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## The Politics of Global Value Chains: Import-dependent Firms and EU–Asia Trade Agreements

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### Abstract

In 2006, the European Commission released its Global Europe Communication, in which it announced a shift from a multilateral to a bilateral trade strategy. One of the key pillars of this new strategy was to strengthen the bilateral trade relations with key Asian countries. In contrast to existing analyses that focus on European Union (EU) decision makers' agency, we propose an explanation for this notable shift in the EU's trade policy that stresses the political role of import-dependent firms. In light of the increasing integration of such firms into global value chains, the article argues that a plausible case can be made, both theoretically and empirically, that import-dependent firms had a clear stake in the signing of preferential trade agreements between the EU and Asian countries and that their lobbying efforts significantly affected the EU's decision to start negotiations with South Korea, India and Vietnam.

### Keywords

Asia; European Union; Global Value Chains; Trade Liberalization; Preferential Trade Agreements

### INTRODUCTION

In 2006, the European Commission released its Global Europe Communication, which announced a marked shift in the European Union (EU)'s trade strategy from a 'multilateralism first' approach to a more strategic approach based on bilateralism, with a special emphasis on signing preferential trade agreements (PTAs) with a number of key Asian trading partners (Elsig, 2007). So far, only the PTAs with South Korea (EUKOR) and Singapore have been successfully concluded, while negotiations with India and the other members of the Association of Southeast Asian Nations (ASEAN) are still ongoing.

The decision of the EU to start the aforementioned negotiations is puzzling for several reasons. For one, standard political economy explanations of trade policy-making clearly suggest that liberalizing trade between countries with different levels of economic development and different factor endowments should be politically difficult to agree upon (Manger, 2012). As mutual trade liberalization exposes the least competitive sectors in capital-abundant countries to imports from labour-abundant countries, these agreements can be expected to generate significant negative distributive effects for, and consequently to

political mobilization by, import-competing producers. At the same time, countries with low(er) per capita incomes represent relatively uninteresting markets for exporters of goods produced in high-cost locations. Moreover, while, in principle, exporters in developed countries could have an interest in supporting a bilateral or regional trade agreement with less developed trading partners – to achieve economies of scale by developing regional production-sharing networks (Chase, 2003) or to offset the discrimination brought about by PTAs signed with trade competitors (Dür, 2010) – the EU–Asia agreements concern geographically distant countries and do not entail significant discrimination against exporters.

Hence, it should come as no surprise that existing scholarly accounts of recent EU–Asia PTA negotiations tend to downplay the role of economic societal actors and, consequently, highlight the importance of public policy-makers’ agency (Elsig and Dupont, 2012; Garcia, 2013; Siles-Brügge, 2011). This is in line with various studies that assign independent causal effects to the EU policy-makers’ preferences when accounting for the EU’s trade policy more broadly (Conceição-Heldt, 2011; Elsig, 2007).

This article challenges these arguments. We contend that a complete account of the EU’s decision to start bilateral trade negotiations with key Asian partners requires an appreciation of the role played by an increasingly important group of economic actors within the EU: import-dependent firms. Since the turn of the century we have witnessed a double development of consolidation in sectors dominated by importers- and or retailers and a substantial number of producers turning into importers. Consequently, the traditional distinction between import-competing groups and export-oriented producers no longer accurately reflects the reality of current EU trade politics. As retailers and consuming industries relying on imports have become an increasingly relevant set of economic actors with liberal trade preferences, the preferences, patterns of political mobilization and political influence of these import-dependent firms need to be assessed before discounting standard political economy explanations of trade policy as implausible.

We carry out such an analysis in the context of the EU’s bilateral trade strategy vis-à-vis some of its key Asian trading partners and claim that, by joining the pro-liberalization group within Europe, import-dependent firms contributed towards the creation of a stronger coalition favouring this particular trade strategy. Hence we do not suggest that the involvement of import-dependent firms alone can explain the EU’s strategy of preferential trade opening with Asian partners. Rather, we argue that the political role of import-dependent firms, in addition to that of exporters and import-competing groups, needs to be taken into account to understand the EU’s decision to start PTA negotiations with Asian countries.

Besides offering a novel explanation for EU’s decision to start PTA negotiations with Asian countries, two additional implications of our argument warrant attention. First, we contribute towards a more systematic understanding of the role of economic interests in the EU trade policy literature, which has so far focused primarily on the role of exporters and import-competing groups. We are certainly not the first to look at import-dependent firms in trade politics. For instance, some work on US trade policy analyses importers as distinctive political and

economic actors (e.g. Bernard et al., 2007; Maggi and Rodriguez-Clare, 2000). Yet, these analyses remain ambiguous as to the exact political role and extent of influence of importers and hardly any attention is paid to political systems other than that of the US (but see Eckhardt, 2013). Second, we shed light on the political economy of global value chains (GVCs). The increasing complexity of global production and the economic consequences of the emergence of GVCs has been studied widely (Gereffi et al., 2005; Neilson et al., 2014), but the implications of these developments for the changing face of firm mobilization and influence have remained under-researched (for notable exceptions see Eckhardt, 2015; Kim, 2014).

