

# Actors and models

## Assessing the European Union's External Capability and Influence

Edited by Pierre Willa and Nicolas Levrat

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Pierre Willa and Nicolas Levrat, August 2001.

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## Abbreviations & acronyms

ACP	African, Caribbean and Pacific group (Lomé Convention States)
BSEC	Black Sea economic cooperation
CBSS	Council of Baltic Sea States
CAP	<i>Centre d'analyse et de prévision (Quai d'Orsay)</i>
CEE	Central and Eastern Europe
CEECs	Central and Eastern European Countries
CFSP	Common foreign and security policy
Comecon	Council for Mutual Economic Aid (1949-1991)
CPRS	Central Policy Review Staff (FCO)
DFAE	<i>Département fédéral des Affaires étrangères (Berne)</i>
EC	European Community(-ies) or European Commission
ECB	European Central Bank
Ecofin	Council of Economic and Finance ministers
ECU	European Currency Unit
EEA	European Economic Area
EEC	European Economic Community
EER	External Economic Relations of the EC
EFP	European foreign policy
EMI	European Monetary Institute
EMP	Euro-Mediterranean partnership
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
EPC	European Political Cooperation
EU	European Union
FCO	Foreign & Commonwealth Office (UK)
IGC	Intergovernmental Conference
IMF	International Monetary Fund
Interreg	EC initiatives for cross-border cooperation
IR	international relations
<i>OJEC</i>	<i>Official Journal of European Communities</i>
MEP	Member of European Parliament
NIEO	new international economic order



OECD	Organisation for Economic Co-operation and Development
Phare	network of EC programmes of financial aid and technical cooperation with CEECs (presently thirteen)
<i>Quai d'Orsay</i>	<i>Ministère français des Affaires étrangères</i>
QMV	qualified majority voting
SEA	Single European Act
SECI	Southeast Europe Cooperation Initiative
SEECF	South East Europe Cooperation Process
SGCI	<i>Secrétariat général du Comité interministériel pour les questions de coopération économique européenne</i>
Tacis	EU's programme of technical assistance for thirteen countries of former USSR and Mongolia
TEC	Treaty on European Communities (Rome, 1957)
TEU	Treaty on European Union (Maastricht, 1992)
WB	World Bank group
WEU	Western European Union
WTO	World Trade Organisation (GATT, until 1994)

## How to assess the EU's External Dimension: Introductory remarks

*Nicolas Levrat and Pierre Willa*

Since the birth of the EU, its external capability and its influence in international relations has been a subject of analysis for academics. The main questions analysts have been confronted with include the following: What are the interrelationships between EU institutions in the aforementioned area? What is the division of power between Brussels and the member states? What are the EU's potential instruments, which can be used by the EU in international relations? Is the EU a fully-qualified international actor?

The present volume of work captures the EU's external capability at a specific point in time, following a decade of significant improvement in the EU's instruments and procedures. The World stage, and particularly the geo-political context of Europe have also undergone profound changes.

Evolution, in terms of the EU improving its skill in external relations, is far from over and a large volume of contemporary literature on the issue attempts to assess the potential outcome of envisaged developments. The following contributions concentrate on the EU's external influence in the current institutional and political setting. A vision of the EU is emerging; a distinct 'non-power' actor in international relations, able to offer member States a skirting strategy to avoid direct confrontation with other powers in the conduct of European external relations.

Future evolution of the World stage and of the EU's competencies, of the institutional setting and of the means deployed in international relations may lead to the disappearance of some interesting features of the EU's current external capability, which will be enumerated in due course, and which this introduction aims to highlight.

### *Existing frameworks for analysing the EU's External Dimension*

Different schools, mainly from the international relations theories<sup>1</sup>, prefer answers to some, or all of the questions raised in the first paragraph,

<sup>1</sup> For a discussion of these theoretical problems and for a more complete overview, see, among others: Ginsberg, Roy, Conceptualising the European Union as an International Actor: Narrowing the Theoretical Capability-Expectations Gap, *Journal of Common Market Studies*, vol.

thus establishing a conceptual framework to interpret the EU's external dimension.

Realists put the emphasis on the member states, conceiving them as rational actors, pursuing respective national interests, taking into account the ever present possibility of war between these states. Realists' analyses focus on general patterns of these states' behaviour, with the aim of facilitating a better understanding of member states' national attitudes towards the development of the EU's potential. Common Foreign and Security Policy (CFSP) is regarded as an instrument to promote member states' national interests and to increase their influence on the world stage. The underlying logic is a cost-benefit analysis<sup>1</sup>.

Not so far from this approach, neo-realists take potential co-operation between member states into account but these are member states, which still pursue national interests, maintaining security as their primary concern. The external potential of the EU, particularly through CFSP is, in this sense, nothing more than a recycled version of old-style alliance, meeting the interests of the participants subscribing to particular deals.

In line with international relations theories, neo-liberal institutionalists (who base their work on the same premises as the realists but who place the emphasis on co-operation mechanisms), stress the importance of institutions and norms. The international system is thus characterised by a complex interdependence. States therefore act in a different way because of independent institutions, which have been set up for the purpose of managing this interdependence. The member States however, still behave in a realist way, favouring national over common gain. The EU's external potential is utilised because such issues are generally settled in an inter-governmental manner, even though the internal procedures and power games of the institutions are also considered important. Such an approach can thus be linked to the concept of a regime. The CFSP would thus involve creation of new norms, procedures and rules. Common decisions are the sign of compliance with a CFSP regime.

From a liberal, inter-governmentalist point of view<sup>2</sup>, governments are constrained by domestic interest groups, particularly by commercial inter-

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37, n.3, September 1999, pp. 433-51. On the difficulty in applying these concepts to foreign policy and the nature of the relations between the EU and its member states: Pfetsch, Frank, *Tensions in Sovereignty: Foreign Policies of EC members Compared*, in: Carlsnaes Walter, Smith, Steve, *European Foreign Policy, the EC and Changing Perspectives in Europe*, London, Sage, 1994, pp. 120-37.

<sup>1</sup> This theoretical perspective is fully developed in the paper by W.Wagner, *Foreign Policy Capacities and State Preferences on CFSP, Assessing the Rationalist Explanation of German, French and British CFSP Policies*.

<sup>2</sup> The paper by M. Benedek, "The conflict over land ownership in postsocialist Hungary:

ests. The EU's external potential, seen from this perspective, is simply the projection of domestic interests channelled through a European framework. This economic approach was also the basis of neo-functionalism, i.e., perceiving the European construction as a quasi-automatic process, fuelled by economic and political spill-over. Consequently, the external dimension is the most recent step in this process.

From a rationalist perspective, constructivists<sup>1</sup> consider co-operation, primarily as something which implies a change in the participants' perceptions and understandings through a learning process, resulting in a new collective identity. This constructive process increasingly drives the EU to act as a single body in its relations with the rest of the world.

Regardless of the perspective, several aspects of the EU's external dimension elude the varied explanations proffered by the aforementioned theories. For example, the process of enlargement, which has been quite neglected by the different schools of theory<sup>2</sup>. The same can be said for the evolution of the European project, never really taken into account when assessing the EU's external dimension, although European integration is always evolving. This biased perspective means that static models of explanation take precedence over more dynamic models. This is perhaps the reason why most analyses actually focus their attention on the internal dimension of the EU's external dimension ( the role of different institutions, the relative efficiency of procedures, relations between member States within the EU-CFSP framework), rather than on a more dynamic model.

Each of these theoretical approaches has its strengths and weaknesses in the way it explains the development of the EU's external potential and its influence, in particular, that of the CFSP<sup>3</sup>. The explanations are all individually incomplete, each highlighting only part of the reality. This raises the question: Is there an alternative explanation ? If so, does it contain fertile ground for investigation?

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Pluralism, rationality and institutions in national preference formation", examines the preference formation model developed by Andrew Moravcsik, an eminent advocate of this theoretical perspective, with a case study on Hungary.

<sup>1</sup> For an assessment of the different theoretical frameworks of analysis and an application of the constructivist analysis on the enlargement process, see the paper by J.O'Brennan, "Enlarging Europe: Reconceptualising Europe, Social Constructivism and EU Enlargement".

<sup>2</sup> See Wallace, Hellen, "EU Enlargement: A Neglected Subject", in Green Cowles, Maria & Smith, Michael (eds), *The State of the European Union. Risks, Reform, Resistance, and Revival*, Oxford, University Press, 2000, pp. 149-163.

<sup>3</sup> On the question of the explicative capacity of classical theories on the integration phenomena and the CFSP, see: Hill, Christopher, *The Capability-Expectations Gap, or Conceptualising Europe's International Role*, op.cit., pp. 306-310.

Our aim is to propose an “outside-in” holistic analysis, within which the EU is conceived as an international actor<sup>1</sup>, who could assist in achieving new results. The point is not to analyse which actors (EC/EU institutions, member States) take part in external European endeavours, nor in which institutional context they takes place (the CSFP, the external commercial policy, the enlargement process, co-operation or development policies, etc.). This is an attempt to seize and analyse cases in which the EU emerges as a convincing international actor , in order to understand in which context member states choose a European framework, rather than acting unilaterally.

The papers collected in this volume were presented at an ECPR Summer school<sup>2</sup>, held in Geneva on the initiative of the *European Institute of the University of Geneva*<sup>3</sup>, in August-September 2000. These papers focus on the role of different actors and resources in exporting the European model as a major tool for influence on the international stage. In doing this, these papers allow for a very broad, albeit complex presentation of the EU's presence in international relations. The present introduction emphasises the global view that emerges from the combination of these diverse contributions. They are diverse, both in their methodological frameworks as well as in terms of the topics they develop.

### *Context and characteristics of external action perceived as European*

We would argue that the main characteristic of successful action, labelled and perceived as European outside the ‘EU territory’ is the inseparable nature of the external policy issue within internal EU processes<sup>4</sup>. The

<sup>1</sup> From this perspective, the EU will be considered to be a fully-fledged international actor , without considering internal decision-making processes. . Following this logic, we will not make any distinction between action taken by the European Community and by the European Union. We will not consider this division as specific, and will analyse the economic side when it overlaps with the EU external dimension. Using the same logic, legal issues such as the EU's distinctly subjective interpretation of international law are not treated.

<sup>2</sup> The programme was entitled “EU external capability and influence”. Even though they were not direct contributors to work , the following teaching staff needs to be thanked for the enriching comments they made, allowing for participant's papers to be complemented and upgraded: (D. Allen, F. Attina, P. Braillard, J. Caporaso, T. Christiansen, G. Edwards, C. Frank, R. Ginsberg, C. Hill, A. Inotai, N. Levrat, J. Monar, A. Moravcsik, J. Peterson, E. Remacle, R. Schwok, D. Sidjanski, K. Smith, S. Stavridis, M. Telo, A. Tovas, J. Zielonka) 'to be complemented and upgraded.

<sup>3</sup> This Summer school is part of an ECPR program of rotating Summer schools. . The Partners are the free University of Brussels and the University of Catania.

<sup>4</sup> The idea was pur forward by Tsingos, Basilios, “Underwriting Democracy : The European Community and Greece”, in Whitehead, Laurence (ed.), *The International Dimensions of Democratization. Europe and the America*, Oxford U. Press, 1996, p. 339.

best example for this is the “enlargement” process, which transforms a typical foreign policy issue, (the relationship of the EU and its member states with the CEEC), into an internal/external issue, linking negotiations with third party States to EU institutional reforms.<sup>1</sup>

The interesting aspect of this confusing external action taken by the EU is that it cannot be analysed as classic power politics situation<sup>2</sup>. Under the existing norms governing international relations since 1945, no power is allowed to ‘extend’ its authority in the way the EC/EU has been doing. Therefore, existing tools of IR analysis do not seem appropriate to characterise such action. We will proceed by attempting to identify several criteria that seem to be necessary for such external action to be original and successful.

Firstly, it seems that the EU should not be competing with other powers, (whether they be external powers or the EU’s own member states), for its action to be perceived as EU-driven. With regard to the present EU enlargement to the CEEC, the US has clearly indicated its desire for Europe to remain the driving force<sup>3</sup>. The USSR has since disappeared and Russia, both for historical reasons as well as for internal constraints, is not in a position to compete. In other situations where the EU is forced to compete with other powers, external action taken by the EU is significantly less efficient, even though it basically promotes the same action taken by other powers and represents the same values. This external action is less efficient either because a foreign power considers action taken by the EU as encroaching on its interests (i. e. the US in the Middle East), or less efficient because member states pursue their national foreign policy in the same area. Such behaviour by member states may be explained by an absence of competition from foreign powers in a given area, rendering European national powers unwilling to use the EU’s methods and instruments. (e.g. France in North-western Africa ).

In terms of fulfilling this first criterion, the three Baltic States represent a good test of its validity. Russia’s efforts to compete have been played down by local as well as by international actors, allowing the EU to resort to its enlargement strategy, i.e. stronger competition with Russia would expose the limits of the current mode of action and compel the EU to resort to tra-

<sup>1</sup> See Conclusions of the Presidency of the European Councils at Essen (1994), Luxembourg (1997), Helsinki (1999) and Nice (2000).

<sup>2</sup> Valladao, Alfredo, “Europe : moteur d’une association internationale post-souveraine”, in Durand, Marie-Françoise et Vasconcelos, Alvaro de (eds), *La PESC. Ouvrir l’Europe au monde*, Paris : Presse de sciences po, 1998 pp. 55-89.

<sup>3</sup> Hoffmann, Stanley, ‘Europe’s Identity Crisis Revisited’ *Daedalus* 123, n° 2 (Spring), 9-10.

ditional power politics, in which case its competitive advantage would be far less pronounced.

Secondly, as most commentators of external action taken by the EU have noted, the EU appears to be a 'civilian power' rather than a fully-fledged power (with military capacity)<sup>1</sup>. Evidence shows that external action is perceived as EU action when the EU do not resort to military means. For example, the co-ordinated EU Alba operation in Albania in 1995 was perceived as an Italian intervention. The OSCE/EU operation in Kosovo in 1999 was hidden by the NATO/US operation. Insufficient competencies, a lack of efficient decision-making procedures and unadequate means at the EU disposal are definitely the main reasons why such external policies haven't been europeanised.<sup>2</sup> Furthermore, there is stiff competition in such a classic area of power politics, whether with external actors (the US/NATO) or with member States. This means we can derive an explanation from the first criterion. Even though recent developments may lead to the aforementioned structural impediments<sup>3</sup> being minimised, the competition factor means that such external action taken by the EU will continue to be far from efficient.

Thirdly, the EU's methods are only efficient when they can be deployed as a mid- or long-term strategy. EU Foreign policy is not a tool for crisis management, as shown by the difficulties with the early break-up of the socialist Federal Republic of Yugoslavia (1991-2) or by the Kosovo crisis (1999). This type of action is based on exporting methodology and values and it needs time to produce results. In fact, for the EU's method to prove efficient, the target for EU action needs to be willing to adopt and integrate both the implicit and explicit values present in the EU model.<sup>4</sup> Such is clearly the case with the CEEC, and naturally less straightforward with countries south of the Mediterranean or in the Middle-East

To assess EU foreign policy at once is virtually impossible, given it is extremely difficult to identify the different actors and their respective competencies. Both of these aspects work in favour of the EU's external potential, making it less threatening to any potential competitors. The EU's foreign policy is, in most cases, a melting pot of internal decisions, themselves

<sup>1</sup> Among many others, Alfred Van Staden, "Mission impossible? Europe's role in diplomacy and international security", in Van Genugten, W.J.M & al. (eds.), *Realism and Moralism in International Relations*, The Hague: Kluwer, 1999, p. 67.)

<sup>2</sup> Remacle, Eric, " Union européenne: entre puissance civile et puissance militaire", in Adam, Bernard & al. (eds), *La nouvelle architecture de sécurité en Europe*, Bruxelles, Editions Complexe, 1999.

<sup>3</sup> See the 1999 Helsinki Council conclusions on military-capacity building

<sup>4</sup> See the European Commission "Regular reports towards accession", yearly reports evaluating both foreign countries and accession countries' compliance with EU values and normative requirements.

the result of complex negotiations between member States. EU foreign policy indicates how EC organs and/or resources will contribute to and define the strategic objective. This is the case with the enlargement policy, for instance, which relies on EC financial instruments<sup>1</sup>, those European council conclusions<sup>2</sup>, which are not taken within the strict framework of CFSP, as well as "European Agreements" signed between EC and partner countries, all of which provide an institutional framework to develop these relations<sup>3</sup>. Actors, methods and resources differ but also overlap in defining EU external policy in complex ways.<sup>4</sup> Such undefined external action also renders the EU less threatening to potential competing powers. We argue that if procedures were more precisely defined, if actors carrying out EU action were to be identified and if EU defence (military) capabilities were to be extended, this may well prove detrimental to the global capacity of the EU's external capability. Thus far, the EU has occupied a special niche in international relations, outside the framework of classic power politics.

### *Inventing a new, 'non-power' foreign policy*

As shown above, the methods the EU uses to conduct its foreign policy differ from those of typical power politics. Such external action avoids direct confrontation with other powers, a "non-power" strategy, in other words, a civilian power. From the members States' perspective, using the EU framework enables them to achieve goals that would otherwise be out of reach using conventional power politics, which they are compelled to follow as national states. Using the EU framework for external relations may thus be considered to be following the logic of subsidiarity<sup>5</sup>. Up to a point, member States can thus be said to be legitimising the EU's classic sphere of external influence<sup>6</sup>.

<sup>1</sup> See the original PHARE regulation (R (EEC) 3906/89 of 18 December 1989, *JOCE* 0 L 375 of 23.12.1989); the Pre-accession structural instrument, created by the R (EC) 1267/99 of 21 June 1999, *JOCEL* 161/73 of 26.06.1999; the Agricultural instrument for applicants (R (EC) 2168/99, *JOCE* L 161/87 of 26.06.1999; and the Regulation co-ordinating these 3 financial instruments, R (EC) 1266/99 of 21 June 1999, *JOCEL* 161 of 26.06.1999.

<sup>2</sup> The most important are Copenhagen, December 1993, Essen, December 1993, Madrid, December 1995, Amsterdam June 1997, Luxembourg, December 1997, Helsinki, December 1999 and Nice, December 2000.

<sup>3</sup> Signed with Hungary and Poland in 1991, Romania, Bulgaria, the Czech Republic and Slovakia in 1993, Estonia, Latvia and Lithuania in 1995 and Slovenia in 1996.

<sup>4</sup> Eric Remacle qualifies it as a 'composite foreign policy', in "De l'euro à la PESC, d'Amsterdam à Helsinki. Les balbutiements d'un "acteur" international", in *Annuaire français des relations internationales*, 1999, pp.

<sup>5</sup> As a concept not according to the definition given by art. 5 TEC, which only covers purely EC domains.

<sup>6</sup> See Melanie Morisse-Schilbach, "Domestic Institutions in European Foreign Policy-



For member States, implementing EU foreign policy could be characterised as a skirting strategy, thus avoiding direct competition with traditional powers. The EU's external capability has been proven in the past. Applying the EU's experience in constructive foreign policy led to European integration, as we know it today<sup>1</sup>. Such external influence from the EU should engender compliance with EU norms and values on the part of the target country when this country develops its domestic and external policy<sup>2</sup>. Results on a medium to long term time-scale are by no means less fruitful than what could be achieved through power politics.

However, such influence will only prove efficient in countries closely linked to the EU, either through geography or through economic ties<sup>3</sup>. Values may not be integrated when there is too wide a gulf between perceptions and understanding<sup>4</sup>. Effective external action by the EU thus appears limited for its 'near-abroad' neighbours<sup>5</sup>. A genuine foreign-policy, able to produce results with more distant geographical targets would have to fall back on using traditional power politics. Moreover, even in such 'near abroad' countries when there is no need to avoid confrontation with another power, strong member States resort to classic national foreign-policy, which parallel EU initiatives and thus undermine the EU's external capability.

The EU currently has great potential to be an international actor in specific settings, for example, when member States need to bypass competition

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Making. Do they matter?" , demonstrates this by analysing the complex relations between the national foreign policy institutions and the European ones.

<sup>1</sup> A recent European Commission Communication on Conflict prevention was commented on by EU External Affairs Commissioner Chris Patten: "The EU can make a real contribution towards the construction of peace and stability in the world. Not only because it is a major actor on the international scene and the world's largest aid donor, but even more due to the fact that the EU was itself born from a war, and was designed to prevent conflicts." (Brussels, 11 April 2001, IP/01/560°

<sup>2</sup> The first on a long list of recommendations included in the Commission Communication on Conflict prevention reads as follows: "The Commission will give higher priority to its support for regional integration and in particular regional organisations with a clear conflict prevention mandate." (IP/01/560).

<sup>3</sup> For a comparative analysis of two EU policies in Europe's periphery, see the paper by E.Johansson, "Subregionalization in Europe's Periphery and EU's Foreign Policy: the Baltic Sea and Mediterranean Dimension". The paper by S.Price, "The political economy of the EU's external relations, the historical evolution of the Lomé Convention", focuses on the EU's role in exporting a liberal-type economy throughout the world, focusing on the Lomé Conventions.

<sup>4</sup> For a good example of exporting the European model in the domestic politics of a country, see the paper by C.Bonte, "How Far Are EU Boundaries Extending?, Explaining the Inclusion of Third Countries in the EU's Attempts to Combat Tax Evasion", highlighting the influence the EU has on non-members and the authority the EU wields in the realm of tax evasion<sup>5</sup>

<sup>5</sup> Which doesn't necessarily have to be perceived as a purely geographical concept. Close proximity to the EU may be based on values, without direct geographical proximity.

with stronger powers within EU 'near-abroad' countries. However, extending the EU's external capacity would inevitably imply resorting to a more classic style of power politics. This would lead to a different use of the EU framework in member states' respective foreign policy. If sufficient understanding on an institutional and political level is reached, this would permit the current skirting policy to be supplemented with a united system of power politics. This entails the risk that other powers show less benevolence towards EU foreign policies, once the EU is perceived as a real competitor.

Such an evolution seems likely, because members states legitimising EU external capacity has had consequences. If external action taken by the EU looks like an EU policy from abroad, it also tends to become an EU policy, particularly internal procedural decision-making. Thus, despite the efforts of member States to keep the CFSP as an intergovernmental mechanism, both the complex nature of the EU's external policy, highlighted above, as well as the fact that CFSP procedures also resort to EC resources, necessarily implies that EC procedures and institutions be included in the policy-making process<sup>1</sup>. Thus a Europeanisation of member States' respective foreign policies<sup>2</sup> has been observed, as recent progress at European Council meetings (Helsinki, Feira, Nice) towards a common defence policy have demonstrated.

This specific EU external potential, which stands to reap the benefits of a non-power status may be just a nebulous phase, doomed to disappear because of attempts to transform EU into a fully-fledged power on the international stage. The contributions in the present volume of work capture the complex and varied facets of this current form of the EU's influence in international relations.

<sup>1</sup> Interinstitutional agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgeting procedure, (*JOCE*, 18 June 1999, C 172) §§ 39-40.

<sup>2</sup> For an example, see the paper by M.Dahl, "EU versus Men wearing Dark Glasses, EU's Capability-Presence in Nigeria, 1979-2000", where the author analyses the development of the EU's external capability in Nigeria and a europeanisation of states' foreign policies.

First Part

**Actors**

## Foreign Policy Capacities and State Preferences on CFSP: Assessing the Rationalist Explanation of German, French and British CFSP Policies

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### **Abstract**

While even small steps towards a common European foreign policy have received broad public and scholarly attention, this paper seeks to analyse member states' behaviour and to explain the different German, French and British policies towards the European foreign policy regime. In contrast to a constructivist or postmodern perspective, rationalist and neorealist approaches seem to converge here – not because rationalism has been truncated, but because recent neorealist theorizing has moved away from a narrow focus on material capabilities and has incorporated institutions and perceptions as further explanatory variables.

### **I. Introduction<sup>1</sup>**

A transfer of foreign policy-making competences from the member states to the European Union would signify a large step towards a European federation. This may explain why even small steps towards a common European foreign policy have received broad public and scholarly attention. The extent to which foreign policy-making competences are transferred to the level of the European Union, the involvement of the Commission and the European Parliament (EP) as well as decision-making procedures and financing arrangements have all been negotiated by the member states. Whereas supranational actors play an important role in Community politics, member states remain the single most important actors in constitutional questions: At the intergovernmental conferences the Commission does not have the exclusive right of initiative it enjoys in Community politics. Member States can thus place their own initiatives on the agenda. For treaty reforms to come into force, every member state has to ratify the agreement according to its constitutional procedures. The European Parliament's assent is not required. Any change of the European Union's constitution including the provisions on foreign policy making thus requires the consent of all member states. It is therefore surprising that not much scholarly work has so far been dedicated to analyzing member states' policies towards European Po-

<sup>1</sup> I would like to thank Rainer Baumann, Henning Boekle, Roy Ginsberg, Peter Mayer, Andrew Moravcsik, Susanne Riegraf, Hans Seidenstücker and the participants of the ECPR Summer School on 'EU External Capability and Influence in World Affairs' for helpful comments.

litical Cooperation (EPC) and Common Foreign and Security Policy (CFSP)<sup>1</sup> respectively.<sup>2</sup>

This paper<sup>3</sup> seeks to fill this lacuna by trying to contribute to an explanation for the different German, French and British policies towards the European foreign policy regime. In this paper I will apply a rationalist framework to German, French and British CFSP policies. This privileged position of a rationalist – in contrast to a constructivist or postmodern – perspective can no longer be justified solely by reference to the dominant position of rationalist theorizing in International Relations and Foreign Policy Analysis. From the point of view of ‘mainstream IR’, a constructivist approach may have become an even more obvious point of departure. However, a rationalist first cut is worthwhile because rationalism is best equipped to detect general patterns of state behavior. Whereas a constructivist focus on identities, cultures or historical legacies is best equipped to make us understand the specific background of state policies, a rationalist perspective helps us to trace state behavior back to general assumptions about the basic interest of states or the functions of institutions. A rationalist first cut thus seems appropriate to the extent that one is interested in placing given cases (such as member states’ CFSP policies) into a general pattern of state behavior. It should be noted, however, that a rationalist first cut privileges a rationalist explanation but does not guarantee its success. Quite the contrary, because rationalism assumes that state behavior can be traced back to general assumptions about preference formation and the like, its hypotheses are open to falsification. If rationalism cannot account for a given puzzle, a constructivist second cut seems necessary in order to find an explanation. In other words, whenever an instant of state policy cannot be explained by general assumptions about state behavior we have to ask what specific (or idiosyncratic) factor(s) may account for the behavior in question.

<sup>1</sup> If no explicit reference is made to the time before 1993 when EPC was replaced by CFSP, ‘CFSP’ and ‘CFSP-policy’ refers to both CFSP and its predecessor EPC. Though CFSP covers both foreign and security policy and even envisions defense policy I will focus exclusively on traditional foreign policy, i.e. on the non-military (and non-economic) aspects of relations to third countries and international institutions.

<sup>2</sup> Cf., however, Hill, Christopher (Ed.) 1983: *National Foreign Policies and European Political Cooperation*, London: Allen & Unwin; Hill, Christopher (Ed.) 1996: *The Actors in Europe's Foreign Policy*, London: Routledge as well as Manners, Ian/Whitman, Richard/Allen, David (Eds.) 2000: *Foreign Policies of EU Member States*, Manchester: Manchester UP.

<sup>3</sup> This paper presents a part of my dissertation on “The Construction of a European Foreign Policy” that analyses why Germany, France and Great Britain have pursued different policies towards CFSP. In my dissertation a rationalist first cut which is outlined in this paper is followed by a constructivist second cut that aims at explaining those aspects of policy which rationalism cannot account for.

The remainder of this paper proceeds as follows: Section II gives a brief outline of the puzzle to be examined, i.e. German, French and British policies towards CFSP. Section III presents a general rationalist framework designed to explain states' foreign policy towards international institutions. This framework comprises a theory of states' fundamental preferences, a theory of co-operation, a theory of institutions and a theory of institutional choice. Finally, a theory of rationalist foreign policy translates the previous insights into specific behavioral predictions. Section IV demonstrates that a large part of the literature on CFSP draws heavily on the rationalist theories outlined in section III. Section V presents rationalist predictions for German, French and British CFSP policies that are derived from the general rationalist framework and supported by common assumptions made in the literature on CFSP. Finally, section VI evaluates the record of rationalism in explaining German, French and British policies towards CFSP.

## **II. German, French and British Policies Towards CFSP**

### *The Concept of CFSP Constitutional Policy*

Member states' CFSP policies comprise two dimensions, i.e. a policy *within* CFSP and a constitutional policy *toward* CFSP. It is this second, constitutional dimension that this study is concerned with. A member state's policy *within* CFSP comprises its behavior inside the Council of the EU, where common positions and joint actions are discussed and decided upon, as well as, the degree of compliance with CFSP provisions. The constitutional dimension refers to a state's behavior during intergovernmental negotiations about the regime's constitution itself, i.e. about its principles, norms, rules and decision-making procedures. A state's constitutional policy may be observed in particular during the negotiations on the Luxemburg report of 1970, on the Copenhagen report of 1973, on the London report of 1981, on the Stuttgart Solemn Declaration of 1983, on Title III of the Single European Act of 1986, on the provisions of a Common Foreign and Security Policy as part of the Treaty on European Union of 1992 and, finally, on the review of these provisions as part of the Amsterdam Treaty of 1997.

CFSP constitutional policy is particularly suited to examine a state's fundamental approach to the regime, i.e. to what extent it wants to strengthen foreign policy co-operation. Of course, a state's policy *within* CFSP may also point to that state's general approach. However, the vagueness of many common positions makes it difficult to differentiate between compliant and non-compliant behavior and thus to determine the degree of member state compliance. Moreover, there is a general bias towards observing com-

pliant behavior because common positions are agreed upon unanimously in the first place. Finally, a state's behavior in Council negotiations is difficult to examine due to the secrecy of the meetings. Taken together, an examination of a member state's constitutional CFSP policy is the best indicator for that state's general approach to CFSP.

### *Common Ground, Different Policies and Package Deals*

In analyzing member states' CFSP policies, one can emphasize enduring differences as well as common change. From a bird's-eye view, the policies of *all* member states have changed in similar ways over the last thirty years since *all* member states have endorsed the same institutional innovations. Though the regime's various constitutional documents from the Luxemburg report to the Amsterdam Treaty may reflect compromises and package deals, it is difficult to argue that no change in member state policies has occurred. As will be shown in the next section, however, characteristic differences between member state policies have persisted during the entire period. It is important to note that member states' policies comprise features of both continuity and change. Though I will focus on the *differences* between German, French and British policies, it should be kept in mind that these differences have been accompanied by common changes that reflect CFSP's evolution.

### *German, French and British CFSP Policies*

#### Germany's CFSP Policy

At the 1969 summit in The Hague the German government welcomed the French proposal on closer foreign policy co-operation of the members of the European Community. When the regime was established a year later, Chancellor Brandt agreed to its intergovernmental structure.<sup>1</sup> In 1972, the German government repeatedly suggested the establishment of a small, but permanent, secretariat.<sup>2</sup> However, no agreement was reached among the

<sup>1</sup> Cf. Müller-Roschach, Herbert 1980: Die deutsche Europapolitik 1949 – 1977. Eine politische Chronik, Bonn: Europa Union, p.220. While Brandt himself is said to have approached institutional questions in a rather pragmatic way, foreign minister Walter Scheel put a stronger emphasis on supranationalism. In a speech in the Bundestag, Scheel regretted the lack of supranational institutions for the time being (cf. Gaddum, Eckart 1994: Die deutsche Europapolitik in den 80er Jahren: Interessen, Konflikte und Entscheidungen der Regierung Kohl, Paderborn: Schöningh, p.196).

<sup>2</sup> Müller-Roschach, Herbert, op. cit., p. 274f.; Simonian, Haig 1985: The Privileged Partnership. Franco-German Relations in the European Community, 1969-1984, Oxford: Oxford UP, p.125f.; Ifestos, Panayiotis 1987: European Political Cooperation. Towards a Framework of Supranational Diplomacy, Aldershot: Avebury, p.156f..

member states, since France insisted on having the secretariat located in Paris.

At the beginning of the 1980s, Germany for the first time took the initiative for advancing further political integration.<sup>1</sup> Together with Italy, the German government presented a Draft European Act which referred to a European Union as the aim of the integration process. According to the draft, the European Council would take over a leadership role for both the Community and EPC. In order to further develop EPC, consultations would be intensified and the European Parliament's resolutions would be taken into account more carefully.<sup>2</sup> Furthermore, member states should take every possibility to facilitate decision-making and thus reach common positions faster. The Commission should be closely associated to the working of EPC. The European Council would be supported "by an 'expandable secretariat', whose function, according to Bonn, would have been to form a common security assessment, that is something akin to the National Security Council in the US".<sup>3</sup> In the following negotiations, however, Genscher's proposal was watered down.<sup>4</sup> Finally, the European Council in Stuttgart in 1983 adopted a Solemn Declaration instead of an Act as Germany had intended. Genscher's proposal to establish a permanent secretariat for EPC was not (yet) taken up. On EPC, the Solemn Declaration only mentioned its "necessary reinforcement".<sup>5</sup>

To the surprise of the other member states Germany and France jointly presented a 'Draft Treaty on European Union' at the Milan European Council in June 1985.<sup>6</sup> The text comprised eleven articles all dedicated to the development of a common European foreign policy. The text emphasized the importance of the European Parliament's participation in EPC and suggested a further development of the respective procedures. With regard to decision-making in the Council, unanimity was assumed.<sup>7</sup> Article 10 mentioned a secretariat supporting the presidency. Together with a British Text, the Franco-German draft treaty served as a basis for the negotiations

<sup>1</sup> Cf. Tsakaloyannis, Panos 1996: *The European Union as a security community: problems and prospects*, Baden Baden: Nomos, p.56.

<sup>2</sup> The European Parliament may also discuss EPC matters, it may pose oral or written questions may submit recommendations to the Council.

<sup>3</sup> Tsakaloyannis, Panos, *op.cit.*, p.57-58.

<sup>4</sup> Cf. Neville-Jones, Pauline 1983: *The Genscher/Colombo Proposals on European Union*, in: *Common Market Law Review* 20, 657-699.

<sup>5</sup> Solemn Declaration on European Union, quoted from Agence Europe, Documents No. 1263 of June 22nd, 1983.

<sup>6</sup> Reprinted in Nuttall, Simon 1986: *European Political Co-operation and the Single European Act*, in: *Yearbook of European Law* 1985, Oxford, 203-32, p. 220-223.

<sup>7</sup> Corbett, Richard 1987: *The 1985 Intergovernmental Conference*, in: Pryce, Roy (Ed.): *The Dynamics of European Union*, London: Croom Helm, 238-272, p.252.



among the foreign ministers. Due to the rather limited reforms proposed in the two texts, the delegations had little difficulties in finding a consensus.<sup>1</sup> Only the decision on whether to incorporate the provisions on EPC into a single Act, as favored by Germany, was left to the final European Council in Luxembourg. There, the concept of a single Act emphasizing the close relationship between EPC and the Community won the day. The establishment of a permanent secretariat located in Brussels was the Single Act's most important institutional innovation. However, the "German proposal to appoint a political personality as head of the secretariat was not picked up by the majority of the member states".<sup>2</sup>

In 1990, it was again a joint French/German initiative that placed EPC on the agenda of intergovernmental negotiations. In a joint letter to the President of the Council, Kohl and Mitterrand proposed to "initiate preparations for an intergovernmental conference on political union" with the particular objective to "define and implement a common foreign and security policy".<sup>3</sup> The joint letter itself was initiated by the German chancellor.<sup>4</sup> In December 1990 a second joint letter further elaborated the Franco-German position: As regards decision-making, "decisions would in principle be adopted unanimously, with the understanding that abstaining should not hinder the adoption of decisions." Furthermore, "when the Council would have to adopt concrete measures required by a given specific situation, it might be decided that the implementing arrangements for these measures may be adopted through majority decisions".<sup>5</sup> The fact that the European Parliament was not given much of a role in the Mitterrand-Kohl letter was perceived as a concession by the German side.<sup>6</sup>

The question of whether the foreign policy regime should remain outside the Rome Treaty or should be transferred to the Community became one of the most controversial issues during the negotiations. The German delegation sided with those who criticized the Luxembourg Non-Paper of April 1991 for keeping CFSP separate from the Treaty establishing the EC. However, when only a few months later the Dutch presidency presented a

<sup>1</sup> de Ruyt, Jean 1987: *L'Acte Unique Europeen. Commentaire*, Brüssel: Editions de l'Université de Bruxelles, p.77

<sup>2</sup> Rummel, Reinhardt 1996: Germany's role in the CFSP: 'Normalität' or 'Sonderweg'?, in: Hill, Christopher (Ed.): *The Actors in Europe's Foreign Policy*, London/New York: Routledge, 40-67, p.50

<sup>3</sup> Quoted from Laursen, Finn/Vanhoonacker, Sophie (Eds.) 1992: *The Intergovernmental Conference on Political Union: Institutional Reform, New Policies, and International Identity of the European Community*, Dordrecht: Martinus Nijhoff, p.276.

<sup>4</sup> Tsakaloyannis, Panos, op.cit., p. 86.

<sup>5</sup> Quoted from Laursen, Finn/Vanhoonacker, Soppjie, op.cit.,p. 314.

<sup>6</sup> Hill, Christopher, op.cit., p.50.

single treaty, that also comprised a title on CFSP, only Belgium supported this proposal.<sup>1</sup>

The extension of qualified majority voting (QMV) within CFSP became a German priority during the 1996/97 negotiations on CFSP. Though the German government itself was prepared to adopt qualified majority voting as a general rule, the emphasis was placed on reaching a common position with France. Eventually, the Franco-German guidelines on CFSP, adopted in Freiburg in February 1996, enumerated several possibilities to make decision-making easier by including constructive abstention<sup>2</sup> which was adopted by the conference.

The German government agreed with the other member states that a body for analysis, forecasting and planning would enhance the Union's capability to actively pursue a foreign policy and thus generally supported the respective proposals. According to Bonn, the unit should be controlled by the Secretary-General of the Council who in turn would be accountable to the member states.<sup>3</sup> The German government was reluctant to support the establishment of a 'Mr./Ms. CFSP' as envisioned by France. When searching for a high representative to be appointed after the ratification of the Amsterdam treaty, foreign minister Kinkel preferred a person with a rather low profile.<sup>4</sup>

The pledge for a communitarization of CFSP was hardly pushed by the German government. Nor did the German delegation insist on an enhanced role of the Commission though its opposition to a Mr. CFSP has been interpreted as an endeavor to defend the Commission's present role.<sup>5</sup> The nego-

<sup>1</sup> Cf. Corbett, Richard 1993: *The Treaty of Maastricht: From Conception to Ratification*, Harlow: Longman.

<sup>2</sup> According to Article 23 TEU "[d]ecisions under this Title shall be taken by the Council acting unanimously. Abstentions by members present in person or represented shall not prevent the adoption of such decisions. When abstaining in a vote, any member of the Council may qualify its abstention by making a formal declaration under the present subparagraph. In that case, it shall not be obliged to apply the decision, but shall accept that the decision commits the Union."

<sup>3</sup> Cf. Declaration of the federal government on current issues of European policy to the Bundestag, in: Bulletin des Presse- und Informationsamt der Bundesregierung No. 51 of June, 26th, 1995 and Foreign Office, 'German aims at the intergovernmental conference' of March, 26th 1996.

<sup>4</sup> Cf. *Die Zeit* of November, 12th 1998.

<sup>5</sup> Cf. Stark, Hans 1998: *Deutsch-französische Positionen, Divergenzen und Kompromi formeln in der europäischen Außen- und Sicherheitspolitik*, in: Weidenfeld, Werner (Ed.): *Deutsche Europapolitik: Optionen wirksamer Interessenvertretung*, Bonn: Europa Union Verlag, 142-151, p.146. Anne-Marie Le Gloannec, however, has interpreted the German objection to a Mr./Mrs. CFSP as a rejection of "proposals amounting to France's leadership in Europe" because "a CFSP leader may have run against German interests, even if the position had not been filled by a French person, because he or she may have followed French ambitions and designs" (Le Gloannec, Anne-Marie 1998: *Germany and Europe's Foreign and Security Policy: Embracing the 'British' Vision*, in: Lankowski, Carl (Ed.): *Break Out, Break*

tiations on the financing of joint actions revealed a positive German attitude towards a strengthened role for the European Parliament. During the 1996/97 negotiations, Germany pushed to include operational expenditures in the Community budget and to treat them as non-obligatory expenditures.<sup>1</sup> While the inclusion of CFSP expenditures in the Community budget mainly symbolized CFSP's affiliation to the Community, their treatment as non-obligatory would have given the European Parliament the last word in determining their amount.

#### France's CFSP Policy

It was France that took the initiative both to call for a conference of the heads of state or government and to suggest intergovernmental co-operation on foreign policy.<sup>2</sup> France opposed any involvement of the supranational institutions and only granted the Commission the right to participate on the invitation of the member states.<sup>3</sup> France suggested the establishment of an intergovernmental secretariat in Paris which was opposed by the other member states.<sup>4</sup> For the rest of his term Pompidou did not take another initiative to change EPC.

The Presidency of Valéry Giscard d'Estaing (1974-1981) brought about two institutional innovations which also impinged on EPC. During the 1974 French Presidency Giscard suggested direct elections to the European Parliament and the establishment of the European Council as a steering organ of the heads of state or government.<sup>5</sup> In the following years, Giscard indeed used European Council meetings to propose common foreign policies. At

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Down or Break In? Germany and the European Union after Amsterdam, Washington, DC: American Institute for Contemporary German Studies, 21-30, p. 26f.).

<sup>1</sup> Cf. Foreign Office, Internal Paper on CFSP of October, 14th, 1996 and 'Bericht der Bundesregierung über ihre Bemühungen zur Stärkung der gesetzgeberischen Befugnisse des Europäischen Parlaments 1997' of February, 25th, 1998 (Drs. 13/10011).

<sup>2</sup> DeLaSerre, Françoise/Defarges, Philippe Moreau 1983: France: a Penchant for Leadership, in: Hill, Christopher (Ed.): National Foreign Policies and European Political Cooperation, London: Allen & Unwin, 56-70, p.56; Dinan, Desmond 1994: Ever Closer Union? An Introduction to the European Community, Basingstoke/London: Macmillan, p.74; Ifestos, Panayiotis, op.cit.,p.149.

<sup>3</sup> Cf. Nuttall, Simon 1992: European Political Cooperation, Oxford: Clarendon Press., p. 48.

<sup>4</sup> Cf. Gerbet, Pierre 1993: French Attitudes to the Foreign Policy and Defence of Europe, in: Dreyfus, Francois-Georges/Morizet, Jacques/Peyrand, Max (Eds.): France and EC Membership Evaluated, London: Pinter, 150-159, p.153.

<sup>5</sup> Woyke, Wichard 1987: Frankreichs Außenpolitik von de Gaulle bis Mitterand, Opladen: Leske + Budrich, p.93.

the same time, however, Giscard's interest in EPC is said to have been limited.<sup>1</sup>

At the beginning of his term as President, Mitterrand's European policy was clearly focused on economic and social issues.<sup>1</sup> At the same time, the French government (with ex-Commissioner Claude Cheysson as foreign minister) accepted closer involvement of the Commission in EPC which became codified in the London report. At the beginning of Mitterrand's Presidency, however, the modest reforms of the London report were "the most to which France was prepared to consent".<sup>2</sup> The proposals advocated by Genscher and Colombo did not receive any support from Paris.

Three years later, in a speech at the European Parliament, Mitterrand suggested a new intergovernmental conference to negotiate further cooperation.<sup>3</sup> With respect to EPC, Mitterrand suggested a permanent secretariat. As mentioned above, a Franco-German draft treaty was presented to the Milan European Council in 1985. Though the contents were primarily attributed to the French, Mitterrand distanced himself from the text after the other capitals had reacted rather reservedly.<sup>4</sup>

During the 1990/91 negotiations, CFSP was a top priority for France.<sup>5</sup> Though France paid particular attention to security and defense, its position on foreign policy co-operation also changed significantly: Most importantly, France accepted the introduction of Qualified Majority Voting in CFSP, especially for implementing measures.<sup>6</sup> At the same time, however, France continued to emphasize the distance between CFSP and the Community. Thus, the French delegation opposed proposals to integrate EPC into the

<sup>1</sup> Cf. DeLaSerre, Françoise 1996: France: the impact of Francois Mitterrand, in: Hill, Christopher (Ed.): *The Actors in Europe's Foreign Policy*, London/New York: Routledge, 19-39, p.23; Nuttall, Simon, *European Political Cooperation*, p. 151; Guyomarch, Alain/Machin, Howard/Ritchie, Ella 1998: *France in the European Union*, London: Macmillan, p.116.

<sup>2</sup> de La Serre, Françoise, France, p.22.

<sup>3</sup> Cf. Tsakaloyannis, Panos, op.cit.,p.62; Nuttall 1992, *European Political Cooperation*, p. 240ff.

<sup>4</sup> Tsakaloyannis, Panos, op.cit.,p.69f.; Remmert, Michael 1994: *Westeuropäische Zusammenarbeit in der Sicherheits- und Verteidigungspolitik. Positionen von Regierung und Koalitionsparteien der Bundesrepublik Deutschland (1982-1991)*, Baden Baden: Nomos, p.49f.

<sup>5</sup> Cf. Martial, Enrico 1992: France and European Political Union, in: Laursen, Finn/Vanhoonacker, Sophie (Eds.): *The Intergovernmental Conference on Political Union: Institutional Reform, New Policies, and International Identity of the European Community*, Dordrecht: Martinus Nijhoff, 115-127, p. 122; Müller-Brandeck-Bocquet, Gisela/Moreau, Patrick 1999: *Frankreich. Eine politische Landeskunde*, Opladen: Leske + Budrich, p.164; Mazzucelli, Colette 1997: *France and Germany at Maastricht. Politics and Negotiations to Create the European Union*, London: Routledge, p.137.

<sup>6</sup> Schild, Joachim 1992: *Frankreich und die EU: Außen- und Sicherheitspolitik im EG-Rahmen*, in: *Deutsch-Französisches Institut (Ed.): Frankreich Jahrbuch 1992*, Opladen, 79-102, p.87.

Community framework and supported the pillared structure of the TEU.<sup>1</sup> France also opposed further involvement of the European Parliament and the Commission. However, France endorsed the (non-exclusive) right of initiative for the Commission.

In February 1996, *Le Figaro* published a government 'memorandum on the French guidelines for the IGC 1996'. In this document, the French government first launched its idea to replace the Presidency by a High Representative who would be appointed for a term of several years and who would be supported by a strengthened Council secretariat. Several months later the French delegation officially submitted a more detailed proposal (CONF/3863/96). The proposal made clear that the High Representative would have little autonomy from the European Council, that would define his tasks and could dismiss him any time. Regarding a financing of CFSP, the text suggested that CFSP expenditure be obligatory and thus be excluded from the European Parliament's budgetary competences.

#### Great Britain's CFSP Policy

Even before becoming a full member of the EC in 1973, Great Britain was closely associated with EPC. In 1980, after the then EC-9 had failed to react quickly to the Soviet invasion of Afghanistan, the British government presented an initiative suggesting a procedure for emergency consultation, the establishment of a small secretariat and a more overt political commitment to EPC from the member states.<sup>2</sup> Except for the secretariat, these proposals became part of the London report.

Foreign policy co-operation was also a crucial point in the government paper "Europe – The Future"<sup>3</sup> that was presented to the Fontainebleau European Council in 1984. A "common approach to external affairs" and "a coherent and persuasive West European voice" are mentioned as major goals. Furthermore, Europe should play "no less central a role" than the US. Moreover, the document states that

»Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to *act* together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; [...] The objective should be the progressive attainment of a common external policy."<sup>4</sup>

<sup>1</sup> Schild, Joachim, op.cit., p.86.

<sup>2</sup> Igestos, Panayiotis, op.cit., p.284.

<sup>3</sup> Reprinted in Gazzo, Marina 1985: From the "Crocodile" to the European Council in Milan (28-29 June 1985) (Towards European Union I), Brussels: Agence Europe, p.86-95.

<sup>4</sup> "Europe – The Future", par. 19. The previous quotes are taken from par. 14, 17 and 16.

Only a year later, foreign minister Howe presented another paper that “had the form, although not the title, of a Treaty”.<sup>1</sup> That so-called Stresa paper<sup>2</sup> assumed unanimous decision-making. The European Parliament should merely be consulted. In one respect, the British proposal even tried to reverse current practice: the Commission was only to be invited to participate if the member states do not decide otherwise. A small secretariat was to be set up to support the Presidency.

During the negotiations on the Maastricht Treaty the British government is said to have tried “to reduce the debate on CFSP to a discussion on limited adaptations to European Political Cooperation”.<sup>3</sup> Britain was particularly “opposed to bringing EPC within the supranational Community framework”.<sup>4</sup> The British delegation fiercely opposed any introduction of QMV into the foreign policy regime including for implementing measures.<sup>5</sup> However, Britain suggested to fuse the foreign ministers’ meetings in the framework of EPC with their regular sessions as the EC Council and to integrate the EPC secretariat into the secretariat of the Council.

The British government presented its position on the intergovernmental conference of 1996/97 in a White Paper entitled ‘A Partnership of Nations’.<sup>6</sup> On CFSP, the British government hardly compromised their initial positions during the negotiations, even after the new Labour government had taken office.<sup>7</sup> As was made clear in the White Paper, Britain aimed at keeping CFSP intergovernmental. Unanimity was not regarded as hindering progress. The Political Committee consisting of the foreign ministries’ political directors was regarded as “the single most important element in the

<sup>1</sup> Nutall, Simon, *Single European Act*, op.cit., p.205.

<sup>2</sup> Draft Agreement on Political Co-operation, reprinted in Nuttall, *Single European Act*, p.217-220.

<sup>3</sup> Wester, Robert 1992: United Kingdom, in: Laursen, Finn/Vanhoonacker, Sophie (Eds.): *The Intergovernmental Conference on Political Union. Institutional Reforms, New Policies, and International Identity of the European Community*, Dordrecht: Martinus Nijhoff, 189-201, p.197; cf. also Regelsberger, Elfriede 1993: EPZ und GASP – attraktiver Verbund mit Schlupflöchern, in: Regelsberger, Elfriede (Ed.): *Die Gemeinsame Außen- und Sicherheitspolitik der Europäischen Union. Profilsuche mit Hindernissen*, Bonn: Europa Union, 179 - 192, p.188.

<sup>4</sup> Wester, Robert, op.cit., p.198; cf. also Forster, Anthony 1999: *Britain and the Maastricht Negotiations*, Basingstoke: Macmillan, p.110..

<sup>5</sup> Cf. Forster, Anthony, op.cit., p.110f..

<sup>6</sup> Foreign and Commonwealth Office 1996: ‘A Partnership of Nations. The British Approach to the European Union Intergovernmental Conference 1996. Presented to Parliament by the Secretary of State for Foreign and Commonwealth Affairs by Command of Her Majesty March 1996, London: HMSO (Cm 3181). The British position on a new planning unit within the Council Secretariat and on a High Representative for CFSP is further specified in two memoranda submitted to the IGC (CONF/3893/96 and CONF/3894/96).

<sup>7</sup> In Dembinski, Matthias 1997: *Langer Anlauf – kurzer Sprung. Die Außenpolitik der Europäischen Union nach der Reform von Amsterdam* (HSFK Report 7/1997), Frankfurt: HSFK, p.43.

CFSP machinery". Great Britain suggested to increase the frequency of its meetings in order to intensify common analysis. Moreover, the Political Committee should be entrusted with supervising the implementation of joint actions and the expenditure of Community funds. In order to cope with the growing workload, the secretariat should be strengthened and should assist the formulation of policy. For this task a new planning unit within the secretariat could be established consisting of five or six additional delegates from member states foreign ministries. Regarding a High Representative, Great Britain emphasizes his accountability to the Council. On the basis of unanimous agreement he could represent common policies to the public, conduct the political dialogue with third countries and supervise implementation. Though he would not be granted any formal right of initiative he could make suggestions to the Council.

#### *Summary*

During the entire period of foreign policy co-operation, Germany has advocated a strengthening of the regime. Germany never opposed proposals to strengthen the regime and has usually presented more far-reaching proposals than France and Great Britain. During the early stages of EPC, Germany particularly pushed for a permanent secretariat. In the 1990s, the introduction and extension of Qualified Majority Voting became a focus of German CFSP policy.

After first having been midwife to EPC, France took on a rather restrictive stance during various negotiations later on. In particular, French policy aimed at keeping the regime strictly intergovernmental. During the 1970s and 1980s French positions on the Commission's involvement and the establishment of a permanent secretariat marked the lowest common denominator. In the 1990s, however, strengthening of CFSP received new priority. Most importantly, France accepted the introduction of Qualified Majority Voting. Moreover, France proposed a strengthening of the intergovernmental structure of CFSP by advocating a High Representative and a Unit for Planning and Analysis.

Until the mid-eighties, Britain supported (and initiated) a strengthening of foreign policy co-operation. The negotiations on the Single European Act, however, mark a turning point: Though Britain favored the establishment of a permanent secretariat, its proposals were more modest than those of France and, particularly, Germany. Since the 1990s Britain has been the most restrictive of the three member states under consideration, essentially opposing every move towards Qualified Majority Voting and a closer relationship to the Community. However, like France, Britain proposed a

strengthening of the intergovernmental structure with a particular emphasis on the Political Committee and the Council Secretariat.

### III. A Rationalist Framework of Analysis

#### *Power and plenty as fundamental state preferences*

Almost every scholar in IR would agree to the notion that states are instrumentally rational actors, as long as nothing specific is said about the *contents* or *sources* of state preferences. Thus, it is not the concept of instrumental rationality, but of *substantial* rationality (i.e. about the contents and sources of state preferences) that makes rationalist theorizing distinct from other approaches such as constructivism. In a rationalist framework, states are assumed to share the same set of fundamental preferences. Though the exact composition remains contested within the rationalist camp, scholars agree that states generally adhere to ‘power’ and ‘plenty’ (or to be more precise: ‘security’ and ‘wealth’) as a set of fundamental preferences.

‘Security’ refers to “the ability of states and societies to maintain their independent identity and their functional integrity”.<sup>1</sup> Because there is no legitimate monopoly on the use of force in the international system, every state is left to take care of its security itself. States are therefore inclined to preserve their autonomy and independence. At the same time, states try to influence their international environment, especially the behavior of other states in a way conducive to their security. Taken together, states’ fundamental interest in security translates into, on the one hand, an interest in preserving their autonomy, and, on the other hand, an interest in exerting influence.<sup>2</sup>

#### *Three Functions of International Institutions*

From a rationalist point of view, international institutions are regarded as *instruments* for the pursuit of state preferences. The establishment and maintenance of international institutions brings about costs, namely constraints on member states’ autonomy and freedom of action. Therefore, international institutions will only be established and upheld if the benefits they provide exceed the costs they impose. Various kinds of benefits have been

<sup>1</sup> Buzan, Barry 1991: *People, States and Fear. An Agenda for International Security Studies in the Post-Cold War Era*, Hemel Hempstead: Lynne Rienner, p.18f.

<sup>2</sup> For a more detailed discussion cf. Baumann, Rainer/Rittberger, Volker/Wagner, Wolfgang 1998: *Power and Power Politics: Neorealist Foreign Policy Theory and Expectations about German Foreign Policy since Unification* (Tübinger Arbeitspapiere zur Internationalen Politik und Friedensforschung 30a), Tübingen.



identified from a rationalist point of view. Again, their relative importance is contested within the rationalist camp. However, the various functions and benefits are not mutually exclusive and, at least regarding CFSP, do not result in conflicting incentives for state action. Thus, the functions of international institutions listed below can be seen as adding to each other.

First, functionalist regime theory has argued that international institutions help states to overcome collective action problems.<sup>1</sup> International institutions reduce transaction costs and, by providing information, uncertainty. By establishing standards of appropriate behavior they help state to distinguish cooperative behavior from defection and thus make tit-for-tat strategies possible in the first place.<sup>2</sup> By linking issues within a policy area international institutions help states to solve problems of distribution.

Neorealism has criticized functionalist regime theory for neglecting the power structure underlying international institutions. However, few neorealists regard international institutions as mere epiphenomena without any independent role.<sup>3</sup> Most neorealists accept an independent, albeit limited, role for international institutions and consequently take them serious as an instrument of state policy. In contrast to functionalist regime theory, neorealism emphasizes that institutions may serve as instruments to exert power and influence.<sup>4</sup> Whereas a hegemon may dominate an entire institution, less powerful states gain what Joseph Grieco has called voice-opportunities. Voice-opportunities are "institutional characteristics whereby the views of partners (including relatively weaker partners) are not just expressed but reliably have a material impact on the operations of the collaborative arrangement".<sup>5</sup> Thus, a state may have a preference to establish and maintain international institutions because it augments its influence on the other member states.

Finally, scholars in a liberal tradition have emphasized that a commitment to international institutions can be seen as a strategy of governments to en-

<sup>1</sup> Cf. Hasenclever, Andreas/Mayer, Peter/Rittberger, Volker 1997: *Theories of International Regimes*, Cambridge: Cambridge University Press.

<sup>2</sup> Axelrod, Robert/Keohane, Robert O. 1986: *Achieving Cooperation under Anarchy. Strategies and Institutions*, in: Oye, Kenneth A. (Ed.): *Cooperation under Anarchy*, Princeton, NJ: Princeton University Press, 226-254, p.250.

<sup>3</sup> But see Mearsheimer, John J. 1994: *The False Promise of International Institutions*, in: *International Security* 19, 5-49.

<sup>4</sup> Krasner, Stephen D. 1982: *Regimes and the Limits of Realism: Regimes as Autonomous Variables*, in: *International Organization* 36:2, 497-510, p.506f. and Krasner, Stephen D. 1991: *Global Communications and National Power: Life on the Pareto Frontier*, in: *World Politics* 43:3, 336-366.

<sup>5</sup> Grieco, Joseph M. 1996: *State Interests and Institutional Rule Trajectories: a Neorealist Interpretation of the Maastricht Treaty and European Economic and Monetary Union*, in: Frankel, Benjamin (Ed.): *Realism: Restatements and Renewal*, London: Cass, 261-306, p.288.

hance their autonomy from domestic pressure.<sup>1</sup> By transferring issues from the domestic to the international arena governments increase their leverage over domestic actors (such as Parliament and interest groups) in various ways:<sup>2</sup> Governments gain privileged access to information and may thus manipulate the framing of the issues at stake. The influence of the parliamentary opposition is severely circumscribed because international agreements frequently do not demand ratification. What is more, even if ratification is required, the opposition can only reject the entire package, but cannot engage in bargaining on the details of an agreement. Finally, governments may take advantage of the intransparent decision-making process of many intergovernmental negotiations to diffuse responsibility. Assuming that governments strive to enhance their autonomy from both other states and societal actors, Klaus Dieter Wolf concludes that the self-binding of governments in international institutions may even bring about a net gain in autonomy.<sup>3</sup>

### *Institutional Choice*

Like the rationalist theory of institutions, the rationalist theory of institutional choice is functionalist, i.e. it “explains institutional choices in terms of the functions a given institution is expected to perform and the effects on policy outcomes it is expected to produce, subject to the uncertainty in any institutional design”.<sup>4</sup> Because compared to other international institutions, European integration has brought about an extraordinary variety of institutional forms, institutional choice theory has paid special attention to the institutional choices of EU member states. In EU constitutional politics, institutions may constrain the member states’ autonomy

“in two ways: pooling or delegation of authoritative decision-making. Sovereignty is *pooled* when governments agree to decide future matters by voting procedures other than unanimity. [...] Sovereignty is *delegated* when supranational actors are permitted to take certain autonomous decisions, without intervening interstate vote or unilateral veto.”<sup>5</sup>

<sup>1</sup> Moravcsik, Andrew 1994: *Why the European Community Strengthens the State: Domestic Politics and International Cooperation* (Working Paper Series 52), Cambridge, Mass.: Harvard University, Center for European Studies; Wolf, Klaus Dieter 1999: *The New Raison d’État as a Problem for Democracy in World Society*, in: *European Journal of International Relations* 5, 333-363; Wolf, Klaus Dieter 2000: *Die Neue Staatsräson – Zwischenstaatliche Kooperation als Demokratieproblem in der Weltgesellschaft*, Baden-Baden: Nomos.

<sup>2</sup> Cf. Moravcsik, Andrew, *Why the European Community*, op.cit.

<sup>3</sup> Wolf, Klaus Dieter, *Neue Staatsräson*, op.cit., p.63..

<sup>4</sup> Pollack, Mark 1997: *Delegation, Agency, and Agenda Setting in the European Community*, in: *International Organization* 51:1, 99-134, p.102.

<sup>5</sup> Moravcsik, Andrew 1998: *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Ithaca, NY: Cornell University Press, p.67.

According to institutional choice theory, sovereignty is pooled because pooling provides a solution to the problem of incomplete contracting: Because no agreement can explicitly cover every detail of its implementation, ways must be found to make secondary decisions. Compared to unanimity, decisions by qualified majority are more efficient because fewer states are required to endorse a proposal. Observers of decision-making in the Council of the EU have pointed out that under qualified majority voting, only few votes are taken. Qualified majority voting accelerates the decision-making process, not because minorities are quickly outvoted, but because extreme positions are easier to isolate and participants holding extreme positions are pressured into a search for compromise. Moreover, under qualified majority voting, governments must give their delegations more differentiated instructions because without a right to veto, delegations must be prepared to engage in bargaining.

The delegation of decision-making authority can be regarded as a solution to incomplete contracting as well.<sup>1</sup> On the basis of general guidelines that were agreed upon unanimously, secondary decisions can be taken by another actor. Mark Pollack has listed four functions that the delegation of sovereignty may fulfill.<sup>2</sup> Delegation may increase the credibility of commitments. This function is particularly prominent whenever incentives to defect continue to exist as is the case in monetary policy.<sup>3</sup> Furthermore, there are incentives to delegate the right to initiate proposals. Because initiatives are costly and may weaken a state's position in the ensuing negotiations, states face incentives not to take the initiative themselves even if this strategy results in a failure to co-operate.<sup>4</sup> Moreover, under qualified majority voting there are incentives to delegate a monopoly of initiative. Otherwise, outvoted states may try to reverse the decision by a new policy initiative. This may lead to an "endless series of proposals from disgruntled participants who had been in the minority in a previous vote 221".<sup>5</sup> Thus, the European Commission's monopoly of initiative for Common Market issues can be explained well by rationalist institutional choice theory. Finally, the delegation of sovereignty may serve to detect defection from agreements. Because the

<sup>1</sup> Moravcsik, Andrew, *Choice for Europe*, op.cit., p.73..

<sup>2</sup> Pollack, Mark, op.cit., p.103f..

<sup>3</sup> Cf. Sandholtz, Wayne 1993: *Choosing Union: Monetary Politics and Maastricht*, in: *International Organization* 47:1, 1-39.

<sup>4</sup> Gehring, Thomas 1994: *Der Beitrag von Institutionen zur Förderung der internationalen Zusammenarbeit. Lehren aus der institutionellen Struktur der Europäischen Gemeinschaft*, in: *Zeitschrift für Internationale Beziehungen* 1, 211-242, p.231f..

<sup>5</sup> Pollack, Mark, op.cit., p.104.

member states face incentives not to blame other member states for (alleged) defection, the delegation of this function can be explained.

Though both pooling and delegating provide solutions to problems of incomplete contracting they differ in their effects on member states' autonomy and influence. Delegation does not enhance a member state's control over the other member states because decision-making power is then *transferred* to an independent body. Though the actual independence of a supranational actor has to be examined individually, the exercise of control over any supranational actor is generally seen as limited and costly.<sup>1</sup> When sovereignty is pooled, however, it "is not transferred to a supranational body because the crucial decisionmaking role is taken by an interstate body".<sup>2</sup> Thus, when sovereignty is pooled, member states may obtain concessions from their partners, i.e. exert influence on them. Thus, the pooling of sovereignty actually brings about an increase in a member state's influence.

*A Rationalist Theory of Preference Formation:  
The Distribution of Costs and Benefits Among Member States*

The rationalist theories outlined above are all functionalist in character, i.e. they explain outcomes (cooperation as well as the establishment and design of international institutions) by reference to the functions these outcomes provide. In order to explain member state *policies*, however, a rationalist approach must leave the level of the international system and pay attention to the specific ratio of costs and benefits for individual member states.

Interdependence brings about (positive or negative) policy externalities which impinge on states' abilities to achieve policy goals unilaterally. However, the

"vulnerability of governments to negative externalities may vary greatly: some are able to sustain effective policies autonomously, others remain vulnerable to negative externalities from policies abroad".<sup>3</sup>

<sup>1</sup> Ibid.

<sup>2</sup> Keohane, Robert O./Hoffmann, Stanley 1991: Institutional Change in Europe in the 1980s, in: Keohane, Robert O./Hoffmann, Stanley (Eds.): *The New European Community. Decisionmaking and Institutional Change*, Boulder, Col.: Westview Press, 1-40, p.8.

<sup>3</sup> Moravcsik, Andrew 1993: Preferences and Power in the European Community. A Liberal Intergovernmentalist Approach, in: *Journal of Common Market Studies* 31, 473-524, p.486. Moravcsik draws on the work of Keohane, Robert O./Nye, Joseph S., Jr. 1977: *Power and Interdependence. World Politics in Transition*, Boston, Mass.: Little, Brown, p.12f. who distinguish sensitivity and vulnerability. Whereas interdependence sensitivity refers to a situation in which a state's unilateral policy has become more costly but remain effective, interdependence vulnerability implies that a state can no longer achieve its preferences unilaterally (i.e. costs have become prohibitively high).

States with effective unilateral policies have little to gain from international co-operation. Instead, they benefit from the current pattern of externalities and therefore face incentives not to change their behavior and to keep their freedom of action unrestrained by international agreements. By contrast, states able to achieve policy goals only by altering the pattern of externalities imposed by the policies of other states have a preference to establish co-operative agreements designed to change the pattern of externalities.<sup>1</sup>

Though the basic argument, that a state's preference is a function of its vulnerability, is said to hold true for the entire range of (foreign) policies, economic and non-economic issue areas differ as regards the *process* of preference formation. In economic issue areas, governments react to the demands and pressures of interests groups such as industrial associations. The preferences of these private actors in turn reflect the degree of their vulnerability to issue-specific interdependence. In non-economic issue areas, by contrast, few if any influential interest groups are involved in the policy-making process. As a consequence, the government enjoys greater agency slack to pursue *general* regulative objectives and can formulate its preferences in direct reaction to its vulnerability in an issue-area. For instance, differences in EU member states' vulnerability to flows of migration best explain these member states' preferences for or against a common European asylum and refugee policy.<sup>2</sup>

#### IV. CFSP Research in a Rationalist Framework

To a large extent, research on CFSP has been inspired by rationalist theorizing.<sup>3</sup> Whereas only few scholars explicitly refer to them, many ob-

<sup>1</sup> Moravcsik, Andrew/Nicolaïdes, Kalypso 1999: Explaining the Treaty of Amsterdam: Interests, Influence, Institutions, in: *Journal of Common Market Studies* 37, 59-85, p.61.

