

Bilateralism versus inter-regionalism

in the design of EU trade policy

Katharina L. Meissner, Institute for European Integration Research (EIF),
University of Vienna, Austria, katharina.meissner@univie.ac.at

Abstract

As states have established preferential trade agreements outside of the World Trade Organization over the past three decades, different designs have been developed: region-to-region between groups of states, region-to-single state, or state-to-state even if members belong to regional organizations. What accounts for this variation? Conventional approaches which focus on domestic politics provide no fully sufficient explanation for this variation. I argue that coherence within regional organizations, or a lack thereof, triggers design changes between inter-regional and bilateral. More specifically, I hypothesize that a lack of coherence within a region leads to the adoption of a bilateral design by the negotiation partner in situations where this partner competes with other states for a trade agreement with the same region. Further, I develop transparent process-tracing tests, and thereby advance qualitative research on the design of trade policy. I test my argument on interactions of the European Union with regional organizations in Asia and Latin America by employing rigorous process-tracing. The empirical case studies rely on data from 31 face-to-face interviews with negotiation officials from all three regions. The findings show that the European Union shifted from trade negotiations with these regional organizations to singling out member states when regional coherence faded. This was part of an attempt by the European Union to advance commercial interests against its competitors China and the United States in these regions.

Key words

Bilateralism, European Union, process tracing, regional organization, trade

Introduction

States have, over the last three decades, established 669 preferential trade agreements outside of the World Trade Organization (WTO).¹ The design of these agreements varies. First, agreements include different sets of trade and non-trade issues (Lechner 2016). Second, they cover different sets of member states: region-to-region, region-to-state, state-to-state. The European Union (EU) is no outlier in this regard. Rather, it used to pursue trade negotiations in other world regions through region-to-region agreements (thereafter inter-regional), but has increasingly shifted to region-to-state negotiations. I will refer to these as ‘bilateral’ trade negotiations from here on. A large proportion of current and concluded EU trade negotiations are, in fact, bilateral (Renard 2015)². At the same time, the EU has unfinished inter-regional negotiations underway in Latin America and the Gulf region.

Why does this variation of inter-regional and bilateral trade negotiations between members of regional organizations exist? While the reasons for states turning to preferential trade agreements outside the WTO are well understood (Heydon and Woolcock 2009; Thompson and Verdier 2014), the design changes of negotiations between regional organizations have not yet been addressed by scholarly research. This is anything but trivial since such design changes ultimately bear unintended consequences for economic and security relations between and within regions. This occurred when the EU negotiated an agreement with the Ukraine although the negotiation partner was an anticipated member of the Eurasian Economic Community – thereby creating tensions for regional security (Gehring, Urbanski and Oberthür 2017).

¹ https://www.wto.org/english/tratop_e/region_e/regfac_e.htm

² As reported by the European Commission, the EU has currently 41 negotiations on Association or external trade agreements that were recently concluded are still ongoing or on hold (European Commission 2016). Of these, 36 are bilateral by addressing single countries on top of the EU’s ten Strategic Partnerships. Table 1 in the online supplement lists all bilateral and inter-regional trade agreement negotiations.

Existing research on the design of EU trade policy focuses on domestic politics: the influence of interest groups (Dür 2008), trade unions (Lechner 2016) or firms (Eckhardt and Poletti 2016) as well as member state interests and agency of the European Commission (Da Conceição-Heldt 2011; Elsig 2007). I argue that these explanations are not fully sufficient in explaining design changes from inter-regional to bilateral. Rather, when state-like actors pursue trade agreements, coherence, or a lack thereof, in regional organizations triggers design changes between inter-regional and bilateral (see also Aggarwal and Fogarty 2004). More specifically, I hypothesize that a lack of coherence within a regional organization leads to the adoption of a bilateral design by the negotiation partner even though this increases transaction costs in terms of time and resources. This is especially the case when actors compete with other states in concluding a trade agreement with the same region. Taken together, actors pursue bilateral trade agreements in order to advance commercial interests in cases where regional organizations are incoherent. I conceive of this explanation as complementary to and not in competition with conventional approaches rooted in domestic politics.

The empirical case studies illustrate how the EU turned from an inter-regional to a bilateral design of trade policy with regional organizations in Latin America and Asia in order to advance its commercial interests against those of its competitors, China and the United States (US). A lack of coherence within the regional organizations Mercado Común del Sur (Mercosur) and Association of South East Asian Nations (Asean) prompted the EU to advance trade agreements with single member states, Brazil and Singapore, rather than inter-regional negotiations, when faced with commercial competition with China and the US. While the advances towards Brazil remained a Strategic Partnership, the negotiations with

Singapore resulted in the first comprehensive free trade agreement (FTA) between the EU and Southeast Asia.

In order to test the argument on empirical interactions between the EU and regional organizations in Latin America and Asia, this article develops a causal mechanism between coherence within a region and design changes in trade policy. In doing so, it is one of the first systematic advances in this area of research that elaborates transparent process-tracing tests with assigned test-strength which can be replicated by researchers and students. This causal mechanism is tested against a set of domestic expectations and their respective process-tracing evidence. The case studies rely on data from official documents and semi-structured elite interviews with 31 officials from the European Commission's Directorate General (Directorate General) Agriculture, Trade and Energy, the European External Action Service (EEAS), the European Parliament (EP), officials from the Latin American and Southeast Asian representations to the EU, and experts on Mercosur. Interviews were carried out in Brussels, Belgium, and Montevideo, Uruguay, in 2014.