## A BRIEF LITERATURE REVIEW

Trade policy scholars have developed two broad explanations for policy outcomes: society-centred and state-centred explanations.<sup>1</sup> Society-centred explanations focus on domestic economic interest groups and argue that decision-makers are sensitive to the demands of these groups. The preferences and patterns of political mobilization of import-competing- and export-oriented groups are deemed particularly important in understanding trade policy outcomes. While import-competitors have a structural advantage over exporters, given the relative ease with which they can overcome the impediments to collective action (Hiscox, 2002), export-oriented producers might overcome collective action problems too, balancing import-competing groups' influence and creating sufficient political support for liberalization via PTAs (Dür, 2010).

A preliminary assessment of the likely distributive effects of PTAs between the EU and Asian trading partners suggests that traditional society-centred accounts have little explanatory power. For one thing, existing analyses of the potential welfare effects of the EU's agreements with Korea (Francois et al., 2007), India (Decreux and Mitaritonna, 2007) and the ASEAN members (Sally, 2007) suggest a distribution of the benefits largely skewed in favour of Asian exporters, envisaging significant liberalization of trade in sensitive sectors (e.g. light manufactured goods, electronics, chemicals, footwear and textiles), imposing significant losses on import-competing sectors in the EU.

The positive effects for EU exporters, on the other hand, are expected to be much less significant. Sally (2007) shows that for EUKOR, as well as the PTAs with India and the ASEAN countries, the projected gains in terms of increased market access for EU exporters were very modest at the time the negotiations began. Other factors that may play a role in fostering political mobilization by exporters were also of limited relevance in this context. For instance, the decision to enter PTA negotiations with these geographically distant Asian countries cannot be explained by exporters' desire to build economies of scale through the development of regional production-sharing networks (Chase, 2003). Similarly, it hardly seems plausible that exporters in the EU might have mobilized in favour of PTAs with these countries to avoid the trade diversion effects engendered by PTAs signed between them and major trade partners such as the US (Gruber, 2000; Dür, 2010). Although trade diversion

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<sup>1</sup>While analytically useful in this context, we are aware that this dichotomous characterization of the existing literature cannot do full justice to its complexity, particularly to the important contributions that combine society and state-centred approaches (e.g. Woll 2008).

might be relevant in case of EUKOR, it has been convincingly shown that EU trade officials actively stimulated exporting business groups' support for the agreement, rather than the other way around (Elsig and Dupont, 2012).

This is not to say that European exporters had no stake in the signing of these PTAs. Some European services exporters did favour, and clearly expressed their support, for preferential trade opening with Asian countries (Manger, 2009). However, the above evidence suggests that an exclusive focus on the political role of exporters wishing to gain from increased access to these markets can hardly be sufficient to account for the EU's strategy.

In light of these arguments, it is no wonder scholars have resorted to state-centred explanations, which argue that policy-makers' preferences rather than interest group pressure determine trade policy outcomes. Scholars have put forward various arguments that are broadly of this kind. Some assert that a combination of the growing dissatisfaction with the Doha round (Elsig, 2007) and the liberal preferences of key bureaucratic actors in the EU played a pivotal role in shaping negotiations concerning Korea (Elsig and Dupont, 2012). Others explain the EU's stance during these negotiations as the result of the European Commission's ability to overcome domestic opposition by constructing an ideational imperative for liberalization (Siles-Brügge, 2011). Similarly, Khorana and Garcia (2013) conceive of the EU's PTA negotiations with India as being largely motivated by long-term economic governance and milieu-shaping objectives. Finally, Garcia (2013), suggests that the EU's PTA negotiations with the ASEAN countries should be looked at through the lens of realism, considering it as a reaction to the increasingly active engagement of the US and China in the region.

But is the scepticism about the possibility of developing a convincing society-centred explanation of the EU's trade strategy toward these Asian countries warranted? While state-centred explanations seem convincing at first glance, we argue that before discarding society-centred explanations of trade policy as implausible, the role of import-dependent firms and the impact they can have on the domestic politics of trade deserve attention.

## **IMPORT-DEPENDENT FIRMS AND THE EU'S BILATERAL TRADE POLICY**

Import-dependent firms can be defined as firms that rely on income generated by imported goods or on the import of intermediate products for their production process. Two types of import-dependent firms can be identified. The first is import-dependent retailers, which are right at the end of the supply chain and carry out no production of their own, but purchase finished goods from foreign suppliers and resell those directly to end-users. The second type is import-dependent manufacturers, which are goods-producing firms for which imports play a pivotal role in the production process. Such firms rely on imports because they have outsourced production or they use imported products as inputs in their production process (Eckhardt, 2013). The argument presented here focuses on the policy preferences, patterns of political mobilization and influence of this set of economic actors in the context of the EU's PTA policy.