<sup>2</sup> Ibid, p.63; Riegraf, Julia Susanne 2000: *Verwundbarkeit, gesellschaftliche Interessen und die mitgliedstaatlichen Praeferenzen für eine Reform des europaeischen Asyl- und Fluechtlingsregimes: Ein liberal-intergouvernementalistisches Erklarungsmodell*, M.A. Thesis, University of Tübingen.

<sup>3</sup> Only recently have there been a couple of constructivist studies on CFSP (cf., among others, Jørgensen Jørgensen, Knud Erik 1997: *PoCo: The Diplomatic Republic of Europe*, in: Jørgensen, Knud Erik (Ed.): *Reflective Approaches to European Governance*, London: Macmillan, 167-180; Jørgensen, Knud Erik 1999: *Modern European Diplomacy: A Research Agenda*, in: *Journal of International Relations and Development* 2:1, 78-96; Smith, Michael 1998: *Rules, Transgovernmentalism, and the Expansion of European Political Cooperation*, in: Sandholtz, Wayne/Stone Sweet, Alec (Eds.): *European Integration and Supranational Governance*, Oxford/New York: Oxford University Press, 304-333 and Glarbo, Kenneth 1999:

servers implicitly build upon rationalist theories. For instance, it is commonplace to regard CFSP as an instrument to promote member states' interests.<sup>1</sup> The purpose of this section is to demonstrate that the various theories presented in the previous section resurface in the literature on CFSP.

### *The functions of foreign policy co-operation*

Building on a rationalist theory of cooperation, foreign policy co-operation is regarded to be beneficial to the member states involved. Most importantly, CFSP is seen to increase member states' influence on the world stage:

“A strong European role in the regional and international system is something like a ‘common good’ from which each member state profits if it produces results in the interest of every state of the EC/EU”.<sup>2</sup>

Though every member state, particularly the larger ones, may influence the international environment on its own, the pooling of resources makes the collectivity of member states more influential than all individual foreign policies together.<sup>3</sup> In a similar fashion, foreign policy co-operation is seen to further the pursuit of common policies already agreed on, particularly in the realm of foreign trade.

Furthermore, CFSP is seen to provide member states with institutionalized opportunities to influence the foreign policies of the other member

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Wide-awake Diplomacy: Reconstructing the Common Foreign and Security Policy of the European Union, in: *Journal of European Public Policy* 6, 634-651.

<sup>1</sup> Cf., among others, Allen, David 1996: *Conclusions: The European Rescue of National Foreign Policy*, in: Hill, Christopher (Ed.): *The Actors in Europe's Foreign Policy*, London: Routledge, 288-304, p. 290; Gordon, Philip H. 1997: *Europe's Uncommon Foreign Policy*, in: *International Security* 22, 74-100; Rummel, Reinhardt/Wessels, Wolfgang 1983: *Federal Republic of Germany: New Responsibilities, Old Constraints*, in: Hill, Christopher (Ed.): *National Foreign Policies and European Political Cooperation*, London: Allen & Unwin, 34-55, p.34.

<sup>2</sup> Regelsberger, Elfriede/de Schoutheete de Tervarent, Philippe/Wessels, Wolfgang 1997: *From EPC to CFSP: Does Maastricht Push the EU Toward a Role as a Global Player?*, in: Regelsberger, Elfriede/de Schoutheete de Tervarent, Philippe/Wessels, Wolfgang (Eds.): *Foreign Policy of the European Union: From EPC to CFSP and beyond*, Boulder, Col.: Lynne Rienner, 1-15, p.4; cf. also DeLaSerre, Françoise 1989: *Das Ausmaß nationaler Anpassung an die EPZ*, in: Pijpers, Alfred/Regelsberger, Elfriede/Wessels, Wolfgang (Eds.): *Die EPZ in den achtziger Jahren. Eine gemeinsame Außenpolitik für Westeuropa?*, Bonn: Europa Union Verlag, 237-256, p.245; Gordon, Philip H., op.cit, p.80; Zielonka, Jan 1998: *Explaining Euro-Paralysis. Why Europe is Unable to Act in International Politics*, London, New York: Macmillan Press / St.Martin's Press, p.62.

<sup>3</sup> Ginsberg, Roy 1989: *Foreign Policy Actions of the European Community: The Politics of Scale*, Boulder, Col.: Lynne Rienner and Gordon, Philip H., op.cit.

states.<sup>1</sup> These opportunities arise from the member states' "commitment to consult partners before adopting final positions or launching national initiatives on all important questions of foreign policy".<sup>2</sup> Though weaker member states are assumed to benefit most from the voice opportunities provided by the regime, major powers may also use them, especially to elicit support for specific initiatives.<sup>3</sup>

Finally, CFSP is said to have an "alibi and legitimation function".<sup>4</sup> The regime may serve as a pretext for establishing or changing specific policies. Critics can be isolated with reference to an existing 'European consensus'. Policy changes can be legitimized with reference to 'European standards'. It should be noted that this alibi function "works as regards third countries but also internally vis à vis political forces and public opinion".<sup>5</sup>

### *Institutional Choice*

A rationalist perspective on institutional choice can be found in the discussion on CFSP reform as well as in studies analyzing institutional differences between the Community's first pillar and CFSP. Many institutional features of CFSP can be explained by the peculiarities of foreign policy cooperation, namely the need to react swiftly to a rapidly changing international environment. As a consequence, agreements such as common positions tend to be confined to general principles without spelling out any details. In other words, agreements on foreign policy are particularly incomplete.

The incomplete nature of foreign policy agreements can explain why the introduction of Qualified Majority Voting is frequently regarded as the most decisive step towards a more efficient CFSP.<sup>6</sup> After all, QMV enables member states to take decisions faster. >From a rationalist point of view, there are strong incentives to pool sovereignty in order to strengthen foreign policy co-operation. By contrast, there are fewer incentives to delegate

<sup>1</sup> Cf. Regelsberger, Elfriede, *op.cit.*, p.183; de la Serre, Françoise, *Ausmaß nationaler Anpassung*, p.245.

<sup>2</sup> This is the formula used in the London Report, quoted from Agence Europe Documents No. 1174 of October, 17th, 1981.

<sup>3</sup> Regelsberger, Elfriede, *op.cit.*, p.183 Cases in point include France's use of EPC as regards her Middle East policy and Great Britain's endeavor to elicit 'European' support for its policy in Rhodesia and Zimbabwe as well as during the war in the Falklands (cf. Gerbet, *op.cit.*, p.156; Bulmer, Simon/Edwards, Geoffrey 1992: *Foreign and Security Policy*, in: Bulmer, Simon/George, Stephen/Scott, Andrew (Eds.): *The United Kingdom and EC Membership Evaluated*, London: Pinter, 145-160, p.150).

<sup>4</sup> Rummel, Reinhard/Wessels, Wolfgang, *op.cit.*, p.40.

<sup>5</sup> *ibid.* and de la Serre, Françoise, *Ausmaß nationaler Anpassung*, p. 246.

<sup>6</sup> *cf.*, e.g., Zielonka, Jan, *op.cit.*, p.177f., 202.

sovereignty to the supranational community institutions. Because member states gain little from defection<sup>1</sup> there are few incentives to delegate implementation. For the same reason, there is little demand to delegate the detection of defective behavior to either the Commission or the European Court of Justice. Moreover, the ECJ is ill-suited to interpret agreements authoritatively with the necessary rapidity. Because of the non-legislative nature of foreign policy and due to the need to react swiftly, it is difficult to grant the European Parliament competences similar to those it enjoys in the first pillar. However, it remains puzzling why the European Parliament has received any competences at all (e.g. on financing CFSP). The delegation of competences to the European Parliament is generally puzzling to a rationalist theory of institutional choice because it is difficult for member states to control and sanction an actor that draws direct legitimacy from the electorate.<sup>2</sup>

*Explaining Different Member State Policies:  
The Distribution of Costs and Benefits*

The argument that member state policies reflect their degree of issue-specific vulnerability is particularly common in the literature on small states in CFSP.<sup>3</sup> Because of limited resources and a high degree of dependence from larger countries (i.e. because of a high degree of vulnerability), small states are regarded as particularly interested in international co-operation. Since their autonomy is limited anyway, they tend to be more prepared to transfer sovereignty to international and supranational institutions than larger states. In a study on Ireland, Denmark and the Netherlands in CFSP, Ben Tonra pointed out that small states gain a lot from the information made available through foreign policy co-operation: "Minor states usually lack significant intelligence or espionage capabilities and, as a general rule, have smaller diplomatic staffs from which to gather and analyze data".<sup>4</sup> Further-

<sup>1</sup> In terms of game theory, foreign policy co-operation has features of a co-ordination rather than a collaboration game: The major difficulty consists of finding a common position (a point on the Pareto frontier). Once a common position is agreed upon, member states cannot achieve international influence *at the expense* of the other member states.

<sup>2</sup> cf. Jachtenfuchs, Markus 1999: *Ideen und Integration. Verfassungsideen in Deutschland, Frankreich und Großbritannien und die Entwicklung der EU*. Habilitationsschrift, Fakultät für Sozialwissenschaften, Universität Mannheim, p.329; Wagner, Wolfgang 1999: *Interessen und Ideen in der europäischen Verfassungspolitik. Rationalistische und konstruktivistische Erklärungen mitgliedstaatlicher Präferenzen*, in: *Politische Vierteljahresschrift* 40: 3, 415-441.

<sup>3</sup> Cf. von Dosenrode, Sören 1993: *Westeuropäische Kleinstaaten in der EG und EPZ*, Chur/Zürich: Rüegger, p.50ff..

<sup>4</sup> Tonra, Ben 1997: *The Impact of Political Cooperation*, in: Jorgensen, Knud Erik (Ed.): *Reflective Approaches to European Governance*, London: Macmillan, 181-198, p.183.



more, particularly when holding the presidency, small states gain access to international actors they would not be granted otherwise.<sup>1</sup>

Moravcsik has also suggested a close relationship between the viability of a state's unilateral foreign policy capacity and its preference for or against foreign policy co-operation.<sup>2</sup> As a consequence, both a liberal, issue-specific and a (neo-)realist, geopolitical theory of preference formation predict that "geopolitical concerns would dominate [...] positions [...] in those areas without clear and certain economic implications, such as [...] foreign policy cooperation".<sup>3</sup>

## V. Explaining German, French and British CFSP Policies

In this section, I will apply the rationalist framework, as outlined in the previous sections, to German, French and British CFSP policies. In order to do so, the independent variable 'capacity to conduct foreign policy unilaterally' has to be further specified (IV.1). Next, the German, French and British capacities to conduct foreign policy unilaterally have to be determined (IV.2.). After having measured the independent variable, predictions on German, French and British CFSP policies can be formulated. In order to demonstrate that these predictions are not derived from a theoretical strawman, but reflect widely held beliefs about the factors determining these states' CFSP policies, I will refer to existing research (IV.3.).

### *Specifying 'capacity to conduct foreign policy unilaterally'*

"Power, like love, is easier to experience than to define or measure"<sup>4</sup>

A state's capacity to act unilaterally by and large depends on its power position.<sup>5</sup> As demonstrated above, it is a truism that powerful member states have a larger capacity for an effective unilateral foreign policy than less powerful member states. However, not much is gained until one makes more specific statements as to how to determine a member state's power position. Because states' power positions are of paramount importance in neorealism I will take neorealist writings on determining power positions as a

<sup>1</sup> Ibid., 184.

<sup>2</sup> Moravcsik/Nicolaidis, op.cit., p.64.

<sup>3</sup> Moravcsik, Andrew, Choice for Europe, p.402.

<sup>4</sup> Nye, Joseph S. 1990: Bound to Lead. The Changing Nature of American Power, New York: Basic Books, p. 25.

<sup>5</sup> Cf. also Moravcsik/Nicolaidis, op.cit., p.64.

point of departure.<sup>1</sup> Since this paper undertakes to explain member states' policies in a rationalist – not necessarily neorealist – way, additional considerations on 'institutional power' and 'soft power' will be added.<sup>2</sup> Vasquez, John A. 1997: *The Realist Paradigm and Degenerative versus Progressive Research Programs: An Appraisal of Neotraditional Research on Waltz's Balancing Proposition*, in: *American Political Science Review* 91:4, 899-912 as well as the ensuing debates in 'International Security' and 'American Political Science Review). To the extent that neorealism is understood to include these variables, rationalism and neorealism generate similar predictions on matters of foreign policy and defense (cf. also Moravcsik, Andrew, *op.cit.*, p.50).

From a neorealist perspective, a state's power position is a function of two factors, namely the number of great powers in the international system (polarity) and its share in certain material resources. Together, they have a major impact on a state's foreign policy behavior:

"The behavior of individual states, regardless of their domestic political characteristics, is constrained by their own capabilities and the distribution of power in the system as a whole (...). The external environment will inevitably pressure states to move toward congruity between commitments and capabilities"<sup>3</sup>

### *Polarity*

The polarity of the international system, i.e. the number of great powers, has a decisive impact on every state's freedom of action. Neorealists distinguish between bipolar and non-bipolar systems.<sup>4</sup> The polarity of the international system influences a state's power position because the number of

<sup>1</sup> The respective paragraphs largely draw on Baumann, Rainer/Rittberger, Volker/Wagner, Wolfgang, *op.cit.*

<sup>2</sup> It has been a contested issue whether institutions and perceptions can or should play a role in neorealist theorizing (cf. Legro, Jeffrey W./Moravcsik, Andrew 1999: *Is Anybody still a Realist?*, in: *International Security* 24:2, 5-55 and

<sup>3</sup> Krasner, Stephen D. 1993: *Power, Polarity, and the Challenge of Disintegration*, in: Haftendorn, Helga/Tuschhoff, Christian (Eds.): *America and Europe in an Era of Change*, Boulder, Colo.: Westview, 21-42, p.21.

<sup>4</sup> With regard to non-bipolar systems, neorealists are mostly concerned with multipolar systems, but they have also identified unipolar international systems (cf. Layne, Christopher 1993: *The Unipolar Illusion: Why New Great Powers Will Rise*, in: *International Security* 17, 5-51). In terms of war proneness, unipolarity is regarded as especially stable by neorealist proponents of hegemonic stability theory, such as Gilpin. However, most neorealists emphasize the extreme instability of unipolar systems in terms of durability: unipolarity is only seen as a transition stage on the path to a bipolar or multipolar system. For neorealists, therefore, the most important distinction is the 'bipolarity/non-bipolarity' dichotomy, where non-bipolarity generally signifies a multipolar system, and in exceptional cases a unipolar transitory system.

great powers determines the freedom for manoeuvre of all states in the international system and thus also how states can employ their capabilities. For most states, for example, increasing their own share in capabilities in the international system under conditions of bipolarity has fewer consequences than if they do so under non-bipolarity. In bipolarity, a state with a share in capabilities at its disposal that is significant but remains far behind those of the two leading powers, will have little prospect of itself becoming a pole in the system and thus of being able to independently safeguard its own survival. Its security will remain contingent on protection from one great power by the other. In a non-bipolar system, by contrast, this dependence is far less evident, and the state can act independently to a greater degree. When employing its capabilities it is not (or at least to a lesser degree) restricted by a protective great power. When a bipolar system falls apart, therefore, the power position of such a state improves even if its share in the capabilities available in the international system has not increased.

#### *Capabilities*

Next to the number of great powers in the international system, neorealism regards a state's share in certain capabilities as decisive for its power position. Capabilities are seen as highly fungible,<sup>1</sup> meaning that power is a general potential which can be used in quite disparate areas of policy. Whether a capability contributes to a state's power depends on its utility in the extreme case of war which neorealism regards as a permanent background condition. Though the size of population and territory has lost the paramount importance it had in agricultural societies, they remain important. Whereas the size of territory may impact on the endowment with natural resources, the size of population impacts on the size of troops and workforce. Probably the most important capability is a state's economic strength, usually measured in GNP and export volume. A strong economy usually goes along with a high level of technology which may, last but not least, be used for military purposes. Moreover, a state's military capability largely depends on its military budget which in turn depends on a state's economy.

#### *Institutional power*

As outlined above, international institutions may be regarded as instruments to influence other states' policies. Thus, a state's membership or special position in international institutions may further add to its power position. Not to be admitted to exclusive international institutions such as the G7

<sup>1</sup> Waltz, Kenneth N. 1986: Reflections on Theory of International Politics. A Response to My Critics, in: Keohane, Robert O. (Ed.): Neorealism and Its Critics, New York: Columbia University Press, 322-345, p.333f..

or the Bosnian Contact Group diminishes a state's possibilities to exercise influence on international events.<sup>1</sup> Institutional privileges such as a special veto right (e.g. in the UN Security Council) or a large number of votes (e.g. in the EU Council) or seats (e.g. in the European Parliament) further add to a state's institutional power.

### *Soft Power*

Realists and neorealists alike have referred to non-material resources such as "national morale" and the "quality of diplomacy" (Morgenthau) as well as "prestige" (Gilpin).<sup>2</sup> The most elaborate work on this 'second face of power', however, can be found in Joseph Nye's *Bound to Lead* (1990). In contrast to 'command power', 'soft power' (also termed 'indirect power') is based on the "attraction of one's ideas or on the ability to set the political agenda in a way that shapes the preferences that others express".<sup>3</sup> According to Nye, a state's soft power is derived from its culture, its ideology and its institutions.<sup>4</sup> Though soft power is more difficult to measure than 'command power', it seems clear that, for example, a state's history may enhance or diminish the attractiveness of its ideas and, consequently, its policy initiatives.

### *Summary*

The number of great powers in the international system, a state's share in capabilities, the attractiveness of a state's ideas and institutional resources all impact on a state's power position.

### *German, French and British Power Positions*

German unification and the end of the Cold War as a watershed

During the period under consideration at least two factors determining a state's power position have changed dramatically: First, the end of the Cold War has left the United States as the only great (or super-) power. Second, German unification signifies an increase in German capabilities and drastically changes the distribution of capabilities within the European Union.

<sup>1</sup> The exclusion from encompassing institutions such as the United Nations or (within Europe) then Council of Europe may even lead to (or express) a severe marginalization of a state.

<sup>2</sup> Gilpin, Robert 1981: *War and Change in World Politics*, Cambridge: Cambridge University Press, p.13, 30.

<sup>3</sup> Nye, Joseph, op.cit., p.31.

<sup>4</sup> Ibid., 32.

The end of the Cold War has put an end to forty years of bipolarity in the international system.<sup>1</sup> Notwithstanding whether the international system of the early 1990s is described as a “unipolar moment”,<sup>2</sup> as “unipolarity without hegemony”<sup>3</sup> or as an emerging multipolar system, the room of manoeuvre has increased for all EU member states. With the collapse of the Soviet threat their dependence on the US for their security has declined. This in turn makes it more difficult for the US to use security guarantees as bargaining chips. Since the dominant East-West confrontation has withered away coalition building between states has become less determined by strategic calculations. However, Germany, France and the United Kingdom have benefitted from this new freedom of action to varying degrees.

#### Germany's Power Position

Even before unification, Germany's power position had steadily increased. Besides a growing economic capacity, institutional power resources have been important in this process. When EPC was established in 1970, the Federal Republic was not yet a member of the United Nations.<sup>4</sup> Furthermore it lacked diplomatic relations with a range of countries in Eastern Europe and the Third World.<sup>5</sup>

Notwithstanding this increase in capabilities and institutional power, Germany's power position before unification remained severely limited. First of all, Germany lacked full sovereignty. The special rights and responsibilities of the Allied Powers (*Alliierte Vorbehaltsrechte*) limited Germany's room for manoeuvre which always became apparent when German preferences did not concur with Allied interests.<sup>6</sup> Furthermore, its position as a ‘front state’ and the special status and exposed position of Berlin made the ‘old’ FRG particularly vulnerable. Finally, vivid memories of Germany's militarist and fascist past left the ‘old’ FRG with only little ‘soft power’. As a consequence, a unilateral foreign policy was “likely to lead to negative reac-

<sup>1</sup> Waltz, Kenneth N. 1993: The Emerging Structure of International Politics, in: International Security 18, 44-79; Mearsheimer, John J. 1990: Back to the Future. Instability in Europe After the Cold War, in: International Security 15, 5-56.

<sup>2</sup> Layne, Christopher, op.cit.

<sup>3</sup> Wilkinson, David 1999: Unipolarity without Hegemony, in: International Studies Review, 1:1, 141-172.

<sup>4</sup> Rummel, Reinhard/Wessels, Wolfgang, op.cit, p.39.

<sup>5</sup> Regelsberger, Elfriede/Wessels, Wolfgang 1984: Die Europäische Politische Zusammenarbeit (EPZ) – Emanzipationsvehikel, Koalition oder Integrationsrahmen für die Außenpolitik Bonns, in: Hrbek, Rudolf/Wessels, Wolfgang (Eds.): EG-Mitgliedschaft: ein vitales Interesse der Bundesrepublik Deutschland?, Bonn: Europa Union, 389-412, p.393.

<sup>6</sup> Cf. Haftendorn, Helga/Riecke, Henning (Eds.) 1996: “...die volle Macht eines souveränen Staates...” Die Alliierten Vorbehaltsrechte als Rahmenbedingung westdeutscher Außenpolitik 1949-1990, Baden-Baden: Nomos Verlag.

tions, thereby reducing the Federal Republic's influence and room for manoeuvre".<sup>1</sup>

Unification and the end of the Cold War significantly increased Germany's power position. With the 2+4 Treaty, Germany regained its full sovereignty. The end of the Cold War also meant an end to Germany's exposed position.

It is difficult to assess whether the end of the Cold War and German unification rendered the legacy of Germany's Nazi past less relevant and thus increased Germany's soft power. On the one hand, the mere passage of time as well as a generation of politicians coming into power that has no first-hand experience of Nazi Germany, may result in these memories fade. On the other hand, unification and the symbolic move from Bonn to Berlin may revitalize traditional fears of a powerful Germany in the middle of Europe.<sup>2</sup>

#### The power positions of France and Britain

Because of their similarity, the power positions of France and Britain can be determined in a single move. Until German unification, both countries were endowed with capacities which made them the two most powerful West European states. The most important factor of these capacities was the French and British nuclear arsenal.

In both the French and the British case, institutional and soft power were further contributing to a power position topping that of any other West European state (including Germany). Because both states belonged to the winning coalition in World War II, they were endowed with preponderant soft power. Moreover, the permanent seat in the UN Security Council has been a very important institutional power resource. Other institutional power resources include the G7 and the Contact Group on Bosnia.

Though the end of the Cold War augmented both states' freedom of action, their relative power positions declined as compared to Germany. Though France and Britain remained the only West European states endowed with nuclear weapons their importance had declined after the Cold War because they were unlikely to play an important role when dealing with the security agenda of the 1990s.

#### *Rationalist Predictions*

##### Germany

<sup>1</sup> Rummel, Reinhard/Wessels, Wolfgang, op.cit., p.40.

<sup>2</sup> Cf. Markovits, Andrei/Reich, Simon 1997: *The German Predicament: Memory and Power in the New Europe*, Ithaca, N.Y.: Cornell University Press.

Because of its weak power position before unification Germany is expected to support foreign policy co-operation in the 1970s and 1980s. Because Germany's power position significantly improved after unification and the end of the Cold War post-unification Germany is expected to lose its interest in strengthening foreign policy co-operation and to oppose respective proposals.

Many observers of Germany's CFSP policy agree with these expectations. Pre-unification Germany is said to have benefitted particularly from its regime participation.<sup>1</sup> Those commenting on Germany in EPC emphasized the importance of institutionalized voice-opportunities to Germany. German governments used EPC to elicit support for some of its policies, most importantly its *Ostpolitik* of the early 1970s.<sup>2</sup> The German government used EPC to inform its partners about its bilateral contacts with Warsaw Pact states and thereby successfully demonstrated its trustworthiness. The alibi and legitimization function was also regarded to be "of specific importance for the FRG".<sup>3</sup> EPC was "a highly useful framework for diverting conflicting pressure away from Bonn and transferring it to an anonymous body where the respective blame can be put on the 'group' or on other partners".<sup>4</sup> EPC "enabled the FRG to take an open stand on critical issues affecting the international system which it would not have been able to do bilaterally".<sup>5</sup> This holds true as regards human rights policy towards Eastern Europe and, of course, as regards its Middle East policy where Germany "was hindered [...] by the burden of Nazi atrocities against the Jews".<sup>6</sup> The Soviet Union could no longer accuse Germany bilaterally of revanchism and destabilization when Germany criticized human rights violations under a European umbrella.<sup>7</sup> With regard to domestic opposition, critics could be described as isolated in Western Europe.<sup>8</sup>

<sup>1</sup> Cf. Rummel, Reinhard, op.cit, p.40.

<sup>2</sup> Cf. Schweitzer, Carl-Christoph 1990: The EPC, the East and the German question, in: Schweitzer, Carl-Christoph/Karsten, Detlev (Eds.): The Federal Republic of Germany and EC Membership Evaluated, London: Pinter, 111-120, p.112; Regelsberger/Wessels, op.cit.,p.395.

<sup>3</sup> Rummel, Reinhard/Wessels, Wolfgang, op.cit., p.40..

<sup>4</sup> Ibid.

<sup>5</sup> Schweitzer, Carl-Christoph, op.cit, p.122.

<sup>6</sup> Bulmer, Simon/Paterson, William 1987: The Federal Republic of Germany and the European Community, Boston: Allen & Unwin, p.77; cf. also Aggestam, Lisbeth 1998: Germany and the CFSP. National and European Role Conceptions: Paper Presented at the Third Pan-European International Relations Conference and Joint Meeting with the ISA in Vienna, 16-19 September, 1998, p.9.

<sup>7</sup> Schweitzer, Carl-Christoph, op.cit, p.114.

<sup>8</sup> Rummel, Reinhard/Wessels, Wolfgang, op.cit., p.41..

After unification, several observers have expected and/or perceived Germany to put greater emphasis on its unilateral freedom of action.<sup>1</sup> For example, Anne-Marie Le Gloannec found that in the mid-1990s Germany changed “from a champion of federalism into an advocate of inter-governmentalism, from a *Musterknabe* of Europe into a convert to British policies”.<sup>2</sup> For the realm of foreign policy co-operation, Wolfgang Wessels finds that the federal government’s demand for a real common foreign and security policy “clearly diminished in the mid-1990s”.<sup>3</sup>

#### France

Because of its then paramount power position in the European Union, France is expected to oppose a significant strengthening of foreign policy co-operation before the end of the Cold War. Because of its weakened power position after German unification, France is expected to increase its support for a strengthening of the EU’s foreign policy regime.

Again, the scholarly literature on France shares these expectations. France’s preference for foreign policy co-operation is regarded to depend on its (shifting) capacity for effective unilateral action.<sup>4</sup> Many scholars concur that binding and controlling Germany has been a major incentive for foreign policy co-operation.<sup>5</sup> Whenever Germany’s room for independent ac-

<sup>1</sup> Frenkler, Ulf 1998: Die Maastricht-Politik der Bundesrepublik Deutschland: Machtpolitik oder Zivilmacht. Konferenzpapier zum Workshop ‘Zivilmacht Bundesrepublik – erste Befunde der empirischen Forschung’ an der Universität Trier, 11./12. Dezember 1998; Wernicke, Christian 1998: Bonn bremst, in: Die Zeit 26.3, 3; Janning, Josef 1996: Deutschland und die Europäische Union: Integration und Erweiterung, in: Kaiser, Karl/Krause, Joachim (Eds.): Deutschlands neue Außenpolitik. Interessen und Strategien, München: Oldenbourg, 31-54, p. 36f.; Deubner, Christian 1995: Deutsche Europapolitik. Von Maastricht nach Kerneuropa, Baden-Baden: Nomos, p.11 For the opposite expectation/observation that Germany will continue its multilateralist and integrationist policy cf. Bulmer, Simon/Jeffery, Charlie/Paterson, William 1998: Deutschlands europäische Diplomatie: Die Entwicklung des regionalen Milieus, in: Weidenfeld, Werner (Ed.): Deutsche Europapolitik: Optionen wirksamer Interessenvertretung, Bonn: Europa Union Verlag, 11-102; Katzenstein, Peter J. 1997: United Germany in an Integrating Europe, in: Katzenstein, Peter J. (Ed.): Tamed Power. Germany in Europe, Ithaca, N.Y.: Cornell University Press, 1-48 and Kohler-Koch, Beate 1998: Bundeskanzler Kohl – Baumeister Europas. Randbemerkungen zu einem zentralen Thema, in: Wewer, Götrik (Ed.): Bilanz der Ära Kohl, Opladen: Leske + Budrich, 283-311.

<sup>2</sup> Le Gloannec, op.cit., p.21.

<sup>3</sup> Wessels, Wolfgang 1999: Zentralmacht, Zivilmacht oder Ohnmacht? Zur deutschen Außen- und Europapolitik nach 1989, in: Weilemann, Peter/Küsters, Hanns Jürgen/Buchstab, Günther (Eds.): Macht und Zeitkritik. Festschrift für Hans Peter Schwarz zum 65. Geburtstag, Paderborn: Schöningh, 389-406, p.401, my translation.

<sup>4</sup> Schild, Joachim, op.cit.

<sup>5</sup> Cf. Soetendorp, Ben 1999: Foreign Policy in the European Union: Theory, History and Practice, London/New York: Longman, p.21f.; Maurer, Andreas/Grunert, Thomas 1998: Der Wandel in der Europapolitik der Mitgliedstaaten, in: Jopp, Mathias/Maurer, Andreas/Schneider, Heinrich (Eds.): Europapolitische Grundverständnisse im Wandel. Analysen



tion increased, so did the French preference for foreign policy co-operation. This is seen to hold true for Pompidou's original initiative. By institutionalizing foreign policy co-operation, France wanted to counter a "loss in power status with respect to the FRG evidenced both by the monetary disturbances of 1969-70 and Willy Brandt's autonomous Ostpolitik".<sup>1</sup>

Many scholars point to an increased French interest in foreign policy co-operation after the end of the Cold War which is assumed to be a "shock questioning established premises of French foreign, European, but also security policy".<sup>1</sup> Jopp, Mathias 1998: Nationale Interessen und europapolitische Grundverständnisse im Wandel – zur Einordnung und Interpretation der empirischen Ergebnisse, in: Jopp, Mathias/Maurer, Andreas/Schneider, Heinrich (Eds.): Europapolitische Grundverständnisse im Wandel. Analysen und Konsequenzen für die politische Bildung, Bonn: Europa Union, 149-192, p.165, my translation.. A strengthening of CFSP in particular is regarded to bind Germany closer to Western Europe.<sup>2</sup> For example, France is seen to use a common European policy towards Eastern Europe to prevent German hegemony and a consequent disturbance of power in this region.<sup>3</sup>

#### Great Britain

Similarly to France, Great Britain is expected to oppose a significant strengthening of foreign policy co-operation before the end of the Cold War because of its then paramount power position in the European Union. Because of its weakened power position after German unification, Great Britain is expected to increase its support for a strengthening of the EU's foreign policy regime.

Again, this expectation can be found in the literature in British foreign policy. As for the beginning of EPC, Christopher Hill points to the large capacity for unilateral foreign policy but "as Ostpolitik and détente developed, while the United States remained enmeshed in Vietnam, the advantages for Britain of alignment with Western Europe in international relations seemed

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und Konsequenzen für die politische Bildung, Bonn: Europa Union, 213-300, p.222f.; Kolboom, Ingo/Stark, Hans 1999: Frankreich in der Welt. Weltpolitik als Berufung?, in: Christadler, Marieluise/Uterwedde, Henrik (Eds.): Länderbericht Frankreich, Bonn: Bundeszentrale für Politische Bildung, 443-46, p.449; Axt, Heinz-Jürgen 1999: Frankreich in der Europäischen Union, in: Christadler, Marieluise/Uterwedde, Henrik (Eds.): Länderbericht Frankreich, Bonn: Bundeszentrale für Politische Bildung, 464-483, p.467..

<sup>1</sup> de la Serre, Françoise/Defarges, Philippe Moreau, op.cit., p.58..

<sup>2</sup> Sauder, Axel 1995: Souveränität und Integration. Deutsche und französische Konzeptionen europäischer Sicherheit nach dem Ende des Kalten Krieges, Baden Baden: Nomos.

<sup>3</sup> Sauder, Axel, op.cit, p.154.

clear”.<sup>1</sup> As long as EPC leaves its member states free to act unilaterally, “the balance sheet points towards a gain deriving from British participation in EPC”.<sup>2</sup> Because of the regime’s limited scope, “EPC imposed few costs upon the UK”.<sup>3</sup> In a number of cases Great Britain is regarded as having successfully used EPC to mobilize support.<sup>3</sup> In regions to which Great Britain had less intensive ties (e.g. Latin America) EPC is seen to enhance British influence. In the Near East, Britain benefitted from EPC ‘alibi and legitimization function’.

The unification of Germany elicited widespread scepticism in Britain.<sup>4</sup> Britain is said to have perceived German unification as a threat both to its position in Europe and to its relationship with the US.<sup>5</sup> Thus, observers concluded that Britain’s preference to tie in the unified Germany via European co-operation has intensified.<sup>6</sup>

## VI. Conclusion: Rationalism’s Explanatory Capacity

As section IV. made clear, both scholars and observers of CFSP have adopted rationalist arguments in order to explain the establishment, development and institutional design of foreign policy co-operation in Europe. Indeed, rationalist theories of co-operation and international institutions successfully account for the fact that EU member states have committed themselves to co-operate in the realm of foreign policy. Though the exact level of co-operation remains indeterminate, a rationalist approach is helpful in identifying the costs and benefits of foreign policy co-operation. Moreover, a rationalist theory of institutional choice can explain why Qualified Majority Voting has been fiercely debated and finally introduced, whereas the delegation of sovereignty to supranational institutions has been rather limited.

However, the rationalist record in explaining the puzzle of this paper, namely *specific* member states’ policies towards CFSP is less impressive.

<sup>1</sup> Hill, Christopher 1983: Britain: a Convenient Schizophrenia, in: Hill, Christopher (Ed.): National Foreign Policies and European Political Cooperation, London: Allen & Unwin, 19-33, p.21.

<sup>2</sup> Bulmer, Simon/Edwards, Geoffrey, op.cit, p.150..

<sup>3</sup> Bulmer/Edwards mention the policy towards Rhodesia and Zimbabwe (Ibid, p. 150). One may add the policy towards Argentina during the Falkland War.

<sup>4</sup> This holds particularly true for the political elite.

<sup>5</sup> Richardson, Louise 1993: British State Strategies after the Cold War, in: Keohane, Robert/Hoffmann, Stanley/Nye, Joseph S. (Eds.): After the Cold War, Cambridge, Mass: Harvard UP, 148-169, p.150.

<sup>6</sup> Taylor, Trevor 1991: Great Britain, in: Jopp, Mathias/Rummel, Reinhardt/Schmidt, Peter (Eds.): Integration and Security in Western Europe. Inside the European Pillar, Boulder, CO: Westview, 136-145, p.145.

As argued above, the end of the East-West-conflict and German unification are a turning point expected to change member states' preferences on foreign policy co-operation. Whereas the rationalist framework can account for German, French and British policies until the end of the Cold War, it only explains France's policy after unification but fails to account for Germany's and Britain's CFSP policies in the 1990s. As long as Europe's foreign policy regime remained non-binding, unanimous and intergovernmental (i.e. until the negotiations on the Single European Act), German, French and British support for various reforms of EPC can be explained by the few constraints that these reforms have placed on the conduct of unilateral foreign policy. From the early to the late 1980s, German support for, as well as French and British opposition against, a strengthening of foreign policy co-operation is in line with these member states' power positions and resulting capacities to pursue efficient unilateral foreign policies.

German unification and the end of the Cold War have changed the relative power positions of Germany, France and Great Britain who are thus expected to adjust their policies towards Europe's foreign policy regime. However, only the French policy during the Maastricht and Amsterdam negotiations is in line with the rationalist expectation that France and Britain should display an increased preference for foreign policy co-operation. Contrary to a rationalist expectation, Britain continued to oppose a strengthening of CFSP, particularly the introduction of Qualified Majority Voting. Moreover, the continued German support for strengthened foreign policy co-operation contradicts the rationalist expectation that post-unification Germany would lose its interest in CFSP.

It is important to note that this failure of a rationalist approach cannot be blamed on a too narrow, essentially neorealist understanding of rationalism that ignores other rationalist theories of international co-operation and foreign policy. 'Liberal' theories emphasizing the influence of interest groups or public opinion on foreign policy cannot be integrated into an explanation of CFSP policies because neither organized domestic interests nor public opinion have much of an impact on CFSP constitutional policy-making. Rationalism and neorealism seem to converge, not because rationalism has been truncated, but because recent neorealist theorizing has moved away from a narrow focus on material capabilities and has incorporated institutions and perceptions as further explanatory variables.

German and British CFSP policies in the 1990s do not reflect the shift in the European power structure and the resulting changes in costs and benefits. In both cases, other factors such as political culture and identity, values and norms seem to be more important. In order to develop a complete ex-

planation of German, French and British CFSP policies a constructivist second cut would be necessary.

## Domestic Institutions in European Foreign Policy-Making: do they matter? <sup>1</sup>

*Melanie Morisse-Schilbach*

### **Abstract**

Based on historical institutionalist thinking on institutional stability and change, the study looks at the extent to which domestic foreign policy institutions have changed in European foreign politics over time. Domestic institutions are considered as intervening variable shaping the national process of preference and interest formulation.

The main argument is that domestic foreign policy institutions are more than other governmental institutions, horizontally and vertically deeply embedded within national bureaucratic and political systems as well as in the history of the nation. The analysis of 30 years of European foreign policy coordination shows continuous resistance towards change in the case of France and Great Britain. The study suggests that due to weak institutions at the European level and strong „institutional legacies“ at the national level, domestic foreign policy institutions regenerate themselves within the European foreign policy-making process and delimit therefore the range of available policy options for European foreign policy.

### Institutionalisation: who cares?

Recent developments in European foreign and security policy seem to indicate that ‘institutionalisation’ by which we mean the emergence of institutions *and individual behaviour within them* (March/Olsen 1998: 948), has become the *Leitmotiv* in the practice of European foreign and security cooperation. The Amsterdam Treaty provisions and the debates within the current Intergovernmental Conference clearly confirm this direction. Among others, the Member states decided to create a Policy Planning and Early Warning Unit bringing together officials from the Council, the West European Union (WEU), the Member States and the Commission. A new authority, the “High Representative of the EU” who is Secretary General of the Council and also of the WEU, has been established to provide the European Union (EU) with a common foreign policy voice. In matters of common European defence, developments occur “at lightening speed” (Javier

<sup>1</sup> I would like to thank David, Allen, Christopher Hill, Uwe Schmalz, Wolfgang Wagner and the participants of the ECPR Summer School and of a workshop on “*Steuerungsfähigkeit im neuen Europa*” at the Humboldt University of Berlin in February 2000, for their fruitful comments and critics as well as British diplomats and civil servants for their kind cooperation in the interviews. I also would like to thank the *Deutsche Forschungsgemeinschaft* DFG and the European Commission’s EUSSIRF program for financial support.

Solana). Since the British-French Joint Declaration on European Defence adopted in St. Malo in 1998, the EU Member states have provided the EU with an institutional framework for a future autonomous European military contribution to CFSP within the so-called “Petersberg missions” which includes *ad hoc* sessions of Foreign and Defence Ministers within the General Affairs Council, a Permanent Political and Security Committee consisting of representatives of the Member States to be established in Brussels, an EU Military Committee consisting of military representatives and an EU Military Staff including a Situation Centre to which the WEU Satellite Centre, for instance, is attached (Feira Report 2000/Cologne Report 1999).

The academic literature, however, has accompanied these developments in a rather unbalanced and incoherent way. Three interesting points shall briefly be resumed. Firstly, whereas institutionalisation of foreign and security policy at the EU level is attentively observed by both, politicians and academics, the corresponding process at the national level, that is the way *domestic institutions* adjust towards European requirements and their impacts on the whole process and its outcomes, is hardly analysed. This is all the more surprising as the central actors in European foreign and security policy are, more than in any other European policy field, the governments of the EU Member States.

Further, it is interesting to note that there is now a growing academic literature on the domestic implementation of European politics and its impact on national preference and interest formulation (the so called ‘Europeanisation’ literature<sup>1</sup>), but the focus is on European Community affairs only<sup>2</sup>. This is the more surprising as the EC/EU has been and still is increasingly concerned about its role in world politics and has taken deliberate steps to enhance its procedures during the last thirty years of foreign policy cooperation. Furthermore, it seems to be common sense that there is a permanent interpenetration of domestic and foreign affairs which has increasingly di-

<sup>1</sup> See for instance Caporaso, James und Joseph Jupille: Institutionalism and the European Union: Beyond International Relations and Comparative Politics, in: Annual Review of Political Science 2 (1999), S. 429-444; Bulmer, Simon: The Governance of the European Union: a new institutionalist Approach, in: Journal of public policy 4 (1993), p. 351-380; Knill, Christoph und Dirk Lehmkuhl: How Europe Matters. Different Mechanisms of Europeanization, EioP 7 (1998). <http://eiop.or.at/eiop/texte/1998-007a.htm>; Ladrech, Robert: Europeanisation of domestic politics and institutions: the case of France, in: Journal of Common Market Studies 1 (1994), p. 69-98; Mény, Yves; Muller, Pierre und Jean-Louis Quermonne (Hrsg.): Adjusting to Europe. The impact of the European Union on national institutions and policies, London, New York 1996; Page, Edward C. und Linda Wouters: The Europeanisation of the national bureaucracies? in: Pierre, Jon (ed.): Bureaucracy in the Modern State. An Introduction to Comparative Public Administration, Cheltenham, Lyne 1995, S. 185-204; Rometsch, D. und W. Wessels (Hrsg.): The European Union and Member States, Manchester 1996.

<sup>2</sup> An exception is Smith, Michael E. (2000).

minished the gap between domestic and foreign politics institutions, both at the national and the European level.

Finally, a closer look on the theoretical work on EPC/CFSP reveals that there is a gap between the emergence of institutions and the corresponding *institutional behaviour* on the one hand, and reflections on the impact of those institutions on policy outcomes on the other. There is a growing tendency in the political sciences literature to analyse European integration through the theoretical lens of new institutionalism (Aspinwall/Schneider 2000) but the field of European foreign policy cooperation seems to be excluded and the question is why? The EU has tremendously advanced in socio-economic policy areas such as European Monetary Union or Common Agriculture Policy. In these areas, convergence of practices at the domestic level is explicitly required if EU goals are to be reached (Smith 2000: 614). Foreign policy cooperation, by contrast, has not established a similar explicit set of 'common law and custom' to which Member States have deliberately subscribed. In this sense, of course, the institutionalisation process in foreign policy is different and therefore the corresponding national adjustment process. However, the fact that there is a weaker European institutional environment in the field of foreign policy does not mean that there is no impact of domestic institutions and vice versa!

The aim of the study is therefore, to look at the extent to which domestic institutions have changed in European foreign politics over time and to what extent the way they adapt towards European requirements impacts on the 'quality' of national preference and interest formulation and finally, of European policy outcomes. We should underline that the notion 'domestic institution' includes not only the *formal* dimension of institutional life but also the *informal* and the *normative* one. Also we should mention that, for analytical purposes, we are focussing on Common Foreign and Security Policy (CFSP) and its predecessor, the European Political Cooperation (EPC), as part of 'European foreign and security policy' and on foreign ministries as part of domestic institutions in foreign politics, only. While not denying that the notion of 'European foreign and security policy' is much broader and domestic institutions in foreign politics much more complex than those of foreign ministries, the aim of the study is not to investigate *decision-making* which would lead to an analysis of the impact of various formal institutions like the *Elysée*, the *Matignon* or the *Assemblée* in France, or of the Prime Minister Office, the Cabinet system or the Houses of Parliament in Britain, not to mention interest groups and the public opinion, but to look at the *behaviour* of the actors in the dynamic institutional interwovenness of national and European foreign politics. In this sense, we are following the distinction between decision and *implementation* in the literature of foreign policy

analysis (Smith/Clarke 1985). The implementation approach draws our attention to the fact that *decisions* made by formal political leaders, institutions and definable groups and their respective *implementation* by informal groupings, lower level officials and unfixed procedures often do not come to the same ends and means and that the latter has an impact on policy outputs.

After fifty years of European integration it seems to be obvious 1) that the institutional environment in which EU Member States act, is of high density in EC affairs, 2) that national administrations substantially adjust to these requirements, 3) that the density in EPC/CFSP is lower, 4) that the high density of EC institutions spreads more and more into foreign policy and that 5) therefore institutions – European as well as domestic – matter in the implementation and finally the outcomes of foreign policy. In what follows, new institutionalism in general and its variant historical institutionalism in particular, are considered as appropriate theoretical approach which can help to understand the ‘quality’ of the adaptive behaviour of domestic institutions, that is their change and resistance to change and in the end, the ‘quality’ of the European outcome.

In a broader sense, a new institutionalist view in the analysis of European foreign policy might provide some alternative explanations to the fact that foreign policy at the European level is still intergovernmental in nature whereas European Community and Justice and Home affairs are supranationalised for the former, and on its way to get supranationalised for the latter. Such a view draws more attention to the behaviour of diplomats and civil servants acting within the environment of domestic institutions rather than to the behaviour of the ‘state’ as a whole and in a wider sense, to the role of domestic norms like ‘diplomacy’, ‘national sovereignty’ and ‘national interest’ rather than to international norms like ‘human rights’ or ‘environmental protection’ and their impact on domestic foreign-policy making.

The rest of this article is organised as follows: the first part deals with our conceptual framework, that is a historical institutionalist research perspective on EPC/CFSP. After a brief résumé of the main theoretical assumptions and the description of our intervening variable – the domestic institutions of foreign ministries in the dynamic interplay of EPC/CFSP – different types of institutional change are identified. The second part should be considered as a first attempt to apply the historical institutionalist view on EPC/CFSP by focussing on formal domestic institutions of the foreign ministries of France and Britain and their adaptive behaviour in EPC/CFSP. Data come from internal and external reform papers on administrative reforms in the British and French foreign ministries from 1969 onwards as well as from the literature on the ‘Europeanisation’ of national administra-



tive machinery and on foreign policy decision making in France and Britain. So far, the empirical material is rather weak and allows only a first general view on domestic institutions. More in-depth analysis on the informal and the normative level of domestic institutions, based on interviews with actors, as well as an analysis of the impact of this adaptive behaviour in a case study of European foreign policy remain to be done<sup>1</sup>. Finally, the third part compares French and British responses to European requirements and interprets them through the lens of historical institutionalism.

**First part**  
*Conceptual framework*

**1. Domestic institutions and European foreign policy**

*The research perspective*

One of the key features of the study of European Community and EPC/CFSP hitherto has been the predominance of analytical devices rooted in rationalist thinking on international relations theory, in particular neo-realism, neo-liberal institutionalism and inter-governmentalism (Bulmer 1993; Smith 1999: 1-20). In the rationalist thinking of international politics, behaviour is analysed as a function of the distribution of power among states and the relative given position of the state. The state is seen as a unified rational actor and is taken as given. Functional arguments see change as the result of adaptation to external environments and explain organisational structure as rational adaptation to environmental circumstances (Krasner 1988: 70). An alternative to the actor-oriented utilitarian or functional perspective on EPC/CFSP is historical institutionalism whose basis characteristic is that prior institutional choices limit available future options.

From a historical institutionalist perspective institutions provide a political environment or cultural context which alters the individual's sense of what is in her best interests (Aspinwall/Schneider 2000: 6). This research perspective requires some turns in the view on EPC/CFSP: First, the focus is on everyday politics of EPC/CFSP rather than on 'history-making decisions'. As regards to the latter, the literature seems to be agree about the predominant role of negotiation and bargaining rules which prevail over institutional constraints. Another necessary turn needs to be done at the methodological level. Most of the literature on EPC/CFSP focus on a top-down perspective by applying IR theory like (neo) realism or (neo) liberalism to

<sup>1</sup> This will be part of the author's PhD thesis on the Europeanisation of domestic institutions and foreign politics.

CFSP. Top down perspectives assume that international power or institutional structures can explain the behaviour of the 'state'<sup>1</sup>. In this sense, CFSP is defined as dependent and the state interests or policies as independent variable. Following this perspective, most case studies come to the conclusion that EPC/CFSP is ineffective and inefficient<sup>2</sup>. Rarely, however, it is asked how state actors define their preference and interest formulation. Could it be that inefficiency and ineffectiveness do not only lay at the European but also at the national level? Could it be that there is a resistance to change of domestic institutions towards European requirements that prevent domestic actors from attaining more effective European outcomes? Historical institutionalism aims to focus on this questions by following a bottom-up starting point that considers interests and preference formulation of the state as endogenously constructed<sup>3</sup>. CFSP, in this perspective, must be considered as independent, the interest and preference formulation within states, that is the domestic actor level, as dependent and the domestic institutions in the dynamic interplay of EPC/CFSP as *intervening variable*.

The domestic actor perspective in research on EPC/CFSP is not a new one. Simon Bulmer was one of the first students on European integration who explicitly concentrated on a bottom up or comparative politics perspective by analysing the impact of factors at the domestic level on the functioning of the Community level. Applying the 'policy style' approach of Jeremy Richardson (Richardson 1982), he argued that the negotiation behaviour of national governments in the EC is influenced by the 'national policy style' (Bulmer 1983). The same author applied this domestic actor perspective on

<sup>1</sup> I am grateful to Wolfgang Wagner for this point.

<sup>2</sup> See Joergensen (1997, 1999) on this point.

<sup>3</sup> Studies in historical institutionalism focus on both, bottom up and top down perspectives. Theda/Skocpol and others distinguish historical institutionalism from other variants of new institutionalism like the rational choice (Thelen/Steinmo 1992). Their research perspective is a bottom up or comparative politics perspective which underlines the importance of domestic factors on power relations and the endogenous character on preference and interest formulation. Another variant of historical institutionalism seems to exist in the International Relations (IR) theory literature. Paul Pierson's work on historical institutionalism and European integration aims at answering two questions which lay at the EU level (a top down perspective): why would member states lose control and if they did why would they not subsequently reassert it? According to him they do it because they can not change institutional configurations at the European level once initiated within bargain negotiations at the high level within the day-to-day politics. In the period between history making decisions Member states actors are prisoners of the institutions created at the EU level. Both perspectives have in common that a) institutions matter) and b) that they do so especially in day-to-day politics. Historical institutionalism in IR theory looks at the impact of international institutions on domestic behaviour while that related to comparative politics investigates the impact of national institutional settings on policy outcome. For our concern – the analysis of domestic actors' behaviour within changing domestic institutions – the Theda/Skocpol 'school of thought' is more appropriate.

EPC by arguing that intergovernmentalism is a single-level explanation for a two-tier phenomenon and therefore insufficient to explain EPC (Bulmer 1991: 71). Two-tier analysis, in contrast, would draw more attention to the domestic context of international negotiations (interest groups and political parties) and on how national decision-makers are influenced by their specific position as mediators between domestic and international interests. (Bulmer 1991: 87).

#### *Domestic actor versus domestic institutions*

While strengthening the impact of domestic levels on European foreign policy outcomes in general, the focus of the two tier approach is on bargaining and history making decisions only. This seems to be an incomplete model of EPC/CFSP since it neglects the impact of institutions in day-to-day politics. We should therefore replace the notion of 'domestic actor' by the notion of 'domestic institution'. Critics of domestic *actor* approaches on EPC/CFSP, which includes the two tier approach, point out that domestic actors rarely have the opportunity to ratify CFSP agreements or influence outcomes. There is little public knowledge or interest in CFSP issues and domestic actors have little involvement in the highly specialised work of diplomats (Smith 1996: 9). In fact, EPC/CFSP seems to be dominated by elites in national foreign ministries and to a certain extent to the Commission (Smith 1999: 13). The critics on the impact on domestic factors seems to be right as long as the 'classical' notion of domestic *actors* in foreign policy *decision*-making is concerned, that is political parties, interest groups or public opinion. Although the EC has developed over time in part because of the pressure of interest groups, business and a European technocrat elite, these influences seem to play no significant role in the institutional development of EPC/CFSP (Ginsberg 1999: 444). The Monnet-method of European integration is hard to apply to EPC/CFSP (Peterson/Bomberg 1999: 232-233) since domestic factors like public opinion and national elections have only intruded occasionally on EPC/CFSP outcomes (Seabra 1998: 175-194).

However, if one considers domestic actors in a wider sense which includes the formal and informal institutional environment in which the foreign policy 'elite' acts and if we turn our view to day-to-day politics rather than to bargaining situations within history-making decisions, it seems evident that the domestic level plays a role in the outcome of European foreign policy. The notion 'domestic institution' in general, includes not only the formal political institutions of the state, but also the societal structures and policy networks linking the two. It encompasses the organizational apparatus of political and societal institutions, their routines, the decision-making rules and

procedures incorporated in law and custom, as well as the norms and values embedded in the political culture (Risse 1998: 7<sup>1</sup>).

While domestic *actor* approaches in ‘classical’ foreign policy analysis help identifying the interest and preferences of the various *formal* institutions shaping the national *decision*-making process, their view is – as mentioned earlier, an actor-oriented utilitarian or functional perspective. These analysis, typically, draw their attention to definable groups and actors at the domestic level like parliaments and interest groups, and their role within the domestic institutional struggle about preference and interest formulation of the state. Historical institutionalism, by contrast, is more structure-orientated and refines domestic *actors* by analysing why *individuals* choose one particular definition of their interests and not some other, equally plausible alternative. Definitions of interests are viewed as political results that must be analysed and not as starting points for political action to be taken at face value. Thus, the historical institutionalist approach aims to expose and analyse the discrepancy between ‘potential’ interests and those that come to be expressed in political behaviour (Immergut 1997: 337). The domestic actor in classical foreign policy analysis becomes the intervening variable (domestic institutions) in our perspective and the individual the actor. Table 1 resumes the research perspective and the relevant terminology:

**Table 1:** Research perspective and terminology

		PERSPECTIVE	
		Utilitarian-functionalism (rationalism)	New/Historical institutionalism
TERMI- NOLOGY	<b>Domestic actor</b>	Groups defined by constitution and treaty provisions (eg. Parliament, pressure groups)	Individual behaviour (eg. Diplomats, civil servants, ‘foreign policy elite’)
	<b>Institutions</b>	Formal	Also informal and normative
	<b>Preference and interests</b>	Exogenously given	Endogenously constructed
	<b>EPC/CFSP</b>	Dependent variable	Independent variable
	<b>Domestic Institutions</b>	?	Intervening variable

## 2. Historical institutionalism

<sup>1</sup> Risse, however, uses the term ‘structure’.

Three specific issues of historical institutionalism are relevant in our concern: a certain type of behaviour both in times of repetitive routine worlds and in ill-defined, novel situations (logic of appropriateness), the role of history or past choices (path dependency) and institutional resistance (stability and change).

*Logic of appropriateness*

Politics can be seen in two different ways (March/Olsen 1996: 248). One way is to see politics as aggregating individual preferences into collective actions by some procedures of bargaining and negotiations. A contrasting view is that of institutions as intervening variable structuring human behaviour. For our concern, domestic institutions in the specific dynamic environment of EPC/CFSP is the intervening variable which determine the way foreign ministries' officials act. It is a view of political actors as flexible, varied, culture-dependent and socially constructed (March/Olsen 1996: 249). In this view, institutions constitute and legitimise political actors and provide them with consistent behavioural rules, standard of assessments and conceptions of reality. Action, in this sense, is taken on the basis of a 'logic of appropriateness' associated with rules, routines, rights, obligations, standard operating procedures and practices (March/Olsen 1989). Institutionalised rules, duties, rights and roles define acts as appropriate (normal, natural, right, good) or inappropriate (uncharacteristic, unnatural, wrong, bad). Individuals or collectivities interpret what rules exists and which are relevant. Their actions are limited by the complexities of the demands upon them and by distribution and regulation of resources, competencies and organizing capacities.

Acting appropriately is to a certain extent similar to Allison's organisational and bureaucratic politics models: "Where you stand depends on where you seat" (Allison/Zelikow 1999). The difference between Allison's organisational and bureaucratic politics model and historical institutionalism lays in the wider notion of institution of the latter. Allison's bureaucratic foreign politics model considers institutions as being *external* to the agent. Such a perspective on institutions underlines institutional struggles within and among departments but does not include less fixed institutions as norms and values of the actors involved. In Allison's model, individuals act like rational actors. The value added of historical (and sociological) institutionalism, is a richer conception of institutional life (Egeberg 2000:10).

### *Path dependency*

Criticising the ahistorical approach of traditional behaviourist analysis, which focussed on formal institutions and functionalism only, historical institutionalism aims to understand policy continuity over time within countries and policy variation across countries. Or in other words: the focus is on the persistence of cross-national differences despite common challenges and pressures. This persistence, historical institutionalists claim, exists due to a given distinctive institutional configuration that shapes political interaction. This configuration is determined by institutional choices made early in the development of policy areas, or even of political systems. The argument is that these *initial choices* (structural as well as normative) will have a pervasive effect on subsequent policy choices in the sense that even when structural changes are made, the initial choices would have an enduring impact (Peters 1996: 10). Unlike rational choice approaches starting with the idea that politics follows a course dictated uniquely by exogenous factors, the typical idea of institutional theories is that history follows a less determinate, more endogenous course (March/Olsen 1996: 256). Institutional development, in this sense, depends not only on satisfying current environmental and political conditions but also on an institution's origin and history (March/Olsen 1998: 955).

Applied to our study we expect therefore that the extent to which domestic institutions of foreign ministries adapt to an changing environment – here the dynamic institutional environment of EPC/CFSP – is shaped and constrained by internal dynamics only loosely connected to changes in their environments. They are seen as modifying themselves rather endo- than exogenously.

### *Institutional stability and change*

Implicit to path dependency and the endogenous nature of institutional change is the story of institutional stability and change. Historical institutionalism is concerned with why institutions emerge, how institutions change, and with the consequences of change for the pattern of policy outcomes. Change is seen as the “consequence (intended or unintended) of strategic actions (intuitive or instrumental) which are filtered through perceptions (misinformed or informed) of an institutional context that favours certain strategies, actors and perceptions over others” (Hay/Wincott 1998: 955). Political actors then appropriate a structured institutional context which favours certain strategies over others equally possible.

In an evolution of change, ‘critical moments’ arise for institutions and give rise to significant change. Such opportunities may not be realised and exploited but if they are, the outcome is a ‘critical juncture’ at which there is

a clear departure from previous established configurations (Bulmer 1998: 604). 'Critical moments' for foreign ministries may emerge, in our view, from external forces like a new Intergovernmental Conference round and discussions about further institutionalisation of EPC/CFSP or from internal forces like elections and the coming to power of a new government. Once the new government is established or a new European treaty ratified, such 'critical junctures' create 'branching points' at which institutional development *can* move on to a new pathway which is then followed incrementally until a new critical moment arises (Bulmer/Burch 1998: 605).

Historical institutionalism claims that institutions are rather resistant and reluctant to change. This implies that institutional structures do not respond in any rapid and fluid way to alterations in the domestic and international environment (Krasner 1984: 235). There are two reasons for this resistance: 1) Once institutions are in place they will perpetuate themselves. Power holders strive to select their own successors. In this sense, elaborate educational structures, like the French *Grandes Ecoles*, for instance, might socialise members of the *Quai d'Orsay* in a way as to mistrust rather than to support CFSP. In other words: "The institutional structure of the past places constraints on the possibilities for the future" (Krasner 1984: 235). 2) Institutional resistance is also encouraged by "sunk costs" (Keohane 1983) that is once a given set of institutional structures is in place, change would require enormous capital to be realised. Shared expectations and information trust are the two stocks which actors would not give up. The costs of maintaining established institutions may be less than the total costs of creating new ones (Krasner 1984: 235).

If change occurs it does not do so simultaneously or in the same quality. Cross-national differences persist despite common challenges and the latter bring about distinct responses among individuals and collectivities within different institutional circumstances. In the multi-tiered perspective of EU governance this means that 'critical junctures' leading to change at one level, such as CFSP, need not to lead directly to changes at other levels like foreign ministries. A major change at the EU level may create 'critical moments' for foreign ministries but not necessarily a 'critical juncture' for each of them. Thus, the institutionalisation process in CFSP does not necessarily entail adjustments of institutional response within member states (Bulmer/Burch 1998: 606). Whether institutions change and in which quality depends to a large extent on two dimensions of institutionalisation: Institutional breadth and depth. The former refers to the number of links a particular activity has with other activities (horizontal dimension) while the latter refers to the extent to which the self-identities of individuals are determined

by their participation in some larger social arrangements (vertical dimension) (Krasner 1988: 76).

### 3. Domestic institutions of foreign ministries in the dynamic interplay of EPC/CFSP

Our focus is on the extent, intensity and impact of participation of Member States' foreign ministries with their organisational dispositions, routines and 'diplomatic culture'. Domestic institutions of foreign ministries as intervening variable in the dynamic institutional interplay of EPC/CFSP means that they do not exist in 'splendid isolation' but that there are in permanent contact with the domestic institutions of other EU Member States as well as with the institutions in Brussels. These interpenetration with Brussels and with other Member States' foreign ministries underlines the dynamic character of our intervening variable.

Foreign ministries have been chosen as research object due to their predominant position in the implementation process of EPC/CFSP. These organisations express most unambiguously a nation's sovereignty. One of the normative institutional level is their institutional mission to formulate, operationalize and defend interests that are called 'national'. Their organisational self-interest, one might expect, makes it inherently sceptical to 'unionizing' in any deeper sense (Egeberg/Trondal 1997: 7). The domestic institutions of foreign ministries and their issues related are resumed in Table 2.

**Table 2:** The domestic institutions of foreign ministries<sup>1</sup>

Domestic institutions	Issues illuminated
Formal inter- and internal institutional structure	Technical and legal organisation among and within departments and with Brussels; offices and networks and the positions within them, their power ('key players'), resources and skills attached.
Informal process and internal procedures	Codes, rules, guidelines, that determine who should do what, and how business is handled.
Institutional norms	The values and attitudes of actors that determine behaviour, the institutional 'culture'.

Part of these domestic institutions are in permanent contact with different levels of the dynamic institutional interplay of EPC/CFSP<sup>2</sup>. Institutions at the European level includes firstly, the formal *intergovernmental and supranational institutions* like COREPER, the Commission or the Euro-

<sup>1</sup> The table follows by and large Bulmer (1993).

<sup>2</sup> In what follows we are drawing heavily upon Bulmer (1993, 1998).



pean Parliament. Secondly, their *inter-institutional relations*, that is the power balance between, for instance, the Parliament or Commission and the Council. Thirdly, their *internal institutional organisation*, that is the way, for instance, the Commission internally organise the foreign relations of the EU. Fourthly, the *internal institutional procedures* which regulate the process of policy-finding among the fifteen Member States. Finally, institutional norms which can impact on each level, for instance, in the way Inter-governmental Conferences create a changing climate in which policies of EPC/CFSP go beyond treaty provisions.

#### 4. Types of institutional change

The ability of domestic institutions in foreign ministries to cope with the growing importance of European foreign policy depends to a large extent on their institutional and administrative capacities. Historical institutionalism claim that the 'quality' of the policies which these bureaucratic institutions conceive and implement is in turn bound to determine the direction in which European foreign policy will move. Changes at the European level, therefore, require corresponding change in the domestic institutions of the Member States. In order to analysis and compare the quality of institutional change in France and Britain, we distinguish between two types of change: adaptation and problem-solving. They differ in five dimensions: history/evolution, 'culture', orientation/purpose, duration and depth. Table 3 summarizes the terminology.

**Table 3:** Types of institutional change

<b>Dimension</b>	<b>Adaptation</b>	<b>Problem-solving</b>
History/evolution	Transformative change	Incremental change
'Culture'	Learning	Devising solutions
Orientalion/purpose	Improving structures	Maintaining structures
Duration	Long-term innovation	Short-term muddling through
Depth	Altering quality of institution	Keeping existing structures

Adaptation means long-term innovations in the decision-making structures and not short term institutional muddling-through. In a spectrum of change, adaptation in the more rigorous sense refers to the process of learn-

ing<sup>1</sup> whereas problem solving at the other end of the spectrum, is a kind of devising solutions to new problems within a given set-up (March/Simon 1958: 170). Adaptation refers to transformative change which means that the institutional development is punctuated by moments in which the fundamentals of institutions themselves change and in which the quality of the institution itself alters. Problem-solving, by contrast, refers to incremental change through adjustments at the margin which can lead to modifications of structures and principles leaving the very fundamentals untouched (Bulmer/Burch: 1998: 605). Adaptation aims at improving the reception and interpretation of relevant information coming from a changed environment. If new problems identified on the basis of received information are not adequately dealt with, the efficiency of the foreign policy apparatus obviously is bound to suffer, adaptation is required (Eberwein/Neuhold 1982: 15). Problem-solving, by contrast, is the result of *ex poste* adjustments to external demands by maintaining existing structures.

## 5. Argument

By following the historical institutionalist's thinking on the impact of institutions on actors behaviour our argument is as follows: the domestic institutions of foreign ministries are more than those of other governmental actors, horizontally and vertically deeply embedded within national bureaucratic and political systems as well as in the history of the nation. Historical institutionalism expects strong resistance to change of the domestic institutions of foreign ministries due to weak institutions at the European level and strong institutional settings at the national level. National history, culture and traditions are some of those strong institutions which affect national officials (Steiner 1982). There is a 'socialisation' of parts of the foreign policy elite but the process is not strong enough to prevail over the dominant institutional settings at the national level. Deeply embedded national values, norms and rules persist within domestic foreign politics institutions.

