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

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ABSTRACT In 2006, the European Commission released its Global Europe Communication, in which the Commission explicitly departed from the so-called ‘multilateralism first’ approach and marked a shift towards bilateralism. One of the key pillars of this new European Union (EU) strategy was to strengthen the bilateral trade relations with Asian countries. In contrast to existing analyses that focus on EU decision makers agency, we propose an explanation for this notable shift in EU’s trade policy that stresses the political role of import-dependent firms – i.e. firms which rely on the income engendered by imported goods or on the import of intermediate products for their production process. In light of the increasing integration of this kind of firms in 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 (PTAs) 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: Trade; European Union; Global Value Chains; Asia; Liberalization; Preferential Trade Agreements.

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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 (Elsig, 2007). Not much later, in 2007, the EU started negotiations on preferential trade agreements (PTAs) with a number of key Asian trading partners. The only PTA that has been successfully concluded so far is the one with South Korea (EUKOR), which is generally regarded as the most comprehensive PTA ever negotiated by the EU, while negotiations with India and the members of the Association of Southeast Asian Nations (ASEAN) countries are still ongoing.

The decision of the EU to enter negotiations with aforementioned Asian trading partners is puzzling. 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 labor-abundant countries, these agreements can be expected to generate significant negative distributive effects for, and consequent 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 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 exporters’ discrimination.
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, to highlight the importance of public policy-makers’ agency (Elsig and Dupont, 2012; Garcia, 2013; Siles-Brügge, 2011). These analyses are in line with various studies that assign independent causal effects to the EU policy-makers’ preferences when accounting for EU’s trade policy more broadly (Conceição-Heldt, 2011; Elsig, 2007; Meunier, 2005).

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 importer- and retail sectors and a substantial number of producers turning into importers. This means that the traditional distinction in the literature 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, one cannot obtain a full picture of the political dynamics that underlie trade liberalization in the EU without adding import-dependent firms to the equation. The preferences, patterns of political mobilization and political influence of 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 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 changed the domestic constellation of interests in the EU and contributed towards the creation of a stronger coalition favoring this particular trade strategy.
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, by shedding light on the role of import-dependent firms in EU trade policy-making, we contribute towards a more systematic understanding of the role of economic interests in the EU trade policy literature, which has focused primarily on the role of exporters and import-competitors. To be sure, we are not the first to look at import-dependent firms in trade politics. For instance, some work on US trade policy analyzes importers as distinctive political and economic actors (e.g. Bernard et al., 2007; Maggi and Rodriguez-Clare, 2000). Yet, these analyses remain ambiguous on the exact political role and influence of importers and there is no mention of political systems other than the US. Second, we shed light on the political economy of global value chains (GVCs) and global production networks (GPNs). The increasing complexity of global production and the economic consequences of the emergence of GVCs and GPNs 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 so far.

STATE OF THE ART
Trade policy scholars have developed two broad explanations for policy outcomes: society centered- and state centered explanations. Society centered explanations focus on domestic economic interest groups and argue that decision-makers are sensitive to the demands of these groups. In particular, the preferences and patterns of political mobilization of import-competing- and export-oriented groups are deemed important to understand trade policy outcomes. While import-competitors tend to have a structural advantage over exporters, given the relative ease with which they can overcome their collective action impediments (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. However, when exporters fail to mobilize and articulate their anti-protection positions, governments will have a difficult time maintaining or imposing liberal trade policies, as they will then be confronted solely with the protectionist interests of import-competitors (Bailey et al., 1997).

