45.0

Source: World Bank, World Development Indicators (WDI) Accessed 20/12/2012

While intraregional trade and investment increased, however, other aspirations of the founding members of Mercosur such as macroeconomic policy coordination and domestic legislation harmonization did not do so well. It was precisely the lack of macroeconomic coordination which came to pose a serious threat to Mercosur's survival in the late 1990s.

In terms of institutional structure Mercosur was created on the basis of strict inter-governmentalism and it continues to operate as such despite having evolved through various amendments to the Asuncion Treaty over the past two decades. Confining decision making power to the Presidents of member countries as opposed to creating more representative supranational or intergovernmental bodies reflected the interests of Brazil and Argentina. However, various institutional bodies were created under the founding treaty. The Common Market Council (CMC) is composed of the national presidents and their cabinets and is the main decision making body. The Common Market Group (GMC) is the executive branch which is made up of the Ministers of Foreign Affairs, Ministers of Economy and Central Banks' presidents, plus permanent coordinators from each member country. The GMC oversees the Trade Commission, the Joint Parliamentary Commission and the Economic and Social Consultation Forum. The Mercosur Administrative Secretariat is located in Montevideo, Uruguay.

### 5.3 The EU and Mercosur

Since the early 1980s the EC had developed a more coherent approach towards its relations with Latin America. In 1984 Brussels played a key diplomatic role in defusing the Central American crisis following the Nicaraguan Revolution through the creation of the San José Dialogue.<sup>110</sup> The processes of democratization and economic liberalization which were underway in the region had spurred European interest in establishing closer ties and this interest had increased following the accession of Spain and Portugal to the EC in 1986. Both these states had extensive historical ties and current commercial interests in Latin America.

The rapprochement between the two regions culminated in the establishment of the EC-Rio Group Dialogue in 1987.<sup>111</sup> The aim of this forum was to provide a permanent mechanism between the EC and Latin American countries for the discussion of issues of global importance including human rights, poverty reduction and the war on drugs. At the time of its establishment the EC Commissioner for Latin America, Mr. Abel Matutes, stated that ‘this dialogue enables us to exchange information at a high level and above all to identify specific spheres of action for joint cooperation and the intensification of relations.’<sup>112</sup>

Following the institutionalization of the dialogue under the 1990 Declaration of Rome the EU started to pursue closer relationships with individual Latin American states as well as with regional groups where they existed. Table 5.5 chronologically lists the major developments which have taken place in the relationship between the EU and the Mercosur countries.

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<sup>110</sup> The San José Dialogue involved the EU Commission and the Contadora Group (Nicaragua, Colombia, Panama, Venezuela, Costa Rica, El Salvador, Guatemala, and Honduras)

<sup>111</sup> The Rio Group was originally comprised of Brazil, Argentina, Paraguay, Uruguay, Colombia, Mexico, Peru and Venezuela. It later expanded to include 23 Latin American and Caribbean countries. The EU-Rio Group Dialogue was superseded by the EU-Latin America and Caribbean (EU-LAC) Summit.

<sup>112</sup> [http://europa.eu/rapid/press-release\\_SPEECH-92-20\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-92-20_en.htm) Accessed 20/10/2013

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**Table 5.5: Overview of EU-Mercosur interregionalism**

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<b>1990-1992</b>	Bilateral 3 <sup>rd</sup> Generation Agreements with Brazil, Argentina, Paraguay and Uruguay
<b>1992</b>	Inter-Institutional Cooperation Agreement
<b>1995</b>	EU-Mercosur Interregional Framework Cooperation Agreement (EMIFCA)
<b>2000-2004</b>	First Phase of Association Agreement Negotiations
<b>2002</b>	First Mercosur Regional Strategy Paper (RSP)
<b>2007</b>	EU-Brazil Strategic Partnership Agreement (SPA)
<b>2007</b>	Second Mercosur RSP
<b>2010-2012</b>	Second Phase of AA Negotiations

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Bilateral agreements were concluded between the EC and Argentina (1990), Uruguay (1991), and Brazil and Paraguay (1992). These fell into the category of what are termed ‘third-generation agreements’ due to their inclusion of clauses related to democracy and political cooperation rather than simply broadly stated economic cooperation as was the case in earlier agreements.<sup>113</sup> Ribeiro Hoffman (2002: 73) nevertheless classifies these as ‘empty’ agreements meaning that they contained no binding commitments in terms of reciprocal trade and investment liberalization and argues that the point of such agreements was primarily to increase EC political presence in the Southern Cone countries as well as to reinforce and justify the position of the Commission as an actor in distinction to the EC’s member states.

Soon after the establishment of Mercosur in 1991 the EC shifted to an interregional strategy and proposed the formalization of a relationship between the two organizations. The integration of the Southern Cone countries enabled the EC to pursue its preferred policy of dealing with groups of countries as opposed to bilaterally dealing with individual states. Since the 1980s the EC had also been dealing with the member states of the CAN and Central America on an interregional level. Mercosur also aspired to develop a group-to-group relationship with the EC and sent a delegation consisting of the Foreign Ministers of each member on an official visit to Brussels in April 1991.<sup>114</sup>

There are various explanations for the EU desire to formalize relations with the member states of Mercosur as a group. The EU aimed at promoting the integration of

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<sup>113</sup> By 1992 all Latin American countries had concluded third generation agreements with the EU. However, the spread of so-called fourth generation agreements has been much more limited.

<sup>114</sup> [http://europa.eu/rapid/press-release\\_IP-91-359\\_en.htm](http://europa.eu/rapid/press-release_IP-91-359_en.htm) Accessed 20/10/2012

developing states in many such regions with the idea that the benefits of the European experience of integration might be replicated elsewhere in line with the institution building function of interregionalism (Rüland, 2002, 2010). The EU is also perceived to have favoured the strengthening of integration schemes such as Mercosur in order to further legitimize the role of regional organizations as actors in international relations in line with the identity-building function of interregionalism (Bretherton and Vogler, 1999; Gilson, 2002). In addition, the EU was laying the groundwork for the later institutionalization of trade and investment cooperation with the group in order to reduce the EU trade deficit with Mercosur and to protect European commercial interests in the region. In this regard Santander (2005: 292) argues that:

The group-to-group strategy has encouraged the harmonization of economic rules at the regional level so that Mercosur could create its own customs union. A union like this will allow European enterprises to trade freely (without customs barriers) and to enjoy economies of scale.

Since the late 1980s EU trade and investment with the Southern Cone countries had started to increase significantly and this continued during the 1990s as illustrated in Table 5.6 below.

**Table 5.6: EU-Mercosur trade, 1982-1998 (in Billions of US dollars)**

<b>1982</b>	<b>1984</b>	<b>1986</b>	<b>1988</b>	<b>1990</b>	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>
15.2	16.6	17.6	22.5	25.9	27.5	35.5	44.2	49.9

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/10/2012

The process of democratization which had taken place as well as the liberalization of their economies in line with the prescriptions of the Washington Consensus attracted many EU firms, Spanish firms in particular, to invest in Brazil, Argentina and to a degree Uruguay. Grugel (2004: 605) argues that ‘the intellectual home of nationalist/protectionist development strategies in the Bretton Woods era, Latin America’s conversion to liberal economics was almost total by the middle of the 1990s, driven by debt, financial crisis, industrial failure, and collapsing state infrastructure and capacity.’ And Santander (2006: 289) states that ‘the world’s leading economic power centres took notice when the region became politically stable and began adopting competitive and outward-looking economic policies.’ The EU aimed to match its economic investment in Mercosur with increased

institutionalization between the two regions which spurred the pursuit of first cooperation agreements at the interregional level and later the negotiations of a comprehensive interregional AA.

On the Mercosur side a group-to-group partnership with the EU was also attractive for several reasons. The possibility of presenting a stronger front in external relations was one of the principal reasons Mercosur was formed in the first place (Carranza, 2006). The idea was that coordinating as a group would facilitate more favourable outcomes in trade relations being obtained when engaging with their largest trading partners, the EU and the US. Furthermore it was perceived that developing a closer partnership with the EU would provide Mercosur with greater leverage in its dealings with the US especially after US plans for a pan-American trade bloc became apparent. In a 2000 Chaire Mercosur report it is stated that ‘the reality is that for both Mercosur and the EU the bilateral talks are viewed as a defensive hedge in order to protect oneself against the risks embodied in other trade negotiations’ (2000: 5). Establishing an interregional relationship with the EU which could fulfil a balancing function was a Mercosur objective from the outset (Rüland, 2010: 1275). A further argument is that engaging with the most advanced regional organization in existence would serve to have a positive effect on Mercosur’s own integration process both through the provision of material support on the EU side and through learning from and emulating the EU experience (Doidge, 2007; Gilson, 2002).

### **5.3.1 Inter-Institutional Cooperation Agreement**

The first interregional agreement to be concluded was the 1992 Inter-Institutional Cooperation Agreement. This established mechanisms for the transfer of European know-how on the subject of regional integration as well as the exchange of information, staff training, technical assistance and institutional support.<sup>115</sup> A Joint Committee (JC) was created which would meet bi-annually to oversee the implementation of cooperative measures and investigate productive new areas where both sides might benefit from engagement. The EU committed substantial financial resources to its support for Mercosur at this early stage.<sup>116</sup>

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<sup>115</sup> [http://europa.eu/rapid/press-release\\_MEMO-93-20\\_en.htm](http://europa.eu/rapid/press-release_MEMO-93-20_en.htm) Accessed 10/10/2012  
[http://europa.eu/rapid/press-release\\_MEMO-94-62\\_en.htm](http://europa.eu/rapid/press-release_MEMO-94-62_en.htm) Accessed 10/10/2012

<sup>116</sup> In 1992 the EU committed €16 million for the transfer of integration experience over a three year period in addition to around €270 million of aid to the Mercosur countries.

EU trade with Mercosur increased dramatically after 1992 as shown in Table 5.6 above. Unlike in its relationship with groups such as ASEAN, the EU has long been Mercosur's main trading partner. Concern with losing market access to EU competitors did not loom particularly large in the late 1980s and early 1990s; however, this changed with the establishment of NAFTA in 1992 and later US plans to create the FTAA. While the EU strategy had been to support the deeper integration of Mercosur the US had consistently sought to destabilize the organization in an effort to implement its own preferred hub-and-spokes style integration scheme in the Americas (Santander, 2005: 292). Following internal Mercosur disputes between Argentina and Brazil in 1992 and 1993 for example, the US encouraged Argentina to abandon Mercosur and join NAFTA. Such a development would potentially have had a severely negative impact on EU trade with the Southern Cone countries and in addition to providing technical and diplomatic support to Mercosur the EU also began to formulate plans to upgrade its relationship with the group to a much more comprehensive political and economic cooperation agreement.

All the EU institutions supported such a plan in line with the widespread urgency felt at this point in time to counter US ambitions in both Latin America and Asia which might have posed a threat to European commercial and strategic interests. In a 1994 Commission Communication it was stated that:

The interinstitutional cooperation arrangement concluded in 1992 has enabled the Commission to help Mercosur through its infancy, providing it with European experience in the area of integration. The present arrangement is, however, too limited in scope, covering only administrative cooperation between the Commission and Mercosur. It would certainly not be a suitable framework for the development of cooperation in other fields, nor would it be able to adapt to the needs of European operators. In view of the advantages and opportunities and of the shortcomings of existing cooperation instruments, a strategy is needed for strengthening relations between the Union and Mercosur. The Commission is therefore proposing an interregional association between the Union and Mercosur' (EC, 1994c).

Pollio (2010:15) argues that despite the fact that EU trade policy can generally be explained as deriving from internal dynamics, 'empirical evidence of US-linked systemic pressures is observable in the framework of the respective EU-US governance externalization strategies towards the Southern Cone.' There was a fear that EU firms might become commercially disadvantaged in the Latin American



region, particularly in terms of market access, if the US sponsored hemispheric FTAA materialized.

Referring to the effect of US ambitions on EU policy Doctor points out that ‘peaks in EU negotiating seriousness [in Latin America] tended to coincide with peaks in perceived US influence in the region’ (2007: 290). Looking at the timing of the successive EU and US trade negotiations with Latin American partners serves to validate the assertion that there is a domino type effect occurring. The EU first started to consider a comprehensive political and trade agreement with Mercosur in the mid-1990s at the same time as the US was proposing extending NAFTA to incorporate all Latin American countries under the FTAA. As discussions towards the FTAA cooled in the late 1990s so too did the EU-Mercosur dialogue. The first phase of AA negotiations took off in 2000 at more or less the same time that the US re-launched plans for the FTAA. And following the final abandonment of negotiations towards a US-centred hemispheric FTAA in 2004 the EU-Mercosur negotiations also lost momentum.

During the 2000s China has emerged as a major partner of Mercosur and has captured a substantial share of the Southern Cone market in little over a decade. Table 5.7 below highlights the level and share of exports to Mercosur of the US, the EU and China.

**Table 5.7: Mercosur imports from the EU, the US and China (in millions of dollars (and as a share of total Mercosur imports))**

	1990	2000	2002	2004	2006	2008	2011
<b>The EU</b>	7,480 (23.6)	22,235 (23.9)	17,542 (26.9)	22,827 (23.4)	29,620 (20.2)	49,184 (18.3)	57,837 (16.5)
<b>The US</b>	6,693 (21.1)	20,836 (22.4)	14,642 (22.5)	18,195 (18.6)	25,393 (17.3)	42,051 (16)	56,061 (16)
<b>China</b>	134 (0.4)	2,163 (2.3)	1,825 (2.8)	4,971 (5.1)	10,118 (6.9)	25,587 (9.5)	43,607 (12.5)

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/10/2012

The EU’s share of the Mercosur market reached a highpoint of 26.9 percent in 2002 but this had decreased to 16.5 percent in 2011. The US also experienced a decline in its share of exports to Mercosur during this period. China’s share of the Mercosur market has increased from almost nothing in 1990 to 12.5 per cent in 2011 and the indications are that this increase is set to continue. Genna (2010: 639) argues that

middle-sized powers have greater flexibility if they have an alternative market for goods (the rising power), and indeed the growing trade relationship with China has endowed Mercosur with more options in terms of its economic linkages and renewed pressure on the EU to permanently institutionalize trade and investment liberalization in order to protect its commercial interests.

### **5.3.2 EU-Mercosur Interregional Framework for Cooperation Agreement**

In 1994 under the terms of the Ouro Preto Protocol Mercosur fully transitioned from a free trade area to a partial customs union and established permanent institutions which were endowed with international legal status enabling it to sign international treaties on the part of its member states. This extension to Mercosur's founding treaty can in fact be directly linked to the desire of the member states to strengthen ties with the EU (Klom, 2003: 354). The importance of developing regional coherence or actorness in order to properly engage with other regional organizations is stressed in much of the literature on interregionalism (Aggarwal and Fogarty, 2004a; Doidge, 2007). Although interregionalism was not a new EU strategy at this point in time the aspiration was that the EU and Mercosur would form the first true interregional partnership connecting two organizations which were both customs unions (Torrent, 2013: 49). It should be noted, however, that this conferring of legal personality on Mercosur in no way endowed it with the same degree of coherence and competence in external relations which the EU institutions possess. The Mercosur member states as opposed to the Mercosur Council or Common Market Group have played the most prominent role in negotiating and signing external agreements.

The Mercosur Foreign Ministers made an official visit to Brussels in November 1994 to pledge their support for the proposed interregional association and the EU Council officially gave the green light for a framework agreement during its meeting in Essen in December 1994. Following a series of interregional discussions during 1995 the EU-Mercosur Interregional Framework for Cooperation Agreement (EMIFCA) was concluded in Madrid in December of that year. This is a so-called fourth generation agreement, similar to the EU agreements with Mexico and Chile, in that the central focus is on the potential for reciprocal liberalization. The terms of the agreement reaffirmed EU support for Mercosur integration and set the stage for

an interregional AA to be negotiated at a later date. Article 2 states that ‘the objectives of this agreement shall be to strengthen existing relations between the Parties and to prepare the conditions enabling an interregional association to be created’. The proposed association included political dialogue and cooperation in addition to economic cooperation and trade liberalization (Art.3). A broad range of areas for economic cooperation was defined including agricultural and industrial standards, customs matters, statistical matters, intellectual property, business, investment, transport, science and technology, telecommunications and IT, and environmental protection (Arts. 6-18). Specific reference was also made to continuing EU support for Mercosur’s internal integration through the exchange of information, training, joint studies and technical assistance. The emphasis remained fully focused on the importance of regionalism in promoting international integration.

In terms of its institutional framework the EMIFCA created a Joint Cooperation Council (JCC) to be convened at the ministerial level in order to oversee the implementation of the agreement. This institutional body consists of representatives of the EU Council and Commission as well as members of the Mercosur Common Market Council and Common Market Group. Working groups were set up to compile reports on trade in goods, trade in services and trade standards and disciplines. These reports resulted in the publication in 1998 of a Commission proposal for an FTA as part of an interregional agreement. Despite the inclusion of such a wide range of dialogue and cooperative initiatives which it was planned would smooth the way for the later launching of formal FTA negotiations, the EMIFCA is also classified by Ribeiro Hoffman (2002: 75) as an ‘empty’ agreement in that it contained no binding commitments. In addition, being a mixed-competence agreement the EMIFCA had to be ratified by each EU member state. This process was not completed until 1999 meaning that there was a four year gap between the signing of the framework agreement and the actual commencement of negotiations towards the AA.

The major point of contention for many EU member states was the intention to commence trade negotiations including agricultural trade liberalization as part of the AA. Difficult internal bargaining took place within the EU in relation to launching fully fledged liberalization talks (Bulmer Thomas, 1999; Sanchez-Bajo, 1999). As a

result of serious domestic lobbying against the proposed AA several EU Member States opposed the negotiating mandate as they felt it would seriously negatively affect European agricultural producers. And within the Commission the Agriculture Commissioner Franz Fischler was openly opposed to the initial proposed mandate. These disagreements regarding the proposed AA highlight the powerful influence exerted by potentially affected domestic interest groups. The Council did, however, eventually approve the Commission's draft mandate with several alterations and this cleared the way for the first phase of negotiations which took place between 1999 and 2004.