## Preferences

The conventional wisdom is that the only economic actors with a stake in trade liberalization are export-oriented producers, as they gain from increased sales to foreign markets. However, we argue that import-dependent firms also stand to gain from trade liberalization, in the sense that trade liberalization makes imports cheaper. In the past, EU retailers and producers bought or produced the bulk of their products and inputs domestically or at least within the EU. However, in the 1990s, many EU retailers and producers started to redefine their core competencies turning their attention to ‘innovation and product strategy, marketing, and the highest value-added segments of manufacturing and services’ and outsourced labour-intensive, less value-added operations to lower income countries (mainly in Asia) (Gereffi et al., 2005:79). This was done through the creation of foreign subsidiaries (i.e. vertical foreign direct investment, FDI) or by relying on independent foreign suppliers (Lanz and Miroudot, 2011).

Hence, EU retailers started to buy more of their products from suppliers in Asia and elsewhere, while EU producers started to outsource and offshore a substantial part of their production overseas, largely onto Asian markets, turning these producers into importers to the European market. These shifting (production) structures, which have become common in labour-intensive consumer goods industries (Gereffi, 1999) and the food industry (Burch and Lawrence, 2005), are usually referred to as GVCs. Importers have played a pivotal role in their development.

For firms that operate within GVCs, trade liberalization simply leads to a reduction of variable costs of their imports. Whether sourcing firms operate directly in a foreign country or simply import intermediate inputs from foreign suppliers is a secondary consideration, as in both cases import-dependent firms accrue benefits from cheaper imports (Manger, 2012). These firms do not just benefit from traditional tariff trade liberalization, but also from the removal of so-called non-tariff barriers to trade, i.e. with the aim of seeking coordination and greater compatibility in domestic trade-related regulations. Indeed, the governance of the international supply chain calls for greater regulation of domestic laws and increasing their compatibility across countries, as they are directly related to the cost of doing business and, ultimately, affect the price of the goods that will be imported (Kim 2014).<sup>2</sup> The preferences of import-dependent firms for these types of trade liberalization should be particularly strong with respect to countries with which they are already in a trading relationship as importers. Hence, they have the biggest stake in trade liberalization through PTAs, rather than multilateral agreements.

## Political mobilization

Do import-dependent firms have the capacity to mobilize in support of preferential trade liberalization? Societal interests are most likely to overcome collective action problems and

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<sup>2</sup>Regulatory cooperation can take different forms, spanning from the adoption of common regulatory standards, to mutual recognition of existing domestic regulatory practices. Young’s (2015) finding that the EU’s ‘new generation’ PTAs entail little export of EU standards does not contradict our argument. After all, EU import-dependent firms should care not so much about whether the EU manages to export its own domestic standards but rather that some form of compatibility is established so as to enable a reduction of production costs. This argument is in line with Young’s findings that while the EU engages in little regulatory export it does support the equivalence of different rules and/or convergence based on international standards.

mobilize politically when 1) they have clear and homogeneous policy preferences (i.e. a high certainty about gains or losses as a result of trade policy decisions); 2) the number of firms that needs to be mobilized is relatively small; and 3) the members of a group have already founded a trade association (Hathaway, 1998; Olson, 1965).

Import-dependent firms meet all these criteria in the case of the EU's PTA policy. In terms of policy preferences, the firms we are interested in are already in a trading relationship, as importers, with a set of foreign countries and know perfectly well that reducing trade barriers with these countries will be directly beneficial to them. So, import-dependent firms have the certainty that they will stand to gain from reduced tariffs and can anticipate with great precision the distributive effects of such change. What is more, as a result of mergers and acquisitions and vertical integration, many sectors dominated by import-dependent firms (e.g. textiles and clothing, footwear and consumer electronics) in the EU have undergone a dramatic move toward increased market concentration in the past decade and a half. Ever larger manufacturers and retailers have increased their market share to the detriment of small companies, which means that many sectors are now dominated by a small number of large enterprises (Eckhardt, 2015). As a result, trade liberalization acquires a quasi-private-good character (Gilligan, 1997), which has enhanced the collective action capacity of import-dependent firms and has facilitated the establishment of interest groups at the EU level through which they can channel their demands in the EU trade policy-making process.

### Implications for trade politics

The final building block of our argument is the extent to which import-dependent firms can affect trade policy outcomes. We propose (following Grossman and Helpman, 1994; see also e.g. De Bièvre and Dür, 2005) that policy-makers are political support-maximizers and are in need of resources (e.g. information and campaign contributions), as well as of broad support from their constituencies more generally, which can help them to remain in office. Therefore, policy-makers are most likely to satisfy the demands of those interest groups that are best able to provide crucial resources and represent a sector or industry which contributes significantly to the domestic economy (e.g. employment) (Bradford, 2003). Finally, we propose that, when it comes to trade policy, decision-makers have no explicit policy preferences (Grossman and Helpman, 1994) and may therefore give in to the demands of protectionist- as well as anti-protectionist interests.

Translating this to EU PTA policy, we expect that the relative balance of mobilization of domestic interest groups crucially affects trade policy outcomes and argue that the traditional view – according to which exports are the only source of benefits and imports are a threat – no longer fully holds. As import-dependent firms in the EU have become better able to mobilize politically, they are now just as capable of providing policy-makers with crucial resources. What is more, import-dependent firms have also become much more important economically in the EU. A recent study shows that retail and wholesale sectors in the EU 'represent over 22% of all active non-financial business enterprises' and that they represent 'the second largest employer in the EU after manufacturing' (Reynolds and Cuthbertson 2014:7). According to Eurostat, more than 30% of EU companies are currently active in the retail, wholesale and international trade sectors (which consist of many import-

dependent firms). Together these firms generate between 10 and 15 per cent of the EU's GDP and have a combined workforce of more than 30 million people.

