

**Competitive Cooperation and the EU's Emergence as a Strategic
Partner for the US in the World Political Economy**

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Introduction

This paper attempts in a preliminary way to sketch some of the dimensions of changing EU/US economic relations during the late 1990s, with particular reference to the ability of the EU to forge coherent and credible bargains as the basis for co-operation. It has been argued by a number of commentators that the EU and the US constitute a potential strategic partnership or coalition in the international arena of the 1990s, and there is evidence that EU/US policy convergence could constitute one of the defining processes of the late 1990s (Peterson 1993, 1996; Peterson and Ward 1995, Featherstone and Ginsberg 1996.) Four immediate trends can be identified, but they raise as many questions as they answer:

- First, there is a trend towards *bilateral institutionalisation*. EU/US economic relations have become increasingly institutionalised in the broad sense, and there have been significant recent developments through the elaboration of the New Transatlantic Agenda and the EU/US Action Plan, agreed at Madrid in December 1995. But this process has raised questions about the effectiveness of such institutionalisation, and the ways in which it can be carried forward into positive policy outcomes.
- Second, there is a trend towards *inter-regional competition* and what has been seen as 'bloc-building', based on the competition of different 'models' of economic organisations and institutions. Most clearly this has been discerned in the movement in the EU towards the Single Market and the somewhat parallel move towards NAFTA and regional economic organisation for the Americas, although the development of APEC also has resonance here. There is clearly a question here about the relationship between these processes of inter-regional and inter-system competition and the other processes of institutionalisation described at the bilateral and multilateral levels.
- Third, there is a trend towards *multilateral rule-making*. The EU and the US have found themselves increasingly entangled in multilateral and inter-regional fora for the negotiation of international economic rules and regimes. Put alongside the moves to institutionalise the transatlantic relationship, this process raises questions about the linkages between bilateral, regional and multilateral fora, and about the frictions between processes of co-operation at different levels in the world political economy.
- Fourth, there is a trend towards *private management of the global political economy*. Increasingly, the prominence of corporate networks and essentially 'private' associations in the global political economy constitutes a major axis of co-operation and integration. This process of diffusion of EU/US relations in the development of the global political economy has raised questions about the relevance of 'governmental' bargains between the EU and the United States as a means of organising the transatlantic political economy, at the same time as it suggests a range of strategic partnerships at the private level which could feed into and sustain a broader EU/US bargain. Work on the Transatlantic Business Dialogue (TABD) has served to underline these questions (Cowles, 1997).

The paper constitutes an attempt more clearly to identify the questions arising from these coexisting processes and trends, and to relate them to a body of theory about the nature and implications of international co-operation. A central premiss is that the complex combination of processes outlined above places a high premium on the evolution and adjustment of EU external policy strategies. The paper starts by very briefly examining some assumptions about the nature of international co-operation, and in particular at the notion of 'competitive cooperation' in the world political economy, which is seen as a way of encapsulating the processes and issues. It then moves on to look at the prospects for EU/US co-operation, primarily from a viewpoint in the EU and from a focus on the politics of economic policy-making in the EU context: the central question is, to what extent can the EU function as a credible partner for the United States at the strategic level in the world political economy?

In the second part of the paper, I thus examine aspects of the EU's foreign economic policy-making processes, and develop three models of the process: 'Community policy-making', 'Union policy-making' and 'negotiated order'. These models contain three sets of distinctive assumptions about the EU's ability to function as a coherent strategic actor in the global political economy, and to participate in processes of international co-operation. In the third part, I explore a number of dimensions of EU/US economic relations, and relate these to the three models of EU foreign economic policy-making. This part of the paper is designed to raise questions about the nature of co-operation in EU/US relations, derived from the earlier discussion of the EU's strategic action capabilities. In the final part of the paper, I evaluate the three models of foreign economic policy-making, and draw some tentative conclusions about the questions raised in this introduction.