Due to these strong legacies, the domestic institutions of foreign ministries regenerate themselves within EPC/CFSP and delimit therefore the range of available policy options for EPC/CFSP. Such institutional resistance towards European requirements, in turn, impacts on European policy outputs. Changes of their institutions could only be expected as long as the European requirements are not challenging the institutionally deeply entrenched core of national administrative traditions. Following our typology of

<sup>1</sup> According to Haas, learning means that behaviour changes as actors question original implicit theories underlying programs and examine their value. The ultimate purpose is redefined (Haas 1990: 3).

institutional change, this means that we can only expect problem-solving as kind of change while adaptation would probably not take place. Problem-solving, however, stabilises existing structures rather than enhance possibilities for improvement and change. The domestic institutions of foreign ministries, therefore, limit rather than improve effective European foreign policy outcome.

**Second part**  
*Formal domestic institutions  
in France and in Britain, and the EPC/CFSP*

Empirical analysis proceeds as follows: along the history of EPC/CFSP, four 'critical junctures' were identified in which 'windows of opportunities' arose for Member States' foreign ministries to change. The critical junctures correspond to the four main institutionalisation steps in EPC/CFSP, that is the Luxembourg Report and the formative years of EPC, the Single European Act, the Maastricht Treaty provisions and the Amsterdam Treaty. These steps are 'critical junctures' for domestic institutions because they provide foreign ministries with two options: either they adjust in order to keep control about the institutionalisation process in Brussels or they adjust in order to enhance possibilities to participate actively in the growing institutional framework of European foreign policy. The former corresponds to a passive type of change that prefer 'devising solution' while the latter stands for an active type of change in which 'learning' is the overall driving force for change.

Analysis follows two steps: at each 'critical juncture', those institutional changes at the EPC/CFSP level are described which might influence the conduct of EPC/CFSP affairs within Member States' foreign ministries. In a second step, the formal domestic institutions of the *Quai d'Orsay* and the FCO are analysed along three questions: Are there any reforms in the run-up and aftermath of 'critical junctures'? Did those reforms result in changes of the formal domestic institutions of the FCO and the *Quai d'Orsay*? Is there any relationship between those changes and the institutionalisation process of EPC/CFSP?

1. Institutionalisation I: The formative years of EPC

The Luxembourg Report of October 1970 (Davignon Report) fixed the ground rules for future political cooperation by underlining the inter-governmental nature of closer coordination in foreign policy. Any institutional overtone was avoided and the informal prevailed over the formal

(Wallace 1982: 47). Three points are important for our concern: foreign ministers should meet twice a year, under the chairmanship of the Foreign Ministry of the Presidency. The meetings should be prepared by a committee composed of the Directors for political affairs (Political Committee) which should meet four times a year. In the follow-up of the Luxembourg Report, an own communication network was installed in 1973 to ensure the flow of information between the foreign ministries. The Coreu<sup>1</sup> network provided for rapid and efficient exchanges of confidential messages and consultation. Since then, it has been controlled and administrated by so-called European Correspondents. These officials in each foreign ministry and later in the Commission, too, act as the central contact point and as assistants to the Political Directors for all EPC questions (Nuttall 1992: 51-70; Allen/Wallace 1976: 9-11).

After three years of experience a second report, the Copenhagen Report, institutionalised practices by consolidating the inter-governmental character and the strict separation between EC and EPC affairs. The role of the Community Presidency as co-ordinator and leader in the formulation and conduct of EC policies was applied to EPC. The limit on the number of the meetings of the Political Committee was removed, the Correspondents' Group confirmed, and working groups consisting of national experts of each foreign ministry were given formal existence. Representatives of the Commission, finally, had been allowed to participate if necessary in working groups (Nuttall 1992: 71-80; Allen/Wallace 1976: 20-22).

### *France*

Under the new President George Pompidou, a reform paper was elaborated by the Foreign Minister, Michel Debré, that aimed to improve the organisational structure of the *Quai d'Orsay*. In the first place, however, the Racine Report of 1969 did not concentrate on internal organisational improvements but on the personnel dimension (*Concours*, training, careers). As far as the structural level is concerned, new issues were implemented within the ministry's tasks (nuclear and space affairs), the cultural, scientific and technical department reorganised and a juridical department established. It seems evident from the reading of the report that the French authorities reacted less to the evolving new political coordination process in Europe than to constraints emanating from developments in international affairs. As a consequence of the conflicts in Algeria and South-East Asia and the failed Suez-adventure, France had lost its reputation as a world power. Furthermore, the 'decade of Africa' and the arrival of new independent African

<sup>1</sup> Correspondance européenne.

states constrained France to reformulate its African policy. Finally, French authorities had to find an adequate response to the evolving policy of détente between the USSR and the USA. In this respect, the newly established Analysis and Forecast Unit (*Centre d'Analyse et de Prévision, CAP*) was not established in order to investigate the European integration process as a whole nor to analyse French possibilities in EPC. It was bound to deliver strategic reflections on *traditional* diplomatic matters (Kessler 1999: 77).

At the very beginnings of EPC, hierarchical structures of the Foreign Ministry of France were already firmly established and hard to alter. EPC was a matter of the Director of the Political and Security Affairs Department, a functional command, and was strictly separated from the *Service de coopération économique* responsible for EEC affairs and included in the Western Europe department, a geographical command. In political cooperation, therefore, the Political Director was its own master under the overall guidance of the minister and his cabinet and occasionally of the *Elysée* (Wallace 1982: 53). As for the Political Director, the post as European Correspondent was absorbed by existing structures. The new function has been incorporated into the work of the Deputy Director of the Western Europe department.

### *Britain*

As in France, the end of the colonial empire in the 1960s led to several reform reports that aimed to elaborate proposals for the adjustment of the internal structure of the British Foreign Ministry. In the aftermath of the British economic and financial crisis of the 1960s and its declining role in international affairs, the Duncan Report of 1969 provided a deep reconstruction of the FCO. The report recommended that all world areas should be grouped around two distinct areas of British attention. The countries of Western Europe and North America should be grouped together in an *Area of Concentration* while the rest of the world would form an *Outer Area*. Officials of the former should continue to work as diplomats with special attention to policy advice and policy planning while the work of officials in the latter should be reduced to the representation of commercial interests (Duncan Report 1969: 12-14). Despite the fact that Britain renewed in 1969 its bid for membership of the EEC the report did not refer to the discussions about political cooperation among the Six. While not denying the importance of the European continent for the British economic and political interests, the reform paper avoided any formulation leading to a clear preference neither for Europe nor for the United States as most important area of interests (Duncan Report 1969: 14). The FCO successfully contested the reform and

when the conservative government of Edward Heath came to power in 1970, the Duncan Report was shelved of (Allen 1999: 215-216; Wallace 1977: 23-34).

When Britain became full member in 1973, the FCO did not organise EPC matters separately from EEC affairs as in the case of the *Quai d'Orsay*. In fact, there was an *initial* decision of the first application negotiations at the beginning of the 1960s to divide the responsibility in EEC affairs into two branches, one dealing with the external affairs of the EC, including external commercial relations and relations to third countries and the other dealing with internal EC affairs which meant above all the bilateral relations with the partner states. This initial choice led in 1973 to the establishment of two European departments, the *EC Department external* and the *EC Department internal*. Thus, interestingly, the lacking coherence between EEC and EPC affairs at the European level did not lead to similar gaps within the British administrative machinery.

Another distinction to the French initial administrative adjustment is worth mentioning. While the post as Political Director fitted perfectly in the existing structures in France, Britain had to make a deliberate choice to create a new post and to allow national officials to play their part in the EPC (Allen 1999: 211). The creation of the post as Political Director was a real shift in the British foreign policy administrative tradition and accompanied by internal struggles in the Diplomatic Service, as one source indicates. In fact, "it has been difficult enough for the British Foreign Office to build in the post (...) to its scheme of things" (Hill/Wallace 1979: 63). The result of these struggles was that the Deputy Under-Secretary of State for European, NATO and East-West-Relations, responsible for a functional command, took over this job in 1975 (Wallace 1982: 54). Thus, the horizontal distance between the Political Director and its assistant, the European Correspondent, is similar to the French case.

## 2. Institutionalisation II: The Single European Act

After the initial period of few institutional arrangements, EPC developed towards a stable network of consultation and coordination among the Nine. In this period, Member States attained considerable success in policy issues such as the CSCE process, coherent voting within UN institutions as well as in certain policy areas like the institutionalisation of an Euro-Arab Dialog. However, at the end of the 1970s the established network seemed to have attained its limits. The failure of EPC to react immediately after the Soviet invasion in Afghanistan in 1979 and the crisis in Poland in 1980/81 gave the

stimulus required to set discussions in motion about reinforcing institutional procedures.

As by-product of a wider movement towards Community institutional reforms and a new project – the completion of the Single European Market in 1992 – Member States abandoned the existing method of pragmatic responses to successive challenges for one which gave EPC a personality in international law and a stronger role within Community legal order (Nuttall 1992: 239). The Single European Act (SEA) of 1987 profoundly modified the founding EC Treaties and integrated EPC within the new EC legal order. The EPC should become integral part of an evolving European Union. The provisions for the setting up of a Permanent Secretariat in Brussels are main expression of the new role of EPC within Community affairs. It should assist the Presidency in preparing the activities of EPC and in administrative matters. However, no political task what so ever had been attributed to the Secretariat. It was not to prepare on its own initiative nor to act as spokesman for the Twelve. It was to be composed of seconded national diplomats who remained strongly attached to their capitals in both, financial and cultural matters (Sanchez da Costa Pereira 1989: 114). The Secretariat was strictly separated from the EC Council Secretariat. By no means should be established a European diplomatic service (Nuttall 1992: 240).

#### *France*

Once again, it was a new government that paved the way for another institutional reform of the French Foreign Ministry. In 1976, the President Valéry Giscard d'Estaing and his Foreign Minister, Louis de Guiringaud, launched an institutional reform aimed at changing the structure of the *Quai d'Orsay* within five years. Like their predecessors, the new political authorities wanted to adapt the role of French diplomacy to new developments in the world, especially the crucial place of economic interdependence in the external relations (Kessler 1999: 100). The heart of the so called Guiringaud reform consisted of a reorganisation of traditional departments. In this respect, it is worth mentioning that the overall aim of the reform was to maintain the separation between bilateral and multilateral relations and therefore of the geographic and functional commands despite the general tendency for international governmental cooperation and coordination on the one hand, and growing economic interdependence on the other.

Thus, neither in the run-up nor in the aftermath of the SEA any institutional reform had been undertaken in France which would allow to draw the conclusion that the 'critical juncture' of the SEA and its EPC provisions have led to changes in the organisational structure of the *Quai d'Orsay*. As in the aftermath of the first 'critical juncture', internal institutional reforms

emerged not as a response towards European requirements but as a consequence of a fresh élan and a new governmental program. The only adjustment to the EPC process concerned the post of Political Director that received Deputy-Under-Secretary status.

The irrelevance of the growing institutionalisation process in EPC for the reorganisation of the Foreign Ministry is revealed by another fact: Despite the fact that a new socialist government under François Mitterrand was seriously engaged in favour of a “Secretariat of the Council of the European Union under the direction of the Secretary-General of the EU in charge of Political cooperation” and with members whose status would be governed by the arrangements applying to European Community officials (Nuttall 1992: 246-247), this political willingness to adapt the institutional structures of EPC to new circumstances emanating from the growing importance of the EC as international actor seems not to have been absorbed by the civil servants of the *Quai d’Orsay*. During the French EC Presidency in 1989, officials of the Foreign Ministry consequently ignored the EPC Secretariat and observed its work with mistrust (Lequesne 1993: 88).

The lacking adjustment towards the provisions of the SEA stabilised the strict hierarchy and the strong belief in the overall role of geographic departments as the best way to adapt French diplomatic work to international requirements. This institutional resistance and the changing external environment widened the gap between geographic and functional departments. By consequence, a “hybrid compromise” evolved in EPC affairs (Lequesne 1993: 85): On the one hand, France considered EPC as a matter among sovereign states and therefore as a component of its bilateral relations, on the other hand, French authorities acknowledged that the EPC machinery was – as compared to other intergovernmental cooperation – specific due to its inherent multilateral logics. In practice, this meant that day-to-day politics of EPC was still handled by the Western Europe department dealing with bilateral affairs whereas the overall responsibility was assumed by a high ranking official responsible for political and security affairs without any specific desks for European affairs.

### *Britain*

At the time of the first British EC Presidency from January to June 1977, a report was presented by the Central Policy Review Staff (CPRS) under Kenneth Berrill. The overall aim was to improve the internal structure of the FCO. As in previous efforts, the main driving force for restructuration was the growing importance of economic aspects in the traditional conduct of foreign affairs as well as general savings. As compared to the Duncan Committee, the new report was nothing more than a direct attack on



the FCO since it proposed in the end the merger of the Diplomatic Service and the Home Service into a more effective Foreign Policy Group (CPRS 1977: xv). Not surprisingly, the reaction of the FCO was hostile so that in the end the proposals were never put into practice.

As far as the link between reform proposals and EPC is concerned, it is interesting to note that the Berrill Report explicitly referred to the EC membership and the growing necessity to cope with it effectively as well as to closer political cooperation. The report underlined EPC arguing "if the UK is to have influence in the world it will more and more be as a result of influencing the policies pursued by the Nine as a whole" (CPRS 1977: x). As far as the more effective coordination of EEC affairs is concerned, the report clearly argued at the expense of the FCO and in favour of the Cabinet Office. There were two reasons for this shift: it was acknowledged that 1) much of the EEC business was about domestic issues of which the FCO had no direct expertise and 2) that other departments would not want the FCO to have this function because they consider it would advance the diplomatic and political interests of the UK at the expense to other UK interests (CPRS 1977: 44).

Nevertheless, the nearly enthusiastic strategic proposals in favour of EPC led only to proposals for institutional improvement at the European level. Indeed, the British government used its presidency in 1977 to propose further adjustments of EPC what became the so called London Report in 1981. By no means did this enthusiasm lead to any effort to adapt the internal structure of FCO to the EPC process. A further indices for reluctant domestic institutions? It seems as if the existing structures established at the time of the accession to EEC were considered as being appropriate to absorb the institutional adjustments of EPC. Thus, as in France the 'critical juncture' of the SEA did not lead to a 'branching point' from which new directions in the internal formulation and implementation of EPC policy could have been followed. Instead, existing structures were optimised. The only visible change concerned the status of both, the Political Director and the European Correspondent, within the FCO hierarchy. The Political Director became temporarily Deputy *to the* Permanent Secretary in the FCO (Wallace 1984: 51) which gave the post a more single profile compared to other Deputy Under Secretaries *of State*<sup>1</sup>. Another indicator for adjustment is the fact that the post as Political Director is since 1982 explicitly indicated in the "Diplomatic Service List". As far as the European Correspondent is con-

<sup>1</sup> Interviews with British diplomats, however, reveal that this upgrading was less the result of a deliberate choice to give EPC more weigh within the FCO but arose rather accidentally. In this sense, the status of the Political Director was in some cases dependent on the previous rank of the incoming official.

cerned, the Head of the *EC Department external* took over this post with subordinate sections responsible both for Community external relations and for political cooperation, reporting to the Deputy Under-Secretary for Community questions on matters within the competencies of the Treaties and to the Political Director for political questions<sup>1</sup>.

### 3. Institutionalisation III: The Treaty of Maastricht

The Treaty of Maastricht and its provisions for a Common Foreign and Security Policy (CFSP) was another ‘critical juncture’ for the EU Member States’ foreign ministries. The modest and pragmatic cooperation procedures of EPC has been replaced by the prospective vision of a more *common* foreign policy. As far as the institutional set-up is concerned, four points are important for our concern: first, the integration process of EPC institutions into the EC framework went further. The EPC meetings of the foreign ministers became part of the General Affairs Council just as the EPC Secretariat became part of the Secretariat of the Council of Ministers. Secondly, for the first time the Commission was explicitly given the right to propose policies and became full associated member in the CFSP institutions. It adapted its structure to the new provisions in foreign policy by creating an own foreign policy directorate (General Directorate IA) and by appointing CFSP affairs to one of the members of the Commission. Thirdly, The Committee of Permanent Representatives (COREPER) was more involved in the preliminary work of the CFSP machinery. Finally, all CFSP meetings were expected to be hold in Brussels, within the building of the General Secretariat of the Council of Ministers.

#### *France*

As in previous years a reform of the internal structure of the *Quai d’Orsay* was only launched when a new government came to power in 1993. The new Foreign Minister Alain Juppé announced a reform of the Foreign Ministry under the authorship of Jean Piqu, advisor to the French Court of Auditors, which should concentrate on the growing role of multilateralism in national foreign policies. Without explicitly referring to CFSP as main argument in favour of the new reform round, the Minister made clear that the development and the provisions of CFSP necessitate an adequate

<sup>1</sup> As for the Political Director, interviews with British diplomats reveal that the upgrading of the European Correspondent was not always the result of a deliberate choice to give EPC more importance within the FCO. It was also the result of the coming to power of a new government and therefore of distinctive ways of policy making.

institutional response at the national level<sup>1</sup>. For the first time, French authorities explicitly acknowledged that the orientation of national policy is more and more influenced by coordination within international organisations and that political, economic and military crisis are for the most part discussed and resolved within these institutions. Thus, since the very beginnings of EPC, there was for the first time coherence between the overall need to restructure the Ministry and the necessity to react to specific challenges of CFSP. In his presentation of the reform idea, Minister Juppé pointed out that it would depend on the presentation and the quality of work of the French diplomatic service within the formal and informal international committees whether France would be capable to represent its positions in negotiations successfully (Picqu 1994: 10).

However, the fact that French authorities officially acknowledged the necessity for more international coordination and inter-ministerial cooperation did not lead to substantial change within the structures of the *Quai d'Orsay*, at least, as far as CFSP is concerned. Indeed, the main hurdle for any improved internal coordination of national positions in international bodies like the EU – the gap between geographic and functional departments in the conduct of national CFSP policies formulation – has not been taken. Instead, the requirements of the Picqu reform have led to the following half-hearted adjustments: 1) At the senior level, European affairs have been put under the control of *secrétaire général adjoint* (similar to Deputy Under-Secretary status in the British administrative system). 2) At the desk level, however, the European issue remained divided between two different departments: An economic department dealing with Western Europe, European Cooperation and economic and financial affairs, and a political department responsible for political and military aspects of a wider Europe. 3) The responsibility for CFSP has been transferred from the geographic department of Western Europe into a new CFSP unit under the roof of a restructured political and security department (Kessler 1999: 107). Thus, on the one hand, the reform reflects the growing importance of EU affairs within the *Quai d'Orsay*, on the other hand, this reorganisation went at the expense of consistency. Indeed, the competence of the Political Director still did not include the geographic department of Western Europe which remains under the responsibility of another Deputy Under Secretary for European economic affairs. Instead of one single Deputy Under-Secretary and Political Director responsible for the functional and the geographic department, the hybrid compromise persisted.

<sup>1</sup> See special issue of *Revue française d'administration publique* 69 (1994).

### *Britain*

As in the aftermath of the 'critical juncture' of the SEA, no substantial reform had been undertaken in the years following the end of the Cold War and the entry into force of the Maastricht Treaty. Talks of reforming the machinery has not subsided since the debate over the Central Policy Review Staff's report in 1977. In 1988 and 1989 there were renewed calls for an independent foreign policy unit to offer the government clear thinking on major international issues, but these proposals do not relate in any sense to CFSP (Clarke 1992: 107-108). The main reason for this period of non-reforms seems to be the minor role of the FCO in the Thatcher and – to a less degree – the Major government. Indeed, the desire of Mrs. Thatcher for independent action in foreign affairs, her scepticism about the logic of interdependence and the vigour with which she followed her instincts in foreign affairs generated some frictions between her and the FCO (Clarke 1990: 220; Coles 2000). In this sense, she preferred foreign policy advice from private policy advisor like George Powell and Percy Cradock as well as from the Prime Minister's policy unit. Diplomats from the FCO, she felt, were too closely involved in negotiations with foreign partners for them always to be able to identify British national interests (Armstrong/Bulmer 1996: 267).

In contrast to the French case, the adjustment of the FCO's internal structure to the provisions of CFSP in the aftermath of Maastricht was not part of an officially announced reform of the Foreign Ministry but were handled with care without any public debate. As in the French case, CFSP affairs were upgraded within the FCO structures, but in contrast to the *Quai d'Orsay*, CFSP affairs have been removed from the EC Department external into an *own* CFSP unit (Berman 1994: 63). However, similar to the French case, the Political Director's direct responsibility apparently included only the CFSP unit.

#### 4. Institutionalisation IV: The Amsterdam Treaty

The Amsterdam Treaty complicated rather than reduced institutional arrangements. The decision-making process is now characterised by observers as low of transparency, slow in reactivity and high in bureaucratic networking (Regelsberger/Wessels 1996). During the Intergovernmental Conference in 1996/97, Member States did not arrive at any conclusion regarding the character of CFSP. Thus, CFSP remains intergovernmental in nature with community elements more and more spreading into its procedures. Complexity is especially dense at the Council level due to the jealousy between the Community organ COREPER and the Political Committee. In

fact, the constraints of consistency between EC and CFSP policies led to a deeper involvement of the Community Council's business in CFSP affairs. CFSP working groups were rationalised with the Council's pillar I working groups and COREPER acquired its own group of deputies on foreign policy questions – the so-called CFSP counsellors – who discuss financial and judicial issues arising from CFSP actions (Allen 1998: 53/Kiso 1997: 5). Some authors interpret this tendency as an incremental change from intergovernmental towards “Brusselisation” of European foreign policy (Allen 1998: 54).

#### *France*

Following the example of their predecessors, the new socialist government under Premier Minister Jospin and Foreign Minister Védrine announced a fundamental reform of the *Quai d'Orsay* in 1997. The Jospin-Védrine reform comprises two aspects: politically, it reflects new orientations in the French foreign policy while administratively, it aims at modernising the traditional structures of the Ministry. The fusion of the Ministry of Development (*Ministère de la Coopération*) and the *Quai d'Orsay* corresponds to the political decision of the new government to give up its *pré carré africain*. The necessity of such a merger is acknowledged within all political parties because the tremendous costs for maintaining special relationships with the French speaking sub-Saharan African states do not reflect realities in the Franco-African relations any longer.

As far as the administrative reorganisation or “modernisation” is concerned, the Védrine reform mirrors the objectives of the Juppé reform of 1993/94. A modernisation program has been launched which shall last over several years and be evaluated regularly. Explicitly, the reform paper points out that changes in the intra- and inter-organisational coordination in European affairs are a precondition to an improved presentation of French interests within the complex structure of the European Union's institutions. This question was regularly on the agenda of reforms since 1976 but so far administrative hurdles and internal mistrust and resistance in the *Quai d'Orsay* have prevented the realisation of any of those ideas. In this respect, the Védrine reform makes a new attempt by suggesting to dissolve the post as *secrétaire général adjoint* in European economic affairs and to incorporate its responsibility into that of the Political Director who then would be responsible for the whole European issue (Kessler 1999: 109). However, any evidence that this proposal has been realised is still lacking.

The current organisational map of the *Quai d'Orsay* of 1999, at least, does not show any substantial adjustments<sup>1</sup>.

### *Britain*

In several speeches following the accession to power of the Blair government in 1997, the new Foreign Secretary Robin Cook underlined that he would be willing to change British foreign policy fundamentally. British foreign policy should become "greener" and with an "ethics" bracket and the British public should have improved access to diplomacy and security affairs (quoted in Allen 1999: 222). Similar to the process in France, the Cook reform provides a five-years lasting modernisation program which is embedded within the overall framework of the 'Step change' initiative. Under the Blair government, this initiative aims at bringing Britain closer to continental Europe by encouraging the personnel of the FCO and other ministries to intensify the working relations with their colleagues in other EU Member States' ministries. The government expects to gain synergy effects in two ways: strengthening the pro-European program against domestic critics on the one hand, and supporting British interests within negotiation rounds in Brussels on the other (FCO Annual Report 1999: 74).

It seems that under the Blair government substantial change of CFSP related structures of the FCO are taking place. Authors observe a stronger concentration on CFSP affairs within the British Permanent Representation in Brussels (UKREP) (Forster 2000). As far as the Home Civil Service of the FCO is concerned, the current organigram seems to reveal that a kind of diversification in the handling of European foreign policy and a strengthening of CFSP affairs is under way. The CFSP unit has now received departmental status within the FCO structure (CFSP (D)) under the responsibility of the European Correspondent. The Political Director is now the senior European policy advisor to the Foreign Secretary and the Prime Minister (Forster 2000). The CFSP department has increased in staff and resources including now six desk officers divided into two sections covering institutional (European defence, institutional developments of Amsterdam) and operational matters (preparation for General Affairs Councils, Political Committee and working parties). However, in spite of the growing importance of European foreign policy, the CFSP Department is still one of the smallest departments in the FCO (Forster 2000).

### *Quai d'Orsay* and FCO compared

<sup>1</sup> The current organigram can be found on the website of the *Quai d'Orsay*. <http://www.france-diplomatique.fr>

To sum up, three questions shall briefly be resumed: 1) In which way have the formal institutional structures of the *Quai d'Orsay* and the FCO changed to European requirements throughout the genesis of EPC/CFSP, 2) in which quality and 3) how would historical institutionalism explain the findings.

#### *Process of change*

Surprisingly, formal structures of the foreign ministries of France and Britain changed more or less similarly during the 30 years of European foreign policy coordination. In spite of distinct national institutional environments, for instance different constitutional constraints in which their foreign policies are embedded (no written constitution in Britain versus written constitution in France) and different roles of domestic actors (*Cohabitation* and strong presidential impact in the French case versus strong personal leadership of the Prime Minister in the British case), the adjustment method in France and Britain has been by and large the same: giving the post as Political Director more profile by upgrading its position within national hierarchies and narrowing economic and political departments in the name of consistency. This similarity seems to be consequence of the deep interrelationship among foreign ministries and the impact of the Brussels' working atmosphere into domestic institutions. This tendency of similar responses can not be explained with historical institutionalism. Historical institutionalists would have expected different responses to common challenges due to different domestic institutional constraints. In this sense, foreign ministries have been 'Europeanised'. However, as Hill and Wallace underline, "the fact that there is administrative homogeneity and regularised consultation do not in themselves amount to a qualitative shift in the making of foreign policy". (Hill/Wallace 1979: 60). In this respect it is worth mentioning that in both cases, resistance towards change requested from the political level of ministers and the cabinets is high within foreign ministries. This finding seems to confirm that the way domestic institutions change is shaped and constrained by internal dynamics only loosely connected to changes in their environments.

#### *Quality of change*

Differences occur if we have a closer look on the quality of change. If we assume that the quality of change to European requirements depends on the way traditional structures within foreign ministries are overcome and if we follow the historical institutionalist assumption that traditional structures in national administrations prevent the latter from handling EPC/CFSP af-

fairs successfully and effectively, adaptation – according to our typology – would have required an overcoming of these structures while problem-solving would expect the maintenance of them. The partition of the diplomatic work in geographic and functional divisions is one of those structural legacies. While the former deals with bilateral relations with other countries, the latter's importance has increased during the last 50 years due to international interdependence, multilateralism and globalisation. Functional divisions deal with the relationship to international economic and political organisations. During the 30 years of coordination and consultation within EPC/CFSP, this structural legacy has been exposed with the growing tendency of inter-pillar cooperation at the European level in order to make European policy more consistent and coherent.

The empirical findings about formal domestic institutions seem to reveal that there is a clearer change in the FCO structure than in the *Quai d'Orsay* because the responsibility of the Political Director seems now to include both the geographic and functional commands. The structural legacy of the geographic-functional gap seems to have been overcome. It appears that structures in the British case adjusted more to European requirements of consistency as in France. In this sense, changes in the domestic institutions of the FCO come closer to the quality of adaptation. For the *Quai d'Orsay*, by contrast, the method of problem-solving prevails over any substantial change. The Political Director does not seem to have a similar overall position as in the British case and the *Service de la PESC* remains included within the functional department of political affairs without any direct relationship to the geographic department in which the bilateral relations to the EU member states are embedded.

#### *Historical institutionalist explanations*

It seems as if structures of the *Quai d'Orsay* are deeper interwoven within the national bureaucratic system and traditions. A study of Lequesne/Rivaud confirms this point: According to them, French diplomats regard CFSP as the last European policy which attests to the special value of their job as diplomats. This is the reason why they strongly marked their opposition on proposals to integrate CFSP into the coordination machinery for French European policy which is handled by a special institutions attached to the Prime Minister, the SGCI<sup>1</sup> (Lequesne/Rivaud 1998: 20). A view from the practice goes even further. The lacking efficiency in the internal coordination process clearly impacts on the functioning and the quality of work

<sup>1</sup> Secretariat-General of the Interministerial Committee for Questions of European Economic Cooperation.



within the Brussels' working parties level structure (Dumond/Setton 1999: 65).

What are the causes for the apparently easier adjustment of the British administrative machinery to EPC/CFSP? Historical institutionalism would underline the importance of different *initial* choices and their distinct impact on subsequent decisions. Indeed, France and Britain chose different strategies when the 'critical juncture' of EEC accession in the 1950s (France) and of the first negotiation round for accession in the early Sixties (Britain) required adequate responses. These distinct pathways, then, led to different qualities of change when the growing need for consistency between EC and EPC/CFSP affairs in the 1990s required responses at the national level.

At the very beginning of EPC, the initial choice not only of France and Britain but of the Member States in the whole, to separate EPC from the strongly institutionalised procedures of the Community fitted perfectly into existing and traditionally well-established division of competencies among functional and geographic commands within foreign ministries. In this sense, as Wallace points out, EPC was initially attractive for the French and British foreign ministries because it was a process which adapted nicely to the traditional diplomatic skills of informal consultation without public requirements (Wallace 1982: 46).

'Misfitting' occurred when the growing need for consistency between EC and EPC/CFSP affairs *de facto* changed the intergovernmental nature of EPC in Brussels and required an adequate response within national administrations. Indeed, with the stronger involvement of the Community institutions, especially through COREPER and the Commission, existing national structures could not absorb these tendencies any longer. Britain's way of responding to these tendencies seems to be more coherent because the initial choice of splitting responsibility in European affairs in two 'European' departments closely related to each other, allowed an earlier and less costly 'fitting' of internal structures to the requirement of consistency than in France. There, the initial choice to include EPC in the geographic department of Western Europe and not as in the British case in a functional department (EC Department external) led to a deepening of the gap between functional and geographic departments when an adequate response to the growing tendency of inter-pillar cooperation at the EU level was required. The French initial choice for an geographic department dealing with EPC affairs seems to have an enduring impact even on the latest developments. The 1994 Juppé and the 1998 Védrine reform – despite the transformation of the CFSP unit from the geographic into the functional department – has not succeed in bridging the structural legacy because the Political Director's

direct responsibility still seems to include only the functional department of political and security affairs in which CFSP is embedded.

### Conclusion

Recent studies in European governance and 'Europeanisation' of national bureaucratic systems indicate how international, transnational and supranational relations increasingly impinge upon how domestic government actors carry out their work. It is therefore worth opening the 'black box' of state actors in European foreign policy-making process and to look at their respective foreign policy bureaucracies in order to understand how they work and how public policy and politics come about in the specific environment of European foreign policy integration.

The strength of historical institutionalism lies in its attention to the long-term characteristics of political life and in its focus on macro-political outcomes. In trying to illuminate domestic institutional factors shaping domestic actors' behaviour in European foreign policy, it is, however, not satisfying to look at formal-legal aspects of institutional settings only. In this sense, our findings about the formal domestic institutions of foreign ministries and their change over time must be exposed with findings about the informal and normative dimension of domestic institutions. Or as Clarke points out citing one British Assistant Under-Secretary: "The EPC process fitted in with some European foreign ministries more than others and the 'FCO has had to adapt more than most'" (Clarke 1992: 81). However, this would not be obvious from looking at formal domestic institutions of the FCO only.

Beyond these findings, a historical institutionalist view on EPC/CFSP offers another interesting point about the genesis and the further institutional development of CFSP which is worth discussing in more detail: it invites us to consider the initial highly informal and hardly visible institutionalisation process of EPC in the 1970s as a process that was not only the result of the 'lack of political will' among political leaders at that time to go further, as rationalist explanations would claim, but also as the consequence of existing traditional institutional settings within foreign ministries. In this sense, historical institutionalists would argue that the initial decision to handle EPC in that way and not in any other alternative way is consequence of the particular organisation of foreign ministries at that time. Whether prior institutional choices limit available future policy option, as historical institutionalists would claim, that is in our case, whether resistant domestic institutions of foreign ministries impact on actors behaviour and in turn, on European foreign policy outcomes, remains to be examined in detail.

## EU *versus* men wearing dark glasses: learning about European foreign policy towards Nigeria, 1979-2000 ?

*Martin Dahl*

### **Abstract**

This paper analyses European foreign policy towards Nigeria, 1979-2000. It addresses how the European Union's external capability developed towards Nigeria; what the major changes were and when these occurred. Specific attention is provided in finding out the extent to which European foreign policy decision-makers learned about the workings of European foreign policy from experiencing the developments in Nigeria and the results of European foreign policy initiatives. The suspicion was that learning did not always take place smoothly or automatically. The paper therefore in addition included an analysis of the importance of a range of factors that potentially could have impeded learning from taking place. The paper finally addresses how intensive interaction took place between the EU's Common Foreign and Security Policy (CFSP) and the Community's External Economic Relations in determining European foreign policy towards Nigeria? Finding relative intensive activity between the two pillars in the Nigerian case, the paper in sum provides empirical information not only about learning but also about the tendency to pillarization of European foreign policy.

### *Introduction*

One often hears about the lessons that actors have learned or should have learned from outcomes in international relations. Among those, the former UN High Representative for Bosnia and Herzegovina Carl Bildt a few years ago asked "*hat Europa aus Bosnien gelernt*". This paper departs from Bildt's question and asks, whether EU's decision-makers are more capable of learning from their failures (or successes) now than they were, let us say, 2, 6, 10 or 20 years ago?

Despite the added value of almost any case study on European foreign policy (EFP), this paper will go beyond Bosnia, Kosovo and the Mediterranean, which others have discussed in detail. The paper will instead analyse the state of European foreign policy in Africa's most populous country Nigeria. Nigeria is a large regional power that has impressive records in influencing neighbours in one of the poorest and most unstable parts of the world. Paradoxically, Nigeria herself is one of the world's poorest and democratically unstable countries despite her extensive oil resources and her successful return to democracy 2 years ago. Fingers are now crossed for the future of Nigeria's democracy. As she may be considered an important test case for other potential African democracies, EFP towards Nigeria

may also be seen as a test case for the Union's external capability and influence.

This paper seeks to test EFP by following it over time and describing how it developed in the light of the events in Nigeria. Particular attention will then be attached to whether EU decision-makers have learned something from their experiences with Nigeria. Put differently, the paper will seek to answer whether European foreign policy actors have learned about doing EFP towards Nigeria from experiencing the workings of their policies. If learning has taken place, the Union has not necessarily acted more cohesively or mobilised more resources than before. The existence of learning only informs us about the EU governments' capability of using knowledge about the workings of European foreign policy to their future attachment of effort to EFP-solutions. However, if EFP turns out to be a viable solution to problems in international relations, governments would over time slowly dedicate more resources to EFP.

There are however several factors that may impede learning from taking place in this optimal way. These factors create blindness in learning and may be both internal and external to the learning process. The project analyses the weight one should attach to these internal and external factors of causing blindness. Specifically, an analysis will be performed of the impact of confusion about the workings of EFP created by lack of clear strategies or the existence of one or several strongly competing strategies to the EFP. Similarly, learning may be facilitated by various factors making it easier for EFP decision-makers to learn the *right* lessons from the outcomes in international relations. One of the factors looked at that may facilitate learning is the influence that information sharing about the workings of policies among EU governments may have on the willingness of Member States to use European foreign policy institutions.

Finally, a crucial factor that may affect actor's ability to learn is the impact of specific interests and institutional competence. This is in line with the fact that one cannot describe EFP towards Nigeria without reflecting on the impact of the Community's External Economic Relations (henceforth *EER*) towards Nigeria. With Nigeria being the main recipient of aid in the Lomé IV Convention and one of the primary exporters of petroleum to the EU Member States, EER must simply play a role in the Union's capability and influence in Nigeria. The question is which role the EER actually has played in determining EFP towards Nigeria; and whether this role has changed over time, or not?

In the end, the aim is not assess the Union's actorness towards Nigeria in the last two decades. This is done in the following steps. In the first section, EFP towards Nigeria is assessed in terms of EU's international *capa-*

*bility-presence*. As this expression suggests the focus is on only one dimension of Allen & Smith's notion of *presence*<sup>1</sup>, that is the capabilities of the Union to act and mobilise resources. Any measurement of capability-presence ultimately needs to incorporate and weigh up the nature of the problem addressed by EFP, in this case the political developments in Nigeria.<sup>2</sup> The first section will therefore account for Nigeria's own development, whereas EFP towards these developments will be assessed in the second section. In the third section, the impact of learning is discussed, and the those cases where learning did not take place, the paper looks at what may have blinded European foreign policy decision-makers in their learning. The focus will be on how decision-makers expectations (beliefs) about the workings of EFP towards Nigeria may have changed over time in the light of experience, what may have facilitated and impeded this change of beliefs, and what may have been the impact of such altered beliefs. The paper further provides an assessment of EER's influence on EFP. Apart from analysing economic preferences, the emphasis is on how the EU-ACP co-operation agreements interacted with the EPC (European Political Co-operation)/CFSP in determining the Union's capability in Nigeria.

## I Developments in Nigeria, 1979-2000

### *1979-1993: The Shagari, Buhari and Babangida military rules*

Nigeria is as complicated as any EFP context can get. She is ethnically, socio-economically and politically one of the world's most complex countries to deal with.<sup>3</sup> Nigerian military rulers have issued numerous unfulfilled assurances of Nigeria's returning to civilian rule since the first civilian rule came to a violent end in 1966.<sup>4</sup>

It was not until 1977 that a transition promise for the first time was kept by the military ruler Gen-Lt (later Gen.) Olusegun Obasanjo (now Nigeria's democratically elected President). The subsequent civilian rule of 1979 under the leadership of Alhaji Shehru Shagari was however soon confronted with insurmountable problems stemming from the dangerous combination of

<sup>1</sup> Allen and Smith 1990: 21, 19-21. Presence holds three dimensions: 1) credentials and legitimacy, 2) the capacity to act and mobilise resources, and 3) the place it occupies in the perceptions and expectations of policy-makers.

<sup>2</sup> The Union itself considers this as an important parameter in evaluating the degree of fulfilment of its aims. As noted by the Commission, "the policy response of the Union has to be flexible and adapted to the actual situation in each crisis region" (1999a).

<sup>3</sup> NISER 1998; Lewis 1995: 19, 5-6; Lewis *et al* 1998: 9; Herbs 1996; Lewis 2000; Klay Kieh & Agbese: 409.

<sup>4</sup> Ohwahwu 1997: 9; Nwosu 1996.

economic downturn and economic and political mismanagement.<sup>1</sup> The Nigerian people thus initially welcomed Major General Muhammadu Buhari's bloodless coup on New Year's eve 1983.<sup>2</sup> Under a modestly harsh Supreme Military Council Buhari started the internal cleansing process of a corrupted Nigeria. Buhari's regime was, however, too "draconian" and "stiff" to accommodate the complexity of Nigeria, for instance, those that now made fortunes on the intensified drug trading.<sup>3</sup>

Already in May 1985, Ibrahim Badamosi Babangida thus overthrew Buhari. In the beginning Nigerians also witnessed a number of visible democratic improvements under Babangida, e.g., the revoke of the decree on press censorship.<sup>4</sup> Later in the 80s, Babangida's regime grew increasingly authoritarian.<sup>5</sup> Babangida moved away from the initial commitment to change announcing in July 1985 that there was "no schedule for the restoration of civilian rule planned". Several proclaimed plans for democratic elections were later postponed. Among the many excuses for postponing these elections were the allegations of another coup attempt on 22 April 1990 by Major Orkar who consequently was executed in July 1990 with 69 other prisoners. Only after considerable pressure on Babangida and with a low confidence voter turnout on 35% elections finally took place on 12 June 1993.<sup>6</sup> The unofficial results, however, pointed to an overwhelming victory to Moshood K.O. Abiola.<sup>7</sup> Being a (Muslim) Southerner, Abiola's victory brought back hope in Nigeria of finally matching Southern resources with federal influence.

#### *The Abacha Military Rule, 1993-1998*

The election results were however annulled 23 June 1993 "... violently robbing the Nigerian people of their nationhood" as literature Nobel Prize laureate (1986) Wole Soyinka stated.<sup>8</sup> Massive internal and external pro-

<sup>1</sup> Lewis *et al* 1999: 39-42, 14-20; Political and Economic Encyclopaedia of Africa; Kukul 1999.

<sup>2</sup> Interview Nigerian officials, May 2000.

<sup>3</sup> Interview Nigerian officials, May 2000

<sup>4</sup> Other improvements included, the release of a number of political detainees, the creation of a Political Bureau of transition to civilian rule, and participation in structural adjustment program (SAP) supported by the IMF and the World Bank.

<sup>5</sup> Lewis *et al* 1998: 43, 19-34; Ingram 1999.

<sup>6</sup> Lewis *et al* 1998: 45; Lewis 1995.

<sup>7</sup> Abiola reportedly received 58% of the votes across all regions and the elections were generally perceived of as fair and free.

<sup>8</sup> Soyinka hereby referred to Abiola being the first Southerner to gain power (Interview May 2000)

tests led Babangida to step down on 27 August.<sup>1</sup> Yet, on 17 November 1993, the interim government after Babangida led by Gen. Chief Ernest Shonekan was impelled to transfer all powers to General Sani Abacha, “the man with the dark glasses”.<sup>2</sup> With Nigeria in chaos the transfer of powers to Abacha was initially widely.<sup>3</sup> Later any optimism that may have existed reversed into disappointment with “Abacha’s government reflect[ing] the most repressive rule in Nigeria’s history”.<sup>4</sup>

Lack of internal economic progress led NADECO (the National Democratic Coalition) on 16 May 1994 to demand the military government to dismiss by 31 May 1994.<sup>5</sup> With NADECO’s claim being unfulfilled a national strike was initiated over the summer leading to the emergence of an even less compromising Abacha regime.<sup>6</sup> In June 1994, Abiola (who in the meantime had declared himself president) was arrested. In May 1994, the writer<sup>7</sup> and leader of the Movement of the Support of the Ogoni People (MOSOP) Kenule Beeson Saro-Wiwa was detained alleged to have incited his supporters to commit the murders of four Ogoni “traditional” leaders. In January 1995 the Saro Wiwa trial commenced; on 8 November his conviction was confirmed and two days after a “brutal execution” (hanging) took place.

The opposition against Abacha was far from united. Yet, a shift in the divided opposition occurred in May 1997 with the formation of the United Action for Democracy (UAD), a loose alliance of 22 pro-democracy and human rights organisations (including MOSOP). Increased resistance was further illustrated by a series of bomb attacks in 1997 leading to the charge of Wole Soyinka (who lived in exile) and the detainment in December of Lt. Gen Diya and others accused of coup attempts. Once again a promise to return to civilian rule was broken, given in July 1997 scheduling transition to be completed by 25<sup>th</sup> April 1998.

A turning point came with 54 year old Abacha’s sudden death 8 June 1998<sup>8</sup> and the almost simultaneous death of Abiola. Baker & Stremlau fo-

<sup>1</sup> Babatope 1995; Lewis 1995: 25, 7-9.

<sup>2</sup> Allegations pointed to a possible deal between Abacha and Babangida paving the way for Abacha’s coup d’état. As Minister of Defense under Babangida Abacha was the only Babangida minister left in the Shonekan government (Nigerian official, May 2000)

<sup>3</sup> Babatope 1995: 7-12 & 17 (last line)–18, 1-2.

<sup>4</sup> Lewis 1999: 146, 5-8; Baker & Stremlau 1999: 182, 8-13.

<sup>5</sup> Africa Research Bulletin, 1994, Vol. 31, No. 6, June 1<sup>st</sup> – 30<sup>th</sup>, 11459-11462.

<sup>6</sup> Africa Research Bulletin, 2000, Vol. 31, 11575, “Strike Ends”, 1-3.

<sup>7</sup> Saro Wiwa received the “Alternative” Nobel Prize in literature the Right Livelihood Award in 1994.

<sup>8</sup> Abacha was suffering from Hepatitis. Abacha was according to one account experimenting with Viagra which go very badly together with Liver diseases since Viagra makes the blood float faster than the liver can absorb. On the day of Abacha’s collapse two oriental

cus on the uncertainties about Nigeria's future created by the two deaths.<sup>1</sup> In contrast, a Nigerian official called the two deaths of Abacha and Abiola for "faith"<sup>2</sup> that "removed the two impediments for survival of the nation".<sup>3</sup> As noted, "the problem was that Abiola still thought that he was the only true democratic President five years after his elections."<sup>4</sup> Adhering to this argument, Abiola's death may have facilitated democratic transition by reducing the number of civilian government alternatives.

#### *Towards democracy, 1998-2000*

Under the new military government of Gen. Abdulsalam Abubakar, Nigeria delineated and began a fast track plan towards democracy.<sup>5</sup> Hereby, Abubakar notably became the second military ruler in Nigeria's history to keep a promise about holding elections.<sup>6</sup> Legislative elections were held 20 February 1999 and were followed by presidential elections 27 February. In the presidential elections, Olusegun Obasanjo from the Peoples Democratic Party (PDP) won 62% of the votes and took office on 29 May. Obasanjo launched an offensive campaign against members of the old regime, in particular, against human rights violations<sup>7</sup> and corruption.<sup>8</sup> Externally, Nigeria started the restitution of its regional power status by the critical role Nigeria played in achieving the peace agreement of 7 July 1999 in Sierra Leone.<sup>9</sup>

Nigeria's democratic transition lost some of its momentum towards the autumn of 1999.<sup>10</sup> Ethnic conflicts re-emerged, e.g. the fighting between Ijaws and Itsekiris near Warri in the oil production delta where 200 died, and the violent clashes from the forced introduction of Sharia on non-Muslims in several districts. Worst were the violence in Kaduna caused by the Sharia where 1000 people reportedly were killed in February 2000 fol-

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(Indian or Arab) looking women were brought to his place reportedly causing his collapse (Interview Nigerian officials May 2000, Baker & Stremlau 1999, footnote 3, 200).

<sup>1</sup> Baker & Stremlau 1999: 193, 1-3.

<sup>2</sup> Abiola had been detained for almost five years and had heart problems caused by diabetes. He was denied health care so one could hardly speak of a natural death.

<sup>3</sup> Interview Nigerian official, May 2000

<sup>4</sup> Interview Nigerian officials, May 2000

<sup>5</sup> See also European Foreign Policy Bulletin (EFPB), 98/195 18 September 1998

<sup>6</sup> Abubakar had no vested interest in keeping power. He had never held any political posts (Baker & Stremlau 1999, footnote 3, Interview Nigerian officials, May 2000).

<sup>7</sup> A Human Rights Violations Investigation Commission (HRVIC) (September 1999) was set up. HRVIC opened up for investigations in the period 1966-May 1999 thus including the civil war period. By March 2000 it had received 10.000 different submissions from the public.

<sup>8</sup> See for instance International Herald Tribune, November 24, 1999

<sup>9</sup> European Commission 1999b.

<sup>10</sup> Vick 1999.



lowed by the death of 2-300 people in May.<sup>1</sup> Whereas Nigeria's future remains rather uncertain the last two years have at least shown the determination of Nigeria to keep its military at arm's length from internal conflicts. As Obasanjo stated in late March 2000 after the violent clashes in Kaduna, "people want me to act, but what do these people want me to do ..send in the military which led to such tragic outcomes in the past?"<sup>2</sup>

## II European foreign policy towards Nigeria, 1979-2000

### *Silence*

What was the capability of the EU/EC towards the developments in Nigeria described in the previous section? "There was no European foreign policy towards Nigeria before the TEU (Treaty on European Union 1993)".<sup>3</sup> In fact, EPC only produced one single statement regarding Nigeria in the 1980s, namely the one addressing Buhari's coup d'état in 1983. As a result, EFP was highly detached from the Nigerian political realm.

This lack of willingness to address developments in Nigeria actively at a European level was confirmed by the limited effort the Council attached to the numerous resolutions and questions of the European Parliament (EP) concerning Nigeria.<sup>4</sup> For example, 9 January 1986 the British MEP Mr. Cottrell asked "what measures the Council had suggested to the new military government in Nigeria with respect to the restoration of democracy, [and] *returning to full respect for human rights..?*"<sup>5</sup> In its short answer, the Council simply reassured that it "will continue to take due account in their meetings with the Nigerian authorities of the problems arising in that context." As may be seen from the timeline of EFP in Appendix 1, a few meetings were actually held with the Nigerian authorities addressing various human rights concerns of the Union. Yet, the Union certainly lacked an overall strategy for addressing developments in Nigeria.

EFP's low profile in the 80s is no misnomer in the overall development of EFP. Less obviously is it that the quite significant institutional strengthening of EFP coordination by the Single European Act (SEA, 1987) at that time did not force EFP out of its silence.<sup>6</sup> There were only a few signs of increased depth and scope of action. In a relatively sharply formulated

<sup>1</sup> Africa Research Bulletin, May 1<sup>st</sup> – 31<sup>st</sup>, 2000, 13979.

<sup>2</sup> Interview Nigerian officials, May 2000.

<sup>3</sup> Interview Council Secretariat, May 2000.

<sup>4</sup> Reference to be added to EP resolutions.

<sup>5</sup> EFPB 86/014 9 January 1986.

<sup>6</sup> Nuttall 2000, 2-3.

statement in 1990, the Council “viewed” “with no sympathy” the coup attempt by Orkar but regretted “that those accused of involvement led to executions on the scale announced by Nigeria on 27 July 1990”.<sup>1</sup> Moreover, the Union built its first common EU chancery in the new capital Abuja (for EU Member States who wished so)<sup>2</sup> – a decision that however had been delayed for five years before implemented.<sup>3</sup>

### *Sanctions*

From 1993, EFP entered its era of sanctions. Compared to earlier EFP, the depth and scope of EFP increased significantly in this period, 1993-1997. First, sanctions were installed even before the CFSP came into force. Second, the sanctions comprehensively included,

- suspension of military co-operation,
- a ban on visas for members of the military and of the security forces including their families,
- suspension of visits by members of the military to countries of the EU, and,
- suspension of further development co-operation aid.<sup>4</sup>

Third, the sanctions were implemented despite initially rather divergent opinions among Member States. UK reportedly wanted a harsher course towards Nigeria along the lines of US policies – a course that was tacitly opposed by France, and Germany.<sup>5</sup> Finally, EU authorities under the sanctions regime much more routinely reacted to new developments in Nigeria than previously. For instance, the subsequent deterioration of events under Abacha from 1994-1995 induced a series of EFP statements and official communiqués to Nigerian authorities.

The sanctions regime of 1993 still was a rudimentary and non-influential package of foreign policy actions. The sanctions did neither target the vulnerable Nigerian petroleum sector, nor did they explicitly declare an arms

<sup>1</sup> EFPB 90/295 2 August 1990

<sup>2</sup> The Council based its decision on 1) political desirability of increasing co-operation, and, 2) technical reasons where a temporary building of 1992-1996 had been constructed to house the Member States chanceries (EFPB 91/390 20 November 1991, Question no. H-967/91 by Mr. Bonde in EP).

<sup>3</sup> B & V 1999: 30.

<sup>4</sup> EFPB 93/305 13 July 1993

<sup>5</sup> Lewis *et al* 1999, 47, 12-14.

embargo. Most problematic the sanctions were not legally binding and as a consequence not really taken seriously by EU decision-makers.<sup>1</sup>

During 1995, there was no increase in depth of EFP until the Saro Wiwa deaths. Yet, the statements appear more critical than before. In March 1995, the Union issued a critical statement expressing "serious concern" about the Obasanjo/Yar'Adua arrests.<sup>2</sup> The Union's Trojka<sup>3</sup> visited Nigeria, and representations were made to the Nigerian Minister for foreign affairs from the French Ambassador (representing the Presidency).<sup>4</sup> What is new about EFP in 1995 is the attempt to increase its scope of action. The Council hereby attempted to link first and second pillar issues noting that "failure to respect human rights may result in total or partial suspension of the Convention",<sup>5</sup> i.e. the mid-term negotiations of the Fourth ACP-EU Lomé Convention (See Section IV). Similarly, on the decision by Abacha in October 1995 to commute all death-sentences to terms of imprisonment the Union "welcomed" this development and added that it "will adapt the future of its cooperation with Nigeria in the light of the evolution of this process".<sup>6</sup>

It was not before the Saro Wiwa execution that some of the Union's threats<sup>7</sup> were finally carried out.<sup>8</sup> Here, the Union showed substantial (organisational) capabilities<sup>9</sup> under the Spanish Presidency by the speedy way it issued a rather rigorous Common Position on 20 November 1995. Apart from providing guidelines for the Union's action, the Common Position included a full scope arms embargo, visa restrictions, and the annulment of future development co-operation.<sup>10</sup>

Compared to the 1993 sanctions, the additional measures were only, 1) the visa restrictions on members of the Provisional Ruling Council and the Federal Executive Council and their families, and 2) an embargo on arms, munitions and military equipment. Despite this limited innovation of the 1995 sanctions they still marked an important increase in scope of EFP since the sanctions now for the first time became "legally binding". Naturally, this did

<sup>1</sup> One official called the EPC sanctions "a document that was difficult to track in the internal mess" (Interview Council Secretariat, May 2000)

<sup>2</sup> EFPB 95/098 22 March 1995 and EFPB 95/301 20 October 1995

<sup>3</sup> At that time past, current and future presidencies

<sup>4</sup> Answer to question in EP (EFPB 95/242 7 September 1995)

<sup>5</sup> EFPB 95/060 14 February 1995, Answer by the President-in-Office, i.e. France to question by Ms. Jackson.

<sup>6</sup> EFPB 95/272 2 October 1995

<sup>7</sup> EFPB 95/322 9 November 1995

<sup>8</sup> Chargé d'Affaires ad interim Dada Olisa could sign the Amended Convention on behalf of Abacha in Mauritius on 4 November 1995.

<sup>9</sup> The Commission was asked by the Council to make proposals to draft a Common Position on 9 November 1995. COREPER then quickly worked out a draft to the Common Position, installed 20 November 1995.

<sup>10</sup> EFPB 95/350, 20 Nov 1995; OJ L298, 11.12.1995, 1-2

not imply any jurisdiction of the European Court of Justice but the Council officials regarded the Common Position of 20 November 1995 as a “legally” binding document since it was based on CFSP legislation and published in the Official Journal. This seems to have been shared by the Member States. At least judged from trade statistics, the Common Position effectively halted co-operation with Nigeria. Sanctions *de facto* froze all project aid programs and despite the trade increase from 1995-1996 from 2 to 2.3 Billion ECU, trade decreased until 1999.

Among the drawbacks of the Common Position it still left confusion about the enforcement, in particular, with respect to arms export. For example, enforcement was according to a Council answer in 1996 something that it was “up to Member States, who apply controls on arms exports at national level, to put into practice.”<sup>1</sup> This ignored the Council’s Treaty obligation to assure that Member States in fact put such arms control into practice. Indeed, there was suspicion that some Member States continued to deliver military equipment after the instalment of the embargo in 1993.<sup>2</sup> Much debated were also the allegations that Shell as late as 1995 had negotiated for the purchase of weapons for the Nigerian police for protection of their oil fields.<sup>3</sup> Moreover, the Council soon forgot to refer to the existence of a *de facto* arms embargo already as from the sanctions of 13 July 1993.<sup>4</sup>

Finally, the Union’s reactions suffered from the seemingly lack of what may be termed institutional memory, or automaticity of actions. This was not a novel phenomenon of the EPC/CFSP where many actions have been *ad hoc*. In this case, the level of the Union’s action had however reached such high levels with the 1995 sanctions that anything else than an automatic procedure to follow up on these actions would lead to a fading out of the sanctions.<sup>5</sup> This was indeed what happened. For instance, the Union initially expressed rigorous action by withdrawing their ambassadors “for consultations” after the executions of Saro-Wiwa. However, Sweden did not follow this decision immediately<sup>6</sup> and already 16 January 1996 the Council decided to return ambassadors to Nigeria something that received critical remarks from the EU-ACP Assembly 22 March 1996.<sup>7</sup> Other examples

<sup>1</sup> Same formulation is found in EFPB 96/091 2 April 1996

<sup>2</sup> EFPB 96/166 11 June 1996

<sup>3</sup> Human Rights Watch 1999

<sup>4</sup> The Council instead referred to the press release published on 7 December 1993 announcing inter alia, a case-by-case examination, with a presumption of refusal, of all new export licenses for all kinds of defence equipment.

<sup>5</sup> EFPB 95/387 11 December 1995 See, for instance, statement of 25 April 1998 asking for free and fair elections without violence in EFPB 98/051 24 April 1998

<sup>6</sup> Reuters News Service 14.11.1995

<sup>7</sup> Ihonvbere 1996; Akinrinade 1997. Agence France Presse Internationale 22 March 1996 and Financial Times 17.01.1996, 4

were the answers from the Council to the EP pushing for further measures of the Union. Here, the Council referred to how “strong[ly]” the Council earlier had reacted.<sup>1</sup> This matched the general picture: the answers to MEP in this period continued to fulfil their (unofficial) main purpose, “to say nothing”.<sup>2</sup> This phenomenon will be further discussed below under the question whether EFP decision-makers were able to learn or not from the outcomes of EFP towards Nigeria.

### *Pillarization*

There is no clear dividing time line for the emergence of a de facto widened EFP. In the series of small indications of this change one may however notice the rhetorical shift in 1997 when the policy unofficially is defined as “critical dialogue” or “constructive dialogue”.<sup>3</sup> The aim of this policy was to “punish Nigeria without breaking the relations”.<sup>4</sup> At the core of the EFP 1997 change was the emphasis put on moving “from a manifesto of good intentions (on human rights progress) to a policy that implements these high objectives”.<sup>5</sup> What was different was the role that the ACP-EU cooperation came to play in EU's relations with Nigeria. Several EU-ACP Joint Assembly resolutions emerged condemning Nigeria's military regime, notably, in March 1996, September 1996 and March 1997.

The March 1996 Assembly proposed the freezing of all bank accounts of Nigerian military leaders, an action that would have been harsher than EU's own action. The March 1997 Assembly was the most critical ACP-EU manifestation against Abacha ending in turmoil and confrontation between the Nigerian delegation and the EU-ACP Parliamentarians. First, it upset the Nigerian delegation that the EU-ACP Assembly had invited members of the opposition in Nigeria such as Wole Soyinka to the session. Then the Nigerian delegation accused Mrs. Glenys Kinnock<sup>6</sup> of implicitly giving the green light to the bombings in Lagos in spring 1997. Mrs. Kinnock had is-

<sup>1</sup> See, for instance, EFPB 97/197 10 April 1997 and 97/224 2 July 1997. Similarly, a border dispute between Cameroon and Nigeria only led to one official CFSP reaction coinciding with Cameroon's request of French military support in opposing the adding to the Bakassi region of Nigerian military (EFPB 94/080 28 February 1994).

<sup>2</sup> Interview Council Secretariat, May 2000.

<sup>3</sup> EFPB 97/224 2 July 1997 and 97/197 10 April 1997. In the answer from the Council to the MEP Mr. Robles Piquer, the Council maintained that “*we shall continue to pursue with the Government of Nigeria what has been referred to as a critical dialogue.*”

<sup>4</sup> Interview Council Secretariat, November 1999.

<sup>5</sup> Illustrated by the report adapted by the EP's Committee of Foreign Affairs on 28<sup>th</sup> October 1998 and the Common Position on Africa of 25 May 1998. EP News Report, 30.10.98 from <http://www.europarl.eu.int/dg3/sdp/newsrp/> Cited from EP: 23 April 1999 A4 0242/99, Report by the Foreign Affairs and Defense Committee; OJ L158 2.6.1998, 1-2

<sup>6</sup> MEP for the Group of the Party of European Socialists.

sued a warning at a meeting in Luxembourg three months before the bombings that people would hold the Nigerian government responsible for whatever measure was imposed on the Nigerian opposition. After a chaotic interruption of the Assembly following this Nigerian accusation, the Assembly was only continued after the Nigerian Chargé d'affaires had apologised by stating that "on the grounds that you have misconstrued my statement I hereby withdraw it".<sup>1</sup>

However, besides some relatively harsh statements concerning the arrest of Wole Soyinka<sup>2</sup> and Lt. Gen. Diya<sup>3</sup> during 1997, a truly more comprehensive EFP course did not emerge before Abacha's death. To a certain extent the 1995 sanctions were also devaluated by at least two of the three exemptions given in 1997 to the sanctions regime.<sup>4</sup>

The first exemption was the "grant of visas to Nigerian nationals participating in international conferences" in Member States of the Union. The consensus achieved by the Dutch presidency on this issue appears reasonable since without the Nigerians the Union's objectives of using its leverage in the ACP-EU partnership to obtain concessions from Nigeria when negotiating the exchange of the Lomé IV Convention would have been impossible to carry through.<sup>5</sup>

More problematic, however, was the exemption for Nigeria to play in the 1998 World Football Cup (and the 1998 World Basketball Championship). Some Council officials called this exemption "embarrassing" and one official suggested that it was legally dubious to introduce exemptions referring to the 1995 Common Position since "no exemptions [in the OJ] means no exemptions".<sup>6</sup> Indeed, the whole incidence look like one of the "price specimen" of the Union's *I want – yet, I do not want* policies of the 90s.<sup>7</sup> Reportedly, France had pushed forward for the exemption as the host of the World Cup. UK was against the exemption, but the issue was settled by compromise whereby a "collective assessment" was made to see which areas could be exempted referring to the so-called "head-quarters" agreement of 28 November 1995. What further questioned this exemption was that according to Nigerian officials the sports sanctions would have been "a highly effective measure" raising "public anger towards the Abacha regime".<sup>8</sup>

<sup>1</sup> Interview Council Secretariat and Nigerian officials May 2000. Mrs Kinnock and Dada Oluş only became friends again after democracy had been restored in Nigeria in 1999.

<sup>2</sup> EFPB 97/197 10 April 1997 and 97/224 2 July 1997

<sup>3</sup> EFPB 97/143 26 December 1997

<sup>4</sup> See, e.g., statement of 25 April 1998 EFPB 98/051 24 April 1998.

<sup>5</sup> EFPB 97/024 28 November 1997.

<sup>6</sup> Interviews Council Secretariat, May 2000.

<sup>7</sup> Nuttall 2000: 34, 18.

<sup>8</sup> Interview Nigerian officials, May 2000.

The third exemption lifted parts of the arms embargo. In practice, it allowed arms to be sold for the use in Nigeria's intervention through the ECOMOG (Economic Community of Western African States Monitoring Group) peacekeeping force in the civil war in Sierra Leone. Practically, "this ECOWAS thing was a success thing"<sup>1</sup> for Nigeria by *de facto* halting the civil war.<sup>2</sup> Arguably, the Union's action made sense geo-strategically since the emergence of another undemocratic state in the region would increase the instability of the region as a whole.<sup>3</sup> Yet, the Union's action was a dangerous one that probably could have boomeranged on the EU had Abacha survived in power. Not only was it impossible to control whether the arms sold under the exemption really were used for the conflict in Sierra Leone and not for internal repression of the opposition in Nigeria. The exemption did certainly not increase the Union's credibility as a rigorous foreign policy actor either. As a Nigerian official put it – while laughing loudly – "this was ridiculous ...can you imagine one of the most undemocratic states at that time – Nigeria – in a fierce crusade to install democracy in another state – fully supported by the international society?"<sup>4</sup> As a result, Nigerians in this period started to have reason to believe that even the few sanctions installed were subject to internal dispute in the EU. In a letter from the Nigerian Embassy in Brussels to the Nigerian authorities in mid-March 1997<sup>5</sup> the Nigerian Chargé d'affaires reported that the EP is "deeply split on this issue (Nigeria) and so is the Council and the Commission and the Member States".<sup>6</sup>

EFP from 1997 – spring 1998 is thus a rhetorically but still not effectively more comprehensive EFP. During 1998 this changes particularly triggered by Nigeria's failure to meet its new electoral timetable and Abacha's death. On 5 May the Council concluded that the transition to civilian rule "is a failure".<sup>7</sup> Later that month the Council furthermore "expresses its deep concern of the developments in Nigeria".<sup>8</sup> After Abacha's death and the democratic initiatives of Abubekar the Union immediately reacted "warmly welcoming" to the positive changes. In October 1998, the Union repealed

<sup>1</sup> Interview Council Secretariat, May 2000.

<sup>2</sup> Human Rights Watch estimated that "the presence of Nigerian soldiers protected many civilians against atrocities committed on an enormous scale by the rebels" (Commission 2000).

<sup>3</sup> Interview Council Secretariat, May 2000.

<sup>4</sup> Interview Nigerian officials, May 2000

<sup>5</sup> Date unverifiable, but is either 15 or 17 March

<sup>6</sup> Particularly the "clever" Dutch Presidency reportedly "*supported the view not to play harsh towards Nigeria*" (Interview Nigerian officials, May 2000)

<sup>7</sup> EFPB 98/058 5 May 1998

<sup>8</sup> EFPB 98/077 27 May 1998

part of its 1995 Common position.<sup>1</sup> Compared to the Union's "welcoming" strategy in 1995 (to the Yar'Adua and Obasanjo commuted sentences) the Union in 1998 adopted a more balanced approach attaching equal effort to the progress made, on the one hand, and the areas where progress had yet not been achieved, on the other hand.<sup>2</sup>

The aforementioned rhetorically based widening of EFP scope was in this period put into practice by the repealing of the 1995 Common Position. As the text of 1998 said, "programs supporting human rights and democracy, ... poverty alleviation and, ..the provision of basic needs for the poorest section of the population", may "continue".<sup>3</sup> Notably, the Council added that "should there be any deterioration in the respect for human rights or the democratic processes in Nigeria, the Council shall immediately review this Common Position with a view to adopting additional measures" (Article 4 (2)). The depth of action was further increased when the Union for the first time issued a Joint Action towards Nigeria in December 1998.<sup>4</sup> This Joint Action raised 810.000 EURO to support the holding of democratic elections in February 1999 allocated to an EU spokesman and 100 election observers to support the UN team.