Hence, EU trade policy-makers have an increasing incentive to take into account the benefits of trade liberalization not only for potential exporters but also for domestic importers. In other words, import-dependent firms significantly change the political economy of trade policy by creating additional incentives for policy-makers to liberalize trade, particularly at the bilateral level, as import-dependent firms have a clear preference for PTAs.<sup>3</sup> This does not mean that these groups will always be capable of influencing trade policy or that they will make other constituencies irrelevant. On the one hand, whether they will be influential depends on their actual engagement in political action – which in turn crucially depends on the amount of benefits expected as well as on the degree of consolidation of the sector (Eckhardt, 2013). On the other hand, even if these groups do mobilize, they do not act in a political vacuum, but they interact with traditional constituencies involved in the trade policy-making process, i.e. exporters and import-competitors (De Bièvre and Eckhardt, 2011). Import-dependent firms can hardly be expected to be influential on their own, but their presence can certainly affect the relative balance between these two forces, tilting the trade policy-making process in a more liberalization-oriented direction.

In short, we claim that when import-dependent firms have significant stakes with particular sets of foreign countries and mobilize politically, these sets of actors' preferences can be expected to add to the preferences of import competitors and exporters, potentially increasing the political weight of the domestic coalition favouring trade liberalization via PTAs.

## **IMPORT-DEPENDENT FIRMS AND THE EU'S ASIA TRADE STRATEGY: A PLAUSIBILITY PROBE**

In this section we present evidence concerning the role of import-dependent firms in the policy-making process that led to the EU's choice to negotiate PTAs with key Asian trading partners. We intend our empirical analysis to serve as a plausibility probe (Eckstein, 1975). In other words, we do not aim to offer definitive proof that the political mobilization of this set of domestic actors was the single most important determinant of the EU's strategy, but to carry out a preliminary study to show that import-dependent firms were a significant component of the politics leading to the EU's decision to begin negotiations with its Asian trading partners.

Given our outcome-centric research design (Gschwend and Schimmelfenning, 2007), our case selection strategy would appear quite straightforward. We would just need to look into

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<sup>3</sup>Note that some import-dependent firms may also end up re-exporting finished products to the countries from which they imported intermediate components. We do not elaborate on this point for two reasons. First, highlighting that importers may also have exporting interests ultimately reinforces the argument that these actors should have clear-cut preferences for preferential trade liberalization. Second, it is logical to expect the prospect of access to cheaper imports to rank higher in these groups' preferences. For one, exports of finished products are not necessarily concentrated in the country that was the home of the imported intermediate components. In fact, it is quite possible that no such finished products end up being exported to low-income markets. More generally, the certainty of the gains stemming from having cheaper access to already imported goods relative to the uncertainty of gains from potentially increased exports should act as a stronger incentive for political mobilization.

the politics of trade policy-making underlying negotiations with all Asian countries explicitly mentioned as priorities in the Global Europe Communication: South Korea, India and the ASEAN countries (European Commission, 2006). We broadly follow this logic, with just one exception. Given the limited amount of space available, we decided to pick just one representative case of EU–ASEAN trade relations. After having excluded Singapore because of its peculiar characteristics,<sup>4</sup> we decided to focus on Vietnam – rather than also considering Malaysia or Thailand – for reasons of data availability.<sup>5</sup> In light of the similarity in the composition of trade flows between the EU and these countries,<sup>6</sup> we believe that this choice does not detract from the generalizability of the findings to the ASEAN group.

Using a combination of congruence testing and process tracing (see Dür, 2008; George and Bennett, 2005), we show in the following sections that EU import-dependent firms: 1) had significant stakes in liberalization of trade with South Korea, India and Vietnam; 2) engaged in significant mobilization in support of trade liberalization with these countries, and 3) significantly influenced the EU's trade policy-making process.

### The stakes of European import-dependent firms in Asia

In order to assess whether European import-dependent firms have a stake in liberalizing trade with the selected Asian PTA partners, we first focus on those EU manufacturers that depend on imports of intermediate goods. Data on EU imports of intermediate components<sup>7</sup> from the three Asian countries considered clearly shows a spectacular increase in imports of this type of products in the period preceding the launch of the Global European Communication and that this increase continued consistently throughout the past decade. In other words, firms relying on imports of intermediate components as part of their production process have a clear stake in liberalization of trade with India, South Korea and Vietnam.

Now let us turn to the second type of EU import-dependent manufacturers and see how much they are expected to gain from these PTAs. Recall that these are EU-based firms that outsource final (labour-intensive) production stages to low(er)-cost countries and then import these products into the EU market. In other words, the imports we are interested in here are imports of European-branded and designed products that are assembled in Vietnam, India and South Korea. One way to capture this kind of trade is to look at vertical intra-industry trade (VIIT), which can be considered a reliable, although indirect, measure of trade affecting import-dependent manufacturers, as it takes into account the simultaneous exports and imports of goods classified in the same sector but at different stages of processing (Ando, 2006; Manger, 2012).<sup>8</sup> As Figure 2 clearly shows, the share of VIIT (in

<sup>4</sup>When compared to the other PTA partners, Singapore is a clear outlier: it is much richer, substantially smaller, has a much more open economy and a highly skilled workforce.

