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Competing for World Markets

The European Union and the United States in international trade negotiations: the case of Singapore

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Abstract

Using the protection for exporters theory the thesis analyzes the EU's quest for world markets in the case of trade negotiations with Singapore. The protection for exporters theory assumes governments to shift bias from the import competing sector to the export competing sector when exporters are exposed to potential losses.

The thesis concludes three main findings of why the EU shifted policy towards Singapore between 2000 and 2010, all coherent with the protection for exporters argument. First and foremost, the analysis shows that the United States' conclusion of a free trade agreement with Singapore in 2003 exposed the export competing sector for potential losses. Second, the stalled WTO negotiations in the Doha Development Round forced the EU to realize that the multilateral approach was not a valid option to counterweight these losses. Third, the Singapore government wanted access to the EU market and was therefore open for free trade negotiations with the Union.

Key words: EU, Singapore, United States, protection for exporters, trade
Words: 9721

List of Abbreviations

ACPTN – Advisory Committee for Trade Policy and Negotiations
AEBF – Asia-Europe Business Forum
APEC – Asia-Pacific Economic Cooperation
ASEM – Asia-Europe Meeting
ASEAN - Association of Southeast Asian Nations
EC – European Council
EEC – European Economic Community
EU – European Union
ETUC – European Trade Union Confederation
FTA – Free Trade Agreement
GDP – Gross Domestic Product
ISAC 13 – Industry Sector Advisory Committee on Services
MFN – Most Favored Nation
NAFTA – North Atlantic Free Trade Association
NSC – National Security Council
TEC – Treaty on the European Community
WTO – World Trade Organization

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1 Introduction

1.1 Preamble

In December 2009 the European Council (EC) gave the Commission the green light to negotiate a free trade agreement (FTA) with Singapore. The negotiation mandate was a break with the European Union's (EU) earlier policy towards Singapore. I will in this thesis conduct an indebt analysis of the EU-Singapore case between the years 2000 and 2010. The case of Singapore is part of broader shift in the EU's trade policy that begun with the publication of *Global Europe: Competing in the World,* released in October 2006 (European Commission, 2006). This document diverged from earlier trade policy by emphasizing the EU's commercial interests in the world, and thereby opening up the possibility to negotiate FTAs with third country (Meunier, 2007, p. 906; Woolcock, 2007a, p. 2; Woolcock, 2007b, p. 236).

The discussion on the EU's trade policy has engaged political scientists for a long time. The literature on trade policy in the EU can be divided into three branches that each emphasizes different factors: societal demands, political institutions, and geopolitical interests. First, the societal actors approach focus on the role of interest groups, and how demands from these groups shape trade policy. In the context of trade, actors are assumed to consist of mainly two groups import and export competing interests. Since actors are believed to have clear preferences and to wealth maximize in any given situation they will use their political leverage to lobby politicians to pursue the most favorable outcome for them. Hence, politicians are seen to have no, or minimal, impact on policy, and function merely as intermediaries between economic interests and policy output (Dür, 2010, p. 4). However, the societal actors approach tend to put too much emphasis on the domestic realm, and has therefore not been able to explain the EU's shift in trade policy. The theory predicts that shifts will occur as a consequence of a change in power between import and exporting interests. It is however difficult to find empirical support for this through the history (Dür, 2010, p. 6).

Second, other scholars point to the role of political institutions as creating biases for or against trade liberalization. In the context of the EU authors have been pointing to the role of the Commission as an institution for change. The reason why the Treaty of Rome (1957) granted the Commission exclusive competence in negotiating trade agreements was due to both practical and legal reasons. However, it was also the will of the EEC's founding fathers to isolate the Commission from domestic pressure in order to facilitate trade liberalization (Meunier, 2005, p. 5ff). The idea is that pooling of competence to the

Commission have created a bias towards trade liberalization, but even though the Commission is generally seen to have a more positive stance towards free trade it is difficult to see that the Commission has had anything but marginal influence over trade policy in the EU (Meunier, 2007, p. 921f).

Third, there is no doubt that the EU's trade policy has and is to a certain extent influenced by geopolitical interests (Zimmerman, 2007; Sbragia, 2010; Aggarwal & Fogarty, 2004). The argument is that increasing trade leads to an increase of a country's GDP due to more efficient resource allocations. Maximizing the EU's wealth relative to other countries in turn generates greater power for the EU. In the anthology by Aggarwal and Fogarty the geopolitical interest argument is pitted against other hypothesizes of the EU's trade policy. They conclude that geopolitical interests can be seen as an underlying rationale rather than a cause for the shifts in trade policy (Aggarwal & Fogarty, 2004, p. 214). It is easy to overestimate the role of geopolitics in the EU's external trade relations, and much of the empirical evidence gives the geopolitical interest only a secondary role (Dür, 2010, p. 9f).

I will in this thesis diverge from the more classical theories of trade policy and shift the focus towards the entanglement between the international level and the EU's trade policy. Trade is carried out at the international level, and it is therefore important to understand how international trade affects the EU's trade policy. However, the EU's trade policy is still decided upon at the EU level; the international level needs therefore to be combined with a theory of power at the EU level. In so doing, the thesis takes as a starting point a theoretical framework labeled *protection for exporters*. The theory, as developed by Andreas Dür, provides an explanation for how the international environment provides incentives and disincentives for economical interests at the domestic level (Dür, 2007; Dür, 2010). Hence, in order to analyze the EU-Singapore case one needs to define and understand the important variables at the international level. I argue that in this case study for mainly three variables to be important, the United States' trade policy, the breakdown of multilateral trade negotiations, and the government of Singapore's interest in negotiating a trade agreement with the EU.

