Domestic Politics in EU External Economic Relations: US-EU Competition in Trade

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1 Introduction

During the past decade, the world trading system has undergone a profound transformation. On the one hand, the uncertainty surrounding of the conclusion of the Doha Development Agenda (DDA) within the institutional framework of the World Trade Organisation (WTO) has dampened confidence among countries about the multilateral approach to trade liberalisation. On the other hand, free trade agreements (henceforth FTAs)[1] whereby members exchange preferential market commitments are proliferating.[2] In this "market and competition oriented" environment (Schirm 2002, p. 2; Baccini and Dür 2012, p. 57) with "its emphasis on exports and open markets" (Thiel 1998, p. 61) as hallmarks of the so-called 'new regionalism' (Ethier 1998, pp. 1150–1152), FTAs have become the prominent

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[1] FTAs are defined as legally binding arrangements between two or more countries, through which these countries give each other preferential treatment in trade that eliminates trade protection among members. At the same time, each member keeps its own tariff structure in trade with third countries. Regional Trade Agreements (RTAs), Preferential Trade Agreements (PTAs) or FTAs are often synonymously applied to describe trade liberalisation on a regional or bilateral basis. For the purpose of consistency, the term FTA will be used throughout this chapter.

[2] Thereby making exemptions to the non-discrimination and most-favoured-nation (MFN) principles of the WTO.

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mode of promoting trade liberalisation and market integration (Heydon and Woolcock 2009, p. 3).

This chapter is inspired by the transformed international trade panorama, specifically by the observation that the EU has accomplished FTAs with selected emerging markets, first in Latin America with Mexico (EU-Mexico FTA, also "Global Agreement") and subsequently in Asia with the Republic of Korea (EU-Korea FTA, also "KOREU FTA"), where previously there were none. In these two regions, the EU has aimed to achieve the highest possible degree of trade liberalisation by targeting emerging markets with high market potential and high rates of economic growth (European Commission 2006, p. 10). It is nonetheless surprising that the EU has accomplished FTAs with two smaller emerging markets with less market potential and economic growth compared to the larger emerging markets, such as China, Brazil and India. These latter markets would be more attractive by having a much greater market potential and economic growth.

Parallel to the proliferation of FTAs,[3] scholars have published various studies locating the driving forces of regionalism by focussing on either international or domestic sources of foreign trade policy-making (Aggarwal and Fogarty 2004, pp. 6–16; Crawford and Fiorentino 2005, p. 16; Ethier 1998, p. 1152; Haggard 1997, p. 20; Mansfield and Milner 1999, pp. 602–615; Mansfield and Reinhardt 2003, p. 830; Whalley 2008, pp. 529–531). Although this literature gives significant insight into the causes of regionalism, it does not inform about the actual selection of specific emerging markets as FTA partners (Manger 2009, p. 27). The question posed in this chapter is therefore what drives the EU to accomplish FTAs with some emerging markets and not others?

It is argued here that the EU's granting of specific emerging markets' preferential access to its market can be explained by applying an analytical approach that includes both an international and a domestic explanatory variable (Baldwin 1993, pp. 2–5; Baldwin 1997, pp. 877–881; Schirm 2002, pp. 8–9; Woolcock 2005a, pp. 239–244). Such an approach draws attention to the global economic context within which EU foreign trade policy is rooted thereby highlighting in particular US-EU competition in trade. The subsequent influence this might have on domestic politics in EU member state governments' trade policy positions, responding to pressures from domestic economic interests, is the focus of the second variable.

The chapter is structured as follows. Section 2 will provide background information to the strategy and factors motivating EU FTAs. It will highlight the differences between 'traditional and new FTAs'. US FTA strategies and motivations are equally described as well as EU-US overlapping FTAs with emerging markets. In Section 3 an analytical approach will be proposed arguing that foreign trade policy positions of EU member governments are shaped by two explanatory variables; US-EU competition in trade and active domestic politics. These arguments are then illustrated in Section 4 through a brief analysis of the

[3] For more information on why FTAs have proliferated see Heydon and Woolcock 2009, p. 6 and Mansfield and Reinhardt 2003, p. 830.