After the return of civilian rule in Nigeria in 1999, all remaining sanctions were lifted as of 17 May 1999. Moreover, the conclusion of the Council 21 May 1999 invited the Commission to present a National Indicative Program aimed at taking into account good governance, the fight against poverty and support of civil society. A "pillarization" of the Union's policy thus took place in this period illustrated by the resumption of a "Community dialogue" with Nigeria. In Abuja 31 May 1999, the Commission and the Nigerian authorities also issued a Joint Communiqué outlining future plans for co-operation.<sup>5</sup> Basically the Communiqué paved the way for the allocation of

<sup>1</sup> Those were the visa restrictions for members of the military or the security forces, and their families, suspension of visits of members of the military, – restriction of movement of all military personnel of Nigerian diplomatic missions, suspension of all high-level visits that are not indispensable to and from Nigeria; and visa restrictions on members of the Provisional Ruling Council and the Federal Executive Council and their families, cancellation of training courses for all Nigerian military personnel for non-combatative courses to encourage respect for human rights and to prepare the military for the democratic control by a civilian government of the armed forces.

<sup>2</sup> Similarly balanced were the EP Resolution of the ACP-EU Joint Assembly in 1998 noting "the joint Assembly's support for a twin-track strategy towards Nigeria, welcoming progress but, at the same time, maintaining pressure and sanctions until human rights violations have ceased and there is real prospect for the establishment of a democratic constitution and a legitimate civilian government (9.03.99, A4-0065/99).

<sup>3</sup> EFPB 98/275 30 October 1998

<sup>4</sup> EFPB 98/383 22 December 1998

<sup>5</sup> Joint Communiqué By The European Commission and the Federal Republic of Nigeria, Abuja, 31<sup>st</sup> May 1999



EURO 330 Million (accumulated from the 6-8 European Development Fond (EDF) payments that was frozen from 1995) in a two step allocation plan.<sup>1</sup>

Whereas the Commission thus now is responsible for the Union's foreign policy towards Nigeria, what remains to be seen is which role the CFSP will give itself. In particular, it is yet unclear who will assure that the line taken by the Community on Nigeria is in line with overall CFSP objectives. Judging from interviews in the Council, Nigeria is now left completely to the Commission to decide on. The Nigeria files have been archived and replaced with files on "Zimbabwe", "Sierra Leone", and "Ethiopia/Eritrea". If developments in Nigeria turn worse again the Union's strategy could only work under two conditions. It assumes that there is a high degree of coherence between aims followed in the first and second pillar. It also assumes that what the Community deals with in its relations with Nigeria are practically all embracing for the Member States' relations with Nigeria. Both assumptions do not seem to be fulfilled. The accomplishments of EFP towards Nigeria the last 5-9 months thus seem to be less than from spring 1998 – end of 1999. EFP at that time probably came as close it could get to its own capability potential against a country such as Nigeria under the Union's current institutional structure.

### III Learning

EFP towards Nigeria is in this section viewed in the light of actor's ability to learn from the experience of the workings of EFP. Learning is relevant to discuss in the perspective of those approaches that sees EFP development as partly explained by a dynamic trade off between expectations and capabilities.<sup>2</sup> Hill does not explicitly use the word "learning", but "learning" and the "conditions for learning" is an important part of what Hill's Capability Expectations Gap theory (CEG) is about. Actors may under certain conditions be able to learn from experiencing the workings of one's capabilities in international relations. By comparing this with their previously held expectations about these capabilities, actors' may enter a process where they modify their expectations in accordance with their recognised capabilities.

Many factors are important to consider as basis for learning to take place, e.g. adequate structures. Here, the focus will be on those parts of the learning process that regard, 1) the dynamics of expectations (henceforth

<sup>1</sup> Investigating proper development programs to be implemented both as regards the released funds from the 6<sup>th</sup> – 8<sup>th</sup> EDF and the subsequent payments of the Post Lomé agreements.

<sup>2</sup> Hill 1993, 1998; Regelsberger *et al* 1997: Chapter 2.

just “beliefs), and 2) factors enhancing or reducing actors’ ability to evaluate ones capabilities in the light of the outcome. The dynamics of expectations will be captured by looking at actors’ beliefs (or perceptions) about the workings of a particular policy. Factors either facilitating or impeding learning will involve a discussion of the impact on learning of i) clarity of strategies, i.e. to which extent strategies have observable objectives, ii) competing, i.e. contrasting strategies, and iii) credible information. Basically, these preconditions for learning reflect what Lewis once stated as precondition for successful intervention in Nigeria, “In short, when outside actors are motivated, united, and focused, and parties to the conflict are vulnerable to outside influence, intervention can be successful”.<sup>1</sup>

#### *Beliefs about the workings of EFP*

In some circumstances actor’s beliefs about the workings of EFP towards Nigeria may change. One of the reasons for the transformation of beliefs may be that actors modify their beliefs about Nigeria’s susceptibility to alter her policy from experiencing Nigeria’s degree of compliance with the Union’s demands. Other reasons for changing beliefs may include internal institutional reforms of the EPC/CFSP, such as the formation of the EPC secretariat in Brussels by the SEA, the creation of the CFSP by the TEU or the appointment of a High Representative of the CFSP from the Amsterdam Treaty. Changing beliefs may also be caused by structural changes of the international system such as the end of the Cold War. Below the focus will be on the former, which a case study like this offers better opportunities to analyse.

The beliefs among EU governments about Nigeria’s willingness to comply with EU demands underwent their own dynamics from 1979-2000. Unsurprisingly, Europeans in the whole period perceived decision-makers in Nigeria as different from those of the Member States. As an official in the Council Secretariat noted, the Nigerian decision-makers come from a completely different background where for them the opposition is “a gang of robbers”. It is thus tempting for them to cheat a little “bit with the ballot boxes”.<sup>2</sup> Apart from this, European decision-makers were also well aware of the dubiousness of the military’s promises of return to civilian rule.

For several reasons, Nigeria was however not considered either unpredictable, hopeless or unsusceptible to change.<sup>3</sup> As EU expressed it, Nigeria

<sup>1</sup> Lewis 1995: 18, 23-25.

<sup>2</sup> See also Agyeman 1988.

<sup>3</sup> Lewis *et al* 1998: 9, 14-20.

remained “a long standing friend and partner”.<sup>1</sup> Europeans saw that the different regimes of Nigeria were less motivated by any ideological crusade than particularistic interests and Nigeria's extreme complexity. The Union also knew Nigerians from sitting around the same negotiating table on numerous occasions, e.g. the negotiating of the Lomé Conventions.<sup>2</sup> That Nigeria was an active member of the international system, her strife for a permanent seat in the UN Security Council and her contribution to peace-keeping activities,<sup>3</sup> also summed up to the perception of Nigeria as an actor able to give and take in the international system.

From 1995, the Union realised that its belief about Nigeria needed revision. The eye-opener for the Union was the Saro-Wiwa killings and the appointment in February 1995 of foreign minister Ibrahim Ikimi. Ikimi was “the arrogant, irrational and adamant”<sup>4</sup> foreign minister that “hated” the EU.<sup>5</sup> Already in July 1995, Ikimi summoned British and American envoys and accused them of hostility to Nigeria and warned that cordial relations would be jeopardised by their hostile actions. At another occasion, Abacha reprimanded all EU ambassadors in Nigeria in front of the press. As a Council official noted, we started to “dream” about a possible exchange of Ikimi.<sup>6</sup>

What Ikimi, Abacha and the Saro-Wiwa executions caused was a reduced belief in the effectiveness of a “wait and see”<sup>7</sup> policy towards Nigeria.<sup>8</sup> The belief emerged that tougher messages had to be sent to Abacha. Illustrative, one Council official confessed having experienced EU policies towards Nigeria, “what really makes a difference is embargo or aid, all the rest is bla, bla, bla.” Clearly, the Abacha and Ikimi unpredictability also indicated “the limits of intervention” and thus the reduced added value of aid and embargoes. This may have complicated the introduction of restrictive measures and reduced the use of incentives related measures.<sup>9</sup> However, on the bottom-line the Union in the 90s preferred the (light) interventionist policy to “laissez-faire”. One of the reasons for not just letting Nigeria come away with its policy was probably linked to the perception that Nigerian personalities such as Abacha and Ikimi were not truly and adequately re-

<sup>1</sup> EFPB 94/217 26 August 1994.

<sup>2</sup> Sanu & Onwuke 1997.

<sup>3</sup> Nwosu 1996. In Liberia, Nigeria says to have spent \$4 Billion on UN deployment. Other contingencies have been deployed in Lebanon, Angola, Yugoslavia, Somalia, and Rwanda, mostly for the UN but also for OAU and the ECOWAS.

<sup>4</sup> Interview with Minister Oda Olisa, Nigerian representation, Brussels, November 1999.

<sup>5</sup> Interview Council Secretariat, May 2000.

<sup>6</sup> Interview Council Secretariat, May 2000

<sup>7</sup> Nuttall (2000, 3) uses this expression about the EPC's reactions to Glasnost and Perestrojka

<sup>8</sup> Interviews Council Secretariat, November 1999

<sup>9</sup> Interview Council Secretariat, May 2000.

flecting the *potential in Nigeria to get back on track again* – possibly by external influence.<sup>1</sup>

Also the internal pressure in the Member States to against Nigeria's human rights violations was important in creating a demand for action at all. Yet, the above suggests that a further reason for the quite comprehensive EU sanctions were that the harshness of Abacha and Ikimi's dictatorship was a long term bluff – out of line with previous military rules and EU perceptions of Nigerians. The bluff had to be called but since this is always a dangerous business not knowing the bluff is a bluff with 100% certainty the Member States called it by using EFP.

#### *Blindness in learning from confusing strategies*

The more a policy is defined in terms of observable objectives the more likely are actors able to learn about the workings of these policies from observing the outcomes in the light of the objectives. Indeed, the mere defining of clearer objectives may be enough to avoid some of those disappointed expectations that have influenced the CFSP negatively in the 1990s.<sup>2</sup>

Towards Nigeria, the Union had no strategy before 1993. This meant that the Union had no experience other than from Member States' own foreign policies to build EFP upon. With the emergence of EFP from 1993 a strategy of sanctions emerges. Yet, the Union's ability to learn from its failures remained impeded by the still very vague strategies of EFP until the 1995 Common Position. The Union simply lacked objective criterion for what was a "successful" policy. For example, the deterioration of events during 1995 only led the Union to "continue to keep a careful watch on the situation and assess any further decisions that might be necessary to face up to development."<sup>3</sup> In the Saro-Wiwa and Yar'Adua trials in 1995, the Union repeatedly referred to the importance of the prosecuted to receive "fair trials". Yet, the Union never defined the notion of "fair trial".<sup>4</sup>

The Common Position of 1995 defined the Union's policy more clearly than the EPC sanctions of 1993 and any other statement previously had done. Yet, strategies continue to lack clarity. For example, the Union failed to determine what the criteria was for a "deterioration in the respect for

<sup>1</sup> Interviews Council secretariat, November 1999.

<sup>2</sup> Nuttall 2000: 13.

<sup>3</sup> EFPB 95/197 30 June 1995.

<sup>4</sup> It is not before the Öcalan case that the Union said that a fair trial "*means fair and correct treatment and an open trial according to the rule of law before an independent court, with access to legal counsel of his choice and with international observers admitted to the trial.*"

human rights” from the formulation in the October 1998 Common Position that as earlier mentioned was supposed to condition its review.<sup>1</sup>

*Blindness in learning caused by competing strategies*

When strategies towards solving a given foreign policy dilemma diverge, actors may be prevented from learning. This happens because actors under these conditions are not able to deduct from the outcome which strategy (of the two or more diverging strategies) was most facilitating towards achieving the observed outcome. Apart from internal division, the Union's policies have historically often been challenged by a strong and divergent US policy such as over the Iranian and Palestinian question.

Paradoxically, Nigeria is one of the few exceptions of the EPC/CFSP<sup>2</sup> where European and US policies seemingly go hand in hand.<sup>3</sup> As usual, US policies were comparatively harsher than EU policies in the Nigerian case also. Yet, they were not contradictory to EU policies. In 1994, US classified Nigeria as “a leading global drug trafficker”, assistance to Nigeria through its Export-Import Bank was ceased, and US also agreed on a compelling veto from US representatives at multinational institutions. However, US did not engage in any oil-boycott despite not excluding it<sup>4</sup>, and US was relatively uncertain about its proper course towards Nigeria.<sup>5</sup> May be this was an advantage vis-à-vis the Union, which as shown above itself lacked a clear strategy. Commenting on one of the half-yearly political dialogues in Brussels between the Trojka and the US delegation in Washington in 1996 one EU official noted that the Americans “were in line with us”.<sup>6</sup>

*Coping with the Blindness: using internal sources of information*

There is no reason to believe that European foreign policy makers are less uncertain about the effects of any foreign policy intervention than literature's discussion on this issue reflect.<sup>7</sup> EU actors were thus crucially dependent on other actors' contribution of specific information Nigeria. Here, Britain's colonial ties with Nigeria made her a natural information source

<sup>1</sup> EFPB 98/275 30 October 1998.

<sup>2</sup> Nuttall 1997.

<sup>3</sup> Baker & Stremlau 1999: 180, 16-18.

<sup>4</sup> Baker & Stremlau 1999: 192, 8-12.

<sup>5</sup> The reason for the weaker US policy towards Nigeria reportedly was that Nigeria was strategically important for US' oil interests, and Nigeria had shown relative high degree of loyalty towards US interests in the past (Hoffman, 1996).

<sup>6</sup> Interview Council Secretariat May 2000.

<sup>7</sup> See, e.g., Regan 2000; Aspen Institute 1996; Dana 1998.

about the workings of Nigerian politics.<sup>1</sup> Despite periods of strained relations, Nigeria and Britain maintained cordial relations after Nigeria's independence in 1960<sup>2</sup> not the least through both countries' involvement in the Commonwealth.<sup>3</sup>

Britain's willingness to share its information with EU partners however underwent some important changes the last two decades. Observers characterised Britain's initial policy (in the beginning of the 1990s) as a "wait and see" policy.<sup>4</sup> When Saro-Wiwa was executed Britain reacted more harshly being in the frontline of both EU's Common Position and the Commonwealth's suspension of Nigeria.<sup>5</sup> This was a remarkable change of British attitude since Britain had been reluctant to use the Commonwealth as a "network" that was instrumental of foreign policy in the years after the "disputatious arguments about sanctions on South Africa".<sup>6</sup> Since 1990, a more participatory and involved Britain had emerged where Britain was still "by [our] fingernails at the heart of Commonwealth".<sup>7</sup>

Britain's belief about using the EU for its foreign policy objectives had also changed in lines similar to the ones changing its Commonwealth perspective. Britain was by no means at the heart of EU, but the new foreign policy framework launched by the Maastricht Treaty allowed for a restructuring of relations with the New Commonwealth. This was, e.g., manifested through the widely extended Lomé Convention of 1990, where half of the ACP country signatories are former British colonies.<sup>8</sup> The result was that under the sanctions regime from 1995 important information was channelled to the other EU Member States from, for example, the Commonwealth Ministerial Action Group (CMAG) that continued meeting with Nigerian authorities.<sup>9</sup>

Obviously, it is not enough for co-operation to emerge in EFP that one actor decides to provide more extensive information on an issue or/and is determined to act. What became decisive in the Nigerian case was instead

<sup>1</sup> Britain conquered Nigeria in the 19<sup>th</sup> and 20<sup>th</sup> century and remained the colonial power of Nigeria de facto until 1954, gave Nigeria a new federal constitution in 1947. In 1954 it became self-governing.

<sup>2</sup> Interview Nigerian Senior official, May 2000.

<sup>3</sup> Educational ties are immense Approximately 20.000 Nigerian students study in Britain and several Nigerian leaders Generals Obasanjo, Buhari, and Abacha attended the same officers school in Britain, the Mons Officer Cadet School in Aldershot.

<sup>4</sup> Lewis 1995.

<sup>5</sup> Interview Council Secretariat, May 2000; Still, the strongest demand for suspension of Nigeria from the Commonwealth may have come from other countries than Britain, e.g. Canada (Akinrinade).

<sup>6</sup> Robertson 1990: 700.

<sup>7</sup> Robertson 1990

<sup>8</sup> The EU Handbook (1996: 68) provided the view adopted here.

<sup>9</sup> Interview Council Secretariat, May 2000.

that Britain's EU partners perceived British intentions as relatively sober<sup>1</sup> despite awareness of British particularistic interests.<sup>2</sup> One of the reasons that British policies were considered relatively sober was as a Council official noted, that "Britain was much harsher towards Nigeria than, e.g. France had been in similar situations towards its own colonies".<sup>3</sup> For example, the British Presidency in spring 1998 was the architect behind the re-emergence of the slightly out-faded EU course towards Abacha.<sup>4</sup>

#### IV External Economic Relations and European foreign policy towards Nigeria

The EER is strictly speaking the "Common Commercial Policy" (Title IX, Treaty of Amsterdam) dealing with 1) trade issues and 2) economic and commercial measures (towards third countries). Apart from that, EER also include development co-operation (Title XX). Defined this way one may divide EER into two dimensions, 1) the authority of the Union in its EER with third countries, i.e. the Union's (*external*) *competence*, and 2) the Union's preferences over economic transactions towards a third country.

EU's competence is the "assignment of policy powers between the EU and the Member States [in] any given issue area in international trade negotiations".<sup>5</sup> The Union's preferences refer to the economic preferences over trade, investment, aid etc. that EU Member States have in their interaction with a third country. One may furthermore assume that EER under some conditions may influence EFP. Notably, the Union's competence and economic preferences in a third country may reduce/enhance EU Member States' willingness to agree on certain restrictive or incentives related policies towards this country. On the one hand, increased competence of the Union towards a third country may facilitate EFP by clearing information, reducing uncertainty, and increasing possibilities for issue-linkages. On the other hand, economic preferences may influence EFP by their degree of intensity and diversity. Facilitation of EFP is suggested to occur for lower intensities and less diversity of economic preferences.

#### *Competence*

<sup>1</sup> Interview Council Secretariat, May 2000.

<sup>2</sup> For instance, Britain was active in facilitating granting of visas to members of the Nigerian delegation to CMAG (Akinrinade, 1997).

<sup>3</sup> Interview Council Secretariat, May 2000.

<sup>4</sup> See EFPB 98/195; The British Presidency (Minister of State Lloyd) also visited Nigeria in this period.

<sup>5</sup> Woolcock 2000.

The Union's competence towards Nigeria is primarily expressed in EU's special agreements with Nigeria as an ACP country, that is, through the subsequent Lomé and EU-ACP conventions. Defined this way, an overview of the Union's competence over time may be estimated from Table 1 below.

Table 1 (following page) roughly indicates the contents of subsequent Lomé Conventions. One should stress, that since "*the Lomé Convention is [being] an international agreement between the Union, the Member States and 70 ACP states*" the Union per definition has high competence in matters included in Table 1. However, Table 1 shows that the contents of Lomé have changed significantly over time. One must therefore assume that the Union's competence over EER with Nigeria has varied considerably among the various Lomés.

Without trying to arrive at any precise figure, it is tempting to assume that the more issues are included in an international agreement such as the Lomés the higher must the Union's competence necessarily be. Table 1 thus suggests that subsequent Lomé Conventions have led to more competence of the Union. This echoes Sanu & Onwoke noting that, "the Treaty has grown in capacity for problem-solving".<sup>1</sup> Despite this growing capacity, it is important to note that the Conventions have not at any time been all embracing in the Union's external relations with Nigeria as some Council officials otherwise have noted.<sup>2</sup> Notably, a large grey area exists as regards FDI that include the important petroleum investments.

**Table 1** Subsequent EU-ACP Conventions

EU-ACP agreement	Competence of the Union
Lomé I (1975-1980)	46 ACP countries / 9 EC countries Free trade arrangement Set of joint institutions STABEX <sup>3</sup> Co-operation to diversify ACP industrial production Strict rules of origin with free entry for products with 50-60% of local content Non-reciprocity: tariff free entry to over 95% of exports of the ACP countries Resources: 3.450 Million ECU

<sup>1</sup> Sanu & Onwoke 1997: 25, 29-35.

<sup>2</sup> Interviews, November 1999.

<sup>3</sup> Stabilisation of export earnings. Protection scheme from falls in ACP countries' export earnings due to fluctuations in primary commodity prices. If export earnings from a particular commodity fall by more than a certain "trigger threshold" and if the commodity account for more than a certain "dependence threshold" EC would provide financial assistance



Lomé II (1980-1985)	58 ACP countries / 9 EC countries Sugar protocol More products in STABEX SYSMIN <sup>1</sup> Resources: 5.700 million ECU
Lomé III (1985-1990)	65 ACP countries / 10 EC countries Fisheries Co-operation Socio-cultural co-operation Investment guarantees Policy dialogue Human rights concern Resources: 8.5 million ECU
Lomé IV (First term 1990-1995)	To last 10 Years with a Mid-term review Centrality of human rights Environmental protection Services included, but overshadowed by GATS Strict rules of origin with free entry assured for local contents of 45% Resources (1. + 2. Term): 12.000 Million ECU Nigeria received highest resources of all (\$440 million)
Lomé IV (Second term 1995-Feb 2000)	70 ACP countries / 15 EU Member States South Africa included Uruguay results included Reduction of role of state in economic activity Consultation procedure Human rights, good governance and democratic principles Shift to competitiveness of ACP products Commission's green paper proposal of 1996, and suggestions of 29 October 1997 for a sector-based or sub-regionally division of the Convention Development aid in three dimensions: aid, monitoring, implementation
ACP-EU Convention (June 2000-2007)	Euro 13.5 Billions in aid from 2000-2007 Replacement of STABEX and SYSMIN Commission review of May 1999: co-operation involved in armed conflicts should be part of a comprehensive strategy for conflict management and resolution within the CFSP framework <sup>1</sup> .

Source: Woodliffe 1996; Commission 1999a; Sanu & Onwaku 1999.

Comparing Table 1 with the development of EFP as described in Section II is disappointing in terms of finding a possible correlation between EER competence and EFP. For instance, the increased depth of EFP in 1993 does not coincide with any equal competence expansion. Moreover, the competence amplification between Lomé II and Lomé III took place in the midst of the earlier described long era of EFP silence. The only real coincidence of competence change and EFP development seems to be the Union's foreign policy changes towards Nigeria in 1995 coinciding with the competence changes provided by the Mid-term review of the Convention the same year. The proceeding analysis of competence will thus focus on possible linkages between EFP and the mid-term reviewed 1995-2000 Lomé Convention.

<sup>1</sup> System for Safeguarding and Developing Mineral Production. Similar scheme to STABEX covering certain mineral products

*The Mid-term reviewed Lomé, 1995-2000*

What were the significant changes of the Mid-term Review in 1995 and may these have affected EFP towards Nigeria? An important change of competence in the mid-term review of the Lomé convention in 1995 was the introduction of the consultation procedure (Article 366a (1-3)). Under the consultation procedure, the Community/Member States and the ACP states may invite each other to consultations (366a (2)) if they find that principles of “human rights, democratic principles and the rule of law” (Chapter 1, Article 5 (1)) are breached. If no solution is found, partial or full suspension of the Convention may take place (366a (3)).

Despite that this consultation procedure never was used against Nigeria, it may have worked as an implicit threat towards her. Clearly, the threat effect was limited in the most cynical Abacha years.<sup>1</sup> In fact, one may assume the threat was ignored until after 1997 where a genuine procedure for the consultation procedure started to develop with the first use of the consultation procedure in 1998.<sup>2</sup> Apart from the consultation procedure, the Commission’s proposals for a new Lomé Convention with more powers to regional powers such as Nigeria became known in 1997. The Commission in May 1999 furthermore provided a proposal for a more comprehensive framework for action in areas of armed conflict in Africa. As regards the latter some “dragging” hindered progress on the matter.<sup>3</sup> At the GAC May 2000, the EU however expressed its willingness “where appropriate to make full use of Lome instruments, and other relevant budget lines”.<sup>4</sup>

Without suggesting any “one to one” relationship between competence and EFP it is worth recalling that EFP in fact broadened its scope of action towards Nigeria from 1997-8 and onwards. The French Presidency’s threat of halting Nigeria’s participation in the mid-term renegotiations of Lomé in February 1995 is an exception to this rule. However, no reports indicate that the French threat was followed up at the European level. In fact, Saro Wiwa was executed only five days after the signing of the mid-term Lomé Convention at the end of 1995 with Nigeria as one of the signing parties suggesting a French threat that at the time was rather invisible. Finally, as

<sup>1</sup> Until November 1999 Niger, Togo, Guinea Bissau and Comoros had been called for consultation under Article 366A respectively Com (1999) 204 final; Com (1999) 295 final; Com (1999) 361 final; Com (1999) 491 final

<sup>2</sup> <http://www.europarl.eu.int/dg3/sdp/newsrp/en/1997/n970418.html> in article “Sanctions and Human Rights: Development Committee seeks new procedure”.

<sup>3</sup> The Finnish Presidency intended to take it forward but did not do it.

<sup>4</sup> 2264<sup>th</sup> GAC 22/23 May 2000 8875/00 (Presse 160) Provisional Version, Press Release Africa

previously mentioned it was not before 1997-1998 that economic transactions between Nigeria and EU effectively came to a halt despite the sanctions from November 1995 (and 1993). The Union itself also seems to advocate the above interpretation of competence. As a Council official notes, if a crisis like the Nigeria 1995 crisis should occur again, the Union's response would be much more comprehensive due to the increased authority of the Union in matters concerning ACP countries.<sup>1</sup>

### *Economic preferences*

EU Member States' economic interests in Nigeria have historically been extensive not the least after Nigeria began to produce oil in the late 60s. The preferences have however differed over time, across sectors and among Member States. Figure 1 (Appendice) shows the average trade shares among EU Member States towards Nigeria calculated on a quarterly basis. The average share of trade is the average of all EU Member States' import/export vis-à-vis Nigeria as a share of EU's total import/exports towards Nigeria.

Firstly, looking at sectors Figure 1 indicates that the Union on average was a net-importer of Nigerian goods from 1983-1997. With this higher intensity of imports it should then be expected to be relatively more difficult to install import sanctions (boycotts) than export sanctions (embargoes). That neither boycotts nor embargoes were installed towards Nigeria except for the arms embargo must however be explained by other factors than with the intensity of trade. Literature on sanctions here reports on a generally higher intensity of embargoes than boycotts due to more legislative difficulties in providing boycotts.<sup>2</sup> This result suffers from the drawback that literature on sanctions over represents US sanctions. The answer to the question why export sanctions may have been just as difficult to implement for the Union as import sanctions would thus need some further examination, part of which is to look at specific sectors as done for the petroleum sector below.

Secondly, regarding the changes in trade over time, Figure 1 shows that the conditions for EFP has improved after 1987 since EU dependence on Nigeria was reduced by almost 50% for both exports and imports. Thirdly, as regard the degree of diversity among Member States' economic preferences, the diversity of trade among Member States' towards Nigeria is used as a proxy and shown in Figure 2 (Appendice). The diversity of imports among Member States was in the whole period higher than the diversity of

<sup>1</sup> The note is a reformulation of several sentences and is thus not a quotation

<sup>2</sup> Hufbauer & Schott 2000.

exports. It should thus have been increasingly difficult for Member States to agree on measures involving restrictions on imports than similarly on exports. Figure 2 thus amplifies the view that involving crucial import sectors in a EFP action were not the least facilitated by the composition of economic preferences, either over time or across sectors.

### *Petroleum Sector*

EU's major import good from Nigeria was (and is) petroleum. The importance of petroleum trade was however a mutual EU-Nigerian issue. Sanctions on imports on oil from Nigeria to the EU would have had immediate damaging effects on the Nigerian economy. The yearly revenue from this sector was between 27% and 40% of total GDP (1990) and it accounted for 97.4 % of Nigeria's export revenues (1995/96). Oil sanctions would also have pleased large part of the political spectrum as questions and resolutions of the EP alongside debates in national parliaments all indicated "calls for an oil-boycott", in particular, after the Saro-Wiwa hangings in 1995.<sup>1</sup>

Paradoxically, oil sanctions neither were installed, nor was the lack of oil sanctions subject to any particular contention among EU executives. Whereas the Council was "fully aware that the European Parliament has called..an oil boycott",<sup>2</sup> the Council on several occasions found it important to stress that an oil-boycott was out of the question.<sup>3</sup> The official rationale was along the lines "that if we don't (continue trading) then somebody else will",<sup>4</sup> but the economic preferences reveal that the opposition probably was more affective than that.

Apart from the largest EU importers of Nigerian petroleum products such as Spain (11% of total Nigerian oil export), Italy (6%), and France 5% (1997),<sup>5</sup> Germany and Britain<sup>6</sup> were also strongly opposed to sanctions. Germany's import of Nigerian crude oil, the so-called "Bonny Light", accounted for 45% of German petroleum imports.<sup>7</sup> In their resistance to the oil-boycott towards Nigeria, Germany made it clear that German refineries were not specialised in use of other crude oil than Bonny Light and any oil-

<sup>1</sup> See, for instance, EFPB 96/091.

<sup>2</sup> EFPB 97/209 27 May 1997.

<sup>3</sup> EFPB 86/177 16 June 1986.

<sup>4</sup> Interview Council Secretariat, November 1999.

<sup>5</sup> CIA Factbook 1999, Nigeria, Economy; [www.cia.gov/cia/publications/factbook/ni.html#econ](http://www.cia.gov/cia/publications/factbook/ni.html#econ)

<sup>6</sup> Britain's interests were linked to the Anglo-Dutch Shell Petroleum Development Company (Akinrinade: 198).

Akinrinade 204, fn. 10.

boycott would thus “make unacceptable demands on crude oil refining technology in Germany.” Akinrinade however notes that British Brent Crude could easily be substituted for Nigerian “Bonny Light”. That Germany was so reluctant to boycott Nigerian oil when it could buy the same oil in Britain was instead related to the linkage between German oil imports and Germany’s simultaneous export of petroleum by-products. Here, 15-20% of Nigeria’s total imports were various chemicals many of which were by-products of earlier exported oil. This feature was not an isolated German-Nigerian phenomenon. In the 1980s so-called “counter-trading (barter) arrangements” were commonly initiated between EC countries and Nigeria partly to counterbalance the large trade deficit of the European countries (Figure 1) caused by the extensive oil import. France, for instance, had a barter delivery of goods and machinery for oil.

Britain was opposed to such barter arrangements. Britain did not depend on Nigerian oil imports after British North Sea oil became a competitor to Nigerian oil from the 1980s.<sup>1</sup> Instead, the FDI stock of the Shell Company probably played a significant role in the reluctance of Britain to initiate any petroleum sanctions.<sup>2</sup> The Anglo Dutch/Shell Company had the largest non-Nigerian share (30%) in the joint venture Shell Petroleum Development Company of Nigerian Limited (SPDC). This joint venture accounted for roughly 50% of Nigeria’s total oil production.<sup>3</sup> Targeting Nigerian oil exports would thus target British shareholders of Shell. Notably, the other shareholders in SPDC were besides the Nigerian National Petroleum Corporation, French Elf Aquitaine and Italian Agip, so the Member States’ oil interest were intrinsically bound together in Nigeria. There was a fear in Britain as well as in France and the Netherlands that sanctions would lead to a nationalisation of petroleum investments.<sup>4</sup> French oil companies such as Total SA and Elf Aquitaine had operated in Nigeria since Nigerian independence only interrupted by the civil war in 1966-1969. Unlike the picture shown for the EU in general in Figure 1 a revival of French – Nigerian economic relations had taken place from the late 80s. This high intensity of trade combined with a decreased French belief in Nigerians’ good intentions under the Abacha regime may clarify the French position.

## V Conclusion

<sup>1</sup> Gambari 1989.

<sup>2</sup> Klay Kieh & Agbese.

<sup>3</sup> Apart from the companies in this joint ventures foreign oil companies included BP, Statoil, Total, British Gas, Tenneco, Deminex, Sun Oil, Pan Ocean.

<sup>4</sup> Interview Nigerian officials, May 2000.

Analysing the capabilities EFP could be divided into three eras. The long period from 1979-1993 was an era of silence for EFP. Then from 1993-1997, the Union's policy may best be characterised as the era of sanctions. Finally, from 1998 the Union entered an era of pillarisation. In the period as a whole the Union thus increased its capability significantly. Whereas one may have expected a smooth increase in capabilities amplified by the different treaty revisions the analysis quite on the contrary shows that the Single European Act did not lead to any particular change in EFP. The treaty revisions of Maastricht on the other hand coincided neatly with the emergence of EFP towards Nigeria and it is beyond doubt that the use TEU instruments such as Common Positions makes a difference compared with earlier non-binding arrangements.

In terms of learning, foreign ministers may have learned immensely much about each other from participating in EPC from 1970. Yet, the silence of the EPC until 1993 indicates that learning about EFP from experiencing the outcome must have been very limited before 1993, since there was no outcome to learn from. This changes after 1993. Notably, governments altered their belief about the susceptibility of Nigeria to change the more Abacha's unpredictability came to the surface in his interactions with the Union. By using pre-Abacha experiences with Nigerians as friends and partners and drawing on Britain's increasingly EU-and-Commonwealth-minded leadership on the Nigerian issue, the Union managed to agree on a light interventionist policy towards Nigeria in the 1990s.

From 1995 onwards EFP started to widen towards the first pillar and EER. This development is initially rhetorically based. From 1997, the presence of the EER in EFP formulation speeds up, notably through the increased competence of the Union in the EU-ACP partnership. This paper therefore basically shares Nuttall's recent conclusion regarding the move towards more Community based foreign policy. Importantly, however, this is no contradiction to those who argue that a more intergovernmental EFP may also have emerged.

The difference between EFP towards Nigeria now and four-five years ago is instead that governments think they have learned that actions should be more comprehensive to serve their purposes, including e.g. measures from both the first, the second, and the third pillar. The willingness of Member States thus has become more dependent on the availability resources from the different pillars.

The heaviest of these is of course the first pillar. Here, the availability seems largely dependent on the extent to which the configuration of economic preferences overlaps with the Union's external competence. As competence of the External Economic Relations have been continuously

growing despite excluding important areas such as FDI, there should be increased possibilities in the future for mobilising resources for political aims of the CFSP. The EU governments however needs to improve their ability to learn from one crisis or conflict to the other. Especially this holds when the authority of the operations to provide crisis management and conflict resolution shifts between the first and second pillar of the Union with the intensity of the crisis and conflict as it did towards Nigeria.

## **Appendice**

**Figure 1** Intensity of EU trade towards Nigeria, 1983-1997<sup>1</sup>

**Figure 2** Trade diversity among Member States towards Nigeria, 1983-1997

<sup>1</sup> The data for imports 1989q4 was set to 0.04 since the value showed an unrealistic 0.6 value. 0.04 is the average of the past two values that is of 1989q3 and 1989q2

Second Part

**Actors and models**



## The conflict over land ownership in postsocialist Hungary: Pluralism, rationality and institutions in national preference formation<sup>1</sup>

*Martin Benedek*

### Abstract

This paper examines the preference formation model developed by Andrew Moravcsik for liberal International Relations theory, testing its assumptions in an empirical case study. The model rests on assumptions of rational behaviour and pluralist exchange in society, and discounts the role of institutions in policy-formulation. The case study reveals that the liberal model is useful when explaining the formulation of socioeconomic preferences in a given issue area, but cannot account for the outcome of policy, i.e. the national preference, because it has no theory of politics. In the case study, I demonstrate the key role which political parties, and the strategic use of institutions, can play in the formulation of policy. On this basis, I conclude that liberal theorists ought to develop a theory of political exchange (distinct from socioeconomic preference formation) so as to be able to explain short-term political outcomes.

This essay is an attempt at testing a set of assumptions, developed by Andrew Moravcsik for liberal international relations (IR) theory,<sup>2</sup> in the postsocialist setting of Hungarian policy-making. The primary epistemological goal of this exercise is to establish the explanatory value of pluralist assumptions of national preference formation in a country which has recently emerged from state socialism, undergone simultaneous processes of social, economic and political change, and started negotiations to join the European Union.<sup>3</sup> The secondary epistemological goal is to test the explanatory value of a 'rationalist framework' of human behaviour in postsocialist Hungarian

<sup>1</sup> I would like to thank Dr Timothy Garton Ash of St Antony's College, Oxford, Professor László Bruszt of the Central European University, Budapest, and Dr László Filipcz, secretary of the Hungarian National Federation of Agricultural Cooperatives and Producers for helpful comments on this paper.

<sup>2</sup> For Moravcsik's initial thesis of liberal intergovernmentalism, refer to Moravcsik, Andrew, 'Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach', *Journal of Common Market Studies*, Vol. 31, No. 4, December 1993, pp. 473-524. For his liberal theory of International Relations, refer to Moravcsik, Andrew, 'Taking Preferences Seriously: A Liberal Theory of International Politics', *International Organization*, Vol. 51, No. 4, Autumn 1997, pp. 513-53; and for an application of liberal IR theory to the 'grand bargains' of European integration, see Moravcsik, Andrew, *The Choice for Europe, Social Purpose and State Power from Messina to Maastricht*, London: UCL Press, 1998.

<sup>3</sup> For two excellent studies on the postsocialist transformation in Central and Eastern Europe, refer to Stark, David and László Bruszt, *Postsocialist Pathways*, Cambridge: Cambridge University Press, 1998; and Elster, Jon *et. al.*, *Institutional Design in Post-communist Societies*, Cambridge: Cambridge University Press, 1998.

policy-making.<sup>1</sup> The third objective of this paper is to test an auxiliary assumption developed by Geoffrey Garrett and Peter Lange which holds that the constellation of domestic institutions shapes the outcome of the national preference formation process.<sup>2</sup> The application of the above assumptions to the postsocialist debate on land ownership in Hungary is expected to reveal the empirical adequacy of liberal and institutional explanations of national preference formation.

The essay falls into two parts. In the first section, I shall assess Andrew Moravcsik's version of liberal IR theory, with particular emphasis on his account of domestic preference formation, and assumptions of rational behaviour and pluralist group competition. In this section, I shall also consider the hypothesis developed by Geoffrey Garrett and Peter Lange which emphasizes the role of domestic institutions in national preference formation. In the second part of the essay, I shall apply the above three assumptions to the empirical case of preference formation on land ownership in postsocialist Hungary. After outlining the historical background, domestic institutions, and socioeconomic preferences, I shall analyse four stages in the evolution of regulatory policy on land ownership. The objective of this exercise is to reveal the empirical adequacy of liberal and institutional assumptions of preference formation in a postsocialist setting. I shall conclude the essay by summarizing the findings of the tests, and proposing minor modifications to the preference formation model of liberal IR theory.

### 1. Liberal IR theory and falsification

Andrew Moravcsik's liberal theory of international politics refines the work of international relations scholars who recognised the influence of domestic actors on state behaviour in the international arena, and wished to incorporate this insight into theoretical explanations of state behaviour. Liberal IR theory rests on the assumption that states, as opposed to non-state actors at the sub- and supra-national level, are the key actors in international politics. Its key insight, namely that "the relationship between states and the surrounding domestic and transnational society in which they are embedded critically shapes state behaviour by influencing the social purposes underlying state preferences"<sup>3</sup> distinguishes liberal IR theory from the two dominant paradigms of international relations, neorealism and (neoliberal) institu-

<sup>1</sup> Moravcsik, 1998, p. 19

<sup>2</sup> Garrett, Geoffrey and Peter Lange, 'Internationalization, Institutions and Political Change', in: Keohane, Robert O. and Helen V. Milner, eds., *Internationalization and Domestic Politics*, Cambridge: Cambridge University Press, 1996, pp. 48-75

<sup>3</sup> Moravcsik, 1997, p. 516

tionalism, which hold that the structural properties of the international system—the configuration of capabilities for realists, and the configuration of information for institutionalists—constitute the chief constraint on state behaviour in world politics.<sup>1</sup>

Instead of over-emphasizing the importance of domestic constraints on state behaviour, which would render the theory subject to 'reductionist criticism', liberal IR theory seeks to integrate the influence of both domestically-defined preferences (ends), and that of the strategic environment which constrains the ability of governments to realize their objectives (means), in a multicausal explanation of state behaviour.<sup>2</sup> While it admits that the strategic environment—the configuration of interdependent state preferences—is the key determinant of strategies governments select to pursue their objectives in international negotiations, liberal theory treats the formulation of state preferences as analytically prior to, and 'by definition independent of strategic calculations'.<sup>3</sup> This is crucial to Andrew Moravcsik's version of liberal IR theory. By constructing an analytical framework in which the formulation of national preferences precedes the stages of strategic bargaining and institutional choice, Moravcsik attempts to disaggregate the causality of state behaviour into three analytically separate components, each of which may be explained by different theories, and is thus liable to separate falsification:

By positing in advance a particular relationship among aspects of a negotiation—that is, by disaggregating the process we seek to explain within an explicit analytical framework—and applying different theories to each aspect, we can distinguish more rigorously between those theories that are substitutes ... and those that are complements. ... This distinction permits the analyst to move beyond simplistic, uncausal claims about the sources of international cooperation without sacrificing rigor entirely and slipping into an unstructured (and often untestable) amalgam or ideal type of many plausible factors.<sup>4</sup>

Given that it is greater explanatory leverage that Moravcsik hopes to gain from the disaggregation of variables into three separate analytical units, I feel justified in focusing on the national preference formation stage of liberal IR theory only without testing the other stages of the model. Arguably, this approach, namely the partial testing of a multicausal model, falls short of the falsification ideal of testing as many implications of a theory as possi-

<sup>1</sup> Baldwin, David, 'Introduction' in: Baldwin, David, ed., *Neorealism and Neoliberalism: The Contemporary Debate*, Chicester: Columbia University Press, 1993

<sup>2</sup> Moravcsik, 1997, p. 522

<sup>3</sup> Moravcsik, 1998, pp. 19-21; and Moravcsik, 1997, p. 516

<sup>4</sup> Moravcsik, 1998, p. 20

ble.<sup>1</sup> To compensate for this methodological shortcoming, I selected a case study, namely national preference formation in postsocialist Hungary, which seems least likely to accord with the predictions of liberal IR theory, and may therefore merit the label ‘crucial case study’ in the evaluation of the model.<sup>2</sup> In *Conjectures and Refutations*, Karl Popper formulates the following ‘hard’ criterion for selecting case studies for the falsification of theories:

A theory is tested not merely by applying it, or by trying it out, but by applying it to very special cases—cases for which it yields results different from those we should have expected without that theory, or in the light of other theories. In other words we try to select for our tests those crucial cases in which we should expect the theory to fail if it is not true.<sup>3</sup>

On a priori grounds, one would expect postsocialist preference formation to differ substantially from the model outlined by Andrew Moravcsik. For example, Moravcsik assumes that individuals and groups act in a rational utility-maximizing manner, organizing exchange and collective action in order to promote differentiated interests under conditions imposed by material scarcity.<sup>4</sup> This view of group behaviour takes interests, resources, and the capacity for collective action as given. In contrast, one would expect interests to be less sharply defined, resources unequally distributed (as assumed by liberal theory), and collective action severely constrained by institutional factors in the postsocialist context. Or consider Moravcsik’s pluralist assumption which holds that the state is a representative institution constantly captured and recaptured by coalitions of social actors in their quest for power.<sup>5</sup> In socialist Hungary, autonomous social organisations were banned, and the only arena in which the Kádár regime tolerated independent (but not collective) action was the (second) economy. After the collapse of state socialism, democratisation was largely confined to the representative institu-

<sup>1</sup> In a methodological guide on social science research, Stephen Van Evera suggests to “[t]est as many of a theory’s hypotheses as possible. Testing only a subset of a theory’s hypotheses is bad practice because it leaves the theory partially tested.” Refer to Van Evera, Stephen, *Guide to Methods for Students of Political Science*, London: Cornell University Press, 1997, p. 35.

<sup>2</sup> I do not mean ‘crucial case study’ in the sense that a single observation can falsify an entire theory. However, I do believe that the more difficult the test, i.e. the more one expects a case to disprove a theory, the stronger the verification in case of a positive result. See King, Gary, Robert Keohane and Sidney Verba, *Designing Social Inquiry*, Princeton: Princeton University Press, 1994, p. 209.

<sup>3</sup> Popper, Karl, *Conjectures and Refutations*, London: Routledge & Kegan Paul, 1963, p. 112.

<sup>4</sup> Moravcsik, 1997, p. 516

<sup>5</sup> *Ibid.*, p. 518

tions of the state, and the political elite attempted to exclude incipient social organizations from the policy-making arena. As a result, only weak links could develop between state and society, and pluralist competition remained confined to party politics, rather than the competitive exchange of rival social interests. On this basis, one would expect liberal IR theory to be of limited value when explaining the formulation of policy in the postsocialist Hungarian context, and the case study to afford a sufficiently hard test for falsification.

#### *Pluralism and rationality in liberal IR theory*

The national preference formation stage of Andrew Moravcsik's liberal theory of international politics rests on the following two fundamental assumptions:

##### *Assumption 1: The Primacy of Societal Actors<sup>1</sup>*

The fundamental actors in international politics are individuals and private groups, who are on the average rational and risk-averse and who organize exchange and collective action to promote differentiated interests under constraints imposed by material scarcity.

##### *Assumption 2: Representation and State Preferences*

States (or other political institutions) represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics.

The framework which links up the above two assumptions, indeed all three stages of liberal IR theory, is a rationalist view of human behaviour. According to rational actor theory, which forms the basis of liberal IR theory, the individual is the fundamental agent in politics.<sup>2</sup> This agent acts in a self-interested, goal-oriented manner, and her behaviour reflects a conscious choice between alternative courses of action. While most rational actor and rational choice theorists agree on these basic assumptions, there is much less agreement among them as to how individuals formulate their prefer-

<sup>1</sup> Both assumptions are cited verbatim from Moravcsik, 1997, pp. 516-519.

<sup>2</sup> For a discussion of methodological individualism in pluralist theory, see Dunleavy and O'Leary, 1987, pp. 17-23, and Alan Cawson, 'Introduction - Varieties of corporatism: the importance of the meso-level of interest-intermediation' in: Cawson, Alan, *Organized Interests and the State*, Sage Publications: Beverly Hills, 1985. For the reification of the state in international relations theory, refer to Wendt, Alexander, 'The agent-structure problem in international relations theory', *International Organization*, Vol. 41, No. 3, Summer 1987, pp. 336-370.

ences on alternative courses of action. Those who subscribe to the ‘strong’ version of rationality—the classical rational actor theorists—maintain that individuals possess extensive information on available alternatives and their likely consequences, as well as complex computational skills to calculate what the best choice may be in a given scenario. Equipped with such resources, individuals first formulate a consistent and stable set of preferences (which are, by definition, independent of the expected behaviour of other actors), then calculate the expected utility of alternative courses of action, defined as the average of the utilities of all alternatives, each weighted by the probability that the outcome will ensue if the alternative in question is chosen.<sup>1</sup> On such a basis, they pick the alternative which maximizes the expected utility of their action in a given scenario. In iterated games, actors have ample opportunity to learn whether their beliefs did indeed correspond to reality, and if not, they will modify their expectations, and change their behaviour in future exchanges. In short, ‘strong’ rational actor theorists assign a great deal of importance to information about the environment and one’s own interests, computational skills, and ‘learning’ as mechanisms which allow individuals to optimize their behaviour in social interactions.<sup>2</sup>

Rational choice theorists, by contrast, focus on the process of decision-making, and allow for imperfections in information about one’s interests and the environment, and posit only limited computational skills on the part of the individual.<sup>3</sup> According to this ‘weak’ conception of rationality, the goal of rational action is not the maximization of utility, i.e. the continued optimization of behaviour so as to approximate (objective) reality, but the mere satisfaction of some minimum utility: to ‘muddle through’ in a given situation. It is quite possible for such a ‘boundedly rational’ individual to pursue some ‘subjective rationality’, and for her beliefs (and behaviour) to diverge significantly from reality. In this paradigm, a prolonged disjuncture between individual behaviour and reality does not get punished as severely by one’s rivals as it does in the ‘strong rationality’ scenario.<sup>4</sup> This, indeed, is the main puzzle for rational choice theorists: how does one know why people be-

<sup>1</sup> This is Herbert Simon’s definition of the rational man of economic interactions, quoted in Monroe, Kristen Renwick, ‘The Theory of Rational Action’, in: Monroe, Kristen Renwick, ed., *The Economic Approach to Politics, A Critical Reassessment of the Theory of Rational Action*, New York: Harper Collins Publishers, 1991, pp. 4-5.

<sup>2</sup> Refer, for example, to Tsebelis, George, *Nested Games, Rational Choice in Comparative Politics*, Oxford: University of California Press, 1990, pp. 34-38.

<sup>3</sup> Monroe, 1991, p. 5-6

<sup>4</sup> For a comparison between the goals of ‘subjective’ and ‘objective’ rationality, or that between utility-maximization and satisficing, refer to Eckstein, Harry, ‘Rationality and Frustration in Political Behaviour’, in: Monroe, Kristen Renwick, ed., *The Economic Approach to Politics, A Critical Reassessment of the Theory of Rational Action*, New York: Harper Collins Publishers, 1991, pp. 76-77.

haved the way they did if such information cannot be inferred from the outcome of their actions? Strong rational choice theorists would argue that such knowledge is superfluous so long as one knows the stimulus (input) which causes people to change their behaviour, and the output (action) which they generate in response to such stimuli. All things being equal, the individual who formulates a more efficient response to changes in the external environment will also have been the more rational. Indeed, as Milton Friedman points out, there is no need for complex calculations in making one's choices about alternative courses of action, i.e. individuals can behave merely 'as if' they were rational so long as their action approximates the efficient outcome which the analyst infers from the structural properties of the situation.<sup>1</sup>

This line of argument finds ample support in Andrew Moravcsik's scholarship. He too subscribes to the view that a knowledge of changes in the external environment—a change in the relative price of goods in the case of domestic export-oriented producers, for example—and the political and economic constraints which actors are subject to, is sufficient to allow the analyst to infer the rational course of action in a given situation.<sup>2</sup> Meanwhile, individuals can act 'as if' they were rational: their behaviour is considered efficient so long as it corresponds to the hypothetical rationality inferred by the analyst. This view is too general in my opinion for it masks massive discrepancies in the actual behaviour of individuals. Take, for example, the case of European intergovernmental negotiations. These exchanges may be likened to an iterated game with perfect information where potential gains are large, and the risks of erroneous strategic calculations—a disjuncture between behaviour and reality—are enormous. In such a scenario, the behaviour of actors must approximate some 'objective' rationality if they are to succeed in realizing their goals, that is to maximize their gains while minimizing the risks of failure through the efficient management of their resources. The milieu of these negotiations closely approximates the hyper-rational world envisaged by the rational actor paradigm, and Moravcsik rightly emphasizes the importance of strategic calculations, the necessity to pursue a set of stable, weighted objectives, and the exigency to respond to external signals so as to mitigate the immediate risk of punishment.<sup>3</sup> Furthermore, he also enlists substantial evidence from all five grand bargains of European integration to prove that the assumption of 'strong rationality' is an adequate empirical description of the behaviour of actors in international

<sup>1</sup> Friedman, Milton, *Essays in Positive Economics*, London: University of Chicago Press, 1953, p. 14

<sup>2</sup> Moravcsik, 1998, p. 22-23; Moravcsik, 1997, p. 519

<sup>3</sup> Moravcsik, 1998, pp. 22-23

negotiations. In these cases, the assumption that people act merely 'as if' they were rational is superfluous.

A second scenario which requires a close correspondence between one's objective interests and subjective behaviour (i.e. 'strong rationality') is economic production. Export-oriented producers, the main heroes of liberal International Relations theory, must be able to interpret external price signals according to an objective criterion if they are to stay in business.<sup>1</sup> As Garrett and Lange point out, exporters often fail to interpret the price signals emanating from the external environment, but such failures stem not from a flaw in individual rationality but the institutional conditions of domestic politics which block or distort the efficient transmission of price signals.<sup>2</sup> In the case of export-oriented producers, the 'as if' assumption is also unnecessary.

Moving further down the socio-economic scale, the necessity to interpret one's actual status in the world, modify beliefs accordingly, and act in an objectively rational manner becomes less and less stringent. It is here that the 'weak' conception of rationality has a role to play in explaining the behaviour of actors. Utility-maximization, transitive preference orderings, and complex computational skills are necessary properties of the behaviour of international negotiators and export-oriented producers, but not of agents whose goal is satisfying some minimum utility. In the case study below, I shall demonstrate that 'satisficing' is a more appropriate analytical tool in interpreting the behaviour of the vast majority (72 percent) of Hungarian farmers who cultivate tiny holdings on a part-time basis, and whose chief economic aim is to avoid sliding into poverty, rather than the maximization of wealth. While their objective economic interest clearly lies in the liberalisation of the Hungarian land market (as such an act would increase the price of their property), they are more likely to support protectionist governmental measures so as to safeguard their land from 'hostile' corporations and investors. Paradoxically, the 'weak' conception of rationality, which supposedly forms the backbone of liberal IR theory, describes the behaviour of those actors better who are marginal to the competitive interest group universe envisaged by (economic) pluralism.

This takes me on to the problems of pluralism inherent in liberal International Relations theory. First, liberal theory assigns no agency to the state. According to the pluralist assumption, society is differentiated along functional and territorial lines which produce a multiplicity of conflicting interests. Such differentiation of society, under the condition of material scarcity, introduces 'an inevitable measure of competition' into social exchange,

<sup>1</sup> *Ibid.*, p. 36

<sup>2</sup> Garrett and Lange, 1996, p. 49



compelling individuals to get organised for the efficient articulation of their demands.<sup>1</sup> In the liberal paradigm advanced by Andrew Moravcsik:

the state is not an actor but a representative institution constantly subject to capture and recapture, construction and reconstruction by coalitions of social actors. Representative institutions and practices constitute the critical transmission belt' by which the preferences and social power of individuals and groups are translated into state policy. Individuals turn to the state to achieve goals that private behaviour is unable to achieve efficiently.<sup>2</sup>

The policies pursued by the liberal state in international negotiations are thought to reflect the most powerful interests in society, and any change in the constellation of domestic economic preferences is assumed to be quickly reflected in changes in policy.<sup>3</sup> This view deliberately ignores the role which domestic institutions can play in mediating the effects of changed economic preferences on governmental policies as its purpose is "to capture only the most fundamental of economic interests."<sup>4</sup> Garrett and Lange point out that economic pluralists, i.e. the advocates of liberal IR theory, can make this assumption because they are concerned with the economists' long run where 'maladapted' government policies, which are economically inefficient, will invariably change. In the short run, however, it is quite possible for governmental policies to diverge from the economic efficiency dictated by powerful economic interests.<sup>5</sup>

Garrett and Lange identify three ways in which domestic institutions can shape the transmission of socioeconomic preferences into governmental policy. First, the nature of the political regime itself can influence the way in which societal preferences are aggregated into national policy. All things being equal, a democratic regime, which makes it easier for incumbent governments to be replaced, is more open to policy changes than non-democratic ones.<sup>6</sup> Second, the strength of domestic distributional coalitions, such as that between social democratic parties and trade unions in Western Europe, can also block policy change. Jeremy Richardson describes graphically the resistance which Mrs Thatcher encountered on the part of British trade unions when trying to push through new policies after she came to

<sup>1</sup> Moravcsik, 1997, p. 517

<sup>2</sup> *Ibid.*, p. 518

<sup>3</sup> Garrett and Lange, 1996, p. 49

<sup>4</sup> Moravcsik points out that the explanatory potential of liberal IR theory could be improved by endogenizing institutional variation in the theory. Refer to Moravcsik, 1998, p. 36.

<sup>5</sup> Garrett and Lange, 1996, p. 52

<sup>6</sup> *Ibid.*, p. 53

power.<sup>1</sup> Third, the co-existence of two modes of preference formation in democracies, namely economic interest-intermediation and democratic elections, is likely to favour the latter as the dominant source of policy change due to the sheer numerical strength of electoral constituencies which governments must take into account when formulating policy. Governments are constrained by the necessity to retain the good will of their electorate (if they want to get re-elected), and this may force them to formulate policies which are detrimental to powerful economic interests.<sup>2</sup>

The second problem associated with pluralism concerns the organisation of collective action. Liberal IR theory assumes that rational individuals will organise collective action, and exploit the social incentives for exchange where the gains accruing from such action are perceived to be great: “the greater the expected benefits, the stronger the incentive to act.”<sup>3</sup> Applied to policy-making, the smaller the group, and the more intense and certain the preferences, the greater will be the group’s impact on policy outcomes.<sup>4</sup> This assumption has been proven to be empirically inadequate. As Mancur Olson points out, collective action depends on the ability of interest groups, especially the ones with a large potential membership, to provide selective incentives to their members so as to overcome the problem of free-riding.<sup>5</sup> Rational individuals will not contribute to collective action—no matter how intense their preferences—if they can benefit from a public good provided by the interest group. Given that every rational individual is posited to think along these lines, collective action will not ensue in the absence of selective incentives to coerce people into collective action. In the Olsonian interest group universe, as Dunleavy and O’Leary remind us, collective action is not so much a function of individual rationality as the ability of certain members—the interest group elite—to devote resources to the mobilization of the group’s potential membership for a common cause.<sup>6</sup> In the Olsonian world of interest politics, group influence on policy outcomes is not so much a function of size, or the intensity of preferences, as the group’s ability to use available resources to further collective interests.

In the following case study, I shall attempt to test the explanatory leverage of pluralist, rationalist and institutionalist assumptions of preference

<sup>1</sup> Richardson, Jeremy, *Governments, Institutions and Policy Change*, Oxford, 2000 (Unpublished manuscript), p. 15

<sup>2</sup> Garrett and Lange, 1996, pp. 63-66

<sup>3</sup> Moravcsik, 1997, p. 517

<sup>4</sup> Moravcsik, 1998, p. 36

<sup>5</sup> Olson, Mancur, *The Rise and Decline of Nations*, London: Yale University Press, 1982, Chapter 2

<sup>6</sup> Dunleavy, Patrick and Brendan O’Leary, *Theories of the State, The Politics of Liberal Democracy*, Basingstoke: Macmillan, 1987, pp. 162-163

formation in the Hungarian postsocialist scenario. In particular, I wish to probe the explanatory power of the two (utility-maximizing and satisficing) views of rationality outlined above. As for the pluralist assumption, I shall test the link between socioeconomic group formation and group impact on policy in function of the institutional properties of the Hungarian polity. Liberal theory expects state policy to reflect the interests of the most powerful actors in society, and infers the intensity of group preferences from the outcome of the policy-making process. In the case study, I shall demonstrate that this is a hopeless task because policy outcomes reflect groups' ability to use available resources under constraints imposed by the institutional structure of social exchange. In the Hungarian postsocialist scenario, I will argue that the weak links between state and society, which can be traced back to the exclusion of organised interests from the policy-making arena in the early 1990s, make it an imperative for socioeconomic groups to forge close ties (interest coalitions) with political parties if they wish to have an impact on policy. In the agricultural sector, such interest coalitions have been formed by rival political parties and farmer groups. These coalitions pursued different strategies to achieve their aims, but it was always the group that managed to exploit the institutional structure to its benefit which prevailed in imposing its preferences on its rivals. I will substantiate this argument by a detailed analysis of the evolution of policy on land ownership in postsocialist Hungary.

### 3. The case study: national preference formation on the question of land ownership in postsocialist Hungary

In the first section of the case study, I will outline the evolution of Hungarian agriculture in the postwar era. The purpose of this section is to provide a historical overview of the sector, and identify those structural patterns of production which carried on into the postsocialist period, and defined the preferences of Hungarian farmers on the question of land ownership. In the second section, I will outline the postsocialist transformation of representative institutions in Hungary. I will argue that this process successfully democratized the macro-level institutions of the polity but left them poorly embedded in society. Such weak state-society relations then spurred political parties to forge closer ties with organised society, and socioeconomic groups to seek the patronage of political actor in order to influence policy. In the third section, I shall describe the main cleavage which pits private farmers against large corporate and collective farms on the question of land ownership. This cleavage, I will argue, led to the formation of rival interest coalitions between private farmers and the conservative

parties on the one hand, and large corporate (and collective) farms and the socialist party on the other. In the fourth section, I will analyze the development of regulatory policy on land ownership in the postsocialist era, and describe the strategies which the above interest coalitions employed to influence policy outcomes. In the final section, I will summarize the findings of the case study, and compare them with liberal hypotheses about the nature of preference formation.

*The historical background: Hungarian agriculture in the postwar era*

Hungarian agriculture was collectivized under state socialism. The collective system replaced the large manorial (Junker) estates which characterized the Hungarian countryside, and made up the bulk of agricultural production in the interwar period. After the liberation of the country in 1945, the Communist party confiscated the land of the large landowners and the Catholic Church (which was one of the wealthiest landowners at the time), and carried out a wide-ranging, and long overdue land reform, awarding small plots of land to about 660,000 landless manorial labourers and landless rural proletarians.<sup>1</sup> The land reform of 1945 distributed only those large holdings which exceeded 200 holds, and left the property of middle and rich peasants—farmers who owned 10-25 and over 25 holds of land respectively—untouched.<sup>2</sup> After 1949, the Hungarian Stalinist regime embarked on a ruthless anti-kulak campaign, and confiscated the holdings of the rich peasants too, forcing them, along with other peasants, to join the new collective farms.<sup>3</sup> This first period of collectivization lasted from 1949 to 1953, and saw the brutal elimination of peasants' resistance to collective agricultural production. After the drama of the 1956 revolution, the new Communist leadership learnt to exercise some prudence in its dealings with the peasantry, and carried out the second collectivization programme in a less ruthless fashion. This campaign, lasting from 1959 to 1961, eliminated virtually all forms of private ownership in agriculture, and also succeeded in coaxing the (now landless) middle peasants into managing the country's collective farms.<sup>4</sup>

The above story would not be complete without mentioning the private household plots which the Hungarian peasantry had cultivated for centuries.

<sup>1</sup> Seton-Watson, Hugh, *The East European Revolution*, London: Methuen & Co., 1950, p. 265

<sup>2</sup> 1 Hungarian hold is about 0.575 hectares, or 1.422 acres.

<sup>3</sup> Szelényi, Iván, *Socialist Entrepreneurs, Embourgeoisement in Rural Hungary*, Cambridge: Polity Press, 1988, pp. 171-174

<sup>4</sup> *Ibid.*, 1988, pp. 149-155

In the interwar period (and before), the Junker estates provided the main form of employment in the Hungarian countryside, but manorial labourers were allowed to keep 1 hold of land for private use, and grow food on it for private consumption. It was this mechanism which allowed large landowners to bind poorly paid agricultural workers to their estates.<sup>1</sup> The harsh reality of the interwar years meant “the ‘three million beggars’ of rural masses who eked out a miserable existence as day labourers and subsistence farmers, and whose children faced the same bleak future.”<sup>2</sup> The land reform of 1945 changed all that by giving access to land to hundreds of thousands of families who could now start private production on their new farms. As a result, private agriculture entered a new path of development in the immediate aftermath of the war, giving many the hope of a brighter future, and a way out of the abject poverty of the interwar years. Land collectivization reversed this trend, and signaled a return to the economic organization of the prewar years in that peasants again became dependent on large productive units for their livelihood.<sup>3</sup> Interestingly, the managers of collective farms too were compelled to allow peasants to retain their 1 hold household plots for private use so as to avert the growing food crisis which threatened the countryside after the uncompromised shift to collective production. The similarities in binding the peasantry to large holdings—the Junker estates first, then the collective farms—through the use of private miniplots has been noted by many commentators: one even referred to this shift as the ‘third serfdom’ supplanting the second.<sup>4</sup> The changes of 1949 certainly ushered in a new period of dependence similar to that of the interwar years, but the experience of 1945-1949 was not lost on the peasantry, and many made good use of the entrepreneurial skills they gained in the aftermath of the war once the regime decided to rationalize agriculture in 1968.

Private minifarming was originally intended as a make-shift solution to make up for the transitory inefficiency of agricultural production experienced while switching to the collective farm system. In the 1950s and early 1960s, it was primarily members of the collective farms who took up (or rather continued) part-time farming on household plots to make ends meet. However, from 1968 onwards, collective farms started experimenting with ‘putting out’ their assets to private entrepreneurs, and many farm members as well as industrial and white collar workers from the cities took advantage

<sup>1</sup> *Ibid.*, 1988, p. 21

<sup>2</sup> Agócs, Peter and Sándor Agócs, “‘The Change Was But an Unfulfilled Promise’: Agriculture and the Rural Population in Post-Communist Hungary”, *East European Politics and Societies*, Volume 8, No.1, Winter 1994, p. 51

<sup>3</sup> Szelényi, 1988, p. 20

<sup>4</sup> *Ibid.*, p. 21

of this opportunity to embark on, or expand private production.<sup>1</sup> Many farm members who previously grew crops now switched to animal husbandry while industrial workers started setting up enterprises in which they could make use of their skills acquired in the factories.<sup>2</sup> Furthermore, a new law on land ownership in the early 1970s prohibited the ownership of more than 2 houseplots per family, and many city dwellers used this opportunity to acquire land, and set up part-time holiday farms and orchards in the countryside.<sup>3</sup> Minifarming was mainly a subsistence-oriented activity in 1970, with families selling only 40 percent of their products on the market. By the 1980s, however, it developed into a profitable economic enterprise, and nearly two-thirds of the sector's output were sold on the market.

The minifarm sector became an important element of the second economy which grew up in the wake of the 1968 economic reforms. By 1982, as many as 1.5 million families were engaged in minifarm production, or some 90 percent of the rural and 30 percent of the urban population, and the sector made up 34 percent of the total agricultural product while using only 12 percent of arable land in Hungary.<sup>4</sup> In the early 1980s, one could already see the differentiation of rural society according to the principle of private entrepreneurship. The top 3-5 percent of family farmers drew a significant portion of their income from their private enterprise, having built up specialist farmsteads for animal husbandry or market gardening. These entrepreneurs produced for the market, acquired credit on the black market (for government credit was not available for private production), and accumulated capital or land to increase production. Those engaged in animal husbandry would try to increase production by increasing the capital intensity of their farms while market gardeners often cultivated holdings of 12-14 acres (at a time when the legal cap on private ownership was 2 acres), and employed wage labour to expand production.<sup>5</sup> The next 15 percent of minifarmers pursued similar activities, yet on a smaller scale, producing for the collective farm at guaranteed prices, and employing family members in the enterprise. The next 40 percent of peasants pursued part-time subsistence

<sup>1</sup> In an effort to rationalize production, collective farms also started paying small amounts of rent to those who joined the farms with land. For a discussion of the 1968 reforms in Hungarian agriculture, refer to Szelényi, 1988, p. 85 and Comisso, Ellen, 'The Struggle over Restitution in Hungary', in: Crawford, Beverly and Arend Lijphart, eds., *Liberalisation and Leninist Legacies – Comparative Perspectives on Democratic Transitions*, University of California at Berkeley, Research Series No. 96:1997, p. 197.