Although negotiations commenced in 2000 only NTBs were initially on the table. Full negotiations on tariff reductions did not start until 2001. Both the EU and Mercosur had wider agendas at this point in time (Bulmer Thomas, 2000: 2-6). The EU was dealing with enlargement, CAP reform and the implementation of monetary union, while Mercosur was focused on resolving internal problems following the Brazilian real devaluation and Argentine financial crisis. Interestingly some scholars (Bulmer Thomas, 2000; Klom, 2003) contend that Brazil was more than happy to proceed slowly in the negotiations due to the fact that this served to maintain the counterbalancing effect between the EU-Mercosur talks on the one hand and the FTAA negotiations on the other. Klom (2003: 361) argues that 'Brazil, inclined in any case to prefer a long drawn out negotiating process, did not mind the delay, though other more agricultural-dependent members of Mercosur did.'

#### **5.4 The Association Agreement negotiating process**

The first meeting of the EU-Mercosur Joint Cooperation Council took place in November 1999. The aim of this meeting was to finalize arrangements for the commencement of AA negotiations. The proposed agreement focused on three distinct areas – trade, cooperation, and political dialogue. This is the standard three pillar approach the EU has adopted in its AA negotiations with all partners since the late 1990s. The 1995 agreement had mandated that a 'single-undertaking' approach would be used (Art. 4). This is an EU innovation in external relations and essentially means that nothing will be agreed until everything is agreed. Agreements negotiated on the basis of a single-undertaking cannot be concluded until all their chapters are negotiated and finalized, which means that partial conclusion is not possible. In the

context of EU AAs this means for example that the political dialogue and cooperation chapters cannot be officially concluded separately from the trade chapter of the agreement. The trade component of agreements is usually the most politically sensitive and difficult to conclude, especially those agreements which are North-South in nature in terms of the structure of trade, and this has indeed proven to be the case in the EU-Mercosur negotiations.

A Bi-regional Negotiations Committee (BNC) was set up to oversee the bargaining rounds as were various technical groups and subcommittees to deal with the specific terms of the proposed agreement. To date two phases of negotiations have taken place. A first phase from 2000 to 2004, and a second phase from 2010 to 2012. A key point to note is that during the first phase of negotiating rounds it was initially stipulated that no final agreement would be reached prior to the conclusion of the next round of WTO negotiations. Hopes were high, particularly on the EU side that the Doha Round which was eventually launched in 2001, would quickly result in a deep and broad multilateral agreement. The WTO talks encountered many obstacles, however, and the realization that a multilateral agreement was unlikely to be concluded any time soon meant that complex issues such as the reduction of agricultural subsidies and the liberalization of services and public procurement would fall under the interregional framework. This reduced the likelihood of successfully concluding the trade chapter of the AA as the participants on either side of the interregional negotiating table were also seated at opposite sides of the WTO negotiating table. This in turn reduced the possibility of concluding any agreement as a result of the single-undertaking approach.

#### 5.4.1 First stage of negotiations

The various rounds of negotiations which took place during the first phase are listed in Table 5.8 below.

**Table 5.8: EU-Mercosur BNC Meetings – First Phase**

Round	Location	Dates	Remarks
1	Buenos Aires	April 2000	Political dialogue, co-operation and trade
2	Brussels	June 2000	Identified obstacles and objectives
3	Brasilia	November 2000	Exchange of technical data
4	Brussels	March 2001	Exchange of technical data
5	Montevideo	July 2001	EU made first tariff offer
6	Brussels	October 2001	Mercosur made first tariff offer
7	Buenos Aires	April 2002	Political dialogue and cooperation chapters
8	Brasilia	November 2002	Trade and investment rules
9	Brussels	March 2003	Exchange of services and investment offers
10	Asuncion	June 2003	Procurement and investment
11	Brussels	December	Agricultural modalities
12	Buenos Aires	March 2004	Competition, customs, and tariffs
13	Brussels	May 2004	Exchange of views on upcoming tariff offers
14	Buenos Aires	June 2004	Attempt to finalize negotiations
15	Brussels	July 2004	Attempt to finalize negotiations

Source: EU Commission (2013), Doctor (2007)

The BNC first met in Buenos Aires in April 2000. The EU and Mercosur representatives reaffirmed the three pillar agenda and agreed upon the structure and methodology for the negotiating process. Three working groups were created to discuss economic, social and cultural, and financial and technical cooperation. One of these groups was to meet during each of the BNC negotiating rounds and all of the groups were to submit annual reports to the Sub-Committee on Cooperation (SCC) which had been established under the interregional framework agreement. In addition, three specific technical groups were established on trade in goods (including NTBs), trade in services and investment (including IPR), and public procurement, competition policy and dispute settlement.

Further negotiating rounds took place in Brussels and Brasilia during 2000 and in Brussels once again in March 2001. These meetings primarily involved the exchange of information, the specification of areas in which both sides would formalize cooperation, and discussion on non-tariff barriers. Each side briefed the other regarding the state of affairs with regard to their internal integration processes as well as on their external relations with third parties. Both sides also worked in tandem on drafting the text for the political dialogue and cooperation chapters.

The first two rounds of talks were marked by some disagreements due to the different approaches adopted by each side. The Mercosur negotiators were mostly politicians and high-level officials with little knowledge of the technical aspects of the proposed agreements. The EU negotiators on the other hand were highly experienced technical experts who had participated in many previous trade negotiations. Klom (2003: 361) states that:

The usual method used by Mercosur negotiators to reach agreements was a top down one, consisting of formal consensus on objectives at the highest level within a kind of framework agreement, leaving it to technical experts to flesh out troublesome details later on. For the EU the approach was the other way around, building agreements bottom-up on the basis of informal consensus on objectives.

The situation was somewhat ameliorated with the participation of technical experts on the Mercosur negotiating team from the third round onwards.

At the fifth meeting of the BNC in Montevideo in July 2001 the EU made its first offer of tariff reductions for trade in goods which covered 90.5 percent of Mercosur exports. The EU team also presented its negotiating texts for services and procurement liberalization. Both sides agreed that Mercosur would make a reciprocal offer in advance of the next meeting of the BNC. At this point in time, however, Mercosur was facing a serious internal crisis which had escalated following the Brazilian Real revaluation in 1999 and the Argentine economic crisis of 2001. Faust (2004: 51) states that:

During the first half of the 1990s Mercosur was the most promising integration scheme of the developing world. Yet a less favourable environment confronted the successful installation of a free trade area and the political willingness to go one step further by establishing a customs union during the second half of the past decade.

Each Mercosur member had resorted to a range of protectionist measures. Christensen (2007) links the shift in orientation at this time to the failure of neo-liberal strategies to deliver broad economic development. Argentina had reduced its import tariffs in contravention of the Mercosur group's common duties on imports from third parties in retaliation for the Brazilian devaluation which it claimed threatened Argentine exports.<sup>117</sup> Under its new Economic Minister Domingo Cavallo Argentina had even called for a downgrading of the organization to an FTA which would enable it to sign bilateral liberalization agreements with third parties in the same manner as Chile had recently been doing. Speaking in May 2001 Mr. Cavallo had stated that:

Following the Chilean example, with an independent tariff and trade structure and holds discussions simultaneously with Mercosur, European Union, United States and Asia. Bilateral talks in multiple fronts, that is the formula and that is how Mercosur as a block should confront NAFTA countries and the US.<sup>118</sup>

Uruguay too had expressed discontent with the direction and operation of the group and had also indicated a desire to pursue bilateral agreements, in particular with Canada and the US. The Uruguayan Foreign Minister Didier Opertti had stated in March 2001 that 'each country has the right to look for its own destiny and advance alone if the FTAA does not progress.'<sup>119</sup> And in September 2001 the former Uruguayan Finance Minister Vegh Villegas stated that:

Uruguay has done its homework, but the fact the economy hasn't grown for the last three years is very much linked to the malfunctioning of Mercosur. Mercosur as it's currently working now is useless, since the largest partners do not respect rules or the Common External Tariff, drilled by local interests and lobbies. I believe we must create a free trade zone, avoid high tariffs, and give each Mercosur country the liberty to set its own tariffs with third countries, and eliminate regional ones.<sup>120</sup>

The EU stressed, however, that if Mercosur broke down it would not sign bilateral agreements with individual Mercosur members (Santander, 2005: 298). A key concern was that the breakup of the Mercosur group would work to the advantage of the US in its plans for the FTAA. As mentioned earlier such an agreement threatened serious trade diversion on the part of the EU. Mercosur did overcome its internal

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<sup>117</sup> <http://en.mercopress.com/2001/07/10/tariff-war> Accessed 19/09/2013

<sup>118</sup> <http://en.mercopress.com/2001/05/07/mercosur-is-not-working> Accessed 19/09/2013

<sup>119</sup> <http://en.mercopress.com/2001/03/02/uruguay-s-target-is-ftaa> Accessed 19/09/2013

<sup>120</sup> <http://en.mercopress.com/2001/09/24/mercosur-free-trade-area> Accessed 19/09/2013



crisis, however, mainly as realization emerged among its members that maintaining regional unity was the best strategy in order to deal with shared external challenges including increased US activism in relation to the FTAA, the slowdown in capital flows to Mercosur members as well as decreased levels of international trade. Gomez Mera (2005: 129) argues that:

Given the Argentine and Brazilian governments' perceptions of their relative weakness within the international system, these trends served to underline the relative costs of a 'go-it-alone' strategy and provided incentives for deepening regional integration in order to create a stronger and more influential regional bloc with greater leverage in hemispheric and international level negotiations.

Mercosur made its reciprocal tariff offer at the sixth BNC meeting in October 2001. This was not a serious offer given that it only covered 35 percent of EU exports to Mercosur but the EU acknowledged that the fact that the group was able to coordinate to make an offer at all was a positive sign.

In 2002 the EU published a first Regional Strategy Paper (RSP) in relation to the Mercosur group which covered the period 2002-2006. The analysis was fairly negative and various perceived problems facing the integration scheme were highlighted. These included exchange rate volatility, a lack of macroeconomic coordination, rising protectionism, the lack of a DSM, and the lack of supranational institutions. In particular it was argued that the failure of Mercosur to fully establish a customs union posed the most difficulty to concluding an interregional AA:

As Mercosur's customs union is still unfinished (to be completed by the end of 2005) and its common market at an initial stage, the circulation of goods and services continue to suffer from intra-Mercosur barriers, such as different standards, customs duties and charges of equivalent effect. Mercosur integration is hence a pre-requisite to a successful conclusion of these negotiations for both partners to be able to fully reap the potential benefits stemming from such an agreement (EC, 2002c).

The EU indicated that Mercosur needed to first complete its internal market by establishing a common customs code, organizing the collection and redistribution of revenue from the CET, achieving greater policy and regulatory convergence, upgrading regional infrastructure, and integrating the services markets. Secondly the EU stated that Mercosur needed to establish authoritative supranational institutions. And thirdly that Mercosur needed to aim to improve its integration at the regional

and global level and to create a more coherent regional trade policy. The EU endeavoured to provide technical and financial support in respect of these objectives.

Here we see the overlap of functions of interregionalism. The EU has continually attempted to promote institution building within the Mercosur group as well as between the EU and Mercosur. There are competing explanations for this. On the one hand the aim is to encourage the integration of Mercosur members in order to facilitate more cooperative economic relations. On the other hand the EU aims at systemic balancing against the US. And of course from a political-economy perspective the aim is to promote the establishment of an integrated regional marketplace in order to facilitate market access for EU firms and producers.

A seventh round of negotiations took place in April 2002 prior to the second EU-Mercosur Summit scheduled for May of that year. The discussions focused on the final amendments to the chapters on political dialogue and cooperation. Analysis was also undertaken with regard to improving business facilitation. It is interesting to note that Chile, which is an associate member of Mercosur, concluded an AA with the EU on 26 April 2002 after only two years of talks. In this instance the negotiators had been able to overcome disagreements related to services and agricultural liberalization. At the eight round of talks in March 2003 both sides made their second offers with the EU raising its coverage to 91 percent and Mercosur raising its to 83.5 percent. Following the negotiations the EU Trade Commissioner Pascal Lamy stated:

With today's move the free trade area between the EU and Mercosur is one step closer. We now have a good basis to start negotiating market opening. It shows our respective commitment to this biregional negotiation. I am confident that this spirit will also guide the exchange of offers for opening trade in services, investment and public procurement in April (EC, 2003a).

However, Mercosur's chief negotiator Rigoberto Gauto was not so optimistic. He stated that Mercosur was still waiting for EU proposals regarding areas 'where we're highly competitive such as farming and agro-business, which have not been laid down on the table, and we expect them, if negotiations are to continue.'<sup>121</sup> Despite the very broad tariff offer made by the EU it had refused to raise import quotas on beef and other agricultural products. Furthermore, in those instances where quotas

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<sup>121</sup> <http://en.mercopress.com/2003/03/24/eu-mercursosur-agree-to-keep-talking> Accessed 19/09/2013

were increased the EU insisted on maintaining safeguards which essentially meant that the quotas could be reduced again at will if Mercosur exports were considered to substantially threaten EU producers. In addition, the EU refused to discuss the reform of agricultural subsidies.

At this point in time it was clear that the WTO Doha Round was not going to be completed any time soon. The 2003 WTO Ministerial held at Cancún ended in failure. The Commission was therefore motivated to pursue the rapid conclusion of the AA with Mercosur prior to the end of the Prodi Commission mandate in October 2004. The EU Council in fact asked the Commission to approach the negotiations with increased vigour. At the tenth round in Asuncion in June 2003 the EU and Mercosur exchanged services and investment offers. The EU had also prepared its offer for the liberalization of its public procurement market. At the time this was the largest ever proposed by the EU for a PTA and the expectation was that Mercosur would table a reciprocal offer. For the Mercosur countries, however, procurement liberalization is a much more sensitive topic in comparison to the EU. Obviously well established EU firms would be in a better position to muscle in on the Southern Cone market compared to vice versa. The EU refused to table its offer on procurement in the absence of a Mercosur offer.

The round also involved intensive meetings of the various technical groups with the aim of hammering out agreement in relation to the various offers. At this stage the political dialogue and cooperation chapters of the proposed agreement were more or less concluded. Each time the BNC met the preoccupation was with each side improving their offers to liberalize until the required level of ambition was reached to conclude the trade chapter.

The twelfth round took place in March 2004. The discussions themselves were mainly of a technical nature prior to each side making improved tariff offers by that April. The EU at this point in time yet again expressed strong dissatisfaction with the progress being made in terms of Mercosur's internal integration despite the fact that 48 million euro had been allocated to improving this under the 2002 RSP.

Sharp exchanges took place between the two sides on the sidelines on the negotiations. Karl Falkenberg, the chief EU representative argued that the lack of progress in terms of internal integration within Mercosur was a huge obstacle to

agreement. He stated that 'regional integration is important but sometimes it seems Mercosur is more vision than reality. How can the EU trust Mercosur when Mercosur members don't trust each other.'<sup>122</sup> Referring to the failure of Mercosur to properly implement a customs union he added 'if a good is introduced in Santos, Brazil, it can't circulate freely in Argentina, Uruguay and Paraguay unless it pays the common external tariff in each of the three member countries. The same happens with goods made in Mercosur.'<sup>123</sup> He also criticized the lack of services liberalization in Mercosur stating that 'we would like to be allowed to operate in one country so we can then offer services to the other member countries.'<sup>124</sup> The Mercosur chief representative Martin Redrado responded that since the EU had refused to move on agricultural liberalization and insisted on that issue being dealt with at the multilateral level then 'Mercosur is entitled to the same with those issues which interest the EU.'<sup>125</sup>

The thirteenth round took place in May 2004, however, neither side at this point was yet satisfied with each other's offer. While acknowledging that the EU negotiators were attempting to be more flexible Mercosur representatives continued to argue that the offer on agriculture and processed agricultural products lacked clarity and that special and differential treatment needed be taken into account. The EU argued that the Mercosur offer was insufficient as it did not cover 90 percent of industrial goods nor address the required level of services liberalization. Both sides agreed to present improved offers by 27 May, however, these were not exchanged until later that year.

At the EU-LAC Summit held in Guadalajara in June 2004 EU and Mercosur representatives officially stated that the agreement would be finalized by 31 October of that year. Several meetings between top level trade officials took place during the summer months and although the October deadline was maintained it became increasingly apparent that neither side was willing to budge in order to conclude an agreement for the sake of it.

In September 2004 both the EU and Mercosur tabled revised offers, however, once again neither side was satisfied. Both the EU and Mercosur negotiating teams felt

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<sup>122</sup> <http://en.mercopress.com/2004/03/11/mercotur-is-more-vision-than-reality-claims-eu> Accessed 19/09/2013

<sup>123</sup> *Ibid.*

<sup>124</sup> *Ibid.*

<sup>125</sup> *Ibid.*

that they were offering more than generous concessions but that the other side was not reciprocating.<sup>126</sup> Doctor (2007: 293) states that ‘growing frustration due to the slow progress in talks, changing evaluations of the benefits of interregionalism, and shifting perceptions of the balance of power within and between regions acted to diminish interest in quickly finalizing negotiations.’ The dissatisfaction of EU interest groups with offensive interests in the AA became increasingly apparent. In a September 2004 communication from the ESF to the Commission it was stated that:

In the forthcoming meetings with Mercosur, the EU is expected to make even greater concessions in agriculture. The Mercosur countries *must* offer something attractive in return. We are especially interested in telecommunications, financial and maritime transport services where significant progress must be achieved. But we are also very interested in environmental services, legal services and computer related services. In many cases, we are only asking that the existing situation should be bound, which should not be difficult for Mercosur to accept.<sup>127</sup>

At a ministerial meeting organized in Lisbon in October 2004 last ditch efforts were made to conclude an agreement, however, it was finally decided to take a pause in the official BNC negotiations until later in 2005. On 1 November 2004 Manuel Barroso took over as President of the European Commission and Pascal Lamy left his position as Trade Commissioner having failed in his ambition to conclude the AA with Mercosur. He was replaced by Peter Mandelson. A ministerial meeting took place in March 2005 but failed to resolve obstacles to the agreement. The chief Brazilian negotiator Regis Arslanian stated that:

To move forward we will have to present better offers and this is a commitment of ours. But I have received no sign from the EU side that they would be prepared to improve offers. We're not prepared to sign an agreement for the sake of signing. We want this agreement which is politically very important for Mercosur, but we also have to have commercial benefits.<sup>128</sup>

In July 2005 the Commissioner for External Relations Benita Ferrero-Waldner stated that the new target for the conclusion of negotiations was May 2006 when the EU-LAC Summit was scheduled to take place. She stated that political will was needed

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<sup>126</sup> <http://en.mercopress.com/2004/09/30/mercosur-and-eu-still-wide-apart> Accessed 19/09/2013

<sup>127</sup> <http://www.esf.be/new/wp-content/uploads/2010/05/ESF2004-043-Lamy-Mercosur.pdf>  
Accessed 19/09/2013

<sup>128</sup> <http://en.mercopress.com/2005/03/30/mercosur-surprised-by-eu-uncompromising-stance>  
Accessed 19/09/2013

to move the negotiations forward.<sup>129</sup> A further ministerial meeting took place in September 2005 but this too failed to resolve the deadlock in the negotiations. Negotiations would not take place again until 2010.