1.2 Question at Issue

The aim of the thesis is to gain a better understanding of how the EU's trade policy is created in the interaction between international events and interest groups at the EU level. The focus of the thesis will therefore be twofold. First, it will study the international level and provide an explanation for how it creates incentives and disincentives at the European level. When studying the international level the United States becomes a natural actor to study. The United States is the biggest economy in the world (not including the EU) and everything it does will influence the environment that the EU is acting within. Second, I turn to the European level and make the argument that the power over the trade agenda will shift from the import competing sector to the export competing sector due to

the change in the international environment, and this is what caused the shift in the Union's trade policy. The questions the thesis sets out to answer are:

- How can the EU's trade policy towards Singapore be explained from the perspective of the protection for exporters framework?
- Does the protection for exporters framework provide an adequate explanation of how the EU's trade policy is constructed?

2 Methodology

The methodology chapter is divided into three parts. First, I discuss the general research design, and how the thesis contributes to the greater debate on the EU. Second, I define the concept of power and put it in a EU perspective. Possible methodological problems that can result from this definition will also be discussed in this section. Third, some of the thesis limitations are briefly discussed.

2.1 Research design

This thesis is first and foremost a case study with the aim to understand the EU's trade policy towards Singapore. The policy shift towards Singapore is however part of much bigger shift in the EU's trade policy, and it is therefore my intention to provide a convincing argument for how protection for exporters theory can help explain the EU's trade policy.

Besides being a case study of the EU's Singapore trade policy the thesis also contribute to debate on the nature of the EU. Traditionally it has been two theoretical traditions explaining the nature of the EU. On the one hand the neofunctionalist theory, which stresses the role of the EU's supranational institutions (Haas, 2004, p. 38f). On the other hand, the intergovernmentalist literature that shifts the focus to the member states. One branch of the intergovernmentalist literature, developed by Andrew Moravcsik, is the liberal intergovernmentalist theory, which shifts the focus from more classical realist assumptions of security as the driving force for integration to economic interest groups in the nation states of Europe (Moravcsik, 1998, p. 49f). The protection for exporters theory builds on Moravcsik's work in emphasizing the role of economical interest groups. At the same time the protection for exporters theory depart from liberal intergovernmentalist theory for two reasons. First, the theory not only assumes the will of economic interest groups to be translated through the Council of Ministers, it opens up the possibility for interests to be channeled both trough the EC and the Commission. Second, the protection for exporters theory brings in the international level as an important factor for change in trade policy. Even though Moravcsik would not dispute that the international economy influence the relative bargaining power at the EU level, the liberal intergovernmentalist theory does not provide a satisfying explanation of the relationship between the domestic and international arena. Hence, the thesis hopefully can contribute to some new insights of the functioning of the EU.

2.2 The Concept of Power

The concept of power holds an exceptional position in the political science literature. Power can be defined as "having the capabilities to affect the behavior of others" to get the outcome one wants (Nye, 2004, p. 1f). Given this definition the concept of power is relative to its nature. Hence, it is important to understand the power structure that is present in the construction of the EU's trade policy. Political Scientist Joseph Nye makes a distinction between what he call soft power and hard power, where hard power refers to the use of inducement or threats, often through the use of military or economic means. Soft power on the other hand refers to the ability to shape other actors' preferences, or in other words, the power of attraction (Nye, 2004, p. 5f). Given the aim of this thesis the focus will be on soft power and hard power in the form of economic carrots.

Derived from the protection for exporter framework I make the argument that changes in the international environment create incentives for the export competing sector in the EU, which in turn will lead to intensified lobbying on their part. However, before turning to the analysis of the thesis it is necessary to discuss the definition of 'power' and its implications for the EU. Looking at the EU's trade policy it is fair to view the Union as a single actor. Trade is one of the few areas where exclusive competence is granted to the EU. Article 133 in the Treaty on the European Community (TEC) states that "[t]he common commercial policy shall be based on uniform principles…." (TEC, Article 133).

The process that leads up to a common trade policy is complex in nature. The Commission, through the Directorate General for Trade, has the sole right to initiate proposals on European trade policy for the General Affairs and External Relations Council. After discussions in the Council, the Commission is given a mandate to negotiate on behalf of the Union. However, the communication between the Council and the Commission does not end after this. During negotiations the Commission is in constant consultation with the 133 Committee, which consists of senior national trade officials that represent the national interests. The Council also possesses the possibility to give new directives during negotiations. However, even though the rules for trade negotiations are clearly stated in the TEU, the reality is more complex. The Commission does not put forward a proposal on trade policy before having consulted the Member States, often done through informal meeting with representatives from the 133 committee.

I make the argument that mainly two different types of power relations are important when studying the EU's trade policy. First, the relative power between the import and export competing sector at the EU level. The thesis assumes economic interests to have an influence over EU's preferences. The Commission and the Member States are therefore seen as an intermediate between domestic economic interests and the output, i.e. the trade policy.

Second, the relative power between Member States at the EU level. In other words, some Member States' economic interest groups have more power than other when negotiating a common position (Meunier, 2007, p. 907). Mainly three

countries are assumed to have greater influence over the trade policy: France, Germany, and United Kingdom (Moravcsik, 1998). As stated above the EU differs from traditional nation states in that it has delegated the competence to conduct trade negotiations to the Commission. However, empirical studies have found no or little evidence that the Commission has a direct power over the EU's trade policy (Aggarwal & Fogarty, 2004, p. 226f; Meunier, 2007, p. 921f). The EC is therefore assumed to have control over the strategic agenda. The Commission has to report back to the Council and is therefore limited to implementing the agenda set by the Member States. In other words, the Commission is the executive branch that executes the will of the Member States. However, this has methodological consequences. By looking at the Commission we expect their actions to be in line with the EC, and especially Germany, France and the U.K.

2.3 Limitations

The thesis is a study of the EU trade policy towards Singapore, and therefore limitations have to be made. First, the thesis is concerned with the construction of trade policy in the EU, so even if we can study similar processes in the case of Singapore the thesis will treat Singapore as a black box, taking the stance of Singapore as given. Second, as the world's largest economy (second largest if including the EU) the United States' trade policy has had a great impact upon the EU. Analyzing the United States' trade policy will therefore be inevitable. Realizing the importance of United States' trade policy also sets the time frame of the study. The point of departure for the study is the year 2000, two years before Congress granted President George W. Bush fast track authority, which lead the Unites States to negotiate a FTA with Singapore. However, some historical flash backs are necessary.