<sup>2</sup> In the 1980s, it was the most entrepreneurial of these 'industrial minifarmers' who set up the first private automated animal farms and industrialized greenhouses in the Hungarian countryside. Refer to Szelényi, 1988, pp. 102-105

<sup>3</sup> Agócs and Agócs, 1994, p. 39; Szelényi, 1988, p. 95

<sup>4</sup> Szelényi, 1988, pp. 31-39

<sup>5</sup> *Ibid.*, p. 105

farming, producing food for private consumption so as to complement the income which they earned in their state (or collective sector) jobs. The bottom 40 percent of the rural population made up the rural proletariat: these people had no skills to embark on private production, and relied on a meagre income drawn from the state or collective sector employment.<sup>1</sup>

The key to the success of the integrated production structure of the 1980s was the symbiosis between private minifarms and large cooperatives. In the 'putting-out system' of the 1970s, collective farms provided the seed and livestock as well as the machinery for private production.<sup>2</sup> This system was designed to rationalize labour within the cooperatives, and opened the way to private enterprise. At this early stage of development, minifarmers typically pursued private production as a part-time, auxiliary economic activity. In the 1980s, however, the cooperatives switched to a new type of contract with the entrepreneurs, first passing on the risk, and later the ownership of the assets to the private farmer.<sup>3</sup> Such changes made it worthwhile for entrepreneurs to concentrate on private production instead of their state jobs. It was in this decade that minifarming evolved into a serious productive activity in the second economy, with many families coming to spend more time on their enterprises than they did in their official jobs.<sup>4</sup>

The rationalization of collective production, and the development of a healthy private sector made agriculture the success story of the Hungarian socialist economy by the 1970s and 1980s. Success in COMECON terms meant that Hungary was self-sufficient in food production, and exported about one-third of its agricultural produce to other COMECON countries.<sup>5</sup> In the 1970s, the Kádár regime made a major effort to increase the productivity of the collective sector: investment funds were made available to the cooperatives, and young technocrats were appointed to introduce the latest technology in production. The initiative seemed to have paid off as crop yields per acre rose rapidly in the 1970s. However, capital costs rose even sharper in this decade, resulting in a net fall in the international competitiveness of Hungarian agriculture.<sup>6</sup> In addition, the infamous 'price scissors' policy of the Kádár regime put a massive burden on the agricultural sector. The setting of high industrial (input) prices and low agricultural (producer) prices was designed to redistribute the sector's profits to the ailing industrial

<sup>1</sup> *Ibid.*, pp. 87-95

<sup>2</sup> Agócs and Agócs, 1994, pp. 37-38

<sup>3</sup> Szelényi, 1988, p. 85

<sup>4</sup> *Ibid.*, p. 36

<sup>5</sup> Fertő, Imre, 'Elszalasztott lehetőség és/vagy elhalasztott paradigmaváltás? A magyar agrárgazdaságtan a kilencvenes években?', *Közgazdasági Szemle*, Vol. XLIV, April 1997, pp. 297-298

<sup>6</sup> Szelényi, 1988, p. 37

branches of the economy.<sup>1</sup> Meanwhile, the agricultural sector was made to pay far more into the state budget in foreign currency earned from exports than it received in export subsidies: such earnings were vital for the party state to meet its debt obligations in international markets.<sup>2</sup> The net effect of these taxation policies was to starve agriculture of the capital necessary to maintain its performance, and the sector entered a deepening crisis by the late 1980s.

With the collapse of state socialism in Eastern Europe, the woes of the 1980s quickly turned into a massive recession. In rapid succession, the domestic market for agricultural products collapsed (as real incomes nose-dived), the sector lost its Eastern European markets, and the ‘price scissors’ opened to an unprecedented level (as producer prices could not keep up with inflation). On top of it all, the first postsocialist government slashed the sector’s export subsidies by half in 1991.<sup>3</sup> Between 1990-1993, the output of Hungarian agriculture declined by 31 percent—at a time when the cumulative fall in the country’s GDP was a ‘mere’ 18 percent.<sup>4</sup> In this milieu, the collective and state ownership of land and agricultural assets came to be seen as the crux of the problem, and (re)privatization the necessary solution, spurring the first democratically elected government to embark on the transformation of property relations in the agricultural sector. It is this policy of privatization, as well as subsequent land policies formulated by postsocialist government, that I wish to investigate in the following sections of the case study.

### *Representative institutions in the Hungarian Third Republic*

Hungary held its first multiparty elections in March 1990 after three months of intensive negotiations in which representatives of the Hungarian Communist Party and opposition groups “hammered out the new rules of the political game covering the constitution, registration of political organizations, election procedures, the mass media, and the disposition of the coercive apparatus of the state.”<sup>5</sup> The significance of these talks lay in the negotiated nature of the country’s transition from authoritarian rule to multi-

<sup>1</sup> Agócs and Agócs, 1994 p. 46

<sup>2</sup> Szelényi, Iván, István Harcsa and Imre Kovách, ‘The price of privatization: The post-communist transformational crisis of the Hungarian agrarian system’ in: Szelényi, Iván, ed., *Privatizing the land: rural political economy in post-communist societies*, London: Routledge, 1998, p. 216

<sup>3</sup> Agócs and Agócs, 1994, p. 47; Szelényi, 1998, p. 216

<sup>4</sup> European Commission, Directorate General VI, *Agricultural Situation and Prospects in the Central European Countries – Hungary*, Brussels: Working Document, 1998 Update, p. 18

<sup>5</sup> Stark and Bruszt, 1998, p. 51



party democracy, a process which Philippe Schmitter and Terry Karl described as 'transition by pact'.<sup>1</sup> However, while successfully laying the groundwork for the development of macro-level representative institutions, these talks also enabled political parties to monopolize their position as the dominant channel for the articulation of interests in the emerging institutional order of the polity. In the transition process:

the rapid and successful emergence of political parties was achieved at the expense of other organizations representing society. Despite their short life and shallow roots, the political parties [were] remarkably successful in filling the entire political space. But the almost totalizing supremacy of party politics found society unorganized and still lacking intermediary forms of political organization such as trade unions, corporatist institutions, and broad social movements. As a result of this abrupt transition to entrenched parliamentarism, no organized extra-parliamentary forces could challenge the dominance of the parties.<sup>2</sup>

According to Attila Ágh, this process reflected the intention of the Hungarian political elite to exclude social groups from the institutional design of the new democracy, a phenomenon conducive to unhindered macro-level democratization but not to the development of ties between state and society.<sup>3</sup> He contrasts the Hungarian transition scenario with the experience of democratization in Spain and Portugal—two European examples of successful transition from authoritarianism to democracy and eventual EU membership—where political elites concluded broadly based 'social pacts' with society in return for the latter's acceptance of painful austerity measures. In Ágh's view, this fundamental difference in the nature of the compromise between political elites and social groups on the eve of democratization left a lasting mark on the political development of the two regions, leading to a 'multiactor' participatory democracy in Southern Europe, and to a 'partitocratic elite democracy' in the Hungarian case.<sup>4</sup>

The negotiations of 1989, carried out by 'would-be' political parties which had an immediate stake in the emerging order of the polity, allowed the actors to rewrite the rules of the political game.<sup>5</sup> The constitutional

<sup>1</sup> Schmitter, Philippe C., Terry Karl, 'The Types of Democracy Emerging in Southern and Eastern Europe and South and Central America', in: Volten, Peter M. E., ed., *Bound to Change: Consolidating Democracy in East Central Europe*, New York: Institute for East-West Studies, 1992, p. 61

<sup>2</sup> Stark and Bruszt, 1998, p. 46

<sup>3</sup> Ágh, Attila, 'The Social and Political Actors of Democratic Transition', *Budapest Papers on Democratic Transition*, No. 75:1994, p. 8.

<sup>4</sup> Ágh, Attila, 'The Europeanization of the Hungarian Business Interest Associations', *Budapest Papers on Democratic Transition*, No. 81:1993, p. 3

<sup>5</sup> Stark and Bruszt, 1998, p. 51

questions still outstanding in 1989 were resolved a year later in a 'grand compromise' by the two winners of the first democratic elections, and these two pacts allowed the political elite to embark on the tasks of political transformation with a general consensus behind them.<sup>1</sup> In contrast, the economic negotiations of 1989 were paralyzed by the fact that the parties which attempted to work out the new property relations of the polity were political parties, and not capital and labour.<sup>2</sup> These talks inevitably failed because political parties had no direct interest in the emerging economic order of the new democracy while economic interests were missing from the negotiations. As a result, the basic parameters of economic restructuring were put aside in 1989, and left to the first parliament to decide.

Naturally, the rapid ascendance of political parties to the centre stage of the transition process was more conducive to the democratization and modernization of macro-level representative institutions than it was to building regional or functional governance. Ágh notes that the relations between parliament, government and president were quickly institutionalized while those between local governments, interest groups and the central executive continued to suffer from low integration and inefficiency, leading to a 'system overload' in policy-making by the mid-1990s.<sup>3</sup> This should come as no surprise in light of our previous discussion of Hungary's transition to democracy. The 'one-step uncompromised jump-start' into electoral competition in 1989 ensured that participation in national politics, and jockeying for positions of power in the new institutional structure, would take precedence over party's efforts to cultivate their grassroots ties at the early stage of democratization.<sup>4</sup> Furthermore, the tenuous links between political actors and civil society on the eve of the democratic transition enabled the former to concentrate on institutional reform unchecked by society. This lack of social constraint on political action demonstrated to political elites the utter weakness of society, and encouraged the development of cross-party contacts rather than the building of strong alliances with societal organizations. On the economic front, however, such weak state-society relations spelled trouble for the implementation of reform programmes:

in the absence of organizational ties to society, [the government] had neither the means to know the limits of society's tolerance nor the channels to persuade it to make those sacrifices. Thus, the relative weakness of the organized forces of civil society that made it possible for Hungary to travel the path of uncom-

<sup>1</sup> Comisso, 1997, pp. 191-192

<sup>2</sup> Stark and Bruszt, 1998, p. 52

<sup>3</sup> Ágh, Attila, *The Politics of Central Europe*, London: Sage, 1998, p. 213

<sup>4</sup> Stark and Bruszt, 1998, p. 46

promised competition meant that Hungary faced a deficit of institutional resources to mediate between state and society that might secure social support to remedy the economic crisis.<sup>1</sup>

This 'institutional deficit' in state-society relations led first to the extreme cautiousness, and later to the excessive swings of economic policy in the postsocialist period. In contrast to the Czech scenario, for example, where trade unions were strong enough to exercise restraint on executive authority, postsocialist Hungarian governments managed to carry through their reform programmes without as much as consulting their social partners.<sup>2</sup> Furthermore, the lack of social constraint over policy was complemented by a deliberate design to impose minimal constitutional and institutional limitations on executive authority.

First, executive authority in the Hungarian Third Republic is concentrated in the office of the prime minister.<sup>3</sup> The premier is protected by the institution of 'constructive vote of no confidence', and he also has the power to appoint and dismiss members of his cabinet without parliamentary approval.<sup>4</sup> Second, the 'hybrid' electoral system of the new democracy, employing both a majoritarian element and proportional representation, was designed to produce strong government while also enabling the representation of small parties in the national assembly.<sup>5</sup> This system makes coalition government the most likely formation: indeed, all three governments elected in the 1990s were coalitions of one large and one or two small parties. As for the objective of governability (strong government), all three postsocialist administrations remained in office for the full four-year term of their mandate. Third, the main legislative cleavage runs between government and opposition, and the relationship is structured in a way to allow the former to dominate the latter. This is due to the set of parliamentary procedures which vest the legislative initiative in the government majority. While government bills automatically go on the agenda, opposition motions can, and have often been, kept off it by the majority vote which is necessary to approve the agenda at each session.<sup>6</sup> As a result, most legislation becomes the private affair of the government. According to Stark and Bruszt:

The result of [such] constitutional, institutional and conjunctural factors was that Parliament became an abstract debating society and not a venue

<sup>1</sup> *Ibid.*, p. 47

<sup>2</sup> *Ibid.*, pp. 166-185

<sup>3</sup> For a discussion of the institutional dynamics of Hungarian democracy, refer to Elster *et al.*, 1998, pp. 93-98 and Stark and Bruszt, 1998, pp. 170-171.

<sup>4</sup> Elster *et al.*, 1998, pp. 96-97

<sup>5</sup> *Ibid.*, p. 124

<sup>6</sup> Comisso, 1997, p. 193

for deliberations that secured broadly encompassing agreements across contending policy positions. In such a setting, it is perhaps not surprising that Prime Ministers Antall and, later, Horn strove to centralize decision-making authority in almost personal terms.<sup>1</sup>

In sum, the above institutions have had the combined effect of turning the Hungarian Third Republic into an executive-dominated regime, in which the government—the prime minister in particular—has the power resources to usurp political decision-making from its institutional channels and turn it into a quasi-private, unmediated exercise. The government dominates the macropolitical institutions of the republic, and is largely unconstrained by either legislature or the president. Social constraint on executive authority is equally limited, a fact amply reflected in the absence of interest-intermediating institutions between state and society. Not surprisingly, the only check on Hungary's centralized executive authority comes from the government itself. The coalition governments of the Third Republic draw their power and legitimacy from the majority they command in the national assembly. Unless the senior coalition member has a bare majority of seats in parliament to have its bills passed uncontested, the success of its governmental programme will hinge on the willingness of its junior coalition partner(s) to go along with government initiatives. Such cooperative behaviour cannot, however, be taken for granted. In the first ten years of the new democracy, junior coalition members have repeatedly shown their ability and resolve to blackmail their senior partners into compromise by threatening to disrupt the unity of government majorities.<sup>2</sup> In lieu of substantial institutional or social limitations on executive authority, intra-coalition conflict seems the only way to constrain Hungary's hyper-rational executive.

#### *Socioeconomic preferences on land ownership in postsocialist Hungary*

The postsocialist period saw the reorganization of agriculture on a capitalist basis as well as the consolidation of production processes inherited from the mature socialist era. On the one hand, the large collective farms disintegrated, and laid off the bulk of their employees, while transforming themselves into corporate enterprises (and restructured cooperatives) which specialised in particular niches of the production process. In the food industry, for example, foreign direct investment (FDI) played a major role in the modernization of production: between 1991 and 1996, some 35 percent of FDI flowing into Hungary was invested in this sector, and the share of for-

<sup>1</sup> Stark and Bruszt, 1998, p. 170

<sup>2</sup> Comisso, 1997, p. 194

eign capital in food-processing firms reached 53 percent by 1996.<sup>1</sup> On the other hand, private farming developed into a genuine capitalist enterprise, with a growing number of entrepreneurs building up private family farms for production. The European Commission estimates that the private farming sector, which numbered 1.4 million minifarms in 1989 and about 1.2 million minifarms and 50,000 family farms in 1996, boosted its share in arable land use and output from 6 to 54 percent, and 35 to 57 percent, respectively, in the 1989-1996 period. Meanwhile, the large collective and state farms, which were reorganised into corporations and new cooperatives in the early-mid 1990s, saw a significant decline in both domains: their share in land use fell from 94 to 46 percent, and their contribution to the total agricultural product from 65 to 43 percent in the same period.<sup>2</sup>

The above developments stemmed from a privatisation process which successfully redistributed the assets and land of the collective (and state) sector to private owners in the early-mid 1990s. While capital assets such as buildings, machinery and animals had always belonged to the cooperatives, the agricultural reforms inaugurated by the Kádár regime in 1968 also enabled cooperatives to purchase land from ex-members who had left these farms in search of employment elsewhere. By 1989, some 60 percent of the land cultivated by collective farms became 'cooperative property', 5 percent was acquired by the state, and 35 percent remained in individual ownership. Curiously, the formal title to the above 35 percent of land—about 2 million hectares—was not transferred to the cooperatives so long as the individual, whose land the cooperative was farming, remained an active member of the collective.<sup>3</sup> In 1989, the last socialist government passed a law which allowed active members to take their land out of the cooperatives, but very few people availed themselves of this opportunity.<sup>4</sup>

In 1991-1992, the vast majority of land owned by cooperatives—about 2.5 million hectares—was auctioned off to ex-owners who had either lost land to nationalization, or the title to land after they had left the cooperatives. In this compensation process, about 1.5 million people received miniplots of less than 2 hectares each. Furthermore, the assets of collective farms, which amounted to some 15 percent of the national wealth, were also privatized, with active members receiving 41 percent, retired members

<sup>1</sup> World Bank, *Hungary On the Road to the European Union*, World Bank Country Study, Washington, DC: World Bank Group, 1999, p. 160; and European Commission, Directorate General VI, *Agricultural Situation and Prospects in the Central European Countries – Hungary*, Brussels: Working Document, 1998 Update, p. 49

<sup>2</sup> European Commission, 1998, pp. 42-43

<sup>3</sup> Comisso, 1997, p. 199; European Commission, 1998, p. 41

<sup>4</sup> Szelényi, 1998, p. 223

39, and ex-members 20 percent of the capital, respectively.<sup>1</sup> Commentators point out the pervasive fear which privatisation generated in the countryside as these measures, sponsored by a government acting in the name of ‘historical justice’, effectively redistributed the land and assets of collective farms from those who used it to those who used to own it. As it turned out, fears of the imminent disintegration of the collective sector were unfounded because most absentee owners simply wished to claim the ownership but not the actual use of land, and only 15 percent of active members left the cooperatives to set up new family farms or smaller cooperatives.<sup>2</sup>

In 1992, the conservative government set a deadline for those who wished to claim their private holdings, and secede from the cooperatives. At this time, most people believed that collective farms would continue to be the main source of employment in the countryside, so they left their holdings in the cooperatives’ care.<sup>3</sup> Furthermore, as several commentators noted, the technical difficulties of titling—finding all the absentee owners, then agreeing on a suitable plot to carve out of the collective farm—made it practically impossible for people to register their new holdings in their names.<sup>4</sup> In any case, the failure to claim the title to one’s property before the above deadline turned out to be a grave mistake. In 1993, the conservative government adopted a new law which ended the legal obligation of cooperatives to provide employment to all their members. As a result, employment in the collective sector dropped dramatically, and those who were sacked from the cooperatives also lost the *de facto* use of their land. Szelényi estimates that one-third of the rural population was thus stripped of its property and employment in a single year after privatization.<sup>5</sup>

Furthermore, the compensation laws of 1991-1992 contained significant regulatory constraints which blocked the emergence of a healthy land market in the wake of privatisation. Salazar *et al.* argue that the role of governments in land market reform is to: 1) remove regulatory constraints which negatively affect the equilibrium price of land; 2) establish a system of predictable market rules; and 3) enforce property rights.<sup>6</sup> Of these conditions, none obtained in the Hungarian postsocialist scenario. The intention of

<sup>1</sup> European Commission, 1998, p. 41

<sup>2</sup> Agócs and Agócs, 1994, pp. 41-46; Comisso, 1997, pp. 202-204

<sup>3</sup> Szelényi, 1998, p. 231

<sup>4</sup> Módos, Gyula, ‘Agricultural Policy’s Main Lessons, Issues and Solutions: The Case Studies’, *Society and Economy*, Volume XXI, No. 1, 1999, p. 3; World Bank, *RPM for Hungary*, World Bank Rural Sector Information, Washington, DC: World Bank Group, 2000, p. 4; European Commission, 1998, p. 42

<sup>5</sup> Szelényi, 1998, p. 231

<sup>6</sup> Salazar, Antonio, P. Brandao, Gershon Feder, ‘Regulatory policies and reform: the case of land markets’ in: Frischtak, Claudio, ed., *Regulatory Policies and Reform: A Comparative Perspective*, World Bank, 1995, p. 191

the compensation laws was to redistribute land to small private farmers, rather than large landowners such as the Catholic Church.<sup>1</sup> Those who lost holdings worth about \$2000 were fully compensated. Meanwhile, ex-owners who lost farms worth \$2000 to \$10,000 could only claim 50 percent of their property's value, and others who lost large estates would often receive no more than 1 percent in compensation.<sup>2</sup> Furthermore, those who received land in 1991-1992 were not allowed to sell their new property for three years after receipt.<sup>3</sup> In 1994, these regulations were further tightened by the caretaker government which replaced the first conservative-nationalist coalition: the new law put a 300 hectare cap on individual land ownership, banned the purchase of land by Hungarian and foreign legal persons, and maximized the lease of land in 10 years.<sup>4</sup> These restrictions on land ownership and lease, coupled with the lack of databanks on land availability, technical problems of title registration, and the inability (or unwillingness) of governments to enforce property rights (as shown by the drama of 1993), all contributed to the emergence of a highly inefficient land market in the post-socialist era. Furthermore, as predicted by Salazar *et al.*, the prohibitions on the sale of land have led to illegal property transfers disguised as renewable leases—or 'pocket deals' as they are known in Hungarian—and massive speculation by investors who recognized the profit potential inherent in a distorted land market.<sup>5</sup>

In light of the above evidence, the postsocialist question on land ownership can be formulated as follows: 'who benefits from the distorted land market?' I shall try to answer this question, and deduce the preferences of Hungarian farmers on the desirability of liberalizing the land market, employing statistical data on land use in Hungary. As we saw, land ownership cannot be an adequate guide to the above question because the ownership and use of farmland do not overlap in Hungary due to restrictions on land sales. In 1996, for example, some 2.5 million individuals owned 81 percent of the farmland, but the share of the private farming sector in arable land use was only about 54 percent. Meanwhile, the corporate farming sector occupied the remaining 46 percent, leasing the bulk of its land from private owners.<sup>6</sup> For this reason, an analysis of land use, rather than land ownership is more likely to help us predict farmers' preferences on the liberalisation of the land market. Externally, the question of land liberalisation concerns the opening of the Hungarian land market to foreign competitors. Domestically,

<sup>1</sup> Comisso, 1997, p. 200

<sup>2</sup> Szelényi, 1998, p. 223

<sup>3</sup> European Commission, 1998, p. 42

<sup>4</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, pp. 7-10

<sup>5</sup> Salazar *et al.*, 1995, p. 195 & 202

<sup>6</sup> World Bank, 2000, p. 4

it means the elimination of the ban on corporate land ownership. The underlying condition which informs actors' preferences on the above question is the inefficiency of the land market which greatly distorts the price of land due to regulatory constraints, market imperfections, the slowness of titling, and poor property rights enforcement by the government.<sup>1</sup> According to a recent document, the price of farmland in Hungary was 5 to 40 times lower than that in EU member states in 1999.<sup>2</sup> These prices favour individuals who have the necessary capital to expand their holdings under the existing regulatory constraints, and the task of the next section is to identify who they are.

**Table 1:** Use of arable land by the private sector

Size of private holdings (hectares)	Number of farmers		Share of land in private use (%)	Share of arable land (%)
	farmers	%		
300+	300	0.03	4.6	2.8
10-300	50,000	5.2	61.3	36.8
1-10	220,000	22.9	27.3	16.4
0-1	690,000	71.9	6.8	4.0
<i>Total</i>	<i>960,000</i>	<i>100.0</i>	<i>100.0</i>	<i>60.0</i>

Source: Central Statistical Office, 2000 (my calculations)<sup>3</sup>

*Subsistence farmers* make up the vast majority—some 72 percent—of Hungarian farmers, yet their aggregate share in arable land use is a mere 4 percent (refer to Table 1 above). These people probably farm their mini-holdings on a part-time basis (as an auxiliary economic activity) to make ends meet, rather than to expand production. They are the heirs (and possibly descendants) of the classical Hungarian rural proletariat which made up the workforce of the Junker estates and collective farms in previous eras, and cultivated tiny houseplots to complement the meagre income they earned as wage labourers. Paraphrasing Herbert Simon, the goal of these minifarmers is to satisfy some elementary objective (survival) rather than

<sup>1</sup> According to the World Bank, some 20-25 percent of agricultural land still required titling in 1998. Refer to World Bank, 2000, p. 4

<sup>2</sup> Hungarian Ministry of Foreign Affairs, *Negotiating Position of the Government of Hungary on Chapter 4 – Free Movement of Capital*, Brussels: Conference on Accession to the European Union, May 18, 1999, p. 3

<sup>3</sup> Central Statistical Office, *Magyarország Mezőgazdasága a 2000. évben*, Budapest: CSO Press, 2000, p. 65 & 81



the maximization of wealth. Paradoxically, they would benefit the most (per capita) from the liberalisation of the land market because it would increase the value of their miniholdings which they could then sell to investors at a higher price. However, given their socioeconomic condition, they are the least likely to be able to overcome collective action problems, organize interest groups, and lobby the government for a change in the status quo. In the process of socioeconomic preference formation, which relies on efficient interest-intermediation, their voice is likely to be minimal. Nevertheless, they can influence the outcome of policy through the democratic channel of preference aggregation, that is by bringing to power a government which favours a protectionist land market, and the exclusion of corporations from land ownership.

Subsistence farmers are the clear 'losers' of the capitalist transformation process which eliminated most (collective sector) jobs in the rural sector, and enabled a minority—the managers of collective farms and entrepreneurial private farmers—to build up new corporations, genuine collectives and large private farms. Due to their negative experience of postsocialist developments in agriculture, they are more likely to perceive corporations as a threat to their assets—the new 'green barons' who will strip them of their property if the ban on corporate land purchases is lifted—than a neutral investor whose competitive behaviour will benefit them in the long-run. For these reasons, and assuming that they exercise their ballot, subsistence farmers are more likely to vote for a government which offers to protect the land market in its electoral programme. Their preference is pro-status quo, and the route through which they can express it is the ballot box rather than collective action. However, even in democratic elections, their voice in influencing policy is likely to be counterbalanced by the hundreds of thousands of pensioners and absentee owners who received miniplots in 1991-1992, but have since been unable to sell their property due to technical problems associated with titling and land registration, and the ban on sale to corporations. A recent article suggests that such 'involuntary owners' of miniplots make up the majority of Hungary's 2.5 million landowners.<sup>1</sup>

The group of *family farmers* is made up of individuals who managed to maintain and improve their position in the rural hierarchy in the postsocialist transformation process. It is at the bottom of this group where one finds the largest concentration of market-oriented private farmers. Those cultivating 1-5 hectares of land make up 19 percent of private land users (180,000 farmers), and occupy about 9 percent of the arable land in Hungary.<sup>2</sup> Some of these farmers embarked on private enterprise in the mature socialist era

<sup>1</sup> 'Földspekulációk', *Heti Világgazdaság*, 97/36, September 6, p. 10

<sup>2</sup> Central Statistical Office, 2000, p. 65 & 81

after collective farms started 'putting out' their assets to minifarmers while others only started production after the compensation laws awarded them land. Their holdings are sufficiently large to allow for market production, therefore I would suspect that many people in this sub-group pursue agriculture as a full-time market-oriented activity. A smaller fraction of family farmers, about 40,000 individuals, own 510 hectares each, and use approximately 7 percent of the arable land.<sup>1</sup> These farmers produce for the market exclusively, run specialized enterprises, and pursue agriculture as their primary economic activity. The two sub-groups of family farmers make up nearly 23 percent of private farmers (220,000 farmers), and use about 16 percent of the arable land in Hungary.

Given the market-oriented nature of their economic activities, the behaviour of family farmers is best explained by the 'strong rationality' paradigm which posits utility-maximizing behaviour on the part individuals. The size of their holdings (1-10 hectares) makes it practically impossible for family farmers to exceed the 300 hectare cap on individual land ownership. However, they do benefit from the low land prices which stem from the inefficient operation of the Hungarian land market. Internal competition by corporations, let alone foreign investors, would greatly decrease their chances of expanding their holdings at a low price, therefore I would expect family farmers to be firmly against the external and internal liberalisation of the land market. The relative intensity of their preferences, and large potential membership (220,000) make this group a potentially powerful voice in the process of socioeconomic preference formation on land ownership. Indeed, as I will show in the next section, the Peasant Alliance and Smallholders' Circle, two powerful interests groups representing the demands of private family farmers, are important actors in Hungarian agricultural interest politics which played a key role in the formulation of land policy in the postsocialist era.

Finally, there are some 50,000 *private commercial farmers* who cultivate medium and large private holdings, and run full-time commercial farms using nearly 40 percent of the arable land of the country. These farmers are the clear beneficiaries of the postsocialist privatization process. While the European Commission estimates that the most successful commercial farmers cultivated 10 hectares at most in 1996, many commercial farmers now manage holdings significantly larger than that. Today, there are some 43,000 private farmers who use 10-50 hectare strips of land, about 7000 who cultivate 50-300 hectare holdings, and some 300 farmers who run private farms larger than 300 hectares. Their share in arable land use is estimated at 21,

<sup>1</sup> *Ibid.*, p. 65 & 81

16 and 3 percent, respectively.<sup>1</sup> These individuals are likely to have been amongst the most successful entrepreneurs of the mature socialist period who further expanded their enterprise after privatization. Others may have come from the management of collective farms to set up private commercial farms with assets acquired from the cooperatives. Those who farm medium-size private holdings (10-50 hectares) are likely to favour the status quo as it allows them to lease and purchase land within the 300 hectare limit, and at a low price. Meanwhile, the large commercial farmers, with holdings of 50-300 hectares and above, equally benefit from the inefficiency of the land market, and are not truly disadvantaged by the size limitations either. If they wished to lease land of more than 300 hectares, they could set up a collective farm with other private farmers, and use the joint 2500 hectare quota which applies to cooperative leases.<sup>2</sup> However, such problems only concern a tiny minority of Hungarian private farmers, and are not particularly relevant to the generic preferences of private farmers on land liberalisation. The picture that emerges from the above analysis is that all Hungarian private farmers, regardless of the size of their holdings, prefer the continued protection of the land market from foreign and Hungarian corporate competition because such protection allows them to purchase and lease land at a low price, and expand their holdings within the regulatory limits.

In contrast, the *large corporations and cooperatives*, which farm holdings (significantly) larger than 300 hectares, are at an obvious disadvantage under current regulatory conditions. The 1994 land law, the provisions of which are still in place today, banned all legal persons, Hungarian and foreign alike, from purchasing land, and imposed a 2500 hectare cap on corporate leases.<sup>3</sup> In spite of these constraints, and probably because 10 percent of the arable land is still owned by large state farms which have not been privatized in the postsocialist era, one can see a significant concentration of holdings in the upper echelons of the corporate sector.<sup>4</sup> Some 3000 corporations and cooperatives farm nearly 37 percent of the agricultural land of the country, and there are nearly a hundred farms which manage holdings of more than 10,000 hectares each (refer to Table 2 above). The corporate sector today consists of incorporated private farms which came into existence after the dissolution of the collective sector, restructured collective farms set up by private farmers and the management of socialist co-

<sup>1</sup> Central Statistical Office, 2000, p. 65 & 81; European Commission, 1998, p. 43

<sup>2</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, p. 10

<sup>3</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, p. 10

<sup>4</sup> The World Bank estimates that some 10 percent of land was still owned by 28 state farms in 1998. Refer to World Bank, 2000, p. 1 & 4

operatives, and a few remaining state farms left over from the state socialist era. In 1998, 4700 corporations used 16 percent of the arable land in Hungary, and about 1700 restructured collectives occupied 24 percent.<sup>1</sup>

**Table 2:** Use of arable land by the corporate sector

Size of corporate holdings (hectares)	Number of farms	Share of land in corporate use (%)	Share of all arable land (%)
10,000+	70	31.2	12.5
1000-10,000	1700	48.4	19.3
300-1000	1300	12.0	4.8
0-300	5300	8.4	3.4
<i>Total</i>	<i>8370</i>	<i>100.0</i>	<i>40.0</i>

Source: Central Statistical Office, 2000 (my calculations)<sup>2</sup>

Szelényi argues that most of these large corporations were formed by the mid-level technocratic management of collective farms in the early-mid 1990s. By creating limited liability companies out of the socialist cooperatives, these managers were able to 'rescue' the capital resources (e.g. machinery, buildings and animal stock) of the cooperatives while leaving the debt of the farm behind. If this process started immediately after the dissolution of the collective sector in 1991-1992, it gained a further impetus in 1993 when the new cooperative law ended the obligation of collective farms to offer employment to all their members.<sup>3</sup> The genuine cooperatives of the postsocialist era came into existence in a similar manner: they were either restructured—split into village-based or functional units—by the technocratic management of the old collective farms, or set up by groups of private farmers who wished to take advantage of the larger leasing quota granted to collective farms. Finally, a few state farms, which could not be privatized, have been turned into joint stock companies, and remain in majority state ownership today.<sup>4</sup>

Large corporations and cooperatives make up an important segment of the Hungarian agricultural sector in terms of land use and output. In 1996, they used 46 percent of the land and ensured 43 percent of the output.<sup>5</sup> Fur-

<sup>1</sup> Hungarian Ministry of Agriculture, *A gazdasági környezet hatásai*, Budapest, February 2000, p. 8

<sup>2</sup> Central Statistical Office, 2000, p. 69 & 85

<sup>3</sup> Szelényi, 1998, pp. 226-231

<sup>4</sup> European Commission, 1998, p. 41

<sup>5</sup> The share of large corporate farms in arable land use declined from 46 to 40 percent be-

thermore, they are likely to have the capital to invest in land should the ban on corporate ownership be lifted. One analyst estimates that about one-third of these large farms (possibly those in the upper echelons of the sector already farming large holdings) have significant resources to purchase land today. However, their ambitions are thwarted by the ban on corporate land ownership, and also the 10-year limit on land lease which makes long-term capital investments futile.<sup>1</sup> In light of these conditions, it is to be expected that the corporate (collective) lobby will put pressure on postsocialist governments to change the existing regulations on land ownership. Indeed, the preferences of these actors are powerfully represented by an interest group, the National Federation of Agricultural Cooperatives and Producers, which has played an active role in the formulation of land policy in the postsocialist era. However, the one time when a sympathetic (socialist) government adopted the demands of corporations and cooperatives, the private (anti-liberalisation) lobby defeated them in the policy-making arena. It is this event, and other key developments in regulatory policy-making on the question of land ownership, which I shall analyze in the final section of the case study.

In sum, the core economic interests of large corporations and cooperatives put these actors firmly on the pro-liberalisation side of the domestic debate on land ownership. Externally, however, they are likely to have an intense preference against foreign competition because the appearance of large foreign corporations on the Hungarian land market would put them at a significant disadvantage. Due to their economic interests, therefore, large corporations and cooperatives are most likely to favour the domestic liberalisation, and external protection, of the Hungarian land market. Meanwhile, as argued above, private farmers are firmly against the domestic and external liberalisation of the land market because they derive significant benefits from depressed land prices. The main conflict on land ownership and lease regulations is therefore expected to stem from the clashing domestic interests of large corporations (and cooperatives) on the one hand, and market-oriented private farmers on the other.

#### *Regulatory policy-making on land ownership in the postsocialist era*

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tween 1996 and 1998, and the corporate sector contributed 43 percent to the total output of Hungarian agriculture in 1996. I presume their share of the output also declined slightly by 1998, but I have not been able to find data from that year. Refer to European Commission, 1998, p. 43.

<sup>1</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, pp. 8-9

The first postsocialist government, a conservative-nationalist coalition, adopted the compensation laws of 1991-1992 after much wrangling in parliament. These legislative conflicts in the national assembly demonstrated the dominant role which political parties came to play in the emerging democratic order of the polity. However, not all parties had equal access to the policy-making arena which negotiated the details of the above legislation. The right-wing Smallholders party, whose entire electoral programme was based on land restitution, wished to return all land to the 'historic peasantry' of 1945. The centre-right Hungarian Democratic Forum (MDF), which was the senior coalition member in the government, rejected land restitution outright, yet perceived compensation, i.e. the redistribution of collective assets and land to a select constituency, as a desirable solution to building party ties with society. The third coalition partner, the Christian Democrats, wished to make local governments the prime beneficiaries of land redistribution but their (less intense) demands were bought off by various concessions on other aspects of the compensation bill. Other political parties also formulated distinct positions on how to transform property relations in the agricultural sector, but their voice was eliminated by the institutional rules which gave the legislative initiative to the government. After extensive negotiations among the three coalition partners, the government agreed on a compromise which resembled the demands of the Smallholders, and subsequently adopted the compensation bill without the support of the opposition.<sup>1</sup>

The above story demonstrated all the key aspects of policy-making in the Hungarian Third Republic. First, the political parties which agreed on Hungary's 'pacted transition' to democracy, designed a set of institutions which gave inordinate legislative power to government coalition members. The Smallholders trumped the Agrarian League—which represented the interests of the cooperatives as a newly formed political party—in the first democratic elections, and this ensured that the interests of ex-owners, the 'historic peasantry', would gain representation at the expense of collective sector employees. Second, the proportional representation element of the electoral formula gave the Smallholders a large enough share of the vote (11 percent) to be indispensable in the conservative government which the MDF sought to form after the elections. The ability of the Smallholders to make or break the coalition was amply demonstrated in the negotiations over compensation in which they extracted large concessions from their coalition partners. Third, the institutional rules which gave the legislative initiative to the government, as well as the ability to adopt legislation by a sim-

<sup>1</sup> This institutional explanation of the compensation process is based on an argument advanced by Ellen Comisso. Refer to Comisso, 1997, pp. 184-223

ple majority, enabled the coalition parties to agree on a 'mini-pact', and have it passed without the support of the opposition.<sup>1</sup>

As a result, the redistribution of the land and capital assets of collective farms was decided without the input of cooperatives in 1991-1992. This event clearly demonstrated the dominance of the democratic channel of preference formation over socioeconomic interest-intermediation in the formulation of policy. In the introduction, I argued that the co-existence of these two modes of preference formation favoured the democratic channel as the main source of policy change, and this is precisely what the compensation laws of 1991-1992 showed. Noting the institutional properties of the policy-making arena, it is likely that the cooperatives gravitated towards the opposition parties, and the socialist party in particular given the pro-cooperative stance it adopted in the debate over compensation, so as to gain some leverage over the outcome of policy in future debates.

While the compensation laws were designed to redistribute the wealth of the collective sector to private individuals, they also set into motion several complementary processes unintended by the legislators. First, these laws encouraged the managers of cooperatives to 'rescue' the most valuable assets of the farms before privatisation could disrupt the collective sector. Thus the large corporations of the postsocialist era were born. Second, the awarding of some 20 percent of collective assets to absentee owners led to the rapid withdrawal of much of this capital from agriculture, boosting the conspicuous consumption of a few city-dwellers.<sup>2</sup> Curiously, the same Smallholder party which was so adamant about compensating ex-owners (and their heirs) in 1992, submitted a new bill in 2000 (being a junior coalition member of the new conservative government) which required cooperatives to purchase the property share of the above absentee owners for cash. Owing to the institutional properties of the Hungarian parliamentary system, the bill was duly adopted, and commentators now fear the withdrawal of some \$350 million in capital assets from the collective farm sector.<sup>3</sup> Third, the privatisation of collective land without a supplementary regime to enforce property rights effectively dispossessed one-third of the rural population of their newly acquired property. This came about in 1993 when a new law enabled cooperatives to terminate the membership of their employees. While retaining the legal title to their property, the large numbers of people who were sacked from the cooperatives also lost the *de facto* use of their land.<sup>4</sup> In other words, the net effect of these processes was not to create a

<sup>1</sup> *Ibid.*, pp. 193-195

<sup>2</sup> Szelényi, 1998, p. 225

<sup>3</sup> 'Kormány kontra szövetkezetek', *Heti Világgazdaság*, 2000/35, September 2, p. 121

<sup>4</sup> Szelényi, 1998, p. 231

new middle class of farmers, as the drafters of the compensation laws originally intended, but to concentrate the wealth of the collective sector in the hands of a new class of entrepreneurs while ejecting a considerable segment of the rural population from agriculture. These entrepreneurs then went on to build successful private, collective and corporate enterprises, organised collective action for the representation of their interests, and lobbied the government for policy changes on land ownership. Below, I shall try to assess their impact on the development of regulatory land policy in recent years.

In 1994, the caretaker government, which replaced the first conservative coalition in 1993, tightened existing regulations in a new law on land ownership. This legislation imposed a 300 hectare limit on individual land possessions, banned the ownership of land by Hungarian and foreign corporations, and put a 2500 hectare cap on corporate leases. Using populist language, the government justified these measures as a necessity due to the threat which foreign investors posed to the Hungarian soil. However, foreign corporations acquired only 0.6 percent of the agricultural land of the country between 1990 and 1994 when there was no such limitation on land purchases.<sup>1</sup> In fact, it is more likely that the 1994 law served the purpose of excluding the emerging corporate sector from the property structure of the polity. Given that an incipient land market had already come into existence in the wake of land privatization, and the new corporations and cooperatives had sufficient capital to purchase land, regulation was the only instrument the conservative government could use to enforce a property regime which favoured its perceived electoral constituency, the new family farmers. It was the conservative-sponsored compensation laws which triggered the flight of collective capital into private corporations and collective ventures, and the government may have wished to check the further development of the corporate sector by denying it access to the land market. On the side, the drafters of this legislation probably had electoral considerations in mind too when formulating the 1994 act. The government adopted the act in one of the last sessions of parliament, and this late timing may be explained as an attempt by the conservative parties to gain the electoral support of private farmers before the upcoming general elections. One can also speculate that the anti-foreigner propaganda was deployed for similar purposes, namely to appeal to a wider public who had no direct interest in agriculture, yet shared the nationalistic outlook of the government.

As for the preference formation process, the interests of the conservative parties and private farmers coincided in the adoption of a land policy

<sup>1</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, p. 7



which discriminated against large corporate and collective farms. This incipient interest coalition stemmed from the threat which large corporate actors posed to both the conservative programme of creating a family farm-centered agricultural sector, and the private farming sector itself, given the capital which these large organisations could use to purchase the property of private landowners. In light of this convergence of interests, and appreciating the role which the government could play in the formulation of policy, private farmers' groups are likely to have forged close ties with the conservative parties as early as in the 1991-1994 period. The significance of this 'protectionist interest coalition' was proved in 1997.

In 1997, the socialist-liberal coalition, which replaced the conservative administration in 1994, submitted a bill which sought to abolish the ban on corporate land ownership, and increase the maximum period of corporate land lease to 40 years. Foreign companies were still not allowed to purchase land, but the bill would have enabled Hungarian firms in foreign ownership to become landowners. This bill clearly reflected the interests of the large collective farms and corporations as they could now start buying land, and make long-term investments in their leased property. In the debate over the compensation bill of 1991-1992, the socialists advocated the compensation of collective sector employees, and pressed for the protection of the cooperatives' rights to own land, revealing a pro-cooperative stance early on in the policy debate. Meanwhile, the liberals rejected targeted compensation in principle, and called for the redistribution of collective sector assets and land to all Hungarian citizens without privileging certain constituencies over others.<sup>1</sup> In light of these political preferences, it is probable that the collective lobby strengthened its ties with the socialist party, rather than the liberals, so as to gain some leverage in the policy-making arena. Furthermore, the ties which linked the collective farm management to the Communist party under the Kádár regime favoured the continuation of this relationship between the socialist party—the successor organisation of the Communist party—and the new collectives and corporations—heirs of much of the cooperative capital—after democratisation. Between 1990 and 1994, the socialists were in opposition which militated against their having an impact on the outcome of policy, but in 1994, they were able to form a government with the liberal party, and change the land policy adopted by the conservative parties. However, they met with fierce resistance on the extra-parliamentary front.

The three coalition members of the previous conservative government, and two powerful private farmers' groups, the Peasants' Alliance and Smallholders' Circle, joined forces to organise a referendum on the govern-

<sup>1</sup> Comisso, 1997, pp. 203-204

ment's intention to open the land market to foreigners. Banking again on anti-foreigner sentiment, this one-question referendum would have asked citizens to decide whether foreign nationals ought to be able to purchase Hungarian farmland.<sup>1</sup> The 'protectionist interest coalition' relied on the strategy that the government would be forced to withdraw its bill if it lost the referendum. The socialist-liberal coalition responded to this challenge by initiating its own referendum which cleverly reworded the question on foreign land ownership. Interestingly, both initiatives were rejected by the constitutional court but the strategy of the opposition succeeded, and the government withdrew its bill from parliamentary debate.<sup>2</sup>

The novelty of the 1997 exchange was that policy-making on land ownership was extended to a new institutional venue (the referendum) which the opposition parties and private farmers' groups were hoping to use as a veto over the government bill. It may have been the constitutional court which decided the fate of both initiatives but the mere threat to use the popular vote to settle the question on foreign land ownership was enough for the government to back down. What conclusions can we draw from this event? First, it was the strategic use of the referendum venue—an exploitation of the 'democratic constraint'—which blocked policy change, and allowed the 'protectionist interest coalition' to impose its preferences on the government and large corporations and cooperatives. While previous governments had no problem adopting policies rejected by the opposition (and the farming constituencies they represented), the socialist-liberal coalition fell foul of the only external constraint which could coerce it into changing its intentions, the threat of a popular vote on its policy proposal. Second, this exchange demonstrated the dominance of political parties and political considerations, rather than the primacy of socioeconomic interests and interest-intermediation, in the Hungarian policy-making universe. Had it not been for the patronage of the conservative parties—for whom this campaign was a great opportunity to defeat the socialist-liberal coalition in a popular vote—the private farmers' lobby is unlikely to have been able to change the policy outcome. In other words, the events of 1997 demonstrated ever so clearly that socioeconomic interests could only succeed in the policy-making arena if they converged with the political interests of parties seeking reelection.

In 1999, the Hungarian land question shifted to the European stage when the new conservative coalition, which replaced the socialist-liberal administration in 1998, submitted its negotiating position to the European Union, requesting a 10 year transitional period in the purchase and lease of land by

<sup>1</sup> 'A feltört ugar', *Heti Világgazdaság*, 97/35, August 30, p. 7

<sup>2</sup> Joining the OECD in 1996, Hungary signed up to the chapter on the free movement of capital, and this ruled out the discrimination of investors by nationality.

foreign nationals.<sup>1</sup> Prior to this move, the government announced a policy reversal on the domestic front, making it clear that it would not support the opening of the land market to Hungarian corporations and collectives.<sup>2</sup> These policy choices reflected the latest configuration of actors and preferences in the policy-making arena. Externally, private and corporate farmers had a mutual interest in protecting the land market as the relative price of land favoured foreign investors over Hungarian buyers. The government simply aggregated these non-conflicting preferences into state policy. On the domestic front, however, there was a conflict of interests between private and corporate (and collective farmers), and the government made a conscious (partisan) choice when returning to the post-1994 status quo. In other words, state policy on the domestic front reflected the government's political preferences, rather than a shift in underlying social interests.

### *Appraisal*

What conclusions can we draw from the above case study? We saw that an analysis of socioeconomic preferences was crucial to explaining the outcome of policy at all stages of the national preference formation process in postsocialist Hungary. In contrast to our initial expectation of inarticulated interests in postsocialist societies, we found that the Hungarian agricultural sector was differentiated along pluralist lines, producing clearly defined socioeconomic interests which found representation in a variety of pressure groups. We noted that the behaviour of Hungarian farmers was best described by the 'strong rationality' paradigm, which posited utility-maximizing behaviour on the part of individuals. Hungarian farmers pursued distinct economic interests, organized collective action, formulated efficient interest coalitions with political actors, and made strategic use of the available institutional resources of the polity so as to influence the policy-making process. In other words, liberal IR theory successfully described the socioeconomic preference formation process which defined policy positions on the question of land ownership.

We also noted that subsistence farmers, who made up the vast majority of agricultural producers, played a peripheral role in Hungarian interest politics as they failed to articulate their interests, overcome collective action problems, and lobby the government for policy change. Liberal IR theory would have predicted such a phenomenon, but on the basis of inadequate behavioural assumptions. This theory ascribes utility-maximizing behaviour

<sup>1</sup> Hungarian Ministry of Foreign Affairs, 1999, p. 3

<sup>2</sup> 'Hungary: Torgyan appointed farm minister in new government', *East Europe Agriculture & Food*, 1998, 1 June, p. 1

to all social actors, irrespective of their socioeconomic status, and infers collective action and group influence from such theoretical foundations. If a group of individuals fails to have an impact on policy, this must reflect the poor organization of their common interests, which in turn stems from uncertain and weak preferences.<sup>1</sup> In the case study, we found that the 'objective' interests of subsistence farmers were highly homogenous (certain), and strongly pro-liberalisation (intense), yet these individuals failed to mobilize for collective action. I offered two alternative explanations for this phenomenon: the Olsonian account of interest politics which derived collective action problems from the structural properties of group formation (e.g. large potential membership, shortage of resources to provide selective incentives), and Harry Eckstein's sociocultural explanation which inferred inefficient group action from the properties of 'satisficing' individual behaviour.<sup>2</sup> I demonstrated that the latter account was an appropriate empirical description of the behaviour of Hungarian subsistence farmers, and one that could also account for the lack of these farmers' voice in the postsocialist debate on land ownership.

In contrast to the predictions of liberal IR theory, the case study also found that party politics played a substantial role in postsocialist policy-making. In 1991-1992, the conservative parties managed to impose their political preferences on the cooperative sector by redistributing the assets and land of collective farms to private owners. In 1994, the conservative parties followed up this act by adopting a legislation which excluded large corporate farms and restructured cooperatives from the emerging land market. In 1997, the socialist and liberal parties made an attempt to overturn this legislation, but were defeated by a rival interest coalition of conservative parties and private farmer groups. Finally, in 1999, the conservative parties announced a policy reversal on land ownership regulations, and returned to the status quo of 1994. These events could not have been predicted by liberal IR theory because its explanation of national preference formation lacks a theory of (party) politics. As shown in the introduction, liberal theory conceives of representative institutions as the critical 'transmission belts' which translate differentiated social interests into state policy.<sup>3</sup> Given that socioeconomic group competition is seen as the sole arena in which state preferences are formulated, the liberal view cannot accommodate actors which compete in the political sphere to realize interests other than those of their socioeconomic constituencies. The liberal view of the state as a representa-

<sup>1</sup> Moravcsik, 1998, p. 36

<sup>2</sup> Olson, 1982, Chapter 2; Eckstein, 1991, pp. 75-78

<sup>3</sup> Moravcsik, 1997, p. 518

tive institution of societal interests, rather than an arena of competition for political parties, follows from this over-simplified version of politics.

On this basis, I would argue that the explanatory leverage of liberal International Relations theory could be greatly improved if it developed a theory of political exchange distinct from socioeconomic group competition. In my proposed model, political parties would be autonomous actors which pursued the goal of reelection, and promoted distinct values so as to distinguish themselves from other parties on the political scene. The goal of reelection is self-explanatory. Furthermore, this assumption is fully in line with the 'strong rationality' assumption of liberal IR theory. As for the promotion of values, I believe this assumption is also necessary because distinct values allow voters to identify the party they wish to vote for, and parties to define those priorities they wish to concentrate on once in government. Such a modification would allow for the inclusion of partisan political interests in the process of national preference formation. If the partisan goals of the government are consistent with the interests of powerful economic interests, an interest coalition along the lines of the Hungarian 'protectionist interest coalition' will ensue. If the government favours rewarding constituencies other than powerful socioeconomic groups, a case we did not see in the Hungarian scenario, policy will reflect this choice, rather than the interests of powerful socioeconomic actors. Given that electoral preference aggregation plays a key role in the formulation of state preferences in democracies, such an analytical refinement would allow liberal theorists to explain short-term policy outcomes which differed from long-term policy positions dictated by economic efficiency.

Finally, we noted the strategic use which rival interest coalitions made of political institutions in their quest for policy influence. In the Hungarian scenario, institutions played a complex role in shaping policy outcomes on the question of land ownership. On the one hand, they made up the 'rules of the game', i.e. the decision rules which allowed government parties to impose their political preferences on rival socioeconomic interests. In 1991-1992, 1994 and 1999, the conservative parties were able to define the outcome of policy due to decision rules which vested legislative power in the government. On the other hand, political institutions were employed as a strategic resource by actors which hoped to challenge the dominance of the parliamentary channel of policy-making. In 1997, an interest coalition of conservative parties and private farmer groups successfully defied the government bill which sought to liberalize the land market by resorting to the 'referendum venue' to change the outcome of policy. While all four of these events demonstrated the strategic use of institutions, it is the last one which merits particular attention. In 1997, policy-making was wrenched from its parlia-

mentary course, i.e. from the arena dominated by the government, and subjected to the 'democratic constraint' which informed the behaviour of all political parties, whether in government or opposition. Losing the referendum on an issue as emotive and controversial as the land question would have implied the government's defeat in the upcoming general elections, and the socialist-liberal coalition swiftly withdrew its bill from parliamentary debate (as the opposition expected). What this event demonstrated was the superiority of parties' desire to get reelected over the necessity to reward powerful economic constituencies—the large corporate and collective farms in the Hungarian scenario—through the making of policy. In short, the 'democratic constraint' trumped 'socioeconomic constraints' as the chief organizing principle of government behaviour.<sup>1</sup>

In conclusion, we saw the usefulness of liberal International Relations theory in explaining the underlying preferences of social actors in the Hungarian policy-making arena. I showed that this was only half the story, and that one could not explain the outcome of policy without an understanding of the behaviour of political actors which participated in policy formulation. I described the strategies which actors employed in order to influence policy, and showed the political formations which sprang from the collusion of private and public interests in the policy-making arena. Rationality and pluralism were necessary components of this explanation, but could not describe the complex reality of preference formation in an empirical setting. The answer in this case lies in refining existing assumptions about the process of national preference formation, rather than the outright rejection of the theory. With qualifications, liberal IR theory passed the test.

<sup>1</sup> For a defence of liberal assumptions of government behaviour, refer to Moravcsik, Andrew, 'Liberal Intergovernmentalism and Integration: A Rejoinder', *Journal of Common Market Studies*, Vol. 33, No. 4, December 1995, p. 614; Moravcsik, 1998, p. 36.

## The Limits of EU Boundaries: the Impact of External Conditionality in EU's Attempts to Combat Tax Evasion

*Christophe Bonte*

### **Abstract**

The argument underlying this article is that Switzerland, together with some European micro-states like Liechtenstein and Monaco, even though they are not members of the EU, are part of the direct sphere of influence of the EU, and perhaps more than just influence, whereas they are not in a formal process of enlargement. To demonstrate this hypothesis, the paper focuses on the external dimension which has emerged in the negotiation process concerning the adoption of the proposed European Community (EC) directive on the taxation of savings, whose aim is to tackle tax evasion, and has culminated in the political compromise reached at the Feira European Council in June 2000 with the inclusion of an 'external conditionality mechanism'. Even though this will make the eventual adoption of the directive highly problematic, it nevertheless shows how the influence and authority of the EU makes itself felt on non-members, how these boundaries are constantly shifting, and how shallow is the distinction between member and non-member in an issue as crucial as tax policy.

### **Introduction**

The external capability and influence of the European Union (EU) is considerably growing on areas like taxation and financial affairs. This article aims at discussing the extension of EU influence or even governance 'beyond its boundaries' in fiscal matters and more specifically in the field of combating tax evasion. The intention here is not to construct a new theoretical framework of analysis, but to rely on some existing and simple concepts such as 'governance' and 'boundaries', as already described and used by scholars (Smith, 1996a; Friis and Murphy, 1999), to emphasise how much the EU system has grown outside the membership line. The current EU domestic debate on the adoption of a European Commission proposal for a Council directive on the taxation of savings provides a genuine case study from the standpoint of political science.

Combating tax evasion has become a top priority in the international agenda setting. Tax havens and bank secrecy legislation are first concerned. The EU, while reflecting the same concerns that the Organisation

for Economic Co-operation and Development (OECD) has expressed,<sup>1</sup> made a solution to this problem a priority still before the 1992 Single Market objective. It has taken the EU years of arduous bargaining up to its summit in Santa Maria da Feira (Portugal) in June 2000 to adopt a common regime for tackling tax evasion. But it may never come into force. Since tax evasion is intrinsically a matter which escapes national boundaries, the question arises of how to deal with third countries (i.e. non members). Indeed, the only way the EU scheme will work is if rival financial centres, of which Switzerland is the most important, agree to co-operate. Switzerland was thus taken by surprise when the EU agreed to outlaw tax evasion by exchanging information on non-resident savings income so it could be taxed in the country of origin.

The argument underlying this article is that Switzerland, together with some European micro-states like Liechtenstein and Monaco, even though they are not members of the EU (they are not represented in the key institutions, do not pay dues, and are not legally obligated to enforce EU laws), are part of the direct sphere of influence of the EU, and perhaps more than just influence, whereas they are not in a formal process of enlargement. To demonstrate this hypothesis, the paper focuses on the external dimension which has emerged in the negotiation process concerning the adoption of the proposed European Community (EC) directive on the taxation of savings and has culminated in the political compromise reached at the Feira European Council with the inclusion of an 'external conditionality mechanism'.

By observing the developments of the debate within the EU, it appears that third countries and EU dependent or associated territories will have no choice but to adopt the EC legislation that is being built. Empirical evidence will show how the EU system is extending to neighbouring third states, by making the entry into force of EU legislation conditional on these countries adopting a common regime, while they are not in a process of preparation for Union membership, contrary to the Central and Eastern European Countries (CEECs) or Cyprus and Malta which are engaged in "voluntary harmonisation" (Evans, 1997).

<sup>1</sup> Following a brief report in 1985 (OECD, 1985), the Organisation, through its Committee on Fiscal Affairs, issued on 12 April 2000 a more consequent report on *Improving Access to Bank Information for Tax Purposes* (OECD, 2000). It has also signalised by publishing in 1998 a report on *Harmful Tax Competition* which contains fifteen recommendations, among which three demand a better access to banking information for tax purposes (OECD, 1998). Note that Switzerland and Luxembourg abstained on the approval of the 1998 report.



This article is splitted into five parts: first, some theoretical concepts, based on the recent literature on 'governance' and 'boundary' are briefly discussed. Part two shows that Switzerland is under growing pressure because of the attractiveness of its financial centre. The third part describes, through an historical perspective, the emergence of an external dimension within the EU debate concerning the taxation of savings. We observe that third countries have gradually and indirectly played a major role in the EU bargaining process. We see that a strictly domestic Community debate has been extended to 'non-actors' with whom the EU is seeking to obtain a global agreement. Following these empirical observations, part four analyses some of the reasons which may explain the emergence of such a dimension. In a fifth part, the impact of this external dimension is discussed under the form of a theoretical proposition: the 'external conditionality mechanism'. In the same time, its implications for third countries and especially Switzerland are studied. A special focus is made on the tax compromise reached at the Feira European Council as it is the last and most concrete illustration of our hypothesis. On these basis, the concluding section assesses if EU boundaries are extending or if they are reaching some limits.

#### Theoretical concepts of analysis

The article relies on simple theoretical notions already developed by some scholars and which helps us conceptualising this new trend in the external capabilities and influence of the EU. When we say that the system of the EU goes far beyond its territory (including the fifteen member states), the word 'system' is used in a large sense and refers above all to the definition given by Friis and Murphy according to which the EU is seen as a system of governance comprising a capacity to act, authority, resources and legitimacy (Friis and Murphy, 1999: 14-15). The extension of the EU system to third countries, in other words "the ways in which the EU structures and shapes the boundaries between itself and the broader European arena" (Smith, 1996a: 5), means that the EU extends some sort of 'governance' beyond the membership line.

Friis and Murphy refer to the work of Smith (1996a), who uses boundaries to understand the linkage between the EU and the overall European order. According to Smith, the notion of 'boundary' implies "a disjunction between an entity (the EU) and its environment (the European order)", that is

a break between two independent systems (Smith, 1996a: 13).<sup>1</sup> “‘Governance’ is no longer simply produced by nation-states, but also by the EU in response to the need for ‘collective problem-solving’ beyond the nation-state” (Friis and Murphy, 1999: 214, making reference to several other scholars). Tax evasion, by definition, is a phenomenon which goes beyond the nation-state. A collective action is necessary to combat it. This is the reason why the EU, driven by member states like Germany, has started to develop some sort of policy in this field.

By discussing “the ability of the EU to draw, to maintain or to modify a boundary between itself and the more general European order” (Smith, 1996a: 12), Smith shows how boundaries are not limited to the territory of the Union.<sup>2</sup> For example, EU models of governance may be exported through voluntary imitation by other states (see for example Evans, 1997) or by the conditional nature of EU external action which requires acceptance of certain norms and procedures by outsiders (Friis and Murphy, 1999: 216).

Friis and Murphy have recently well summarised the interactions between governance and boundaries by applying them to the EU-CEECs relations, thus explaining the politics of enlargement. By criticising the governance school which has only focused on territorial or political space within the Union, they have stressed that the development of governance ‘beyond the EU’ has been neglected (Friis and Murphy, 1999: 213). Both concepts of ‘governance’ and ‘boundary’ are strongly linked: “the malleability of EU boundaries provides it with both opportunities and incentives to extend governance to its European neighbours” (Friis and Murphy, 1999: 213). This article analyses to which extent the EU has gone ‘beyond its boundaries’ in the field of direct taxation and the effects of this ‘malleability’ on third countries. Conversely, as argued by Smith in the article of Friis and Murphy, the ways in which the EU handles its boundaries also have effects on governance within the EU in the sense where external developments and external actors become part of the EU bargaining process. The concept used here is called the ‘internalisation’ effects of external action (Friis and Murphy, 1999: 217).

Friis and Murphy use the theoretical concepts above mentioned to study the EU’s relations with third states which are in a formal process of enlargement. Indeed, the CEECs have no choice, but to adopt the *acquis*

<sup>1</sup> Smith specified that the “concept of ‘boundary’ is distinct from that of ‘frontier’, given its implications of construction, maintenance and surveillance” (Smith, 1996a: 13).

<sup>2</sup> Smith distinguishes four types of boundaries: geopolitical, institutional/legal, transactional and cultural boundary (Smith, 1996a: 14-18).

*communautaire* if they want to join the club. A pre-accession strategy (comprising the completion of the Europe Agreements, financial aids, etc...) has been developed to help them reaching this goal. In contrast, third countries which are concerned by the extent of EU governance in fiscal matters were deliberately making part of the EU sphere or zone of influence without being in a formal process of enlargement. Switzerland is not interested to join the EU for the time being, and Liechtenstein enjoys its European Economic Area (EEA) membership. Part three of this article brings empirical evidence of the new capacity of the Union to extend its system 'beyond its boundaries' and the strength of its influence outside its territory.

#### EU pressures on third countries: a case study

Before examining this new phenomenon consisting in the emergence of an external dimension in the EU fiscal policy that is being built, it is necessary to understand briefly why Switzerland is the very first target and why it has felt greatly concerned by the issue, as it might indeed threaten the future existence of its financial centre. No one ignores that Switzerland has developed into a major centre for international financial transactions. Analysts agree that it is the world's largest "off-shore" centre for private banking. It is estimated that banks in Switzerland manage assets amounting to CHF 3,000 billion, half of which comes from foreign private and institutional clients. As far as internationally managed assets are concerned, the Swiss banks account for approximately one third of the world market (DFAE, 1998: 2).

Though a lot of factors have contributed to make the Swiss financial centre so attractive and successful (see Christensen, 1986: 1; Carey *et al.*, 1999: 9), its long tradition of bank customers' privacy protection – or bank secrecy – has so far played a major role in attracting foreign capital inflows. There is no exaggeration saying that financial markets in Switzerland have largely benefited from the existence of a strict banking secrecy enshrined into the law since 1934.

But banking secrecy is far from being unique to Switzerland. Luxembourg and Austria also have almost identical legislation. Some other EU states like Belgium, Germany, Great Britain or even France also practice some sort of banking secrecy. However, there are two differences which make the Swiss banking secrecy more strict: first, its violation constitutes criminal offence and penalties are relatively severe; and second, banking secrecy can be lifted only for offences that constitute a crime in Switzer-

land, which tax evasion is not (Swoboda, 1992: 191). The Swiss have already largely modified their legislation on insider trading and money laundering, which was often considered as being too lax, but they were successful in preserving the hard core of banking secrecy, i.e. in the field of tax evasion. This is the reason why Switzerland is under increasing pressure (not only from the EU, but also from other international fora like the OECD, the G-7, the IMF, the Forum for Financial Stability) and that it is first targeted in policy rules issued by these organisations concerning the fight against tax evasion, notably through the abolition of bank secrecy.<sup>1</sup>

Putting pressure on Switzerland alone might have been interpreted as if this country, even though it is the world's largest "off-shore" centre for private banking, was the only one competing with EU financial centres like Luxembourg or London. So, the EU decided to add on its list of countries which should co-operate the Principality of Liechtenstein,<sup>2</sup> Monaco, Andorra and San Marino. This article focuses more on Switzerland as others are more considered here as micro-states.

#### The emergence of an external dimension in the EU debate on the taxation of savings: historical development

Among the four freedoms of movement (persons, goods, services and capital) which were at the basis of the realisation of the common market, the liberalisation of capital movement within the EC has had implicit repercussion beyond EC/EU boundaries. Some member states, like France and Italy, made the approval of this liberalisation conditional on the Commission presenting proposals aiming at avoiding tax evasion – for instance through an harmonisation of withholding taxes on income from capital (Swoboda, 1992: 197).<sup>3</sup> In order to calm these fears, an additional paragraph was added to the capital movements directive before it was passed in 1988.<sup>4</sup> It instructed the European Commission to make proposals on how to prevent tax evasion (Genschel and Dehejia, 1999: 412). Thus, the first Commission

<sup>1</sup> Note that the attractiveness for Swiss banking secrecy is reinforced by the fact that money puts in foreign accounts in a Swiss bank is not submitted to any withholding tax.

<sup>2</sup> Concerning pressure exerted on Liechtenstein, see for example "Liechtenstein als 'Made im Speck'? Kleine Länder im Visier der EU-Finanzminister", *Neue Zürcher Zeitung*, 29 February 2000.

<sup>3</sup> See also point 6 of the preamble to the proposal for a Council directive, which considers that this scope for tax evasion "is creating economic distortions which are incompatible with the existence of the internal market" (*COM (98) 295 final*).

<sup>4</sup> Council Directive 88/361/EC of 8 July 1988.

proposal for the taxation of income from individual savings dates from 1989 (*COM (89) 60 final*). It suggested a withholding tax at a minimum rate of 15 per cent. But it did not win the unanimous agreement of the member states (Genschel and Dehejia, 1999: 412-13).

In 1993, the Belgian and then the German Presidency made a bid to revive the 1989 taxation initiative. They were indeed first concerned with the issue. Belgium, mainly because of its burdensome taxation, and Germany, since it had levied a withholding tax in 1989, suffered from tax evasion. The Belgian Finance minister came up with a compromise proposal to allow the co-existence of two systems, while his German counterpart promised to negotiate equivalent savings-tax agreements with Switzerland and, within the OECD, with the USA. But other member states did not feel concerned and proposal for savings taxation was not discussed any more until 1997.