The contribution of this article is threefold. First, while recent research on the design of trade policy, especially in the context of the EU, has adopted a rather narrow focus on domestic politics (Poletti and De Bièvre 2013; Sbragia 2010), I start from a wider perspective on EU trade policy by examining the influence of explanatory factors on the international, parallel to the inner-European level: coherence of regional organizations and commercial competition with states. Second, this article moves beyond the existing dichotomous classification of the launch versus non-launch of trade negotiations by actors outside the WTO (e.g. Eckhardt and Poletti 2016) to the institutional choice between inter-regional and bilateral. Third, I develop and evaluate transparent process-tracing tests for the empirical case analysis. This advances

qualitative research on the design of trade policy since no such systematic process-tracing exists in this area of research or International Political Economy more generally.

The article proceeds as follows. Firstly, I identify the gap in the literature in analysing design changes between inter-regional and bilateral in trade policy. The second section reviews existing, conventional explanations on EU trade policy, rooted in domestic politics, and provides empirical insights into their leverage for explaining design changes from inter-regionalism to bilateralism. In the third section, I develop an alternative explanation that locates explanatory power at the international level. I contend that (in)coherence within regional organizations triggers design changes of trade policy under the condition of competition for commercial interests within such regions. Moreover, I develop a causal mechanism with transparent process-tracing tests. Fourth, I test this argument and the accompanied causal mechanism on the empirics of EU interactions with regional organizations in Latin America and Asia. As the empirical findings are restricted to these two cases, the discussion section explores design changes between inter-regionalism and bilateralism in other cases and policies. The conclusion, finally, elaborates on the broader relevance of the empirical findings.

State of the art

This article is grounded in three strands of research in the area of international trade: regime design and institutional choice rooted in International Relations literature (Thompson and Verdier 2014), EU trade strategies building partially on EU studies (Aggarwal and Fogarty 2004; Elsig 2007), and the design of trade agreements as present in International Political Economy literature (Dür, Baccini and Elsig 2014). I think of the variation between inter-regional and bilateral trade negotiations as an institutional choice in the design of trade

strategies. Hence, in situations of strategic choice (Lake and Powell 1999), an actor designs its external trade policy and thereby decides about membership – including a set of actors through inter-regionalism or targeting just one state through bilateralism. Although I treat them analytically as two categories I explore variation between them and assume that they can be, in principle, compatible (see also Renard 2015; Thompson and Verdier 2014).

There is a new, vibrant debate on the design of trade agreements. In this area of research, scholars explore the varying scope of issues in agreements (Lechner 2016), the depth of concluded agreements (Dür, Baccini and Elsig 2014) and their flexibility (Baccini, Dür and Elsig 2015; Johns 2013). Yet, this research is rather detached from questions of varying membership in preferential trade agreements – their ‘-lateralisms’.

Existing literature on ‘-lateralisms’ in international trade focuses primarily on the variation between multilateralism and bilateralism (e.g. Davis 2009), while inter-regionalism is underexplored terrain in this area of research. Thompson and Verdier (2014, 16 and 26) develop a formal model on design changes between multi- and bilateralism and argue that high transaction costs can be controlled by multilateralism. Similarly, Rixen and Rohlfsing (2013) contend that multilateralism reduces transactions costs by avoiding multiple bilateral negotiations. The same can be stated about the variation between inter-regionalism and bilateralism where an inter-regional design helps to overcome transaction costs of several bilateral negotiations with member states of the same regional organization. Nevertheless, there is variation between these institutional choices. Elsig (2007) explores these choices in the context of EU trade policy. However, he analyzes the EU’s general end to its moratorium on preferential trade agreements outside the WTO, while not operating on case studies. In the volume by Aggarwal and Fogarty (2004), scholars examine EU inter-regionalism towards several regional organizations in in-depth case studies. Yet, their research is restricted to just

one institutional choice, inter-regionalism, consequently not considering variation between inter-regional and bilateral trade strategies. Hence, we lack empirical knowledge on why design changes between inter-regional and bilateral exist. This article remedies this gap in the literature and explores design changes between inter-regionalism and bilateralism by focusing on the empirics of EU interactions with regional organizations in Latin America and Asia.

Domestic politics in the design of EU trade policy

Conventional approaches on the design of EU trade policy focus on explanatory factors rooted in domestic politics rather than the international system. Hence, there is a gap in the literature on the influence of factors located outside of the EU on trade policy. Conventional explanations ascribe explanatory power to domestic politics: the influence of firms or interest groups (Dür 2008; Osgood et al. 2016) and, in the EU, member states' interests (Da Conceição-Heldt 2011; Elsig 2007). While I have to refer the reader to a publication elsewhere in which I systematically tested these variables against explanatory factors located at the international level (author reference), I argue here that interest groups and member states' interests are not fully sufficient to explain design changes from inter-regional to bilateral. Instead, coherence within regional organizations is the missing piece in explaining this change in trade policy.

The latest literature on trade negotiations suggests that benefits from comprehensive agreements primarily favor multinational corporations (Baccini, Pinto and Weymouth 2017). Hence, firms and business organizations are expected to lobby the EU most intensively on its trade policy. To these, belong competitive exporters (Osgood et al. 2016) and import-dependent business actors (Eckhardt and Poletti 2016). From existing literature, we can deduce two different kinds of preferences these actors adopt with regard to EU trade policy.

Some scholars (Aggarwal and Fogarty 2004, 7-10) assume that they prefer the widest possible trade liberalization, and therefore lobby in favor of an inter-regional design as a second best option to multilateralism. Davis (2009, 26), on the other hand, argues that actors take into account the anticipated complexity and speed of negotiations. Given that bilateral negotiations reduce complexity, with just one member state of the partner region, we could assume that export-oriented and import-dependent groups favor bilateralism over inter-regionalism (Eckhardt and Poletti 2016). While research on firms and interest groups agrees that these actors are crucial in the launch of trade negotiations, they provide limited leverage in predicting a particular design of EU trade policy – bilateral or inter-regional.