Third, it is fair to assume the EU to be a unitary actor in trade. Hence, studying all the Member States and their stance on trade policy in the case of Singapore lies outside the scope of this study. I therefore make two assumptions. On the one hand that "that the primary political instrument by which individuals and groups in civil society seek to influence international negotiations is the nation-state, which acts externally as a unitary and rational actor on behalf of its constituents." (Moravcsik, 1998, p. 22). On the other hand, that the Member States, representing their economic interests, have the power over the trade agenda; i.e. that a shift in the relative power at the domestic level will have an direct impact on the Commission and the EU's trade policy.

3 Theorizing Trade Policy

The thesis emanates from the protection for exporters theory that was first published by Andreas Dür in his study of the EU's FTA negotiations with Mexico and Chile that were concluded in 2000 and 2003 respectively (Dür, 2007). He later developed his theory in the book *Protection for Exporters: Power and Discrimination in Transatlantic Trade Relations, 1930–2010.* The book further elaborates on how the international level creates threats for domestic producers that they react to (Dür, 2010). This chapter develops the logic of the protection for exporters theory.

The chapter is divided into two parts. First, it goes through the assumptions made in the thesis. These assumptions emanate from the more general literature on the political economy of trade, and provide a general account for how trade policy is formed. Second, it will put these assumptions into the context of the EU. This section provides a framework for how these assumptions can be understood in the institutional context of the EU.

3.1 The Political Economy of Trade

> Theories of political economy explain international cooperation as an effort to arrange mutually beneficial policy coordination among countries whose domestic policies have an impact on the other. (Moravcsik, 1998, p. 35).

When engaging in negotiations over trade liberalization countries try to minimize the negative externalities of economic policy, and conclude an agreement that is to their benefit. Since both countries act in the same way it can be assumed that the agreement will be mutually beneficial. It is important though to remember that theories of political economy look not only at the efficiency criteria when studying economic policy. As important, or maybe even more important, are the distributional effects of economic policy. Hence, it is important to understand the relative power between import and export competing sectors if one wants to understand why certain policy happens. In order to fully grasp theories on political economy of trade one has to be familiar with three central assumptions that will be outlined bellow.

3.1.1 The Rational of Economics

The basic assumption underlying the theoretical framework is that of preferences and wealth maximizing. This idea is derived from classical economic theory, and was articulated by Adam Smith in his book the *Wealth of Nations* from 1776. Smith pointed out that "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage and not that of society, which he has in view." (Smith, 2008, p. 36). The idea of preferences and wealth maximization can be expanded to not only include individuals, but also firms and corporations. The assumption is not only theoretical but is also given empirical support. In their study of the behavior of American corporations with respect to trade policy from 1985 Pugel and Walter find that statistical relationship between economic interests and preferences for trade policy outcomes (Pugel & Walter, 1985, p. 472).

Actors that gain economically from trade will prefer policies that enhance trade liberalization, whereas actors that produce mainly for the domestic market, and therefore will loose from more competition, will oppose further trade liberalization. Building on the insights from trade theory we assume that the groups that benefit from liberalization will generally be consumers and exporters, whereas the import competing sector and trade unions, organizing low skilled workers in high income countries, will generally be worse off from trade liberalization (Kaempfer, Markusen, Maskus, & Melvin, 1995, p. 245ff). Consumers gain because of lower prices of the imported good, and exporters gain because mutual trade liberalization between two or more countries will create opportunities to sell greater quantities. The import competing sector on the other hand will have to lower their prices in order to sell the same quantity.

3.1.2 Information Asymmetries

Much of the work within the neo-classical school of thought assumes not only economic rationality, but also perfect information. The idea is that all actors on a market have perfect information about other actors' preferences and what outcomes that follow from an action, and can therefore act in accordance with the principle of rationality (North, 1981, p. 6; Arrow, 1959). However, contrary too much of the neo-classical theories, scholars within the institutional school of thought have studied how information asymmetries create transaction costs in an economy. Transaction costs can be defined as "costs of running the economic system", and must be discerned from production costs, which have generally preoccupied neo-classical economists (Williamson, 2008, p. 187).

What are the implications of information asymmetry upon international trade policy? The protection for exporters argument expects there to be information asymmetries between the export competing sector and the import competing sector. Exporters are not aware of the potential benefits that can occur due to preferential trade agreements. In order to become fully aware of the potential gains from trade with third country, the export competing sector would have to

calculate the potential gains of every market, a process that tend to be costly (Dür, 2010, p. 21f), perhaps even more costly than the gains from trade liberalization.

This assumption also finds support in the literature on multilateral trade negotiations. Economists studying the rational for the World Trade Organization (WTO) have pointed out that multilateral trade negotiations can be thought of as a market, which visualize potential gains for the export competing sector, and thereby lowering transaction costs that are due to information asymmetries (Hoekman & Kostecki, 2009, p. 28).

3.1.3 The Value of Costs and Benefits

The third assumption of the thesis is that costs and benefits are unevenly distributed between societal actors in the economy, and more importantly that costs and benefits are valued differently. This assumption has far reaching consequences on the incentives actors in a society have to lobby the government. The argument assumes that governments want to remain in power, and therefore seek to rally domestic political support by satisfying their constituency. However, in so doing, governments give greater value to prospective losses than to potential gains (Ethier, 2004; 2007). This view is further strengthened by Hillman and Moser's argument that the import competing sector in most countries has obtained a "right" to the domestic market trough lobbying the government (Hoekman & Kostecki, 2009, p. 39). In the case study this mean that government have been more reluctant to create benefits for the export competing sector if those benefits results in losses for the import competing sector. Conversely, when the United States signed the FTA with Singapore this created potential losses for the export competing industry whereas the import competing sector was indifferent. Given the government's bias towards avoiding losses it will be easier for the export competing sector to lobby the government.