Questions of Co-operation

The literature on international cooperation is plentiful, and I do not intend to review it in detail here (for example see Keohane 1984, Stein 1991, Oye 1986.) Rather, I wish to pick up three central questions about international co-operation which I consider to be central to study of the EU/US relationship:

- First, what makes a credible and capable participant in international co-operation? Many theories of international co-operation operate on the assumption - implicit or explicit - that credible participation in international co-operation demands a set of qualities indistinguishable from statehood. There needs to be a central political authority capable of making credible and coherent strategic commitments. In the case of EU/US relations, one wonders whether this condition is fulfilled or can be fulfilled by the EU.
- Second, what is the significance of the difference between strategic and other forms of bargains in EU/US relations? At the most general level, it is clear that some bargains are more strategic than others, and some more formal than others. What are the implications of this variation, particularly as it relates to different tendencies in the making of foreign economic policies, and to what extent does this help us to gain a purchase on the possibilities for EU/US co-operation?
- Third, how can strategic co-operation and bargaining in a series of overlapping fora be managed? One of the characteristics of the world economy in the 1990s is that institutional arrangements and the channels for co-operation are multiple and often overlapping. How well is the EU equipped to sustain co-operation on several fronts at the same time, and to maintain the credibility of its strategies in each of them? How capable are the EU and the US as partners of managing the conflicting and competing demands of different fora and

institutional settings?

These questions lead me to argue that in many instances, what characterises relations between entities such as the EU and the US in the world political economy is a process of 'competitive cooperation'. This idea has been explored elsewhere by Stephen Woolcock and myself (Smith and Woolcock 1993, 1994). We have argued that given the improbability of either transatlantic policy integration or transatlantic 'separate development', the most likely pattern in EU/US relations is one which mutual entanglement gives rise to a fluctuating blend of cooperation and competition. A recent management text has coined the phrase 'co-opetition' to express the mixed motives, the institutional complexities and the indeterminate outcomes central to such patterns. In EU/US relations, the phrase expresses well the several linked levels at which competition and cooperation are to be found, and the inescapable fact that many EU/US interactions see the competitive promotion of cooperation, either through bilateral, regional or multilateral channels. In this context, cooperation itself can become a strategic instrument in the effort to contain or control competing actors, by enmeshing them in a set of institutional commitments and obligations and by investing those with political and normative force. I will return to recent experiences of this phenomenon later in the paper. My questions and arguments are stated very baldly here, but they form an implicit framework for the remainder of the paper. The first question above - about capacity and credibility - leads us to a focus on the foreign economic policy-making process in the EU, and to an evaluation of the EU's capacity for strategic action, interaction and co-operation.

Foreign Economic Policy-Making and the EU

Policy Challenges

I have pointed out in work elsewhere that the notion of 'foreign economic policy' when applied to the EU generates a number of important questions not only about the EU but also about the changing nature of the global political economy (Smith 1994a.) This is not the place in which to repeat the arguments made there, but it is important to summarise them as the basis for the further development of the argument here. Three sets of questions are identified, each of them carrying significant implications for judgements about the EU's capacity for strategic action and co-operation. They relate to the growth of multilayered processes of production and exchange, to political/economic boundary problems and to the operational capacities of governmental organisations.

The first set of questions generated relates to the changing nature of the global political economy: this is characterised by the development of a multilayered set of economic processes, which in turn raises questions about the appropriate focus and principles of 'governmental' action (Hocking and Smith, 1997: chapter 1). It is not to be taken for granted that the formal locus of political authority over the development of markets and production structures matches the informal distribution of market or productive power. Nonetheless, there is an important area of enquiry here, since the 'fit' between government structures, the allocation of political authority and the generation of effective economic management is central to evaluations of the EU and other processes of international economic integration.

The multilayered character of the global political economy thus raises important questions of political control. In terms of the EU, there is a tendency in much scholarship to relate the European experience to known models of statehood and the political governance of markets or production structures - a tendency which may be even less relevant today than in the past. But this tendency does itself uncover a quasi-ideology in the EU centering on the ability to construct political and legal structures

as the basis for strategic action to control markets and production. I shall return to this shortly, but it must be noted here that the ability to exercise political and legal control over market and production structures is central to judgements we might make about the EU's capacity for strategic action in the global political economy.

Another feature of the global political economy important to analysis of the EU's strategic action capacity is what might be termed the 'who is us?' problem (after Reich 1991; see also Smith and Woolcock 1993, Smith 1997). The growing interpenetration of national and regional economic structures in the industrial world (and the decreasing relevance even of that term in the age of global production) gives new salience to the 'boundary problems' arising for any attempt at the framing of policy. In the case of the EU, it has always been clear that major beneficiaries of the European integration process have not been wholly 'European'. Research has demonstrated that the attempt to create European champions or to identify appropriate members for European consortia are not effective - or at least not effective in the ways implied by a strategic action view of the EU's role (Sandholtz 1992: chapter 6). As a result, processes of 'externalisation' and 'internalisation' have always been visible in the European policy process: on the one hand, the concerns of those in Europe have been expressed and pursued partly through EU action but also partly through the building of networks for external action which may by-pass the EU and national channels (Smith 1994a). On the other hand, there is what might be termed the 'who is them?' problem: there has been a process by which the internal EU arena has been penetrated by external forces, and these have become part of the constituency and range of interests on which the EU has had to build. Thus when it comes to the negotiation (for example) of automobile import restraints, the EU cannot act on the basis that external strategy is all that counts. Internally, there is a range of national, subnational transnational pressures working towards the generation of appropriate external action. Externally, there is a range of multilateral, transnational and national forces working towards other and often contradictory purposes. The challenge of 'target acquisition' in a context where there is a good deal of turbulence and where identities are far from clear is thus central to the framing of strategic action.