Insights into empirical evidence also show that these explanations, focusing on firms and interest groups, provide limited leverage in the explanation of design changes from inter-regional to bilateral in the concrete cases of EU interactions with Mercosur and Asean. Interviewees stated, for example, that lobbying efforts were low regarding the EU's Strategic Partnership with Brazil (Interview 36). In the case of Asean and Singapore, the EU made its decision to shift from inter-regional to bilateral negotiations with little consideration of domestic groups. Rather, the European Commission informed them about its turn to bilateralism once it had already made its decision (Civil Society Dialogue 2009). Moreover, interviewees reported that lobbying activities in the case of Singapore were unusually low compared to other negotiations, and that there was no particular sector voicing strong preferences in favor of either bilateralism or inter-regionalism (Interview 7).

Next to firms and interest groups, research on EU trade policy highlights member states' interests (Da Conceição-Heldt 2011). Explanations in this area are based on the principal-agent framework and argue that heterogeneity of preferences lead to high discretion by the European Commission in international negotiations. This often results in institutional

struggles between the European Commission and member states. However, interviewees reported neither institutional struggles between the European Commission and member states in the design change in favor of bilateralism, nor particularly active EU countries in pushing for bilateral trade negotiations. Rather, in the case of Brazil, the European Commission launched the Strategic Partnership in unison with then Portugal's EU Presidency (Ferreira-Pereira 2008; Whitman and Rodt 2012). Also in the case of Singapore, there was no conflict between the European Commission and member states on whether or not to shift to bilateral negotiations with Singapore (Interview 3). On the contrary, interviewees pointed out that the negotiations with Singapore were uncontroversial with almost no concerns from member states (Interview 7, 29).

From the perspective of domestic politics, hence, it remains elusive why the EU made a design change from inter-regional to bilateral in its trade policy towards Latin America and Asia. I argue that, in order to explain this puzzle, interest groups and member states' interests are no sufficient explanatory factors. Instead, there is a need to shift attention to explanatory factors located at the international level in order to account for the EU's varying trade strategies.

Theorizing design changes between inter-regionalism and bilateralism in trade policy

In this section, I integrate International Relations, International Political Economy and EU studies literature in order to develop an explanation for design changes in EU trade policy between inter-regionalism and bilateralism. The argument put forward in this article situates explanatory power on the level of the international system akin to existing research on international trade in International Relations literature (e.g. Gilpin 1987; Grieco 1990; Gowa

1994; Hirschmann 1969). Hence I explore and test ‘international factors’ for explanatory power.

Competition in the global economy

These factors are rooted in the international system and influence the EU’s power position. They are ‘systemic’ as coined by Aggarwal and Fogarty (2004, 12). Aggarwal and Fogarty (2004) conceptualize EU trade policy as a ‘means to manage international power relationships’ (Aggarwal and Fogarty 2004, 13). One major source of EU power is its internal market (Damro 2012; Drezner 2007). Therefore, it is plausible to assume that the EU seeks to maintain or enhance its economic power position vis-à-vis competing actors. In striving for such power, trade policy serves the EU to compete with other economic powerhouses (Zimmermann 2007).

Recent research on the design of trade relations shows that trade agreements, nowadays, have a comprehensive scope: they cover more issues than trade in goods and agriculture, namely also investments, services as well as regulatory standards next to political issues (Dür, Baccini and Elsig 2014). Competition among state-like actors in the global economy, therefore, covers far more areas than the creation of foreign markets to sell domestic products and retrieve scarce resources (Gowa 1994). Rather, industrialized states put particular emphasis on non-traditional issues of trade: investments, services and regulatory standards (Blockmans 2013). The EU, represented by the European Commission in international trade, is a prime example: it communicates clearly in its *Trade for all strategy* paper (2015) that it has a priority for deep trade agreements that tackle non-tariff trade barriers. Hence, the EU competes with other powerful actors in the global economy, such as the US, for the creation of third markets as well as the setting of regulatory standards. This has recently become a focus of scholarly

debate with particular emphasis on regulatory issues in how state-like actors generate economic power (Bradford 2012; Coffee 2015; Drezner 2007). Especially in situations where regulatory standards between economic powerhouses such as the EU and the US differ, we can expect competition between them for setting and imposing their own standards in other world regions.

Alberta Sbragia (2010) conceived of such competition in the context of international trade negotiations as ‘competitive interdependence’. This implies that in situations of strategic interaction the EU is reactive to powerful actors, such as China or the US, in order to balance their trade initiatives towards other regions. These initiatives can cover access to foreign markets in a broad sense: selling domestic products, retrieving resources, creating favourable conditions for investors and services actors, and setting regulatory standards. Thus, I expect that the EU launches simultaneous or subsequent trade initiatives towards regional organizations or their members in order to follow those of its competitors: China or the US. These initiatives are designed in such a way as to include trade-relevant issues also covered by competitors. In this sense, I argue that the EU’s trade policy is reactive to its competitors because it seeks to remedy potential threats to its commercial competitiveness (Dür 2008; Sbragia 2010; Zimmermann 2007). In these situations, actors such as the EU have to make decisions about the design of trade initiatives towards third regions. Hence, there is variation between an inter-regional and a bilateral design towards regional organizations.

Coherence of world regions and their impact on the design of trade policy

Existing research on EU trade policy and its interactions with world regions suggest that we can assume an inter-regional design as the EU’s default option. This is so for two reasons. First, studies on EU inter-regionalism provide evidence that the European Commission has a

preference for inter-regional interactions with regional organizations because the EU serves as a model of regional integration to them (Aggarwal and Fogarty 2004; Söderbaum 2015).