Accepting this assumption that the government is more reluctant to give benefits than to prevent losses will lead us to conclude that the export competing sector has a disadvantage towards the import competing sector. In other words, trade policies are biased towards protectionism (Dür, 2007, p. 835; 2010, p. 22; Hoekman & Kostecki, 2009, p. 39). The export competing sector is therefore assumed to be less active in lobbying the government than is the import competing sector despite the possibility of greater access to foreign markets. However, when losses occur for the export competing sector their incentives to lobby increase whereas the import competing sector's incentives remains constant.

3.2 Protection for Exporters: a EU Perspective

> Economic theory can tell us a lot about policy alternatives, but unless our economics contains an understanding of power, it will not tell us enough to understand the choices actually made. (Gourevitch, 1986, p. 17).

The political economy of trade literature diverges from classical economic theory by bringing in the concept of power as the central object of analysis. However, the protection for exporters theory also diverges from the classical studies of political economy of trade that emphasize the role of domestic actors. The central proposition of the thesis is that we cannot understand the EU's trade policy without an understanding of how the EU's economy is linked with the world economy.

The basic assumption of the protection for exporters argument is that governments are biased towards the import competing sector, so that even if trade liberalization will benefit the majority in a country there are incentives for governments to impose trade restrictions. The export competing sector, although benefitting from more trade liberalization, will due to information asymmetries and the distribution of costs and benefits not engage in lobbying to change the status quo. Hence the relative power between the import and the export competing sector is biased towards the import competing sector (Dür, 2010, p. 15).

The relative power between the import and export competing sector is not so much determined by the actual economic strength between the two sectors, although that also matters. The export competing sector has mainly two disadvantages. First, there are huge costs associated with collecting information about different markets and calculate the benefits of actual trade liberalizations. For example, the EU's exporters have not pushed for further trade liberalization with Singapore because of the uncertainty of the gains. However, with the United States' agreement on free trade with Singapore and the stalled negotiations at the multilateral level the potential losses from trade distortion became apparent and helped mobilize the export competing sector. Second, politicians tend to be more responsive to potential costs imposed on their constituency than on potential benefits.

3.2.1 Bias in Favor of Importers

The thesis assumes it to be a general bias towards the import competing sector in the initial state. This is due to the conditions of information asymmetries and the distribution of costs and benefits resulting from a possible change in trade policy. Hence, exporters do not have the same incentives to lobby the government. That the export competing sector often lacks the opportunity to collect information about potential gains is due to the costly process of gathering information. Information is costly, and for the export competing sector possible gains are uncertain for mainly two reasons. First, the export industry cannot be certain that

they will reap the benefits from lobbying the government. The domestic government cannot control the foreign tariff levels, lobby activity can therefore only lead to negotiations with third country. Conversely, the import-competing sector only has to lobby the domestic government since it decides national tariffs (Dür, 2010, p. 22). This comparative advantage for the import-competing sector is widely acknowledged in the literature of economics and is also one of the rationales behind the World Trade Organization (WTO), governments tie themselves to a legal framework and thereby makes it easier to restrain pressure from the import competing sector (Hoekman & Kostecki, 2009, p. 41).

Second, the complexity of costs and benefits becomes even greater in big entities such as the EU. The export sector in the EU is not a homogenous entity but rather dispersed. Concluding a FTA with Singapore may be highly beneficial for some countries' export sector whereas other countries' export sectors may be indifferent.

3.2.2 Protection for Exporters

Given that the governments favor status quo one have to ask oneself when a shift towards the export competing sector is expected, and what variables causes this shift. The theory expects two situations to shift this bias. On the one hand, when losses in foreign markets occur as a consequence of a FTA between two other countries. On the other hand, when a foreign country approach the home country with a proposal to negotiate a trade agreement (Dür, 2010, p. 23). As we will se both these factors have been present in the EU-Singapore case.

In order to understand why the incentives to lobby the government increase in the case of a FTA between two other countries one has to understand the basic insights of trade theory. For example, when the United States concluded its FTA with Singapore that resulted in free access to the Singapore market for the United States' exporters and vice versa. The relative price of the EU goods on both these markets thereby rose, and it became relatively more expensive to buy goods produced in the EU. Hence, we expect consumers in both Singapore and the United States to substitute EU goods for goods that are traded freely, everything else equal. The FTA between the United States and Singapore therefore imposed potential losses on the EU's export competing sector. This type of price discrimination is forbidden according to the WTO's most favored nation (MFN) principle, which requires that "a product made in one member country be treated no less favorably than a 'like' (very similar) good that originates in another country." (Hoekman & Kostecki, 2009, p. 185). The principle is one of the cornerstones of the WTO and hinders countries to discriminate between trading partners. However, the MFN principle has a lot of exceptions, among them custom unions and free trade areas.

When faced with a FTA between two foreign countries exporters can react in three different ways. They can adapt, invest inside the borders of the free trade area or they can lobby their government to reduce the negative consequences of such an agreement (Dür, 2010, p. 29). The assumption of economic rationality

leads to the conclusion that the export competing sector will decide which alternative to take by comparing the utility of each possibility reaction. However, the protection for exporters theory expect that under most circumstances companies maximize their utility when choosing the strategy of lobbying. It is fair to assume that this will be the case because the information asymmetry has now decreased and the direct costs are imposed on the export industry are now visible. Hence, the expected benefits form lobbying increase (Dür, 2010, p. 31).

I assume lobbying to be conducted in mainly two ways. First, one can gain influence by rallying support among the domestic constituency. In the case of trade, one of the most obvious ways to do this is through the fear of job losses resulting from the implementation of a certain trade policy. Since the political system is conservative by nature it easier to get support for job losses than for job creation. Second, the other way to lobby politicians is through legislative subsidies, which is in the form of providing information for new legislative proposals (Dür, 2010, p. 18). Governments in turn react to this increased lobbying by shifting the bias away from the import competing sector to the export industry. That is the stronger the lobbying of government; the more concerned governments will be of protecting the export sector.