<sup>5</sup>Note that Vietnam joined the WTO in 2007, which is around the same time as the EU started negotiations with the ASEAN member states, while the other negotiating partners joined much earlier.

<sup>6</sup>See for trade figures the 'country section' on the DG Trade website: <http://ec.europa.eu/trade/policy/countries-and-regions/>, retrieved 9 March 2015.

<sup>7</sup>According to the classification of Broad Economic Categories (BEC).

<sup>8</sup>Indeed, as Manger points out (2012: 627–8): 'VIIT exists at the levels of final products and intermediate goods because firms specialize in the production of inputs as well as finished goods in different locations.' To obtain the VIIT data we follow on from earlier work (Fontagne and Freundenberg, 1997; Manger, 2012), considering two-way bilateral trade flows within particular product categories – defined by the 6-digit Harmonized System – and then discriminating between horizontal and vertical IIT (we consider



total bilateral trade) between the EU and South Korea, India and Vietnam increased dramatically in the period before the beginning of bilateral trade negotiations.

Finally, we try to capture the economic stakes of European retailers in liberalizing trade, by simply looking at the composition of the most important products and product categories imported into the EU from the Asian countries in question.<sup>9</sup> In the case of Vietnam, the top six imported product categories (accounting for 85% of total EU imports from Vietnam) include food and beverages, footwear/headgear and textiles, which are all typical products imported by retailers. Similarly, 3 of the 6 top imported products from India (70% of total EU imports from India) are products traditionally imported by retailers: textiles, food/beverages and footwear/headgear. The stakes for the EU retail sector are perhaps less relevant in the case of South Korea, as almost 65% of all EU imports from South Korea are of machinery, appliances and transport equipment, which are not of great importance to EU retailers.

### The political mobilization of European import-dependent firms

Import-dependent firms had significant stakes in furthering bilateral trade liberalization with Asian partners. But did they also mobilize and vie for the ear of EU policy-makers? Our empirical analysis – which is based on a detailed study of press releases, position papers and interviews – clearly suggests they did.

The organizations defending the interests of import-dependent firms were stimulated to act by their members and took various measures in support of the Global Europe initiative of trade negotiations with the Asian countries in particular. Our interviewees confirmed that Eurocommerce, the organization representing the interests of the European retail and wholesale sector, actively pushed, from the very beginning, for the signing of PTAs with the Asian countries in question.<sup>10</sup> There was, ‘a clear consensus among the [Eurocommerce] members [...] they all want liberal import trade policies, so there was not much scope for diverging views in this case.’<sup>11</sup> Eurocommerce representatives lobbied the Commission and the European Parliament, while national associations lobbied their own governments. So, Eurocommerce did not directly approach Member States, but they did send ‘positions to Member States and spoke with the members organisations often, for example during the international trade committee (ITC) meetings in which all trade experts of the member states are seated.’<sup>12</sup>

Our analysis of relevant documents confirms that Eurocommerce actively supported the commencement of trade negotiations with the Asian countries. In April 2007, Eurocommerce (2007a) voiced its support for the Commission’s initiative to open negotiations with South Korea, encouraging it to seek a general lifting of existing tariff and

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trade flows as horizontally differentiated when the spread in the unit value of exports, relative to the unit value of imports, is less than 25% and as vertically differentiated when this spread is higher). The trade data is drawn from the BACI database (Gaulier and Zignago, 2010). Although data is available only up to 2007, this is not particularly problematic because we are mostly interested in the period preceding the launch of EU–Asia PTA negotiations.

<sup>9</sup>All data obtained from Eurostat (Comext) and available upon request.

<sup>10</sup>Interview Brussels, 3 February 2009.

<sup>11</sup>Interview, Brussels, 8 January 2010.

<sup>12</sup>Ibid.

non-tariff barriers to imports and exports. Similarly, in May 2007, Eurocommerce (2007a; 2007b) declared that the retail and wholesale sector was supportive of facilitating trade between the EU and both India and ASEAN countries, stressing the importance of the reduction of tariffs applied on these countries' imports, and reiterated support for these initiatives on numerous subsequent occasions (Eurocommerce 2009; 2010; 2012).

The Foreign Trade Association (FTA), the other organization representing the interests of European import-dependent firms, also expressed its support for the PTAs with these Asian countries from the very beginning and consistently throughout the process, as Vietnam and India are top priorities for European importers and retailers, particularly with respect to imports of garments, footwear, agricultural products and electronics.<sup>13</sup> Although the PTA with South Korea was considered less important economically by FTA members, the organization supported it nonetheless as a test case for future PTAs with other Asian countries.<sup>14</sup> To convince policy-makers to start negotiations and to influence the EU's negotiating position, the FTA published and released numerous position papers and press releases (FTA 2009a; 2009b; 2010; 2011), in which it made clear that these trade negotiations were deemed a key element of the new EU trade-policy strategy in light of the potential benefits for European importers and retailers, given that South Korea is a major sourcing country for textiles, electronics and other consumer goods.