EU-Mexico FTA thereby specifically focussing on Germany. Section 5 will then summarise the main findings of this chapter in the conclusion.

2 EU and US Trade Governance

Two of the leading proponents of FTAs which contributed early towards transforming international trade governance are the EU and the US. Both are relatively on par, being both regional and global powers (McGuire and Smith 2008, p. 172; Sapir 2007, p. 1). They are also key markets and pre-eminent key players in global trade governance; they are "the world's largest economic entities by far and (. . .) the leaders of the world trading system" (Schott 2009, p. 12). In fact, EU and US trade and investment relations are the largest in the world (Ahearn 2011, p. 2).[4] On the one hand, they have been among the strongest advocates of the multilateral approach to trade liberalisation and their cooperation and alignment to the successful conclusion of the DDA is of great significance. On the other hand, as "the two main 'hubs' of patterns in PTAs" (Horn et al. 2009, p. 3) they have also each developed an extensive network of FTAs.

2.1 EU FTA Strategies and Motivations

There is no dispute that the EU is a "formidable power *in* trade [and that] it is also becoming a power *through* trade" (Meunier and Nicolaidis 2006, p. 907).[5] It is the most integrated regional actor in global governance (McGuire and Smith 2008, p. 172) and the largest trading actor in the world.[6] Being first and foremost a single market, it is this economic 'weight' which constitutes the EU being referred to as a "market power Europe" (Damro 2012, p. 683).[7]

Concerning regionalism, the EU set the trend early on by negotiating various FTAs taking place on the 'sidelines' of those at the multilateral level. Focussing on a rather narrow geographical scope, the EU negotiated association agreements (AAs)[8] mainly with its immediate neighbours as part of a process of preparation for full EU membership. These so-called 'traditional FTA partners' were selected as having a "top foreign policy priority status for the EU" (Peterson and Sjursen 1998, p. 161; see also Brenton 2000, p. 14; Dür 2010, p. 186; Messerlin 2001,

[4] See also: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/united-states/ (Accessed February 20, 2012).

[5] Original emphasis.

[6] http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Co untry = E27 (Accessed May 27, 2012).

[7] In contrast or in addition to the EU being a normative power (Manners 2002; Sjursen 2006).

[8] See http://eeas.europa.eu/association/docs/agreements_en.pdf (Accessed February 18, 2012).

p. 200; Sapir 1998, p. 726) primarily due to political motivations (Crawford and Fiorentino 2005, p. 16; Glania and Matthes 2005, p. 13; Guerrieri and Caratelli 2006, p. 161; Woolcock 2007a, p. 3).[9] Enhancing political stability in its immediate vicinity was the EU's pre-eminent goal such as in the cases of the Central and Eastern European countries (CEECS), the western Balkans and the Euro-Mediterranean partners (Brenton 2000, p. 15; Glania and Matthes 2005, p. 14; Heydon and Woolcock 2009, p. 162; Sapir 1998, pp. 726–727).[10] The EU's "use of trade to achieve non-trade objectives" (Meunier and Nicolaidis 2006, p. 912; see also Woolcock 2005a, p. 240) with these selected partners illustrates that commercial interests were perceived as secondary (Woolcock 2007a, p. 3; Graziani 2011, p. 61).

In 1999, EU foreign trade policy pursued a 'managed globalisation' strategy by imposing a moratorium on FTAs, thereby privileging multilateral trade liberalisation (Sbragia 2010, p. 369). With the EU's centre of attention to its preference for multilateralism, other trade actors actively pursued a trade policy mix complementing multilateralism with applying FTAs. As this policy mix permitted others to gain market access vis-à-vis third markets, the EU stuck to its trade strategy, thereby risking the loss of privileged market access covered by other trading actors' FTAs. In 2006, the moratorium was abandoned and the 'managed globalisation' strategy was replaced by the 'Global Europe' trade strategy. While prioritising multilateralism in trade and the completion of the DDA (European Commission 2006, p. 2), this strategy introduced EU trade arrangements, referred to here as the 'new FTAs'. These are based on new motivations, revealing an increasing accommodation of commercial interests rather than political objectives (Dür 2010, p. 208; Gavin and Sindzingre 2009, p. 14; Glania and Matthes 2005, p. 14; Guerrieri and Caratelli 2006, p. 169). Within the context of the 2005 Lisbon Strategy, trade policy was applied as a tool to help create jobs and stimulate growth. This prioritisation of economic motivations went hand-in-hand with the EU broadening its geographical scope by turning its attention towards a change of selection of FTA partners. Instead of selecting partners such as potential members or neighbours, EU FTA counterparts "are carefully chosen partners" (Mandelson 2006, p. 1). The EU has concluded FTAs with several emerging markets. The first FTA accomplished was in Latin America with Mexico in 2000; its latest FTA concluded was in Asia with the Republic of Korea in 2011. The main goal of these 'new FTAs' is not to create benefits for the economies of these countries per se, but to create them for the EU by improving its international competitiveness through accessing emerging markets (European Commission 2006; Graziani 2011, p. 62).