A preliminary assessment of the likely distributive effects of PTAs between the EU and Asian trading partners suggests that traditional society-centered accounts have little explanatory power. For one, the potential costs of these agreements for import-competing producers in the EU are significant. Existing analyses show that – as EUKOR envisaged significant liberalization of trade in sensitive sectors such as car and textile manufacturing – the provisions in the EU-South Korea PTA entail significant losses for powerful European import-competing producers due to their competitive disadvantage vis-à-vis their South Korean counterparts (Decreux et al., 2010; Francois et al., 2007). Reports on the potential welfare effects of the agreements with India (Decreux and Mitaritonna, 2007) and the ASEAN members (Sally, 2007) suggest a distribution of the benefits largely skewed in favor of India and the ASEAN countries and that these exports to the EU would concentrate on particularly sensitive sectors like textiles, light manufactured goods, electronics, chemicals, footwear and textiles.

While import-competitors in the EU are expected to face significant losses as a result of the PTAs with Asian countries, the positive effects for EU exporters are expected to be much less significant. For instance, EUKOR was initially estimated to entail a modest real-income gain of 4.3 billion euros from increased exports of goods and services. Although potentially a very large market, India only ranks tenth among the trading partners of the EU and the projected gains for EU exporters were very modest at the time when the negotiations began (Sally, 2007). EU gains were also estimated to be negligible in the optimistic scenario of far-reaching bilateral trade agreement with ASEAN countries, and close to nil in a more realistic scenario of limited services
liberalization (Ibid.). In addition, other factors that may play an important role in fostering political mobilization by exporters were of limited relevance in this context. For instance, the decision to enter PTA negotiations with geographically distant countries such as India, South Korea, and the ASEAN members cannot be explained by exporters’ desire to build economies of scale through the development of regional production-sharing networks (Chase, 2003). Similarly, it seems hardly plausible that exporters in the EU might have mobilized in favor of PTAs with these countries to avoid the potential losses brought about by the trade diversion effects engendered by PTAs signed between them and major trade partners such as the US (Gruber, 2000; Dür, 2010). The only case in which the notion of exporters’ discrimination might seem relevant due to competing PTA negotiations with the US is EUKOR. Yet, 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).

In light of these arguments, it is no wonder scholars have resorted to state-centered explanations, which argue that policy-makers’ preferences rather than interest group pressure determine trade policy outcomes, to explain the recent PTA strategy of the EU vis-à-vis Asia. Scholars have put forward different arguments of this broad kind to account for EU’s bilateral trade strategy in the Asian region. Some argue that a combination of the growing dissatisfaction with ongoing multilateral trade negotiations (i.e. the Doha round) (Elsig, 2007) and the liberal preferences of key bureaucratic actors in the EU played a pivotal role in shaping the process and outcome of negotiations concerning the EU–South Korea PTA (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). In a similar vein, Khorana and Garcia (2013) conceive of EU’s PTA negotiations with India as being largely motivated by long-term economic governance
and milieu-shaping objectives in its trade relations with India. Finally, for Garcia (2013), PTA negotiations between the EU and ASEAN countries should be looked at through the lens of realism, conceiving of the EU’s decision to reach out to these states as a reaction to the increasingly active political and economic engagement of the US and China in the region.

But is the skepticism about the possibility to develop a convincing society-centered explanation of the EU’s trade strategy towards these Asian countries truly warranted? While the premise of state-centered explanations, that interest group pressure alone cannot explain the EU trade strategy seems convincing at first glance, we argue that before discarding society-centered explanations of trade policy as implausible, another set of actors, their preferences, and their patterns of political mobilization deserve attention. Our main contention is that existing studies on the EU trade strategy towards Asian countries overlook the role of import-dependent firms and the impact they can have on the domestic politics of trade.