Second, the European Commission prefers wide economic liberalization (Aggarwal and Fogarty 2004; Da Conceição-Heldt 2011). An inter-regional trade agreement provides a much broader geographical scope for trade liberalization than a bilateral agreement.

However, there can be tensions between comprehensive trade negotiations, which tackle a broad set of trade issues including regulatory standards, and an inter-regional design of trade initiatives. This tension occurs when regional organizations lack internal coherence for example: when their member states have diverging preferences on the organization's external trade agenda (author reference). A lack of coherence within regions can undermine inter-regional interactions (Aggarwal and Fogarty 2004; Doidge 2007). Further, lack of coherence on trade policy within a regional organization will lead negotiations on trade agreements with third partners to the lowest common denominator. Thus, inter-regional negotiations between regional organizations can clash with the ambition of reaching a comprehensive trade agreement when one of the organizations is highly incoherent, i.e. members have diverging preferences on the external trade agenda.

Therefore, coherence within regional organizations is a precondition for the success of inter-regional negotiations on comprehensive trade agreements. It is necessary for the EU to negotiate with a highly coherent regional organization when it seeks to conclude a comprehensive trade agreement. In the absence of coherence, thus, the EU is likely to change design of trade policy in favour of bilateralism when inter-regionalism inhibits the conclusion of an ambitious and comprehensive agreement. Hence, the EU is most likely to apply an inter-regional design of trade initiatives when the partner region is coherent; whereas it is most likely to employ a bilateral design of trade policy when the partner region lacks coherence.

Coherence, in this article, is understood as the process or fact of sticking together and remaining united in satisfying members' interests (see also Da Conceição-Heldt and Meunier 2014, 964). I apply this definition to regional organizations in the context of international trade. Hence, members' interests refer to preferences on a region's external trade agenda. Therefore, a regional organization is considered coherent when member states have converging preferences on the format of trade negotiations (see methods section for further information).

In brief, the argument I am making in this article is that coherence, or a lack thereof, in regional organizations triggers design changes between inter-regional and bilateral approaches in trade negotiations. This is because actors pursue comprehensive agreements. These can be undermined in inter-regional negotiations when regional organizations are incoherent.

Applying this argument to the EU, I argue that when the EU competes with other powerful actors such as China or the US in the global economy, it advances its commercial interests. These can be in tension with an inter-regional design of trade policy when the partner region is incoherent. In such situations, the EU adjusts its design of trade policy in such a way that it increases the likelihood of reaching a comprehensive agreement. Thus, it changes design from inter-regional to bilateral when the partner region lacks coherence.

I assign ex-ante observable implications to four steps in the causal mechanism from coherence of a region to design changes between inter-regional and bilateral (process-tracing evidence, PTE). According to the reasoning above, this mechanism starts with competition in the global economy, leading to updates on the design of trade policy (figure 1):

- (1) PTE: The EU observes its competitors and monitors their activities in third regions.

- (2) PTE: The EU evaluates trade initiatives by China or the US as competing to its own trade agenda and anticipates negative externalities.
- (3) PTE: Due to evidence (1) and (2), the EU observes coherence in regional organizations.
- (4) PTE: Based on information in step (3), the EU judges what design of trade initiative, inter-regional or bilateral, is most appropriate. Therefore, the EU can expect a successful conclusion of trade negotiations.

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Methods and process-tracing evidence

I test the expectations of my argument on interactions by the EU with regional organizations in Latin America and Asia: Mercosur and Asean. The reason for choosing these three actors is that the EU has long-lasting, established inter-regional relations with these regional organizations (Söderbaum 2015). It has a vital interest in supporting regional integration in these organizations (Hänggi 2003). Given these established relations, the EU's interactions with Mercosur and Asean are least likely to change design from inter-regional to bilateral.

In testing the expectation of causal mechanism, this article triangulates two methods: congruence testing (George and Bennett 2005) and rigorous process-tracing (Beach and Pedersen 2013; Collier 2011) in a comparative research design. While comparative case studies and congruence testing relies on covariation between an explanatory factor X and the outcome Y, process tracing seeks to test a causal mechanism between X and Y. Process tracing, therefore, can make no claims about whether an explanatory factor is necessary or sufficient for an outcome. However, it can test a theorized mechanism of causation (Beach

2017, 2). Confidence in findings of a causal path can be increased by combining process tracing with the congruence method (George and Bennett 2005, 201).

In a first step, this article employs congruence testing. In the cases examined, it tests the congruence between the explanatory factor X (coherence of regional organizations Mercosur and Asean) and the outcome Y (design of EU trade initiative). Regarding the empirical assessment of the explanatory factor X, namely coherence of regional organizations, this article relies on heterogeneity or homogeneity of preferences over negotiation partner and negotiation issues expressed orally or numerically. They are assessed by using interview and trade data (UNComtrade 2012). Trade data on export and import relations between the region of interest and the EU was collected for the time from 1995 to 2010 relying on the UNComtrade database (2012). When the development of trade relations was similar among all member states of a regional organization (i.e. stable or rising), this was defined as homogeneity of preferences. When the development of trade relations was diverse among the member states of a regional organization, this was defined as heterogeneity of preferences. Orally expressed preferences over the negotiation partner and the negotiation issues were asked for in semi-structured interviews by using the following two questions:

(1) Comparing the region's trade relations with the EU to those with China/the US. Which country is the most important partner for the region's member state?

(2) What issues did the region's member state want to see included in an agreement?