Finally, and not just for the EU, there is in the global political economy a growing problem of policy competence. This is in many ways a product of the two trends identified above: the growth of multilayered political/economic processes and the problem of boundary-definition. Essentially, it concerns the policy mechanisms and policy instruments available to deal with the challenges arising. In an era of change where many economic issues are inherently cross-national and cross-departmental in character, there is an inevitable difficulty in policy coherence and coordination at the operational level. In the EU, this takes a particular form, given the allocations of competence by treaty and legal instruments; but it is not unknown in the United States or other industrial societies, since it expresses the essentially elusive and often uncontrollable nature of processes in the global political economy (Smith 1994b). Everywhere, trade policy mechanisms are under pressure because of the ways in which policy is shaped at many levels and in a context of pervasive boundary problems. Rather than a process founded on clear legal bases and with clear allocations of political authority, we are faced with a process which relies more on networks, linkages and the ability to communicate. Recent research by the present author and Brian Hocking on US policies towards the Single European Market programme demonstrates that the growing diversity of interests and structures in the handling of complex international economic issues creates major questions about access and the 'management of vulnerability' in the making of foreign economic policy, and that these questions cannot be answered simply by reference to the state's (or the EU's) capacities for strategic action (Hocking and Smith 1997: chapter 8.) In policy terms, the travails of Commissioner Kinnock in his attempt to establish a mandate for the negotiation of air services demonstrate both the inherent tendency of policy issues to spill over treaty divisions and the inherent difficulty of establishing appropriate operational focus for the conduct of EU-wide strategies.

Models of Policy-Making

The EU is faced in the attempt to construct foreign economic policy by the growth of diversity and indeterminacy. It is quite possible to respond politically to this situation by calling for the provision of more policy instruments, by looking to the establishment of a truly governmental capacity for the EU or by attempting to redraw the boundaries of 'fortress Europe'. The concern here, though, is with the relevance of analytical assumptions and analytical models in the evaluation of EU foreign economic policy-making. Three models are developed here, each with specific implications for the EU's strategic co-operation capacity: 'Community policy-making', 'Union policy-making' and 'negotiated order' (Smith 1996.)

Community Policy-Making

The most long-established model for foreign economic policy-making at the European level is that of 'Community policy-making'. Essentially, this embodies the assumption that the 'Community method' encapsulated in the Treaty of Rome and subsequent 'constitutive' documents is at the core of foreign economic policy-making. The Common Commercial Policy is thus the key, and the extension of the CCP is the objective. The ideal of strategic action is the development of a wider range of policy instruments at the EU (properly EC) level, their application to ever-greater proportions of the EU's external transactions and the construction of a quasi-state foreign economic policy with the Commission as instigator and administrator. The links with the 'expansive logic' of task-performance which is at the core of neo-functional views of European integration are clear, although not comprehensive. The Community method is a necessary part of European assertion in the global economy, aggregating the interests and the assets of the member-states. The Commission is a necessary conduit for the allocation of resources and energies to collective action. In a sense, although it is dangerous to push the analogy too far, this casts the Commission in the role of the Executive and the Council of Ministers in the role of the Congress. The position of DG 1 in the Commission can thus be seen as analogous to those of the USTR and State in the coordination of US foreign trade policy, and similar if partial analogues can be found for the roles of Commerce, USDA and other agencies (Smith 1994b).