At the request of the Luxembourg Council Presidency in the second semester of 1997, the Commission submitted a paper in the form of a proposal for a tax package to tackle harmful tax competition called "Towards tax co-ordination in the European Union" (*COM (97) 495 final*). The four components of this package were: a code of conduct for business taxation, the taxation of savings income in the form of interest, the elimination of withholding taxes on cross-border interest and royalty payments between companies and some indirect tax elements. But both Luxembourg and the United Kingdom (UK) started to raise strong objections concerning the future directive on the taxation of savings, fearing their respective financial centres might be jeopardised.

On 5 November 1997, the Commission made a Communication to the Council and the European Parliament (EP) which gave some preliminary, but concrete, elements for a minimum Community solution in the area of the taxation of savings (*COM (97) 564 final*, annex 2). To avoid the failure of 1989, it was suggested that the future directive would be limited to non-resident individuals and based on a co-existence model allowing member states to opt either for applying a deduction at source, through the system of paying agent (normally a bank), or for communicating information on savings interest income to foreign nationals' home tax authorities. But, aware of the potential effects of such a decision in a context of competition between (European) financial markets and the inherent risk of a flight of capital to outside the EU, the Commission asked member states to promote the adoption of the future directive in their dependent or associated territories and also think about extending its content "beyond Community borders" (*COM (97) 495 final*, point 19). Without being explicitly mentioned, Swit-

zerland was first targeted.<sup>1</sup> While member states agreed to the tax package at their Council of Economic and Finance ministers (ECOFIN) on 1<sup>st</sup> December 1997, the implication of third countries in the Community harmonisation process became more and more obvious. In its conclusions indeed, the Council emphasised the need to preserve the competitiveness of European financial markets, and stated that the basic principles of any directive on the taxation of savings should be adopted as widely as possible; whereas, to this end, the Community must enter into negotiations with important third countries (*Official Journal of the European Communities* C 2, 6 January 1998).

A second formal European Commission proposal on taxation of cross-border savings income within the EU was finally presented to the Council on 20 May 1998 (*COM (98) 295 final*). It suggested that in the co-existence model, the alternative to the exchange of information between national tax administrations would be a withholding tax with a minimum rate of 20 per cent. Contrary to the first proposal of 1989, the new proposed directive explicitly states that the Community shall enter into negotiations with its “main third country commercial partners” (see article 11)<sup>2</sup> and its annex is even clearer as it stipulates that member states “should promote the establishment of equivalent measures in dependent or associated territories” (article 2) “as well as third states” (article 1). The introduction of an external dimension in the debate at the legal and political level could not be ignored any more. Since then, member states, supported by interest groups from the banking sector to the trade unions, have made a solution with third countries a necessary condition to the endorsement of the directive.

While negotiation on the other elements of the tax package progressed quite quickly, those on the taxation of savings moved on very slowly. Unanimity is still required to adopt Community legislation in the field of taxation. The Treaty of Nice did not change the rule. Nevertheless, the ECOFIN Council on 1<sup>st</sup> December 1998 produced a new impetus: recognising the importance of the external aspect of the directive, it gave the Commission a mandate to carry on “exploratory talks” with Switzerland. Discussions

<sup>1</sup> Commissioner Monti reiterated its interest for an harmonised system of taxation of savings between the EU and its neighbouring countries to the Swiss Minister of Economic Affairs, during a visit to Strasbourg in May 1998.

<sup>2</sup> Article 11 of the proposed directive states that “The Community shall enter into negotiations with its main third country commercial partners either on a bilateral or on a multilateral basis, in order to ensure the effective taxation of income from savings covered by this Directive which is paid to residents for tax purposes of the Member States by paying agents established in such third countries” (*COM (98) 295 final*).

should include: a minimum rate on taxation on savings at international level, identification of equivalent measures which could possibly be taken and the possibility to adapt to the Community paying agent system.<sup>1</sup> Talks have been launched for the first time on 2 March 1999 when Commissioner Monti and a troika delegation (Germany, which headed the rotating Presidency of the EU, Austria and Finland) came to visit to Bern. Exploratory contacts also took place at the same time with Liechtenstein, Andorra, Monaco and San Marino, while they were envisaged with the United States (US) and Japan, but never began. On 15 March 1999, ECOFIN ministers qualified talks with Switzerland as positive. The Swiss government promised not to make a tax haven of the country if the directive is implemented within the EU and that it will accept to co-operate but only within its national legislation. In other words, this implicitly means that bank secrecy is not up for negotiation (DFAE, 1999). The Swiss government and banking community could easily rely on this position. Indeed, despite pressures linked to these exploratory talks, member states' views on the content of the future directive were still very divergent. And it was out of the question for third countries to weaken their position as long as EU member states were making no significant progress into their domestic negotiation process.

But things accelerated when the British decided to force their solution. At the informal ECOFIN Council in Turku (Finland) on 10 September 1999, the UK presented to its partners its position paper on *International Bonds and the Draft Directive on Taxation of Savings* (HM Treasury, 1999). While this document asked for serious exemptions concerning a withholding tax for the flourishing eurobond market in the City, the Treasury paper also repeated the British view to combat tax avoidance would be best achieved through an international exchange of information, which Luxembourg (and Switzerland) are not ready to accept. It even explicitly accused third countries with banking secrecy from preventing a solution to tax evasion based on this view.<sup>2</sup> This was an additional sign that the British wanted Switzerland to set aside its banking secrecy. In the same time, both Luxembourg and the UK, as well as Austria, stressed again that a condition for the entry into force of the future directive would go through the adoption of similar provisions by EU neighbouring third countries. But this argument was formally rejected by Germany, Italy and France, the three main countries

<sup>1</sup> Agence Europe, *Bulletin Quotidien* No. 7354, 2 December 1998.

<sup>2</sup> See point 14 of the Treasury paper.

which urged to implement an EU-wide withholding tax on interest from private savings as soon as possible.

The Helsinki European Council on 10-11 December 1999 could not break the political deadlock. After acrimonious talks, governments heads agreed to delay decisions on the controversial proposal for another six months pending further study by a 'High Level Working Group', made of representatives of member states and the Commission. But Britain continued to argue that this proposed directive will not allow to combat tax evasion. It wanted a system of exchange of information between tax authorities instead of a minimum withholding tax on non-resident savings. In this perspective, the Treasury presented a second position paper in February 2000 called *Exchange of Information and the Draft Directive on Taxation of Savings* (HM Treasury, 2000). According to the British government, this exchange of information needs to be automatic and, to be effective, will need to apply in financial centres beyond the EU. It will also requires countries with strict bank secrecy laws to soften them.

By April's 2000 informal ECOFIN Council in Lisbon, the UK felt sufficiently confident of growing support from other states to begin pushing hard its idea that an EU-wide information exchange system should be the ultimate goal. The result was that it was not the UK any more but Luxembourg and Austria, facing demands to give up their long-standing tradition of banking secrecy, that were uncomfortably isolated and put on a defensive position. The fact that the OECD just published its sensitive report on *Improving Access to Bank Information for Tax Purposes* (OECD, 2000) is no coincidence at all, as some observers noticed.<sup>1</sup>

Rather surprisingly, a political compromise was finally reached under the Portuguese Presidency at the Feira European Council on 19-20 June 2000. It states that "(...) exchange of information, on wide as basis as possible, shall be the ultimate objective of the EU" (ECOFIN Report to the European Council, point 2a)). The so-called 'co-existence model', which was considered as the 'corner-stone' of the proposed directive and on which all fifteen EU member states agreed in December 1997, will disappear no later than 2010. In order to agree on the compromise, Luxembourg requested guarantees that the EU would launch talks with financial centres outside the EU. That left only Austria. Ditching its banking secrecy rules would mean a

<sup>1</sup> Rainer Hellmann (2000) wrote that "In der OECD hatten die Briten bereits gut vorbereitet. Sie sitzen sowohl in der EU als auch der OECD mit ausgezeichneten Experten an den Schalthebeln der Steueraussschüsse" ('Informationsaustausch contra Bankgeheimnis', *EU Magazin*, No. 6, p. 14).



change in the constitution requiring a two-thirds majority in parliament. A solution was finally found under the form of a statement guaranteeing Austria the right to keep its existing withholding tax and banking secrecy for its residents, and greater time to make the necessary constitutional change.<sup>1</sup> Thus, Austria and Luxembourg did not oppose their veto and the solution was finally welcomed by all fifteen EU member states.<sup>2</sup> After agreement has been reached by the ECOFIN Council in November 2000 on the substantial content of the directive (types of interests covered, rate of the withholding tax, length of the transition period, methods of information exchange) and before its adoption, negotiations could start with Switzerland and other key third countries to promote the adoption of "equivalent measures" in those countries. The Swedes have said they will enter into discussions with Switzerland before the end of their Presidency on 30 July 2001.

#### Why such a strategy?

The strategy consisting of including an external dimension in the Community debate is twofold. Even though actors are not unitary and their preferences not identical, this is this new convergence of interests that brought about consensus.

On the one hand, member states and the European Commission have kept on repeating that a directive on the taxation of savings would not achieve its goal as long as other major financial centres outside the EU do not adopt similar system. That is the reason why, in order to preserve the competitiveness of European financial markets (as stated in *COM (98) 295 final*, point 22 of the preamble),<sup>3</sup> they argue for a pan-European cooperation. Indeed, it became clear that financial places like Luxembourg or London did not want to lose market shares in favour of their external rivals such as New York, Zurich or Geneva. If the UK and Luxembourg have agreed to make some concessions at the EU level, by mentioning a possible ease of banking secrecy in a near future for the latter, there must be a compensation mechanism in order not to diminish the attractiveness and competitiveness of their financial centres. This explains why Britain, Lux-

<sup>1</sup> See statement No. 8 of the Council minutes annexed to the ECOFIN report presented to the Feira European Council.

<sup>2</sup> For details, see Neil Buckley, "How the Lisbon breakfast club broke the deadlock", *Financial Times*, 20 June 2000.

<sup>3</sup> The legitimacy of this objective is still very controversial and has given rise to many position papers from several actors including some member states, different think-tank organisations, numerous lobbies as well as academic scholars.

embourg, Austria, together with Belgium and Greece, often insisted on extending the scope of the directive to third countries, Switzerland being first targeted.<sup>1</sup> If the strategy of countries like Luxembourg and Austria is to offer to sacrifice their banking secrecy only if Switzerland follows suit, this will place Switzerland in a very uncomfortable position.

On the other hand, the most insistent member states were also fully aware of the difficulty of including third states in a Community negotiation process. By adding such a new constraint, it might be so that they wanted to paralyse the whole process and finally delay, or even prevent, the adoption of a directive they have never valued from the beginning.<sup>2</sup> We may consider this strategy as an 'exit' opportunity enabling member states not to show explicitly their reluctance to deal with the issue of tax evasion either at the EU level (like Britain)<sup>3</sup> or in general (like Luxembourg and, in some aspects, Austria). In this case, countries like Switzerland, Liechtenstein or Monaco might serve as 'scapegoat' in a planned failure. Indeed, they might be taken for responsible of a failure at the EU level if they do not agree to co-operate or if this co-operation fails.

It must nevertheless be noted that the external element of the directive was not seen as a priority by all. Both France and Germany, which are strongly leading on the quick adoption of a Community legislation in this field, together with Italy, consider that an agreement with third states should be seen in the long term as a welcome contribution to the process, but not as an obligation. For them, the external argument should neither be used to delay the implementation of the directive, nor should third states interfere in the EU internal negotiation process.<sup>4</sup> But this opinion has not prevailed. In fact, we do not know which of the two strategies – the one which emphasises the need for co-operation in order to make the directive effective or the one which aims at preventing any directive to be adopted – is used. But one thing is sure: in both cases, the EU has brought Switzerland in its game.

#### The impact of the external dimension: the 'external conditionality mechanism'

<sup>1</sup> Agence Europe, *Bulletin Quotidien* No. 7730, 3 June 2000.

<sup>2</sup> Geoff Winestock wrote in *The Wall Street Journal Europe* on 21 June 2000 that the "compromise puts off action against tax evasion for years".

<sup>3</sup> In its position paper of September 1999, the British Treasury emphasised that, in its view, "third countries are very unlikely to apply equivalent measures, regardless of the eventual coverage of the Savings Directive" (HM Treasury, 1999: point 17).

<sup>4</sup> Agence Europe, *Bulletin Quotidien* No. 7730, 3 June 2000.

After empirical evidence of the emergence of an external dimension in the negotiation process concerning the taxation of savings, this part turns to the impact of such a dimension. Involving third countries has become a top priority for solving the problem of tax evasion within the EU and a key element for breaking the political deadlock. The new element is that association from non-EU financial centres has become now a pre-condition for the adoption and implementation of a Community directive on the issue. We call this the 'external conditionality mechanism'. This inclusion of third countries in the EU sphere of interest should be distinguished from the EU-CEECs relations as analysed by Friis and Murphy (1999). CEECs are engaged in a formal process of enlargement and, thus, are committed to adopt the *acquis communautaire* as a pre-condition for EU membership. In contrast, Switzerland and some European micro-states are not in a process of enlargement at all, but nevertheless are under pressure to comply with future EU rules. Last developments in the EU debate on the taxation of savings tend to confirm the main argument of this article according to which those non-EU member states are part of the direct sphere of influence of the Union and might have no choice but to co-operate. The theoretical concepts briefly presented in the first part should help us demonstrating the nature and implications of this 'external conditionality' and finally corroborating our hypothesis in the concluding section.

The political compromise reached by Heads of States and governments at the European Council in Feira has made co-operation with third countries and EC dependent or associated territories a central element to the success or failure of the EU project. This was an important strategic decision. Indeed, the EU decided to act by avoiding the closer co-operation model (like foreseen in the Treaty of Amsterdam) and thus to include in its plan all the fifteen EU member states as well as key third states. Since then, pressures on Switzerland and other non-EU financial centres have increased. The Presidency of the EU together with the Commission will start negotiations very soon with a specified list of third countries and other territories in order to enhance adoption of equivalent and similar measures in those countries or territories. The deal will then allow two years for consultation. If the consultations are satisfactory and if EU members can reach a unanimous decision by December 2002 on the outcomes of these consultations, the Union would adopt the directive and then move to a final phase in which its members would be given seven years to phase in an exchange of information as their "ultimate objective", thus abandoning banking secrecy no later than 2010.

The 'conditionality mechanism' relies on two crucial principles: (a) the 'non-automaticity' principle consisting in a delay of entry into force of the Community legislation for two years, to allow time to reach agreement with a specified list of non-EU financial centres; (b) the 'unanimity' principle which asserts that "once sufficient reassurances with regard to the application of the same measures in dependent or associated territories and of equivalent measures in the named countries have been obtained, on the basis of a report, the Council will decide on the adoption and implementation of the directive by unanimity" (European Council, 2000). The wording of "equivalent measures" has never been made explicit. But Luxembourg made a statement in the Council minutes in which it considers that "equivalent measures" also include the implementation of exchange of information as being the ultimate objective of the Union (statement no. 6). This might mean that if talks fail because Switzerland or other third countries with strict banking secrecy laws do not agree to exchange information in a foreseeable future, Luxembourg would be able to veto the adoption of the directive, thus putting into jeopardy the whole EU plan.

The 'conditionality mechanism' concerns three categories of actors which are explicitly mentioned in the Feira compromise as being key part of a solution at the EU level: these categories are some important third countries, dependent or associated EU member states' territories and future EU members.

*First target: third countries*

The only immediate practical effect of the deal appears to be that, after the "exploratory talks" from 1999, third countries will now be brought to the table of negotiation. Apart from the US, the report delivered at Feira explicitly mentions Switzerland, Liechtenstein, Monaco, Andorra and San Marino as "key third countries" with which negotiations should start immediately to promote the adoption of "equivalent measures". The 1998 Commission proposal for a Council directive (*COM (98) 295 final*) has never mentioned any specific countries, but their names have regularly appeared in the conclusions of the ECOFIN Council meetings since December 1997 (see part III). Apart from Switzerland, they are all micro-states which have been often considered as "tax havens" by the OECD or other fora in their fight against money laundering. Like for the dependent or associated territories mentioned below, it is not very clear if this list is official and exhaustive or not. For example, why the US – which share EU views on the issue – is the only non-European third country mentioned? Logically, countries like Israel

or independent Caribbean states like the Bahamas, which are often considered as “tax havens” by the US itself, should also be concerned. We may also think of Russia or Japan, the latter being once mentioned for exploratory talks.<sup>1</sup> The limited number of third countries targeted may provoke doubts on the efficiency of the EU planned action. Indeed, if the money getting out of the EU does not come to Switzerland, it will go somewhere else.

*Second target: dependent or associated territories*

While third countries should adopt “equivalent measures”, member states’ relevant dependent or associated territories will have no choice, but to adopt the “same measures” (we spoke only about “appropriate measures” in article 2 of the annex to *COM (98) 295 final*). The difference between “equivalent” and “same” is of high importance as it will oblige member states to find arrangements with their dependent or associated territories in order to legitimate their request for co-operation from third states. Indeed, to convince the Swiss to ‘play the EU game’, the UK, for instance, will also have to play its part. It must also set an example to the rest of the EU in opening up bank secrecy in its dependent territories in Europe and the Caribbean. Here the Council report mentions the “British Channel Islands, the Isle of Man and the dependent or associated territories in the Caribbean” (probably the Cayman Islands, Bermuda and British Virgin Islands). The Netherlands, Denmark and France also have some sort of dependent or associated territories which enter into the scope of the directive. All of them, according to article 299 EC (ex-article 227), are not part of EU territory (Edmond Israel, 1998: 40). But the UK said it has no constitutional power that would enable it to send more than a courtesy letter to its off-shore centres like the Channel Islands (Edmond Israel, 1998: 40; see also *Financial Times*, 27 November 1998).

The British have secured their position by relying on article 2 of the annex to the proposed directive which explicitly states that “member states which have dependent or associated territories (...) are committed to taking appropriate measures, where appropriate within the framework of their constitutional arrangements (...)” (*COM (98) 295 final*). This reserve has not been removed till now. But last developments seem to show that the British government will put pressure on its islands as part of the deal.<sup>2</sup> Gibraltar, together with Madeira and the Canary Islands, is not concerned by

<sup>1</sup> Agence Europe, *Bulletin Quotidien* No. 7354, 2 December 1998.

<sup>2</sup> See *Financial Times*, 25 July 2000.

EU diplomatic action to open negotiations as it is considered as part of the EU territory according to article 299 (4) of the EC Treaty. Like EU members, they will practice the exchange of information in 2010 at the latest, even though everybody knows today that they provide a shelter for tax evasion.

*Third target: future members*

The compromise reached in June 2000 also states that countries wanting to join the EU will have to agree to exchange banking information automatically, as part of the new *acquis communautaire*.<sup>1</sup> Unlike EU member states, they could not benefit from any transition period, allowing them to implement first a withholding tax, then a system of exchange of information. This provision concerns at first countries which are in a formal process of enlargement, namely the CEECs, Cyprus and Malta. This is of importance for these two Mediterranean countries as they both meet the tax haven criteria issued by the OECD in its 1998 report (OECD, 1998). But there are signs showing their readiness to comply with the future *acquis communautaire* in the field of direct taxation: in order not to appear in the follow-up report presented to the OECD Ministerial Council meeting of June 2000, both jurisdictions agreed to eliminate harmful tax practices by the end of 2005.<sup>2</sup> Note that San Marino, with whom the EU wants to talk on the same issue, also said it was committed to do the same. This provision also concerns potential members like Switzerland, whose 1992 EU membership application was frozen after the country rejected the EEA. Switzerland will thus have to abandon its banking secrecy in case of EU membership.

As we can see, implications for the Swiss financial centre are very important. Indeed, one major aspect of the decision adopted at the Feira European Council is that EU member states agreed to abandon their banking secrecy legislation in ten-years time by moving to a system of exchange of information instead of a withholding tax. They made it clear that this scenario will only work if the Union can persuade third countries, Switzerland in the first place, to fully co-operate. Logically, Luxembourg and Austria will drop their bank secrecy only if Switzerland does the same. The question is thus for Switzerland to know (a) if the EU will be satisfied by equivalent measures as currently considered by Switzerland, that is a system of withholding tax identical to the EU one during the transitory period (based on the paying

<sup>1</sup> See statement No. 2 for the Council minutes annexed to the ECOFIN report presented to the Feira European Council.

<sup>2</sup> See point 28 of the conclusions of the 2000 OECD Ministerial Council meeting.

agent system);<sup>1</sup> and (b) if it could keep this system after this period, that is once the EU will practice the exchange of information. This seems impossible in case of membership and very difficult in case of non-membership. A solution will have to be found by negotiation. The Swiss government has expressed its willingness to work with the EU (see DFAE, 1999; *Financial Times*, 1999). But it has made it clear: bank secrecy is not up for negotiation.

Nevertheless, several Swiss analysts said that although the EU compromise is fragile, Bern's secret hope that the Union would fail to harmonise its tax legislation had been dashed.<sup>2</sup> In the short term Switzerland will be confronted with increasing pressure. In the long run its margin of manoeuvre may be rather weak. We may consider that a split between banking secrecy for residents, and lifting of the banking secrecy for non-residents could be a way out. This is what Austria will probably be doing.

A last question is: what will happen if Switzerland does not comply with the EU requisite to adopt a common regime in order to fight tax evasion? We may think of sanctions – even though their type is not defined – towards reluctant member states. But one can also easily imagine sanctions directed towards third countries like Switzerland or Liechtenstein if they start playing the 'rebels'. It has to be remembered that both countries have developed specific forms of relations with the EU through privileged agreements which enable them to participate in most of the advantages of the internal market without being part of the Union: Switzerland has recently successfully concluded an interesting, at least from a Swiss perspective, package of seven bilateral and sectoral agreements with the EU, while Liechtenstein enjoys its EEA membership (Bonte, 1999; Schwok and Bonte, 1997).<sup>3</sup> So, the EU could use these unique forms of integration with third countries rejecting for example Switzerland's firm wishes to open a second round of bilateral talks on topics of high interest for the country.<sup>4</sup> Indeed, the

<sup>1</sup> Switzerland has already such a withholding tax, but it is based on the debiting agent principle and it is waived for fiduciary deposits and foreign bonds.

<sup>2</sup> The German-language *Neue Zürcher Zeitung* (NZZ) newspaper went even further, saying that Luxembourg and Austria had successfully passed the "hot potato" on to Switzerland ([www.swissinfo.org](http://www.swissinfo.org) on 17 July 2000).

<sup>3</sup> Note that Switzerland was not interested in entering into negotiations on the free movement of capital at the time (1993) it submitted its desiderata to the EU for concluding bilateral and sectoral agreements.

<sup>4</sup> These include processed agricultural products and co-operation in the field of statistics, formation, training and youth as well as audio-visual services and environment (Schwok and Bonte, 1997: 41). An association to the Schengen Agreements and to the Dublin Convention on the first seeking country for asylum is also considered.

EU has made it clear that the beginning of new negotiations will depend on the disposal of Switzerland to co-operate on sensitive domestic issues like the taxation of savings and the fight against fraud to the EC budget (mainly through the contraband of cigarettes) (Bonte, 1999: 49-50). But it can also be argued that the Fifteen definitely need a co-operation from Switzerland in order to make their taxation of savings plan successful at the EU level and that they might break once again the principle that third countries shall not expect any *à la carte* treatment.

Some would say that Switzerland (let apart other third countries) will have no choice, but to adapt its legislation to the future Community one. Some others would argue that Switzerland is in a strong position because the EU needs to conclude an agreement with it in order to make its directive effective in tackling tax evasion. It is difficult to predict the outcome of what has been decided at Feira. Nevertheless, this clearly outlines how non-EU members are more and more becoming part of the direct sphere of influence of the Union. Moreover, the fact that neighbouring third countries are more and more considered as obstacles to the EU integration process in general and to the good functioning of the internal market in particular, and that they have to adapt, if not adopt, to the EU system might also be interpreted, by some, as an authoritative, if not imperialist, behaviour towards non-members. Of course, this article does not aim at promoting such an assessment. Besides, it should not be forgotten that the problem of tax evasion needs a collective solution which goes beyond strict boundaries. Nevertheless, this new kind of behaviour in particular, and the perception of third countries by the EU in general, still needs to be deeply analysed.

#### Conclusion: extension or limits of EU boundaries?

EU boundaries are moving. As Christiansen states it, "the external borders of the European Union are becoming increasingly difficult to delineate as it exports policies to states beyond its own membership. While the EU possesses a clearly defined membership, its borders are rather 'fuzzy'", thus creating what he calls the European Union's 'Near Abroad' (Christiansen, 2000). Our case study shows that non-EU members like Switzerland and some micro-states are, notwithstanding their independence in the international system, in the direct sphere of influence of the EU. What is new is that these countries, unlike the CEECs or some Mediterranean countries like Cyprus and Malta, are not in a formal process of enlargement and thus



have no obligation to adopt the EU system. So we cannot speak about what Christiansen calls 'policy export' (Christiansen, 2000) yet. Nevertheless, it is clear that the EU has developed significant influence and power on some neighbouring key third countries in its fight against tax evasion. And it might be that in the long run Switzerland will have no choice but to adopt the generalised system of exchange of information which might finally prevail within the Union, normally in 2010. If this happens while Switzerland has not joined the EU yet, we might use the concept of 'policy export' to the 'near abroad' to describe this new trend.

To underline these new developments, this article has focused on the emergence of an external dimension in the debate surrounding the adoption of a European Commission proposal for a directive on the taxation of savings (*COM (98) 295 final*), whose aim is to tackle tax evasion within the EU. At the time the proposal was made, the necessity of a co-operation from third states was already taken into account. But for long, it was difficult to predict any positive outcome considering the hard discussions between EU member states on other aspects of the directive. So, the Swiss government and the banking community long relied on this observation in order to attenuate the pressure exerted on its financial centre. But this external dimension took a new importance when the European Council put an end to the political deadlock in Feira in June 2000. From now on, third countries have become a key part of the compromise at the EU level through the 'conditionality mechanism': the adoption and implementation of the directive will definitely depend on the adoption of equivalent measures by key third countries.

On the basis of the theoretical concepts discussed and the empirical developments analysed in this article, the following conclusions concerning the 'boundaries' of the EU can be drawn: first, pressures exerted on Switzerland tend to confirm that a new step in "the ways in which the EU structures and shapes the boundaries between itself and the broader European arena" (Smith, 1996a: 5) has been taken. Before, to secure the deepening of the EU integration process, a strict maintenance of existing boundaries was necessary. Now, in order to preserve the good functioning of the single market, the EU is more likely to extend 'beyond its boundaries' and thus to externalise its integration towards third countries.

Second, when boundaries are moving, it makes the EU system extending, thus creating a new 'EU zone' which is definitely larger than the membership line. This 'EU zone' is characterised by some principles that should be accepted and respected by all. The CEECs, for instance, had to fulfil

some political criteria for membership which were decided by the Union at the Copenhagen European Council of June 1993. These concern a commitment to democracy, respect for the rule of law and human rights and protection of minorities. We now observe that new economic and financial criteria are emerging like the commitment to combat money laundering and to fight against tax evasion by exchanging banking information between tax administrations. This may be considered as logical in a context of gradual integration aiming at joining the EU. But these interference with non-members which are not in a formal process of enlargement and thus are not obliged to adapt to the EU internal developments is something new. Especially in the field of taxation, which is very closely bound up with the notion of sovereignty.

Third, extending the EU system will strengthen the already existing linkage between internal development and the outside. Indeed, co-operation from third states is more than just a welcome contribution, but is a necessary condition as it subordinates the adoption of the Community directive to the adoption of common measures by third countries. Thus, the decision-making capacity of the EU strongly depends on "adjustment by outsiders" (Smith, 1996a: 23). The importance of Switzerland, Liechtenstein or Monaco as financial centres gives these non-EU actors a considerable weight and makes them taking part, even indirectly, to the EU bargaining process. But when the EU includes third countries in its game, it also takes the risk to internalise an external veto which might put into jeopardy its whole plan. This underlines how the external environment may affect the internal capacity to act (Friis and Murphy, 1999: 213) and how a non-EU member may play a crucial role on the "internal motors and brakes of integration" (according to the wording of Schmitter in Friies and Murphy, 1999: 212). But the effectiveness of this strategy will largely depend on whether EU member states successfully manage to associate countries outside the EU to their new policy of fighting tax evasion as well as on the likelihood – or non likelihood – that, for instance Switzerland, home to more than a third of the world's private banking activity, will co-operate in such efforts by finally adopting the principle of exchange of information.

Finally, even though the insistence of some member sates in including this 'external conditionality mechanism' into the debate will make the eventual adoption of the directive highly problematic, it nevertheless shows how the influence and authority of the EU makes itself felt on non-members, how these boundaries are constantly shifting, and how shallow is the distinction between member and non-member in an issue as crucial as tax policy.



Third Part

**Models**

## Re-Conceptualising Europe: Social Constructivism and EU Enlargement<sup>1</sup>

*John O' Brennan*

### **Abstract**

With the successful launch of the single currency the European Union (EU) is now focused intensely on the second great project of the post-Maastricht agenda – enlargement to Central and Eastern Europe (CEE). After a decade of lofty rhetoric and continued prevarication, the EU committed itself, at the Helsinki summit in December 1999, to a full and inclusive enlargement round. Given the sheer scale of the challenge this represents it should hardly be a surprise that this enlargement has inspired a steady stream of academic publications. But the vast majority of those publications have been empirical. This has meant that analysis of the enlargement process has, as Schmitter has suggested, been taking place in a “theoretical vacuum”. This paper represents an effort to redress the balance in favour of theoretical endeavour. The paper begins by assessing the relative merits of IR theories applied to the enlargement process. Insights from Neorealism, Neoliberal Institutionalism and Neofunctionalism are tested with respect to core propositions on enlargement.

However, it emerges that enlargement represents a puzzle for all of these approaches in that, as Schimmelfennig has suggested, none of them can explain why a process characterized in its early stages by the rational pursuit of perceived interests by EU member states somehow has ended up in a normatively determined outcome with the decision taken by the EU at the Helsinki summit, to open negotiations with all of the candidate countries from CEE. The paper goes on to examine the claims of social constructivism as an alternative explanatory framework. In opposition to the methodological individualism and static conception of identity transformation in international politics offered by rationalists, constructivists emphasize the co-constitution of the material and social worlds and the significance of norms, rules, and values in the international arena. The EU as a densely institutionalized environment seems a natural entity for the application of constructivist theory. With respect to the enlargement process this analysis suggests that the constitutive values of the European Union, predicated on normative understandings of what ‘Europe’ represents, and manifested in the Copenhagen criteria, represent the key building blocks for this enlargement round. This is not to deny the importance of material phenomena such as the ‘national interests’ of the member states. But it is to suggest that constructivism provides a much more nuanced explanation of the enlargement process.

### Introduction

The history of European integration has been one of successive and successful enlargement rounds.<sup>2</sup> Indeed, there is some evidence that there ex-

<sup>1</sup> The term European Union (EU) will be used throughout with reference to the post-Maastricht period. Where a distinction with the old European Community (EC) seems necessary that will be made clear as with the European Economic Community (EEC).

<sup>2</sup> The first enlargement of the European Economic Community (EEC) in 1973 saw Denmark, Ireland and the United Kingdom join; the second (Southern) enlargement brought in Greece (1981) and then Portugal and Spain (1986). In 1990 Germany's Eastern Landers offi-

isted among the founding fathers an ambition to enlarge to “continental scale”. For more than three decades after World War Two, the Cold War stood in the way of the realization of that ambition. But with the demise of the Soviet Union and the loosening of its post-War grip on its Central and East European (CEE) satellites in the wake of 1989’s so-called ‘geopolitical earthquake’, Jean Monnet’s ambition of a European construction stretching from the Atlantic to the Urals suddenly seemed possible. Thereafter, enlargement to Central and Eastern Europe (CEE) gradually made its way to the top of the European Union’s political agenda.<sup>1</sup>

The current enlargement round has garnered an amount of attention in the academic literature on European integration.<sup>2</sup> Indeed, the Intergovernmental Conference (IGC) which concluded with the Nice European Council summit in December 2000, was very much an enlargement IGC<sup>3</sup>, a constitutional conclave convened against a backdrop of rising concern at the institutional implications of enlargement and the failure to address these issues at Amsterdam<sup>4</sup>. Whether the focus is on reweighting of votes in Council, a reconstitution of the Commission, an extension of Qualified Ma-

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cially became part of the EC; the 1995 enlargement round saw Austria, Finland and Sweden join.<sup>1</sup>

The EU is currently engaged in a negotiation with the ‘Associated Countries’ of Central and Eastern Europe (CEE). These countries include: Poland, Hungary, Czech Republic, Slovenia, Estonia, Slovakia, Latvia, Lithuania, Bulgaria, and Romania. Cyprus, Malta and Turkey also have the status of accession candidates but they are not part of the focus of this paper.<sup>2</sup>

For an overall summary of the major issues see: Henderson, K. (ed.), 1999. *Back to Europe: Central and Eastern Europe and the European Union*; Maresceau, M. (ed.), 1997. *Enlarging the European Union: Relations Between the EU and Central and Eastern Europe*; and Mayhew, A., 1998. *Recreating Europe: the European Union’s Policy Towards Central and Eastern Europe*, Cambridge University Press, Cambridge.<sup>3</sup>

See: Hubert Védrine, the French Foreign Minister, on the priorities of the French Presidency with respect to the IGC agenda, *The Irish Times*, 3 July 2000. See also: Quentin Peel, “Mapping Europe’s Future”, *Financial Times*, 18 June 2000.<sup>4</sup>

The EU has continually acknowledged the need for institutional change in preparation for enlargement without actually putting in place any reforms at all. The Copenhagen European Council of June 1993 set down, as a primary condition for accession of the CEE states the “capacity of the Union to absorb new members whilst maintaining momentum towards European integration” (Europe Documents, No.1844/1845, 24 June 1993. Conclusions of the Presidency, Copenhagen Summit). Further, the Essen European Council summit of December 1994 firmly asserted the importance of the 1996/7 IGC “securing the institutional conditions for the proper functioning of an enlarged Union” (Europe Documents, No.1916, 10 December 1994. Strategy for Preparing the Central and Eastern European Countries for Future Accession to the European Union, defined by the General Affairs Council and adopted by the European Council). The 1996 Commission Opinion on enlargement similarly stated: “The EU cannot commit itself to this round of enlargement without making sure that changes, some far-reaching ones, are first made in the ways and means of its operation” (COM (96) 90 Final, 28 February 1996. “Reinforcing Political Opinion and Preparing for Enlargement”). At Amsterdam postponement was the order of the day. Although in the Conclusions of the Presidency, the claim is made that the Treaty “opens the way for the

reconstitution of the Commission, an extension of Qualified Majority Voting (QMV) and how to proceed with 'reinforced cooperation', the shadow of enlargement was *the* decisive feature. Thus familiar arguments about the relationship between 'widening' and 'deepening' were revisited<sup>1</sup>.

While there is acknowledgment that the current enlargement process differs considerably from previous rounds in terms of scale and diversity, academic literature and political commentary has tended to focus on the established preoccupation with widening and deepening. Some commentators claim that the two processes are interconnected while others question whether there exists any discernable relationship (Schneider, 1999:276).

Whatever one's perspective, one has to concede that in broader theoretical terms, enlargement has been under specified and relatively marginalized in European integration theory. In effect, as Schmitter (1996:14) has suggested, analysis of enlargement has been taking place in a "theoretical vacuum" in that enlargement has remained largely outside the corpus of theoretical writing on integration. To the extent that it has been conceptualized at all it has usually been in relation to the broad process of integration or in specific policy domains such as agriculture, regional policy or foreign policy. Other approaches have focused on past enlargements and their impact on European integration.<sup>2</sup>

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launching of the enlargement process" the reality was very different. The institutional changes connected with enlargement (composition of the Commission, weighting of votes in Council) were the subject of a protocol which provided, first, that on the entry into force of the first enlargement, the number of members of the Commission would be reduced to one per member state, provided that, by that date, the weighting of votes in the Council had been amended; second, that at least one year before the membership of the Union exceeded 20, a comprehensive IGC would tackle these questions. Time did not allow the author to include outcome of the Nice Summit in this analysis

The most decisive contribution to the debate being German Foreign Minister, Joschka Fischer's speech concerning enlargement and the "*finalité politique*" of European integration at Humboldt University, Berlin on 12 May 2000. (Joschka Fischer, "From Confederacy to Federation – Thoughts on the Finality of European Integration", Humboldt University, Berlin, 12 May 2000. The Fischer speech in its entirety can be accessed at [www.theepc.be/ChallengeEurope/Communications/Fischerspeech.htm](http://www.theepc.be/ChallengeEurope/Communications/Fischerspeech.htm) But consider also the recent contributions of Giscard D'Estaing and Helmut Schmidt and their call for a "core Europe" as part of a "fundamentally new institutional framework" and Jacques Delors's ideas about an "*avant garde*" pushing forward their level of political integration within a looser and wider confederal structure. For a wide perspective on these debates see the Challenge Europe website at [www.theepc.be/ChallengeEurope.htm](http://www.theepc.be/ChallengeEurope.htm) On enlargement and reinforced cooperation, see: Eric Philipart, *European Voice*, 18-24 May 2000.

For examples, see: Pederson, T., 1994. *The European Union and the EFTA Countries: Enlargement and Integration*, Pinter, London; Redmond, J. (ed.), 1997. *The 1995 Enlargement of the European Union*, Ashgate, Aldershot; Tsoukalis, L., 1981. *The European Community and its Mediterranean Enlargement*, Allen and Unwin, London.

The current enlargement round has seen the usual cost-benefit analyses being propounded (Baldwin, 1994, Redmond, 1997). For the most part, these theory-neutral propositions are concerned with the implications of enlargement for certain policy sectors and the institutional terrain. Most present the widening/deepening relationship in dramatic terms; i.e. the current enlargement round dwarfs all previous initiatives (where incremental policy and institutional adjustment was the order of the day) and demands a decisively new approach on the part of the EU.

The common denominator linking these approaches is the absence of theory: this contribution represents an attempt to address this concern. As such, the key questions to be confronted include the following: What do the main theories have to say or predict regarding enlargement? Why does enlargement come on to the EU agenda? And, when it does, what forces sustain it and drive it forward? Is the process of enlargement driven by political or economic factors? Should enlargement be viewed as a purely material process inspired by implicit cost-benefit calculations of utility-maximizing state actors or as a normative process rooted in ideational factors? The current enlargement round will serve as a test case for the ensuing hypotheses.

The paper is divided into three parts. The first examines the literature on European integration and the dominant theoretical frameworks. It moves on to assess the merits of social constructivism as an alternative to the existing models. Finally, it applies insights from social constructivism to the current enlargement process in order to determine its utility.



## Enlargement and Existing Models

The aim of this section of the paper is to posit the enlargement question within existing frameworks of integration theory and to determine the merits of each *vis-a-vis* the outlined criteria.

In recent years the academic literature on European integration has greatly expanded with a multiplicity of perspectives being employed to theorize developments. With the contributions of rational choice and game theoretical approaches (Braüninger and König 1999, Scharpf 1988, Tsebelis 1990, Laursen 1995); new institutionalism (Pierson, 1994, Mulé, 1999, Bulmer, 1998); multi-level governance (Marks 1993, Marks, Hooghe, and Blank 1996) and policy networks (Richardson 1996, Börzel 1998) a rich and diverse discourse has developed. Few, if any, approaches have attempted to conceptualise enlargement, despite the fact that over the past decade the EU has expanded twice and moved to embrace the CEE states.

The main bodies of theory under consideration are firstly, the neo-neo synthesis (neorealism and neoliberalism), predicated on rationalist concepts of social theory and methodological individualism, with special emphasis on liberal intergovernmentalism; and models that privilege supranationalism, principally neofunctionalism. Together these competing conceptualizations of what the European construction represents have dominated theoretical approaches to integration, notwithstanding recent attempts to develop more sophisticated approaches.

### *Rationalist Theories of International Life*

Rationalist models revolve around the importance of power and interest (or power and preferences) in international life and are essentially state-centric in approach. Rationalism is especially wedded to the premise of individualist social theory, which suggests that in the international states system structure is relatively unimportant and that identities and interests are more or less exogenous to structure. Variants of rationalist thought focus on the importance of physicalism, instrumentalism, materialism and individualism with respect to international life.

These approaches lead rationalists to make assumptions about global political processes. They assume that what exists is material, measurable and observable. Reality is therefore composed of perceptible things external to us; reality is 'out there' to be discovered. This ontological assumption is, in turn, predicated upon a particular philosophy of science (epistemology), which argues that one can only claim to know that which one can measurably observe. This kind of social science, informed by so-called 'logical posi-

tivism' makes it difficult – if not impossible – to consider a world that might, in fact, be socially constructed i.e centred on the importance of variables other than those outlined. No place here for consideration of ideas, norms and culture (Tonra 2000:8-9).

By emphasising market failure and incomplete contracting when explaining international cooperation, rationalists endorse a view of institutions as purposive-efficiency arrangements designed to overcome collective action problems (Wind: 1996:7). The EU is thus conceptualised as a facilitating regime that can help otherwise self-regarding states to pursue given national interests in a world without a leviathan. The two most important branches of the rationalist family to be considered here are neorealism and neoliberalism.

#### *Neorealism and Enlargement*

The international system, in the neorealist perspective, is characterized as a self-help system in which states hold security as their primary concern in order to protect their autonomy. Therefore, the crucial element is changes in the distribution of power in the international system. States worry about the relative gains of others and seek to defend their position in the international power structure. According to Hans Morgenthau (1960), the fundamental national interest of any state is always the protection of its physical, political and cultural identity against encroachments by other nations.

Logically one should assume from this that states prefer not to accede to international organizations as institutional commitments reduce their freedom of action. This entails the risk of long-term losses in autonomy and relative power (Schimmelfennig 1999). At this point one recognizes an obvious flaw in the neorealist approach to European integration – it cannot account for the deep levels of institutionalized cooperation that have evolved over time nor for that matter why states have been willing to make important concessions of sovereignty in the absence of serious threats to their survival.

Regarding EU enlargement, Schimmelfennig (ibid.) suggests that the core neorealist proposition revolves around expansion as a desirable option if it is perceived as a necessary and efficient means of balancing superior power or perceived threats. During the Cold War one could well have argued for a view of successive enlargements of this nature. However, with the collapse of the Soviet threat in the late 1980s and the disappearance of the bipolar world, this type of argument cannot explain why the EU sought to expand to CEE. With the rump Russian state visibly weak (economically and militarily) there hardly existed the type of threat that neorealism suggests would prompt an enlargement preference.

A second problem arises from the presumption of fixed interests. Neo-realist thinking assumes away the possibility of EU member states endogenizing (even in a very limited way) the preferences of their partner states. The determination of what constitutes the national interest takes place in what amounts to an hermetically-sealed domestic environment. One important question arises as to whether states are capable of 'irrational' action. In other words, do states sometimes act in a manner that does not maximize their quantifiable power in pursuit of defined (and largely static) national interests? Again, in the context of enlargement one can evince a number of instances in which member states experienced difficulty in narrowing down their preferences.<sup>1</sup>

#### *Neoliberalism and Enlargement*

In the neoliberal perspective the international system is characterized by complex interdependence. States are concerned about the implications of interdependence (primarily economic) and worry about welfare gains and losses. International institutions are, therefore, created for the purpose of functional management of the problems associated with interdependence.

Accordingly, again following Schimmelfennig (ibid.), the core enlargement proposition is that it will take place if the members expect net absolute gains from expansion. Specifically, enlargement preferences will depend on the perceptions of negative and positive interdependence with CEE. Enlargement is seen as a means to reduce risks and costs and to increase the benefits offered by interdependence. In this scenario, countries with a high overall level of interdependence with CEE are favorable to enlargement.

Take the example of Germany, however. In terms of potential trade increases and geographical position it is clear that it is Germany that should have most to benefit from this enlargement. A study by Baldwin, Francois

<sup>1</sup> See: Lykke Friis 1998b, "'The End of the Beginning' of Eastern Enlargement – The Luxembourg Summit and Agenda-Setting", European Integration online Papers (EIoP), Volume 2 (1998), No.7, [www.eiop.or.at/eiop/texte/1998-007a.htm](http://www.eiop.or.at/eiop/texte/1998-007a.htm) : On the negotiation process which led up to a key enlargement summit – that at Luxembourg in December 1997. She demonstrates that in the course of the negotiations many member states entered with ill-defined preferences. In this situation the Commission was "able to move the game along" by framing the agenda in a specific way and forging alliances with key member states (Denmark and Sweden) on important issues, most importantly advocacy of incorporation of the Baltic States in the accession process. Therefore she determines that the outcome of the Luxembourg summit was not just determined by preferences and power (as an intergovernmentalist reading would suggest). The Commission's agenda-setting power, entrepreneurial activity by certain member states and uncertainty among others were all in evidence. This suggests a much more complex and sophisticated picture of EU negotiation processes than rationalist theories would concede.

and Portes (1997) demonstrates that, amongst EU member states, overall Germany has much more to gain in terms of increased trade than any other EU state with the exception of Austria. Management of the perceived negative externalities (environment, migration flows) associated with increased interdependence would also suggest proactive German advocacy of enlargement. Yet, notwithstanding these factors, German governments have consistently adopted a schizophrenic attitude to enlargement. This anomaly is understandable in the context of a balancing act between the 'high politics' and 'low politics' of enlargement but neoliberalism is clearly incapable of deconstructing the German position.<sup>1</sup>

Further, on the question of bargaining power, why is it that with the extraordinary asymmetrical advantage enjoyed by the EU (regarding material bargaining capacity) *vis-à-vis* the applicant states, the decision was still made to enlarge? Neoliberal theory would suggest that something short of outright enlargement, such as a preferential free trade arrangement or even Association status would be the EU's preferred option. Yet, the EU-CEE relationship moved quickly from trade and cooperation agreements (early 1990s), through Association agreements (mid 1990s), to advanced political dialogue and impending accession (late 1990s). This evolution cannot be accounted for by neoliberalism.

#### *Moravscik and Liberal Intergovernmentalism*

In his seminal work *The Choice for Europe*, Moravscik (1998:473) posits the notion that "economic (and) in particular, commercial interests have been the 'drivers' of European integration". How might one apply this argument to the enlargement process and what insights from liberal intergovernmentalism might be employed to theorize enlargement?

Liberal intergovernmentalism is predicated on the assumption of the crucial importance to state behaviour of domestic interests, principally domestic producer interests. The notion of an ideational dimension of consequence to the European integration project is not entertained. The perspective is narrow and micro-economically based which views international institutions as the creatures of states driven by strong domestic interests.

Dimitrova (1999:8) is correct in suggesting that enlargement is a paradox for liberal intergovernmentalism. In fact, the theory would predict that enlargement should not even be on the EU's agenda given that it implies a realignment of the structural funding regime in favour of the CEE states and

<sup>1</sup> For analysis of the paradoxical positions of both Germany and Austria see: Kirsty Hughes "A Most Exclusive Club", *Financial Times*, August 11 1999.

against the so-called cohesion states of the present EU.<sup>1</sup> It also requires a substantial net addition to the budget funded by the net paying states. Thus the negative dynamic arising out of domestic dissatisfaction produced in member states such as Portugal and Spain, on the one hand, and Germany and France on the other, should, by now, have been enough to derail indefinitely the entire enlargement project. That this has not happened and enlargement more than ever dominates the EU agenda suggests the inherent inadequacy of the liberal intergovernmental argument.

One might also ask why has the EU been backed into a corner on agriculture reform? One would expect that, as one of the world's key agricultural players, the minnows of CEE would not exert much influence on such a key EU policy area, and yet one of the continued justifications for radical reform of the Common Agricultural Policy (CAP) is eastward enlargement (along with World Trade Organisation (WTO) pressures). Liberal intergovernmentalism projects a recalcitrant position from the big domestic agriculture concerns which in turn would decisively shape member state behaviour on the CAP and, by implication, on enlargement policy. Take Ireland as an example. Ireland remains one of the EU's states most dependent on agriculture where the agricultural lobby wields enormous influence on government. However, during the current enlargement round the big farming interests (who have gained so much under the CAP regime and stand to lose most from any radical reform connected with enlargement) have been almost silent. This indicates that large domestic producer interests have not dictated Irish policy on enlargement.

A further problem with liberal intergovernmentalism lies in its attachment to the so-called "grand bargain" model of European integration. The focus on the grand bargains (the Treaty of Rome, the consolidation of the Common Market, the founding of the European Monetary System, the Single European Act and the Treaty on European Union) tends to vitiate the role of everyday activity at EU level and means that liberal intergovernmentalism is consequently ill-equipped to account for the sheer density of issues and level of institutionalized cooperation. The enlargement process, characterised as it has been by concurrent bilateral and multilateral arrangements and the coordinating and proactive role of the Commission hardly conforms to the Moravcsikian model. And even if one were to apply what one might call the Moravcsikian 'logic' to the 'enlargement grand bargains' over the

<sup>1</sup> For some projections see: Mayhew, A., 1998. *Recreating Europe*. For the EU estimates see the Conclusions of the Berlin European Council Summit, *Bulletin of the European Communities*, No.6 of 1998.

<sup>2</sup> A senior official of the Department of Foreign Affairs, Dublin, in an interview, confirmed this to me, 26 October 1999. See also: *The Irish Times*, 31 July 2000.

past decade – the European Council Summits at Copenhagen (1993), Madrid (1995), Luxembourg (1997), Berlin (1998) and Helsinki (1999) – the outcomes evince not the decisive import of domestic interests and unchanging national preferences but rather an ongoing process characterized by member state uncertainty and a managerial role played by the European Commission.<sup>1</sup>

The Helsinki European Council is especially important in pointing to the flaws of the Moravscik argument. The European Council there decided to open the way for an inclusive enlargement (the so-called ‘regatta option’). That this seemed contrary to the interests of not a few member states seems apparent. Of course, a key factor in the decision was the outcome of the Kosovo War in 1999. Thus the inclusion in the negotiation process of the second wave of CEE states (Bulgaria, Romania, Latvia, Lithuania and Slovakia as well as Turkey) should be viewed as a highly symbolic political act.<sup>2</sup>

A third criticism of Moravscik centers on his approach to theory. In a commentary on the recent special issue of the *Journal of European Public Policy*<sup>3</sup> (September 1999) devoted to social constructivist approaches to European integration, Moravscik (1999b:669-681) asserts that without a theory of the interaction between ideas and interests, it is impossible to confirm or refute the views put forward in that volume. This is surely correct. Yet, one suspects that he is really seeking a theory that privileges a causal mechanism over a constitutive one. Like many a logical positivist, Moravscik sees the business of all science (natural and social) as causal explanation.

In sum, rationalism cannot provide us with answers to the key questions posed in the introduction. Whilst it might offer a plausible general explanation for the initial enlargement preferences of the main actors in the process (membership applications tabled by the CEE states; initial reluctance to engage by the EU), it cannot account for what appears after Helsinki to be a

<sup>1</sup> For analysis of member state uncertainty regarding preferences see Friis, L. 1998, *op.cit.* For commentary on the Commission’s role during the negotiations see: Avery and Cameron 1998. *Enlarging the European Union*, Sheffield Academic Press, Sheffield. For a critique of the Commission’s international entrepreneurial role see: Moravscik, A., 1999. “A New Statecraft? Supranational Entrepreneurs and International Cooperation”, *International Organisation*, Volume 53, No.2, Spring 1999, pp.267-306.

<sup>2</sup> The Helsinki decisions could well be compared to that took by the European Council in 1977 to override the Commission’s negative assessment of Greece’s ability to meet the criteria for membership. The justification then (as now) revolved around ensuring political stability in the transition states and in a normative sense, encouraging the “we feeling” among the candidate countries.

<sup>3</sup> Christiansen, T., Jorgensen, K.E., and Wiener, A. (eds.), “The Social Construction of Europe”, Special Issue, *Journal of European Public Policy*, Volume 6, Number 4, September 1999.

normatively determined outcome. This is what Schimmelfennig (op.cit) refers to as the “double puzzle” of EU enlargement. Part three of this paper will seek to unlock the secrets of this double puzzle, using a social constructivist approach.

### *Neofunctionalism and Enlargement*

Neofunctionalism, standing apart from liberal intergovernmentalism but also crucially influential in the evolution of academic debate on the European construction, argues for a view of integration as an incremental and almost automatic process. This is fuelled by functional (economic) and political (from national to supranational) spillover, ultimately leading to a “transfer of loyalty” to the new center. Sovereignty effectively migrates to European level as a result of the conscious efforts of technocratic elites and underspecified processes of “globalization” which encourage the spillover mechanism described.

It seems that on certain important points, the early neofunctionalists got it right. For example, they managed to capture the profoundly social dimension to European integration. That ideational element it will be argued in part three has certainly been present throughout the enlargement process.

So what exactly does neofunctionalism have to offer? Deutsch and Haas depicted increased transnational exchange leading to the development of new communities and this might well be invoked with respect to post-Cold War Europe. Certainly, the density of economic, diplomatic, social, political and cultural exchange between the EU and the transition states has mushroomed since 1989. In tandem has emerged an institutional apparatus supporting the new relationships, which was prefigured in neofunctionalism. Whether it represents a new community, however, or even a natural extension by spillover of the existing EU remains to be seen: there is every reason to suppose that economic activity and political contact should be viewed as a natural result of re-established relations and starting from a very low base.

Another potential avenue for investigation relates to the role played in the enlargement process by the Union's supranational institutions, principally the European Commission. Certainly it is true that neofunctionalism (especially the Haas-Lindberg axis) suggested a very dynamic and directorial role for the Commission. And with respect to enlargement it could well be argued that the Commission has played the sort of role envisaged by Haas and Lindberg. Initially charged with responsibility for coordinating financial

aid to the transition states<sup>1</sup>, it has subsequently succeeded in greatly expanding its remit. That role is now explicitly political. Neofunctionalist analysis would suggest that the Commission has used the enlargement process as a means of enhancing its power within the structures of European governance. This would seem to support the arguments of Schmitter (1996) and Sandholtz and Sweet Stone (1998), that over time, national governments become less and less proactive within the integration process.

Member states, although theoretically (and constitutionally) the “drivers” of the enlargement process have tended in practice to delegate more and more power to the Commission. This may be seen in the Commission’s role in framing the enlargement agenda before key summit meetings and in the ongoing negotiation process with the applicant states. Of special importance have been the Opinions on the readiness of applicant states to meet the requirements laid down by the *acquis communautaire*.<sup>2</sup> Member states have taken their cues from the Commission on vital questions in key policy areas and this has decisively shaped the negotiation process<sup>3</sup>. Similarly, the applicant states have focused most of their attention on the Commission and looked to it as “guardian of the Treaties” to ensure fair play in the negotiation process. Therefore, a case could be made that member states have lost control of key parts of the process.

Dimitrova (1999:20-21) argues that the Commission has garnered control over the timing of the process and simultaneously acquired more independence from the member states by creating an “increasingly complex system for the evaluation of the progress of the candidates”.

Most recently the case for a neofunctionalist reading of the enlargement process has been made by Niemann (1998) who argues that the evolution of the PHARE programme represents an example of induced spillover. The concept holds that member states of a successful integration project may be obliged to work out a common external position *vis-à-vis* third countries and become increasingly reliant on the central institutions to do so. In the CEE case geographic proximity is cited as especially important along with the sheer speed of events in the early 1990s.<sup>4</sup> In short, extra-Community factors induced European leaders to hammer out a common policy for imple-

<sup>1</sup> At the G-24 Summit at Paris in 1989 the Commission was asked to coordinate what would evolve into the PHARE aid programme. The programme expanded to include almost all states in CEE and later would become a key “pre-accession” instrument.

<sup>2</sup> The Commission’s Opinions on candidate countries’ applications for EU membership can be found on the website: [www.europa.eu.int/comm/dg1a/agenda2000/en/opinions/opinions.htm](http://www.europa.eu.int/comm/dg1a/agenda2000/en/opinions/opinions.htm)

<sup>3</sup> See: Lykke Friis, op.cit 1998b: on the negotiations leading up to the Luxembourg summit, December 1997.

<sup>4</sup> Delors’ phrase is worth recalling. He referred to 1989 as the “acceleration of history”.



mentation by the Commission. Niemann also cites functional spillover arising out of the economic diktats of the *acquis* and political spillover arising from the increasing political contacts between the EU and the applicant states (bureaucratic and political interpenetration).

Certainly PHARE has developed in a way that could not have been envisaged in the early stages of its existence. After Copenhagen (June 1993) it became much more explicitly political in its orientation and operationalization and concurrently significantly expanded its range of sectoral competencies.

At first glance then neofunctionalism appears quite attractive as an explanatory vehicle. But on closer inspection one can evince some familiar problems. First, one confronts the notion of spillover being predicated on *prior* programmatic approval among governments. However, one would be hard pressed in the case of the current enlargement round, to come up with evidence of such approval or agreement. The initial Association process was characterized as much by confusion and ad-hoc response as solid resolution on the part of the EU.

Second, the teleological nature of the claims made by neofunctionalists not just with respect to the enlargement process but also to the wider integration process must be considered. This "achilles heel" of neofunctionalist theory applies to arguments about the supposed "transfer of loyalties" to the new center. There is reason to doubt that this has occurred over many years of European integration, much less that it has begun in the CEE states. In fact, recent opinion polls in larger states such as Poland and Hungary suggest some hostility toward the EU<sup>1</sup>.

Therefore, it is difficult at this juncture to make judgments. The rhetorical blandishments of CEE politicians should be treated with caution, given the evident desire to become part of the western club. For reasons related to security and economic prosperity the candidate states are desperate to join. Consequently, their commitment to deep levels of integration should be assessed in such terms. In no sense can we speak of a tangible transfer of loyalty, though other elements of the transition process might point to neofunctionalist outcomes.

Christopher Preston (1997) makes the point that there is another type of spillover to consider – spatial or geographic. EU policies spill over to neighbouring states (or what Christiansen et al 2000 – term the EU's "near abroad"). A growing literature focuses on the "fuzzy borders" (ibid 2000) and "extension of governance boundaries" (Friis and Murphy 1999), but these arguments are not, as yet, well developed. As Dimitrova (1999) notes,

<sup>1</sup>See: the *Eurobarometer* figures. No.52, April 2000..

they cannot explain why EU policies seem to spill over into certain countries but not into others.

In outlining the main theoretical approaches to European integration and applying their insights to the enlargement process this paper has responded to Schmitter's call to address the theoretical vacuum on enlargement. It has outlined the strengths and weaknesses of existing approaches and highlighted their general inadequacy. The question then arises as to whether there exists an alternative explanatory framework that might present fertile ground for investigation. This paper will attempt to evaluate the utility of social constructivism with such a question in mind. But first, it seems necessary to engage in some analysis of social constructivism's positioning within social science thought.

### Social Constructivism, Social Science and IR Theory

Within the discipline of International Relations (IR) and indeed the broader social sciences there exist many different branches of constructivist thought. In this respect, Steve Smith (1999) is correct to point out that "there is no such thing as a (single) social constructivist approach or theory". The broad church seems to be defined more by its opposition to rationalist modes of thought than any identifiable and coherent approach to analysis.

As such constructivists find it difficult to converge around a plurality of theories, some of which seem more inclined toward rationalist deductive explanation (so-called 'moderate' or 'thin' constructivism) and others which seem fundamentally about normative understanding of intersubjective meaning and relationships ('radical' or 'thick' constructivism, sometimes understood as reflectivism).

Whereas rationalists are in the main concerned with explaining, constructivists attempt to 'understand' the world. Rationalists thus privilege causal relationships over constitutive ones. These seek to explain "how" or "why" rather than "account for". In place of a unified, parsimonious rationalist theory constructivists offer a looser framework of understanding.

Across the social sciences the deductive-nomological model is predicated on an implicit ideal of perfect understanding. The world is knowable and can be analysed and explained systematically. Theories take the form of axiomatic explanatory models rather than contextual attempts at understanding. Accordingly, logical deduction and the classical "correspondence theory of truth" are the significant theoretical testers.

In contrast to the dominant deductive-nomological model, which emerged from logical positivism and reductionist notions of human behaviour, con-

structivism is posited on a rejection of this demarcation between the natural world and the human or social world. Indeed, most constructivist approaches seek some sort of understanding between the natural world and the human or social world. Alexander Wendt (1999) tries to understand “social kinds” and “natural kinds”. Nicholas Onuf (1989:59) points to a “world of our making” and suggests that social relations make or construct people into the kind of beings that we are.

Constructivists also tend to agree with Mjøset (1999) that even the “hardest” of social sciences require at least a degree of imagining or cognition which at heart are profoundly based on social meanings and understandings that govern how we live. In part three, I will argue that these cognitive understandings of what the European construction represents crucially underpins attitudes to enlargement both in the applicant states and in the EU member states.

### *Social Constructivism and IR Theory*

The term ‘social constructivism’ within IR dates back to Nicholas Onuf (1989). Alexander Wendt (op.cit), however, describes how a constructivist worldview underlines the classical international theories of Grotius, Kant and Hegel. He identifies this with the much-maligned inter-war ‘idealist’ school of IR.

Although one’s substantive approach to constructivism (whether ‘thick’ or ‘thin’, closer to rationalism or reflectivism), largely determines what one considers the principle features of the approach, there is tacit agreement that what we are talking about amounts to more of an approach to social theory than an explicit theory of international life. Wendt (op.cit) calls his approach a ‘social ontology’.

Following Wendt (ibid) I identify the defining characteristics of the constructivist approach as follows: first, that the structures of international life are primarily ideational and not exclusively material; and, second, that the contribution made by intersubjective shared meanings between purposive state actors decisively determines identities and interests in the international system. Wendt refers to this approach as “structural idealism” (in opposition to existing structural realist theories such as those of Waltz). In a similar vein, Ruggie’s (1998) classic description of constructivism notes “that ideational factors have normative as well as instrumental dimensions”. Emanuel Adler (1997) further suggests that:

Constructivism shows that even our more enduring institutions are based on collective understandings; that they are reified structures that were once upon a

time conceived *ex nihilo* by human consciousness; and that these understandings were subsequently diffused and consolidated until they were taken for granted (Adler, 1997:322).

The importance for the above with respect to our enlargement argument is clear. In the broader sense, of course, it should be applied to the historically evolved process of European integration. The collective understandings that produced the early attempts to integrate were underpinned by a certain vision of this new community; from there the process of reification has continued. Diffusion and consolidation can readily be evinced. So too we will argue with the enlargement process.

The tacit agreement on these key points should not disguise the very real differences that exist between the variegated branches of the constructivist family. In many ways, Wendt, Ruggie and Adler are classic “bridge-builders”, attempting to navigate the chasm that exists between the rationalist and reflectivist traditions (and the theorists within constructivism who are drawn to one extreme or the other).

### *Strands of Constructivism*

Ben Tonra’s (2000:10-11) recent classification of constructivist approaches seems useful for navigational purposes. Firstly, those closest to scientific rationalism argue that state actors employ ideas and belief systems only as calculated instruments in the pursuit of predetermined preferences. This is surely problematic, however, given the fact that even neoliberal institutionalists concede at least *some* role for ideas in international life. Indeed, Steve Smith (1999:684) argues that in its dominant (North American) mode this branch of constructivism is much closer to the neoliberal wing of rationalism. In this sense, he rejects the attempts by Wendt and others at bridge building.

Moving slowly away from this extreme, another constructivist approach concedes the importance of material structures but argues that these are invested with powerful social meanings. It is these social meanings that become the focus of analysis – how and by who are they constructed and how and from what do they evolve? The significance of these social meanings is that they crucially influence actor behaviour. Expectations and norms thus inform actions (Tonra, *op.cit*:11).

Alternatively, perhaps it is possible that actors are indeed engaged in rational choice and rational action but that such choices and action include ideas and belief structures as subsidiary decision-making variables. Ideas in such a context provide focal points of action/decision, offer road maps of al-

ternative policy options or establish world views that underpin foreign policy decisions (Tonra, *ibid*:11).

Finally, at the extreme margin of the continuum lies postmodernism and poststructuralism which posit the idea that there is in fact 'no reality', no 'out there'. Instead, what is created is a particular kind of knowledge that defines and thereby creates the world that we think we see and in which we think we act. The proper role of the analyst is as 'deconstructionist'. Building on a relativist philosophy of science and interpretivist sociology of knowledge, the methodology employed here is that of a genealogy of knowledge. This allows us to situate knowledge in its proper context, to relate it to the centres of power, which created it at that point in time, and to avoid according any knowledge a privileged position (Tonra *ibid*:11). In the social and interpreted world in which (as postmodernists and poststructuralists see it) we live, only ideas matter and can be studied – international life as "ideas all the way down" (Adler, 1997). Some postmodernists, such as Baudrillard (1989) suggest that not just truth but reality itself is simply a linguistic convention. With respect to recent debates on European integration, interpretivists such as Diez (1999) who use concept such as 'speech acts' and 'performative sentences' to suggest that ideas cannot exist independently of discourse. In short, postmodernists treat the world as an effect of discourse from which we have no access to an objective reality. Within the constructivist family however these approaches have in recent times been increasingly marginalised; in effect as Guzzini (2000:155) suggests, post-structuralism has been "increasingly emptied of any intelligible meaning" and thus jettisoned in favour of what one might term 'Wendtian scientific rigour'.

The differences between and among the different streams of thought are significant. Nevertheless all constructivist approaches share the basic claim that the "neo-neo" synthesis (and by implication most IR theory) is "under-socialized" in the sense that it pays insufficient attention to the ways in which international life are socially constructed. Constructivist writing is replete with buzzwords such as "socialization", "social learning", "deliberation", "norm-governed" and "rule-governed" behaviour (Caporaso and Jupille 1999). As Jeffrey Checkel (2000) points out, a continuing problem in the effort to theorize social interaction relates to the fact that a lot of this research activity emphasizes end states where the process of socialization is complete. This is a particular challenge for constructivists who need to develop more sophisticated models of the interaction processes whereby interests may be subject to change. This brings us to a point where we need to consider three important relational issues. These are those of ontology and epistemology, agent and structure and, finally, interests and identity.

### Ontology and Epistemology

Questions relating to ontology and epistemology must be central concerns of efforts at conceptualizing the world we inhabit. Social scientists take implicit positions based upon the assumptions they make regarding what kinds of things are to be found 'out there' and how they can be studied.

As we saw in part one the methodological individualism and inability to view structure (particularly institutional) in anything but a dependent systemic sense meant that rationalism has little to offer with respect to an overarching theory of enlargement. These features of rationalism thus presuppose a particularistic consideration of the role of ontology and epistemology in social science.