#### **5.4.2 Interim period**

In the interim period the EU published a second RSP for its relations with Mercosur for the period 2007-2013. This report stated that limited progress had been made in terms of establishing a fully operational customs union as well as in creating a supranational institutional organ. While the EU noted that politically the Mercosur group had made several noteworthy steps towards closer cooperation the RSP also stated that:

The economic integration process is far from complete and trade disputes are endemic – not to mention the bloc’s demographic, geographic, industrial and economic asymmetries. For example, many unilateral trade measures have been adopted by individual members, leading to a perceived sense of disillusion within the bloc, despite the affinity among the moderate left-wing parties in power in three of the four Mercosur states (EC, 2007h).

A key problem identified was the fact that most of Mercosur’s resolutions had not been transposed into national law in each member state and were therefore ineffective. Examples included resolutions on common customs code, investment protection, procurement, and freedom of movement of factors of production. In terms of completing various projects assigned under the terms of the 2002 RSP it was perceived that ‘most projects were also held back by administrative delays and disagreements between Mercosur members.’ The RSP reported that too much attention was focused in the media on the trade chapter of the AA and this affected public perception in Mercosur which has come to see the EU only as a trade entity:

The perception of the EU as a supporter of Mercosur regional integration seems to have been lost since the beginning of the negotiations, and the EU is not viewed as a major political actor on the global scene (ibid.).

The report identified three priorities in the EU-Mercosur relationship. Firstly, to provide support for Mercosur institutionalization. Secondly, to support the deepening of Mercosur and the implementation of the AA. And thirdly to support efforts to strengthen civil society participation. In addition, individual RSPs were published

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<sup>129</sup> <http://en.mercopress.com/2005/07/13/new-eu-mercrosur-target-vienna-may-2006> Accessed 19/09/2013

for each member of Mercosur. A key development occurred in 2007 when the EU also established a Strategic Partnership with Brazil leading many to question the EU's commitment to dealing with the group as a whole.

In 2007 the first EU-Brazil Summit took place in Lisbon and this resulted in the conclusion of a Strategic Partnership Agreement (SPA). Since the early 2000s the EU had concluded agreements of this type with several of the world's larger economies including the United States, Canada, Japan, Russia, India, China and South Africa. Prior to the suspension of the EU-Mercosur interregional AA negotiations in 2004, however, Brazil had not been included in the list of potential EU strategic partners. Lazarou (2011: 7) argues that 'the suspension of the interregional negotiations in 2004, combined with the gradual growth and pro-active foreign policy of Brazil under Lula, led the EU to reconsider Brazil's exclusion.' This does not, however, represent a shift to bilateralism in the same manner which has occurred in the cases of EU-ASEAN and EU-CAN. EU negotiators have no intention as yet of pursuing a bilateral PTA with Brazil.

The SPA deals with many issues including strengthening multilateralism, the promotion of human rights, the environment, security cooperation, poverty reduction and energy cooperation. It did not, however, include any requirements for trade and investment liberalization. Rather the aim was to use the agreement as a platform for increased dialogue which might help to informally smooth out disagreements in terms of liberalization. In any regard Mercosur rules restrict members from entering into bilateral trade agreements with non-members and it is likely that EU and Brazilian negotiators would face the same obstacles as those encountered by EU and Mercosur negotiators.

In 2010 the interregional level negotiations were re-launched and this remains the official priority for the EU. Without doubt, however, if EU-Mercosur talks continue to make slow progress and the US were to conclude PTAs with individual members of the group, the EU would seek to do likewise:

Given the persistent difficulties of negotiating as a bloc with Mercosur, and the possibility of accession of countries like Venezuela and Bolivia, the EU could decide to give up negotiations with Mercosur and concentrate its diplomacy on reaching a bilateral association agreement with the bloc's most powerful member. (Mesquita Ceia, 2008: 92).

This would, however, contradict the objectives of the SPA which expressly states that one of its central priorities is to reach an EU-Mercosur Association Agreement. The EU aimed to boost the integration process in Mercosur through the SPA. It was hoped that fostering a closer relationship with the regional leader Brazil would reinforce EU-Mercosur relations and facilitate the conclusion of an agreement. If sensitive matters such as the reduction of EU agricultural subsidies and greater access for EU services providers could be dealt with within the context of the EU and Brazil this would have provided an impetus for the other Mercosur members to seek a similar rapprochement. In a Commission communication to the Council and Parliament it was stated:

Brazil is central to the success of the EU-Mercosur negotiations, an EU priority objective, which have not come to a conclusion due to lack of progress in the trade chapter thus preventing so far the establishment of a wider strategic association between the EU and Mercosur. Positive leadership of Brazil could move forward Mercosur negotiations (EC, 2007d).

Furthermore it was hoped that closer ties with Brazil would help drive forward the deadlock in multilateral negotiations within the WTO. Brazil is a key player in developing country alliances such as the G20 and the IBSA Dialogue. However, this has not occurred. Despite the fact that Brazil is by far the most dominant member of Mercosur its role a regional hegemon is somewhat limited when it comes to interregional relations (Malamud, 2011). Especially in the current era during which most Latin American countries have been seriously questioning the Washington Consensus and visibly moving away from neo-liberal policies, Brazil has been challenged by Venezuela and the Bolivarian Alliance in terms of regional leadership.

In fact the accession of Venezuela to MERCOSUR in 2006 was another reason behind the SPA. The EU hoped to reinforce Brazilian leadership of the group in order to avoid a similar scenario to that which took place in the case of the EU and CAN. In that case, Bolivia and Ecuador followed Venezuela in distancing themselves from Colombia and Peru which had signed FTAs with the US. This has severely threatened the prospects for the survival of the group. Greater cooperation with Brazil was hoped to help Brazil act as a counterweight to radical populism within Mercosur and within Latin America more generally. Ironically by selecting Brazil as a strategic partner to enhance its relationship with Mercosur the EU may in



fact have created the perception that Brazil was striking out alone and created tensions within the Mercosur group. Malamud (2011: 18) argues that:

Although the EU did not intend to harm MERCOSUR or its relations with the group, its pompous rhetoric had negative repercussions. By calling Brazil a 'regional' and 'global' leader, a 'champion of the developing world', a 'quasi continent in its own right', and 'a natural leader in South America', it damaged its own position and that of Brazil regarding the other South American countries.

An interim report on progress being made in the RSP was published in 2010. It noted that while Mercosur political cooperation and institutionalization had improved the same major problem persisted - as was the case in 2007 only about 50 percent of Mercosur rules had been transposed into national legislation. An additional problem was that large asymmetries among the members of the group persisted. The report stated that 'the asymmetries are reflected in the external projection of individual Member States among other things and have a clear impact on the internal functioning of Mercosur and on its decision making capacity (EC, 2010c).

#### **5.4.3 Second stage of negotiations**

The Doha Round negotiations reached a further impasse in 2008 after almost a decade of talks. Efforts to revive negotiations in the years following this proved unsuccessful. In May 2010 at an EU-Mercosur Summit Meeting in Madrid the EU Commission proposed re-launching formal AA negotiations (EC, 2010a). The EU Trade Commissioner Karel de Gucht stated:

Negotiations such as these are challenging but the moment is right to take a fresh look at the state of discussions so far. Any agreement must be ambitious bringing increased access for a range of EU businesses, including agriculture, into the Mercosur region. It is critical that certain key EU demands are met if these negotiations are to be fruitful at the end of the day (ibid.).

Even prior to the re-launch of negotiations, however, the divergent preferences of EU domestic interest groups with regard to the AA were starkly apparent. In an ESF communication it was stated that:

ESF is pleased to hear that the European Union decided to resume the trade negotiations with the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). Mercosur is indeed a large market with great growth potential and an increasingly important partner for the EU. A future free-trade agreement should give EU services providers and investors better access to this market. Our

companies will also be very interested in getting better access to public procurement in the region.<sup>130</sup>

Such support for the AA contrasted sharply with the views of opponents of the agreement. In a speech in May 2010 Paolo Bruni, the President of Copa-Cogeca stated:

Copa-Cogeca finds the EU Commissions proposal to relaunch the trade talks totally unacceptable. A bilateral trade agreement with Mercosur will cause a sharp rise in beef, poultry, wheat, citrus fruit/juice imports to the EU from these countries. It will also cause more intensive farming methods and de-forestation in Mercosur countries, as shown by an EU impact assessment report. We consequently urge EU Ministers to ensure that the negotiations do not go ahead.<sup>131</sup>

In any regard the first new round of negotiations took place in Buenos Aires in June 2010. This was the seventeenth formal meeting of the BNC. Both sides agreed on the need to build upon the progress which had been made during the first phase of talks which ended in 2004. Separate discussions took place in relation to each pillar of the agreement, that is, political dialogue, cooperation and trade. As mentioned already the political dialogue and cooperation chapters of the agreement had been more or less concluded during the first phase of negotiations and so the main focus from the first round of the second phase of talks was on the trade chapter. Working groups were established to discuss specific aspects of the trade pillar. This included groups on trade in goods, rules of origin, technical barriers to trade, SPS measures, IPR and geographical indicators, dispute settlement, trade defence, competition policy, customs, services and investment, and procurement.<sup>132</sup> Each team of negotiators became re-familiarized with the process following the six year hiatus which had taken place.

In July 2010 the fourth EU-Brazil Summit took place in Brasilia. This was attended by the Brazilian President Lula da Silva and the Presidents of the EU Council and Commission. Talks took place on extended bilateral cooperation in the fields outlined in the 2007 Partnership Agreement and it was again stressed that the aim

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<sup>130</sup> <http://www.esf.be/new/wp-content/uploads/2010/06/ESF2010-16-Karel-De-Gucht-Support-to-EU-Mercosur-FTA-Final.pdf> Accessed 20/10/2013

<sup>131</sup> <http://www.copa-cogeca.be/Download.ashx?ID=639500&fmt=pdf> Accessed 19/10/2013

<sup>132</sup> [http://www.sice.oas.org/TPD/MER\\_EU/negotiations/BuenosAires2010\\_e.pdf](http://www.sice.oas.org/TPD/MER_EU/negotiations/BuenosAires2010_e.pdf) Accessed 20/10/2012

was to utilize the bilateral relationship to drive forward the interregional negotiations.

It is worth noting that at this point in time, only a month after the recommencement of talks, both public and private actors in Brazil were already expressing dissatisfaction with the progress being made in AA negotiations and called for Brazil to push for an amendment of the Mercosur treaties in order to enable it to branch out and sign its own bilateral trade agreements. José Serra, the opposition leader and previous presidential candidate had stated that ‘it would be of great importance to make Mercosur rules more flexible with regards to third parties so that we can move at different speeds. Brazil has more possibilities of advancing in the negotiations on its own than with the other Mercosur partners.’<sup>133</sup> And Robson Andrada, President of the Confederation of National Industry (CNI) had criticized the government for not assigning priority to bilateral agreements. He stated that ‘maybe the government believes that this should be done through Mercosur. I believe that it would be easier for our country to negotiate on its own, due to the existing differences between Brazil and Argentina, for example.’<sup>134</sup>

The working groups on trade engaged in intensive discussions at the second and third rounds of BNC meetings held in Asuncion and Brasilia in October and December 2010 by which point in time both sides agreed that they would aim towards presenting improved tariff offers as early as possible in 2011.<sup>135</sup> A further five rounds of talks took place over the next year and a half, however, no tariff offers were exchanged and no discernible progress in the deadlock which ended the first phase of negotiations was apparent. A ninth round was planned for July 2012 but was finally cancelled due to the constitutional crisis in Paraguay. It was decided that talks would resume in 2013 following the Paraguayan elections, however, no date for the formal resumption of negotiations has yet been announced.

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<sup>133</sup> <http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2010-07-eu-mercosur-negotiations-take-off> Accessed 20/10/2012

<sup>134</sup> *ibid.*

<sup>135</sup> [http://www.sice.oas.org/TPD/MER\\_EU/negotiations/Brasilia2010\\_e.pdf](http://www.sice.oas.org/TPD/MER_EU/negotiations/Brasilia2010_e.pdf) Accessed 20/10/2012

## 5.5 Conclusions

The EU relationship with Mercosur is relatively new in comparison to the cases of EU-ASEAN and EU-CAN discussed in chapters three and four. Despite having only established an interregional dialogue in the early 1990s, however, the EU and Mercosur were one of the first pairs of regional partners to launch PTA negotiations which commenced in 2000. EU engagement with Mercosur throughout the 1990s can be clearly perceived to correlate with the proposed functions of interregionalism. Much evidence points to a desire on the part of the EU to both pre-empt and counter US overtures in Latin America as a whole.

In the first half of the 1990s NAFTA was launched and the US was pursuing a hemispheric free trade area, the FTAA. The EU's formalization of ties with Mercosur, as well as the later PTAs concluded between the EU and Chile and Mexico were direct reactions to US ambitions. Such a balancing function could potentially have been implemented through bilateral agreements with the individual members of Mercosur, however, EU strategy in Latin America, in comparison to that of the US, had focused on supporting regional integration initiatives where they existed and engagement with Latin American countries as groups in pursuit of this objective. The extent of financial and technical support provided by the EU to the Mercosur organization during the past two decades is illustrative of the fact that there is a definite concern on the European side with supporting the integrative process in the Southern Cone in line with the institution building function of interregionalism.

Following the conclusion of third generation cooperation agreements during the mid-1990s the decision was taken to launch interregional AA negotiations comprising trade liberalization negotiations. The predominance of balancing concerns in terms of motivating the AA negotiations is evidence by the fact that the AA negotiations came to a standstill in 2003 following the abandonment of plans for the FTAA.

In 2010 the AA were relaunched. While balancing and institution building motivations remained on the part of the EU the recurrent stalemates in multilateral negotiations had prompted attempts to rationalize and agenda set at the interregional level. This has proven difficult, however, due to Brazilian and Argentine resistance to liberalize beyond the WTO agreements in the absence of far reaching concessions

in agricultural trade. It is unlikely that a bilateral approach would prove much more successful in pushing through deep agreements containing new areas of trade liberalization. Again, however, bilateralism will surely be considered if Mercosur members conclude PTAs with EU competitors.

Closely related to the EU drive to promote the institutionalization of both Mercosur and the EU-Mercosur relationship has been the aim of supporting the development of the identity of Mercosur itself as well as the identity of regional organizations as actors in their own right. Experience suggests, however, that the conclusion of PTAs between EU competitors and Mercosur members would result in the EU attempting to balance and set the agenda through its own bilateral agreements at the expense of institution building and identity building. As of now the prospects of a region-to-region agreement do not appear to be good. Within Mercosur Argentina has shifted to a highly protectionist stance which doesn't bode well for EU demands for deeper market access. Within Brazil also defensive trade interests have once again come to the fore as a result of domestic political economy factors as well as because of Argentine protectionism. And the incorporation of Venezuela as a full member of Mercosur in July 2012 has added an extra dimension of complication to the interregional negotiations. Furthermore the impact of the financial crisis within the EU had made it very unlikely that there will be further moves towards liberalization in sensitive sectors in the near future. The attention of EU politicians has been firmly focused on resolving the internal problems of the Eurozone and it may be some time before the political capital necessary to drive forward the interregional agenda is brought to the table.

## **Chapter 6: The European Union and Central America**

### **6.1 Introduction**

In recent years the EU has attempted to conclude comprehensive trade agreements with several groups of countries with which it engages at the interregional level. In almost all cases, however, these interregional level trade negotiations have not met with their anticipated success. The previous chapters have analyzed three of these cases in which the EU has either shifted to a bilateral approach (ASEAN, CAN) or persisted with interregional negotiations despite the extreme difficulty encountered in reaching agreement (Mercosur). The EU has to date successfully concluded negotiations with only two other regions - an AA with Central America and an EPA with the CARIFORUM group of ACP countries. This chapter examines the interregional relationship between the EU and Central America in detail in an attempt to ascertain why agreement was reached in this case when it has so far proved elusive in most others.

An overview of Central America regionalism is first presented in order to shed light on how this group of countries integrated to the extent that they become an attractive partner in the eyes of EU trade policymakers. The evolution of the relationship between the EU and Central America is then traced from its roots in EU efforts to help resolve the conflicts which blighted the region during the 1980s to the present day partnership. The negotiating process is then analyzed in detail and conclusions are offered regarding the factors which enabled an agreement to be successfully completed as well as the implications of the terms of the agreement for the Central American countries themselves.

### **6.2 Overview of Central American integration**

Efforts to achieve closer regional unity have a long tradition in Central America. After achieving independence from Spain in the early 19<sup>th</sup> century, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua formed the Federal Central American Republic in 1824. This attempt at integration only lasted until 1839 as a result of persistent conflicts and disputes among the five territories. At various points in time over the course of the next century several further integration schemes were proposed and launched without success; however, the aspiration for the eventual unification of Central America did not disappear. Indeed this goal continues to be

specifically referred to in the constitutions of each state in the sub-region. Since the 1950s in particular closer integration has been pursued through various political and institutional innovations. The main developments related to the initiation and subsequent evolution of the current integrative process are listed in Table 6.1 below.

**Table 6.1: Timeline of Central American regionalism**

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<b>1951</b>	Organization of Central American States (ODECA) established
<b>1958</b>	Multilateral Treaty on Free Trade and Economic Integration Agreement for the Regimen for Central American Integration Industries
<b>1959</b>	Agreement on the Equalization of Import Duties and Charges
<b>1960</b>	General Treaty on Central American Economic Integration - Central American Common Market (CACM) established
<b>1991</b>	Protocol of Tegucigalpa - Central America Integration System (SICA) established
<b>1993</b>	Protocol of Guatemala
<b>1994</b>	Alliance for Sustainable Development
<b>1995</b>	Treaty of Central American Social Integration

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### **6.2.1 Central American integration during the first wave of regionalism**

The roots of present day regionalism can be traced back to the establishment of the Organization of Central American States (ODECA) which was created under the terms of the Charter of San Salvador in 1951<sup>136</sup>. This political cooperation scheme was very ambitious in terms of its stated aims and proposed institutional structure; however, despite remaining operational for many years it played a relatively limited role in facilitating integration. In the mid-1950s the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) introduced plans to establish a common market in Central America. In advance of this, several agreements were concluded between various states in the region including the Multilateral Treaty on Free Trade and Central American Economic Integration (1958), the Agreement for the Regimen for Central American Integration Industries (1958), and the Agreement on the Equalization of Import Duties and Charges (1959).

