

Student Small Grants Fund – Project Report

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1. Project Title

Why does the EU sign bilateral trade agreements with some states and not others?

2. Keywords

EU, trade agreement, WTO.

Disciplines: Political science, Economics

3. Summary

The European Union (EU) is party to a great number of preferential trade agreements (PTA's) with third parties, thus flouting the most-favored nation (MFN) principle of the World Trade Organization's (WTO's) Charter. The signature of these agreements must be partly economically motivated, essentially an attempt to safeguard European competitiveness, but to what extent are other factors germane? Through a study of the relevant primary documentation and academic literature, as well as a series of interviews in the relevant European Council Secretariat and European Commission Directorates-General (DG's) we were able to conclude that although not alien to considerations of market access, European policy-makers were very much influenced by non-economic factors of a politico-strategic and normative nature. This was particularly the case for trading partners with which the EU and its member states maintain a historical relationship, e.g. the African, Caribbean, and Pacific (ACP) group of states. With regards to the developing countries of Asia, we found a dramatic shift in EU trade policy towards these nations, particularly India. Since the new millennium and the establishment of the yearly EU-India Summit from 2000, trade between the two has increased at a dramatic rate. Therefore we have concluded that policy makers are influenced to a greater degree by economic factors in Asia as the EU was fast losing out to Japan, Australia and the US for investment opportunities as well as access to large markets.

4. Activities

Initial Plan

Our initial plan, as stated in our Small Grants Fund (SGF) application, was to investigate the EU's bilateral trade agreements through a combination of library-based research and fieldwork. The fieldwork was initially envisaged to consist of one week spent in Brussels sometime during the latter half of March 2006 (during the Easter vacation) to conduct semi-structured elite interviews of European Council Secretariat and European Commission officials working in trade-related DG's as well as relevant Members of the European Parliament (MEP's). We also envisaged the possibility of having to conduct some interviews with UK MEP's on relevant committees in their constituency offices in Britain. We also intended to conduct some research at major UK libraries should materials not be available to us at the University of Warwick. The ultimate aim of the project was to produce a report on our findings, maintain a blog, and conduct a joint departmental seminar between Politics and International Studies and Economics.

Fieldwork Planning

The planning phase consisted primarily of preparation for the interviews to be conducted with Council Secretariat and Commission officials in Brussels. It consisted, of, respectively:

1. Logistical preparations for the trip;
2. Arranging interviews in the Council Secretariat, Commission, and European Parliament (EP);
3. Preliminary research in preparation for the interviews to be conducted.

The logistical preparations for the trip were simplified by the fact that my family resided in Brussels and were able to provide us with free accommodation for the duration of our fieldwork. The only complication that arose in this area pertained to Udayan's Schengen visa and the Belgian Embassy Consular Section's automated visa appointment system which delayed the procedure somewhat. Given the eventual number of individuals willing to be interviewed as well as their availability, in the end we decided to spend 2 weeks in Brussels instead of the single week we had originally planned for.

Arranging interviews with policy-makers in Brussels was done via email. Heads of department and other senior staff in the Commission and Council were contacted with details of our project, and they either directly agreed to meet with us in late March and/or referred us to a pertinent colleague. In this way, 11 interviews were arranged with officials in the following departments in the Council Secretariat: External Relations, Development (DG E/II); Multilateral Trade, the Article 133 Committee (DG E/II); the Press Office. And in the Commission: DG Trade E.2 (New Technologies, Intellectual Property and Government Procurement), C.2 (Trade Relations with Euromed and the Middle East) C.3 (Trade Relations with South Asia, Korea, and ASEAN), DG Development and Humanitarian Aid; and DG RELEX (External Relations). The choice of departments reflected a concern with both investigating a series of case studies (Euromed, India, China, the ACP group) and getting an overview of EU bilateral trade policy.

In turn, MEP's that sat on either the International Trade and Development Committees of the EP (and their substitutes) were contacted, with many of them being sent a brief questionnaire to be completed electronically and returned via email. Although some did respond, either referring us to a colleague or agreeing in principle to meet with us, in the end we were unable to conduct a single interview, with one MEP's research assistant failing to contact us after having told us that it would be possible to meet and question his MEP. Similarly, not one questionnaire was filled out and returned, and all this despite our many reminder emails.

The ultimate aim of our preliminary research was to be able to draft a series of basic questionnaires around which to base our interviews. The questionnaires sent to some MEP's were also based on this research.

Research Materials

Research materials firstly consisted of primary documentation from the Commission website, including relevant trade statistics and publications such as National Indicative Programs and communiqués. Similarly, we also consulted several reports from NGO's such as Oxfam and *Solidarité* on the EU's trade agreements with developing states.

As for the academic literature consulted, it broadly covered three disciplines, political science, economics, and even law, although given the overlap it is more appropriate to classify it into three different areas of inquiry: generic International Political Economy (IPE)/Economics literature pertaining to the formation of PTA's and the interaction of trade interests at the multilateral level; EU studies literature relating to both the formation of EU trade policy as well as the behavior of the EU in the WTO context and towards the ACP and Euromed groups; and the International Law literature addressing international trade law as codified under the General Agreement on Tariffs and Trade (GATT) and now under the WTO.