Similarly, the FTA (2012) considered the successful conclusion of a PTA with ASEAN countries in general, and with Vietnam in particular, a top priority for European retailers, importers, wholesalers and brand companies. Finally, the FTA (2007) strongly supported beginning trade negotiations with India, given its importance as a supplier of textiles, clothing and shoes to the EU. Besides issuing position papers and press releases, the FTA also engaged in other forms of lobbying, such as meeting Commission officials<sup>15</sup> and the creation of stable mechanisms of coordination with Eurocommerce 'in order to get a coherent message across to the relevant decision-makers.'<sup>16</sup>

Other business organizations traditionally representing exporters' interests also supported these agreements. BusinessEurope (2006; 2007a; 2007b; 2011) and the European Services Forum (ESF) (ESF, 2006; 2007; 2008; 2010), for instance, very early on expressed their support and pushed for the Global Europe communication; strongly advocated the opening of trade negotiations with India, South Korea and ASEAN countries; worked very closely with European Commission officials on the definition of the agenda for these negotiations; and consistently showed its support throughout the negotiation process. It is worth stressing that while these organizations' support was partly motivated by the need to ensure greater market access for European exporters in these countries, it was also explicitly driven by the desire to allow EU manufacturers access to cheaper imports and the need to fully exploit partnerships in supply chains and FDI (European Business Organizations, 2013).

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<sup>13</sup>Interview, Brussels, 13 February 2013.

<sup>14</sup>Ibid.

<sup>15</sup>Interview, Brussels, 15 January 2010.

<sup>16</sup>Interview, Brussels, 8 January 2010.

## Assessing the influence of import-dependent firms on EU PTA policy

The next logical question is whether import-dependent firms have been able to influence the decision-making process? To answer this question, we follow two established practices of measuring interest groups' influence (Dür, 2008). First, we looked into the degree of preference attainment, assessing the demands made by import-dependent firms and comparing these with the negotiation outcome (South Korea PTA) or the issues the EU has put on the negotiating table (PTAs with India and Vietnam). Second, we assessed the degree of self-attributed influence, directly asking representatives of European organizations defending the interests of import-dependent firms to self-assess their influence. We sought to further validate this information by also asking EU Commission officials and external observers to give their view on these groups' influence.

Lobbying by import-dependent firms had already achieved some initial success in the run-up to the Global Europe strategy. The document explicitly mentions the interests of import-dependent firms and stresses the benefits of signing PTAs with Asian countries for importers in the EU (European Commission, 2006:7). But what about their influence on the specific PTAs with South Korea, India and Vietnam?

Let us first focus on EUKOR. In the eyes of import-dependent firms, the negotiations with South Korea should have led to a general lifting of existing tariff and non-tariff barriers for imports beyond raw materials (Eurocommerce, 2007a:7). The FTA mentioned in particular the elimination of tariffs on textile and clothing products, which stood at 10% before the start of the negotiations.<sup>17</sup> Other demands were that preferential rules of origin should be as simple and as harmonized as possible (Eurocommerce, 2007a) and that non-tariff barriers (e.g. safety standards and procedural accreditation) should be removed as well, as this would be beneficial to import-dependent manufacturers and retailers.

All these demands found their way to the negotiating table and into the final agreement. As for the lifting of tariffs, the EU made it clear from the outset that it was willing to go a long way in terms of eliminating tariffs on South Korean imports. In a statement, before official negotiations had started, the Commission announced that '[t]he EU has set the bar high by offering 100 percent tariff-free market access for Korean [products].' This was the first time ever that the EU had taken such an ambitious position in any PTA negotiation (Freedman, 2007). In the end, the Commission lived up to this promise, agreeing to lift virtually all import tariffs. Even on sensitive products like textiles and clothing, tariffs were phased out immediately.<sup>18</sup> The EU went even further than South Korea in terms of tariff elimination, as 'South Korea's sensitive high value-added manufacturing imports such as medical equipment will see their tariffs disarmed in eight years' (Dreyer, 2010). The demands with respect to rules of origin also made it into the PTA. One observer notes that the EU made some 'interesting moves towards a more liberal approach in its traditionally strict rules of origin, by accepting to go to 55% local value added in most manufactures' (Ibid.). Finally, again as requested by import-dependent firms, EUKOR includes very strong and precise

<sup>17</sup>Interview, Brussels, 15 January 2010.

<sup>18</sup>Only on automobiles and some agricultural products did the EU demand a longer phase-out period.

provisions on the removal of selected NTBs, in particular safety standards and accreditation procedures (Ibid.).