In the case of the EU lobbying is directed both towards the governments in each Member State and the Commission. Hence, the Commission can diverge from the Member States only marginally, and especially the big three: France, Germany and the U.K.. Not having support from them will lead the trade policy to be rejected.

4 The Case of Singapore

This chapter combines the theoretical framework described above with the empirical data. The chapter is divided in two parts. The first part considers the negotiations of a FTA between the United States and Singapore. The second part turns to the time after the United States had concluded the agreement and how that changed the trade policy in the EU. In order to fully understand why the EU decided to negotiate a FTA with Singapore it is important to grasp the Union's trade policy in general.

4.1 Signing a FTA: the United States-Singapore case

The United States-Singapore FTA entered into force on January 1, 2004. The first round of negotiations started during the last year of the Clinton administration on November 16, 2000, and the final round of negotiations was held in Singapore November 11-17, 2002. The agreement between the two countries was concluded in early 2003.

The FTA between Singapore and the United States can be said to have formalized and further strengthened an already strong trading relationship between the two countries. Singapore is considered an important trading partner for the United States and was at the time the country's 12th largest trading partner. The United States-Singapore FTA was a result of the Trade Act enacted by the United States' Congress on August 6th 2002. The Trade Act grants the President of the United States the authority to negotiate trade agreements with third country and gives the Congress the authority to only vote yes or no, without amendments, to the agreement (U.S.C. 2002 Title 19; Chapter 24; §§ 3803-3805). The President's expanded trade authority was due to increasing concerns in Congress that the United States' competiveness was falling behind the rest of the world. "Trade is critical to the economic growth and strength of the United States and to its leadership in the world. Stable trading relationships promote security and prosperity." (U.S. Congress, 2002, p. 61).

The United States-Singapore FTA was in large guided by this view that the United States was loosing market shares to other countries and regions. The different committees that advised Congress before enacting the United States-Singapore FTA further reinforce this view. The Industry Sector Advisory Committee on Services (ISAC 13) write in their statement to the United States' Trade Representative Robert Zoellick that "[t]he Agreement [the United States-Singapore FTA] also provides new market opportunities for some of the United States' most competitive industries." (ISAC 13, 2003, p. 3). The reason for the

Bush administrations to negotiate a free trade agreement with Singapore was partly due to the potential losses that the United States was facing when Singapore negotiated FTAs with several countries in Asia. This view is most obviously reflected in the Advisory Committee for Trade Policy and Negotiations' (ACPTN) statement to the United States' Trade Representative Zoellick.

> [t]he ACTPN is particularly concerned that the United States, which is currently the largest exporter to Singapore, could lose market share, especially in services trade, with the number of free trade agreements that Singapore is currently ratifying and negotiating, most notably those with Japan, Canada, China and Korea. (ACTPN, 2003, p. 5)

The statement by the ACTPN committee to Trade Ambassador Zoellick is clearly in line with the protection for exporters argument. The FTAs Singapore was negotiating with other countries was seen as an increasing risk of market share losses. The Congress therefore saw no other way than moving the country away from the strong commitment to the WTO and opening up for FTAs. Traditionally the cornerstone of the United States' trade policy has been multilateralism, and the country has been been almost hostile towards (Feinberg, 2003, p. 1020).

Traditionally the United States has been ambivalent towards bilateral free trade with Asian nations, but the slow progress in trade negotiations in Asia-Pacific Economic Cooperation (APEC), together with an increasing Asian regionalism and the rise of China pushed the United States to consider FTA negotiations (Barfield, 2007, p. 8). The United States saw the Singapore as an important trade hub in Southeast Asia, and hoped that the United States-Singapore FTA would work as a catalyst to open up trade between APEC countries and the United States. An important goal for the United States since it does not want to be left out from this emerging region (Barfield, 2007, p. 8; Feinberg, 2003, p. 1028ff).

The Bush administration's trade policy came to be dominated by two different objectives. First, the events of 9/11 caused the United States to put greater emphasis on the connection between trade policy and national security. In 2002 the administration included trade policy in its white paper *The National Security Strategy of the United States of America.* "…the United States will use this moment of opportunity to extend the benefits of freedom across the globe. We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world." (White House, 2002). Second, the new trade policy was driven by, what came to be called, competitive liberalization. The concept referred to the idea that the United States should move away from its one sided commitment to the multilateral trading regime, and instead move on several fronts simultaneously. Zoellick argued that size of the United States' economy would help the country to conclude FTAs around the world, and a possibility to open up the locked positions in the multilateral trade negotiations (Barfield, 2007, p. 5).

When selecting partner countries for FTA negotiations the National Security Council (NSC) issued guidelines to judge partner countries. Besides national security two of the most prominent points on the list were economic and commercial benefits and support from business interests (Barfield, 2007, p. 6).

The United States' decision to negotiate FTAs with Singapore and Australia were not responses to EU's trade policy but to discrimination imposed on United States' exporters by FTAs negotiated by both these countries in Asia (Dür, 2010, p. 203).

4.1.1 The Effect of the United States-Singapore FTA on the EU

Since the mid 1990s the engine in the EU's engagement with Asia has been through the Asia-Europe meeting (ASEM). The proposal to further institutionalize the Asia-Europe dialogue was due to business interests lobbying the Singapore Prime Minister Goh Chok Tong to engage more with Europe (Gilson, 2004, p. 86). The fact that Singapore wanted to negotiate a FTA with the EU satisfy one of the two conditions that lower transaction costs for the export competing sector according to the protection for exporters theory. If Singapore had been reluctant to negotiate a FTA with the EU it is possible that the export competing sector would have perceived the chances to conclude a FTA with Singapore as small, and therefore calculated the costs of lobbying to outweigh the potential benefits.