Some works consulted were, respectively:

IPE/Economics

On the impact of PTA's on the multilateral negotiating framework:
Bhagwati and Panagariya (1996); Lamy (2002); Mansfield (1998).

On strategic interaction in the GATT/WTO context:
Hoekman and Kostecki (1995).

On the EU and World Trade:
Heidensohn (1997).

EU Studies

On the formation of EU trade policy:
Hanson (1998); Woolcock (2000).

On the EU in the WTO context:
Young (2002); Paemen and Bensch (1995).

On normative considerations affecting EU trade policy:
Nicolaidis and Howse (2002).

On the ACP-EU relationship:
Lipster (1997); Holland (2002); Babarinde and Faber (2005); Grilli (1993); Lister (1997).

On the Euromed partnership:
Baert (2003).

International Law

On the requirements and history of GATT/WTO legal provisions:
Trebilcock and Howse (1999); Mathis (2002).

Given our inability to procure some materials at the University of Warwick library, Gabriel spent one afternoon researching materials at the British Library of Political and Economic Science of the London School of Economics (LSE), specifically IPE literature pertaining to the generic question of PTA's.

Fieldwork

Our interviews were eventually spread over a two-week period from Monday, March 13, 2006 to Friday, March 24, 2006. Interviews were recorded using a digital audio recorder on loan from the Reinvention Center. Prior to every interview, the interviewee was informed of the purpose of the interview, offered a transcript should they consent, and guaranteed anonymity, should they request it. We also offered to send all of those who took part a copy of our project once completed. All interviewees, with the exception of one, consented to having the interview recorded, although for the purposes of the project itself we decided to ensure anonymity for all citations to ensure discretion. While we were interviewing, Udayan also took notes on issues and points of note while I led the interviewing, although both of us were involved in the questioning process itself.

We were also able to arrange two interviews while in Brussels thanks to our interviewees; one in the Council Secretariat Agriculture Unit; the other in DG Trade E.2 (New Technologies, Intellectual Property and Government Procurement). We therefore interviewed a total of 13 individuals, with a total recorded interview time of approximately 10 hours. A summary of the main subject of our interviews by DG/Unit follows. Every official interviewed was also interviewed as to their role and the role of their department in trade policy-making.

European Council Secretariat

External Relations, Development (DG E/II)

Questions were mainly centered on trade agreements within the ACP framework and the move from non-reciprocal trade preferences under the Lomé Conventions to Economic Partnership Agreements (EPA's), essentially regional Free Trade Agreements (FTA's), under Cotonou. Issues of interest were whether this move was motivated predominantly by a concern with WTO compliance (i.e. adhere to the Appellate Body's rulings vis-à-vis the legality of non-reciprocal trade preferences outside of the Generalized System of Preferences [GSP] framework); the role of the ACP in the Doha Round and their interaction with the EU in the WTO; how the entry of new member states into the EU has impacted on the relevance of the ACP-EU partnership; and the importance of development issues within the ACP-EU trade framework. Finally, consideration was also given to the institutional workings of the ACP-EU framework, and whether it provided effective monitoring of compliance with conditionality.

Multilateral Trade, the Article 133 Committee (DG E/II)

The emphasis of interviews within this unit was on questions relating to the complementarity of the EU's PTA's with multilateral trade liberalization efforts within the WTO framework and the workings of the Article 133 Committee. More specifically, we also questioned officials on the legality of current PTA initiatives and the perceived importance of such constraints on EU policy, the EU's view of the WTO, particularly in light of the then recent Hong Kong (HK) negotiations in the Doha Round, and the importance of member state views, as voiced through the Article 133 Committee.

The Press Office

Our questions were more generic in scope and the interview generally more relaxed, focusing on institutional features conditioning trade policymaking and the perception of the latter in the media.

European Commission

DG Trade E.2 (New Technologies, Intellectual Property and Government Procurement),

The emphasis of interviews conducted with individuals in this unit was on the behavior of officials within the Commission (specifically DG Trade), i.e. public choice considerations, intellectual property rights (IPR) and geographic indications negotiations within the WTO, and on the desirability of PTA's given the difficulty to address such issues within the multilateral context. Some very interesting anecdotal evidence relating to specific geographic indication cases was also discussed, although of limited relevance to the project itself.

DG Trade C.2 (Trade Relations with Euromed and the Middle East) & DG Trade C.3 (Trade Relations with South Asia, Korea, and ASEAN)

Although the individuals themselves worked in two separate departments, the interview was held jointly, and is thus included under one sub-heading, although each section will be dealt with individually.

For the interview with the official from DG Trade C.2, the focus was on the Euromed Association Agreements. Questions covered included whether the region (i.e. the EU and the other countries of the Mediterranean) was considered a *natural trading bloc* in economic terms (given empirical findings from gravity equation models), if and why political conditionality is an important *de facto* component of such agreements and how it is monitored, and the general economic importance of the region to the EU given its low share of imports from non-EU Mediterranean countries.