IMPORT-DEPENDENT FIRMS AND EU’S BILATERAL TRADE POLICY
Import-dependent firms can best 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. First, 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. Second, 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 a) they have outsourced production and/or b) because they use imported products as inputs in their production process. 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 EU’s PTA policy.
Preferences. The conventional wisdom is that the only economic actors with a stake in trade liberalization are export-oriented producers, in the sense that they gain from increased sales to foreign markets. However, we argue that import-dependent firms also stand to gain from trade liberalization, but the sources of their gains are very different. Import-dependent firms’ gains can be accrued because 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. In order cut costs and streamline production, since the 1990s, many EU retailers and producers started to redefine their core competencies and turned their attention to “innovation and product strategy, marketing, and the highest value-added segments of manufacturing and services” (Gereffi et al., 2005: 79). At the same time, these firms outsourced labour-intensive, less value-added operations to lower income countries (mainly in Asia)(Ibid.), 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 increasingly started to buy their products from suppliers in Asia and elsewhere, while EU producers started to outsource and off-shore a substantial part of their production overseas, largely onto Asian markets, turning these producers into importers into the European market. These shifting (production) structures are usually referred to as global value chains (GVCs) or global production networks (GPNs)\(^1\) and importers have played a pivotal role in their development. This type of GVCs and GPNs have become common in labor-intensive consumer goods industries like clothing, footwear, and consumer electronics (Gereffi, 1999), as well as in the food industry (Burch and Lawrence, 2005).

\(^1\) The former can be defined as a global “sequence of productive (i.e., value added) activities leading to end use,” while the latter consist of “two or more value-chains that share at least one actor” (Sturgeon, 2001: 6).
For firms that operate within GVCs and GPNs, 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 can expect to accrue benefits from cheaper imports (Manger, 2012). The preferences of import-dependent firms for 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 bilateral trade liberalization? Societal interests are most likely to overcome collective action problems and mobilize politically in case 1) they have clear and homogenous 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 already found a trade association (Hathaway, 1998; Olson, 1965).

As noted earlier, export-oriented groups face severe collective action problems when deciding to mobilize to improve foreign market access, given the costs of gathering information, the uncertainty concerning the benefits of lowering foreign trade barriers, and the vagueness of distributional effects of liberalization among exporters (Dür, 2010). Import-dependent firms, on the other hand, do not need to engage in a constant scanning of foreign markets to be aware of the opportunities they stand to lose from high barriers to foreign trade. These groups 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. In addition, while exporters do not know whether they or other producers will capitalize on foreign market access,
import-dependent firms have the certainty that they will stand to gain from reduced tariffs and can anticipate with much higher precision what the distributional effects of such change will be. What is more, sectors of importers and retailers in the EU have undergone a process of consolidation in recent years and, as a result, are now dominated by a small number of large enterprises (Dragun et al., 2004; Gereffi, 1999) and thus trade liberalization acquires a quasi-private good character (Gilligan, 1997). This in turn has enhanced their collective action capacity 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.** That brings us to the final building block of our argument: the extent to which import-dependent firms can affect trade policy outcomes. It seems fair to argue that as a result of the increasing relevance of import-dependent firms, 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 become more important in an economy and have become better able to mobilize politically, the lines between “us” and “them” inevitably blur, because trade policy-makers need to take into account the benefits of trade liberalization not only for potential exporters but also for domestic importers. So, when a country has many import-dependent firms, maximizing the benefits of trade also implies lowering domestic tariffs (Lanz and Miroudot, 2011).

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, for reasons mentioned before. This does not mean that these groups will always be capable of influencing trade policy or that they will make other constituencies irrelevant. Whether they will be
influential depends on their actual engagement in political action – which in turn crucially depends on the amount of the expected benefits as well as on the degree of consolidation of the sector – as well as on the patterns of mobilization of political actors of other constituencies supporting or opposing trade liberalization. More modestly, 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 favoring trade liberalization via PTAs.