In terms of the three areas of challenge outlined above, the 'Community policy-making' model comes up against a number of difficulties. Perhaps the clearest and the most disabling is that the development of multilevel global economic processes does not sit well alongside the assumption that foreign economic policy-making should be centralised at one level, that of 'Brussels'. The changing location of economic activity, and the changing composition of processes of production and exchange, means that the CCP as originally conceived is inevitably under pressure; one has only to think of the difficulties the EU faced in ratifying the Uruguay Round result to recognise the diversity of the challenge. The development of processes which centre on trade in services and not trade in goods, which penetrate deep into regional and subnational concerns with investment and with regulatory structures, and which range across apparently clearcut national or Community boundaries, changes the terms on which the CCP can be conducted. The 'who is us?' problem also undercuts some of the apparent logics of industrial and other policies at the Community level which might be thought to lend themselves to coherent strategic actions. In some ways, this is a very old problem, given the historic tensions between Community policy-making and residual national authority, but it is put into a new light by the development of global political-economic processes. In a crude sense, the model of Community policy-making comes up against two questions: 'who or what is it for?' and 'who or what is it against?', and the answers are very far from clear.

The challenge to 'Community policy-making' is finally felt in the area of operational competence. I have already noted the ways in which the established legal structures of

the Community are challenged by the development of multilayered and boundary-penetrating economic processes. It is clear that on many of the archetypal issues of the 1990s, Community policy-making is uncertain. Is it the operational task of the Community to assert control over increasingly diverse and mercurial processes, and thereby to extend the apparatus of quasi-governmental control into ever-greater areas? Even the most enthusiastic of Europhiles might see the difficulties inherent in such a project: the span of awareness and control, the uncertain effects of policy instruments, and the resistance of competing authorities in both the public and the private domain. Maybe, then, it is the task of the Community to establish frameworks within which the processes can be managed by a combination of public and private authorities on the basis of agreed principles, and to devolve detailed policy responsibilities except in a number of core areas. This would be a reformulation of the 'Community method', but not necessarily a dilution of it. Indeed, it can be argued that it corresponds quite closely to policies that have emerged (for example) in respect of transportation, competition and regulation within the global and the transatlantic arenas.

Union Policy-Making

A second model of EU foreign economic policy is that of 'Union policy-making'. Whereas the 'Community model' in its hard form implies the increasing absorption of economic policies and processes into an EC framework, the 'Union model' implies a strong residual role for national governments, and the potential repatriation of policy competences to the national level. This means that within the model there is a strong role for intergovernmentalism and for the interplay of national preferences; as a result, the formation of national preferences and the mobilisation of national assets within the EU policy-making process is of central importance. There has always been a strong tradition in the EU relating to this model, and not just in the case of the British government. On balance, it has been the case over the years that the perceived benefits of transfer of policy competence to the Community level have outweighed the perceived disadvantages of loss of 'voice' and autonomy at the national level. In effect, a tacit bargain in the area of the CCP operated for many years, based on a relatively simple calculus of the gains and losses from collective action, and buttressed by the relationship between the Council of Ministers and the Commission in the area of trade policy-making (Hayes 1993.) This has become less apparent in the 1990s, and the loss of clarity over this bargain has been intimately connected with the trends in the world economy outlined above.

In the first place, the model of 'Union policy-making' can be seen to respond to the development of multilayered economic processes and multiple agendas. In these circumstances, it can be argued that a more complex EU-member state bargain is needed, to reflect the many levels at which policy might be framed or have effects. The ability to aggregate or to express interests, it can be argued, is not automatically to be found at the European level. In a global political economy where there is a major problem of location and the mobility of assets or factors of production, there needs to be more freedom to respond at the most appropriate level. This means a more assertive role for national authorities, and for that matter for regional authorities, whose interests will not inevitably be in tune with those of Brussels. Such a position also responds to the 'who is us?' challenge, by asserting that national and regional identities are central to the formulation of appropriate policy responses in a diverse world. The problem with 'Community policy-making' is thus identified as one of aggregation and representation. But is the inevitable answer a reassertion of national or regional competences against the centre in Brussels? After all, the relationship between Council and Commission remains one in which the benefits of collective action in the world arena are apparent: the members of the EU, on many of the most important issues in the global economy, muster more weight collectively than separately, and the conduct of multilateral economic diplomacy gains significantly from the persistence of a clear balance of forces at the European level.

When it comes to questions of operational policy and policy instruments, the model of 'Union policy-making' throws into relief another feature of the changing world economy: the diversification of instruments with which international economic effects can be sought. The historic debate in the EU has been a debate about the internal integration process, and one in which the external dimension has often been ignored both by policy and by analysis. The successive spats over compensation for enlargement of the Community give one kind of evidence of this pattern; further evidence is provided by the 'internal obsession' of the SEM at the outset. But the SEM also provides compelling evidence that the impact of the integration process on the world economy cannot be ignored for long. In particular, it demonstrates that the use of 'internal' instruments such as regulatory policy, regional policy or employment policy cannot be divorced from the interpenetration of national and continental economies (Smith and Woolcock 1993; Woolcock 1991; Hufbauer 1990.) In terms of 'Union policy-making', the important point here is that not all of the relevant policy instruments are at the European level or in the framework of common policies. In particular, the attraction or relocation of foreign direct investment, the shaping of educational systems and the provision of access to national or regional markets are not totally under the influence of Brussels. In the circumstances of the 1990s, these are as much matters of foreign economic policy as are tariffs and quotas.