During the negotiations on the EU–India PTA, the demands of import-dependent firms were even more specific. In a clearly coordinated effort, the FTA and Eurocommerce formulated very precise demands about the lifting of trade barriers on textiles, clothing and footwear. Eurocommerce (2007a:2–3), for instance, stated that the ‘European retail and wholesale companies [are] particularly interested in importing textiles from India,’ demanding that the EU’s ‘import duties on textiles should be reduced close to EU level (yarns 4%, fabrics 8% and apparel 12%).’ Also, the FTA (2007: 2) was very explicit about which products are key for its members: ‘India is an important supplier of textiles and clothing and shoes to the EU,’ and demanded ‘the removal of any barriers to the flow of that supply’ and asked the Commission to commit ‘to bring ostensibly [...] tariffs down to zero.’

While these negotiations are still ongoing, there is ample evidence that the Commission has listened to the demands of import-dependent firms. The then Trade Commissioner Mandelson declared that one of the key advantages of a PTA with India was a lowering of tariffs on EU imports (European Commission, 2007a). Around the same time, the Commission published a study in which it defined the removal of import barriers on textiles and clothing from India as one of the key ‘economic benefits of the new generation of bilateral trade agreements proposed by the European Commission’ and showing that removing tariffs on these products would lead to a 46% increase in imports (worth 3.6 billion euros) (European Commission, 2007b). During the negotiations, the EU kept its word and agreed to cut protective tariffs on most products, including critical products like textiles, clothing, footwear and car parts (Deutch, 2012).

Finally, import-dependent firms have actively pushed for the opening of PTA negotiations with Vietnam, as ‘within ASEAN, Vietnam is a particularly important sourcing country as it accounts for approximately 1/3 of all imports from that region’ (FTA, 2012: 3). They formulated four very explicit demands (FTA, 2012; Eurocommerce, 2012). First, they pressed for the removal of all tariffs on industrial and agricultural products, suggesting ‘both negotiation parties should go beyond the fixed target of abolishing tariffs for 90 per cent of the goods.’ Second, they stressed that footwear, textiles and clothing ‘should not be classified as sensitive products in the...agreement as this would significantly reduce benefits for European trade.’ Third, they called for the application of the same rules of origin for Vietnam as in the framework of the generalized system of preferences for least developed countries. Finally, the FTA stressed that the EU should recognize Vietnam as a market economy.

Even though negotiations are still in progress, it is clear that the demands of import-dependent firms have made it onto the negotiation table. In a recent speech on the EU–Vietnam PTA, former Trade Commissioner De Gucht mentioned that the EU has offered to significantly reduce import barriers. He stated that even though many ‘Vietnamese companies can already export to Europe at lower tariff rates under our preference system for developing countries [...] more than half of Vietnam’s exports are still subject to tariffs.’ De Gucht also mentioned explicitly that import barriers on agricultural products, textiles,

clothing and footwear should be lifted (European Commission, 2013a). It has also been reported that the issue of granting market-economy status to Vietnam is on the negotiating table (NamViet News, 2013).

The final step in our assessment of the influence of import-dependent firms was to ask representatives of relevant organizations to self-assess their political influence during the PTA negotiations. While they underline that it is difficult to clearly quantify how much influence they were able to wield, they noted that they felt they had been able to develop a constructive relationship with officials from the Directorate General for Trade of the Commission through formal and informal channels, and that through this process they managed to have their preferences taken into consideration and to affect the bilateral trade negotiations.<sup>19</sup> Furthermore, our interviews with Commission officials, as well as trade policy experts, also suggest that the Commission seriously considered the likely impact and support from import-dependent firms in the process of negotiations with South Korea, India and Vietnam.<sup>20</sup> More specifically, the increasing importance of global supply chains and of outsourcing by key European producers has played a vital role in a growing awareness within the EU that liberalization of trade with countries like India, Vietnam and South Korea, is pivotal for the European economy.<sup>21</sup>

## CONCLUSION

In this article we argued that the EU's decision to launch trade negotiations with a number of key Asian partners can be plausibly accounted for by considering the role played by import-dependent firms in the policy-making process. In their analysis of the history of the EU's PTA policy, Gavin and Sindzingre (2009) note that PTAs negotiated and signed after the publication of the Global Europe communication put much more emphasis on the opening up of the European market to foreign imports rather than solely focusing on market access for EU exports. By conceiving of the trade policy-making process solely as a battle pitting export-oriented sectors against import-competing groups, existing analyses have accounted for this striking empirical observation by assigning causal influence to the preferences of European policy-makers.

In our view, an assessment of the evolution of the EU's PTA policy needs to account for how the changing structure of the global economy has affected the domestic politics of EU trade policy-making. In an international economy increasingly organized around GVCs, the preferences, patterns of political mobilization and influence of producers and retailers that stand to gain from cheaper access to imports from low-cost sources around the globe, cannot be neglected. We do not claim that such import-dependent firms alone drove the EU strategy of preferential opening towards Asian countries. Exporters remain critical to the creation of a successful domestic pro-liberalization coalition. However, our article shows that it is possible to develop a plausible society-centred account of such a strategy by highlighting how import-dependent firms join forces with exporters to successfully push EU policy-makers to engage in preferential trade liberalization.

<sup>19</sup>Interviews, Brussels, 8 January 2010; 15 January 2010; 13 February 2013.

<sup>20</sup>Interviews, Brussels, 7 January 2010; 7 April 2010; 14 February 2013.

<sup>21</sup>Interview, Brussels, 14 February 2013.