The EU's interest in the region started in 1994 when the Commission issued a policy paper called *Towards a New Asia Strategy*. The policy paper emphasized the importance of strengthening the relations between the EU and Asia. The Commission stated that it is crucial for the Union to strengthen its economic presence in Asia through the development of bilateral relations with individual countries and regions, in order to maintain the Unions leading role in the world economy (European Commission, 1994). It is important to notice that the Commission's policy paper is released the same year as the APEC Borgor Summit in which the leaders of APEC pledged to achieve a free trade area in 2010 for developed economies and in 2020 for developing economies. However, despite this early understanding of the economic potential of Asia and the encouragement of private relationships, such as Asia-Europe Business Forum (AEBF), the EU's interest in Asia was low in the beginning (Gilson, 2004, p. 79).

In 1999 Pascal Lamy, the EU's Trade Commissioner between 1999 and 2004, introduced the doctrine of *managed globalization*, a doctrine that guided the Union's trade policy during the years of 1999 to 2005. Trade was, according to managed globalization, a positive sum game, but unlike more radical free trade liberals Lamy argued that "globalization must be controlled, steered and managed in terms of collective interests of European citizens." The conclusion was derived from the idea that not only economic interests were at stake in trade policy, "but also values, conceptions of society, of what is desirable and what is risky." (*quoted in* Agence Europe, 1999). In order to facilitate the understanding of managed globalization the idea can be divided into four areas.

First, the idea of managed globalization emphasizes the role of international institutions that settle disputes over trade issues between countries. The creation of a strong set of rules that manage trade negotiations and disputes was one of the areas in which the EU, during Lamy's tenure, tried to strengthen the role of the WTO (Meunier, 2007, p. 911).

Second, in order to promote multilateralism in the world the EU should push for the enlargement of the WTO. However, advocating an expansion of the WTO was nothing new for the Union, since it was created in 1995 the EU has been the biggest supporter for extending the WTO. Having WTO expansion as an important part of EU's trade policy has helped shape the Union's stance on the superiority of multilateral agreements over bilateral and region-to-region agreements. This position was further reinforced by Lamy. During his tenure he introduced a de facto moratorium on the negotiations of new FTA agreements (Woolcock, 2007a, p. 5). In a hearing in the European Parliament, Lamy expressed the view that "we must accept fully the responsibility for the multilateralism we demand." (*quoted in* Agence Europe, 1999).

Third, as part of emphasizing more regulated trade the EU developed a negotiation strategy that tried to include as many issue areas as possible in to the framework of multilateral trade agreements. This fits well with the concept of managed globalization*:* the more issue areas that could be included into the ruled based framework of the WTO, the more regulated trade would be, and the more managed globalization would become (Meunier, 2007, p. 913).

Fourth, important for the EU's external trade policy has been to export the European model of regional integration to other regions of the world. Despite his devotion to multilateralism Lamy saw no contradiction in pursuing region-to-region agreements as a carrot to further deepen integration in other regions (Meunier, 2007, p. 915). These agreements were however subordinated to the goal of pursuing multilateral negotiations within the WTO. Lamy emphasized that "[r]egionalism's compatibility with multilateralism must be guaranteed." (*quoted in* Agence Europe, 1999).

In short, one can say that managed globalization relied heavily on the WTO, and believed that multilateral trade negotiations would serve the interests of the EU the best. The doctrine of managed globalization also emphasized the potential risks with increasing trade, mainly in the form of job losses, and that these risks were best dealt with through a strong rule based system like the WTO.

Despite that the United States' President was granted fast track authority in trade negotiations, and that he used this authority to start negotiate FTAs with different partner countries the EU was holding on to its multilateral approach to trade. The EU saw a multilateral approach as the best response to the United States' policy of competitive liberalization. Hence, not perceiving it necessary to negotiate FTAs. Negotiating trade liberalization on a multilateral level is more cost efficient since one can protect businesses over a vide range of countries simultaneously, and not having to deal with countries individually. It is also clear that many of the potential partner countries made liberalization of the EU's agricultural sector a precondition for negotiating FTAs. The EU made the assessment that it is better to deal with the agricultural sector within the framework of the WTO where the EU could get the most in returns (Dür, 2010, p. 204). Even though the agricultural sector was not an issue in the case of Singapore the EU was compelled to stick to one policy in order not to undermine its reputation at the international level.

However, only three months after the conclusion of a free trade agreement between the United States and Singapore the EU's Trade Commissioner visited Asia to strengthen the relations between ASEAN and the EU. Commenting on the meeting Trade Commissioner Lamy said that it will open "a new chapter in EU-ASEAN trade relations" (*quoted in* Agence Europe, 2003b). However, progress in the dialogue between the EU and ASEAN was doomed to fail because of differences in their view upon agricultural issues, especially with Malaysia and Thailand (Agence Europe, 2003a). The EU refusing to discuss agricultural trade other than on a multilateral level. The EU did not find support among business to push for a FTA with the ASEAN countries. Instead business interests in Europe urged the Commission not to let the Doha Round stagnate (UNICE, 2003a). The pursue of a bilateral trade policy was seen as a last resort for the EU. "Regional/bilateral agreements can only be complementary to the multilateral approach." (UNICE, 2003b). This later became the EU's policy with the publication of the Union's new trade policy paper *Global Europe: Competing in the World* (European Commission, 2006). At the time, the policy of managed globalization was advocated by the trade unions in Europe. The European Trade Union Confederation (ETUC) supported trade justice instead of free trade (ETUC, 2005).

4.2 EU-Singapore: Towards a FTA

The EU held officially on to its policy of managed globalization until 2006 when *Global Europe* was published. However, the shift in trade policy started two years earlier when the new Trade Commissioner Peter Mandelson succeeded Pascal Lamy. The EU-Singapore FTA is an integrated part of this new trade policy and must be understood within this broader framework of European trade policy. Scholars have explained the EU's trade policy by looking at the interest of the Commission or the geopolitical interests of the Union, but neither of these theories helps explain the shift in the EU's trade policy. Others also emphasize the stalemate in the WTO negotiations as the driving force of the EU's pursuit of preferential trade agreements (Dür, 2010, p. 187). However, this argument only confirm the underlying rationale of the protection for exporters theory, that changes in the international environment will create new incentives at the domestic arena.