For the interview with the official from DG Trade C.3, the focus was on EU-ASEAN and EU-India negotiations. Questions asked related to the difficulty in securing an agreement with

ASEAN, the interaction of the EU and ASEAN within the WTO, and the EU's mounting concerns with competitiveness and market access in Asia.

DG Development and Humanitarian Aid

The focus of questions was very much the same as with officials in External Relations, DG E/II in the Council Secretariat.

DG RELEX (External Relations)

Questions focused on the trade relationship between the EU and India and China. In both cases, officials were questioned on issues relating to the relationship between political dialogue and trade negotiations, as well as the EU's growing concern with competitiveness in Asia.

Post-Brussels

After our fieldwork in Brussels, and even during, we transcribed those interviews for which officials had requested a transcript and sent a copy to the individual in question, accepting any amendments they suggested. In addition, we proceeded with more detailed research along the lines suggested above, while listening to the interviews we had conducted several times. We have also been drafting a report on our findings, which is to take the following general shape:

A – Introduction

B – General overview sections considering:

- a) Public policy in the EU and its impact on trade policy;
- b) The EU in the WTO;
- c) The overall economic impact of the EU's bilateral trading relations.

C – Case studies (including statistical analysis)

- a) The Lome/Cotonou framework of ACP-EU relations
- b) The Euromed agreements
- c) A consideration of the new FTA's the EU is considering, and as examples of particular import, India/ASEAN

D – Conclusions and Future Prospects for the EU's Bilateral Trade Agreements

We also had the opportunity to participate in a Higher Education Academy (HEA) event at the University of Warwick on October 25th, 2006, entitled "Research-Based Learning in Higher Education: The Warwick Experience" to present our project and its main findings as part of the Reinvention Center presentation to the conference.

5. Outcomes

The main research conclusions of our project are as follows:

General Conclusions

1. Trade agreements are increasingly a means of exerting political leverage through reinforced "political conditionality" clauses.
2. EU officials largely considered the pursuit of bilateral (preferential) trade agreements to be complementary to WTO (multilateral) trade negotiations, even though our research seemed to suggest the emergence of a "hub-and-spokes" system benefitting the EU.
3. The shifting foreign policy and economic priorities of its member states are strongly reflected in the evolving character of the EU's bilateral trade agreements.

Case Study Specific

EU-ACP Trade Relations

1. The reorganization of the regime owes much to the emphasis the EU now places on WTO compliance, but doubts remain as to whether this is not simply a device to legitimate Economic Partnership Agreements (EPA's) that the EU wishes to pursue as part of its Cotonou strategy: essentially FTA's with several regional ACP country groupings
2. Officials have also underscored that the "experience with ACP countries was that preferences were necessary but not enough for development." Cotonou, a more comprehensive development agreement in their eyes, seemed to the well-intentioned
3. Cotonou is seen by EU officials as "neither a trade agreement nor a completely political agreement but a mixture of the two." (Council Interviews in March 2006) This underscores a growing trend towards conditionality not only in the ACP-EU framework, but also within the EU's generalized preference schemes for developing countries: in the Generalized System of Preferences (GSP) and its enhanced counterpart Super GSP.
4. The entry of new members has shifted EU priorities towards its neighbours and away from the traditional emphasis on post-colonial relationships.

EU Trade Relations with Asian Countries

1. Trade developments with Asia highlight a huge shift in the attitude of the EU towards Asia. The EU is now very concerned about losing competitiveness in the East. The recent announcement of a trade agreement with India is primarily a recognition of India's economic prowess, and highlights a significant change in the nature of the relationship between the two, which primarily focused on humanitarian aid until the mid 1990s.
2. The signing of PTA's by the EU is a direct outcome of the failure to agree on certain policies at a multinational level, especially those relating to agricultural products. In order to maintain trade relations and grant concessions to its larger trading partners, the EU is clearly moving away from the MFN principles.

Since our time in Brussels we have updated our project's blog (<http://blogs.warwick.ac.uk/eubilateraltrade/>) with an overview of our project, the interviews we have conducted, our project's outline, our HEA event presentation, and our preliminary findings. The work on our blog was cited by a leading French agricultural economist, Jacques Berthelot, in a critical paper written in December 2006 on the ACP-EU relationship for the French anti-globalization NGO *Solidarité*. (see Berthelot 2006)

We are currently in the process of scheduling a seminar on our findings to be held towards the end of Term 2 of the current academic year (2006/7) to involve both interested students and academic staff from the departments of Politics and International Studies and Economics in a presentation and discussion of our findings, with a view to publishing the outcome of that seminar on our blog.

6. References

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7. **Supplementary information**



Gabriel Siles-Brugge and Udayan Mittal in front of the Charlemagne Commission building, housing both DG Trade and DG RELEX, Brussels, Belgium in March 2006.