These questions were employed to assess the preferences of each region's member state(s) and to assess the extent to which they converged or diverged. Gathering the numerically and orally expressed preferences together in a cumulative logic, this is the basis for an overall assessment of low or high coherence. Taking into account that coherence is relational, it is compared over time for each region.

In a second step, the article tests the theorized causal mechanism (figure 1) in a structured and systematic fashion in two cases (Beach and Pedersen 2013; Collier 2011). The online supplement assigns values of certainty and uniqueness to these four observable implications (PTE) and assesses the strength of each process-tracing test. The PTE (1) to (4) perform a *straw-in-the-wind* and a *hoop* test. While the *straw-in-the-wind* test is relatively weak, a *hoop* test substantially supports an expectation in case of confirmation and eliminates it if it is falsified. Hence, if I do not find my expectations confirmed I can be confident that it does not hold in the cases of EU interaction with Mercosur and Asean. If I find them confirmed, instead, this lends empirical support to this expectation.

Design change of EU trade policy from inter-regional to bilateral in Latin America

With Mercosur, the EU signed an Interregional Framework Cooperation Agreement (1995) which laid out the inter-regional principle of relations. This principle played out in 1999, when the EU and Mercosur started negotiating an Association Agreement covering institutional and political cooperation as well as a deep free trade agreement (FTA) lasting up until 2004. Immediately after the stagnation, the European Commission started preparatory talks on a bilateral Strategic Partnership with Brazil (Carlos 2010) which materialized in 2007. The EU-Brazil Strategic Partnership is no FTA but it serves to discuss a range of trade issues: investments and non-tariff trade barriers (Interview 6) (in addition to political issues). It was a direct consequence of the stagnated Association Agreement negotiations (van Loon 2015) and an alternative to inter-regionalism in advancing commercial relations with Brazil (Interview 6). Although the EU and Mercosur revitalized the negotiations on an Association Agreement in 2010, no consensus has been reached on the FTA so far (at the time of writing in February 2018). In this context, the EU-Brazil Strategic Partnership complements inter-regionalism, but also means a bilateral fall back option for EU trade policy with Latin

America. After years of investing resources into negotiating an Association Agreement with Mercosur, why did the EU change design from inter-regional to bilateral in 2007?

The EU's initial launch of negotiations on an Association Agreement was a reaction to the US's Free Trade Agreement of the Americas (FTAA) (this has been widely acknowledged by the academic literature; Faust 2002; Grugel 2004). The FTAA targeted entire Latin America seeking to integrate this continent into the American sphere of economic influence (Carranza 2004, 320). Therefore, the agreement aimed to include trade in goods, agribusiness, investments, services and non-tariff trade barriers such as government procurement, subsidies and compensatory rights, competition policies and intellectual property rights ('US-Brazil anticipate Miami success' 2003). This comprehensive format made the FTAA unprecedented which the EU mirrored in its mandate (Klom 2003).

From the historical order of negotiations and from interviews and secondary literature, it is clear that the EU monitored the FTAA (PTE 1). Interviewees widely admitted that the European Commission observed competing actors such as the US on different levels such as summits or political dialogues (Interview 6; 9; 10). The EU mirrored the FTAA in timing, in included issues and in suggested formats. It started preparatory talks at the same time that the FTAA rounds began with the Summit of the Americas in Miami; the EU initiated bargaining rounds with Mercosur just when the FTAA members had their first ministerial meeting Quebec in 2000; and, eventually, the EU-Mercosur talks stalled in the early months of 2004 at the exact same time the FTAA talks did. Even when the negotiations were already ongoing, the EU experienced similar difficulties to those in the FTAA talks (Klom 2003). The EU clearly believed that it was in competition with the US for economic influence in Latin America (Interview 20; 21; 39; 40; 41) (PTE 2). Anecdotally, an EU official said in 2000 that he believed the FTAA could not interfere with the EU-Mercosur negotiations, but only

because the FTAA includes 34 governments thereby suggesting that he does not fear the FTAA could materialize ('Europe three times the US' 2000). The Association Agreement for the EU was a counter-initiative to the FTAA in its desire to avoid at all costs an 'upsurge of US influence in the continent' (Inter-American Development Bank 1999).

As soon as the FTAA negotiations stagnated, the US made it clear that it was no longer interested in negotiations with Mercosur as a group. Instead, it intended to focus only on bilateral relations with Brazil ('US reject 4 1 agreement with Mercosur' 2005) which was followed immediately by the EU (Interview 20; 21). The US signed in 2006 a letter of intent to facilitate trade, investments, business exchanges and energy cooperation followed by bio-fuel cooperation agreements and memorandums of understanding (US 2015). Since 2001, China has also become increasingly important to Mercosur. Trade flows rose from three percent in 2001 to fourteen percent in 2010 (UNComtrade 2012). This importance was accompanied by Chinese agreements with Latin American countries among them Brazil. They committed themselves to a bilateral strategic alliance in 2004 and signed ten agreements covering trade, investments and oil among other policies ('Chinese president in Latinamerica' 2001).

It should come as no surprise that the EU redirected its focus to bilateral relations with Brazil in 2005, when it prepared the eventual Strategic Partnership (Carlos 2010). Having observed and monitored American and Chinese activities in Latin America (Interview 5; 6; 10) through the issue-specific and country-specific Directorate Generals and the European Commission's trade analysis units, this information gave the EU 'important context' knowledge for designing trade policy (Interview 10) (PTE 1). Interviewees regarded EU competition with the US on the one hand and China on the other as differently intense (PTE 2). With the US, competition was more intense because it covered regulatory standards (Interview 6; 26; 38;

39). With China, competition was less intense because Chinese activities focused mainly on raw materials (Interview 27; 39). Nevertheless, the EU now competes with both the US and China ‘to acquire new markets and no one will hesitate to occupy the other’s backyard’ (Santander 2014, 70).