4.2.1 A New Trade Policy

The breakdown of the Doha Development Round in Cancún in 2003 combined with the United States' pursue of FTAs around the globe made the EU rethink its policy. One of the reasons for the deadlock of the negotiations was also due to the United States' reluctance to limit its cotton subsidies (Economist, 2003). Under increased pressure from businesses that feared unequal competition in the Asian

market, among others, the EU remodels its trade policy. The new policy paper *Global Europe*, presented by Peter Mandelson the EU Trade Commissioner between 2004 and 2008, shifted the focus back to competitiveness.

Business Europe, a lobby organization that represents 20 million European companies from 34 countries, published a policy paper that urged the EU to consider a FTA with Singapore. The statement admit that little is known about the economical effects of a FTA between the EU and Singapore, and therefore propose that the EU analyze the economic impact of such an agreement. However, even though Singapore has a high income per capita and high demand for foreign goods the main interest for European businesses in Singapore is as a hub for the Asian market from which European companies conduct their operations. Hence, it is important that European companies can compete on the same terms as foreign companies with whom Singapore is negotiating FTAs with (UNICE, 2002). Even before the Commission had changed its trade policy European companies felt the need to secure market access to the Singapore market. Being an important hub for trade in Asia, Singapore is of high importance to European companies.

When Peter Mandelson succeeded Pascal Lamy, as the European Commissioner for Trade, the shift in attitude towards international trade was apparent. Madelson emphasized early the need to open up the possibility for the EU to conclude FTAs with third country. The number one priority for the EU's trade policy should, according to Mandelson, continue to be multilateral negotiations within the framework of the WTO. He was however "inclined to envisage new regional or bilateral negotiations." (Agence Europe, 2004). During Mandelson's time as Trade Commissioner the EU saw bilateral trade negotiations as a complement to multilateral negotiations that could even strengthen the role of the WTO (European Commission, 2006, p. 8).

With the publication of *Global Europe* the EU's trade policy was redefined and renewed. The document shifted focus away from the concept of managed globalization to a more concrete goal of creating jobs in the EU, through the opening of foreign markets for European export companies (European Commission, 2006, p. 5). *Global Europe* emphasize that FTAs are not new to the EU, but that the agreement in place do not serve the Union's trade interests, particularly in Asia and Latin America.

> The key Economic **criteria** for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers). We should also take account of our potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies… (European Commission, 2006, p. 11)

The Commission finds that especially three areas are of interest given these criteria: ASEAN, Korea and Mercosur. All of which the United States have or is negotiating FTAs with. Distinctive for the new trade policy is that it shifts focus, from seeing trade as part of a broader external policy agenda, to have a more explicit economic focus upon trade (Agence Europe, 2006c; Meunier, 2007, p. 916). This maybe best illustrated in the Union's focus on the rapid growing Asian economies; according to Mandelson, European companies have not succeeded to

the extent that could be possible in Asia, and negotiation of new FTAs with Asia is therefore of uttermost importance for the EU (Agence Europe, 2006b).

4.2.2 Towards Region-to-Region Negotiations

Asia is representing an increasing part of the EU's trade. In 2009 the EU's trade with Asia amounted to 730 billions euro compared to only 426 billion Euros with the North American Free Trade Association (NAFTA) countries. Among the ASEAN countries Singapore is today the EU's biggest trading partner, with bilateral trade in both goods and services amounting to 55 billion Euros (De Gucht, 2010). The discussions between the EU and Asia were institutionalized as early as 1996 through the ASEM, the objective of the forum has been to strengthen the economic ties between the two regions.

Global Europe, in which ASEAN was seen as priority region, was an attempt to adapt to the transformation of world trade. However, the reason for why the shift took so long was due to conflicting interests among businesses in the EU. On December 6, 2006 the Commission published a Green Paper on trade defense instruments, the document was a far reaching consultation with different stakeholders in the Union: businesses, consumers and Member States. The Green paper mediated between different interests and laid the ground for a compromise between different sectors in the economy. The compromise was embodied in the concept of the community interest, and the idea was that the Commission was to be granted a negotiating mandate with the ASEAN countries, but that the adverse consequences, from an eventual agreement, for the import competing sector should be counterweighted by trade defense instruments (Agence Europe, 2006d). However, according to Mandelson, it was hard to mediate between the different interests in the EU because of the "…very complex matter to determine what constitutes Community production or Community interest," (*quoted in* Agence Europe, 2006d).

In addition to economic interests foreign policy objectives also played part; the EU tried to use their market power to put pressure on Myanmar to release the Burmese dissident Aung San Suu Kyi (Agence Europe, 2003c). There is no doubt that the geopolitical interests have some explanatory power. The negotiations between the EU and ASEAN were not pursued any further between 2003 and 2006. However, the geopolitical interest theory fails to explain the shift that occurred in 2006. Despite that the human rights issue in Myanmar had not improved in 2006 Mandelson publicly announced that the EU and ASEAN was in an agreement to step up the trade relation between the two groups (Agence Europe, 2006a). In May 2007 the EU agreed with the ASEAN countries to put differences over Myanmar aside and negotiate a FTA (Agence Europe, 2007a).

However, the negotiations between ASEAN and the EU were slowed down after two unsuccessful meetings the same year. For the EU it was important that not just issues concerning trade in goods and services was included in an eventual agreement, but also the Singapore issues (investment, public procurement contracts and competition) and non-tariff barriers. It was also the intention of the

Union to exclude the three least developed countries (Cambodia Laos and Myanmar) from the agreement. The EU was reluctant to include the agricultural sector into the agreement, due to Cambodia, Laos and Myanmar having large agricultural sector (Dür, 2010, p. 204). The ASEAN countries, on the other hand, were determined to negotiate the FTA as one entity (Agence Europe, 2007b).