These treaties provided the momentum for the creation of the Central American Common Market (CACM) which was established under the terms of the 1960 General Treaty on Central American Economic Integration. This scheme fell under the auspices of the ODECA, however, it soon came to occupy a position of greater

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<sup>136</sup> The initial members of this organization were Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The founding charter entered into force in 1955. The ODECA was superseded by the Central American Integration System (SICA) in the early 1990s.

prominence in terms of driving the integration process forward in the region. The initial members of the initiative were El Salvador, Guatemala, Honduras and Nicaragua while Costa Rica joined in 1963. It should be emphasized that the group represented a common market more in aspiration than in reality in that while internal trade liberalization and efforts to develop and implement a Common External Tariff (CET) took place there were no provisions for the free movement of the factors of production or macroeconomic policy coordination. The CACM should therefore be more appropriately referred to as a Customs Union (CU) and an incomplete one at that (O'Keefe, 2001: 243).

As was the case with most other schemes which emerged during the first wave of regionalism the major rationale for integration in Central America at this time was to enable the creation of economies of scale in order to allow industrialization to take off. This was in line with the recommendations of Latin American development economists such as Raul Prebisch and others within ECLAC. The founding treaty provided for the implementation of free trade among the signatories in addition to the establishment of a highly protective external tariff designed to shield domestic industries from outside competition (Arts. 1, 2 and 3).<sup>137</sup> Bulmer Thomas (1998:314) argues that despite the fact that the founding members of CACM realized that the scheme was likely to be trade diverting, the logic was to reduce dependency on the external sector, improve the member state's terms of trade, and achieve industrialization. It was believed that the scheme would lead to welfare gains despite trade diversion from more efficient producers outside the group to less efficient producers within the group.

The initial institutional bodies established in CACM were the Central American Economic Council (Art.20), the Executive Council (Art.21) and the Permanent Secretariat (Art.22).<sup>138</sup> The Economic Council was composed of the Economic Ministers of the member states and was responsible for the coordination of economic policy. The Executive Council consisted of one representative from each state and was charged with applying and administering the various treaties constituting the group and ensuring that all parties adhered to the agreed upon commitments. The Secretariat was located in Guatemala City and was funded by contributions from the

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<sup>137</sup> <http://www.sice.oas.org/trade/camertoc.asp> Accessed 10/05/2013

<sup>138</sup> *Ibid.*



member states. In addition, the signatory states agreed to establish the Central American Bank for Economic Integration to act as an instrument for financing and promoting balanced and integrated economic growth in the region. This set of institutions has subsequently expanded and evolved under the terms of later agreements.

Internal liberalization took place quite rapidly. Importantly, however, it was mostly restricted to industrial products as the founding treaty detailed many exceptions (Art. 4, Annex A).<sup>139</sup> The exclusion of agricultural goods in particular was to have serious consequences in terms of how the benefits of integration were spread among the members of CACM. In terms of the CET, the tariffs imposed on imports from non-member states rose considerably in the early years of CACM. (Bulmer Thomas, 1998: 315). Intraregional trade among the members of CACM increased substantially during the 1960s. The contribution of industry to output also increased and regional GDP grew strongly. Beneath this apparent success, however, serious problems emerged which led to reduced support for the integration process.

CACM did indeed result in trade diversion which served to boost the industrial capacity of the group as a whole. The problem was that this benefitted some countries more so than others. Those countries which possessed an initial industrial complex gained the most as they were able to take advantage of free intraregional trade in industrial products and discrimination against producers of such products located outside the region (Páez Montalbán, 2013: 135). Other members such as Honduras had possessed little to no initial industrial capacity and relied instead on the export of primary products and agricultural goods. As trade in these goods was not liberalized under the terms of the 1960 agreement these countries could not boost their export earnings to the same extent. In addition, their initial lack of industrial capacity was compounded by their inability to attract investment in comparison to more developed members of the group. O'Keefe (2001: 2) states that 'by the end of the 1960s, CACM began to stagnate because countries with more developed industrial parks such as Costa Rica and Guatemala were disproportionately benefitting from the regional free trade program at the expense of less developed Honduras and Nicaragua.' As a result Honduras withdrew from the group in 1970.

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<sup>139</sup> *ibid.*

To a certain extent fiscal problems also beset the other members of CACM due to the loss of revenue from tariffs on intraregional trade. In addition, the small size of the internal market was too small to allow for the achievement of sufficient economies of scale needed for industrial growth (Bulmer Thomas, 1998: 315-316). As a result of these various problems the CACM became somewhat obsolete as the member states reverted to ad hoc measures designed to protect first and foremost their national interests. A further issue was that during the 1970s all the Central American countries with the exception of Costa Rica were under authoritarian regimes which resisted efforts to transfer economic sovereignty to regional institutions. By 1973 the operation of ODECA was suspended.

Attempts to reinvigorate the integration process in the second half of the 1970s proved unsuccessful due to the unfavourable world economic climate including escalating oil prices and severe global interest rate rises. All Central American countries suffered a decline in their terms of trade which had a serious negative effect on levels of trade between them. During the 1980s several shocks served to further impede regional cooperation (Páez Montalbán, 2013: 138-139). The global recession which commenced in the early 1980s resulted in a massive slump in the demand for exports from Central America. The governments of the member states attempted to compensate for this by increasing public expenditure in order to generate increased domestic demand. This resulted in catastrophic budget problems and all the Central American countries were forced to enter into adjustment and stabilization programs.

In addition to these economic problems political unrest blighted the region during this period. The Nicaraguan revolution and the escalation of the civil wars in El Salvador and Guatemala raised concerns that a full blown regional conflict might breakout. This concern was compounded as a result of direct and indirect external intervention in these regional conflicts by the US.

In 1984 an Act for Peace and Cooperation was proposed by the so called Contadora group to resolve the conflict<sup>140</sup>. This was not supported by the US and its allies in Central America, however, and ultimately proved unsuccessful. It was at this point in time that the EC started to engage in more intensive diplomatic relations with the

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<sup>140</sup> The Contadora group consisted of Mexico, Panama, Colombia and Venezuela

region through participation in what became known as the San José Dialogue. This is discussed in detail in a later section. The EC supported a regional response as opposed to an external solution to the conflicts and this emerged in 1987 when the Esquipulas Peace Plan was proposed by President Oscar Arias of Costa Rica and a peace accord was signed by the five Central American Presidents including President Ortega of Nicaragua. The US had at this point in time become somewhat more flexible in its approach to Central America as a result of the easing of Cold War tensions generally and therefore tacitly supported the initiative. So paradoxically the complex problems which beset the region during the 1980s provided the incentive for the new integration and cooperation initiatives in the region (Páez Montalbán, 2013: 122).

The Esquipulas plan resulted in the creation of the Central American Parliament (Parlacen) to act as a focal point for reconciliation in the region. It did not initially, however, lead to any major improvements in the integration process in Central America. This did not occur until the early 1990s when political tensions in the region had been resolved. So in a way the most recent wave of regionalism in Central America proceeded somewhat in reverse with the establishment of institutional organs preceding the creation of the overarching regional organization.

### **6.2.2 Central American integration during the second wave of regionalism**

Bulmer Thomas (1998: 316) states that ‘with the defeat of the Sandinistas in free elections in February 1990, the path was cleared for a new attempt to revive the integration scheme building on the success of the Arias Plan in ending the civil war in Nicaragua’. A presidential summit took place in Guatemala in June 1990 during which plans were put in place to re-launch regional integration. Since the late 1980s such presidential summits had in fact been the main driver of cooperation in the region as opposed to the regional parliament. There was a consensus that regional responses rather than national measures were the best manner in which to approach tackling the region’s structural problems and its economic underdevelopment.

In 1991 the Central American governments signed the Tegucigalpa Protocol which reformed the charter of the inactive ODECA and created the Sistema de la

Integración Centroamericana (SICA)<sup>141</sup>. This once again brought Honduras back into the fold and for the first time Panama became part of the integration process. Belize later joined SICA in 2000. The principal aim of the organization was defined as the promotion of peace, freedom, democracy and development (Art.3)<sup>142</sup>. Several economic goals were also outlined including the creation of an economic union and the strengthening of the financial system. Indicative of the new approach to integration in comparison to earlier efforts was the stress on the principles of open regionalism. Open regionalism is concerned with enabling the integration of groups of countries with the global economic system as opposed to shielding them from it. The preference for open regionalist strategies among the members of groups such as CACM (as well as the Andean Community and Mercosur) can be explained as deriving from both the agenda of the International Financial Institutions (IFIs) which pushed measures in line with such strategies as part of the structural adjustment processes in Latin American countries as well as from the desire of the leaders of these countries to manage the increasing interdependence which was arising with the continuing spread of globalization.

In Article 3 of the SICA Treaty it is stated that a key aim is ‘to strengthen the region as an economic bloc to provide for its successful participation in the international economy’.<sup>143</sup> The pursuit of this aim involved a two-fold strategy. Referring to the establishment of SICA Oscar Santamaria, the Secretary General of the organization stated that:

The region opted for a model of dual growth: inward growth with the ultimate aim of achieving economic union and outward growth with regional policies favouring the development of exports to third countries or groups of countries, through free trade agreements (Santamaria, 2003).

So the reorientation of the Central American integration process was designed from the outset to facilitate the establishment of closer political and economic relations with partners such as the EU. Importantly, in terms of the Central American

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<sup>141</sup> The ODECA played an inactive role during the 1970s and 1980s, however, it was decided to reform this organization as opposed to starting with a completely new integration treaty.

<sup>142</sup> [http://www.sice.oas.org/Trade/sica/PDF/TegProtODECA91\\_e.pdf](http://www.sice.oas.org/Trade/sica/PDF/TegProtODECA91_e.pdf) Accessed 10/05/2013

<sup>143</sup> *ibid.*

countries pursuing agreements with third parties as a group, the Tegucigalpa treaty endowed the SICA with legal personality (Art. 29).<sup>144</sup>

During the 1990s the average tariffs applied by Central American countries fell dramatically and the effect of the open regionalist strategy is clearly evidenced by the trade figures. Central American trade increased significantly during the 1990s especially in comparison to the stagnation which occurred during the 1980s as can be seen in Table 6.2 below. The level of total exports in 1990 was less than it had been in 1980. During the same period total imports increased only marginally. Over the course of the 1990s, however, Central American exports and imports both almost trebled. This upward trend continued in the 2000s.

**Table 6.2: Central America trade, 1980-2000 (\$US millions)**

	<b>Total Exports</b>	<b>Total Imports</b>
<b>1980</b>	5,162	7,373
<b>1985</b>	4,020	6,585
<b>1990</b>	4,696	8,058
<b>1995</b>	9,374	14,291
<b>2000</b>	14,315	25,571
<b>2005</b>	19,550	38,568
<b>2010</b>	29,468	56,622

Source: IMF Direction of Trade Statistics (DOTS) Accessed 20/0/2013

The institutional structure which had been originally laid out in the earlier ODECA and CACM agreements was revised and updated substantially. One of the key aims in establishing SICA was to bring a degree of coherence to the overlapping and disorganized set of institutions which preceded it. The Meeting of Presidents is the principal decision making body (Art. 13).<sup>145</sup> This meets every six months with decisions adopted by consensus. Councils of Ministers were established for each issue area and are composed of the ministers from each state holding the relevant portfolios. The Council of Foreign Ministers serves as the coordinating body. The Executive Committee, the General Secretariat, the Court of Justice and the Central American Parliament as well as numerous other institutions were retained with updated tasks and responsibilities. The new Secretariat was located in El Salvador replacing the old headquarters in Guatemala.

<sup>144</sup> *ibid.*

<sup>145</sup> *ibid.*

In 1993 the Protocol of Guatemala was signed which updated CACM's General Treaty on Economic Integration. This agreement consolidated the subsystem of economic integration and adapted it to the SICA framework. The principal stated aim was to gradually establish an economic union in order to maximize development opportunities for the Central American states (Art.1).<sup>146</sup> Provisions were made for the re-establishment of a CET but at a much lower rate than previously (Art. 4). Of great significance was the fact that for the first time agricultural goods were to be included in intraregional trade liberalization (Arts.8 and 22).<sup>147</sup> In the second half of the 1990s several additional treaties were concluded which were designed to further facilitate economic integration. These included treaties on Unfair Trade Practices (1995), Safeguard Measures (1996), Rules of Origin (1998), Standardization, Metrology and Authorization (1999), and Sanitary and Phytosanitary Measures (1999).

A further point to note is that the leaders of the Central American countries in the 1990s aimed for a more multidimensional type of integration which incorporated social, environmental and cultural dimensions in addition to political and economic factors. In this regard regional treaties were concluded on sustainable development (1994) and social integration (1995).

In 1997 a process of institutional streamlining took place. SICA assumed responsibility for coordinating the various subsystems and overseeing the implementation of the existing body of treaties while most of the regional institutions were relocated to San Salvador. All of these progressive measures served to drive forward the Central American integration process and paved the way for closer regional level cooperation with external actors, the EU in particular. The extent to which Central America turned outwards is evidenced by the range of trade and cooperation agreements it entered into during the 1990s and 2000s such as the FTAs concluded with the Dominican Republic (1998), Chile (1999), and the United States (2004).The next section analyses in detail the development of Central America's relationship with the EU.

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<sup>146</sup> <http://www.sice.oas.org/Trade/sica/PDF/Prot.Guatemala93.pdf> Accessed 20/05/2013

<sup>147</sup> As of 2013 the majority of intraregional trade in Central America is duty free with only a few exceptions. Since 2000 a Common External Tariff (CET) has been applied by all the Central American countries on most imports; however, the integration scheme is described as an imperfect customs union due to the exceptions which exist.

### 6.3 The European Union and Central America

Europe and Central America have long historical ties given that the region formed part of the Spanish colonial empire prior to the early 19<sup>th</sup> century. Following the granting of independence to the Central American states, however, European involvement in the region was minimal until the latter half of the 20<sup>th</sup> century. Indeed political and economic linkages with Central America remain relatively insignificant for the EU and its member states in comparison to those with other regions. It may therefore be considered somewhat surprising that the relationship developed to the extent that an AA was successfully concluded in 2010. The main developments related to EU interregionalism with Central America are listed in Table 6.3 below.

**Table 6.3: Overview of Central America-EU interregionalism**

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<b>1984</b>	San José Dialogue established
<b>1985</b>	EU – Central America Cooperation Agreement
<b>1993</b>	Framework Cooperation Agreement
<b>1995</b>	Florence Declaration
<b>2002</b>	Madrid Declaration
<b>2003</b>	Political Dialogue and Cooperation Agreement (PDCA)
<b>2007</b>	Association Agreement (AA) Negotiations Launched
<b>2010</b>	AA Negotiations Concluded
<b>2012</b>	AA Ratified

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#### 6.3.1 The San José Dialogue

In the years following the establishment of the EC its relationship with the Central American countries was conducted on an ad hoc basis with no permanent institutional ties created. It was not until the early 1980s that Brussels started to devote significant diplomatic resources to the region as a result of the escalation of conflicts in Guatemala, El Salvador and Nicaragua. While these conflicts had initially stemmed from internal power-political and socio-economic dynamics, they had become embroiled in the wider Cold War ideological rivalry. Bulmer Thomas and Rueda-Junquera (1998: 323) argue therefore that ‘the threat of an internationalization of the Central American conflict was the main factor behind greater European involvement in the region.’

The Sandinista revolution in Nicaragua of 1978-1979 and the resultant Contra war had developed into a regional crisis of major significance which intensified following the decision of the US to intervene on the part of the Contra rebels. Indeed

US intervention in Central America was broad and intense during the 1970s and early 1980s and its support for dictatorial regimes in the region involved massive increases in military aid. During the Nicaraguan crisis political, diplomatic and economic instruments were used to try to isolate and delegitimize the Sandinista government. The US justified its foreign policy in Central America on the basis that a strong response was required in order to curb Communist expansionism<sup>148</sup>. This was especially the case given that the conflicts were in such proximity to the US itself. Smith (1995: 2) states that ‘if the United States could not ensure a quiescent ‘backyard’, how could it prove to its allies that it could maintain a US-led international order?’ There was also of course concern about protecting access to the Panama Canal.

In 1984 an Act for Peace and Cooperation was proposed by the Contadora group to resolve the conflict. This was not, however, supported by the US and its allies in Central America and ultimately proved unsuccessful. In the same year the EC attempted to act as a broker for peace through the establishment of what became known as the San José Dialogue. This was institutionalized when the foreign ministers of the five Central American states met with those of the EC as well as those of the Contadora group in September 1984 in San José, Costa Rica<sup>149</sup>. Essentially a forum for political discussion the key aims of this summit and subsequent meetings were resolving conflict and supporting democratization and development in Central America. The EC from the outset perceived regional integration to be the best means of achieving these goals in the long term. Since its establishment the dialogue has taken place on an annual and more recently a bi-annual basis. Kreft (2000: 6) argues that ‘the mere fact that the San Jose conferences regularly brought the Central American Governments to the same table was of a significance that should not be underestimated for the course of the peace process and democratization in the region.’

Given the weak nature of European economic and political ties to Central America and the fact that EC policy towards the region during the crises of the 1980s brought

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<sup>148</sup> The land redistribution program undertaken by the Sandinista government was put forward by the US as indicative of an attempt by external Communist governments to foment subversion (Smith, 1995)

<sup>149</sup> The foreign ministers of both Spain and Portugal also attended even though these countries had not yet acceded to the European Union.



it into conflict with its most important ally, the US, some explanation is required regarding the decision to intervene and develop an interregional policy in the first place.