Negotiated Order

My third model of EU policy-making is based not so much on the formal structures or historical evolution of the EU as it is on process and communication. This does not mean that formal structures and the accretion of historical experience are not relevant; rather, it means that the central focus is on the process by which policies are negotiated within the broader context provided by institutions and 'balances of power'. The idea of 'negotiated order' owes less to ideas of strategic action or institutional competition than it does to ideas of communication, learning and policy-sharing. As such, it is arguably more in tune with the reality of a complex and interconnected world economy, but equally arguably it glosses over a number of hard power considerations and the need for strategy itself.

The model of 'negotiated order' sees the EU itself as an arena for negotiation and communication, and thus as the context within which the policy actors learn and adjust in response to the challenges of the world political economy. As such, it reflects the diversity and complexity of the global arena, and the interpenetration of the national or continental economies within it. It also has important connections with theories of historical institutionalism, in the sense that it views successive institutional bargains as constitutive of the framework and the world-views within which policy develops (Keohane and Hoffmann 1991; Sandholtz and Zysman 1989; Bulmer, 1994.) But it does not have a view of institutional hierarchy or conformity, or of a manichean struggle between institutions as implied in the 'Community policy-making' or the 'Union policy-making' models. The emphasis is on a continuous process of mutual responses and adaptations, within a consensus about the very broad lines of policy development and about the need for collective action in particular policy domains. In such a process, the concept of 'political entrepreneurship' is relevant, but it does not attach to any specific institution or grouping; it can emerge from a variety of settings or levels, and there are no preconceptions as to the ways in which it should be generated or focused.

This could be seen as an eminently practical framework within which to view the development of the EU's foreign economic policies. External action in this case is to be seen as reflective of the internal bargaining process, but that bargaining process is not insulated from the development of the global political economy. Rather, it is itself a part of the developing multilevel world economy, and as penetrated by the diverse forces outlined earlier in the paper. Foreign economic policy as 'negotiated order'

implies diversity of policy inputs and diversity of potential outcomes; it is not to be seen as a zero-sum contest between state authorities and the Community method, nor as a quasi-inevitable consequence of spillover from the expansive logic of initial grants of authority to the Community. Not only this, but the 'negotiated order' model can in principle accommodate the 'who is us?' problem, by identifying the appropriate or necessary negotiating partners in any case; these partners need not be internal to the EU, and can include the interested parties to any specific area of activity or policy initiative. The area of operational policy equally becomes in this perspective an arena for negotiation: policy instruments are deployed as the result of the same continuous process, and their uses can be renegotiated as time passes or as challenges change.

The problems with this approach are inherent in the benefits outlined above. If policy is a continuous process of negotiation, it is not clear when definitive action is taken, or when policy changes are appropriate: the 'signals' both to insiders and to outsiders are less clear than they might be, and the possibility of confusion arises. There is also the likelihood that policy will become reactive rather than proactive, with the focus on incremental adjustments and the tendency to ignore the need for decisive action. Above all, it could be argued, there is the need for political authority if strategic initiatives are to be undertaken and credible international bargains entered into. The competence problem thus cannot be wished away. If the authority to act strategically cannot be mustered, can the EU act as a legitimate partner in strategic co-operation within the world economy? This is not simply a dry analytical question, since it raises issues central to the management of EU/US relations amongst others.

Implications for Strategic Action and Co-operation

As implied throughout this discussion, each of the models outlined above has implications for the view of strategic action undertaken by the EU. To put it simply, the 'Community policy-making' model embodies the assumption that foreign economic policy is the output of Community institutions, that they aggregate the resources and interests of the member-states, and that strategic co-operation is to be judged in the light of this position. The 'Union policy-making' model implies that strategic action can emanate from a variety of sources in the EU, corresponding to the competition between the Community institutions and those expressing the interests of the member-states. In situations of strategic co-operation, this means that the EU is less likely to form credible bargains, since there are a number of claims to policy authority and there is the possibility of defection from Union positions (a danger more frequently discerned in areas of foreign and security policy, but not irrelevant to matters of foreign economic policy.) The 'negotiated order' model implies that strategic action is the resultant of a complex and continuous process of internal negotiation, and thus that there could well be difficulties in pinning down definitive EU positions; it also means that external and internal negotiation processes are likely to be linked, with uncertain results for the credibility and efficacy of EU initiatives.