[9] The EU also granted preferential trade conditions either for historical or development motivations to the ex-colonial states of the Africa Caribbean and Pacific (ACP) countries. These preferential trade conditions were however granted on a *unilateral* and not on a *reciprocal* basis (Burckhardt 2013).

[10] Besides these political considerations, simultaneously offering EU market access within the context of FTAs also promoted economic stability as economic opportunities stimulated growth within these respective countries.

2.2 US FTA Strategies and Motivations

Originally, the US had pursued a reduction in trade barriers within the multilateral framework of the WTO. In fact, similar to the EU, the US staunchly supported multilateral trade. Until 1994 the US had only negotiated two FTAs, one with Israel and one with Canada.[11] Similar to the EU, the US equally pursued its early FTAs in its immediate neighbourhood first by establishing the North American Free Trade Agreement (NAFTA) with Mexico and Canada in 1994. This was followed by the launch of the Free Trade Area of the Americas (FTAA) in the same year with the aim to negotiate a hemispheric FTA by 2005. North American regionalism revealed a significant shift in the trade strategy of the US and "represented the emergence of the US as a 'regional power'" (Sbragia 2010, p. 375). NAFTA was the first large FTA between a developing and developed countries (Hufbauer and Goodrich 2004, p. 37) and was viewed as a "springboard to the world market" (Schirm 2002, p. 9) as a reaction to the fear of 'Fortress Europe' (Barfield 2007, p. 240; Sbragia 2010, p. 375; Schott 2004, p. 361). It was not until 2001 however that the US fully embraced regionalism and FTAs emerged at the centre of US trade policy. This meant emulating the trend set by the EU (Dür 2010, p. 201; Feinberg 2003, p. 1019) and challenging "the formerly unquestioned European leadership" (Guerrieri and Dimon 2006, p. 89) in regionalism. The US introduced a trade strategy of 'competitive liberalisation', a trade policy mix complementing multilateral trade negotiations parallel to regional and bilateral initiatives. This policy is based on the premise that by partially reducing trade barriers through FTA initiatives this "would set off a competitive process toward global free trade" (Barfield 2007, p. 242) and would subsequently lead to a successful conclusion of the DDA (Bergsten 2002; Zoellick 2002). US trade and investment interests are thus to be achieved by gaining preferential market access in growing markets where commercial concerns prevailed over other considerations (Sbragia 2010, p. 369). Competitive liberalisation, as the core strategy of US trade policy, has been mostly applied, as mentioned above, first in Latin America and then in Asia. The first US FTA with an Asian partner was the Korea-US FTA ("KORUS FTA") signed in 2007.

2.3 The EU and the US: Overlapping FTAs with Emerging Markets

This simultaneous application of FTAs by the EU and the US, a so-called competing regionalism (Schott 2009, p. 16; Woolcock 2007b, pp. 258–259), has been coined as "competitive interdependence" (Sbragia 2010, p. 368), "competitive

[11] According to Feinberg these two countries were "special cases" and selected as FTA partners due to Israel being a strategic ally and Canada due to its geographic proximity (Feinberg 2003, pp. 1020–1021; Barfield 2007, p. 240; Rosen 2004, p. 50–77).