A first point is that the EC was vehemently opposed to the US interventionist strategy in the region which was fuelling strong anti-American sentiment in Europe. Kreft (2000: 3) states that 'the most important external factor for the EU's engagement was without a doubt the USA's Central America policy, which was severely criticized in Europe even in conservative circles.' A big concern was that European public opinion in relation to US policy was deteriorating to such an extent that it could threaten support for the broader issue of the EC-US Western Alliance. In addition, the EC was also seeking rapprochement with the greater Latin American region following the Falklands/Malvinas war of 1982.

At this point in time the EC was in the process of attempting to define itself as a foreign policy actor distinct from the US.<sup>150</sup> In the mid-1970s for example, the EC had participated in the Euro-Arab dialogue and pushed a policy of dual support for Israeli security and the rights of the Palestinians. A key difference in terms of the decision to intervene in Central America, however, was that, unlike in the Middle East, EC economic interests in Central America were minimal. EC interregional engagement with the region was therefore initially based upon political as opposed to economic considerations (Smith, 1995: 15). So in terms of Rüländ's (2002, 2010) functions the establishment of the interregional relationship between the EC and Central America can be explained by a desire to balance against the US in the region, strengthen the EC's identity as a coherent foreign policy actor and promote peace in Central America through closer regional level cooperation. Initial relations were established by the Commission and the European Parliament as opposed to the Council – which was responsible for foreign policy under EPC. It was the Council which decided that the EC would officially intervene during the Nicaraguan crisis, however, as Smith (1995: 147) states 'the institutions of the Community, the

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<sup>150</sup> The European Political Cooperation (EPC) institutional mechanism which emerged in the early 1970s was intended to enable the EU to engage in foreign policy separately from the external relations commitments linked to the EU treaties such as the Common Commercial Policy (CCP). And in 1973 the EU released the 'Document on the European Identity' which laid out European aspirations in terms of foreign policy in terms of which countries and regions the EU would engage with and what this engagement would entail.

member states and the major political parties were demonstrating a convergence of interests and policies so as to make possible a consensus that allowed for the emergence of an institutionalized and cohesive EC policy towards Central America in the mid-1980s.’

In 1987 the Esquipulas Peace Plan was proposed by President Oscar Arias of Costa Rica and a peace accord was signed by the five Central American Presidents including President Ortega of Nicaragua. The 1987 peace agreement made direct reference to the role played by the EC in supporting the reconciliation and democratization processes and Karadjova et al. (2003: 17) contend that ‘given its contribution to fostering the peace accords and promoting respect for human rights throughout the region, the San Jose Dialogue can claim a notable historical success in that it was a key instrument in bringing about peace and re-establishing democracy in the region in the early 1990s.’

While it is difficult to determine precisely the extent to which EC intervention played a role in defusing the Central American crisis the fact that it did play a role is indisputable. The EC had decisively opposed US diplomatic efforts to delegitimize and isolate Nicaragua. As Smith (1995: 150) states:

The European Community did not accept the US strategy towards Nicaragua, although the United States actively tried to persuade it to do so. Not only did the EC refuse to go along with US policy, but it actively campaigned to implement an alternative policy that both accepted the legitimacy of the Sandinista government and attempted to persuade the US of what the EC considered a mistaken policy.

And by pushing for a regional solution to the crisis the EC fostered closer long term cooperation among the countries of the isthmus. The EC’s role in brokering peace in the region endowed it with much political credibility in the years ahead.

### **6.3.2 The EU and Central America in the 1990s**

By the early 1990s the conflicts in Nicaragua and El Salvador had come to an end. The Sandinista government was defeated in elections in 1991 and democratic governments were established in nearly all the Central American states by the mid-1990s<sup>151</sup>. This opened the door for increased regional cooperation which did indeed

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<sup>151</sup> The Guatemalan Civil War did not end until 1996.

take off in line with the prescriptions of open regionalism with the establishment of SICA in 1991.

In line with the institutional-capacity building role of interregionalism the EC was keen to support initiatives such as SICA. There was an understanding that although political sources of conflict in Central America had been reduced social and economic problems persisted and threatened the stability of peace and democracy in the region. In line with this, Kreft (2000: 5) states that ‘the Europeans placed great value on Central American integration as a vehicle for long-term socio-economic development in the region and as a basis for the consolidation of the peace process and of democratization.’

Although initial EC involvement in Central America was politically motivated it had also from the outset included an economic dimension at the request of governments in the region. An Economic Cooperation Agreement had been concluded early on at the Luxembourg summit of the San José Dialogue in 1985. In 1991 the Central American countries were granted wider concessions under the GSP scheme giving them duty free access to the EC market on a wider range of products including certain agricultural goods and raw materials (Bulmer-Thomas and Rueda-Junquera, 1996: 324).<sup>152</sup> In 1993 a third generation cooperation agreement was concluded. This replaced the 1985 agreement and in addition to providing for increased cooperation in a range of areas specifically referred to the EU commitment to promote the intensification and consolidation of SICA (Arts. 2, 28).<sup>153</sup> It was significant also that the new agreement broadened the scope of cooperation to include inter alia investment promotion, science and technology, energy cooperation, transport cooperation, health cooperation, tourism cooperation, environmental protection and measures to combat the illegal drugs trade. In terms of levels of trade the cooperation agreement had somewhat of an effect as seen in Table 6.4 below.

**Table 6.4: Central America-EU trade, 1980-2012 (in millions of US dollars)**

1980	1985	1990	1995	2000	2005	2010	2012
3,147	2,889	3,755	5,957	7,714	10,947	15,207	18,617

Source: IMF Direction of Trade Statistics (DOTS) Accessed 19/10/2013

<sup>152</sup> The GSP scheme was renewed several times and was the framework under which Central America conducted trade with the EU prior to the conclusion of the AA.

<sup>153</sup>

<http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=768> Accessed 20/05/2013

While levels trade between the EU and Central America dipped and then stagnated somewhat during the 1980s they doubled over the course of the 1990s. This may of course be attributed to the resolution of conflict and spread of democratization in Central America as opposed to the various agreements with the EU.

In addition to its trade relationship with the EU, Central America was and continues to be a large recipient of European development assistance. Throughout the 1980s and early 1990s levels of EU aid has increased substantially eventually matching and then overtaking US levels. By the mid 1990s, however, concern was rising among the Central American partners that European aid and trade privileges would be reduced as a result of political stabilization and democratization in the region as well as the refocusing of EU attention on its own internal integration and enlargement and the development of more pressing foreign policy concerns in the Middle East and elsewhere. The Central American governments therefore pushed for a re-launch of the San José Dialogue which eventually took place at the 12<sup>th</sup> ministerial conference in Florence in 1996.

At this point in time several general objectives for future cooperation with Central America were outlined. These included the promotion of sustainable and equitable economic and social development, dealing with insecurity and crime, promoting the rule of law, and strengthening social policies (Karadjova et al., 2003). At the regional level the principal aim was defined as the further integration of the Central American countries both among themselves and into the global economy. Nevertheless during the second half of the 1990s the region was relegated somewhat in terms of the EU's Latin America strategy as attention shifted to the emerging economies in the Southern Cone and the rest of South America. As was the case with the members of the CAN in the late 1990s the Central American countries enviously viewed the AAs concluded between the EU and Chile and the EU and Mexico as well as the agreement under negotiation between the EU and Merosur. Despite the fact that the majority of Central American exports to the EU were duty free under the provisions of the GSP scheme this access was provided unilaterally by the EU and could theoretically be reduced or withdrawn altogether at any time. This resulted in continual calls by the Central American states for an upgrading of trade relations with the EU to a similar reciprocally negotiated agreement with legally binding liberalization commitments.

The EU responded by setting up a Joint Working Group in order to evaluate the feasibility of such an agreement. The position expressed by the Commission through this group, however, was that the EU had declared a standstill on pursuing new agreements in 1999 and stressed paying greater attention to improving the operation of the multilateral trading system (Karadjova et al., 2004: 14).

### 6.3.3 The EU and Central America in the 2000s

Since the early 1990s the EU has lost an increasing share of the Central American market as can be seen in Table 6.5 below. The US share of the market has remained somewhat consistent despite occasional dips. The real winner in terms of improved market access has been China which has seen its share increase from just over 1 percent in 1990 to a staggering 26.5 percent in 2011. In addition to the EU it has been other Central and South American countries which have lost out as a result of China's gain. In 2004 the US concluded an FTA with Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. This was later also acceded to by the Dominican Republic. The timing of the subsequent initiation of free trade negotiations as part of an interregional AA indicates that an EU aim was to avoid the potential trade diversion threatened by agreements concluded by its economic competitors as was the case in other regions.

**Table 6.5: Central America imports from the EU, the US and China (in millions of dollars (and as a share of total Central America imports))**

	1990	2000	2002	2004	2006	2008	2011
<b>The EU</b>	2,154 (26.7)	4,196 (17.1)	4,030 (14.4)	5,940 (17.5)	6,431 (14.5)	7,809 (12.6)	11,454 (16.8)
<b>The US</b>	3,804 (47.2)	10,659 (43.4)	11,248 (40.3)	13,208 (38.8)	16,962 (38.1)	23,719 (38.4)	31,140 (45.7)
<b>China</b>	119 (1.5)	1,662 (6.8)	1,840 (6.6)	3,155 (9.3)	5,666 (12.7)	10,342 (16.7)	18,035 (26.5)

Source: IMF Direction of Trade Statistics (DOTS) Accessed 19/10/2013

As was the case in its other interregional partnerships the EU demanded substantial progress in Central American integration prior to consideration of launching full scale Association Agreement negotiations (Interview 1). In 2002 the EU published a Regional Strategy Paper (RSP) for Central America. The key challenges facing the region were listed as conflict between countries, especially border disputes; regional institutional weakness; different visions and levels of interest in terms of regionalism; intraregional economic disparities; lack of financing mechanisms; the

non-binding nature of resolutions and regulations; the lack of social ownership of the integration process; and vulnerability (EC, 2002b). These challenges are echoed in the view expressed by Kreft (2000: 7) who stated that ‘despite the substantial progress, Central American integration has been tested by the persistently uneven economic performance of the different countries, by their divergent views on and varying commitment to the goals of integration, and by the incomplete implementation of regional agreements’.

A Community Support programme was established under the RSP in order to help Central America deal with these challenges and a total of €74.5 million was allocated for the period 2000-2006. While this financial support is small in comparison to EU development assistance to Central America it is indicative of the continual EU aim of promoting deeper integration in the region.

The 18<sup>th</sup> meeting of the San José Dialogue took place on the sidelines of the 2<sup>nd</sup> EU-LAC Summit in Madrid in May 2002. Enhancing regional integration was once again confirmed as a key priority for Central America. It was also agreed that a Political Dialogue and Cooperation Agreement (PDCA) would be negotiated between the EU and the six Central American states. One of the key aims of this agreement was to create the conditions necessary to enable an AA to be negotiated successfully at a later date. The PDCA was signed in Rome in December 2003 and in line with previous agreements concluded between the EU and Central America it included references to democracy and human rights. (Art 1.1).<sup>154</sup> In addition, there was specific reference to sustainable development (Art 1.2) and good governance (Art 1.3). The articles on political dialogue (Art.3) and cooperation (Art.6) include very broad lists of topics but no binding commitments. The majority of the remaining articles in the agreement deal with trade and trade related issues including inter alia intellectual property, services trade, competition policy and technical barriers to trade.

While improving cooperation in relation to the above mentioned issues had the aim of promoting the deeper integration of the Central American countries there was also of course the goal of smoothing the way for the inclusion of a wide range of such regulatory issues in the future AA. The aim was not only to comply with but to go

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<sup>154</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/pdca12\\_03\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/pdca12_03_s.pdf) Accessed 21/05/2013

beyond WTO commitments given that achieving multilateral agreement on sensitive issues had become increasingly difficult within the WTO framework. And as discussed in previous chapters, the EU's new trade strategy had in fact mandated that any new PTAs were required to be WTO-plus in terms of their commitments in this regard. The PDCA officially confirmed the possibility of a reciprocally negotiated AA comprising a FTA (Art 2.3).<sup>155</sup> This was reaffirmed in a 2004 Commission report in which it was stated that:

This [agreement] represents an important step in EU-CA relations which could lead, in the medium term, to the signature of an Association Agreement incorporating a Free Trade Agreement, provided that the Doha Round is complete and the process of Central American integration is extended (EC, 2004).

It was not until after the change of trade strategy outlined in the 2006 *Global Europe* report, however, that it really became possible for the EU to consider initiating new PTA negotiations. While the new strategy allowed for the Commission to pursue PTAs with selected important emerging partners the Central American group was not listed among these.<sup>156</sup> The conclusion of the US CAFTA-DR agreement, however, provided the EU with enough impetus to seek their own agreement in order to balance against US influence both in terms of market access in the Central American economies as well as in terms of gaining a foothold in defining the new *modus operandi* of the world trading system.

The CAFTA-DR agreement contained extensive provisions on not only tariff reductions but also IPR, competition, procurement, trade in services, investment, and standards. This FTA is in fact accorded one of the highest ranks in terms of depth of commitments in a comprehensive new dataset on the content of trade agreements compiled by Dür, Baccini, and Elsig (2014). As such this agreement held a large potential for trade diversion for EU exporters.

#### **6.4 Towards an Association Agreement**

In December 2006 the Commission formally proposed starting negotiations towards an AA with Central America. The aim was to begin the negotiations proper later in 2007 once the Council had approved the negotiating directives. It was also

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<sup>155</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0677:FIN:EN:PDF>

Accessed 20/05/2013

<sup>156</sup> The partners referred to were ASEAN, MERCOSUR and South Korea

announced at this point in time that similar negotiations would be commenced with the Andean Community. The proposed agreements would have to fulfil certain conditions based upon the stipulations outlined in *Global Europe*. Under the new trade policy approach any new agreements had to aim for the highest possible degree of trade opening, including far reaching liberalization of services and investment. There was to be a strong focus on the regulatory environment with special emphasis on non-tariff barriers and there would be a number of new mechanisms for prior consultation and flexible dispute settlement. At the press conference which took place in Brussels in relation to the proposed agreements the EU Trade Commissioner Peter Mandelson stated that ‘these agreements will establish the foundations for deep trade and economic relations between the EU and the Andean and Central American countries. They will help build regional markets, attract investment and develop trade’ (EC, 2006c). These sentiments clearly tied in with the new EU trade strategy premised on increasing competitiveness and accessing new markets which was outlined in *Global Europe*.

In addition, it was made it clear that the promotion of integration in Central America was perceived to be compatible with the interregional approach. In an official EU press release it was stated that:

Negotiating with the Central American countries on a region-to-region basis, the Commission expects to provide further impetus to the regional economic integration processes and to contribute to higher economic growth and gradual improvement of 180quality of life for their peoples (ibid.).

In negotiating on an interregional basis with the Central American countries the EU aspired to move forward the integration process within the region and at the same time to achieve greater market access in a more efficient manner than dealing with each Central American country on an individual basis (Interview 1). The EU also once again demanded, however, that certain measures in this regard were implemented prior to the actual start of negotiations.

In 2006 a Joint Assessment on Regional Economic Integration had been undertaken and among its recommendations were that Panama would more fully participate in SIECA (EC, 2006a).<sup>157</sup> Much of the analysis also focused on moves to establish a

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<sup>157</sup> While Panama was a member of the Sistema de la Integración Centroamericana (SICA), it did not become a member of the Secretaría de Integración Económica Centroamericana (SIECA) until 2012.



more coherent and functional customs union. In this regard it was acknowledged that the Central American states had undertaken substantial measures to improve regulatory harmonization and reduce non-tariff barriers to trade. It was suggested, however, that further steps be taken in terms of the implementation and utilization of international standards in order to minimize technical barriers to trade (ibid.). The EU position is that it does not push a specific model of integration in counterpart regions but rather encourages groups of countries, with which it engages interregionally, to achieve a sufficient level of integration prior to the conclusion of region-to-region agreements. As one official from the trade directorate put it 'we're not going to tell anyone you have to integrate otherwise we won't talk to you. But if this is their objective we're very happy to pursue this' (Interview 1).

In reality, however, the EU generally makes very specific and stringent demands in relation to the integrative processes in regions which are negotiating interregional trade and cooperation agreements with the EU. In all its interregional negotiations the EU has taken the position that it will not deal bilaterally with individual countries. A bilateral approach is only taken once it becomes apparent that region-to-region level negotiations have reached an impasse. That the EU promotes regional integration in counterpart regions in such a fashion of course might be considered a positive aspect of policy. It is important to note, however, that the specific integration model pushed by the EU, which while it may result in positive integration outcomes in partner regions, is one which is primarily concerned with furthering EU commercial interests. For example, while the EU put a lot of emphasis on all the Central American countries fully acceding to SIECA and fulfilling their commitments in terms of the customs union there was little response to Panama leaving the Central American Parliament in 2010 given that this full participation in this political institution has little bearing on the EU's ability to reap the benefits of market access under the AA.

The Central American countries themselves were interested in an AA with the EU for several reasons. As mentioned above there was a concern that the preferential access to the large integrated EU market, which Central American exporters received under the EU's GSP+ scheme, could potentially be reduced in the near future.

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SIECA is the one of several subsystems which SICA oversees and is concerned with matters of economic integration.

Negotiating a reciprocal PTA as part of the AA was considered essential in order to give a permanent legal basis to the trade privileges enjoyed by the Central American countries. Having already concluded an FTA with the US in 2004 the Central American countries felt confident that they could use this experience to competently negotiate with the EU.

The majority of the Central American governments perceived the AA to be another step in further integrating their economies into the global market. In addition to the economic rationale it was also considered that it would be politically beneficial to institutionalize the relationship with a major power such as the EU. It was also perceived that negotiating as a group with the EU could facilitate the deepening and strengthening of the Central American integration process.

The Central American countries were required to adopt substantial measures in relation to improving their customs union in advance of concluding the agreement. And the terms of the trade chapter of the agreement itself will require greater regional cooperation among the Central American countries in relation to trade issues such as competition policy and trade facilitation. Of course it can also be argued that the liberalization commitments contained in the agreement will serve to reduce the policy space available to the Central American countries in their pursuit of economic development. This is especially the case in relation to the opening of the Central American services and public procurement markets to EU competitors.

The European Parliament evaluated the proposed agreement and published a report outlining its position in February 2007. One of the key recommendations was that:

The negotiation of the future agreement must take account of the economic, political and social circumstances which exist in most Central American countries, and the differences in development between the two regions, as well as the nature of economic relations in Central America: regional trade concentrated on a small number of countries, a high level of dependence on exports of traditional products and low levels of foreign direct investment by the EU in the region (EP, 2007b: 4).