We believe our findings contribute towards a more systematic understanding of the politics of trade policy-making, while suggesting an easily expandable research program. Some studies have highlighted the role of multinational firms as political actors favouring PTAs in the Asian region (Kim 2014). Our article complements these findings both conceptually, i.e. broadening the scope of applicability of the argument to a wider set of domestic actors, and empirically, showing that similar dynamics play out in the European context too.

Future research could address some of the limits of our analysis. While plausibility probes are well suited for preliminary studies on relatively untested theories and hypotheses, further research is certainly needed to subject our claims to more systematic empirical testing. In order to improve the generalizability of our findings we suggest a) moving beyond our outcome-centric research design by looking at the role of import-dependent firms in cases where no outcome is visible, i.e. no start of PTA negotiations, or b) analysing cases of PTA negotiations between Asian countries and other regional groupings (e.g. negotiations between Vietnam and the European Free Trade Association). Also, additional efforts are needed to discriminate more explicitly between our arguments and alternative explanations that view the European Commission as having actively stimulated, rather than responded to, the political mobilization of European producers (Elsig and Dupont 2012). More generally, we are convinced that the political implications of the increasing integration of European producers within global supply chains are by no means restricted to the realm of preferential trade opening and can contribute to a better understanding of EU trade policy more broadly.

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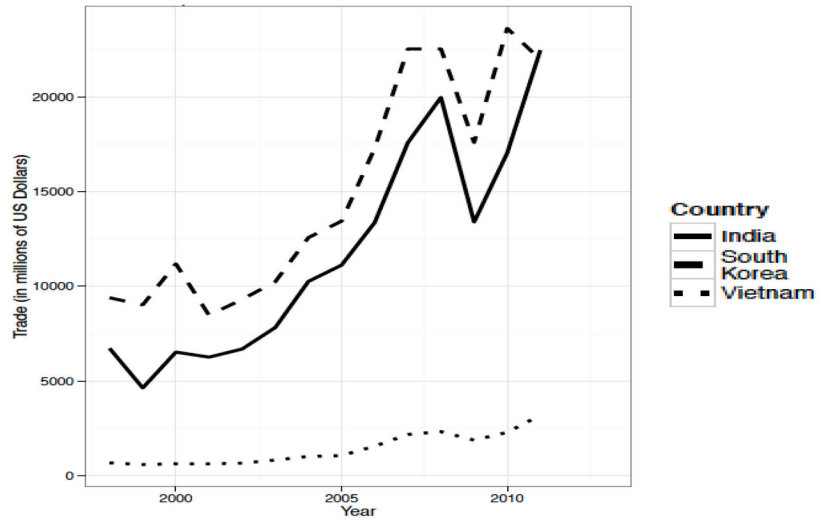
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## Biography

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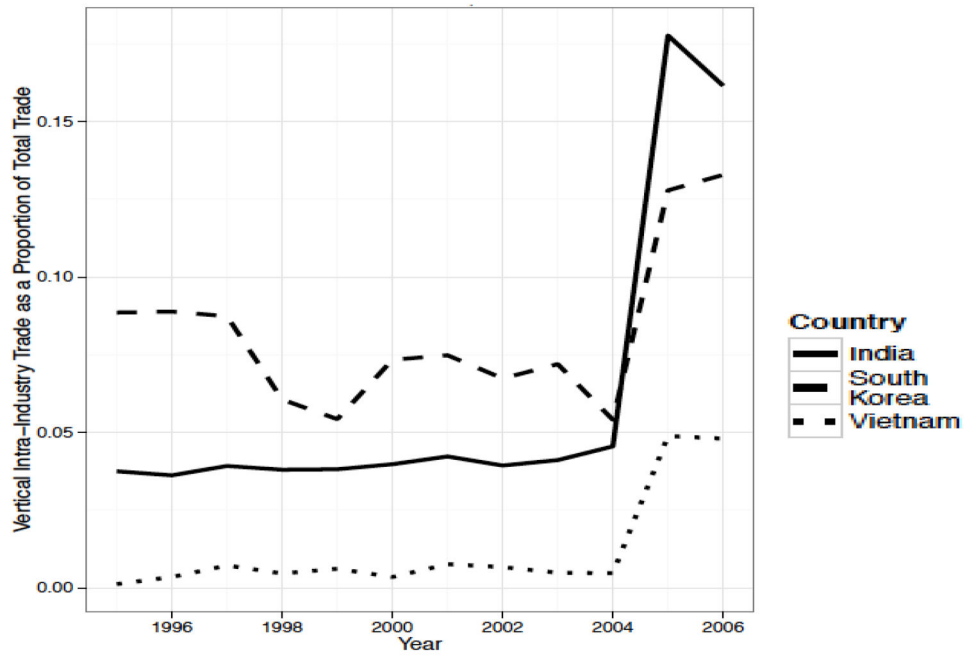
**Figure 1.**  
Imports to the EU (all intermediate goods)  
Source: authors calculations based on data from the UN Comtrade Database

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**Figure 2.**  
Vertical intra-industry trade between the EU and Asian countries (1995–2006)  
Source: authors calculations based on data from Gaulier and Zignago (2010)