cooperation" (McGuire and Smith 2008, p. 3), "contained competition" (Smith 2009, p. 99) or "transatlantic rival economic regionalism" (Van Scherpenberg 2006, p. 37). This has been defined as "one country emulating the trading arrangements of other trading partners to offset the discrimination against its own firms generated by the trade preferences in other FTAs in which they are not a party" (Schott 2009, p. 16). Hence, the external economic relationship between the US and the EU is characterised by a "'me-too' pattern" (McGuire and Smith 2008, p. 192) where the prior liberalisation efforts of one preferential trader vis-à-vis third markets shape the subsequent actions taken by the other (Solis and Katada 2009, p. 2; Meunier and Nicolaidis 2006, p. 907). As mentioned earlier, NAFTA was partially a response to the EU's single market program, whereas the EU's trade strategy emulates the US "infatuation with FTAs" (Bhagwati 1995, p. 11) in Latin America and Asia. This has created an environment in which the EU appears to be the 'leader' at a certain point in time but equally, at a different point in time where it plays catch up to the US, it is the apparent 'follower' with regard to FTA initiatives with specific emerging markets. This has led to a situation in which the FTA policies of the US and the EU exhibit a high degree of overlap, i.e. a certain interconnectedness of FTAs concerning the partner countries chosen, and also with regard to the subjects covered (Horn et al. 2009, p. 12). Therefore, a similarity between these US and EU FTAs is the fact that they have been affected more or less to the same extent by the dynamics of competitive trade liberalisation. In addition, the timing of the EU and US negotiations with these countries largely overlapped. Whereas initially in the 1990s the US and the EU were mainly competing in "the race for markets" (Koopmann 2007, pp. 258–259) and establishing trade agreements with the fast growing emerging economies in Latin America, in the meantime, since the 2000s, they have directed their attention towards counterparts in Asia.

3 Analytical Approach

In order to explain the question of what drives the EU to accomplish FTAs with some emerging markets and not others, this chapter will follow the liberal (Moravcsik 1997) and societal (Schirm 2009; 2011; 2013) approach of international relations. Core factors of this society-centred approach include: its focus on domestic sources of government decisions; the inclusion of a variety of domestic actors in its analysis; as well as its assumption of governments' responsiveness to "dominant societal influences" (Schirm 2009, p. 503). Consequently, it focusses on the influence of domestic politics on governmental preferences (Moravcsik 1997, p. 513; Schirm 2009, p. 503; Schirm 2013 forthcoming). This argument is based on the assumption that governments, which mainly desire to remain in power (Schirm 2009, p. 504; Schirm 2011, p. 50), are responsive to these dominant societal influences, thereby fulfilling their role as "transmission belt" (Moravcsik 1997, p. 518). Thus, "governmental positions strongly express preferences originating from societal influences which exist prior to international strategies and interstate negotiations. In order to understand the international behaviour of states, it is therefore necessary to first analyse the domestic sources of governmental positions" (Schirm 2013 forthcoming). Hence, in this chapter the suspected connection between interests and governmental positions in EU trade addresses the material impact of discriminatory US FTAs with specific emerging markets via changes in economic conditions for domestic interests which then lobby the EU member governments accordingly.

3.1 US-EU Competition in Trade and Domestic Economic Interests

For this purpose, two explanatory variables are applied: US-EU competition in trade and domestic economic interests. US-EU competition in trade is defined as a competitive dynamic, where the US' initiation or conclusion of a FTA with an emerging market, through which it aims to capture the largest share of gains possible from trade liberalisation, reduces the gains available to the EU.

Domestic economic interests are defined as material considerations of interest associations which alter in response to changed economic conditions caused by discriminatory US FTAs.[12]

A US FTA with an emerging market can be viewed as "an unanticipated policy change" (Baldwin 1993, p. 5) for EU foreign trade policy. Before it faces potential or existing discrimination, the EU is not necessarily interested in establishing FTAs with emerging markets. However, once the US initiates or concludes a FTA with an emerging market, it induces changes in the economic conditions, i.e. the cost-benefit analysis of domestic economic interests. The changed economic conditions are induced because on the one hand, FTAs liberalise trade between members, while on the other, they discriminate against third parties. Hence the distributive conflict which arises is "between the insiders and outsiders to a given agreement" (Haggard 1997, p. 21). Non-participation of the EU can generate trade diversion, as concentrated losses are imposed on domestic economic interests in the form of trade and investment diversion which lead to decreasing market shares. When they recognise the potential discrimination, or feel the direct negative effects of a US FTA, domestic economic interests are altered and lobby their respective EU member governments to establish competitive conditions. Summin up, the liberal and societal approach comprises the following two hypotheses:

[12] In this chapter, domestic interest associations fulfil the three key requirements (organisation, political interest and informality) of interest groups set out by Eising (2009, p. 4). Specifically, these actors are organised, seek to influence trade policy outcomes and are generally not interested in holding office themselves. As such, both the terms interest associations and interest groups will be used interchangeably.

(1). If a US FTA with an emerging market is initiated or concluded then this leads to changes in the economic conditions of EU domestic economic interests.
(2). If EU domestic economic interests are altered as a result of a US FTA with an emerging market, then these affected interests will lobby their respective EU member governments to accomplish a FTA with the same emerging market economy.

3.2 EU Trade Policy-Making and the Liberal and Societal Approach

The society-centred approach, in this chapter, thus focusses on societal interests dominant in domestic politics of EU member states to explain the position of EU member governments in external trade policy-making. EU trade policy outcomes are thus understood as the resultant of bottom-up politics dynamics. Applying liberalism is significant since its assumption that governments' decisions reflect domestic preferences is an often contested assertion when referring to EU trade policy-making. On the one hand, there are studies specifying the collusive delegation argument which highlight the relatively significant independence of decision-makers from societal interests (Meunier 2005, pp. 8–9; Woolcock 2005a, p. 247). Following this argument, the Treaty of Rome gives the EU Commission the authority to determine EU trade policy. In trade negotiations therefore, the EU negotiates as a single actor, with the EU Commission conducting these negotiations on behalf of all the member governments and hence, national governments do not fully control EU trade policy. On the other hand, other studies have been undertaken to reject this contention by following the argument that the ability of the EU Commission to exercise its authority over trade policy is limited by the political and institutional relationships within which it operates (Woolcock 2007c, pp. 221–240; Meunier and Nicolaidis 1999, pp. 478–482). Of particular importance in this regard is the Council of Ministers (CoM) as the EU's principal decision-making body.[13] With regard to trade policy, the CoM is composed of trade ministers of each of the EU member governments. These trade ministers set the parameters within which the Commission must operate. Thus, even though the Commission has legal authority over trade policy, it exercises this authority under the close scrutiny of the EU's member governments.[14] Thus, the trade policy objectives that EU member governments instruct the Commission to pursue reflect

[13] Also referred to as the Council of the European Union.

[14] Also, with regard to trade negotiations, although the CoM's voting procedure has been amended several times by subsequent treaties and most issues are now subsequently no longer dealt with by unanimity but by qualified majority voting, in practice the unanimity is still applied. Equally this implies that the Commission is tightly constrained with regard to decision-making concerning trade negotiations.

the demands placed upon these national governments by domestic interest groups (Dür 2008, pp. 28–31; Oatley 2006, p. 82).

This section argues that in order to answer the question posed regarding the selection of specific emerging markets as FTA partners can be explained by two aspects. By highlighting the global economic context, specifically US-EU competition in trade and the subsequent influence this has on the national level focusing on the relationship of domestic economic interests with its respective government and the latter's subsequent trade policy position. The following section will test these assumptions empirically.

4 EU-Mexico FTA: The Global Agreement

In 1990, President Salinas of Mexico had approached the EU in order to promote Mexico as an attractive investment location and potential FTA partner. The EU however showed no interest, one of the reasons that it was too involved with EU enlargement at the time, turning down Mexico's offer to engage in a trade agreement (Cameron and Tomlin 2000, pp. 1–2).[15] When in 1990 Mexico engaged in trade negotiations with Canada and the US which led to the establishment of NAFTA, the EU-Mexico Framework Agreement was established in 1991 only reaffirming the latter's most-favoured-nation status. Yet in 1999, the EU and Mexico concluded the "Global Agreement" which entered into force in 2000. The following two sub-sections will elaborate the argument made above that the EU's accomplishment of FTAs with certain emerging markets has been shaped by active domestic politics of economic interests responding to the competitive dynamic between the EU and the US in gaining access to the Mexican market.