IMPORT-DEPENDENT FIRMS AND 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 leading to the EU’s choice to negotiate PTAs with key Asian trading partners. We intend our empirical analysis to serve as a plausibility probe - i.e. demonstrate the empirical relevance of our argument in the context of the cases in which it can be concretely applied (Eckstein, 1975). With our analysis we thus do not aim to offer a 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 seem quite straightforward. We would just need to look into 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 ASEAN
countries (European Commission, 2006). We broadly follow this logic, with just one exception. Given the limited amount of space available, we have taken a pragmatic stance and decided to pick just one representative case of EU-ASEAN trade relations. After having excluded Singapore due to its peculiar characteristics, we decided to focus on Vietnam – rather than also considering Malaysia or Thailand – for data availability purposes. In light of the similarity in the composition of trade flows between the EU and these countries,\(^2\) 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, 2008a; George and Bennett, 2005) the next sections show that: 1) liberalization of trade with South Korea, India and Vietnam entailed significant stakes for EU import-dependent firms; 2) import-dependent firms engaged in significant mobilization in support of trade liberalization with these countries, and 3) the political mobilization of import-dependent firms carried significant weight in 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 key Asian countries, we provide three sets of descriptive data. First, we provide information on the evolution of the value of vertical intra-industry trade (VIIT) in total bilateral EU trade with South Korea, India and Vietnam. VIIT can be considered a reliable, although indirect, measure of trade affecting import-dependent manufacturers, as it captures trade flows within industries (albeit not necessarily within firms) resulting from either the outsourcing of intermediate, and often labor-intensive, stages of production or the setting up of networks of offshore suppliers.

That is, VIIT takes into account the simultaneous exports and imports of goods classified in the same sector but at *different stages of processing* (Manger, 2012). As Figure 1 clearly shows, the share of VIIT between the EU and the Asian countries in question increased dramatically in the period before the beginning of bilateral trade negotiations.

[Figure 1 here]

These data are even more telling if one considers that they do not reflect an overall increase of intra-industry trade (IIT) in bilateral trade flows. Figure 2 shows the evolution of (a combination of both vertical and horizontal) IIT as a share of total trade between the EU and these countries over the same period of time. It shows that while VIIT increased dramatically, IIT either remained constant (Vietnam and India) or even decreased (South Korea), which clearly suggest that the relative weight of import-dependent manufacturers in EU trade relations with key Asian countries increased in the period preceding the EU’s shift towards a bilateral trade strategy.

[Figure 2 here]

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3 To obtain the VIIT data we follow on from earlier work (Fontagne and Freundenberg, 1997; Manger, 2012). We consider two-way bilateral trade flows within particular product categories – defined by the 6-digit Harmonized System – and then discriminate between horizontal and vertical IIT. We consider 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 such spread is higher. The trade data is drawn from the BACI database (Gaulier and Zignago, 2010). While data is available only up to 2007, we believe this is not particularly problematic because we are mostly interested in the period preceding the launch of EU PTA negotiations with its Asian trading partners.
Second, we further corroborate data on VIIT by looking at EU imports of intermediate components from the three considered Asian countries. Figure 3 plots the evolution of the annual value of EU imports of goods labeled as intermediate components\(^4\) from these countries in the 1998-2012 period. Very much in line with data on VIIT, we see a spectacular increase in the value of EU imports of intermediate components from these countries, an increase that begins in the period preceding the launch of the Global European Communication and continues consistently throughout the last decade.

[Figure 3 here]

Finally, we try to capture the economic stakes of large-scale European retailers in liberalizing trade with these Asian countries by simply looking at the composition of the most important products and product categories imported in the EU from these countries.\(^5\) 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, in case of EU imports from India, 3 of the 6 top imported products (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 (in particular cars), which are not of great importance to EU retailers.

\(^4\) According to the classification of Broad Economic Categories (BEC).

\(^5\) All data obtained from Eurostat (Comext) and available upon request.
The political mobilization of European import-dependent firms

As shown above, import-dependent firms had significant stakes in furthering bilateral trade liberalization with Asian partners. 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.

Evidently, the organizations defending the interest of import-dependent firms have been stimulated to act by their members and they took various initiatives in support of the Global Europe initiative in general and the focus on 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.\(^6\) There was, according to one of our sources, “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.”\(^7\) Eurocommerce representatives lobbied the Commission and the European Parliament, while national associations lobbied their own governments. So, Eurocommerce did not directly approach Member States (MSs), but they did send, according to one interviewee “positions to MS 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. In between we also organize working groups and we have electronic exchange of documents.”\(^8\)

Our analysis of relevant documents confirms that Eurocommerce actively and strongly supported the commencement of trade negotiations with the Asian countries. In April 2007,

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\(^6\) Interview Brussels, 3 February 2009.