4.2.3 A Bilateral Approach

In the end of 2000s the export competing sector shifted their focus from multilateral trade negations to advocating FTAs with third country. Even though the priority still was the WTO and multilateral agreements the export competing sector now emphasized the importance of pushing for new FTAs with third country. Business Europe looked with concern on the stalled negotiations with ASEAN, and saw it as priority area where the Union had to look for new strategies (Business Europe, 2009). The global financial crisis impact on trade and investment also made the export competing sector react. In a letter to the Trade Commissioner they urged the EU to combat protectionism and "press for the ambitious conclusion of bilateral free trade negotiations with key partners." (de Buck, 2009). ETUC also played down their stance on FTAs, and instead emphasized the importance that the agreements where equitable, fair, and sustainable (Itschert, 2007). In 2007 the EU's Member States adopted a negotiation mandate for the Commission, which stated that the key interest for the Union in these negotiations was the market potential and the level of protection against the export competing sector. However, more important for the choice of countries are the previous United States' agreements with Singapore and Malaysia (Dür, 2010, p. 209; Woolcock, 2007a, p. 3f). The protection for exporters theory expects the Asian economies to be of high interest for the EU because of the potential market losses resulting from the United States' FTAs. The negotiation mandate also states that:

> The EU also takes account of potential partners' negotiations with EU competitors and the likely impact of this on EU markets and economies. Based on these criteria, ASEAN, Korea and India emerge as priorities. They combine high levels of protection with large market potential. (European Commission, 2007).

Despite high ambitions from both sides the talks on a FTA between the EU and ASEAN did not lead to any agreement. However, the fact that the United States, and other countries, negotiated FTAs with the ASEAN countries was still a concern for the EU. Hence, the EU, in 2009, chose to pursue another agenda and negotiating FTA agreements with individual ASEAN members, starting with Singapore. The reason for starting with Singapore is twofold. First, Singapore is by far the most important market for the EU in Southeast Asia. The fact that the United States had negotiated a FTA with Singapore six years earlier and that this could affect the possibility for European companies to conduct business in the country worried the EU (Woolcock, 2007a, p. 4). An agreement between the EU and Singapore would "provide new opportunities for traders and consumers

alike," (European Commission, 2010). Second, the country does not have a competitive agricultural sector. Countries with competitive agricultural sectors usually find it difficult to come to an agreement with the EU, because of the Union's large agricultural lobby. However, the EU's trade with Singapore largely consists of trade in the service sector, and agricultural products constitute only a fraction of the trade (Dür, 2010, p. 209f).

On December 22, 2009 the EU's Member States gave the Commission a green light to pursue bilateral trade negotiations with members of ASEAN (Council of the European Union, 2009). The EU Trade Commissioner, Benita Ferrero-Waldner, welcomed the decision and pointed out that it would help strengthen the position "of manufacturers, farmers and service providers in the EU." (European Commission, 2009).

The new Trade Commissioner, Karel De Gucht, that replaced Ferrero-Waldner in 2010 traveled to Singapore in March the same year to start the negotiations. According to De Gucht the negotiations between Singapore and the EU ought to be seen as a continuation of the negotiations with the ASEAN region. The agreement would not only create opportunities for EU's exporters but also further strengthen the ties with the ASEAN region (European Commission, 2010). It is important to keep in mind that even though the EU has felt compelled to negotiate a FTA with Singapore, the Union does not want to end up in a situation where a FTA with ASEAN is more distant than before. Focusing solely on bilateral agreements can obstruct negotiations at the region-to-region level. The Commission expects to conclude negations between the EU and Singapore in late 2011.

5 Conclusions

The protection for exporter argument that has been presented above, expects changes at the international level to shift the government's bias towards the import competing sector to the export competing sector. By studying the EU's trade policy in the case of Singapore I have showed that the EU has reacted to changes in the international environment. First, the United States' President was granted fast track authority in trade negotiations in 2002, which led the United States to conclude a FTA with Singapore. This in turn exposed the EU's export competing sector for potential losses in the Singapore market. Second, the trade policy of managed globalization guided the EU's trade policy until 2006, a period under which a de facto moratorium on FTAs existed in the Union. However, when the Doha Development Round in Cancún 2003 broke down and the United States simultaneously negotiated FTAs with different countries the EU had to remodel its trade policy. Third, an important condition for the negotiations was the government of Singapore's willingness to negotiate a FTA with the EU.

The geopolitical argument proposed by many scholars studying EU's trade policy can explain some of the content in the Union's trade policy towards Singapore. However, the theory does not explain why the EU shifted its policy in 2006. The situation in Myanmar had not improved in 2007 when the EU begun negotiations over a FTA with ASEAN. The geopolitical argument therefore seems to have played a secondary role in the EU's trade policy. The political institutions and societal actors theories may help explain some of the Union's trade policy. However, both theories fall short in explaining why the shift in trade policy occurred in 2006. Even though Pascal Lamy and Peter Mandelson seem to have had some influence over the two policies *managed globalization* and *Global Europe*, it is hard to find any evidence that they have had any real power over the outcome.

The protection for exporter argument provides an explanation for this shift in trade policy. In the thesis I show that the two biggest economies in the world, the EU and the United States, have an indirect influence over each other's trade policies. In the case of the EU-Singapore negotiations the EU has reacted to the United States' trade policy, rather than being the acting trade power. However, this does not always have to be the case. On the contrary we can expect the EU to be the leading trading power in other case studies. What we can say though is that in a world that is increasingly entangled by trade flows, two big trading powers like the United States and the EU will shape each other's trade policy indirectly.

The EU started bilateral trade negotiations with Singapore almost seven years after the United States had concluded its FTA with Singapore. The time difference between the two negotiations can to a large extent be explained by events at the multilateral level. In the beginning of 2003 the EU still had confidence in the

WTO negotiations and believed that potential losses for the export competing sector could be tackled by a new WTO agreement. It is also important to remember that even though Singapore is an important market for the EU, the country already has very low tariffs and that the market is to small in order to change the more general policy of the Union. Hence, one has to consider the Singapore policy in the light of the more general trade policy of the EU.

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