From this, it is possible to derive two propositions which are relevant to the subsequent analysis of EU/US relations:

- First, that co-operative bargains struck by the EU will be more reliable and credible the more they reflect 'Community policy-making' and the less they are penetrated by 'Union policy-making' and 'negotiated order'. Policy legitimacy will be thus created from the 'top down' by credible participation in international arrangements.
- Second, that in sectors characterised by diversity, complexity and inter-penetration, the operational policy process will reflect the process of 'negotiated order' rather than those of 'Community policy-making' or 'Union policy-making'. Bargains will tend to be incremental rather than

strategic, and reliable insofar as they attract the commitment of specific interests and groupings. Policy legitimacy will thus tend to be created from the 'bottom up' through the building of networks and patterns of practical collaboration.

These two propositions are not mutually exclusive: rather, they express tendencies in EU policy-making and strategic behaviour. Bargains will be at their strongest where the two tendencies reinforce each other. They will be weaker where the tendencies are in competition, or where one of them is absent. Such a conclusion reflects the earlier argument that the multilayered and diverse nature of the global political economy demands variety of strategy and operational policy.

In the next section of the paper, I will undertake a brief analysis of the development of EU/US relations during the past decade, as a means of highlighting significant trends. In the final section of the paper, I will return to the three propositions set out above and reassess their validity.

Analysing EU/US Relations

At the beginning of the paper, I identified four trends in recent EU/US relations:

- Bilateral institution-building
- Inter-regional and inter-system competition
- Multilateral rule-making
- Private management

In this section, I will review these briefly to provide the basis for preliminary testing of the arguments I have made about the EU's capacity for strategic action and strategic co-operation. The evidence is gathered broadly from the period since the mid-1980s, and makes no claims to be more than impressionistic.

Bilateral Institution-Building

It might be claimed with some justice that the history of EU/US economic relations since the 1950s has given evidence of bilateral institution-building: it is simply that for much of its life this process was indistinguishable from the multilateral system established in the aftermath of World War II. Here, a more rigorous definition of the process is adopted: bilateral institution-building in EU/US economic relations consists of the making of institutional bargains and the constituting of institutions themselves with the explicit aim of regulating EU/US economic relations. There may be a longer-term or broader aim of ensuring policy convergence in other fora or at other levels, but the central focus is on the framework within which key EU/US issues are handled.

Given this focus, it can be argued that such bilateral institution-building has only occurred since the mid-1980s, and in effect only since the acceptance of the Transatlantic Declaration of 1990 (Peterson 1993, 1996.) This was the first attempt to establish a broad framework for the conduct of EU/US bilateral economic (and other) relations, and it expressed a number of trends in the relationship. The first of these trends is important in discussion of the EU's potential for strategic action and strategic bargaining, since it concerns the development of the Single Market. Initial US responses to the Single Market Programme (SMP) were diverse and often contradictory, with wide variations across sectors, across parts of the US government and between different types of US industry. As a result, there was little initial attempt to deal with the issue at the strategic level. This failure of strategic purpose was given added strength by the simultaneous failure of the EU to define the issue as one of external strategy; rather, the SMP was defined as an almost unilateral effort to build a

single market, which might then be used as the basis for external strategic bargaining both at the bilateral and at the multilateral level (Hocking and Smith 1997: ch. 3.)

What happened in 1990 was that the end of the Cold War enabled the SMP and the development of the EU to be redefined as an essential part of a new EU/US strategic bargain. This is not to argue that areas of economic dispute did not persist: the continuing problems over technical standards, public procurement, civil aircraft and other issues are witness to the fact that economic frictions remained and remain significant as they must in a relationship of intense interdependence. But the 1990 TAD was the first time that the need for a framework bargain was acknowledged - and arguably the first time that it was possible given the shift in both economic and political parameters. It also became apparent after 1990 that this was a more permanent shift in the strategic bargaining situation than might have been anticipated: the process by which first an infrastructure of co-operation was established around the TAD, and then attention turned to more ambitious follow-on bargains, is important in an evaluation of the 1995 Transatlantic Agenda and the EU/US Action Plan.