Many of the other recommendations in the report highlight the extent to which the Commission's objectives coincided with those of the Parliament. Indicative of the classification of the EU's pursuit of an AA as seeking to fulfil a balancing/bandwagoning function the report stated that:

An EU-CA free trade agreement (FTA) should be regarded as a priority strategic objective for the EU's external relations in an international context characterized by increased interdependence, economic growth, the emergence of new economic powers, the expansion of US bilateral trade agreements, including CAFTA, and a series of global challenges which transcend national borders (ibid.: 7).

Reference was made to the decline in the EU's political influence in Central America since the 1980s and that:

This is all the more regrettable since the EU's contribution to the gestation of the peace and democratization process in the area during that decade and the progress of the San Jose ministerial dialogue launched in September 1984 were at the time one of the very few successes of what was known as European Political Cooperation, the antecedent of the current Common Foreign and Security Policy, and one of the few cases in which the EU maintained truly autonomous positions in relation to those held by the United States, at that time under the Reagan administration (ibid.: 9).

This relates to the identity building role played by interregionalism. In terms of the rationalizing and agenda setting functions it was stated that both parties should:

Negotiate a single and indivisible trade agreement which goes beyond the negotiating parties' present and future WTO obligations and establishes over a transition period compatible with WTO requirements a FTA and which, without excluding any sector, takes account, in the least restrictive fashion possible, of the development dimension and the specific sensitivity of certain products (ibid.: 17).

In relation to the idea of the EU acting as an external federator in line with the institution building function it was stated that:

It should be taken into account, as a very important step for the successful development of the negotiations, that Central America has endeavoured to fulfil its commitment, confirmed at the above mentioned Vienna Summit, to implement as planned the decisions taken by Central American Heads of State on 9 March 2006 in Panama which aim at achieving an effective customs union, as well as to seek ratification of the signing of the Central American Treaty on Investment and Trade in Services and to develop a jurisdictional mechanism that could secure enforcement of regional economic legislation throughout the region (ibid.: 19).

While the EU has provided extensive financial and technical assistance to the Central American countries in relation to their efforts to improve regional institutions the perception is that the ability of regional organizations such as SICA to coordinate depends more so on the political will of the member states as opposed to a lack of capacity (Interview 1).

A high level meeting took place between EU and Central American representatives in Brussels in June 2007. The discussion primarily focused on measures the Central American countries were taking to consolidate their customs union (EC, 2007f). The trade ministers of El Salvador, Guatemala, Honduras and Nicaragua had signed a Framework Agreement for the Establishment of a Customs Union in advance of the meeting. The Commission representatives stressed that Costa Rica and Panama would also need to accede to this agreement in order to fully take part in the interregional AA negotiations. It was also agreed that the Central American countries would develop a jurisdictional mechanism that could secure enforcement of regional economic legislation throughout the region (ibid.). Both sides having clarified their hopes and expectations in relation to the proposed agreement, the negotiations were formally launched during the course of the high level meeting with Benita Ferrero-Walder the Commissioner for External Relations stating that:

The start of the negotiations today marks a decisive step in the very fruitful EU and Central America relations. I am convinced that the future Association Agreement will provide for a more effective political dialogue, strengthen cooperation, as well as our economic ties based on a better regulatory framework allowing for increased trade exchanges and investment which will then contribute to the welfare of both our societies. With such an ambitious agreement, both the EU and Central America reiterate their long standing commitment for a stronger partnership, both politically and economically, on the basis of a reinforced regional integration process (EC, 2007g).

The EU once again stressed that negotiating with Central America as a group was aimed at strengthening regional integration:

The Association Agreement will be negotiated on a region-to-region basis in order to provide further impetus to the regional integration process in the Central American Isthmus, as this is a key to foster stability, progress and economic and sustainable development in the region to the benefit of all its citizens. It will also help to insert the region in the world economy by developing larger and more stable economies, able to attract investment (ibid.).

The final part of this statement is reflective of the EU aim to provide access for European firms, in terms of both trade and investment, to a single integrated market. This was expected to complement the inclusion of both services and procurement liberalization in the AA. Statements such as those above highlight that the EU pursues overlapping objectives through interregionalism. Supporting internal integration in Central America relates simultaneously to the balancing function, the institution building function and the rationalizing and agenda setting functions. Some

of these functions can also be pursued at a bilateral level. The exception is institution building which can be negatively affected by the undertaking of separate negotiations with the members of partner regional organizations. Given that the interregional AA was actually successfully concluded with Central America this did not come to pass as it did in the cases of ASEAN and the CAN.

#### 6.4.1 The Association Agreement negotiating process

Ten rounds of negotiations took place in total. The location and date of each round is listed in Table 6.6 below.

**Table 6.6: Central America-EU AA negotiations**

Round	Location	Dates	Remarks
1	Costa Rica	October 2007	Political Dialogue, Cooperation, Trade
2	Brussels	February 2008	Trade subgroups commence negotiations, date set for first tariff offer
3	El Salvador	April 2008	SPS, IP, Trade Facilitation
4	Brussels	July 2008	Security, Justice, Sustainable Development, Regional Integration issues
5	Guatemala	October 2008	Institutional Framework, Rules of Origin, Services, Procurement
6	Brussels	January 2009	Structural Fund Model
7	Honduras	March 2009	Cancelled due to Honduran crisis
8	Brussels	February 2010	Political Dialogue and Cooperation texts concluded
9	Brussels	April 2010	Window extended for tariffs on sensitive products
10	Guatemala	May 2010	All chapters concluded

The first round of substantive negotiations took place in San José, Costa Rica in October 2007. Both sides agreed that the aim was a comprehensive agreement which would go beyond the coverage of WTO rules.<sup>158</sup> The framework for the negotiating process was established with separate discussions taking place in relation to each of the three pillars of the agreement which are trade, political dialogue and cooperation. Having previously concluded a PDCA in 2003 the biggest challenge facing the negotiators was to incorporate trade liberalization and other trade related issues into

<sup>158</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/round1\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/round1_s.pdf) Accessed 20/10/2013

a legally binding agreement. Precise objectives were specified in relation to the issue areas falling under each pillar and the scope and principles for the negotiations in this and subsequent rounds were agreed upon. Good initial progress was made in relation to each chapter (EC 2007g). The negotiators for the trade pillar met in twelve subgroups covering various trade and trade-related issues. It was agreed that the Singapore issues, which are government procurement, competition policy, trade and investment and trade facilitation would be included on the negotiating agenda. So indicative of the interregional rationalizing function the EU achieved its goal of pushing forward the inclusion of these controversial issues in relation to which a united coalition of developing countries had rejected agreement within the WTO framework.

The EU negotiators did accept the need to provide special and differential treatment to the Central American states and the need to ensure that the final agreement was compatible with the principle of sustainable development. It was notable, however, that none of the twelve trade working groups were dedicated solely to this issue as had been the case in the EU negotiations with the CAN. Finally it was reemphasized that Central America's internal integration and the negotiation of the AA with the EU were twin processes which could feed of and support each other.<sup>159</sup> Costa Rica's chief negotiator indicated that Costa Rica would fully accede to the Central American Custom's Union in advance of the second round of negotiations.<sup>160</sup>

The second round took place in Brussels in February 2008. The twelve trade subgroups met once again and good progress was made towards defining the text of the agreement in several of these groups including market access, customs, trade facilitation, procurement, intellectual property, and dispute settlement. Both sides agreed to present their first tariff offers by mid-March of that year. It was also agreed to table offers in the areas of services and establishment by this date. The EU welcomed the conclusion of the Customs Union Framework Agreement by the five Central American countries.<sup>161</sup> It is notable that from the outset the negotiations were not marked by the same intense disagreements which emerged during the EU's other interregional trade negotiations with groups such as Mercosur and the CAN. The

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<sup>159</sup> *Ibid.*

<sup>160</sup> *Ibid.*

<sup>161</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/round2\\_e.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/round2_e.pdf) Accessed 20/10/2013

main explanation for this is that Central American exporters posed much less of a threat to European interests in comparison to Brazilian or Argentine exporters for example. This was especially the case in relation to agricultural exports. The main opposition to the proposed agreement within the EU came from developmental organizations concerned about the implications the requirements of the agreement would have in terms of sustainable development in Central America. Such organizations wield much less political influence in comparison to EU agricultural and business lobby groups.

A third round took place in El Salvador in April 2008. Both sides engaged in bargaining over their respective tariff offers which had been exchanged by the March 17 deadline. The Central American negotiators pushed for increased EU cooperation in terms of SPS measures in order to better enable Central American products to access the European market. Agreement was reached on the inclusion of provisions related to intellectual property, geographical indicators, customs procedures and trade facilitation. Discussions also began in relation to Technical Barriers to Trade (TBTs).<sup>162</sup>

The fourth round took place in Brussels in July 2008. Discussions on the political dialogue and cooperation chapters progressed well with agreement reached in relation to issues such as citizen security, international justice and sustainable development. The second exchange of tariff offers had taken place just prior to the round. Discussions also took place on the regional dimension of the AA mainly as regards customs union issues, non-tariff barriers as well as SPS issues.<sup>163</sup>

The fifth round took place in Guatemala in October 2008. It was decided to set up an Association Council which would oversee the implementation of the agreement once it had been finalized. Separate committees were also to be established in relation to each of the three pillars and mechanisms were to be put in place to ensure that dialogue could take place between the regional parliaments and civil society in both regions. Most of the political dialogue issues had been resolved by this point in time, however, discussions continued on issues including migration, the environment and disarmament. The negotiations in relation to the trade pillar focused on market

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<sup>162</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/round3\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/round3_s.pdf) Accessed 20/10/2013

<sup>163</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/round4\\_e.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/round4_e.pdf) Accessed 20/10/2013

access, rules of origin, procurement and services. The Central American team stressed that the rules of origin incorporated into the agreement should be flexible in order to take account of potential future changes in patterns of trade.<sup>164</sup> In fact the 2007 Parliament report on the proposed agreement had specifically referred to the EU's complex and demanding rules of origin requirements as having played a role in the decline of Central American exports to the EU despite the unilateral trade preferences granted under the GSP scheme (EP, 2007b).

Prior to the sixth round of negotiations in Brussels in January 2009 the EU announced a €15 million support package for regional integration. During this round of talks the EU organized information sessions for the Central American representatives on how the EU's Structural Fund model could be used as the basis for the implementation of a similar mechanism in Central America.

The seventh round took place in Tegucigalpa in March 2009. This round of talks broke down, however, when Nicaragua left the negotiations as a result of the refusal of the EU to discuss the creation of a joint regional credit fund.<sup>165</sup> A meeting took place in Brussels in April 2009 with the aim of resolving the issue and it was agreed to recommence the negotiations in July that year. In June 2009, however, the negotiations were temporarily suspended as a result of the coup d'état which took place in Honduras.<sup>166</sup> The EU remained firm on maintaining a region-to-region approach, however, despite suggestions from Guatemala and Costa Rica that the negotiations could continue temporarily without Honduras.

The eighth round took place in Brussels in February 2010 during which final discussions took place on remaining issues of the political dialogue and cooperation chapters including immigration, the fight against terrorism and energy sector cooperation. In terms of the trade chapter, agreement was reached on the specification of rules of origin and SPS. The EU demanded that the provisions on

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<sup>164</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/Round5\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/Round5_s.pdf) Accessed 20/10/2013

<sup>165</sup> [http://infosurhoy.com/cocoon/saii/xhtml/en\\_GB/features/saii/features/2009/04/06/feature-04](http://infosurhoy.com/cocoon/saii/xhtml/en_GB/features/saii/features/2009/04/06/feature-04) Accessed 10/10/2013

<sup>166</sup> [http://www.nytimes.com/2009/06/29/world/americas/29honduras.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2009/06/29/world/americas/29honduras.html?pagewanted=all&_r=0) Accessed 10/10/2013



services liberalization would match those granted to the US under the terms of the DR-CAFTA agreement.<sup>167</sup>

The ninth and tenth rounds took place in Brussels and Guatemala in April and May 2010 during which final agreement was reached on most of the remaining trade issues. Discussions centred on greater concessions in terms of EU market access for industrial goods. The EU sought that all tariff lines would be fully liberalized within a ten year period, however, it was finally agreed that a 13 to 15 year period for full liberalization would be applied to certain sensitive products.<sup>168</sup> The negotiations were finally concluded in late May 2010 during meetings which took place on the sidelines of the 4<sup>th</sup> EU-LAC Summit<sup>169</sup>. During the course of the next two years the text of the agreement was subjected to legal review before finally being signed by both parties on 29<sup>th</sup> June 2012. On this occasion the EU Trade Commissioner Karle De Gulch stated:

In the current economic situation it is vital for European businesses to count on a stable and predictable business and investment environment. The region-to-region trade deal will help to establish major business opportunities for both sides. European exporters will save around €90 million on customs per year and European service providers, such as for telecoms and transport, will get greater market access. At the same time, this deal should have a positive spill-over effect on Central America's overall economic integration process and contribute to the stability of the region.<sup>170</sup>

The European Parliament ratified the agreement with a majority vote in December 2012 and by July 2013 each national parliament in the Central American states had also done so.

#### **6.4.2 Explanations for the successful conclusion of an AA**

Trade with the Central American countries makes up a relatively insignificant part of the EU's total trade. It is, however, a region which the EU perceives to have good potential for future growth in terms of opportunities for trade, especially trade in services, and public procurement. Furthermore concluding PTAs with what appear to be minor trading partners has increasingly become a feature of both EU and US trade policy as they compete to gain not only market access but also control over the

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<sup>167</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/Round7\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/Round7_s.pdf) Accessed 20/12/2013

<sup>168</sup> [http://www.sice.oas.org/TPD/CACM\\_EU/Negotiations/Round8\\_s.pdf](http://www.sice.oas.org/TPD/CACM_EU/Negotiations/Round8_s.pdf) Accessed 20/10/2013

<sup>169</sup> <http://en.mercopress.com/2010/05/19/central-america-and-eu-reach-a-free-trade-agreement> Accessed 20/10/2013

<sup>170</sup> <http://trade.ec.europa.eu/doclib/press/index.cfm?id=815> Accessed 20/10/2013

implementation of their own specific models of integration and regulatory frameworks. The negotiations were concluded successfully as they did not invoke the same clashes of defensive and offensive interests in comparison with the EU's other interregional negotiations. The Central American countries depend overwhelmingly on the North America market for their exports and they are not large competitive agricultural exporters. Defensive trade interest groups in opposition to an AA did not emerge in the EU to the same extent as they did in relation to the EU-Mercosur negotiations. Furthermore, the fact that the Central American countries had been able to coordinate sufficiently to successfully conclude an FTA with the United States in 2004 endowed the group with experience from which to draw on when engaging with the EU. This may have played a role in terms of facilitating agreement (Interview 1). Phillips (2002: 342) argues that 'in contrast with Mercosur, Central American and Caribbean countries do articulate relatively successfully a set of common negotiating objectives, in good part because these objectives are largely limited to the single issue of special and differential treatment (SDT).'

Another point is that a real political will to conclude an agreement existed among the Central American countries. This unity of purpose is evidenced by the fact that the Ortega government of Nicaragua participated in the negotiations and accepted the final deal despite stating frequent opposition to key aspects of the agreement during the negotiations. Contrasting this unity with the situations in Mercosur, the Andean Community and ASEAN goes some way to explaining why the negotiations here were concluded successfully while they failed elsewhere (Interview 1).

It may also be argued that trade agreements between partners of very unequal size are easier to conclude due to the lack of alternatives available to the smaller partner. On the other hand agreements between large powers and other large or medium powers are more difficult to conclude as alternative trading partners are available. This is especially the case given the rise of China and other emerging economies over the past two decades (Genna, 2010). Genna states that 'large economic asymmetries can lead smaller actors to accept less than their preferred trade patterns if being locked out of the large market would make them worse off' and that 'middle-size actors have greater agency in a system with a rising power because the changing structure of the international system allows for more choices' (ibid.: 641).

The Central American countries previously conducted the vast majority of their trade with the US and the EU under unilateral preference schemes (The Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP)). During their negotiations with both the US and the EU it was made clear that the preferential treatment accorded to the Central American countries under these schemes was liable to be significantly reduced in the future and that it was therefore in the best interest of these countries to conclude reciprocally negotiated trade agreements. Similarly in its relationships with the groups of ACP states the EU made clear that these countries were required to conclude reciprocally negotiated EPAs or risk losing access to the large EU market.

#### **6.4.3 Implications of the AA**

The main benefits of the AA for the Central American countries are cited as the locking in and broadening of trade preferences and the potential for the agreement to promote or enable deeper regional integration. The Central American countries already had extensive tariff free access to the EU market under the GSP+ scheme. The trade chapter of the AA has broadened this access to include previously excluded products such as bananas, sugar and shrimp. The market access provisions are now legally enforceable unlike the unilateral and revocable preferences under GSP+. This locking in of trade preferences has, however, come at a high cost in terms of market opening for the Central American countries. While the Central American countries will receive modest levels of tariff reductions in comparison to the GSP+ scheme they will be required to substantially open their markets to highly competitive EU exports of both goods and services. Given the fact that trade under the GSP+ scheme did not lead to significant trade diversification or an improvement in the Central American economies terms of trade with the EU it is questionable that the new regime under the terms of the AA will prove much different.

The AA is WTO compliant in terms of most trade issues such as intellectual property and technical barriers to trade. The competition policy provisions go beyond those of the WTO and while this it is envisaged that this will help promote regional integration and increase trade in Central America it is indicative of the EU drive to push through agreement on the controversial Singapore issues in trade negotiations where it enjoys greater leverage than in the WTO forum. The inclusion of the Singapore issues in the trade chapter of the Association Agreement was pushed by

the EU from the first round of negotiations. The aim was to achieve liberalization in certain areas by dealing with a smaller set of countries than those with which the EU must currently negotiate within the WTO framework. In a critical briefing on the AA prepared for the European Parliament in 2011 it is stated that:

The EU claims to have none or very small trade interests neither in Central America nor Colombia and Peru. It is thus surprising that the EC has aggressively pushed for agreements containing a number of issues that developing countries have continually refused to negotiate within the WTO, such as public procurement, investment, and competition policies.<sup>171</sup>

In terms of promoting integration Woolcock et al. (2012: 12) argue that ‘given the high degree of tariff harmonization of the Central American Common Market, something the Agreement would further promote, and the diagonal cumulation of rules of origin, there is no reason why the Agreement should not provide additional impetus for the establishment and maintenance of an effective customs union in Central America’.