A starting point for constructivists is the effort to offer a social ontology in opposition to the positivist ontology of the rationalist camps. It is on this basis that Constructivists claim to offer a much deeper and fundamental understanding of the world by virtue of the attempt to properly conceptualise variables such as culture, cognition and ideas and relate them to the physical world.

The arguments about ontology and epistemology are crucial to an understanding of what divides the theoretical schools. Where rationalists like to subordinate ontology to epistemology, constructivists are much more concerned with problem rather than method. Checkel (1998) and Wendt (1999), in arguing for a problem rather than method-driven approach, suggest that IR theorists have been far too concerned with epistemology and neglected the nature of the problems encountered. This is especially problematic when social scientists are dealing with unobservables like the nature of the international system.

Of course the dominance of the deductive-nomological approach has meant that IR theory has had a distinct positivist slant. But in recent years post-positivist (or what Wendt terms anti-realist or anti-naturalist) positions have been advanced that have a different premise. At the thick end of constructivism, postmodernists and poststructuralists argue that a post-positivist epistemology is as necessary as a post-positivist ontology as theories quite literally "construct" the world.

On the question of epistemology, Wendt (1999:90) argues that both sides are in fact "tacit realists". Explicitly his epistemological position is a rationalist one. In other words the substantive differences lie in the domain of ontology. Wendt argues for a post-positivist ontology which privileges intersubjective interaction and shared social meanings. It is this that leads Smith to

conclude that Wendt is in fact much closer to rationalist than reflectivist models.

This brings us to the question of contradiction in the formulation and expression of hypotheses centred on opposing ontological/epistemological stances. Is it possible to adhere to a positivist epistemology whilst arguing for a post-positivist or intersubjective ontology? Does that not lead to a distorted substantive position – the charge leveled at regime theorists within neoliberalism in the 1980s?

Wendt sees little problem in the putative contradiction. His position is defended on the grounds that it is much less deterministic. He distinguishes between 'natural kinds' and 'social kinds'. The latter he regards as constituted by people's ideas about the world. This he claims vitiates the subject-object distinction upon which the causal theory of reference depends. Social kinds, dependent as they are on interlocking beliefs and concepts are, in fact, human inventions. In making the claim for a post-positivist ontology he suggests that we cannot study society in the same mechanistic, rule-governed way that we study nature; rather we should seek a "hermeneutical understanding of actors' subjective interpretations and the social rules which constitute them". Crucially, Wendt suggests that because both sides are "tacit realists" when it comes to their substantive research, epistemological issues are "relatively uninteresting". Post-positivism "reminds us that what we see out there is conditioned by how we see it. Constitutive and interpretive processes are thus extremely important.

The key element here is the view of an intersubjective structural environment where agents interact with each other against a backdrop of shared understandings, collective (as well as individualist) intentionality and ongoing socialization processes. The European Union institutional environment is manifestly an example of such. Part three will return to this theme.

#### Agent and structure

In tandem with the ontological/epistemological question, the issue of the relationship between agent and structure arises. Wendt (1999:26) talks of the "cottage industry" that agent structure resolution has become in sociology and IR. Like the questions tackled in the previous section, theoretical assumptions regarding relative privileging of agent-structure relationships are of vital importance to the nature of the problems and questions encountered. Rationalists tend to privilege agents and relegate structural factors in international life to no more than a secondary and insignificant role.

For constructivists a major challenge relates to what determines change within the system. Neither agents nor structures can define the other but they must exist in a relationship of mutual constitution (Ruggie 1998, Tonra

2000, Wendt 1999). Neither unit of analysis – agent or structure – is reducible to the other and rendered “ontologically primitive” (Checkel 1998). In this way constructivists question the methodological individualism, which underpins much contemporary theorizing.

Most structural realists are in fact tacit reductionists in that they cannot see that structures have any transformative potential in international life. Taking their cue from neoclassical micro-economic theory they compare the international political system to an economic market, which is, according to Waltz “spontaneously generated and intended” (quoted in Wendt 1999:15-16). What constructivists like Wendt aim to do is to sweep away what they see as the false demarcation between unit (agent) and aggregate (structure). The world in which states interact is one where enmeshment in social interactions produces a blurring of the divide. This means that one can argue for constitutive rather than causal theorizing and relationships.

Wendt argues that the idea of social structure constituting agents goes back at least to Hegel and Rousseau, both of whom argued that thought was intrinsically dependent on language. Postmodernists like Derrida and Foucault have extended this to argue that thought *actually is* language and discourse.

In the final analysis, constructivists must come down on the side of structural idealist explanations. International life is primarily (though not exclusively) about social rather than material life. This leads Wendt to hypothesize a “distribution of shared knowledge” as central to everyday interaction of states. This is taken to encompass all of the complex norms, institutions, rules and shared practices that international life involves. Shared knowledge impacts on not only state behavior but state interests as well. And structural change has the ability to redefine state interests also. Think here also of the European context. Again, part three will analyze the importance of such for the study of the enlargement process.

#### Identity and Interests

The resolution of the agent-structure problem allows us to move forward and consider the question of how identity and interests are constituted in international life. This is perhaps the most disputed issue between rationalists and constructivists. Wendt (1999: 36) describes the rationalist view of identity and interests as “fixed objects that are in some sense outside of social space and time. In the latter view, the production and reproduction of identities and interests is not going on, not at stake in social interaction”. As Wendt suggests, it has become commonplace to position power and interest as almost interchangeable factors in opposition to ideas in international life.



But interests are surely predicated at the level of individual consciousness in what ideas we have about what those interests might be. In the constructivist view, Wendt argues in contrast, actions continually produce and reproduce conceptions of self and other, and as such identities and interests are always “in process”.

Constructivists must ask questions such as to what extent is foreign policy constructed or regulated by collective belief structures? Also, and crucially, to what extent is a state's foreign policy built upon the rational pursuit of preferences as opposed to (or in addition to) being defined through a particular narrative of identity? (Tonra 2000:9). How does our conceptual framework allow for such “embedded practices” as belief, desire, culture and identity?

For Constructivists identity is the context from which national interests are divined and interpreted by policy makers. Identity does not determine foreign policy but it provides a contextual template for the determination and pursuit of national interests. It thus defines the framework from which policy choice ensues. Identity sets an agenda for policy makers – and delimits or defines the policy choices that are then initially available to them (Tonra 2000:12).

It is important to emphasise that such identities are not immutable. Benedict Andersen (1983) in his much quoted work has theorized the creation of ‘imagined communities’. The assumption of this study is that such communities can be re-imagined and are the subject of constant reproduction and evolution (norms, values, identities). Part three of this narrative will put the European Union under the microscope and ask whether the current enlargement round represents a fundamental ‘reimagining’ of the existing construction.

### *Social Constructivism and Enlargement*

The final part of this paper will seek to apply insights from social constructivism to the EU's current enlargement process in an attempt to address the concerns laid down in the introduction to this narrative. As such, a central concern will be to try to provide answers to Schimmelfennig's “double puzzle”. Why is it that a process which in its early stages seemed characterised by overtly rational calculation and self-interested positions is now heading toward what appears to be a normatively determined outcome i.e. an open and inclusive accession negotiation?<sup>1</sup> The social constructivist an-

<sup>1</sup> See the Conclusions to the Helsinki European Council, *Bulletin of the European Communities*, No.12 of 1999. For a summary of the key decisions see: European Commission

swers to this stem in the first instance from the normative aspect to enlargement. In short, enlargement has been at the heart of the EU's identity and self-understanding from the beginning (Fierke and Wiener 1999:722). This is not to say, however, that the enlargement process has not seen member states pursuing national interests in a determined manner. Indeed, Schimmelfennig is correct in pointing to the difficulties this produced in the earlier stages of the accession process.

Despite the rhetorical blandishments of EU politicians in the wake of the heady days of 1989, the initial euphoria was soon tempered by a confluence of negative factors. First, the onset of recession in the EU, exacerbated by the costs of German unification and the deflationary policies employed to meet the EMU convergence criteria meant that there was little political will to embrace the idea of an early enlargement. Almost in tandem, the Union found itself floundering in a sea of political acrimony as the Maastricht controversies dragged on. Thus, the EU's initial response to the CEE states was to deflect the question of widening and instead to give priority to deepening the existing Community; the Treaties of Maastricht (the Treaty on European Union) and Amsterdam said very little about enlargement. Indeed, it could be argued that the paradox of 1989 lay in its disadvantaging the CEE states because of its triggering of deeper West European integration in response to German unification.

Throughout the mid 1990s, growing concern about the direction of EU policy towards CEE manifested itself on a regular basis. Headlines such as "The EU Goes Cold on Enlargement" were not uncommon.<sup>1</sup> These seemed representative of the lack of priority accorded enlargement in EU circles. A European Commission official is quoted at the time as saying: "the level of seriousness about enlargement is not minimal; it *simply does not exist*".<sup>2</sup> Although member states were supportive of the 'value of' and even 'moral duty' regarding enlargement in their public rhetoric, national positions, especially on market access for CEE goods and competition in the so-called 'sensitive industries' were indicative of an approach which would seem to confirm some of the 'neo-neo' propositions regarding expansion.

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MEMO 00/6, Brussels, 8 February 2000.

<sup>1</sup> The *Economist*, 25 October 1995. See also: "The EU as a Force for Instability in Eastern Europe", *European Journal*, Volume 3, No.10, July-August 1996; "EU Braced for Enlargement War", *Financial Times*, 14 July 1997; "Split Over Accession Candidates", *European Voice*, 2 October 1997; "New Battle Over EU Expansion", *European Voice*, 27 November 1997.

<sup>2</sup> Quoted by Lionel Barber, *Financial Times*, 16 November 1995.

So how have we reached a point where enlargement now appears irreversible, dictates the agenda of an IGC and appears, after the Helsinki Summit to have resulted in a normative outcome?

In the first instance, the social constructivist focus on 'shared understandings' can be invoked. These understandings include not just a spatial conception of what constitutes (or should constitute) 'Europe' but also, crucially, ideas about common cultural traditions and historical experience, as well as the common evolution throughout Europe of distinctly Western constitutional and political principles.<sup>1</sup> And as Risse et al. (1999:154) suggest collective identity constructions concerning Europe typically refer to not just a common historical and religious experience but also a definite sense of what constitutes Europe's 'others'. These include not just territorially (USA, Russia) and culturally (USA, Islam) defined entities but also, crucially, the continent's own past of internecine conflict and bloody wars. Although 'culture' is a difficult concept for IR theorists to grapple with, constructivists argue that without common perceptions regarding these and other variables, enlargement could not and should not have been contemplated. These include the development and interpretation of the *acquis communautaire*, the criteria laid down at Copenhagen with respect to accession, the idea of the CEE 'return to Europe' as well as the EU's "self-styled logic" (Ginsberg 1989) of what it itself represents. I will argue that all of these correspond to the constructivist framework presented in part two, in that they are rooted in ideational conceptions of European integration, which crucially depend on human agreement for acceptance and understanding.

On the CEE side, this interpretation of the past led to the introduction of a key rhetorical device – the 'return to Europe'. The argument is one that was used by both the applicant states and the EU in different ways throughout the 1990s. For CEE statesmen the argument was deployed strategically almost immediately following the collapse of communism as a means of accelerating accession to the EU. Rationalists would argue that the 'return to Europe' is simply a linguistic convention, hollow and without real persuasive force, invented as a mechanism for advancing the CEE cause of EU membership by utility-seeking CEE states. There seems little doubt that CEE officials in pursuit of geopolitical security and economic prosperity have sought to use the construction in that way. However, a constructivist view would point to the extraordinary layers of history and cultural connection, which manifest themselves as intersubjective understandings of that common past with the implication of a natural 'right to accession' for the CEE states.

<sup>1</sup> See: Ivan T. Berend, 1999. "The Future Enlargement of the European Union in a Historical Perspective", *European Review*, Volume 7, No.2, 1999, pp.175-181.

On the CEE side, of course, the argument is also presented as a 'moral imperative' for the EU. It appeals to a certain sense of West European 'shame' at the 'surrender' to Stalin at Yalta when the CEE states were cynically consigned to the Soviet sphere of influence and the ensuing oppression which that entailed.<sup>1</sup>

I would argue that the 'moral imperative' argument has had a very significant impact and that this partly explains the normatively determined outcomes at Helsinki. Joschka Fischer, in his Humboldt University speech of 12 May 2000, spoke of enlargement not just as a "supreme national interest of Germany but also of the "moral duty" of the EU to quickly accept new members from CEE. The European Commission, although technically a programme manager of the enlargement process frequently resorts, in its policy documents and public pronouncements, to the moral argument in its efforts to accelerate the negotiation process (Mayhew 1998, Schimmelfennig 1999). A clear example is to be found in the Commission's latest composite report on the Candidate Countries' progress in meeting the accession criteria. The document presents this enlargement as one with "an unprecedented political, historical and moral dimension".<sup>2</sup>

But the 'moral imperative' argument of itself is hardly enough. If one were to consider though that it feeds off of, not just the outlined arguments with respect to historical contingency and politico-cultural compatibility, but also a certain EU self-perception then it becomes much more tenable. This self-understanding is rooted in ideas about what the European project represents and includes a complex mix of the following: opposition to antagonistic nationalism and irredentism (and the need to 'use' Europe to guard against these); a determination to overcome the terrible historical legacy of the twentieth century; as well as the supposedly 'rational' membership criteria laid down at Copenhagen.<sup>3</sup>

Thus one can readily acknowledge the salience of the Fierke and Wiener (1999:722) argument that the *acquis* provides the normative basis for enlargement. The 'self-styled' logic at the heart of this approach is reflected in Jochka Fischer's assertion that "following the collapse of the Soviet Em-

<sup>1</sup> On the question of the CEE discourse on the 'return to Europe' and the moral and strategic dimensions, see: Neumann, I., 1998. "European Identity, EU Expansion, and the Integration/Exclusion Nexus", *Alternatives* 23 (1998). Pp.397-416.

<sup>2</sup> European Commission, 2000. Regular Reports from the Commission on Progress Towards Accession by Each of the Candidate Countries, Brussels, 8 November 2000. The Regular Reports can be found on the Commission's Website at [http://europa.eu.int/comm/enlargement/report\\_11\\_00/index.htm](http://europa.eu.int/comm/enlargement/report_11_00/index.htm)

<sup>3</sup> These include the need for a functioning market economy, creditable and transparent democratic institutions and respect for minorities and fundamental human rights. See: Conclusions of the Presidency, Copenhagen Summit, *Bulletin of the European Union*, No.6, 1993.

pire the EU had to open to the East, otherwise the very idea of European integration would have undermined itself and eventually self-destructed".<sup>1</sup>

In their examination of NATO and EU enlargement, Fierke and Weiner (ibid.) engaged in an examination of 'norm construction' within both organisations which preceded the 'critical juncture' of the end of the Cold War. They identify a complex relationship between identity, norms and practices in a transformative climate. They also point to the CEE post-1989 search for recognition being met by a EU that could hardly have departed from the ideals it supposedly stood for throughout the entire period of the Cold War. Fischer's observation is reflective of just such a logic. Of central import to Fierke and Weiner is the Helsinki Final Act of 1975, the significance of which lay "less in the force of the law than in constructing a moral obligation. The goal was to translate the promise of Helsinki into reality.

One could invoke a similar argument with respect to the Copenhagen criteria in that they represent not just the 'rational' basis for the incorporation of non-member states into the EU but also a cogent representation of the EU's own self-identity. As such, once the criteria are laid down they cannot be departed from as the basis for acceptance.

This brings us to the issue of 'rhetorical entrapment' of the EU (Schimmelfennig 1999). The very acknowledgment that there exists a right to accession allied to promises of membership from the EU (even if insincerely meant and mechanisms for temporary appeasement) create a framework where over time the EU becomes 'locked in' to an accession process that for short-term economic and political reasons might prove difficult. As Schimmelfennig suggests:

The CEE state actors have based their claims to membership on the constitutive values and norms of the European international Community. They try to demonstrate that these values and norms oblige the EU to admit their states and that a failure to do so would be an act of disloyalty to, and lead to the decay of, the European international Community.

Somehow Schimmelfennig suggests the normative intersubjective environment at EU level impacted on member state behaviour and helped generate outcomes unexpected by rationalist models of analysis. He argues that though there might have been differences on commitment (speed, ranking of candidates, policy and institutional issues) no member state openly *opposed* enlargement; secondly, public statements were laced with the *normative rhetoric* of European values; and third, progress although incremental has

<sup>1</sup> Joschka Fischer, "From Confederacy to Federation – Thoughts on the Finality of European Integration", Humboldt University, Berlin, 12 May 2000.

*identifiably occurred* with a deepening of economic and political contacts and an ever deepening public commitment on the part of the EU to enlarge, from the ambiguity of Copenhagen (note the caveat that enlargement can occur ONLY if the EU does not in the process impede integration “the ability to absorb new members whilst maintaining momentum toward European integration”)<sup>1</sup> to the inclusivity of Helsinki. The arguments put forward in this paper would suggest that these observations are indeed correct

### Conclusions

The central concern of this paper has been the underspecification of enlargement in the theoretical literature on European integration. It was suggested that the existing models – particularly those that subscribe to rationalist social science positions – are unable to account for such crucial developments as enlargement’s appearance on the EU agenda, the movement in preferences of key state actors throughout the process and the consolidation of the process at the Helsinki European Council summit. Rationalist theories, predicated as they are on methodological individualism and dogmatic micro-economic concepts are woefully “undersocialized” in their conceptualisation of the European institutional environment. As such, they cannot account for the evolution of the enlargement process which itself is rooted in not just a densely institutionalized politico-economic setting but is also crucially underscored by normative understandings of what the European construction is about.

The argument presented here is a constructivist one in that it is argued that social structures do indeed endow material structures with substantive meaning. The ‘geopolitical earthquake’ of 1989 and the long accession process that has followed have led to a fundamental ‘reimagining’ of what the European Union represents. It was argued that constructivism offers a deeper and fuller understandings of the historical and cultural templates that facilitated the ‘return to Europe’.

The paper does not propose a new theory of integration based on insights from the evolution of the enlargement process. What it does is point to a new direction for integration studies with social constructivism posited as an enabling mechanism. That challenge, as the paper has demonstrated, is now being taken up by a broad range of constructivist theorists. The latitude derived from interpretivist perspectives, combined with the attempt to view the material and ideational worlds in terms of mutual constitution rather than isolation is viewed as particularly useful. Having said that, one is

<sup>1</sup> See: Conclusions of the Presidency. Copenhagen, op.cit 1993.

also well aware of the need for sound empirical work relating to key concepts. As such the Wendtian emphasis on scientific realism should not be ignored.

Accordingly, the constructivist reading of the EU's enlargement process to CEE stresses the importance of shared understandings of what the European project represents. The constitutive values of the European political order, reflecting a common collective identity and manifested in the Copenhagen criteria, represent the key building blocks for this enlargement round. This is not to deny the importance to existing member states of pursuing so-called rational national interests. But it does suggest that enlargement is much better understood within a constructivist rather than rationalist analytical framework.

## EU and its Near Neighbourhood: Subregionalization in the Baltic Sea and in the Mediterranean

*Elisabeth Johansson*<sup>1</sup>

### **Abstract**

This work explores subregionalization in Europe's periphery and its implications for the European Union's (EU) foreign policy. With the dissolution of the East-West bloc bipolarism, there has been a spectacular growth in subregional arrangements in EU's vicinity in the 1990s. The Union has welcomed and supported this development, making it into a central goal of its post-Cold War external policy to actively further the creation of positive interdependence and integration among its neighbours into subregional groups. Notwithstanding in spite of this overall positive reception of the subregionalization processes in its periphery, the European Union has an uneven record to show for in its relations to these subregional cooperation initiatives. This study focuses in particular on EU's role in the subregional cooperations taking place in the Baltic Sea and in the Mediterranean (the Euro-Mediterranean Partnership).

The end of the Cold War, and the subsequent regime changes in the central and eastern half of the European continent, have provided an unparalleled opportunity for closer relations among neighbours. As ideological and administrative barriers disintegrated in the aftermath of the fall of the Berlin Wall, common values and interests between neighbouring countries in and around Europe were (re)discovered. These changed post-Cold War circumstances have given impetus to cooperation between neighbours, a fact that is among others amply illustrated by the great proliferation of subregional cooperation initiatives in Europe's periphery during the 1990s.

On the threshold to the twenty-first century a host of subregional arrangements have been established from the Barents Sea in the north to the Mediterranean in the south, including different subregional groupings in the central and eastern parts of Europe; for example: the Barents Euro-Artic Council (BEAC), the Council of Baltic Sea States (CBSS), the Central European Initiative (CEI), the Southeast Europe Cooperation Initiative (SECI), the South East Europe Cooperation Process (SEECP), the Black Sea Economic Cooperation (BSEC), and the Euro-Mediterranean Partnership (EMP).<sup>2</sup> These subregional cooperation initiatives are displaying great diversity in membership, scope and organization, however, they share one

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<sup>2</sup> Here only the subregional organizations with which the EU has established a formal relation in terms of its foreign policy will be considered.



important feature: they attempt to bridge former Cold War divides, by building a positive relationship among close neighbours. Subregional cooperation provide a useful forum to overcome differences between neighbouring countries through collaboration on a manifold practical issues, such as for example, facilitating trade in the subregion, supporting economic transition and/or development, as well as finding constructive solutions to common problems (lack of infrastructure, illegal migration, drugs- and arms trafficking, environmental degradation etc.).

The European Union has during the 1990s shown a growing interest for these subregional undertakings. The Union's interest in viable subregional cooperation stems from a perception that these provide added value to EU's foreign policy efforts in its immediate neighbourhood.<sup>1</sup> Several subregional cooperation initiatives have provided valuable assistance in the many tasks related to the preparation of the candidate countries in the current EU enlargement process. Moreover, the subregional cooperation efforts fill an important function for the EU in that they constitute an additional interface for the Union to interact with its neighbours in Europe and the Mediterranean. The interaction between larger regional organizations, such as the EU — but also NATO, OSCE and the WEU — and subregional groupings in Europe's periphery has increased in the post-Cold War era and forges an incipient flexible interlinkage of overlapping institutions in Europe and beyond. This interaction between regional and subregional groupings may become even more important in the years to come to avoid the creation of new division lines in Eurasia or the Mediterranean as a result of current and future enlargements of the EU and NATO. Regional and subregional efforts may work in tandem to diffuse divisions between 'ins' and 'outs' and manage neighbourly relations, thus providing peace, stability and hopefully also prosperity in and around Europe.

This work will explore subregionalization processes in Europe's periphery and some of the implication of these subregional efforts for EU's foreign policy. This article is divided in three parts, first, current subregional initiatives will be contemplated, second a theoretical framework of subregionalization initiatives in Europe's periphery in the post-Cold War era will be outlined, and third, the Baltic Sea and Mediterranean subregional arrangements and EU's actuation in its 'near neighbourhood' will be examined. Finally, some conclusions will be drawn.

<sup>1</sup> EU's foreign policy refers to the formulation and execution of diplomatic, commercial, humanitarian and security action by the EU, thus spanning the first, second and third pillars of the Union.

### Subregional Initiatives in Europe's Periphery

The subregional initiatives emerging in and around Europe after the Cold War, may be described as *cooperative arrangements in and for a reduced geopolitical area*, exhibiting a certain *internal coherence* making them different from their surrounding regional context and functioning *at a level below region-wide European organizations*.<sup>1</sup> In other words, a majority of subregional cooperation initiatives arise in a limited geographical setting (e.g. Barents Sea, Baltic Sea, Black Sea etc.), with an agenda predominantly focused on local issues. One may thus infer that, in general the subregional groups in Europe's fringe do not ponder a wider political horizon with an extra-subregional dimension, or of a global scope. This is one of the main differences in comparison to larger European arrangements, such as for example the EU or NATO, which have political pretensions stretching beyond the confines of their regionally defined areas, and including may aspire to project their powers globally. Finally, subregions exhibit a certain degree of internal coherence in, for example, economic, political, cultural, and/or institutional terms, a coherence which makes the subregion separable, although not separate, from its regional context.<sup>2</sup>

Subregional cooperation in Europe is not a new phenomenon; examples of subregional collaboration, which arose during the Cold War era, are the Benelux or the Nordic countries. Notwithstanding, the subregionalization processes arising in and around Europe on the threshold to the twenty-first century clearly differs from earlier subregional undertakings. The recently formed subregions come into being in a completely different geopolitical context (post-bipolar era), in which East-West or North-South faultlines do no longer dictate the terms of cooperation between neighbours, nor the terms under which cooperation may take place. This is well illustrated by the fact that the 'new' subregions are characterized by great heterogeneity among member countries (strategically, socioeconomically, culturally etc). Moreover, the subregional arrangements rising at the end of the twentieth century are increasingly conditioned by forces such as economic globalization and transnationalization of 'soft' security concerns etc., which are ex-

<sup>1</sup> Elisabeth Johansson, *Subregionalization in Europe's Periphery: the Northern and Southern Dimension of the European Union's Foreign Policy*. Barcelona: Quaderns de Treball, IUEE, 2000.

<sup>2</sup> However, for politico-economical, historical, cultural or other reasons, a subregion does not necessarily have to correspond to a geographically defined area. A subregion may span geographical boundaries — consider, e.g. that Iceland is included in the Baltic Sea cooperation, although it is not geographically a Baltic Sea state — or even exclude parts of a geographical subregion, e.g. the exclusion of Libya, ex-Yugoslavia and Albania from the Euro-Mediterranean Partnership.

exercising a heavy pressure on nation-states, especially smaller, weaker states. The challenges arising as a consequence of globalization and the more open post-Cold War borders, make it necessary for small states to undertake measures to counteract the effects of growing economic marginalization and 'soft' security problems, and this in part explains subregional integration and the sometimes highly ambitious agendas of 'new' subregions. Finally, contemporary subregionalization processes are much more embedded in, and integrated into, the European regional context as we will see, compared to what some historical subregions — such as for example the Nordic countries — were during the height of the bipolar era. Nevertheless, in spite of these differences, it might be argued that the role played by the Benelux and Nordic countries in the reconstruction of Europe in the aftermath of the World War II, is similar to the role now played by current subregional arrangements for the reconstruction of post-Cold War Europe.<sup>1</sup> Moreover, one might infer that the age-old objective of inter-state cooperation — to overcome conflict among neighbours — as an objective also holds true for the 'new' subregionalization processes.

The current subregions can be described using three main characteristics: a multidimensional agenda, low institutionalization and great heterogeneity among participant countries. First, the agenda pursued by many subregional initiatives has been spanning many different forms of collaboration. Economic cooperation, designed to enhance the subregions welfare, has been among the primary objectives, e.g. creating trade regimes, establishing steady energy supplies, promoting investment, attracting capital, as well as in some cases initiating large scale technical projects such as for example creating linking subregional infrastructure. The practical cooperation undertaken in these areas intend to take advantage of economies of scale, enabling freer flow of goods across borders, creating larger markets and communication links to improve market access. Subregional cooperation has also served to render low-key pragmatic assistance to solve the many problems of socioeconomic transition/economic development — especially for the post-communist central and eastern European countries, but also on a more modest scale in the Mediterranean. Here several subregional cooperation initiatives have shown themselves agile in grouping countries with a need for technical know-how, capital investment and socioeconomic reform together more technically advanced countries that can share knowledge and provide development assistance. Moreover, the subregional agenda also promote other issues related to the subregion's welfare, such as environmental protection, common struggle

<sup>1</sup> Andrew Cottey (ed.), *Subregional Cooperation in the New Europe*, (London: Macmillan Press Ltd., 1999): 6

against organized crime, drugs- and arms trafficking, terrorism as well as very often advocate human and cultural affairs. Small-scale cooperation has proven an efficient and effective way to, for example, strengthen border regimes, solve subregional environmental problems and protect cultural diversity. However, here there is plenty of room for expansion in the future. Subregional undertakings could gradually assume more ambitious tasks, such as assistance for the strengthening of national judicial systems, as well as improve coordination between different branches of law enforcement: coast guards, customs officials and police forces.<sup>1</sup> Moreover, if this is combined with subregional institutional mechanisms to solve tensions or disputes among neighbours, the subregional undertakings may become real contributors to peace and security in the future. The subregional cooperations may become instruments for negotiation, or mediation to reduce friction between different actors in the subregion. An example of this is the Baltic Sea cooperation where the creation of a CBSS Commissioner on Democratic Institutions and Human Rights has served to diffuse tension over minority issues between Russia on the one hand and Estonia and Latvia on the other. To facilitate the role of subregional groups in providing distension and stability, increased contacts at all levels of the subregional undertaking must take place. If successful a close interaction between different actors in the subregion, at national and subnational level, would create a tightknit informal people-to-people network, which would enhance the possibility of the subregional initiative to play a determining role in solving minor conflicts. All these above activities must of course be closely coordinated with efforts by the regional security providing arrangements.

Cooperation on democracy and strengthening of democratic institutions has been another point on the subregional agenda. Here the strengthening national and local governments, as well as the encouraging of involvement of civil society in subregional institutions, provide needed support for the fragile democracies in some of the countries in Europe's periphery.<sup>2</sup> This has perhaps been the most controversial point on the subregional agenda; however, cooperation in this ambit may prove indispensable for creating stable and secure subregions for the future.

Second, the institutionalization of the subregional arrangements in the post-bipolar era has been varied, involving anything from a council, to a minimal secretariat or merely intergovernmental meetings at irregular intervals, the latter rather defined as 'process' or 'forums.' One might thus infer that the subregional groups in Europe's periphery are currently focused on

<sup>1</sup> Anders Bjurner, "European Security at the End of the Twentieth Century: the Subregional Contribution," in Cottey, *op. cit.*, 17.

<sup>2</sup> Elisabeth Johansson, *op. cit.*

building regimes to be able to solve common problems, by creating loose arrangements encompassing "a set of mutual expectations, rules and regulations, plans, organizational energies and financial commitments."<sup>1</sup> The creation of regimes, rather than supranational institutions, provides a greater flexibility to the arrangement and allay national fears of infringements on sovereignty.

Third, one of the more surprising characteristics of subregionalization in the post-Cold War era is the heterogeneity among subregional participants, in terms of size, wealth, security arrangements, levels of development etc. The challenges to smaller nation-states inherent in the post-Cold War era has "increased the importance of new forms of [sub]regionalism — most notably those involving developing countries, on the one hand, and a mix of developing and industrialized countries, on the other."<sup>2</sup> The diversity inherent in the subregional cooperation arrangements in Europe's periphery, defy the established notions in international cooperation holding that the participants should be homogeneous in order for the cooperation to work (e.g. the Nordic or Benelux countries). However, in diversity there is also possibility for complementarity. Richer countries may help their poorer neighbours, advanced industrialized countries may assist their lesser developed neighbours to develop, market supply and market demands are usually different and may be compatible with a minimum of trade friction, thus adding markets for all participants. Moreover, mature democracies may assist the transition process, or the first timid steps towards democratization in the countries in their vicinity, i.e. undertaking a process of political tutelage.

Nonetheless, the heterogeneity cannot be so great as to impede the development of a certain amount of common 'identity' and 'values.' The evolution of a common identity, or set of values, still play an essential role in the consolidation phase of the subregional formation, and an anchor in processes of deepening the subregional initiative. Finding common elements, or a common ground of values and identity to which all participants may subscribe, is an essential part of the negotiations for forming the subregional arrangement. This is a procedure that essentially involves a lot of myth making and political rediscovering, such as for example, the 'New Hansa' and romantic notions about the Habsburg Empire which were used as means to rediscover subregions (the Baltic Sea and the CEI respectively) that had been splintered over time. The end of the Cold War has facilitated this process of

<sup>1</sup> John Gerard Ruggie, "International Responses to Technology: Concepts and Trends," *International Organization* 29 (3) (Summer 1975): 371-402.

<sup>2</sup> Wil Hout, "Theories of international relations and the new regionalism," in Jean Grugel and Wil Hout (eds.), *Regionalism across the North-South Divide: State Strategies and Globalization*, (London: Routledge, 1999): 15.

(re)discovering values in removing fundamentally divisive ideologies. At present most countries in Europe's periphery formally embrace democracy as well as market economy and there is a convergence on ideas about human rights and environmental sustainable development. This convergence on values may lead to the development of a common identity in some subregional cooperation initiatives in the future.<sup>1</sup>

### A Conceptual and Theoretical Outlook on Subregions

The scholarship of subregions has until recently largely been ignored in theoretical literature. International Relations theory has been mostly focused on the global context and/or the regional unit, not on subregional entities, and consequently a theoretical framework which explicitly treats the subject of subregions is difficult to come by. However, selected International Relations theories related to formation and sustenance of international cooperation in a geopolitical unit may be applied also in the case of subregions. Thus, below we will first look at a conceptual approach to subregions, followed by some theoretical frameworks: systemic theory and integration theories.

In order to begin to sketch a conceptual outline of the subregionalization processes arising in Europe's fringes on the threshold of the twenty-first century, let us first begin with the writings by scholars of subsystems. A subsystem is a set of geographically proximate states with certain perceived interdependence/ interconnectedness be it security, political, economical or other factors.<sup>2</sup> In the post-Cold War era, high and rising degrees of interdependence, for example, in terms of economy or security, are now characterizing the European continent and the Mediterranean basin. The European

<sup>1</sup> Cottey, 3-4.

<sup>2</sup> For further information on subsystems, see for example Mario Barrera and Ernst B. Haas, "The Operationalization of Some Variables Related to Regional Integration," *International Organization* 23 (1) (Winter, 1969): 150-60; Joseph S. Nye, Jr. ed., *International Regionalism Readings*, Boston: Little Brown, 1968; Stanley Hoffmann, "Discord in Community: The North Atlantic Area as a Partial International System," *International Organization* 17 (3) (Summer 1963): 521-49; Michael Brecher, "International Relations and Asian Studies: The Subordinate State System of Southern Asia," *World Politics* 15 (2) (January 1963): 213-35; and the same author for: "The Middle East Subordinate System and Its Impact on Israel's Foreign Policy," *International Studies Quarterly* 13 (2) (June, 1969): 117-39; Michael Banks, "Systems Analysis and the Study of Regions," *International Studies Quarterly* 13 (1969): 335-60; William Thompson, "The Regional Subsystem: A Conceptual Explication and a Propositional Inventory," *International Studies Quarterly*, 17 (1) (1973): 89-117.; Louis J. Cantori and Steven L. Spiegel, *The International Politics of Regions: A Comparative Approach*. London: Prentice Hall, 1970. For an excellent survey of this topic please refer to James E. Dougherty and Robert L. Pfaltzgraff, Jr., *Contending Theories of International Relations: A Comprehensive Survey*, 4 ed., (New York: Addison Wesley Longman, Inc., 1997): 128ff.

Union and its closest neighbours in the north, east and south can thus be considered such a subsystem, seeing that interdependence no longer be said to be detained at the physical borders of EU's member states, but rather it extends beyond the Union's territory to include its immediate neighbourhood.

While the European Union constitutes the core of this subsystem, the periphery of the subsystem is composed of many minor 'subsidiary' systems. Louis J. Cantori and Steven L. Spiegel, in their *The International Politics of Regions: A Comparative Approach*, define a subsidiary system as a smaller system, "encompass[ing] the relations of a part of the [regional] area."<sup>1</sup> The subsidiary system is used to denote a peripheral group of states "alienated from the core in (*sic*) some degree by social, political, economic, and/or organizational factors but which nevertheless play a role in the politics of the [regional] ...system."<sup>2</sup> This gives us a good insight into what a subregion is and how it interrelates to a regional arrangement. Moreover, from Cantori and Spiegel's use of the terminology 'subsidiary' in characterizing the smaller systems in the periphery of the regional system, one might infer that these smaller systems are *dependent* on and/or *conditioned* by the core of the regional subsystem. This is well reflected in the high dependence that the 'new' subregional undertakings seem to have on EU's political and financial assistance.

### *Neorealism and Subregions*

Neorealists have made repeated attempts to explain the 'anomaly' of sustained international cooperation and from their writings one may infer a few important observations about subregional arrangements. Both classical realism, and its successor: neorealism, perceive cooperation arising primarily due to the existence of an external threat and/or power, the constant competition between nation-states in terms of power, and the constraint imposed by the international system.<sup>3</sup> According to neorealist thinking regional as subregional cooperation would form in consequence to an external challenge, be it of economic or security nature, and thus the focus of the regional/subregional unit will be on warding off threats (internal or external). There is some evidence from the subregionalization processes in Europe's periphery that lends itself to this theory, in that these subregional undertak-

<sup>1</sup> Louis J. Cantori and Steven L. Spiegel, *The International Politics of Regions: A Comparative Approach*, (London: Prentice Hall, 1970): 3.

<sup>2</sup> *ibid.*, 151.

<sup>3</sup> See, e.g. Kenneth Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley Publishing Company, 1979).

ings are usually heavily motivated by the mitigation of challenges. The fear of economic marginalization and the forces of economic globalization, have sparked concerns about economic welfare and security inside nation-states, and the realization of the increasing futility of 'going-it alone' in the international economy. Moreover, another external/internal challenge perceived by nation-states is 'soft' security concerns. As we are heading for the twenty-first century, 'soft' security problems seem to spill across borders with increasing facility, constituting a real challenge for the nation-state's ability to maintain national stability and authority. Second, in the neorealist view many subregionalist arrangements are established as the natural response of 'weak states trapped in the world of the strong.' This was highly evident during the Cold War years where subregional groups such as for example the Nordic countries engaged in "schemes for diplomatic and political cooperation designed to improve [the sub]region's position in the international system, either by increasing its bargaining strength, or by attempting to seal off the [sub]region and reduce the scope for outside intervention."<sup>1</sup> This is a presumption, which could perhaps become a reality for some of the 'new' subregional undertakings as well, if they deepen their integration and begin to look beyond the narrow subregional horizon. Perhaps one day some subregional cooperation initiatives will consolidate to a point where they will try to enhance the political weight of the participant countries as a group in the international system. Closely related to this idea, is the neorealist notion that subregional groupings may develop as a response by small states to the existence of an real or perceived potential dominant (or threatening) hegemonic power.<sup>2</sup> This may be one of the factors behind the interest for subregional cooperation exhibited by several central and eastern European states neighbouring Russia, faced with the continued uncertainties surrounding the nature and direction of Russian political and economical transition.

Finally, neorealist theory contend that weaker states strive to achieve accommodation with the (sub)regional hegemon in the hope of obtaining special rewards, a tactic which is also known as 'bandwagoning.'<sup>3</sup> The neorealists predict that bandwagoning is most probable when power differentials between the region and subregion are very great, and/or when there are few viable alternative to accommodation with the hegemon. Neorealism would thus view subregional cooperation initiatives, as a function of smaller states trying to accommodate with the regional hegemon in order to attain

<sup>1</sup> Andrew Hurrell, "Explaining the Resurgence of Regionalism in World Politics," *Review of International Studies* 21 (1995): 341

<sup>2</sup> Stephen M. Walt, *The Origin of Alliances*, (Ithaca, NY: Cornell University Press, 1987): 5.

<sup>3</sup> Walt, *op. cit.*



expected or real material benefits. This may partially explain the interest exhibited by subregions to establish close relations with a regional arrangement, in order to be able to obtain sufficient financial aid and in hopes to attain greater influence in regional affairs than what each country could achieve bilaterally.

Neorealism provides us with some insights into some of the factors that may trigger states to cooperate with each other. However, the more troublesome aspect of neorealist theory is that it fails to credibly explain why inter-state cooperation survives and may be sustained over time. Moreover, another white spot on the neorealist map is providing an explanation for cooperation undertaken between countries with high degree of tension between them. Subregional collaboration has sometimes been formed between countries where military tension between participating countries was initially quite significant (e.g. Norway and Russia in the BEAC; the Baltic states and Russia in CBSS etc.). Finally, neorealist thinking fail to account for the fact that inter-state cooperation is increasingly gliding out of the hands of governments and that new international actors at subnational and transnational levels have become integral part of creating and sustaining cooperation.

#### *Neofunctionalism and Subregions*

Neofunctionalism has played a pivotal, although much criticized, role in the attempt to understand and predict the further development of its main object of study: the European Community. Central to neofunctionalist philosophy is the tenet that high and rising levels of interdependence demand the creation of supranational institutions to solve common problems. This in turn would catalyze a process of ever-expanding collaboration between the participant countries eventually leading to political integration. The process would begin with 'low-policy' collaboration in terms of technical and non-controversial issues, which gradually would 'spill-over' into the realm of high politics, producing further integration, and thus making the cooperation almost inevitably proceed towards a federalist goal.

The neofunctionalist logic would experience some setbacks in the 1980s when the theory failed to predict the further development of EC's internal institutional dynamic. Far from subsuming to the automaticity of the neofunctionalist process, nation-states continued primary in international cooperation, and national bureaucrats remained loyal to their government rather than developing a new allegiance to the supranational institution. However, perhaps above all neofunctionalism would receive critique in how it made no distinction between policy matters where spill-over was possible and where

it was not. The political dynamics behind 'low politics' and 'high politics' obviously functions differently. Notwithstanding, some of the neofunctionalist logic attained a renaissance in the early 1990s. Several of the central ideas of how integration, and later expanded inter-state cooperation, are essentially responses to increased social and economic interdependence remain relevant to European integration theory today.<sup>1</sup>

Neofunctionalist theories on supranationalism and spill-over are not easily applicable to the form of international cooperation taking place in the subregions in Europe's periphery today. Principally because the subregionalization processes seem to aim towards a pure intergovernmental cooperation and there appears to be an implicit desire to avoid any elements of supranationalism. However, neofunctionalist insights may potentially become more relevant in the future as the subregional cooperation initiatives deepen and subregional institutions become more firmly entrenched. A deepening of the subregional cooperation and the further development of the subregional institutions may lead to the social and political processes central to the neofunctionalist thinking, i.e. the process of institutional growth; the spill-over across different sectors of cooperation; the significant role held by technical elites; and to the extent to which the subregional institutions negotiation process is opened up to transnational interest-group mobilization.<sup>2</sup> The latter is a process to a certain extent already underway in the Baltic Sea, as well as in the CEI, the Black Sea and the Barents Seas, where multiple levels of the society (chambers of commerce, subregional unions, cities, civic associations etc.) are involved in the decisionmaking processes and some even formally attached to the subregional institutions. Successful sub-subregional level collaboration, among subnational actors, may act to strengthen and provide additional impetus for the subregional cooperation at the governmental level.

### *Neoliberal Institutionalism and Subregions*

Neoliberal institutionalist thinking provides us perhaps with the, to date, most complete explanation for the creation and sustenance of the subregional initiatives in Europe's periphery in their current form. Neoliberal institutionalism argues that in an international political economy characterized increasingly by complex interdependence, policy coordination among states

<sup>1</sup> See, for example, Andrew Moravcsik, "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach," *Journal of Common Market Studies* 31 (49) (December 1993).

<sup>2</sup> Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization*, (Boston: Little, Brown, 1971): 65-73.

is necessary to procure certain public goods, such as for example, freer trade or solutions to environmental and 'soft' security problems. The resulting international cooperation is usually the creation of a regime, rather than the supranational institution the neofunctionalists envision, and in consequence the nation-state retain much policy initiative and decisionmaking ability. The regime provides a forum to find joint solutions to transnational or collective problems, through the creation of norms, rules and institutions.<sup>1</sup> Thus, neoliberal institutionalists would view the subregional frameworks emerging at the end of the twentieth century as instruments to manage subregional problems and as an attempt to reduce the costs of transactions by forming subregional linkages. Moreover, institutionalists would concur with the neorealist thinkers on that regimes, especially those regimes created between core and semi-peripheral/peripheral states, might create a 'double-bind' mechanism. Through this mechanism the semi-peripheral/peripheral countries can obtain preferential access to policymaking processes of core countries, and can therefore attempt to influence the policies of these.<sup>2</sup>

Neoliberal institutionalism centers on the study of the behavior of states, which are perceived as 'rational egoists' and as the 'effective gatekeeper' between the domestic level and the international system. However, in contrast to realists, institutionalists do not deny that states may engage in sustained cooperation; on the contrary, neoliberal institutionalists argue that the successful collaborative management of common problems strengthens the role of the state. Thus, power constellations, interests and preference of states is at the heart of neoliberal institutionalist research, in trying to predict and explain what enables and what constrains cooperative behavior. Notwithstanding, the major drawback with this theoretical approach is that it centers too exclusively on the nation-state. The theory seems to ignore that regimes and subregionalization processes may work to undermine the monolithic character of the state. Subregional interaction, at intergovernmental or subnational level may lead to the creation of informal transnational bureaucratic networks and alliances, to multi-level and multi-player games, and to the creation of new forms of identity both above and below territorially defined states.<sup>3</sup> As we have seen, the subregionalization processes in Europe's periphery are still very much in their infancy, and as for some of

<sup>1</sup> Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Economy*, Princeton, NJ: Princeton University Press, 1984. For more on regimes see, Stephen D. Krasner (ed.), *International Regimes*, Ithaca, NY: Cornell University Press, 1985. Oran R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment*, Ithaca, NY: Cornell University Press, 1989.

<sup>2</sup> Hout, 17.

<sup>3</sup> Hurrell, 349-51

these subregional undertakings it is difficult to predict if they are going to be a long-term phenomenon. However, if some of the incipient subregions further consolidate, there will inevitably be consequences for the nation-state, as most subregional initiatives increasingly enable different subnational actors to communicate directly with its corresponding part in a neighbouring country. The notion of the state as a gatekeeping function between the domestic and the international will thus perhaps in the future be outmoded.

To conclude, for neoliberal institutionalism the establishment of subregional schemes should not be taken as a way of rectifying balance of power, or as an attempt to create an alliance or a bloc. Rather subregions have been created, and will survive, due to the advantages they provide their participants: "by facilitating communication, information, and transparency; by reducing mutual threat perceptions and worst-case thinking; and by undercutting the self-fulfilling prophecies that lie at the heart of the security dilemma."<sup>1</sup> The open and flexible character of the subregional cooperation in Europe's periphery render a useful function of opening lines of communications between neighbouring countries. They also serve to enhance the transparency in the relationship, and thus avoid suspicion and misunderstanding between neighbours. This is perceived as a valuable step on the way to build confidence among neighbouring countries and in creating a stable and peaceful Europe and beyond.

### EU's Foreign Policy and Subregional Arrangements

The immediate neighbourhood to the European Union has become the primary focus of the EU's foreign policy on the threshold of the twenty-first century. This is among many things amply illustrated by, for example, the fact that Europe's periphery occupy EU's first two foreign policy priorities: the enlargement process with the Central and Eastern European countries; and the second priority is EU's commitment to the countries on the southern and eastern rim of the Mediterranean basin. The EC/EU perceived already in the closing years of the Cold War that the security and stability, and in extension prosperity, of the communitarian construct were intimately linked with its neighbouring countries. In early 1990s it became evident that there was a growing interdependence between the EC and its closest neighbours due to the long communitarian territorial borders in the east, as well as the closeness of North Africa on the other side of the Mediterranean. For these reasons, the EC recognized that it would not be able to protect itself against

<sup>1</sup> Hurrell, 351-2.

the effects of political instability, crime, socioeconomic underdevelopment or conflict in its periphery, and cooperation on these issues seemed to be the only solution for a Community, which, currently, lacks common European defense and law enforcement instruments.<sup>1</sup>

To achieve stability and economic development in its vicinity the EC/EU has used a wide array of instruments, more numerous than in interaction with other geographical areas, a fact which by itself gives testimony to the importance the EC/EU is attaching to its periphery. In the late 1980s bilateral, first generation trade and cooperation accords were established between EC/EU and the majority of its neighbouring countries. These accords later matured into association agreements of two different kinds, Europe Agreements for those countries destined for future EU membership and a second kind which enhanced the bilateral relation with third countries, while not leading to membership. Financial assistance for the more part of EC/EU's neighbours was commenced as early as 1989 (PHARE, TACIS, MEDA etc.) and has over the years expanded. Thus, the EU's foreign policy strategy towards its neighbouring subregions has been broadly similar, and relatively coherent "in that it has focused upon forging links intended to draw the countries of each [sub]region, to a greater or lesser extent, within the ambit of the Union."<sup>2</sup>

Moreover, by mid-1990s the European Union added to this arsenal of instruments, an increased interaction with subregional cooperations in its 'near neighbourhood.' Let us now examine closer two subregional cooperation initiatives with which the European Union is closely involved: the CBSS and the Euro-Mediterranean Partnership.

#### *CBSS and the Northern Dimension*

Some modest cooperation initiatives were already under way among the countries on the Baltic Sea rim before the end of the Cold War.<sup>3</sup> However, it was not until after the independence of the three Baltic states, that Baltic Sea cooperation would really take off. In the years following there would be a spectacular growth of different cooperative initiatives in the Baltic Sea area. To increase coordination and create synergies between different cooperative activities in the Baltic Sea area, Germany and Denmark proposed the establishment of a Council of the Baltic Sea States (CBSS). Thus, in

<sup>1</sup> Lykke Friis and Anna Murphy, "The European Union and the CEECs: Governance and Boundaries," *Journal of Common Market Studies* 37 (2) (June 1999): 211-32.

<sup>2</sup> Charlotte Bretherton and John Vogler, *The European Union as a Global Actor*, (London: Routledge, 1999): 139.

<sup>3</sup> For example, the Helsinki Convention for marine environmental protection in the Baltic Sea, signed in 1974.

1992 representatives at minister level from the ten countries around the Baltic Sea (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden) and the Commission of the European Community met in Copenhagen and founded the CBSS. In 1996 Iceland also joined the Council.<sup>1</sup>

The first years of the CBSS existence were modest. This was in part due to the Swedish and Finnish distraction with their EU membership negotiations. However, this was also due to that Russian troops continued to be stationed on Baltic territory, and that Russophone minorities received discriminatory treatment in Estonia and Latvia, facts which would in general strain the diplomatic relations around the Baltic Sea. However, by 1996 the political climate had improved. Sweden and Finland were now EU members and Norway had settled into its non-member status. Furthermore, EU and the Nordic countries had during 1994 jointly put pressure on Russia to accept a negotiated accord on the withdrawal of Russian troops from the Baltic territory, through the implementation of the Stability Pact. Once the Russian troops withdrew, tension reduced in the area and political attention could be focused elsewhere. This would lead to that in 1996, at an unprecedented summit, celebrated in Visby (Sweden), the heads of states and governments from the eleven Baltic Sea states, together with the EU Presidency and representatives for the European Commission, met for the first time and pledged their full support for the CBSS. This translated into that in Kalmar, later the same year, an action program for the Baltic Sea cooperation was adopted, behind which the EU was the main driving force and initiative taker. These two events would be considered as a qualitative step forward for the CBSS.<sup>2</sup>

To further support the subregional cooperation in the Baltic Sea, the EU launched at the Vienna European Council in 1998 the Northern Dimension initiative. The objectives for the Northern Dimension were established by the European Council in Cologne (June, 1999) as being: "to increase prosperity, strengthen security and resolutely combat dangers such as environmental pollution, nuclear risks and cross-border organized crime" in northern Europe.<sup>3</sup> The Northern Dimension is intended to provide synergy to existing cooperation efforts in the Baltic Sea (and Barents), focusing on the following seven areas: infrastructure, such as transport, energy and telecommunication; natural resources; nuclear safety, such as reduction of risk for nuclear accidents or leakage, proper treatment of nuclear waste; as well as

<sup>1</sup> In 1999 the CBSS granted observer status to France, Great Britain, Italy, Ukraine and United States.

<sup>2</sup> Carl-Einar Stålvant, "The Council of the Baltic Sea States," in Cottey, *op. cit.*, 54-5.

<sup>3</sup> European Council of Cologne, 3-4 June 1999, Presidency Conclusions.

promotion of sustainable development in the countries in Europe's north. Moreover, education, training and human resource development, research; public health and social administration are in addition high on the agenda. Finally, local cross-border cooperation, trade and investment; and finally, a joint effort to combat cross-border crime are also integral in the Northern Dimension initiative.<sup>1</sup> The Dimension is financed through the Union's PHARE, TACIS and INTERREG programs.<sup>2</sup> An Action Program for the Northern Dimension foreign policy initiative was adopted at the Feira European Council, June 2000.<sup>3</sup>

The EU and the CBSS have been very active in promoting the strengthening of the democratic institutions in Poland, in the three Baltic states and in northwest Russia. Moreover, they have pushed for the removal of trade and administrative barriers in the Baltic Sea area, improving local government, public services and education.<sup>4</sup> The EU and the CBSS have also encouraged the inclusion of civil society and internal subregional initiatives in the CBSS dialogues, for example, Baltic Sea NGOs, cross-border cooperation between subnational actors such as cities, or local businesses. The CBSS and the EU through the Northern Dimension provide technical assistance to these Baltic Sea entities to encourage cross-border interaction at a subnational or local level.

The countries in the Baltic Sea have managed, despite their geopolitical, economical and cultural differences, to forge a cooperation scheme with EU's assistance that is considered as one of the more successful subregional collaborations in Europe's periphery today. The tension, which characterized the Baltic Sea area in the early years of the 1990s, has today been replaced with distension and a lively interaction between the states on the rim of the Baltic Sea. By multilateralizing their bilateral relations, the countries of the subregion have managed to reduce animosity and been able to achieve creative solutions to some internal problems. This is perhaps most visible in the successful gradual normalization of the relation between Rus-

<sup>1</sup> European Commission, "A Northern Dimension for the Policies of the Union: An Inventory of Current Activities," Working Document of the Commission Services. (Brussels, 1999): 4.

<sup>2</sup> PHARE and TACIS are financial assistance programs for Central and Eastern Europe, as well as the post-Soviet Union space (except the Baltic states which formed part of the PHARE regime) respectively. The INTERREG financial instrument is explicitly aimed at promoting transnational projects, e.g. infrastructure projects or local activity crossing EU member states' national borders.

<sup>3</sup> Council of the European Union, "Northern Dimension — Action Plan for the Northern Dimension with External and Cross-Border Policies of the European Union 2000-2003," Doc 49401/00. General Affairs Council, Feira European Council, 19-20 June, 2000.

<sup>4</sup> Elisabeth Johansson, "La dimensión norte de la UE: políticas para el Báltico," in Esther Barbé (ed.) *La política exterior europea*, Barcelona. Ariel, 2000.

sia and the three Baltic states. A formal commitment to democracy, market principles and the interest by the former East bloc states to form part of Western European integration processes have smoothed the way for the success of the subregional cooperation in the Baltic Sea.

### *Euro-Mediterranean Partnership*

Many proposals for closer cooperation with the Mediterranean litter the EC/EU's history, early attempts were with the Global Mediterranean Plan (1972) and the Redirected Mediterranean Policy (1991), however, none of these had enjoyed success. To improve on this record, in November 1995 the Euro-Mediterranean Partnership came into being in Barcelona after vigorous lobbying from France and Spain during the early years of 1990s.<sup>1</sup> The 'Barcelona Process' include the EU-Fifteen and twelve south and eastern Mediterranean countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey — also known as the Med-12. The fact that all EU-Fifteen participate in this subregional cooperation makes the Mediterranean cooperation rather special among subregional initiatives in Europe's periphery. However, this also reflects the complex nature of many of the problems affecting the Mediterranean: the great number of underdeveloped countries, the complicated socioeconomic situation, the continuing historical tensions of the area, and the fact that the Mediterranean EU-member states did not want to shoulder the financial burden and the political responsibility for the Mediterranean on their own.

The Partnership marked a new chapter in the relations between the European Union and its southern neighbours, in that the Barcelona Process was hailed as a qualitative and quantitative reinforcement of EC/EU's Mediterranean policy. However, the Process is not a radical break away from earlier Mediterranean policies, in that bilateral association, preferential trade arrangement and financial aid also remain the foundation of this new Euro-Mediterranean relation. Notwithstanding, some novelties were included, e.g. a multilateralization of the interaction between the southern and northern shores and the adding to the agenda of issues, such as security

<sup>1</sup> That the Conference was held during the Spanish Presidency reflected, in part, the active role played by the Spanish government in promoting Mediterranean policy initiatives. This is illustrated, e.g., by Madrid strategy in blocking the settlement of the TACIS program until it received satisfactory assurances that increased funding for the Mediterranean were forthcoming (Bretherton and Vogler, 280). For a detailed discussion of the Spanish government's role during the preparatory stages of the Barcelona Conference itself, see Esther Barbé, "The Barcelona Conference: Launching Pad of a Process," *Mediterranean Politics* 1, (1) (Summer, 1996): 25-42.



consultation and social/human affairs, which previously had been avoided. Using a formula reminiscent of the CSCE process, the Barcelona Declaration divided the partnership into three chapters — political and security; economic and financial; social, cultural and human affairs.<sup>1</sup> The Euro-Mediterranean agenda is thus rather wide ranging, although at all stages the predominance of the partnership's economic facet is evident.

The core of the association process is the establishment of a Mediterranean free trade area by 2010, and the transition process required for the southern Mediterranean countries is supported by substantially increased financial aid.<sup>2</sup> Bilateral association accords signed by a majority of the Med-12 introduce free market principles and legislative reform, thus giving spur to economic development, private investment and job creation. References to political dialogue (covering respect for democracy, good governance and human rights) in addition to “extended to security issues” are also included, in order to contribute to the overall aim of establishing “a Euro-Mediterranean zone of peace and stability.”<sup>3</sup> Moreover, at the Malta Ministerial Conference in 1997, a security charter was proposed to become part of the Process, entailing confidence-building measures and increased security cooperation. The final aspect of the Barcelona Process is the cooperation envisioned in the field of Social, Cultural and Human Affairs, where such issues as creating closer relations between the countries of the Mediterranean rim, xenophobia, racism and educational cooperation are treated. Moreover, there is a commitment to the development of human resources, promoting understanding between cultures and exchanges between civil societies.

Immediately after the conclusion of the Barcelona Conference, many observers hailed the new Euro-Mediterranean Partnership initiative as a success. Especially due to the fact that the EU provided in this way a framework, however fragile, for meetings involving representatives of countries who rarely interact in other fora, notably Israel and Syria. Nevertheless, five years down the road a loss of momentum is evident. This can be attributed among other things to the fact that the countries which provided the leadership of the Mediterranean initiative in early 1990s, France and Spain, have currently turned their foreign policy agendas towards other objectives. Moreover, the lack of funds and (thus) the lack of tangible progress in many of the projects for the subregion are additional problems add-

<sup>1</sup> Barbé, 26.

<sup>2</sup> Although MEDA funds have not been readily forthcoming until recently.

<sup>3</sup> European Commission, “Strengthening the Mediterranean Policy of the European Union. Establishing a Euro-Mediterranean Partnership,” *Bulletin of the European Union*, Supplement 2 (95), 1995.

ing to the poor performance of the Barcelona Process. Many of the obstacles which the Mediterranean countries encounter in their subregional cooperation attempts, stem from the uneven economic development in several southern Mediterranean countries, the scarce social and economical interaction in the Mediterranean, and open (or remnants of) violent conflict in the subregion, as well as the suspicion towards each others motives and those of the European Union. Furthermore, the outstanding quarrels related with the Middle Eastern peace process, such as: Israel's refusal to accept the nuclear non-proliferation treaty (NPT), Syria's insistence on 'land for peace,' the Syrian-Lebanese refusal to condemn terrorism if it was not differentiated from the legitimate defense of territory, etc.,<sup>1</sup> did difficult the reaching of an agreement at Barcelona to a point where the whole enterprise was jeopardized. This has given rise to the observation that until the Arab-Israel conflict has been settled the Partnership will enjoy only limited success.

### *The Union and its Periphery*

The European Union has consistently throughout the 1990s increased its interest and involvement in various subregional arrangements in its close vicinity. This interest stems from the recognition that these subregional efforts are valuable complements to its own efforts in its immediate neighbourhood. Subregional cooperations have not only assisted the efforts in terms of the facilitating the current EU enlargement process, by undertaking concrete tasks to prepare the applicant countries for accession. The subregional arrangements have also provided an additional forum for the EU to interact with its non-candidate neighbours in Eurasia and in the Mediterranean. This is especially important in that dialogue and openness may avoid new division lines around the Union as it enlarges. Moreover, the subregional cooperation contributes to peace and stability in the geographical areas on the European Union's territorial border, something that translate into stability for the Union itself. This has led the European Commission to conclude that the importance of subregional cooperation to the EU will increase in the future.<sup>2</sup>

Notwithstanding this positive lecture of the subregional phenomenon, the EU has been an uneven actor in relation with different subregional groups. The European Commission is a member of CBSS and BEAC, attending

<sup>1</sup> Esther Barbé and Ferran Izquierdo, "Present and Future of Joint Actions for the Mediterranean Region," in Martin Holland (ed.), *Common Foreign and Security Policy: The Records and Reforms*, (London: Pinter, 1997): 132.

<sup>2</sup> European Commission, "Informe de la Comisión al Consejo sobre cooperación regional en Europa," COM (97) 659 final, 1 December 1997.

meetings regularly and involved in the subregion's day-to-day work. The European Union would become the main instigator of two subregional cooperation initiatives: the EMP and SEECF. In contrast, in other subregions EU maintains a low profile, in CEI and the Arctic Council EU has observer rights, in BSEC the EU participate on an *ad hoc* basis and as for other subregional arrangements in the Union's near neighbourhood (Nordic Council, Baltic Council, CEFTA, Visegrad Group, Mediterranean Forum etc.) the EU has no formal contact with them. This is allegedly due to the EU's suspicion that some of these subregional groups do not have the capacity to become a useful instrument and evolve beyond a 'debating forum.'<sup>1</sup>

Where one can perhaps see EU's involvement and commitment to subregional cooperation the clearest is in the Baltic Sea and the Mediterranean subregions, where the Union has become a prominent, albeit a vacillating, actor. The European Union's Northern Dimension initiative has been welcomed by the Baltic Sea countries as an improvement over the earlier more ad-hoc and short-sighted involvement of the Union in the subregion. However, the Action Plan coming out of the Feira European Council is still a very modest document in scope and vision for the Baltic Sea cooperation. The document claims to further subregional cooperation among the Baltic Sea states, however, at closer inspection the document seems to increase some hurdles between countries rather than remove them. The implementation is envisioned to take place through bilateral agreements between EU and each Baltic Sea country, thus favoring a bilateral 'hub-and-spoke' interaction with the Union and disfavoring multilateral joint solutions to implementation. The CBSS, which was envisioned to play a significant role in the implementation phase of the Action Plan has all but been excluded. Moreover, the financing of the Northern Dimension remains spread over three basic instruments: TACIS, PHARE and INTERREG, i.e. there is no unified financial instruments for the cooperation in the Baltic Sea, and the poor coordination among these financial instruments sometimes cause considerable bottlenecks in the development of projects in the area. In the Euro-Mediterranean Partnership the debility of EU's subregional strategy is evident, in creating a cooperative arrangement for the Mediterranean involving all the Fifteen member states. The fact that EU *and* its fifteen member states are involved, increases the possibility that the Barcelona Process may become contaminated by the weaknesses of EU's foreign policy cross-pillar arrangement, and inter-institutional rivalries. This fact means that the subregional cooperation is paralyzed any time that the EU and the Fifteen cannot reach a common decision or due to that the executive competencies of the

<sup>1</sup> COM (97) 659 final.

Commission are not clearly defined. Had there been a separate subregional institution, like in most other subregions, that institution could keep the cooperation going — at least in all areas in which EU's financial help is not indispensable.<sup>1</sup>

Notwithstanding these weaknesses in EU's subregional policies, as we have seen EU's influence in the Baltic Sea and in the Mediterranean is considerable. Does this influence translate into that EU is trying to export its model of integration? This is definitely not the case in terms of institutionalization, the subregional processes in EU's perimeter have all chosen their own model of cooperation, clearly staying away from any supranational elements. Moreover, the Union is founded on binding legal principles and norms, while in the subregional cooperation initiatives these principles and norms tend to be non-binding.

Notwithstanding, EU's model of integration as a voluntary multilevel cooperation, to foment peace and economic prosperity has definitely influenced those of its neighbours closest to its perimeter. The attraction power of the Union shall not be underestimated, something which is illustrated by the numerous applications for membership the Union has received in the last decade. The vision of openness, free movement of people and goods and cooperative relations between governments and communities has also influenced subregional constructions.<sup>2</sup> The values inherent in the EU integrative model, such as liberal economy and market principles, democracy, human rights and rule of law, have to greater or lesser extent found their way into the founding documents of the majority of subregional groups in Europe's periphery. These values are of course most at the forefront in subregions behind which the EU has been the main promoter (EMP, SEECF). However, the export of these 'European/Western values' are inevitably fueling both sides' imagination and causing strain in some subregions. Clauses of political conditionality in terms of democracy, the rule of law and sustainable development (economic, environmental) are staples of most bilateral association agreements signed between EU and third countries in the 1990s. The Barcelona Process and the southeastern European cooperation processes in particular have been heavily tinged by these values, to the concern of some southern Mediterranean countries. Cooperation partners usually view these

<sup>1</sup> In fact, modest steps towards such a solution was made when Mr. Taieb Fassi Fihri, the state secretary of the Moroccan Ministry of Foreign Affairs, affirmed in late October 2000 that Morocco, Tunisia, Egypt and Jordan had the intention to gather in early 2001 to "form the first subregional integration project, as they are encouraged to do by the EU." *Agence Europe*, 30/10/2000.

<sup>2</sup> Renata Dwan, "Subregional, Regional and Global Levels: Making the Connections," in Gunilla Herolf (ed.), *Subregional Cooperation and Integration in Europe*, Conference Paper 26 (The Swedish Institute of International Affairs): 84.

normative clauses in association agreements with some resentment, in that they represent attempts by the EU to impose its values beyond the Union's territorial borders. This, in spite of that up to date, the EU has been very timid to enforce any of these clauses. The Union did not even consider doing so in the flagrant human right violation cases of Algeria. Be that as it may, these values, which EU and other Western institutions or organizations represent, are impossible to ignore for the countries in Europe's periphery, although some Med-12 would like to. A majority of subregions in EU's periphery adopt these values formally in their founding documents and include issues on their agenda as a pragmatic move. This is because most regional and international institutions providing aid today hold democracy, rule of law etc. as an indispensable criteria for granting credits, loans and aid. If the subregional cooperation arrangement is seen to espouse the same or similar values as the EU, and other aid donating international financial institutions, the possibility to ensure foreign capital investment, aid and technical assistance, credits and loans will naturally increase.