The debate about the need for a new transatlantic bargain is not simply economic in character, but here I focus specifically on its economic content. In the later part of 1994, when the ideas first came into the public domain, there was a good deal of talk about the need for a transatlantic free trade area (TAFTA). Such an arrangement would have gone far beyond the recipe embodied in the TAD - a framework of principles accompanied by a building of infrastructure and policy-sharing. As the debate proceeded, the momentum behind TAFTA lessened, and the discussion turned to a 'building-block' approach which in the economic sphere was very much a continuation of the TAD formula, with additional mechanisms derived from experience in dealing with the SMP. The eventual agreement embodied in large measure the TAD mixture of broad principles, mechanisms for consultation and policy-sharing, and sectoral problem-solving. There was also a set of targets for implementation, keyed to the occurrence of EU/US summit meetings and with often quite specific requirements for progress (Agence Europe, 1995; Davidson 1996.)

What does this process tell us about the ways in which strategic bargaining takes place and about the effectiveness of the EU in the process? One important distinction to make is between the enunciation of broad principles and the establishment of specific mechanisms for consultation and co-operation. A second distinction is that between the role that 'government' can play in setting up such principles and mechanisms, and the extent to which day-to-day economic exchanges depend on the private sector and its commitment (see below.) A third distinction is that the process of communication between the EU (through the EC) and the US specifically - as opposed to that between EU member-states and the US - was instrumental in concluding the agreements. The EU has gained considerable policy legitimacy both as a result of its success in integrating through the SMP and as a result of the process of dialogue with the Americans in particular. On a broader note, it should be indicated that the establishment of structured dialogues and principles of relations has become a key element in the international economic diplomacy of the EU. Finally, it should be noted that the legitimacy of the EU's role as a strategic economic interlocutor with the US is not merely an external phenomenon: the internal legitimacy of the EU's role, and the strategic management role of the Commission, has been enhanced and extended as the result of engagement at the transatlantic and other levels (Allen and Smith, 1996, 1997).

There are, though, qualifications to this picture of EU/US strategic consensus. Although it can be presented as a convergence between two strategically comparable and coherent actors (Peterson and Ward 1995), it takes place in a context characterised by diffusion and a certain amount of fragmentation. To a degree, this is precisely the reason why it takes place: a desire on the part of the EU and the US to institutionalise their rather comfortable positions in the world political economy. The

giving of 'partner' status to the EU is thus clearly in some ways a response to the perceived need for responsibility-sharing in the cause of global economic stability (Artis and Ostry 1986.) A second qualification lies in the nature of the diffusion and fragmentation itself. The essentially 'governmental' nature of the strategic bargain reached at Madrid in December 1995 begs the question about what happens when economic processes and patterns do not correspond to the governmentalist assumptions inherent in the new transatlantic bargain, either because the processes and patterns are inherently non-governmental or because they reflect shifts in the balance of global economic power away from the transatlantic axis. A third qualification is also apparent: what does the consultative and consensual atmosphere of the transatlantic bargain mean when in other areas there is intense economic competition between the EU and the US?

Inter-Regional and Inter-System Competition

We have seen that the bilateral institutionalisation of EU/US economic relations at the 'governmental' level reflects some significant shifts in the strategic balance between the EU and the US, and particularly an enhancement of the EU's status and role as a strategic actor. To this extent, it is clear that there are important questions to be asked about the generation of convergence. But it is equally clear that alongside this convergence at the strategic and institutional level, there is persistent competition between the EU and the US.

In one sense, this is a reflection of the regionalisation of economic processes and economic exchanges which has been widely remarked by commentators. Although there are considerable differences between the conclusions drawn by analysts, there does appear to be an intensification of regional processes of production and exchange, and this is often accompanied by formal institutionalisation (Cable and Henderson, 1994; Gibbs and Michalak 1994; Kahler 1995) The US has been active in this area, although the long-term results of its activity remain to be seen. The EU has been active for even longer, and it is clear that current trends in EU strategy point to further regionalisation, particularly through the incorporation of the central and east European countries into the Union. In economic terms, the anticipatory redirection of trade and other processes means that the results of this will be apparent long before formal enlargement of the EU. The EU has also been active in encouraging inter-regional collaboration in economic matters, and it is clear that there is a form of institutional competition emerging between the EU and the US in third areas such as the Pacific Rim and Latin America. This is a highly significant trend, since it implies that there might be a 'competition of economic models' in which the EU (according to some) would have an inbuilt advantage thanks to its wide experience of integrating diverse and complex market structures (Thurow 1992.) According to others, however, the emphasis on 'soft power' exercised through institutional channels would continue to reinforce US predominance (Nye 1990).