Picard et al. take a much more negative view in terms of EU support for regional integration in Central America and elsewhere in Latin America. They argue (2009: 13-14) that the type of integration promoted by the EU is different from that which many Latin American governments aspire to. It is stated that ‘the EU is pushing the regions to maintain and develop their export models and better integrate into the global market when the tendency among the progressive governments in Latin America is to favour production for the internal market and a focus on food sovereignty’ (ibid.: 14). It is also stated that ‘Europe, for its part promotes a regionalism which is left as far as possible to the mercy of market forces. Given the asymmetries between the EU and the countries/regions in Latin America it is clear that the principal beneficiaries of this will be European businesses’ (ibid.: 15).

## **6.5 Conclusions**

The AA concluded between the EU and Central America in 2010 is one of the few cases where the EU has successfully negotiated a comprehensive trade agreement with a group of countries on an interregional basis. This chapter has traced the development of the relationship between the two regions in an attempt to compare expectations and outcomes at various points in time.

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<sup>171</sup> [http://www.aprodev.eu/files/Central\\_America/201110\\_briefing\\_fta\\_eu-ca-colombia-peru.pdf](http://www.aprodev.eu/files/Central_America/201110_briefing_fta_eu-ca-colombia-peru.pdf)

Since the establishment of the interregional relationship in the 1980s the EU has aimed at fulfilling several of the functions which are ascribed to interregionalism. The initial concern was to implement a distinct EU foreign policy in line with the identity building function. This concern was ameliorated by EU opposition to US strategy in Central America during the 1980s.

During the 1990s the EU aimed at institution building in Central America and offered substantial support to the integration process. Following the establishment of SICA the EU concluded a cooperation agreement with the newly orientated scheme and provided technical and financial assistance in order to help drive regionalism forward.

In the 2000s EU trade policy changed as a result of the slowdown in WTO negotiations and the perception that EU competitors were racing ahead in achieving market access and setting the rules of the international trading system through establishing networks of PTAs. At this point in time the interregional strategy in relation to Central America became concerned with trade related functions including creating deeper institutional links between the two regions in order to manage trade relations and later with attempting to find agreement on difficult issues such as procurement and services liberalizations which had proved too difficult at the multilateral level.

Though not originally listed as a priority PTA partner in the *Global Europe* report negotiations towards an AA comprising an FTA were launched in 2007 and successfully concluded in 2010. The main explanation for the successful conclusion of the agreement is that the same clash of defensive trade interests did not exist in this case in comparison to the others analyzed in earlier chapters. The threat of increased competition from Central American exporters was miniscule in comparison to the case of Mercosur for example.

In addition, the Central American countries as a group were anxious to conclude a reciprocally negotiated and legally binding agreement given that the GSP scheme which governed trade relations with the EU prior to the AA was unilateral in nature meaning it could theoretically be revoked at will. And despite the extensive preferential market access which existed under this scheme high tariff peaks existed on many products of particular interest to the Central American countries. The EU

aim is to achieve similar success in its PTA negotiations with other regional actors, however, this may prove more difficult in that Central America is somewhat unique in terms of the lack of a clash of defensive and offensive trade interests with the EU as well as the relatively high level of regional cohesion which the group achieved in their negotiations with the EU (Interview 1).

## Conclusion

This thesis has undertaken an in-depth examination of EU interregionalism from both a theoretical and an empirical perspective. In broad terms the study has sought to assess the utilization of interregionalism as a distinct level of interaction at which the EU engages in external relations. More specifically the aim was to identify the determinants of EU interregional trade policy, in terms of both its formulation and implementation, and to account for the success or failure of interregional PTA negotiations. The analysis undertaken in the case study chapters has highlighted the major challenges faced by the EU in fulfilling trade policy objectives at the interregional level.

The thesis has firstly sought to build upon the major academic works which have been conducted on interregionalism to date including those by Doidge (2011), Hänggi (2000), Hänggi et al. (2006), and Rüländ (2002, 2010). These scholars have offered valuable insights into a relatively new area of research in international relations. In particular they have highlighted the manner in which EU policy, at the interregional level, may be formed in response to developments within the international system. This thesis has, however, attempted to develop a more nuanced understanding of the specific political and economic forces which impact upon interregional trade policy objectives and outcomes in line with the approach taken in studies such as those by Aggarwal and Fogarty (2004a).

In order to achieve this, the study drew specifically upon the literature on EU trade policy and the political economy of international trade. In particular I argue that theories which consider the role played by organized domestic interest groups are extremely relevant for understanding the objectives and outcomes of EU interregional trade policy. The pattern of interaction in the cases examined has served to verify the idea that EU policymakers seek ‘protection for exporters’ whenever PTAs concluded by other states hold the potential to negatively impact upon the EU’s commercial interests in third country markets (Baccini and Dür, 2012; Dür 2007, 2010). In addition, however, it was found that the preferences of organized domestic interest groups can serve to impede as well as to promote the EU’s pursuit of preferential agreements. While the Commission enjoys relative

autonomy in interregional policymaking when the focus is on broader informal political and economic cooperation with other regional organizations, it is much more constrained in terms of decision making whenever trade liberalization is on the agenda.

This concluding chapter will seek to clarify the main findings and implications of the research. The first section restates the context of the investigation. In the second section the major findings of the study in relation to three initially specified research questions are assessed and summarized. Finally several potential avenues for future research on interregionalism are considered.

### *Interregionalism in context*

Interregionalism was examined during what are referred to as the first and second waves of regionalism. It has especially been as a result of the establishment of many new and more externally oriented regional organizations during the second wave of regionalism that interregionalism has evolved to the extent that it has become an ‘indelible feature of the international system’ (Doidge, 2011: 230). While interregionalism during the first wave of regionalism was an actor centred phenomenon consisting of a hub-and-spokes network of relationships between the EU and other regions it has now become a more widespread systemic phenomenon characterized by a much more densely interconnected network of interregional partnerships.

In Chapter 2 the relationship between bilateralism, interregionalism, and multilateralism within the context of EU trade policy was examined in detail. The analysis revealed that the EU’s shifting choice of regulatory venues has resulted in, on the one hand a perception of the EU as a ‘conflicted trade power’ (Meunier and Nicolaidis, 2006), and on the other a characterization of the EU as a pragmatic political and economic actor which implements a complex approach to trade policy in which the different levels of interaction are complementary (Acar and Tekre, 2008; Hardacre and Smith, 2009; Rigner and Soderbaum, 2010).

Attention was drawn to the fact that while the EU has traditionally reserved PTAs for potential member states as well as selected countries within the EU neighbourhood, preferential negotiations have taken place with a much broader range of countries



located in all parts of the world since the 1990s. And while bilateral level PTA negotiations have generally proven successful this has not been the case with interregional negotiations. As a result a bilateral approach has increasingly been adopted with the individual member states of certain EU interregional partners. This change of approach has run counter to the long standing preference of the Commission for engagement on a region-to-region basis and lends weight to the argument that trade policy decision making, at the interregional level and otherwise, is determined in large part in response to the preferences of influential domestic interest groups.

The evolution of trade policy making within the EU was analyzed in an attempt to uncover the factors which might explain the pursuit of trade policy objectives at different levels. The key argument made was that interregional trade policy today must be understood within the context of the much more competitiveness driven approach to trade policy in general which has emerged since the mid-2000s. This new approach to trade policy has in turn been driven by the lack of progress made towards new multilateral agreements in recent years in conjunction with the trade policy activism of EU competitors. In relation to this Garcia (2013: 531) states that ‘the world was in the midst of a PTA negotiation bonanza, whilst the EU had voluntarily withdrawn from new negotiations. Faced with this, Mandelson steered the EU’s PTA trade policy in line with what other states were doing’. Importantly, however, I have emphasized in this study the fact that the EU’s new approach to trade policy since the mid-2000s was developed in extremely close consultation with major EU firms and influential business and industry lobby groups.

The EU had decided to launch AA with negotiations with Mercosur in 1999 prior to the implementation of a de facto moratorium on new PTA negotiations which was implemented by the EU in order to focus attention on efforts to achieve new multilateral agreements. The initiation of AA and PTA negotiations in each of three other interregional partnerships examined in this thesis, however, did not take place until after the adoption of the new approach to trade policy in 2006 as discussed above. While it was initially hoped that the new trade policy agenda would prove compatible with the EU’s broader foreign policy and normative goals, economic and strategic balancing concerns have become increasingly predominant given the trade

policy activity of EU competitors and the demand for a response by potentially affected domestic interest groups.

### **Major findings**

The causal argument developed in the first two chapters was examined in detail in relation to four of the EU's major relationships with other regions – ASEAN, Mercosur, the CAN, and Central America. The empirical findings of the case studies are now assessed and synthesized in relation to each of the three principal research question. The first of these was:

*Q1: What objectives does the EU seek to fulfil through interregionalism?*

In each of the interregional partnerships examined in the case study chapters the objectives of the EU were assessed in detail. Given the long standing nature of these relationships these objectives have of course changed somewhat over time in response to both changing conditions within the EU itself as well as within the broader global economy. Nevertheless some broad patterns can be identified in terms of what exactly the EU has aspired to achieve in engaging with countries as regional groups rather than on a bilateral basis or within the multilateral framework.

The major finding in this regard is that achieving the conclusion of comprehensive trade liberalization agreements at the interregional level has become the predominant aim of EU interregionalism in comparison to a prior focus on broader foreign policy and normative objectives. And while interregional trade policy objectives were previously determined in large part by the Commission itself, the potential distributive consequences of PTAs has meant that domestic interest groups within the EU have increasingly constrained the Commission's ability to act independently in this regard.

The EU established relationships with ASEAN, the CAN, and Central America prior to the initiation of the second wave of regionalism in the late 1980s. Interregionalism has long been a key mechanism through which the Commission has attempted to expand the EU's political and economic power and influence in conjunction with fulfilling a range of foreign policy and normative objectives such as promoting economic development, democracy, and respect for human rights (Doctor, 2007: 284). In this regard EU interregionalism has involved the provision of support for the

process of regional integration among other groups of countries in many parts of the world. Identity considerations were also predominant during the early years of interregionalism as the EU sought to strengthen not its only own identity but the identity of regional actors in international relations more generally. EU trade policy during the early years of interregionalism was, however, primarily focused on the multilateral GATT framework.

During the 1990s, however, interregionalism came to assume a position of increased importance in the EU's external relations toolkit. In each of the four cases examined in this thesis measures were taken to upgrade the interregional dialogues through the conclusion of more comprehensive cooperation agreements under the umbrella of the new overall strategies which the EU implemented for both Asia and Latin America. Already in the mid-1990s plans were underway to commence negotiations towards an interregional AA with Mercosur despite the fact that the EU-Mercosur relationship had only been formalised a short time beforehand. Balancing concerns remained of key importance in terms of interregionalism, Whereas during the 1970s and 1980s the focus of such balancing was on expanding the power and influence of the EU in its own right, however, during the 1990s interregionalism was increasingly utilized as a mechanism to balance against the power and influence of EU competitors in the post-Cold War international system. This relates to Doidge's differentiation between 'self-focused balancing' and 'externally-oriented balancing' (2011).

Identity formation and strengthening also remained a priority during the 1990s. The CFSP had been launched in 1993 and interregionalism was a key mechanism through which the EU sought to reinforce its influence and identity as an actor in international relations. In terms of institution building, while little took place between the EU and other regions, the EU clearly aimed to foster institution building within its partner regions themselves. All of the official discourse in the EU's 1990s and early 2000s strategy documents and speeches make overt reference to the role of the EU as a promoter of regional integration elsewhere. For example, in a 2000 speech Romano Prodi stated:

Our European model of integration is the most developed in the world. Imperfect though it still is, it nevertheless works on a continental scale. Given the necessary institutional reforms, it should continue to work well after

enlargement, and I believe we can make a convincing case that it would also work globally (Prodi, 2000)

Prior to the mid-2000s, however, trade liberalization did not appear on the interregional agenda except in the cases of EU-GCC and EU-Mercosur. The Uruguay round of GATT negotiations had been concluded in 1994 and resulted in the establishment of the WTO and the implementation of new agreements covering a much broader range of trade issues than ever before. It was hoped that a similar range of broad agreements would be achieved during the Doha round. This expectation resulted in a de facto moratorium on new PTA negotiations between 1999 and 2006 as the EU focused exclusively on multilateralism.

More recently, however, a much more competitiveness driven approach to EU external relations, and to trade policy in particular, has emerged. This is referred to overtly in the official EU discourse in official publications such as the 2006 *Global Europe* report as well as in statements by key EU officials. Peter Mandelson stated in 2006 for example ‘what do we mean by external aspects of competitiveness? We mean ensuring that competitive European companies, supported by the right internal policies must be enabled to gain access to, and operate securely in world markets. That is our agenda (Mandelson, 2006b)’.

The pursuit of interregional PTAs with several groups of countries in Asia, Africa, and Latin America, has been a key element of this agenda. While reference to objectives such as promoting regional integration has been maintained in the official discourse the reality of action in terms of EU trade policy has provided a clear indication of the predominance of commercial considerations over ideational and normative concerns. This shift can be clearly identified in the EU approach to interregionalism.

The *Global Europe* report emphasized the priority of pursuing a PTA with ASEAN as well as the resumption of negotiations with Mercosur. By 2007 the EU had also decided to launch AA negotiations with both the CAN and the Central American countries. In each case study chapter it is argued that the decision to launch PTA negotiations (or re-launch in the case of Mercosur) was a response to two related factors. The Doha Round of WTO negotiations had made little progress towards new agreements more than seven years after being launched. The extent of the divergence

of preferences which had emerged within multilateral negotiations meant that pessimism had set in regarding the potential for concluding new agreements in the near future. In addition, since the early 2000s EU competitors had been aggressively pursuing a range of PTAs with many Asian and Latin American countries. The danger was that by continuing to focus solely on the multilateral framework the EU risked being seriously disadvantaged in terms of market access in emerging economies as well as in terms of influencing the development of the regulatory framework governing international trade and investment. The decision was taken to pursue several PTAs at the interregional level in line with the Commission's preference for dealing with other countries as groups where possible.

Overall the EU interregional strategy and the mechanisms to implement were found to be consistent in each of the cases examined. This reflected a strong long-term strategic view from the EU. This consistency is encapsulated in the three-level approach that the EU has employed in all regions. In all cases the EU has sought to make the interregional level, and the pursuit of pure interregionalism, the most important level, although it has proved willing to use the bilateral level when circumstances have required it. The adoption of selective bilateralism lends further weight to the argument that balancing concerns are paramount in the EU's relations with groups of countries in Asia and Latin America. Importantly, however, demand for such balancing behavior can in most cases be linked to the preferences of influential domestic interest groups within the EU as opposed to having emanated from the Commission itself.

*Q2: What explains the success or failure of EU interregional trade policy objectives?*

There is a significant difference between what the EU has aspired to achieve in its interregional relationships and what has been attained in reality. While these relationships have been successful in terms of establishing forums for broad economic and political cooperation, attempts to conclude PTAs at the interregional level have encountered many obstacles. And again the influence exerted by influential domestic interest groups is a key explanatory factor in this regard. In the majority of cases the Commission has been unable to achieve agreement due to the

necessity to operate within the confines of the expressed preferences of EU business and industry associations.

During the early years of interregionalism the EU's group-to-group relationships with regional actors in Asia and Latin America proved to be an effective mechanism through which the EU projected its political and economic influence. Interregionalism assumed a position of increased importance during the 1990s and this resulted in the successful conclusion of third generation cooperation agreements with each of the partners examined in the case studies. The continuing predominance of short-term balancing considerations is evidenced, however, by the lack of institutionalization which has taken place between the EU and its regional partners and the more recent shift to bilateralism.

The EU-ASEAN relationship has been utilized as a mechanism through which to balance against the influence of other major economic powers in East Asia. The upgrading of EU-ASEAN relations as well as the establishment of ASEM during the 1990s was in direct response to the creation of APEC which risked marginalizing EU economic and political influence in the region. Balancing concerns have indeed intensified since the early 2000s as a result of the conclusion of a range of PTAs between ASEAN members and the US, Japan and China. Currently the TPP poses the biggest threat yet to EU influence in the region. The launch of EU-ASEAN FTA negotiations in 2007 and the subsequent shift to a bilateral approach in 2009 provide clear evidence of a desire on the part of the EU to balance against the trade policy activity of other major economic powers in the region.

The EU's relationships with each of the three other regional organizations examined in the thesis can similarly be perceived to have pursued balancing objectives. The establishment of NAFTA in the early 1990s and US plans to extend this scheme and create a hemispheric FTAA motivated the EU to upgrade its relationships with the CAN, Central America and Mercosur. Trade negotiations were launched with Mercosur in 1999 and the timeline of these negotiations correlates closely with US trade policy activity. Of particular interest is the fact that negotiations were suspended in 2003 shortly after the plans for the proposed FTAA were shelved. In a 2000 Chaire Mercosur report clear reference is made to the predominance of balancing concern. It is stated that 'the idea is not so much to create new partnerships

and to agree to mutual beneficial concessions, but to participate in every forum as a form of hedging and so as not to be left out’.

As stated above, the predominance of balancing concerns is evidenced by the lack of institutionalization which has taken place between the EU and its regional partners. It is important to differentiate, however, between institution building between the EU and its regional partners and institution and capacity building within these partners themselves. The EU relationship with ASEAN continues to be primarily overseen by a cooperation agreement concluded over three decades ago in 1980. In 2003 the TREATI framework was introduced. This is an institutional mechanism which was designed to enable closer trade cooperation between the EU and ASEAN and while dialogue within this framework prepared the way for the launch of FTA negotiations in 2007 few resources have been devoted towards creating and strengthening permanent institutional links between the two groups. Intra-regional institution building within ASEAN has on the other hand received considerable support from the EU. The EU has contributed significant technical and financial assistance to ASEAN in order to support the regional integration process among its member states. This has involved the establishment of projects such as the ASEAN Regional Integration Support Program (ARISE) and the EU-ASEAN Statistical Capacity Building Program (EASCAB). Without a doubt, however, the most beneficial manner in which the EU can support ASEAN regionalism is through its engagement with its member states as a single group. By requiring these individual countries to coordinate their positions within the interregional framework long term regional cooperation can be promoted.