### Conclusion

A varied array of subregional arrangements has risen in Europe's periphery during the 1990s, from Murmansk in the north to Morocco in the south. Their practical cooperation has provided inestimable value to the countries involved solving many problems that these are facing in the rapidly ever-changing post-Cold War world. The practical cooperation undertaken by subregions has resulted in a normalizing of the relationship between neighbouring countries, a relation that in some cases was completely truncated by the bipolar antagonisms during the Cold War. Thus, subregional collaboration is assisting the process of bridging the bipolar East-West ideological division on the European continent and around the Black Sea; a phenomenon, which to a certain degree, is also visible in the gradual closing of the cultural-economical North-South rift in the Mediterranean.

By mid-1990s the Union had understood the tremendous added synergy which many of these subregional cooperation provided, not only in terms of the enlargement process, but enabling a wider integration between EU and its 'near neighbourhood' in Eurasia and in the Mediterranean. The Union's encouragement of subregional cooperation should not be seen as a replacement for bilateral relations, or as a dilution of the current enlargement dynamics to include third countries into the European Union. On the contrary, the subregions are additional fora for the European Union to interact with its closest neighbours, where the subregion provide a valuable comple-

ment to and even reinforcing the enlargement process. Moreover, EU's contacts with subregional initiatives in Europe's periphery, in conjunction with its other foreign policy instruments, have given the EU a prominent foreign policy profile in its near neighbourhood.

However, although the EU has tended to view the subregionalization phenomenon arising in its immediate neighbourhood with positive eyes, its interaction with subregions has been obstructed by the structural weaknesses of EU as a foreign policy actor. The high reliance on bilateral accords and relations between EU and each member or partner country, the restrictive access of subregional institutions to EU foreign policy making and poor coordination among financial instruments have caused considerable impediments in the Baltic Sea cooperation. In the Euro-Mediterranean relationship the participation of EU and its Fifteen member states, testifies to the complex nature of the Mediterranean subregion. However, this also transposes EU CFSP structural inefficiencies directly on the Barcelona Process, where cross-pillar problems and institutional rivalry between the Commission and the Council over foreign policy competencies make the further development of the EMP highly troublesome.

Notwithstanding, subregional cooperation initiatives are valuable complements to regional efforts in creating stability in Europe and in the Mediterranean. While subregional cooperation can never become a full-fledged substitute for those countries desiring membership in the EU and NATO, subregions may diffuse lines between 'ins' and 'outs' of regional institutions. This would help ensure that the lines between the latter and the former are not so acute as to produce geopolitical power vulnerabilities, instability and disequilibrium. Furthermore, subregional cooperative initiatives serve to coordinate and enhance individual countries' relations with the regional organization. Subregional institutions thus provide greater access to regional politics than each participant country would be able to obtain on their own and functions as a vehicle for proving suitability of participant countries for one day aspiring for regional membership. Finally, different tasks assisting lesser developed countries in their transition process may be shared between the regional and the subregional levels. Thus, it is important to determine a certain division of labor to avoid duplication between levels. Moreover, formal relations between regional organizations and subregional initiatives needs to be clarified, in such matters as observer-ship, exchanges of information, and implementation of decisions.

## The political economy of the EU's external relations: The historical evolution of the Lomé Convention

*Sophia Price*

### **Abstract**

This paper explores the EU's role in the global economy, through an investigation of its external relations with Africa, the Caribbean and Pacific (ACP). Through an analysis of development cooperation, it displays the EU as a coherent promoter of neo-liberal economic and political orthodoxy on the global stage. This analysis is supported by a focus on the Lomé Convention, a development cooperation agreement conducted between the EU and the ACP. In charting Convention's evolution, a coherent European approach to development is revealed, which has increasingly reflected a market-orientated definition of development in partnership with the institutions of global economic management. This is most apparent in the convention's innovations, which over time demonstrate the centrality of the EC/EU in restructuring state-society complexes throughout the developing world and in managing change in the global political economy.

### Introduction

Since 1975 the European Community/European Union (EC/EU) has conducted its external relations with a large portion of the developing world through the Lomé Convention.<sup>1</sup> Based on aid and trade provisions, and renegotiated every five years, this development co-operation agreement has tied the EC/EU to an ever expanding group of states in Africa, the Caribbean and the Pacific (ACP). This paper maps the evolution of Lomé Convention through each of its four renegotiations. It does so through an examination of both the European and ACP negotiating mandates and each of the renegotiated Conventions. What this clearly demonstrates is the dominance of the EC/EU in the Lomé relationship and its ability to pursue its own development agenda despite the much-vaunted rhetoric of equality and partnership.

Central to the analysis presented here are three inter-related claims about the role of the EU as a single actor in the global political economy. First, in contrast to well-known arguments suggesting that European 'actor-ness' is hindered by internal division (Allen 1998; Hill 1994, 1998; Lister 1997), the EC/EU has actually presented an increasingly coherent policy toward development. Second, the EC/EU has been able to play a leading

<sup>1</sup> The European Community (EC) is used when referring exclusively to the period before the creation of the European Union (EU) in November 1993.

role in the global political economy precisely as a result of the evolution of the Lomé relationship with an expanding number of developing countries. And third, that role has been advanced in conjunction with the institutions of global economic management such as the International Monetary Fund (IMF) and World Bank (World Bank). Evidence for these claims can be found in three broad outcomes of the development of the Lomé Convention. One is the way that ACP development has been effectively redefined away from a state-led interventionist paradigm toward a more market-oriented neo-liberal model entirely consistent with the evolving policies of the IMF and World Bank. A second has been the ability of the EC/EU to 'lock in' this redefined development model at both state and civil society levels in the ACP, and in so doing play an important role in restructuring of state-society complexes throughout the developing world. And finally, the result of that restructuring has been the extension of both European and other capital, supported by the building of class alliances.

In order to support the above claims it is first necessary to outline the manner in which development has been redefined at the global level during the lifespan of the Lomé relationship. The first Lomé Convention was signed at a time when a development framework based on a redistribution of resources between the North and the South was institutionalised in the United Nations Declaration of a New International Economic Order (NIEO). Despite the formal recognition of 'Third World' development concerns, as expressed through the Group of 77 and the Non-Aligned Movement, this framework was radically altered as, at the global level at least, a particularly Anglo-American neo-liberal model of capitalist development came to prevail (Gill 1999: 4). This shift was evidenced by the World Bank's promotion of a market-led approach to development based on successful export-orientated industrialisation rather than national economic and social transformation (McMichael 1996: 109). The new approach was to be facilitated by the 'retreat' of the state and comprehensive policy reforms, providing the basis of the structural adjustment policies (SAPs) prescribed by both the IMF and World Bank to manage the debt crisis.<sup>1</sup> Under the guidance of the institutions of global economic management, governments

<sup>1</sup> Structural adjustment 'is a set of policies designed to reduce internal and external imbalances in the economy. Whereas stabilisation policies are largely concerned with the reduction in aggregate demand, structural adjustment focuses on the increase in aggregate supply. Both sets of policies complement each other and both share many common elements – more liberal trade policy (removal of quantitative restrictions, reduction in tariffs), improved resource mobilisation and allocation (through fiscal and monetary reform, removal of subsidies, reform of public enterprises, reform of agricultural sector pricing policies) and institutional reform' (Nixon 1994: 402). See the World Bank's *World Development Reports* for 1981 and 1985.



have been forced to redefine public policy to prove the *credibility* and *consistency* of their policies according to the criterion of the *confidence* of investors – the three Cs -- in order to attract internationally mobile capital (Gill 1999: 3). The global development framework therefore created a vehicle for the imposition of new constitutional and quasi-constitutional legal frameworks with respect to the state and the operation of strategic macro-economic, microeconomic and social policy. In effect, this development 'counter-revolution' provided the political anchorage for the long term power of capital, in a process Gill refers to as the 'New Constitutionalism' of 'Disciplinary Neo-liberalism' (Gill 1999: 2-4).

The redefinition of development, however, has not been unproblematic. The policies of the new development paradigm have forced austerity on the most vulnerable sections of society, raising concern regarding the potential for social conflict and prompting the World Bank's 'Social Dimension of Adjustment' project to mitigate the ill-effects of enforced public spending cuts and liberalisation. By emphasising the participatory nature of development, democratisation and decentralisation were identified as corollaries of economic transformation. The imposition of democracy from above aimed to engender political coalitions that embraced economic restructuring and ensured the political stability and economic openness necessary for the continued expansion of capital (Cheru and Gill 1997; McMichael 1996). The process of widening the social base of support for the new development paradigm and compensating its losers to prevent social conflict is well captured by the Gramscian concept of 'trasformismo'. The institutions of global economic management have consistently stressed the need to 'lock in' political economic reform in order to secure the long-term commitment to the needs of capital accumulation.<sup>1</sup> What follows in the analysis of the evolution of the Lomé Convention demonstrates the degree of European coherence in advancing this project: by locking in this development model in the ACP; by restructuring state-society complexes; and by embedding the 'new constitutionalism' of 'disciplinary neo-liberalism' at both the national and international level in partnership with the institutions of global economic management.

### **Lomé I**

The first Lomé Convention between the nine EC member states and 46 of their former colonies and dependencies in the ACP was signed in 1975 and hailed as an example of the NIEO. Encompassing the prevalent dis-

<sup>1</sup> The *World Development Report* (1997).

course of market intervention and resource redistribution, it provided for co-operation in trade, aid, investment and industry. Trade was promoted as a tool of development for the ACP states by providing preferential, non-reciprocal access for certain ACP exports to the European market. This interventionist approach to trade was supplemented by a system for the stabilisation of exports (STABEX) and separate protocols guaranteeing prices and quotas for certain commodities, in recognition of the dependency of many ACP states on a few primary exports. The European Development Fund (EDF) and the European Investment Bank (EIB) were to supply financial and technical aid. The EIB provided loans while the EDF, resourced from special contributions from member states, provided 'soft' aid in grant form, with the recipients having freedom in determining their aid priorities (Hewitt 1989: 306). The Lomé 'partnership of equals' was contractual in nature and based on the idea of joint decision-making and management (Arts and Byron 1997: 74).

The Lomé relationship offered a vehicle for the EC to maintain and manage its relations its former colonies. Although presented as a radical break with the past, the Convention was inherently neo-colonial, securing the ACP as both suppliers of raw materials and markets for European manufactured exports (Galtung 1976; Nabudere 1976). This relationship was perceived as being of particular important in two senses: in the climate of world economic crisis and in recognition of the developmental concerns of the ACP. Industrial co-operation provisions and forums, such as the Centre for Industrial Development, were designed to offer new opportunities for European capital while the commodity support systems directly supported European producers operating in the ACP export sector.<sup>1</sup> However, in the increasingly competitive economic environment of the late 1970s, support for ACP producers sparked conflict with European domestic producers and brought about protectionist pressures.

### *Lomé I: Results*

Soon after the application of Lomé I the ACP states were voicing concerns regarding European unilateral decision-making, particularly in the operation of the commodity protocols, and lack of respect for the spirit of partnership and equality. Set in this light, the Convention had not altered the colonial nature of EC-ACP trade, the benefits of which accrued predomi-

<sup>1</sup> TNCs such as Tate and Lyle, Booker McConnell and Unilever were active in the ACP agricultural sector, particularly the Caribbean and African plantations, with many conglomerates operating across sectors, for example Brook Leibig's involvement in tea, coffee and cattle rearing in Africa (Long 1980).

nantly to certain European states and firms. EC exports consisted primarily of French, British and German manufactures, while ACP trade was dominated by a small number of states exporting primary commodities.<sup>1</sup> Despite ACP preferential access to the European market, it was clear that European exporters gained most from EC-ACP trade relations.<sup>2</sup>

While the decline in ACP exports to the European market reflected the global economic recession, it was exacerbated by two factors. First, ACP preferences were of limited and declining value as other developing countries benefited from the Generalised System of Preferences (GSP) which was extended to include processed agricultural products in 1978. Further, the EC intensified its series of agreements with developing states across the world,<sup>3</sup> which devalued ACP preferences and relegated the group to a secondary area of European export expansion and investment.<sup>4</sup> The project to increase exports and/or assure sources of supplies through the expansion of bilateral relations was part of the European strategy to address its global competitiveness and stimulate growth. This was complemented by participation in the ongoing General Agreement on Tariffs and Trade (GATT) negotiations and internal moves toward economic and monetary union and enlargement. Increased European commitment to economic reform caused competitive concerns for the ACP and prompted their demands for compensation for the erosion of their preferential position.

Second, commodities central to ACP export production were excluded from the preferential arrangements as the EC continued to protect its sensi-

<sup>1</sup> In 1977 more than 80 per cent of total ACP exports went to four EC countries (France, Germany, the Netherlands and the UK) while Nigeria, the Ivory Coast and Zaire accounted for nearly half the total ACP exports to the EC. Nigeria alone accounted for 37 per cent of the total ACP exports, 85 per cent of which being petroleum products (Cosgrove Twitchett 1980: 151-4).

<sup>2</sup> While EC exports to the ACP increased rapidly from 4 million EUA in 1972 to 12.5 million EUA in 1977, ACP exports to the EC declined, meaning that in real terms the ACP were exporting less to the Community than the before the start of Lomé I (*The Courier* 1978d: 20). This decline however was not uniform. In 1978 Caribbean exports increased significantly while African non-oil exports dropped (*The Courier* 1979c:28).

<sup>3</sup> Of particular interest were those of close proximity to the Community, hence the preferential trade and cooperation agreements signed with the Maghreb (Algeria, Morocco and Tunisia) in 1976 and the Mashreq (Egypt, Jordan, Lebanon and Syria) in 1977. Others included the non-preferential trade/commercial cooperation agreements with South Asia (India 1974, Sri Lanka 1975, Pakistan 1976, Bangladesh 1976), Latin America (Argentina 1972, Brazil 1974, Mexico 1976 and Uruguay 1975), ASEAN (Indonesia, Malaysia, the Philippines, Singapore, Thailand) China in 1979 and Romania in 1980. A preferential cooperation agreement was signed with Israel in 1975 and Yugoslavia in 1980.

<sup>4</sup> Although the Lomé recipients received what was regarded as the most preferential and generous agreement, its duration was limited to only 5 years and subject to uncertainty over their continuation and renegotiation (*The Courier* 1977:3). Other agreements, like those offered to the Maghreb and Mashreq however, although apparently less generous, engendered security and stability as they were offered for an unlimited time.

tive sectors through measures such as quotas, rules of origin, safeguard clauses and the Common Agricultural Policy (CAP).<sup>1</sup> Such protectionism was contrary to the declared aims of the Convention, but in the conflict between European and ACP producers the EC was unwilling to pursue internal adjustment in order to accommodate ACP exports. As the president of the Commission, Roy Jenkins, noted:

In a recession those [jobs] displaced by foreign competition cannot be easily reabsorbed elsewhere. We have a right therefore to protect particularly vulnerable sectors of our economy (Jenkins 1978: 311).

Concerns over European competitiveness also informed the allocation of the financial provision which was not disbursed with any speed or uniformity. The EC, having sole financial decision-making authority, was extremely selective in terms of recipient sectors and states. Little aid was given to the production of goods that might compete with European products and the industrial funding focused on energy supplies, pertinent in light of the oil crises. Over 40 per cent of rural funds were allocated to large agro-industrial projects, concentrating heavily on export crops, with only a tiny sum allocated for processing of agricultural and food products (Rubin 1978: 11). Colonial ties proved an important allocation criteria, with a disproportionate level of aid committed to ex-French colonies while French firms were the prime beneficiaries of EDF awards (Hewitt 1981: 45).<sup>2</sup> Additionally the allocation of aid was extremely slow, with only 10 per cent of the EDF disbursed by 1978, rising to 60 per cent by the end of Lomé I (*The Courier* 1984b: 23).

The neo-colonial nature of EC-ACP relations had been maintained and deepened through the Lomé Convention and was augmented by a conscious project to engender supportive coalitions, particularly through co-operative forums such as the Centre for Industrial Development which were designed to forge class alliances. However, in an increasingly competitive environment, conflicting interests between domestic and foreign producers led to

<sup>1</sup> The rules of origin proved a barrier to ACP export trade as they specified that ACP exports had to satisfy a minimum added-value of 50-60 per cent in the ACP states before qualifying for duty-free access. Despite the apparently generous provision that the ACP states constitute a cumulative area of origin, (a bid to stimulate intra-ACP trade), in practice ACP states' manufacturing only added 25-40 per cent of value, due to their low-level of industrialisation, leading the ACP to label the rules "too restrictive" (*The Courier* 1979a: v). The CAP guaranteed the priority of domestic products and limited import facilities. Of the total ACP agricultural exports, it was estimated only 10 per cent were destined for the European common market (Dans 1977: 122).

<sup>2</sup> In 1978 UK firms won only 9 per cent of EDF financed contracts, whilst French firms won 37 per cent (Hewitt 1981:43-44).

greater protection of the European market, which was exacerbated by the diminution of the ACP's preferential treatment. The worsening economic situation reinforced the ACP's dependence on the Convention.<sup>1</sup> This dependence was particularly salient for the non-oil exporting states hit by the oil crisis, weakening the ACP's collective bargaining power and underlining the dominant position of the EC.

### *Negotiating Lomé II*

The renegotiations began in 1978 and, as France took over the European presidency, the completion of the new Convention was prioritised. Apart from the benefits accruing to France through the Convention, Lomé was seen as the showpiece of a range of development policies regarded as superior to those of other major economic actors. At the same time it signalled the EC's seriousness as a geopolitical actor. In this context new pressures helped to shape the terms of engagement. In the economic environment of the late 1970s Northern states proved unwilling to make concessions to the South while the dissatisfied ACP sought a new, more progressive Convention to reinvigorate the objectives outlined in the NIEO (*The Courier* 1978c: 7).

For its part, the ACP group presented 'demands of principle' which centred on the liberalisation of access to the European market while maintaining the existing preferences and providing compensation for their previous slippage. This stipulation was coupled with demands for large increases in aid and recognition of ACP equality in the form of co-determination in operating mechanisms. In addition, the ACP sought an extension of STABEX and its joint management. These 'demands of principle' which applied to the whole group, were accompanied by specific provisos pertaining to certain states with regard to special arrangements and issues. By contrast, the European mandate recommended no radical reform of the agreement, rather its adaptation to promote European investment capital and protect domestic European producers. European proposals included improved contractual arrangements to protect and encourage private investment in the ACP, and an obligatory consultative mechanism between ACP governments and EC producers/consumers to avoid any import 'threat' to the EC from ACP manufactured or processed agricultural exports.

It is clear that the European negotiating mandate marked a significant policy shift towards a market-based approach to development reflecting an

<sup>1</sup> This dependence was deepened as neither the USA or Japan were willing to provide a similar relationship, nor had the Soviet Bloc or China offered significant new opportunities (Ravenhill 1980: 37)

unwillingness to pursue resource redistribution. The approach was predicated on a move from public development funding to the extension of private capital, with the EC playing a supportive role by improving and securing investment environments. Such a role was particularly demanded by a consortium of mining companies in response to the rapid decline of European investment in Third World mining due in part to increased state control.<sup>1</sup> The request to provide investment stabilisation and protection frameworks in turn prompted the Commission to urge other institutions, such as the World Bank and the International Finance Corporation, to widen their stabilisation efforts (Long 1980: 123). Set in this light, European development policy was explicitly presented as a vehicle for the extension of European capital in an increasingly competitive global economy while assuring secure and diverse supplies of raw materials. The whole project was presented under the banner of structured interdependence and highlighted concerns over future energy supplies (*The Courier* 1978b: iv).<sup>2</sup> The desire to stimulate European economic growth, particularly through enhanced demand for European capital, converged with the needs of capital to secure the most profitable locations in terms of market access, production costs, raw materials and labour.

In the course of the long and arduous negotiations the European representatives adopted a staunch position. Their mandate included two further proposals regarding the insertion of a 'social clause' and linking aid provision to the observance of human rights. The latter caused much controversy as the ACP regarded it as an attack on their sovereignty.<sup>3</sup> Since the EC was unwilling to make concessions in other areas both issues were sidelined (Green 1980: 17). The EC's continued commitment to the protection of the European market was echoed in the Tokyo Round of GATT which failed to curtail the use of non tariff barriers (NTBs) (Nicolaidis 1994: 235). Yet

<sup>1</sup> Between 1961 and 1973 the proportion spent on mining exploration by European companies fell from 57 per cent of their total expenditure to 13.5 per cent. This drop was particularly marked in Africa, where there has been little investment by European firms since 1974 (*The Courier* 1979c: 31).

<sup>2</sup> The Commission estimated that an energy gap would emerge in the 1980s due to scarcity of uranium and oil, threatening the survival of European industry (*The Courier* 1979a: xxv). A central concern was that mineral supply would shift from Africa to the USA, Canada and Australia, which were much stronger bargaining partners, or to third countries where other industrialised mineral users represent more powerful competition (Stevens 1981: 54).

<sup>3</sup> The ACP pointed to the existing commitment to the Universal Declaration on Human Rights and questioned the EC's narrow interpretation of human rights as only civil and political, ignoring economic, social and cultural rights. Furthermore the ACP condemned European hypocrisy, given the activities of European MNCs and businessmen in apartheid South Africa, the economic and military support afforded by certain European states in contravention of the United Nations resolutions, and the discrimination suffered by ACP nationals in European states.

when the ACP, in conditions of deepening recession, raised the issue of debt relief, the EC refused, preferring an export-orientated solution to debt-servicing.

Constrained by economic weakness and deepening dependence, the ACP was unable to press its demands.<sup>1</sup> Coherence proved difficult in a group divided by geography, relative wealth, development, colonial affiliations, export base and different perceptions of the Convention.<sup>2</sup> This was exacerbated by adoption of a 'divide and rule' strategy by the EC which agreed to individual state's demands in return for support for the European position (Ravenhill 1980: 45).<sup>3</sup> Despite this, the ACP did agree to abandon the negotiations in May 1979, which were resumed and concluded amidst the second oil crisis. The ACP had found a firm ally and Lomé proponent in Germany which, under its SYSMIN proposals, sought an extension of the export stabilisation mechanisms to include minerals. This was intended both to address the potential shortage of raw materials, particularly energy supplies, and support European TNCs heavily involved in ACP mining, refining and processing (including German TNCs such as Saarbergwerk). These proposals found support among other European member states with capital interests operating in the ACP mineral sector, such as Belgian Petrofina and Royal Dutch Shell (Long 1980: 122).

### *Lomé II: The Revised Convention*

Lomé II was signed in 1979 between the nine EC member states and the 58 ACP member states.<sup>4</sup> The few substantive changes made to the existing Convention reflected European concerns to promote European investment and protect the European market from competitive ACP exports.<sup>5</sup> Access

<sup>1</sup> The decline in primary product prices reduced the economies of some ACP states to a perilous state. The group contained 21 of the UN-designated 31 least-developed countries. For the purposes of the Convention 35 of the 57 states were classified as least developed; with an average *per capita* income of \$176. Of the 11 new states to accede to the convention, nine were in the least developed category, which hardly strengthened the bargaining hand of the ACP (Ravenhill 1980: 37).

<sup>2</sup> While the Caribbean group took seriously the notion of Lomé as a NIEO model, relying on their strength as raw material suppliers, the Francophone states regarded the convention as a begging-bowl arrangement to maintain flows of aid on which they were heavily dependent (Ravenhill 1980: 39).

<sup>3</sup> This trading of ACP 'demands of principle' for individual state and group demands was demonstrated by promises made by the French government at the Kigali Summit to Francophone states.

<sup>4</sup> The twelve new additions to the original 46 ACP states were: Cape Verde, Comoros, Djibouti, Dominica, Kiribati, Papua New Guinea, St. Lucia, São Tomé and Príncipe, Seychelles, Solomon Islands, Suriname and Tuvalu.

<sup>5</sup> New titles included Title III regarding the protection and development of ACP mineral and energy production, Title IV regarding investments and Title VI regarding agricultural co-

to the European market was not liberalised, with the rules of origin, safeguard provisions and the CAP remaining unchanged. But there were concessions regarding individual products as a result of the European bargaining strategy and its inclination to protect certain commodity producers.<sup>1</sup> STABEX was slightly extended and coupled with SYSMIN, although both remained firmly under European management. No progress was made towards co-determination or the enhancement of partnership and equality.

Under Lomé II, development was explicitly defined as participation in the global market with regional co-operation specifically oriented towards the maximisation of ACP production and markets, and to facilitate joint ventures. Agricultural co-operation aimed at the general expansion of the ACP agricultural export base through the extension of large European agro-industries to process raw commodities. Reflecting the new emphasis on private investment, the EDF aid provision represented a 21 per cent decline in funding in real terms per capita, and did not include compensation for the erosion of ACP preferences.<sup>2</sup> The provision was thinly spread across the new areas of the Convention, with allocations reflecting EC priorities and increasingly reliant on development loans.<sup>3</sup> Moreover, in response to the decline in state funding, the EC looked to widen the Lomé relationship. In addition to European capital, other financial institutions were sought to fund joint projects. Contributors to these 'triangular financing' schemes were individual member states and the World Bank, as well as Arab investors eager to recycle petro-dollars. Such funding schemes supplemented stabilisation efforts and helped to spread risk.

In the project to extend European capital, elements of the new Convention were targeted at building supportive networks of foreign and local capital, officials and politicians. Like the Centre for Industrial Development, the Technical Centre for Agricultural and Rural Co-operation was established with the explicit aims of promoting joint ventures, subcontracting, the export of expertise and public-private co-operation between the ACP and the EC. These were complemented by new chapters regarding small and medium

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operation, particularly the new Technical Centre for Agricultural and Rural Cooperation. and thirteen chapters concerning financial and technical cooperation

<sup>1</sup> The beef quota, while not increased, was guaranteed for 5 years, while the rum and banana protocols were not disbanded, which implied a gain.

<sup>2</sup> Although the aid provision of 5,227 million units of account was presented by the EC as a generous 62 per cent increase over Lomé I, this figure was misleading. It ignored inflation, the growth of recipients due to accession and had to stretch over 5 years in comparison with the 4 years of Lomé I (Stevens 1981:47).

<sup>3</sup> The EIB enjoyed a substantial increase, as it was responsible for 'bankable projects' such as tourism, mining, agro-processing and some infrastructure development (Stevens 1981: 51).



enterprises (SMEs) and microprojects, which strengthened the interaction between the EC, ACP states and local capital.<sup>1</sup>

Through the provisions of Lomé II, then, the EC was able to adapt the existing Convention to reflect changing ideas regarding development. The extension of private capital was to augment the declining aid provision, with the Convention redesigned to provide a supportive investment framework and embed market-orientated policies in the ACP, complemented by the promotion of class alliances. Yet despite formal partnership with the World Bank through co-financing, the EC commitment to a liberal approach was not wholehearted given its continued commitment to market intervention.

#### *Lomé II: Results*

Lomé II was signed in a deteriorating global economic situation. Bank loans to developing countries that had supplemented declining overseas investment and trade became costly as interest rates rose. The result was the debt crisis. Although the effects of the oil crises were not uniform across the ACP, the debt crisis had a destabilising effect across the entire developing world.<sup>2</sup> As a result, the central role afforded to private investment and the EIB in Lomé II was not realised, with the EC unable to promote the increasingly unattractive investment environment. The much-diminished financial protocol continued to display a lack of speed and uniformity in its administration.<sup>3</sup> Aid allocation continued to favour former French colonies and French capital. The main beneficiaries of the EDF contracts were French firms, while the proportion of European aid accruing to ACP firms actually declined.

**Table 1:** EDF contracts classified by nationality of firm, December 1985

<sup>1</sup> The new chapter regarding microprojects was aimed at small, rural project and was funded by a tripartite structure in which EDF funding was matched by the ACP states and the recipient group. Therefore such projects were dependent on close local capital/state interaction, and limited to relatively integrated social groups

<sup>2</sup> The effects of the oil crisis varied. While the oil-exporting states benefitted, the deficits suffered by African oil-importing countries rose from US\$11.3 billion in 1973 to US\$37 billion in 1974, then expanded from US\$42 billion to US \$88 billion in 1980 (Parfitt and Riley 1989:2).

<sup>3</sup> The gulf between Anglophone and Francophone states remained with commitments for 1982 some 20 per cent greater per capita for Francophone countries than for the Anglophone states, excluding Nigeria, while disbursed continued slowly (*The Courier* 1984b:23). Of the 4636 million ECU provided under Lomé II, only 3102 million ECU had been identified as commitments and only 1454 million ECU actually disbursed by the end of 1984 (CEC 1986:18).

Nationality of firms	Fourth EDF (Lomé I)		Fifth EDF (Lomé II)	
	Million ECU	per cent	Million ECU	per cent
Germany	273.9	12.6	226.9	14.2
Belgium	121.8	5.6	71.6	4.5
France	485	22.3	344.1	21.5
Italy	264.9	12.2	157.6	9.9
Luxembourg	5.2	0.2	5.5	0.3
Netherlands	90.1	4.1	60.7	3.8
Denmark	15.1	0.7	10.6	0.7
UK	223.1	10.3	235.6	14.7
Ireland	10.1	0.5	18.5	1.1
Greece			3.8	0.2
ACP	646.7	29.7	435.9	27.4
Third Countries	37.6	1.7	27.9	1.7
<i>Total</i>	<i>2,173.5</i>	<i>100</i>	<i>1598.6</i>	<i>100</i>

Source: *The Courier* (1986: 58)

The unchanged structure of the trade regime did not alter the nature of ACP-EC trade whose benefits accrued only to a few countries. ACP export trade remained dependent on a few primary products dominated by a handful of states.<sup>1</sup> Such states were also the principal markets for EC exports.<sup>2</sup> As the global recession deepened the ACP became increasingly marginalised in both the European and world markets (Moss and Ravenhill 1987: 112). Falling commodity prices sent STABEX into crisis, leading to a reduction of support transfers to the ACP (*The Courier* 1985a: 23). Prolonged drought in Sub-Saharan Africa exacerbated the effects of recession. By the end of Lomé II the ACP share of the European market had declined particularly in the non-oil sector (Moss and Ravenhill 1987: 127).<sup>3</sup> EC exports to the non-oil-exporting ACP states also declined due to their need to devote a larger proportion of their foreign exchange to petroleum imports.

<sup>1</sup> 45 per cent of ACP trade was petroleum. The nine leading ACP exporting states (Nigeria, Ivory Coast, Zaire, Cameroon, Gabon, Liberia, Zambia, Kenya and the Bahamas) contributed 71 per cent of total ACP exports to the EC, with Nigeria alone accounting for 37 per cent between 1979-83. Twenty ACP states contributed less than 1 per cent of the total, while a further twenty accounted for only 9 per cent (Moss and Ravenhill 1987:111-2).

<sup>2</sup> The eleven most important markets (Nigeria, Ivory Coast, Cameroon, Kenya, Sudan, Zaire, Senegal, Gabon, Liberia, Congo and Tanzania) accounted for 70 per cent of EC exports between 1980-84, with Nigeria alone consuming 34 per cent (Moss and Ravenhill 1987: 111-2).

<sup>3</sup> Whereas the non-oil exporting ACP states lost 40 per cent of their share of the EC market from 1970-1984, the market share for other non-oil exporting states remained virtually stable (Moss and Ravenhill 1987: 112).

*Negotiating Lomé III*

Lomé III negotiations began in 1983. The EC continued to redefine ACP development according to market-orientated principles, echoing the 1981 World Bank Development Report. Based on the existing provisions, the EC proposed increased European interference in ACP economic management, rigid aid conditions and a more managerial donor role. This management would be shared with the co-financing partners, such as the World Bank, on which the Convention was increasingly reliant. Declining investment reinforced demands for the EC to stabilise the ACP investment environment, with human rights conditionality identified as a key prerequisite for such stability. Although regional co-operation and economic integration were again prioritised as strategies for effective participation in the global economy this did not prompt the liberalisation of the European market.<sup>1</sup> Instead the EC sought to provide a framework for co-operation in those few sectors on which it remained externally dependent, such as fishing, mining, energy and certain agricultural commodities, while maintaining the protection of domestic producers.

The European position was in contrast to that of the ACP which remained wedded to a redistributive approach to development. The ACP continued to demand increased access to the European market, equality and an affirmation of the group's acquired rights.<sup>2</sup> Such demands reflected the ACP's continuing concerns over increased competition notably the proposed deepening of the European Community through the Single Market, and its widening with the accession of Greece, Spain and Portugal. Increased European self-sufficiency threatened more protectionism. The new member states posed a competitive threat to the ACP in the agricultural market and also in the ACP's rapidly growing exports, clothing and canned tuna. Additionally the Community's growing interest in formalising trade and co-operation agreements with Latin America and Southeast Asia threatened the ACP's preferential position. In particular, the relative economic dynamism of these regions further entrenched the ACP as a secondary area for export expansion and investment.

Other specific ACP demands included concerns over debt and food security. Human rights proved a contentious issue once again with the ACP's preference for a definition based on economic and developmental rights due

<sup>1</sup> Regional integration was "the only way of creating markets large enough to move towards economy of scale and high productivity" (CEC 1984 83: ii).

<sup>2</sup> The points of no return as regards advantages already obtained under the previous conventions.

in no little part to suspicions over European political coercion. Although the EC recognised the uneven nature of ACP development when it sought to focus development on the 'least favoured classes' as a supplement to the 'least developed countries', it still pursued an emphasis on the individual (*The Courier* 1984a:ii).

Although the ACP presented a radical position, its ability to counter the EC was constrained by serious organisational and economic weakness (Stevens 1984: 9). The previous Conventions had institutionalised the dependence of ACP development on the EC, which the economic environment exacerbated and deepened, leaving the ACP states as mere supplicants in the negotiating process (Hewitt 1989: 301). The concept of partnership was disregarded as the EC presented a non-negotiable position to which the ACP eventually acceded (Stevens 1984: 11).

### *Lomé III: The Revised Convention*

Lomé III was signed in 1984, between the 65 ACP and ten EC states.<sup>1</sup> While the new Convention again made formal recognition of sovereignty and equality, many of the innovations were in direct contravention of these principles. The administrative shift towards aid programming for selected sectors was of particular importance. This institutionalised a larger, more orthodox donor role for the EC congruent with the IMF's and World Bank's collective management of the debt crisis. Veiled in terms of increased efficiency, flexibility and co-ordination, the Commission's remit was extended to the allocation of funds to individual states, the identification of sectors and programmes and implementation.<sup>2</sup> The shift from the project oriented approach to support for priority sectors or development 'themes', allowed the EC to reconfigure those parts of the ACP economies it wished to promote. In effect, then, the EC became the predominant decision-maker in ACP development. In return the ACP attained European recognition of its debt

<sup>1</sup> Zimbabwe acceded to the convention in 1980, and the following six states acceded to the ACP for Lomé III: Antigua and Barbuda, Belize, Mozambique, St Christopher and Nevis, St Vincent and the Grenadines and Vanuatu. Angola was to join the following year in 1985, taking the total ACP states to 66. Greece had acceded to the EC in 1981, with Spain and Portugal acceding in 1986.

<sup>2</sup> In contrast to the previous system, whereby the ACP state exchanged views with the EC on development objectives and priorities, under Lomé III the European Commission now was involved in a preparatory stage, informing the ACP of the amount of aid it could be eligible for. The Commission and main providers of aid assess the ACP states' economic and social situation, and identify the focal sector for Community aid. The programming mission, led by the Commission and the EIB then creates an indicative programme with the national authorities, setting out the sectors chosen, aid guidelines and the means of implementation. (CEC 1986: 71).

problems and a commitment to undertake 'healthy dialogue' regarding potential solutions.

Although the total financial provision was increased to 8.5 billion ECU, in real terms per capita this was a reduction (*The Courier* 1985a: 5). Once again private investment was to complement the shortfall in aid provision. And in order to further increase and assure openings for foreign capital, Lomé III enhanced the framework for private investment, a provision hailed as 'unprecedented in similar multilateral agreements' (*The Courier* 1985a: 22). This aimed at encouraging fair and equitable treatment for investors, clear and stable investment conditions, and a safe and predictable investment environment, possibly with a joint insurance and guarantee system to complement the national systems.

Despite the declining ACP share of the European market, the existing trade regime was not significantly changed. In particular the market was not opened for clothing and canned tuna. Instead emphasis was placed on trade promotion, tourism, the development of services and agricultural co-operation. This aimed to increase food security and exports through local production, linking agricultural and rural development to industrialisation. The new approach was in direct response to what the Commission regarded as 'inappropriate' ACP development strategies which had favoured heavy industry at the expense of agriculture and rural areas (CEC 1995: 7). However, little change was made to the access for agricultural products to the European market while surplus European production was assured to the ACP.<sup>1</sup>

The link between agriculture and industrialisation was to be facilitated by the promotion of the ACP private sector, particularly SMEs, working in co-operation with European capital. Through schemes such as sub-contracting agricultural processing, the partnerships between European and local enterprise would allow the SME to become the vehicle for the transnationalisation of production.<sup>2</sup> Unlike the previous Conventions that had as-

<sup>1</sup> STABEX was extended to three new agricultural products that did not threaten the European market: dried bananas, mangoes and shea nut oil, and the trigger mechanisms were slightly lowered. However neither STABEX or SYSMIN were fundamentally altered.

<sup>2</sup> This approach correlated with that of the leading international organisations. J. Oeschlin, chairman of the International Organisation of Employers and vice-chairman of the ILO board, described the role of the SME as threefold: first as an element of control in the national economy, operating as employers and operators in regions that sometimes large organised firms cannot reach due to cost; second, a channel for adaptable technology; and third a transmission shaft between the highly organised MNC and the informal sector, working in tandem with large enterprise through sub-contracting. This followed the example of Japan, where large MNCs partnered a constellation of small sub-contracting firms. Oeschlin identified Africa as a region where MNC did not, but could with encouragement sub-contract and form partnerships with local enterprise. (*The Courier* 1984b:32)

sisted partner governments and their public sectors, Lomé III was explicitly designed to encourage the growth of an entrepreneurial class, an enterprise culture and the private sector (CEC 1997: 1). State-sponsored development was to be replaced by private sector development, described as a 'minimally interventionist, catalytic form of assistance' (CEC 1995: 23). New provisions sought to reduce and redefine the role of the state as the creator of political, institutional, legal and economic stability, while providing the essential infrastructure and convincing the private sector, both local and foreign, of their commitment to a market economy (CEC 1997: 4). This innovation clearly reflects Gill's 'three Cs' of disciplinary neo-liberalism: *credibility* and *consistency* of state policies according to the criterion of the *confidence* of investors (Gill 1999: 3).

In managing these processes the EC defined its role as helping the ACP remove a number of policy constraints on private sector development, assisting intermediary organisations such as financial institutions, promoting business development, facilitating FDI and technology transfers:

The commission's support for private sector development thus involves three indissociable partnerships: with local enterprise, to strengthen its capacities; with governments, to make business environments more attractive; and with European investors to improve their information and to raise their interest in the business potential of ACP Countries. (CEC 1997: 2)

Building on provisions already included in Lomé II, supportive organisations, such as the African Employer Organisation, were encouraged to facilitate co-operation between European and ACP capital, on the one hand, and between foreign and indigenous capital and the state, on the other (*The Courier* 1984b: 33). Lomé III provided for regular consultation between representatives of economic and social interests, including organised labour, as the EC recognised the need to integrate large sections of society in to the Lomé relationship. The result was a separate chapter devoted to social and cultural co-operation.<sup>1</sup> This chapter brought the problematic issue of human rights into the body of the Convention. Although the ACP prevented the issue being linked to aid, in effect individualised human rights had become central to the Lomé framework.

The construction of coherence in European development policy was clearly demonstrated by Lomé III's innovations which built on those of the previous Convention and further embedded neo-liberal reform in ACP

<sup>1</sup> The strategy to engender support was applied to European civil society as the EC sought, through surveys and information policies which focused on moral duty arguments, to create positive support for the continued relationship. (*The Courier* 1984f:39)

states and societies. The hegemony of the EC in the Lomé relationship was entrenched, giving it a powerful role in managing the global political economy and the extension of capital to a large section of the developing world.

### *Lomé III: Results*

The third Convention was unable to address the serious economic decline of the ACP as it suffered the ongoing effects of the debt crisis.<sup>1</sup> In general, private finance and the EIB were not able to play the roles ascribed to them even though some more advanced and viable economies were able to attract investment.<sup>2</sup> Rather than engendering widespread growth of the ACP's private sector, the financial protocol was selective in its application, its benefit accruing to those sectors and states that already enjoyed a certain degree of economic success. Trade between the groups continued to decline (*The Courier* 1989b: ii). With the dual projects of deepening and widening the EC, European protectionism intensified particularly towards ACP processed commodity exports (Verloren van Themaat and Stevens 1987: 10). Despite the new focus on rural development, the ACP grew increasingly dependent on the export of a few primary products.<sup>3</sup> Therefore the third Convention did not halt the burgeoning wealth disparity between the ACP and EC, a fact recognised by the Commission as the 'growth gap' (*The Courier* 1989a: I).

The economic environment constrained the ability of the South to challenge the managers of the global economy, particularly as the diverse experiences of the debt crisis undermined a collective Southern position. Under the imperatives of crisis management, the ACP states turned inward and focused on reforming domestic policies, whilst tackling the issue of debt through engagement with international creditors. This reflected the IMF and World Bank's view that the solution to debt-servicing difficulties and development was the pursuit of 'sound' economic policies in order to adjust to the

<sup>1</sup> In 1984, it was estimated that the level of Africa's overall external debt was \$170 billion with debt servicing running at US \$20 billion annually (*The Courier* 1985b:X.). As a whole the ACP owed \$150 billion to the European member states and the Community, and \$2.8 billion to the Community alone (*The Courier* 1989c:II). Debt servicing was constrained by the deteriorating terms of trade, while interest rate rises and deteriorating terms of borrowing, sharp exchange rate fluctuations and a reduction in the flow of concessional resources resulted in the net capital outflow from the African continent.

<sup>2</sup> For example, Nigeria, Ivory Coast, Kenya, Mauritius, and Caribbean countries were able to attract FDI and the EIB, while the debt-ridden, under-developed economies of the Sahel and Southern Africa could not (Cosgrove and Laurent 1992:131).

<sup>3</sup> Nine primary products accounted for 70 per cent ACP exports in 1986 (*The Courier* 1989b: III).

changing economic environment and hence the prescription of SAPs. These policies were to be complemented by trade liberalisation, pursued through the Uruguay Round of GATT negotiations, as protectionism was regarded as a threat to the creditworthiness of the developing countries, their ability to repay debts and the stability of the global financial system. Yet this liberalisation process troubled the ACP who feared the loss of their preferential treatment. Furthermore, in conjunction with international liberalisation, the EC was actively pursuing a project of internal liberalisation through the Single European Market. This development not only prompted fears of a 'Fortress Europe' but also brought closer the 'logic' of the ACP's adjustment to the changing global political economy. As Manuel Marin, Commissioner for Development and Fisheries, put it:

It is logical to expect the effects of 1992 on the ACPs to vary according to their economic structure and commercial flexibility and to how competitive their economies are. Although there is no doubt that the enlarged internal market will open new doors for Third World countries, it is also clear that those which are furthest ahead with their development and have the most flexible production structures will benefit the most. (*The Courier* 1990: 12)

#### *Negotiating Lomé IV*

Lomé IV covered the period not only of the completion of the internal market and the Uruguay Round but also other dramatic changes in the global political economy. Taken together, these transformations would have profound effects on the ACP and the EC. The negotiations spanned 1988 and 1989, a time in which the Cold War drew to an end and global liberalisation was consolidated (Arts and Byron 1997). With the fall of the Berlin Wall the EC's attention turned eastwards and marked a change in development priorities from the existing North/South axis. EC co-operation agreements were extended to the Central and Eastern European (CEE) countries, further stretching resources and trade preferences. As Eastern Europe dominated political debate and public opinion, the ACP became further marginalised.

Most of the ACP states had embarked on SAPs and transformation programmes, and looked to the new Convention to consolidate the changes already underway while gaining concessions from the EC. Their particular desire was to forge an instrument to address their deteriorating economic situation and optimise their integration into the global economy. The ACP intended Lomé IV to provide a framework for fundamentally changing production structures to include local processing of raw materials, the production of manufactured goods and the development of services. Their de-



mands centred on reform of the co-operation mechanisms supporting production, in particular expanding STABEX and SYSMIN to include manufactured products, and reform of the trade regime to include ACP processed exports, the preservation of the ACP's existing preferences and compensation for their previous erosion. Demands for huge increases in the financial protocol, quicker disbursement measures and debt relief were added to the agenda.<sup>1</sup>

The ACP hoped that the new Convention would mitigate the 'painful exercise' of structural adjustment by addressing external factors, such as protectionism, commodity price decline and fluctuations rather than pushing internal policy reform (*The Courier* 1989c: I). This was underlined when the ACP rejected the EC's proposals for closer co-ordination with the IMF and World Bank. However, in agreement with the Bretton Woods institutions, the EC reckoned the ACP's economic deterioration to be the result of weak internal structures and lack of competitiveness (*The Courier* 1989b:III). The European mandate therefore sought to ensure ACP commitment to structural adjustment, the conditions and implementation of which had to be closely coordinated with the World Bank and IMF 'in the interests of policy effectiveness and of Western coordination and solidarity' (Hewitt 1989: 308).

Through Lomé IV the EC intended to play two complementary roles in conjunction with the Bretton Woods institutions, as both supporter and enforcer of SAPs. As a *supporter*, the EC sought to mitigate the downside effects of enforced public spending cuts and liberalisation as concern grew regarding the social repercussions of structural adjustment. In order to avert social confrontation, the EC focused on decentralisation as a strategy to draw civil society groups firmly into the new framework, echoing the World Bank's view of democratisation and decentralisation as corollaries of economic transformation and restructuring. The expectation was that such a strategy would produce the supportive political coalitions and stability necessary for the continued expansion of capital (Cheru and Gill 1997: 151). Additionally, supportive measures included increased support for SMEs and micro-projects and the targeting of adjustment funds to social services, especially health and education (Hewitt 1989: 308). These dual supportive strategies of incorporation and social compensation demonstrate the concept of *trasformismo*. As a policy *enforcer*, the European role was to ensure

<sup>1</sup> ACP proposals centred on the cancellation of the least developed ACP debts owed to the EC, the reduction of interest on all public debt, the conversion of part of existing public loans into local currency, debt/equity swaps, debt conversion into bonds, increased training in external debt management, international financial negotiations, increased support for attracting foreign investment and measures to strengthen the commodity sector of ACP states.

that aid was made conditional on adjustment and the observation of human rights. Such conditionality vastly expanded the previous reforms of the financial protocol and was prompted by the EC's participation in the World Bank-led Special Programme for Assistance to Africa. It was an effective strategy 'since the Commission's funds, unlike the World Bank's or some member states', are grants rather than credits, they remain highly attractive even with strings attached' (Hewitt 1989: 308).

In opposition to repeated ACP demands for a completely new Convention, the EC sought to fulfil its enforcing and supporting roles by adapting the existing Convention in co-ordination with the Bretton Woods institutions. In place of short- and medium-term policies, Lomé IV would be used to advance long-term structural change. European proposals centred on engendering competitiveness, dynamism, production diversification and new markets outside the Lomé trade regime (*The Courier* 1989b: III). STABEX and SYSMIN were to be reformed in order to support diversification and changes in the operation of the mechanisms would establish a link with the structural adjustment provisions. Proposals for a separate chapter on trade in services reflected the commitment to this sector the EC had shown in the Uruguay Round of GATT. Although the ACP presented a well organised, efficient negotiating team, their bargaining power was greatly constrained. By the conclusion of the negotiations, the ACP had accepted the European mandate.

#### *Lomé IV: The Revised Convention*

Lomé IV was signed between twelve European states and 68 ACP states comprising almost half of the developing world.<sup>1</sup> For the first time the trade agreement had a ten year duration with the financial protocol lasting for the first five years, and then to be renegotiated for the second term. The initial aid provision, although increased to ECU 12.9 billion, again disappointed the ACP as it represented a decline in real terms per capita. Although a specific structural adjustment support facility of ECU1.4 billion represented a significant change to the financial mechanism much of the framework had been completed through the changes included in Lomé III. Marin described this innovation as logical, following the support shown in Lomé III for sectoral policies, and furthermore stated that 'for the first time

<sup>1</sup> The new signatories were Haiti and the Dominican Republic, with Namibia set to join on reaching independence. The issue of the Dominican Republic's accession had itself been a source of conflict, as the other Caribbean countries regarded it as a strong competitor as it produced almost as much sugar as all the Caribbean member states combined (*The Courier* 1989b:IV).

there has been a 'North-South Agreement' on the philosophy underlying structural adjustment' (*The Courier* 1990: 8). The issue of debt would be addressed through the imperatives of such policies and managed through European technical assistance, rather than the elimination or reduction of the ACP's debt burden.

The new Convention included aid conditionality, a focus on decentralised co-operation and the participation of NGO 'agents', to ensure political and social sustainability (*The Courier* 1990: 8). Rather than the short, sharp shock of rapid adjustment and its associated instability, the objective was to integrate SAPs into the long-term development strategies of the ACP states. In line with this approach, an ACP enterprise culture was again prioritised. To this end, Enterprise Development aimed at restructuring the productive base of the ACP economies through links between European capital and the ACP entrepreneurial sector. The framework for investment protection was expanded while a new focus on the local processing, marketing, distribution and transport (PMDT) of raw materials represented a combination of the ACP's concern for local processing with the promotion of opportunities for European investment. The EC's role was explicitly outlined as helping ACP states to gain access to the capital markets and encouraging direct private European investment (part 1:4, art. 23) particularly through sub-contracting and joint contracts. The concern to protect capital investment was augmented by the inclusion of human rights as a fundamental principle explicitly linked to development.

The trade regime changed little.<sup>1</sup> In a move away from guaranteeing foreign exchange earnings, STABEX and SYSMIN were now linked to SAPs, while new provisions sought to encourage economic diversification and competitiveness. Trade in services, particularly tourism, information technology and communications, was highlighted as an area of growth potential and one of interest to European investment, with the Convention including provisions to liberalise the sector.

Lomé IV built on the changes already undertaken in the Lomé relationship, consolidating its role in the redirection of the political economy of the ACP through support and enforcement of SAPs. The social fire brigade role adopted by the EC changed the Convention's focus to social provision, while the project to decentralise ACP development was again pursued through civil society participation and the promotion of links between local groups, and between European and ACP capital. The desire to integrate

<sup>1</sup> Some general rules were slightly adjusted and there were small changes to market access for forty agricultural products. The protocols were retained with few changes, although the rum protocol was to be phased out and the sugar protocol was integrated into the commodities chapter after a three year price freeze.

supportive political coalitions and class alliances into the Lomé framework was furthered by the inclusion of human rights as a fundamental element. Finally the introduction of conditionality marked a clear change in the nature of development policy and reflected the changing global context (Arts and Byron 1997). Although Lomé IV had a ten-year lifespan the financial protocol under the 7<sup>th</sup> EDF needed renegotiation after five years. In the event, the Mid-Term Review (MTR) negotiations were to be far more wide ranging than initially envisaged due to the huge changes occurring in the global political economy.

#### *Lomé IV: Results*

The first half of the financial protocol was considered by the EC as a success in enforcing and supporting structural adjustment. EDF funding filled the gap left by public sector cuts in a bid to maintain social cohesion while aid became increasingly dependent not only on structural adjustment and macro-economic policy reform, but also on democratic principles and human rights (*The Courier* 1996: 57). As a result,

[t]he commitment that some 30 ACP Countries are pursuing structural adjustment policies, the radical monetary measures undertaken by nearly half the ACP group over the past two years ...and the progress made in sectoral strategies thanks to public expenditure reviews are all improving the climate for investment in many countries. (*The Courier* 1996: 31)

Despite a special waiver under the provisions of the Uruguay Round, the trade regime came under considerable pressure to liberalise. Lomé's banana regime, for example, was attacked by the US government acting on behalf of US multinationals producing bananas in Latin America. Although transitional settlements were made, such legal challenges underlined the fact that the era of preferential trade regimes for commodity exports from developing countries was fast drawing to a close (Arts and Byron 1997: 85).

The declining volume of ACP trade with the European and global market did little to justify the continuation of market intervention.<sup>1</sup> Further, the Con-

<sup>1</sup> Between 1970 and 1993 ACP share of EC imports had fallen from 8.9 per cent to 3 per cent. On the global markets the ACP accounted for 2.98 per cent of world exports in 1970 falling to 1.32 per cent in 1992, while other developing countries had increased their share of global trade in the same period. In relation to EC imports from developing countries, the ACP share fell from 23.8 per cent in 1960 to 10.31 per cent in 1993. Despite the apparent disadvantage of not enjoying reciprocal preferences the EC fared better, with European exports to ACP markets only decreasing from 37.4 per cent to 30 per cent in the same period (*The Courier* 1996: 31).

vention failed to engender significant diversification.<sup>1</sup> By the time of the MTR in 1994, the Uruguay Round had been completed with the creation of the WTO, and had covered 90 per cent of world trade and included 96 countries, 36 of which were ACP states, rising to 50 by 1996 (*The Courier* 1996: 53). The increased liberalisation of the trade regime, managed by a rule-based international institution, had severe implications for the Lomé Convention. US action in the WTO made clear the need to bring the Lomé trade regime into line with WTO rules or suffer retribution. This compounded the uncertainties for the ACP producers faced with the harsh reality of adjusting to a liberalising global market. In the EC's pursuit of a global approach to development based upon free market principles, international liberalisation was presented as an inexorable process (*The Courier* 1994: 7). The ACP was urged to look beyond the bilateral link with the EC to trading opportunities with third countries. Yet such proposals presented novel problems of adjustment and prompted moves to regional free trade arrangements as a coping strategy. Regionalisation therefore would complement the project to liberalise world trade.<sup>2</sup> In addition to regional co-ordination, the Uruguay Round prompted the closer co-ordination of the Bretton Woods institutions with the GATT/WTO, in a clear attempt to give coherence to global economic management.

The prevailing development dialogue continued to bind the themes of democratisation and human rights to development and the implementation of market-oriented economic policies. And yet despite a decade of SAPs these programmes were, by EC's own admission, 'disappointing' (*The Courier* 1994: 12). Such outcomes were explained away as the result of short-termism and poor implementation. The evident solution was a long-term approach to adjustment. Such a conclusion was particularly pertinent in light of the increasing democratisation of the ACP, as the internalisation of SAPs was needed to give legitimacy to market-orientated economic policies, rather than these being externally dictated.

In addition, European development policy was undergoing change due to a further round of deepening and widening the Community. The accession of Austria, Sweden and Finland offered the ACP hope in approaching the MTR, since the new member states were high income countries with rela-

<sup>1</sup> New export products included processed rubber from the Ivory Coast, cut flowers from Kenya, Mauritius, Zimbabwe, Ethiopia and Zambia, canned tuna from the Ivory Coast, Mauritius and the Seychelles, and wood products from the Ivory Coast and Nigeria

<sup>2</sup> For example the creation of the West Africa Economic and Monetary Union (UEMOA) in 1994 was in direct response to the pressure for competitiveness, and was aimed at creating a multilateral surveillance procedure to harmonise economic policies and performance and to create a common market, co-ordinate national sectoral policies and harmonise legislation (*The Courier* 1995b: 9)

tively high ODA spending, in contrast to the niggardly provisions of existing member states who had long preached the virtues of budgetary restraint (*The Courier* 1994: 6). Additionally, these new states were at the forefront of support for good governance, human rights, democracy and the inclusion of NGOs in development co-operation, thus strengthening European policy partnership with the World Bank. The Treaty of the European Union marked a transition point by establishing the complementary nature of Community and bilateral aid. Explicit status was given to development co-operation as a 'thirteenth' policy additional to the twelve national policies, finally giving formal recognition to development relationships that had evolved incrementally and with ambiguous status. Despite this formal deepening, however, there still existed internal divisions regarding the policy direction:

There are clear tensions between the historical direction of their aid and the new imperatives of building political and economic stability in their immediate neighbourhood, and expanding co-operation with large market economies in developing countries. (Arts and Byron 1997: 75)

The ACP had become increasingly marginalised in European external relations as focus shifted to the CEC and the Southern Mediterranean (Arts and Byron 1997: 75). With the rapidly changing global political economy, the deepening and widening of the EU and the increasing economic marginalisation of most ACP countries, the importance of Lomé was reduced. Despite this, for many ACP states bearing the burden of SAPs and an inability to compete in global markets, the provision of European development assistance and preferential market access remained crucial. The EU was the largest and most attractive donor for many ACP states, with 90 per cent of the EDF in the form of the non-repayable grants. The abrupt end of development finance and preferential market access would be economically catastrophic for the ACP, dictating an ongoing interest in maintaining the Lomé relationship. It was in this context that the MTR negotiations began and were to prove more far-reaching than imagined.

### *Negotiating the MTR*

The EU's negotiating mandate proposed substantial changes to the existing Convention, centring on four main themes. The first was the expansion of 'Clause 5' to strengthen the provisions regarding human rights and establish closer links between development co-operation and democracy, good governance and the rule of law. The second was increased conditionality, particularly in relation to the expanded Clause 5, using the twin tools of a

suspension mechanism and special allocations. The inclusion of suspension mechanisms was a formalisation of existing conditionality, bringing Lomé in line with other relationships.<sup>1</sup> Special allocations for priority areas of institutional reform associated with good governance and the rule of law built on the sectoral policies of previous Conventions. The third was the continued promotion of the entrepreneurial class, private sector development and partnerships with NGOs (*The Courier* 1994: v). Deus Pinheiro, Director General for Development Co-operation, affirmed the evolution of European development policy in the following terms:

we cannot continue to give preferential treatment to relations with these states, but we must do more and more to develop our links with private partners.' Deus Pinheiro (*The Courier* 1995a: 4).

The fourth was efficiency, to be achieved through a greater European role in aid allocation and identification of priorities. In particular the EU proposed the introduction of performance-related tranching of disbursements and greater responsibility for the European Commission in project preparation and appraisal. Furthermore the EU advocated the sub-division of the ACP group into regional groupings with separate discussions in a bid to aid dialogue (Arts and Byron 1997: 77).

The ACP formulated its position in response to that of the EU, seeking to preserve the benefits they already enjoyed and improve the financial protocol. The ACP now accepted the strengthening of the human rights provisions and even the addition of formal conditionality, reflecting a growing consensus regarding development (Arts and Byron 1997: 83). The only proviso was that these were subject to clear, mutually accepted definitions. The ACP supported decentralised co-operation and private sector support while pushing for a larger conversion of Lomé's assistance to grants. However, the proposals to change the implementation procedures provoked conflict. The ACP opposed an increase in European control and performance related analysis, regarding this as a violation of equality and sovereignty. Furthermore, the ACP was suspicious of proposals for separate sub-regional groupings, reiterating the need to maintain ACP's collective bargaining power.

<sup>1</sup> Suspension mechanisms related to violations of a 'democracy clause' were already a standard part of European agreements with Latin American and CEEC states. The EU had increasingly resorted to the unilateral suspension of Lomé benefits because of alleged violations of human rights or democratic principles in ACP countries. In 1994 Community aid to eight ACP states was suspended or restricted because of the security situation, failure to move towards democracy or observe human rights. Furthermore in 1991 Structural adjustment funds were withheld from 15 states due to failure to adopt a satisfactory economic reform programme (*The Courier* 1996: 3)

Despite these misgivings, however, regional consultative and economic groups had actually proliferated within the ACP group itself during the 1990s. While European proposals studiously avoided mention of trade provisions, the ACP laid considerable emphasis on trade co-operation. Originally the group considered it unwise to raise trade issues due to the challenges to Lomé's legality, but the changes wrought by GATT made the issue unavoidable (Arts and Byron 1997: 81). While the ACP sought higher quotas for its commodities, particularly for bananas and rum, the EU was moving to abolish such quotas completely by 1996. Falls in commodity prices prompted the ACP to demand increased funding for the STABEX and the dedication of unused allocations to fund debt obligations. The group also sought liberalised market access, especially for agricultural products, enhanced opportunities for trade in services and special provisions for co-operation on commodities.

The negotiations lasted much longer than predicted and indeed were suspended due to stalemate. The area of most conflict was the size of the financial allocation, the sole issue that the talks were originally designed to address. European member states were unwilling to bring their contributions in line with inflation, but agreement was finally reached and the MTR concluded in October 1995. ECU14.6 billion was finally agreed as the Lomé IV(2) financial protocol, with France becoming the largest EDF contributor, followed by Germany, while the UK's contribution fell by 8 per cent, making it the only member state to reduce its contribution (The Courier 1995c: 7).

### **MTR: The Revised Convention**

The changes made to the trade regime reflected the dual impact of international trade liberalisation on the Lomé relationship. On one hand concessions were made regarding access for ACP tropical agricultural exports. However, these advantages were countered by the completion of the SEA and the Uruguay Round, both of which subjected ACP exports to increased competition without compensation. In an attempt to integrate ACP economies with those of the more competitive actors in their geographic zone trade development was tied to regional co-operation (Arts and Byron 1997: 85).<sup>1</sup> Article 5 was revised to explicitly link development co-operation to the

<sup>1</sup> Cumulation allowed non-ACP products processed in the ACP preferential treatment in the European market. States that would benefit from this system were predominantly in the Caribbean and Pacific region: Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama Venezuela and Nauru. In Africa cumulation was extended to South Africa and the Northern states of Algeria, Egypt Libya, Morocco, and Tunisia, reflecting the EU's ambitions of creating a giant Euro-Mediterranean free trade zone.



principles of human rights, democracy, good governance and the rule of law. Whereas good governance only became a particular aim of co-operation, respect for human rights, democratic principles and the rule of law were included as 'essential elements' and were to govern the domestic and international policies of both regional groups (Arts and Byron 1997: 84). A suspension clause based on a consultation procedure, was attached to the essential elements giving the EU a legal basis to suspend all areas of co-operation, but the definitions of the essential elements were left loose, giving room for selective application.<sup>1</sup>

European objectives and priorities were further reflected in the changes made in the administration of the financial protocol of Lomé IV(2). Not only was the provision of ECU14.6 billion a disappointment for the ACP but the EU was to be more prominent in the design of assistance programmes. In order to increase efficiency, 'performance-oriented co-operation' and control, aid was to be tranché.<sup>2</sup> This had serious implications for the ACP as the new system threatened to slow down and reduce aid flows, compounded by possible suspension. Financial assistance remained directed at decentralised co-operation, and support of administrative reform. The only concession on debt was a European agreement to pursue discussion of the issue in the appropriate international fora.

The MTR, which was the final renegotiation of the original Lomé Convention, became a far more comprehensive exercise than had been envisaged and marked the culmination of various incremental moves in the EU-ACP relationship. The EU had further secured a dominant, donor role in aid provision whilst also ensuring opportunities for the extension of capital and the growth of the indigenous ACP private sector. Due to the prevalent climate of multilateral trade liberalisation the Lomé trade regime was further opened, mindful of the growing pressure to completely abandon the interventionist mechanisms of the original agreement. A consensus had grown within and between the ACP and EU regarding the logic of further integration into the global economy and the pursuit of regional projects as a complementary process. In the final analysis, there was agreement over the increasingly conditional nature of the Convention based explicitly on a neo-liberal approach to development.

### *Conclusions*

<sup>1</sup> Previously the EU had only suspended development assistance, leaving trade untouched

<sup>2</sup> The first 70 per cent of the total distributed in a three year tranche with the remainder to be earmarked only after an assessment of the first allocation.

The original Lomé Convention was a vehicle for the EC to manage its relations with the former colonies of its member states in the ACP. Although the Convention was hailed as part of a more general demand for a NIEO, it was inherently neo-colonial, securing raw materials and markets for the EC. In managing this relationship, the EC balanced the interests of both domestic and ACP producers, including European-based firms operating in the region. This resulted in the ongoing protection of the most vulnerable sectors of the European market. However, in tandem with European protectionism has been the progressive liberalisation of the Lomé trade regime, reflecting an increasing commitment to the principles of free trade within both the EC/EU and the ACP. While the increased liberalisation of access to the European market has been an ongoing ACP demand, the ACP also sought to maintain its non-reciprocal, preferential position. Given the European commitment to trade liberalisation and extension of its external relations, the ACP has faced an erosion of its preferences, resulting in compensation demands.

These demands were never met. This can partly be explained by European member states' unwillingness to increase the provision of public funds. Since the late 1970s the EC/EU has favoured a market-oriented approach relying on private investment. This is evident in the redefinition of development, away from the pursuit of more equitable North/South relations towards participation in the global economy by providing attractive conditions for internationally mobile capital. Such a strategy is clearly based on the '3Cs' of policy credibility and consistency and investor confidence (Gill 1999: 3). A conscious project to encourage an ACP private sector has been incorporated in the commitment to capital expansion. Indigenous capital was to form alliances with European capital aided by institutions explicitly created to facilitate such co-operation. An ACP private sector could serve two purposes. First, it could present new opportunities for the extension of European capital operating in an increasingly competitive global economy. Second, it could secure political coalitions in support of political and economic reform. The focus on decentralised co-operation and the inclusion of individualised human rights, democracy and good governance can thus be understood as facets of a strategy of *trasformismo*.

Despite the clarity of the development strategy, the role afforded to private investment was never fully realised due to the uncertain investment environment in many ACP states. The ACP has witnessed varying degrees of political instability partly because of the effects of debt and subsequent enforced economic reform. As political instability reinforced economic uncertainty, the majority of the ACP became marginalised in the global and European economies. The Lomé Convention was further adapted to support

capital extension, including an unprecedented framework for investment security, supplemented by the enforcement of the rule of law. The EC/EU and the World Bank have recognised the malign effects of redesigning the political economy of the ACP, and in response have developed a European 'social fire brigade' role to quell political unrest, further augmenting a strategy of *trasformismo*.

ACP development has been fundamentally redefined through the Lomé Convention. Europe has played the leading role in this process. The reordering of its relations with the South has been ongoing since the late 1970s, sometimes incrementally, sometimes with considerable cohesiveness. With hindsight, the making of a new politics of development indicates the long-term coherence of the EC/EU in its external relations, at least in this policy area. The project to internalise the material, institutional and ideological conditions for neo-liberal political economy in the South has involved the restructuring of ACP state-society complexes. The strategic purpose is the extension of capitalist development facilitated through supportive class alliances. Set in this light, the evolution of the Lomé development model has been entirely consistent with the policies of the Bretton Woods institutions not least in the wake of their completion with the formation of the WTO. In this sense, then, Lomé has been a constitutive part of a global strategy to 'lock in' disciplinary neoliberalism. In so doing, the EC/EU has carefully repositioned its own interests while playing an essential part in the management of the global political economy along capitalist lines.

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