4.1 US-EU Competition in Trade

Between 1990 and 1994 EU exports to Mexico increased by 64 % (Manger 2009, p. 9). NAFTA's entry into force on 1 January 1994 however resulted in the EU-15's loss of share of Mexican imports from 11.4 % in 1994 to 8.5 % in 2000 (Inter-American Development Bank 2004, p. 69). In 1995, EU exports dropped to 25.7 % (European Commission 2002: Annex 4, p. 2). NAFTA discrimination towards the EU increased even more when Mexico decided to raise its tariffs against non-NAFTA countries in 1995 and 1999. As a result of this increase in un-weighted average tariffs, from 12.4 % in 1994 to 16.1 % in 1999 (Preuße 2000, p. 28),[16] while countries that had a preferential trade agreement with Mexico were unaffected. The

[15] A FTA with the EU however was high on the agenda on Mexico's 1995 national 5-year development plan http://zedillo.presidencia.gob.mx/pages/pnd.pdf (Accessed August 10, 2011).

[16] This reflected the Tequila currency crisis as well as the Asian currency crisis as well as NAFTA discrimination (Preuße 2000, p. 29).

EU however, was faced with a disadvantage especially in comparison with the US whose products entered the Mexican market at a very low tariff rate level. Mexico was, however, a minor trading partner for the EU with EU exports to Mexico having accounted for 0.14 % of total EU exports (Busse et al. 2000, p. 10). Thus, for the EU as a whole, discrimination from NAFTA was of minor significance. A sectoral breakdown however informs a considerable EU reliance on exports of manufactures. For example, for iron and steel (0.35 %) and automotive products (0.25 %), Mexico did present a market of greater importance (Busse et al. 2000, p. 10). This export dependency with regard to specific sectors meant that export losses, although for the EU collectively of minor importance, were of major significance to a concentrated group of domestic economic interests. With the creation of NAFTA, the US was able to capture the largest share of gains possible, whereas EU exporters experienced changed economic conditions through concentrated losses in the form of trade diversion which led to decreasing market shares. Recognising this discrimination from NAFTA and in order to protect EU exporters (Dür 2007), the European Commission published a communication to the Council stating that "if the EU fails to take appropriate steps, its relations with Mexico run the risk of being eroded by the existence of NAFTA, particularly if other countries join up"[17] (European Commission 1995, p. 13). For this reason, the Commission requested a mandate from the CoM to negotiate a new framework agreement with Mexico stating that "without a new, more advantageous contractual framework for trade, Mexico has considerable scope for protecting its market while increasing its customs tariffs (. . .)" (European Commission 1995, p. 17).

4.2 German Domestic Economic Interests

Parallel to this, EU member state governments came under pressure from interest groups to counter the competitive disadvantages and urged their respective governments to achieve "NAFTA parity".[18] Market losses were severe for Germany, the largest EU exporter to Mexico in 1994, which lost 13.3 % in 1995 (European Commission 2002: Annex 4, p. 2). Due to the trade dependence of the German economy, its foreign trade policy is characterised by "strong domestic interests in open international markets" (Freund 2001, p. 231). Hence, the most vocal and among the first interest groups to address the changed economic conditions of NAFTA for exports to Mexico were the peak business associations (*Spitzenverbände*); the Federation of German Industries (BDI), the Association of German Chambers of Industry and Commerce (DHIT) and the Business Association for Latin America (also known as Ibero-Amerika Verein, IAV) In 1994, they

[17] Chile was also interested in joining NAFTA.

[18] NAFTA parity meant an introduction of a schedule of tariff reductions with the main aim that it would support European exporters to re-establish equal conditions and liberalise access for its exports to Mexico by the same year as the US and Canada (Dür 2007, pp. 843–844).

founded the Latin America Initiative of German Business (LAI) which created the ability to establish and coordinate collective priorities and common positions with the main objective "to secure and enhance the position of German businesses" (Lateinamerika Konzept 1995, p. 9). With respect to NAFTA discrimination the LAI lobbied the German government intensively. In a joint communication they informed Chancellor Kohl warning that without a FTA with Mexico "Germans would miss out on economic market access" (Lateinamerika Nachrichten 1996). Based on this, the German government and the LAI collaborated on the so-called "Lateinamerika Konzept" which was introduced on 17 May 1995 (Lateinamerika Nachrichten 1996). Already in 1994, while holding the Presidency of the second half of the EU Council of Ministers, German Minister of Foreign Affairs Kinkel stated that one of Germany's main goals of the concept was "to upgrade economic relations" with Mexico (Kinkel 1995).