Initially countering the US’s FTAA with negotiations on an Association Agreement, the inter-regional trade strategy was called ‘competitive regionalism’ by some scholars (Schott 2009). The regional format targeted Mercosur as a group although the EU primarily had an interest in Brazil (Interview 6; 23; 26). This format matched the European Commission’s preference for inter-regionalism (Sanchez-Bajo 1999; Santander 2002). At this time, inter-regionalism was facilitated by Mercosur’s coherence: firstly, the regional format was Brazil’s top foreign policy priority (Bandeira 2006; Carranza 2004; De Lima and Hirst 2006; Duina and Buxbaum 2008; Malamud 2005); secondly, Mercosur’s member states had converging trade preferences. Pushing the regional format, Brazil saw Mercosur’s customs union as a means to more bargaining leverage (Interview 20; 21; Hopewell 2013). This was accompanied by converging preferences regarding the EU as a negotiation partner and regarding a single undertaking (‘Chinese president in Latinamerica’ 2001; ‘Buenos Aires Brasilia axis’ 2003) which trade data reinforce. Trade flows between the EU27 and Brazil and Paraguay increased before launching negotiations (1995-1999), and those between the EU27 and Argentina Uruguay remained constant (UNComtrade 2012).

Internal dynamics in Mercosur were observed and monitored by the European Commission through country-specific and trade analysis units (Interview 11; 15) (PTE 3). The European Central Bank ran a monitoring exercise on Latin America to keep track of Mercosur’s economic level of integration (OBREAL/EULARO 2006). The information retrieved matched the EU’s preference for inter-regionalism as a default option because of Brazil’s insistence on

the regional negotiation format (Christensen 2013; Interview 4; 6; 20; 21; 38). The preference depended also on the perceived readiness of Mercosur to negotiate an inter-regional and deep agreement (Interview 4; 16). Having had a preference for an inter-regional *and* deep FTA (Interview 40), the EU believed that inter-regionalism would lead successfully to an economically beneficial agreement (Interview 6) (PTE 4).

This belief changed with increasing tensions within Mercosur, which was acknowledged by the EU and, as this article argues, led to the launch of the EU-Brazil Strategic Partnership (Carlos 2010). The EU official Karl Falkenberg, at this time in charge of trade policy, said in 2004 that Mercosur started to seem more like vision than reality regarding regional integration, with a lack of trust among its member states ('Mercosur is more vision than reality' 2004) (anecdotal evidence for PTE 3). This fragmentation translated into EU trade policy by initiating the bilateral Strategic Partnership, which was not incompatible with inter-regional relations but a new tool to advance economic and political relations with Brazil (Interview 6; 39). Mercosur's fragmentation divided the member states also on Latin America's trade policy, with a lack of solidarity and diverging preferences (Christensen 2013; Malamud 2011). Although there was no clear material divergence of trade flows (EU27-Mercosur trade flows decreased but only to a limited degree; UNComtrade 2012), the member states started to have different priorities regarding negotiation issues and negotiation partners (Christensen 2013; 'Uruguayan president in China' 2009). Taking into account these tensions, the European Commission chose to move forward with Brazil on a bilateral basis (Interview 39). Precisely because there was a lack of coherence among Mercosur's member states, the EU needed a new forum to advance commercial interests; in this sense, EU trade policy designs are situation-specific and adjust to the counterpart region (Interview 5; 8).

Interviewees pointed this out by saying that Mercosur was not ready for an inter-regional *and* comprehensive agreement (Interview 8) making bilateralism a convenient alternative

(Interview 6) (PTE 4). An interviewee saying that if the EU had concluded the Association Agreement negotiations in 2004, there would have been no need for the Strategic Partnership reinforced this (Interview 9).

There was, of course, also other than economic reasons for the EU to designate Brazil a Strategic Partner. From the EU's perspective, Brazil was a key interlocutor in the region and it was supposed to act as a regional leader (Renard 2010). It was politically of crucial importance to the EU to maintain a privileged partnership with Brazil with whom it shared values and principles such as democracy, the rule of law and human rights (Council 2007). Thus, the EU-Brazil Strategic Partnership was much broader by including political dialogues, environment and sustainable development, science and technology, cultural aspects, people-to-people relations, and bi-regional cooperation (EU 2011). Nevertheless, the EU's economic interest in Brazil was crucial and the Strategic Partnership was a useful tool to advance these interests despite the stagnated negotiations on an Association Agreement.

Design change of EU trade policy from inter-regional to bilateral in Asia

EU-Asean relations date back to the 1970s (Gilson 2005; Center for European Integration Studies 2001). In 2007, EU-Asean relations translated onto the trade policy level when the European Commission asked the Council for authorization to negotiate an inter-regional *and* comprehensive FTA with Southeast Asia. Only two years later, the European Commission considered alternatives to the inter-regional format, and in 2010 it changed to a bilateral (and still comprehensive) design starting with Singapore. Given the long-lasting relations with Asean this switch to bilateralism is quite surprising.

The EU planned the start of inter-regional FTA negotiations (2007) after extensive influence of American, Chinese and Japanese initiatives. In 2002, when the EU first considered an FTA with Asean (ISPI 2010), Asean's member states started signing their first trade agreements with powerful actors. Among these were the New-Age Economic Partnership Agreement between Japan and Singapore (ISPI 2010), Asean agreements with China (2002), Japan (2008), India (2009), South Korea (2009), Australia and New Zealand (2009) as well as the US's Enterprise for Asean Initiative (2002). The US concluded its first bilateral agreement with Singapore in 2004, and other negotiations followed with Thailand, the Philippines, Indonesia and Malaysia. These competing initiatives motivated also the EU to negotiate an FTA with Asean, and the eventual launch was triggered by the anticipated breakdown of the Doha Round in combination with the Asean-Japan agreement (Robles 2008). Factoring in this competitive atmosphere, the European Commission and the Council left 'no doubt that the EU-Asean FTA negotiations were 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' (Centre for ASEAN Studies 2007, 4).