\(^7\) Interview, Brussels, 8 January 2010.

\(^8\) Ibid.
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 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, pointing out the reduction of tariffs applied on these countries’ imports as a key reason for adopting this position and reiterated support for these initiatives on numerous subsequent occasions (Eurocommerce 2009; 2010; 2012; 2013).

The FTA, the other organization representing the interests of European import-dependent firms, also expressed its support for the PTAs with the Asian countries in question 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. 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. To convince policy-makers to start negotiations and, at a later stage, to influence the EU’s negotiating position, FTA published and released numerous position papers and press releases (FTA 2009a; 2009b; 2010; 2011), in which they made clear that it considered these trade negotiations 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, FTA (2012) considered a 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 the

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9 Interview, Brussels, 13 February 2013.
10 Ibid.
beginning of trade negotiations with India, given its importance as supplier of textiles, clothing and shoes to the EU. Besides issuing position papers and press releases, FTA also engaged in other forms of lobbying, such as meeting Commission officials\textsuperscript{11} and the creation of stable mechanisms of coordination with Eurocommerce “in order to get a coherent message across to the relevant decision-makers.”\textsuperscript{12}

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 its 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 of these negotiations; and consistently showed its support throughout the negotiation process (see also, Corporate Europe Observatory, 2010). What is worth stressing here is that, while these organizations’ support was partly, and as expected, 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 (see Joint Statement by European Business Organizations, 2013).

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

The next logical question is whether import-dependent firms have been able to wield influence on the decision-making process? In order to answer this question, we follow two established practices of measuring interest groups influence (Dür, 2008a; 2008b). First, we looked into the

\textsuperscript{11} Interview, Brussels, 15 January 2010.

\textsuperscript{12} Interview, Brussels, 8 January 2010.
degree of preference attainment, assessing the demands put forward by import-dependent firms and comparing these with the negotiation outcome (South Korea PTA) and/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, and sought to further validate this by also asking EU Commission officials to give their view on these groups’ influence. Our analysis suggests that import-dependent firms seem to have indeed played an important role in shaping the EU’s PTA agenda with regard to Asian countries.

Lobby efforts 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 the signing of PTAs with Asian countries for importers in the EU (European Commission, 2006: 7). The particular focus of the initial document was, however, on imports of raw materials. Although import-dependent firms and their organizations hailed the general recognition by the Commission of their interests, they immediately responded by declaring that importers and retailers have an interest “in purchasing all kinds of products from [Asian Countries], not only raw materials” (Eurcommerce, 2007a). What is more, groups defending the interests of importers also argued that the Commission focused mainly on import-dependent manufactures and not so much on retailers (FTA, 2006)

To ensure that the interests of import-dependent firms would be taken into account in the PTAs with South Korea, India and Vietnam, organizations like the FTA and Eurocommerce, as explained in detail above, stepped up their lobbying efforts after the launch of the Global Europe initiative and started to formulate very specific policy preferences in the run-up to and during the respective PTA negotiations.
Let us first focus on the EU–South Korea PTA in this regard. 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.\(^\text{13}\) 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, eventually, into the final agreement. When it comes to 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 textile and clothing tariffs were phased out immediately.\(^\text{14}\) 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). Also the demands with respect to rules of origin 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.). Of particular importance in this regard is that the EU agreed

\(^{13}\) Interview, Brussels, 15 January 2010.