A similar picture emerged in relation to each of the three other interregional relationships examined in the thesis. In each case very little institutionalization has taken place between the EU and its partner. At the same time the EU has devoted substantial resources towards supporting their partner’s internal institutionalization. Despite this support and assistance, however, none of the EU’s partner regional organizations have fulfilled their stated ambitions in terms of integration in recent years. This calls into question the extent to which external support provided through interregional frameworks can serve to fulfill an institution building function in this regard.

In relation to the pursuit of PTAs at the interregional level much less success has been achieved in terms of interregional trade policy objectives. In the majority of cases in which such trade negotiations have taken place the EU and its partner have failed to reach agreement. Explanation for the variation in the outcomes of the interregional PTA negotiations assessed in this study focused on several factors which it is argued may shape both the EU's negotiation behaviour and effectiveness. It is argued that understanding changes in the EU's performance should take into account the internal conditions shaping the EU's capacity to act. In particular the Commission must operate within the confines of the mandate granted to it by the member states. This mandate is initially constructed in close consultation with influential business and industry groups within the EU. The trade concessions the Commission can offer to its partners in negotiations must not go beyond that which would be politically acceptable for the member states.

The external conditions shaping the EU's ability to attain its goals in interregional negotiations relate mostly to the preferences and capacity of the other regions with which it negotiates. Thus, variation in EU performance in the outcomes of interregional PTA negotiations cannot be explained by any single variable or group of variables, but rather by several intersecting, mutually reinforcing factors each shaping the EU's negotiation position and its fulfillment within the negotiation environment.

Engagement at the interregional level has not served as a mechanism through which to overcome multilateral deadlocks through the conclusion of PTAs which could act as stepping stones to future WTO agreements. Even in the absence of such agreements interregional dialogues have not played any major role in resolving the issue of preference divergence between developed and developing countries which has hindered progress during the current Doha Round. Given the lack of success achieved by interregionalism in resolving outstanding multilateral deadlocks it comes as little surprise that neither has interregionalism involved bringing in new areas of cooperation which have not been addressed at the multilateral level.

The exception in this regard is the case of the EU - Central America partnership which successfully concluded an AA in 2010. The trade chapter of this agreement entails substantial commitments in relation to the controversial Singapore issues



which proved so divisive at the WTO level to the extent that all but trade facilitation were removed from the agenda in response to the demands of developing countries. By negotiating with a select group of Central American developing countries, however, the EU was able to better exert its leverage and push through agreement on competition policy, public procurement, and investment. However, in the other three cases examined in this thesis the EU encountered greater resistance to its demands in PTA negotiations.

Within ASEAN the major issue was achieving consensus among the member states in relation to the liberalization of new areas including procurement and investment. While ASEAN had concluded several trade agreements prior to the commencement of negotiations with the EU these had focused solely on trade in goods and services. The lack of capacity of ASEAN to coordinate as a group meant that they were unable to arrive at much more than a lowest common denominator position in the interregional PTA negotiations which proved unacceptable to the EU given the requirement for deep and comprehensive WTO-plus agreements which characterizes the *Global Europe* strategy.

The CAN was also unable to arrive at a coordinated position in its AA with the EU. However, in this case a much more serious divergence of preferences among the regional organization's members emerged. Both Bolivia and Ecuador were strongly opposed to the opening of procurement markets and the commitments on intellectual property rights sought by the EU. Colombia and Peru on the other hand proved more receptive to EU demands to the extent that they proposed suspending interregional negotiations and concluding a three way multiparty agreement. The EU accepted this proposal and while the official position is that the door is open for Bolivia and Ecuador to accede to the agreement in order to establish a fully interregional accord, it is extremely unlikely that this will occur.

Negotiations with Mercosur have been ongoing for more than a decade without success and it is within this relationship that the similarities to the deadlock in multilateral negotiations can be most clearly observed. While the EU has been unwilling to meet the demands of Mercosur for liberalization in sensitive sectors such as agriculture the Mercosur members themselves have also been unable to reach

agreement among themselves in terms of further opening of procurement markets and trade in services.

Overall the empirical findings on interregionalism in action suggest that despite the lofty ambitions ascribed to the process in the official discourse, the ability of the Commission to successfully achieve its interregional trade policy objectives have become increasingly predicated on the preferences of powerful domestic business and industry groups which channel their demands through the member state governments and the EU institutions themselves. In practice this has served to restrict the Commission's ability to successfully conclude interregional PTA negotiations in the majority of cases.

*Q3: What explains the shift to a bilateral approach to trade negotiations with the members of certain EU partner regions but not others?*

I argue that the decision to change from a fully interregional to a bilateral approach, in the cases of both ASEAN and the CAN, was taken in response to the challenges posed by PTAs concluded between the members of these groups and other major economic powers. In addition, I find that this response emerged as a result of the expressed preferences of domestic interest groups within the EU. In this regard the research has served to provide further evidence in relation to the theory of 'protection for exporters'. In both cases the observable preferences of domestic interest groups correlated with Commission decision making in relation to the timing of negotiations, the declarations of EU policymakers, the negotiating demands made in bilateral negotiations, as well as the content of the bilateral PTAs themselves.

It might be argued alternatively that the decision to pursue bilateral PTAs with countries such as Peru, Colombia, Malaysia, and Indonesia, was determined by the independent economic or geopolitical preferences of policymakers themselves. As Dür (2007) argues in relation to the EU's PTAs with Mexico and Chile, this is unlikely. From an economic perspective these PTAs involved a low aggregate impact. Geopolitical and foreign policy explanations also seem unlikely due to the fact that interregionalism has generally been the preferred mechanism for the pursuit of such goals and, in addition, all the relevant statements by key policymakers point to commercial rather than political factors as drivers of the agreements. The pursuit of bilateral agreements ran counter to the Commission's long standing preference for

conducting its relations with countries in Asia and Latin America on an interregional basis which lends weight to the argument that trade policy decision making in these cases was determined by the preferences of organized interests groups.

The interregional approach between the EU and ASEAN was suspended in May 2008 after only four substantive rounds of negotiations. The disparities in the levels of economic development among the ASEAN members and their divergent preferences in terms of trade liberalization made it very difficult for the group to arrive at much more than a lowest common denominator position in negotiations. This was not compatible with the requirement for deep WTO-plus PTAs demanded under the EU's new approach to trade policy.

Statements by key Commission officials as well as position papers released by the Council and the EP all point to the perceived danger in maintaining an interregional approach to negotiations given the expanding network of PTAs between ASEAN members and the US, China, and Japan. In December 2009 the Council authorized the Commission to commence bilateral negotiations with several members of ASEAN. This decision correlated with the expressed preferences of influential business and industry associations such as Business Europe and the ESF. In addition, the EU's pursuit of bilateral PTAs was based upon the logic of 'competitive liberalization' more commonly associated with US trade policy (Bergsten, 1996s). By seeking to conclude PTAs on an individual basis with the members of ASEAN the aim has been to enable the EU to achieve its preferred trade policy outcomes and to set in motion an iterative process of bilateral negotiations as each member of ASEAN becomes more willing to agree to the EU's terms in negotiations in order to avoid potential trade and investment diversion.

In the case of the EU and the CAN interregional negotiations were also suspended after the extent of the divergences in terms of the level of ambition became apparent. Within the CAN a serious ideological divergence became apparent early on in the negotiations between Colombia and Peru on the one hand, and Ecuador and Bolivia on the other. In particular the latter two countries were extremely resistant to EU demands in relation to areas such as public procurement and IPR. Again, the EU's new trade agenda required deep commitments in relation to such issues as a part of the *Global Europe* strategy.

The division among CAN members in terms of economic preferences had also resulted in increasing political conflict and this combined to make it extremely difficult if not impossible for these countries to coordinate in arriving at a collective position in negotiations which was deemed acceptable by the EU. While the EU maintained that the decision to start bilateral negotiations was in line with the preferences of Colombia and Peru themselves the reality is that the interregional approach had to be abandoned due to the inability of the EU and the CAN to craft an agreement which would have proven politically acceptable to the Council and the member states given the expressed preferences of EU firms and industries. Position papers by influential groups such as the ESF, Business Europe, and the ETNO all argued that the EU should pursue bilateral PTAs in order to avoid the potential for trade diversion threatened by the trade agreements concluded by the US with both Colombia and Peru.

#### *Policy Implications*

EU interregionalism in practice has not fulfilled the ambitious objectives sought by policymakers. In both the official discourse as well as in academic analysis the failure of interregionalism to live up to its potential has generally been attributed to the inadequate level of integration which exists among the members of regional groups with which the EU interacts. This is despite the fact that the EU has devoted significant technical and financial resources to these groups with the aim of strengthening their integrative processes. This suggests that new approaches need to be explored in terms of promoting regionalism elsewhere.

In addition to devoting technical and financial resources to improving the capacity of its interregional partners the EU must reconsider the level of ambition aimed for in interregional PTA negotiations. The maximum benefit for partner regions in terms of their internal integrative processes comes from learning to successfully coordinate their positions in external relations and the best hope of achieving this would be to iteratively conclude less ambitious agreements which take account of the divergences which exist among the members of partner regional organizations as opposed to negotiating and concluding bilateral agreements with selected partners. The EU can act as an external federator by insisting that the regional groups with which it negotiates form common positions.

### *Future Research*

This thesis has examined the EU trade policy in relation to four of its major interregional relationships. The framework of analysis adopted in this study may therefore be utilized in order to examine the EU's other interregional relationships. In addition, this thesis has focused solely on cases of interregionalism involving the EU. More research is needed on the relationships between other pairs of regions.

The primary focus of this thesis has been on identifying the determinants of EU interregional trade policy and the factors which might account for the success or failure of interregional PTA negotiations. The implications of EU interregional trade policy decision making have not, however, been addressed in much detail. Future research should assess the political and economic impact which interregionalism has had on both the EU and its partner regions. This will involve assessing the extent to which interregional cooperation has served to increase interregional trade and investment flows as well as the impact which the process has had on the integrative process from a political perspective.

In particular future research should examine the impact which EU bilateral PTAs have had on the integrative processes within EU partner regions. Have bilateral PTAs created political and economic obstacles to regional integration elsewhere? Have bilateral PTAs disrupted intraregional trade flows? Have bilateral PTAs had a positive impact on interregional relations? These are all pertinent questions. Multilateralism, interregionalism, and bilateralism are distinct levels at which the EU engages in trade policy; however, these levels of interaction are not mutually exclusive and engagement at one level often has implications for developments at other levels. Bilateral PTAs for example may serve to either hinder or promote future interregional and multilateral cooperation. Similarly interregional PTAs may serve to either help or hinder future multilateral cooperation. Examination of these issues represents a promising area for future research.

### *In Conclusion*

While the EU has undoubtedly provided support for regional integration processes elsewhere it is evident that the key EU aim is the signing of interregional AAs comprising significant WTO-plus provisions. Where this proves difficult to achieve

the EU has no hesitation in shifting to a bilateral approach and jeopardizing the potential for deeper integration between the member states of partner regions. The inflexibility displayed by the EU in its negotiations with the CAN for example, ran counter to all the prior rhetoric regarding EU support for the integrative process among the Andean countries. The EU pressured the CAN to conclude an agreement as soon as possible instead of adopting an approach which sought to facilitate the CAN members gradually arriving at a common position. While the EU had always adopted a strategy of dealing with regional organizations in Latin America where they existed in an attempt to reinforce and support their integrative processes the US strategy has traditionally been one of divide and conquer. In its plans to establish the FTAA for example the US basically ignored the existence of organizations such as SICA and Mercosur perceiving them to be temporary schemes which would be subsumed by the hemispheric free trade area. The recent change in EU trade policy whereby selective bilateralism has been adopted with the members of regional groups such as the CAN and ASEAN indicates that the EU is veering towards a US style trade policy of competitive liberalization as a result of economic pragmatism, particularly as a result of the current deadlock in WTO negotiations and the PTA activism of other major economies. This has been necessitated by the need to respond to the preferences of powerful economic actors in light of the new patterns of trade which have emerged during the past two decades.

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### **Interviews**

1. European Commission, DG Trade, June 3 2013
2. European Commission, DG Trade, June 4 2013

## **Appendices**

### **Appendix A: List of major interregional relationships**

Asia Europe Meeting (ASEM) (1994)

Asia Pacific Economic Co-operation (APEC) (1989)

APEC – CAN (1999)

ASEAN - ANZCERTA (1995)

ASEAN – CAN (2000)

ASEAN – ECOWAS (1995)

ASEAN – EFTA (1996)

ASEAN - EU (1972)

ASEAN - GCC (1995)

ASEAN - Mercosur (1996)

ASEAN Regional Forum (ARF) (1993)

ASEAN – Rio Group

ASEAN -SAARC

ASEAN –SADC (1996)

CAN – CARICOM (1999)

CAN-EU (1980)

CAN-Mercosur (1998)

CAN – SICA (1997)

Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) (1995)

East Asia - Latin America Forum (FEALAC) (2001)

ECOWAS – Mercosur (2001)

EFTA – GCC (2000)

EFTA – Mercosur (2000)

EU - ACP (1975)



EU - Africa Summit (2000)

EU - GCC (1988)

EU - ECOWAS (2000)

EU - LAC (1999)

EU - MED (Barcelona Process) (1995)

EU - Mercosur (1992)

EU - Rio Group (1987)

EU - SADC (1986)

EU - SAARC (1994)

EU - SICA (1983)

GCC – Rio Group

Mercosur - ANZCERTA (1995)

Mercosur- SACU (2004)

## **Appendix B: List of major regional integration schemes**

### **EUROPE**

#### **Baltic Free Trade Area (BFFA) ( 1997)**

Estonia, Latvia, Lithuania

#### **Benelux (1947)**

Belgium, Luxembourg, The Netherlands

#### **Black Sea Economic Cooperation Scheme (BSECS) (1992)**

Albania, Bulgaria, Greece, Romania, Turkey, Armenia, Azerbaijan. Georgia, Moldova, Ukraine, Russian Federation

#### **Central European Free Trade Agreement (CEFTA) ( 1992)**

Bulgaria, Czech Republic, Hungary, Poland. Romania. Slovak Republic. Slovenia

#### **Commonwealth of Independent States (CIS) (1991)**

Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, Russian Federation, Ukraine, Uzbekistan, Tajikistan, Kyrgyz Republic

#### **Eurasian Economic Community (EAEC) (1995)**

Belarus, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan

#### **European Union (1957) (formerly EEC and EC)**

Austria, Belgium, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom

#### **Economic Cooperation Organisation (ECO) (1985)**

Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan

#### **European Economic Area (EEA) (1992)**

EC, Iceland, Liechtenstein, Norway

#### **European Free Trade Association (EFTA) (1960)**

Iceland, Liechtenstein, Norway, Switzerland

**Free Trade Agreement of Central Europe (1992) (Formerly Visegrad from 1991)**

Czech Rep, Hungary, Poland, Slovakia

**MIDDLE EAST**

**Gulf Cooperation Council (GCC) (1981)**

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

**Arab Common Market (1964)**

Egypt, Iraq, Jordan, Libya, Mauritania, UAE, Yemen

**Arab Cooperation Council (ACC) (1989)**

Egypt, Iraq, Jordan, Yemen

**NORTH AMERICA**

**North American Free Trade Area (NAFTA) (1994)**

Canada, Mexico, USA

**SOUTH AMERICA**

**Andean Community (CAN) (1969)**

Bolivia, Colombia, Ecuador, Peru, Venezuela

**Caribbean Community and Common Market (CARICOM) (1973)**

Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Trinidad & Tobago, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Surinam

**Central American Common Market (CACM) (1960)**

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

**Grupo de los Tres (G-3) (1989)**

Colombia, Mexico, Venezuela

**Latin American Integration Association (LAIA) (1980)**

Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

**Latin American Economic System (SELA) (1975)**

Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Rep, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Surinam, Trinidad & Tobago, Uruguay, Venezuela

**Organisation of Eastern Caribbean States (OECS) (1981)**

Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

**Rio Group (1986)**

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela

**Southern Common Market (Mercosur) (1991)**

Argentina, Brazil, Paraguay, Uruguay, Venezuela

**ASIA**

**Association of South East Asian Nations (ASEAN) (1967)**

Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

**Bangkok Agreement (1975)**

Bangladesh, China, India, Republic of Korea, Laos, Sri Lanka

**Central Asian Economic Community (CAEC) (1994)**

Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan

**South Asian Association for Regional Cooperation (SAARC) (1985)**

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

**AFRICA**

**Arab Maghreb Union (AMU) (1989)**

Algeria, Libya, Morocco, Tunisia, Mauritania

**Economic and Monetary Community of Central Africa (CEMAC) (1964)**

Cameroon, Central African Republic, Chad, Congo, Equatorial, Guinea, Gabon

**Common Market for Eastern and Southern Africa (COMESA) (1993)**

Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe

**Customs Union of Southern Africa (CUSA) (1969)**

South Africa, Botswana, Lesotho, Namibia, Swaziland

**East African Cooperation (1993) (Formerly Eastern African Community of 1967)**

Kenya, Tanzania, Uganda

**Economic Community of Central African States (1983)**

Burundi, Cameroon, Central African Rep, Chad, Congo, Dem Rep Congo, Gabon, Equatorial Guinea, Rwanda

**Economic Community of the Great Lakes Countries (1976)**

Burundi, Dem Rep Congo, Rwanda

**Economic Community of West African States (ECOWAS) (1975)**

Benin, Burkina Faso, Gambia, Ghana, Green Cape, Guinea, Guinea-Bissau, Ivory Coast, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

**Mano River Union (1973)**

Guinea, Liberia, Sierra Leone

**Southern African Development Community (SADC) (1992)**

Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe

**Western African Economic and Monetary Union (WAEMU) (1994)**

Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo

**AUSTRALASIA**

**Closer Trade Relations Trade Agreement (CER) (1983)**

Australia, New Zealand

**Melanesian Spearhead Group (MSG) (1996)**

Fiji, Papua New Guinea, Solomon Islands, Vanuatu

**Pacific Islands Forum (PIF) (1971)**

Australia, the Cook Islands, Fiji, Nauru, New Zealand, Tonga and Western Samoa, Niue, Papua New Guinea, Kiribati, Tuvalu, Vanuatu, Solomon Islands, Republic of the Marshall Islands, Micronesia, Palau

**South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) (1980)**

Australia, New Zealand, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, Western Samoa