Being concerned about competing actors, the EU spent resources on observing and monitoring their activities in Southeast Asia (Interview 3; 7; 12) through issue- and country-desks in Directorate General Agriculture and Directorate General Trade (Interview 1; 17) (PTE 1). Trade analysis units kept track of Asean's FTAs and compared them line by line in order to gather knowledge on the level of concessions and trade issues involved (Interview 3; 7; 11; 15). Regarding the impact of these FTAs, interviewees identified negative externalities (PTE 2) (and also partly positive externalities); especially where the US and the EU had different trade strategies such as intellectual property rights or rules of origin negative externalities existed (Interview 3; 12). Therefore, the EU was clearly in competition with the US over Asean's adoption of regulatory standards, and with the US, China and Japan for

privileged commercial relations with Asean (Interview 23). As the trade commissioner, Peter Mandelson, pointed out: ‘Our major competitors are picking off individual countries in the region one by one, Japan, Australia and the US are all active’ (as cited by Camroux 2010).

Having had a preference for a comprehensive FTA, Directorate General Trade initially tried to reach an agreement through an inter-regional design (Interview 3) because it believed this matched Asean’s coherence (Interview 7; 23). Indeed, Asean’s solidarity was considerably high when the European Commission asked the Council for an inter-regional mandate and the European Commission regarded the group as having a feeling of ‘solidarity’ (Civil Society Dialogue 2008). Asean’s member states had converging preferences on the EU as a negotiation partner and some experience of negotiating as a group. They agreed on launching negotiations with the EU and, in contrast to FTA negotiations with the US or China, this was not conflictual (Interview 22; 30). Their experience with the regional negotiation format was put into practice with China, India and Mercosur (Interview 30) and Asean had a procedure for internal negotiations on FTAs (Interview 24; 25; 30). Trade flows were also favourable to Asean’s coherence because some countries, i.e. Indonesia, Malaysia, Singapore, Thailand and Vietnam, increased trade with the EU27 and the other countries’ trade relations with Europe remained stable between 2005 and 2007 (UNComtrade 2012).

Observing Asean’s coherence, the EU had the same procedure for doing so as with Latin America: trade analysis units, issue- and country-desks in Directorate General Agriculture and Directorate General Trade (Interview 11; 15) (PTE 3). Especially Directorate General Trade invested considerable time in monitoring regional integration in Southeast Asia by focusing on milestones and issues required by the EU (Interview 23). A specific procedure for analysing economic benefits of an EU-Asean FTA was established through the Vision Group on Asean-EU Economic Partnership whose information was gathered through quantitative

and qualitative studies (ISPI 2010; Vision Group 2006). The conclusions based on this information matched the EU's preference for an inter-regional agreement which, however, was pragmatic rather than normative (Interview 12; 13; 17; 29). Interviewees pointed out that the trade policy design had to adjust to features of the counterpart region (Interview 7; 13; 17; 23). Thus, in the case of Asean, the inter-regional approach was chosen based on the assumption that it would be more efficient to negotiate one regional FTA than several bilateral FTAs (ISPI 2010, 6 f.; Interview 7; 23) (PTE 4).

This assessment changed during the course of negotiations and the European Commission realized that an inter-regional format would not meet the desired level of ambition, forcing the EU to change to a bilateral design. Just one year after the launch of EU-Asean negotiations (2007), trade commissioner Mandelson made it clear that a 'flexible approach' would facilitate the successful conclusion of an FTA (Civil Society Dialogue 2008) in response to Europe's growing dissatisfaction with Asean's level of coherence. This dissatisfaction emerged because of the member states' growing divergence regarding the trade agenda. Trade flows with the EU27 concentrated on few Asean member states (trade flows between the EU27 and some Asean countries decreased while others increased between 2007 and 2010; UNComtrade 2012) so that some countries were more interested in an FTA with the EU than other Asian states (Lindberg 2007). This divergence led also to different preferences regarding negotiation issues (Camroux 2010): while Singapore was very liberal on all issue areas, other countries were not ready to the same degree (Interview 22; 30).

The fact that this heterogeneity would have led to the lowest common denominator and a limited agreement (Interview 31; 32), alerted the EU which claimed that Asean did not understand the 'FTA label' (Interview 1). Having realized the different levels of ambition among Asean's member states (Interview 7; 30) (PTE 3), the EU chose a more 'pragmatic'

(Interview 17) or ‘realistic’ (Interview 33; 34) approach in shifting to a bilateral ‘tactic’ (Interview 1) in order to reach a comprehensive agreement (PTE 4). It understood only during the negotiations with Asean that an inter-regional *and* comprehensive FTA would be too ambitious (Interview 1; 3; 12; 30). Bilateralism, instead, was believed to deliver better and quicker agreements (Interview 12). The EU-Singapore FTA speaks truth about this belief, given that it was concluded after just two years of negotiations (2012).

Discussion

In the empirical analysis, this article set out to examine (a) why the EU made design changes from inter-regional to bilateral in its trade policy towards Mercosur and Asean, and (b) assess the extent to which these changes were driven by factors located at the international level, especially coherence within organizations in other world regions, rather than inner-institutional characteristics (see also Sbragia 2010). The analysis was based on a triangulation of congruence testing and process-tracing.