\(^{14}\) Only on automobiles and some agricultural products the EU demanded a longer phase-out period.
“to allow duty drawback, which it had so far refused to do in any bilateral agreement” (Ibid.). Finally, again as requested by import-dependent firms, EUKOR includes very strong and precise 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. Again, the key interest groups defending the interests of import-dependent firms were the FTA and Eurocommerce. In a clearly coordinated effort, both organizations formulated very precise demands about the lifting of trade barriers on textiles, clothing and footwear. Eurocommerce, for instance, stated that the “European retail and wholesale companies [are] particularly interested in importing textiles from India,” demanding that EU’s “import duties on textiles should be reduced close to EU level (yarns 4 %, fabrics 8 % and apparel 12 %)” (Eurocommerce, 2007a: 2–3). 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 in this case too. 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 has kept its word and has agreed to cut
protective tariffs on most products, including critical products like textiles, clothing, footwear products and car parts (Deutch, 2012).

Finally, we have looked at the EU–Vietnam PTA. 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 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 agriculture products, textiles, clothing and footwear should be lifted (European Commission, 2013). All these products were indicated by import-dependent firms as being their priorities. It has also been reported that the issue of granting market-economy status to Vietnam is on the negotiating table (NamViet News, 2013).
As a final step in our assessment of the influence of import-dependent firms, we asked some representatives of relevant organizations to self-assess their political influence during the PTA negotiations. While they tend to be cautious about doing so, underlining 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 DG Trade Officials through formal and informal channels, and that through this interactive process they managed to have their preferences taken into consideration, thus ultimately affecting the bilateral trade negotiations.\[15\] Finally, the assessment of a key Commission official involved in these negotiations also supports the picture portrayed so far, suggesting that the Commission seriously considered the likely impact and support from import-dependent firms in the negotiation processes with South Korea, India and Vietnam.\[16\] More specifically, the increasing importance of global supply chains and of outsourcing by key European producers has played a key role in a growing awareness within the EU that trade liberalization with countries like India, Vietnam and South Korea, is pivotal for the European economy.\[17\]

CONCLUDING REMARKS

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 European trade policy-making process. In their analysis of the history of EU’s PTA policy, Gavin and Sindzingre (2009) correctly note that PTAs negotiated and signed in the aftermath of the Global Europe Communication put much more emphasis on the opening up


\[16\] Interview, Brussels, 14 February 2013.

\[17\] Ibid.
of the European market to foreign imports rather than solely focusing on market access for EU exports. By relying on standard political economy approaches, which conceive 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 (changing) preferences of European policy-makers.

In our view, an assessment of the evolution of EU’s PTA policy needs to account for how the changing structure of the global economy has affected the domestic politics of trade policy-making in the EU. In an international economy increasingly organized around global value chains, the preferences, patterns of political mobilization, and influence of European producers and retailers that stand to gain from cheaper access to imports from low-cost sources around the globe cannot be neglected. We are aware that the evidence we provide is largely illustrative, yet we believe that our empirical story, at the very least, shows the plausibility of our argument. We showed that a) import-dependent manufacturers and retailers in the EU had important economic stakes in the bilateral liberalization of trade with South Korea, India and Vietnam; b) that they devoted considerable resources to lobbying policy-makers before and during PTA negotiations with these countries; and c) we showed that they seemed to have been quite influential.

We believe our article contributes towards a more systematic understanding of the political-economic dynamics that underlie trade policy-making in the EU. Whereas, in this article we concentrated on the EU’s decision to engage in negotiations for the liberalization of trade with key Asian partners, a focus on the political implications of the increasing integration of European producers within global supply chains can contribute to a better understanding of EU trade policy as a whole. Further research on the role of this set of actors could help to address other important questions in the study of EU trade policy.
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FIGURES

Figure 1

![Vertical Intra-Industry Trade Between the EU and Asian Countries, 1995-2006](image1)

Source: authors calculations based on data from Gaulier and Zignago (2010).

Figure 2

![EU Intra-Industry Trade, 1995-2006](image2)

Source: authors calculations based on data from Gaulier and Zignago (2010).
Source: authors calculations based on data from the UN Comtrade Database