In May 1995, the EU and Mexico signed the Joint Solemn Declaration establishing the foundations of a prospective new framework agreement. This however followed a two-stage process, which included the negotiations of an "Interim Agreement" first and the negotiations towards a FTA to commence later. In 1996, Chancellor Kohl visited Mexico to represent German business interests "to make up for lost ground" (Die Tageszeitung 1996). During this visit the Chancellor stated that for Germany Mexico was "a priority country" [for] "progressive trade liberalisation" (Lateinamerika Nachrichten 1996).

Due to the protracted process of the two-stage negotiations, the German government was under constant pressure from interest associations. In 1997, BDI President Henkel expressed the urgent need for a EU-Mexico FTA by saying that he "will continue to lobby the Federal German Government (. . .) for the conclusion of a free trade agreement between the EU and Mexico [because this] would ensure that also German companies in Mexico can operate under the same market conditions as their North American competitors" (BDI 1997).

After the Interim Agreement was signed, trade negotiations for the Global Agreement lasted one year, from November 1998 until November 1999. Facing the start of the first round of trade negotiations the LAI made consistent reference to NAFTA parity. As customs duties within NAFTA were decreasing since 1999, "the urgency of the free trade agreement between the EU and Mexico has become even more obvious. In times of globalisation, no market is allowed to be remote for German industry", (Frankfurter Allgemeine Zeitung 1999). German trade policy positions towards the Global Agreement were thus strongly shaped by domestic economic interests and the responsiveness of the German government to these interests. The case study has shown that on request of the peak interest associations worrying about their market access in Mexico the German government collaborated with these making Mexico a priority country for liberalising trade.

In 2000, the Global Agreement between the EU and Mexico entered into force. It was the EU's first interregional FTA and was referred to by EU Trade Commissioner Lamy as "the first, the fastest and the best" (Lamy 2002, p. 3). The EU-Mexico FTA achieved its goal of NAFTA parity and went even beyond in that it liberalised 95 % of two-way trade and also included the Singapore Issues.

5 Conclusion

It was argued here that the EU concludes FTAs with specific market when US-EU competition in trade changes the economic conditions of domestic economic interests and when these domestic economic interests subsequently shape their respective governments trade policy positions. The findings correspond to the expectations of the liberal and societal approach to international relations used in this chapter to explain the driving forces of the EU to conclude FTAs with specific emerging markets. In the case of Germany, the creation of NAFTA clearly created a fundamental change in the economic conditions domestic economic interests had faced before. The market losses of the affected domestic economic interests led to these lobbying their government to accomplish a FTA with Mexico. The timing of their lobbying and the content of their statements demonstrates that this lobbying was set off because of NAFTA's establishment and US-EU competition in trade with respect for the Mexican market. This empirical finding thus supports the first hypothesis of this chapter's analytical approach. Also, the role of the domestic economic interests in shaping the EU member state governments' trade policy preferences and the latter's responsiveness is successfully emphasized. This has been made obvious through the close collaboration of the German government with the LAI. This second empirical finding thus also supports the predictions of the liberal and societal approach introduced in this chapter.

This case selection, however, does not allow for generalisations. Nevertheless, it seems reasonable that other EU FTA negotiations can be explained by applying this chapter's analytical approach. The European Commission has stated that the 'new FTAs' "should also take account of our potential partners' negotiations with EU competitors [and] the likely impact of this on EU markets and economies" these might have (European Commission 2006, p. 11). The potential loss of market access in the Republic of Korea in the face of the US-Korea FTA seems to have played a role for the EU's initiation of the KOREA FTA in 2007. Future research on the role of US-EU competition in trade and the role societal interest play might thus constitute a promising way to enhance the understanding of the EU as a global power in the making.

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