The findings indicate that design changes in the EU’s trade policy were congruent to varying coherence within the regional organizations Mercosur and Asean. While the EU initially perceived both regional organizations as sufficiently coherent to negotiate inter-regional trade agreements with, fading coherence triggered a process of ‘updating’ preferences by decision-makers within the EU and eventually a shift to bilateral trade initiatives. This turn to a bilateral design happened in both cases in an attempt to advance commercial interests against the US and China in Latin America and Asia.

The case studies on Latin America and Asia clearly show how fading coherence within Mercosur and Asean led to design changes of EU trade policy. The EU has an established

procedure to observe competing actors, the US and China, and to monitor their trade relations with regions of interest. This procedure operates on the level of Directorate Generals Trade and Agriculture, units of trade analysis and country desks within the Directorate General Trade of the European Commission (PTE 1). Trade analysis units, for example, compared concluded agreements between the US and Asian partners line by line. In both regions, Latin America and Asia, the EU classified American and Chinese activities as competing with its own trade interests, and pointed out negative externalities especially in the area of regulatory standards (PTE 2).

In an attempt to reduce negative externalities and to ‘counterbalance’ American and Chinese trade initiatives, the EU updated its design of trade policy and adjusted it to dynamics within Mercosur and Asean. The empirical evidence demonstrates that the EU actively observes the process of integration and coherence within regional organizations. Country-desks in the Directorate General Trade are primarily in charge of such activities, while also exchanging information with EU delegations in the respective region (PTE 3). In the case of Mercosur, the delegation in Montevideo, Uruguay, did ‘fieldwork’ in form of 40 interviews with experts and decision-makers in that regional organization. Interviewees on both cases pointed out that they make decisions on the design of trade policy on a case-by-case basis. Hence, they take into account the progress of regional integration and the organizations’ ‘willingness’ to act as a group (PTE 4).

The empirical findings of the two case studies on EU interactions with Mercosur and Asean, therefore, pass a *straw-in-the-wind* and a *hoop* test. Both tests affirm the relevance of the theoretical expectation that (in)coherence within a regional organization triggers design changes of trade policy.

As the empirical findings in this article rely on just two cases, EU trade relations with Latin America and Asia, I now turn to other instances where the EU and other actors updated the design decisions on external relations to adapt to coherence within regions. Firstly, in the context of trade policy, the EU made similar design changes from inter-regionalism to bilateralism in the case of the Andean Community. While it started negotiating an inter-regional and comprehensive trade agreement with the regional organization, it soon shifted to bilateral negotiations in the wake of fading coherence (Szegegy-Maszák 2009, 220). The EU also made changes in reverse order from bilateralism to inter-regionalism in the cases of South Africa and the Southern African Development Community, but also in the case of Mercosur. After the launch of a Strategic Partnership with Brazil, the EU resumed inter-regional negotiations, in 2010, which was based on a renewed ‘team spirit’, or coherence, within Mercosur (author reference).

A shift to bilateralism outside of multilateral institutions or in parallel to existing regional organizations also happens in other areas and is pursued by other actors (Morse and Keohane 2015). Topical examples where the EU resorts to bilateralism outside multilateral institutions or next to regional arrangements are the climate change regime and migration policy. In parallel to the United Nations Framework Convention on Climate Change, ‘multiple bilateralisms’ (Belis et al. 2015) between China, the EU and the US has emerged where the EU negotiates climate change bilaterally with the US and with China in a Strategic Partnership. With Tunisia, the EU links trade and migration issues by negotiating a Deep and Comprehensive Trade Agreement although this country is part of the Euro-Mediterranean Partnership. Finally, also the US is an example of pursuing bilateral negotiations despite dealing with established regional organizations. The American administration has a reputation of negotiating bilateral agreements, and did so, for example, with member states of the Gulf

Cooperation Council. With members of this organization, it signed security and trade agreements such as with Bahrain and Oman (Antkiewicz and Momani 2009, 20).

Conclusion

At the outset of this article, I asked why preferential trade agreements outside the WTO exist in different designs: region-to-region, region-to-state, or state-to-state. I explored this question in the empirical interaction between the EU and regional organizations in Latin America and Asia by employing process-tracing tests. To this end, this article developed a theoretical argument that (in)coherence within regional organizations leads to design changes in trade policy between inter-regional and bilateral in order to advance commercial interests in third regions.

The empirical findings support the claim that fading coherence within Mercosur and Asean triggered an updating of preferences by EU decision-makers and eventually a change in design of trade policy from inter-regionalism to bilateralism. This design change was part of a broader attempt by the EU to secure its commercial interests in Latin America and Asia vis-à-vis its competitors, the US and China. Hence, the EU employed an inter-regional design when it seemed appropriate, and sacrificed it when it clashed with European commercial interests in other world regions.

Given that the EU adjusted its design of trade initiatives to the partner region in order to ‘counterbalance’ the US and China, an enhanced understanding of how it did so provides new insights on EU trade policy. The significant increase of preferential trade agreements outside the WTO and their varying designs make this study relevant in understanding interactions between other states and regional organizations. By differentiating between explanatory

factors located at the international level and domestic politics, this article provides a wider perspective on the design of trade policy. Decisions about the design of trade agreements do not operate in isolation, focused on domestic factors exclusively, but in relation and reaction to changes in the global economy.

As the empirical study presented here is limited to EU interactions with Latin America and Asia, this article is meant as a starting point for further exploration of interactions between changes in the global economy and the design of trade policy. The most recent research indicates such interdependencies between trade agreements (Baccini and Dür 2015). A more systematic perspective on how international factors and interdependencies shape the design of trade policy would enhance scholarly understanding of the negotiation of trade agreements.

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