There is also another sense in which this competition between the EU and the US is strategically important. Michel Albert has pointed to the existence of competing capitalisms, most importantly the model of Rhineland Capitalism and that of Anglo-Saxon (free market) Capitalism, and to the frictions that emerge between these systems, both at the aggregate and at the sectoral level (Albert 1991.) One of the key questions for the next ten years in EU/US economic relations is the extent to which the contest between these capitalisms will matter, and if it matters who will come out on top. On the first issue - will it matter? - some would argue that the strategic convergence embodied in the new transatlantic bargain will work to reduce if not eliminate the frictions between the systems. Others would argue that the difference between the two systems will not be overcome by the institutional 'fix' of the transatlantic bargain, and that the purely 'governmental' basis for EU/US agreement will not overcome what at the bottom are cultural differences of a profound kind.

They might also add that the extension of the EU into central and eastern Europe would accentuate these differences, not necessarily to the advantage of the EU.

The conclusion to be drawn from this second thumbnail sketch is a rather mixed one. In terms of the EU's credentials as a credible strategic actor, it would appear that its experience of managing complex and large-scale markets and its ability to offer a non-American model of capitalism could be an advantage. But on the grounds that 'nothing succeeds like success', it may be that the US model of deregulated and relatively free-market capitalism will prove more attractive to the uncommitted. Here again, though, the evidence at a very superficial level points to the emergence of the EU as a legitimate strategic actor, at the inter-regional level, and thus as a credible interlocutor for the Americans.

Multilateral Rule-Making

One of the areas of most consistent and long-lasting mutual entanglement between the EU and the US has been the area of multilateral economic rule-making. For a long time, this was within the context of the Bretton Woods system and either explicit or implicit US hegemony; thus the development of the EC's role in the GATT during the 1960s was essentially conditioned by the framework established under US auspices, and by the exercise of US structural power. From the early 1970s, though, the power balance shifted, both at the level of economic performance and at the level of institutional control. As already noted, by the early 1990s there were those prepared to argue that the EU would soon supplant the US as the major strategic actor in the sphere of international economic governance and rule-making.

The evidence thus points towards a clear accumulation of legitimacy and credibility by the EU in the sphere of multilateral rule-making from an early stage. Yet it is only in the last decade that the impact of this shift has become apparent, particularly in the GATT and now the WTO. Indeed, there are still many international economic institutions in which the EU has a much-diminished and sometimes subordinate role. In the GATT/WTO context, the EU has become capable of more than merely reactive or defensive policies, and this has to do as much with its very longstanding engagement in the institution as with the structural development of the EU itself. The EU (specifically the EC) is thoroughly embedded in the world trade regime, and has the status of *interlocuteur valable* in a way which is not replicated elsewhere. To return to one of the arguments made earlier, it is quite clear here that the calculus of costs and benefits undertaken by EU member-states has come out clearly in favour of collective EU action within the world trading system, and that this is effectively irreversible (much to the annoyance of those who might hope to divide and rule the Europeans at times.) This collective consensus gives legitimacy 'from below' at the same time as long experience in the institutions gives legitimacy 'from above' to the EU as a strategic actor.

As a result, the EU is able to take a proactive role in the formation of the international trade agenda, sometimes in ways not available to the US. There have been some quite marked examples during the past two years as the EU has set out to try and shape the agenda for the WTO and specifically for the first Ministerial Meeting held at Singapore in December 1996; both within the Quad Group (Canada, the EU, Japan and the US) and through such channels as the Asia-Europe Summit held in Bangkok in March 1996, the EU could be seen as taking a shaping role. Not only this, but there has been an active effort on the part of the EU to present itself as the leader of coalitions in critical sectors such as financial services, telecommunications, shipping, and investment and competition policies, where the US has for one reason or another been unwilling or unable to lead (Allen and Smith, 1996, 1997). But this is not an unmixing picture of EU activism and even leadership. In areas where there is only an imperfect consensus within the EU, or where there is no consensus at all, the EU has

been unable effectively to match the Americans' influence on the trade agenda; the striking example is in the negotiations on telecommunications, where despite the desire to shape the agenda the EU was constrained by its inability to overcome the complexities of its internal policy debate. There are large areas of the emerging trade agenda where the EU has relatively little standing, to set alongside those areas where the handling of the SMP has given EU officials and leaders an advantage in their understanding of the new regulatory and other issues. There is also what might be described as the 'multi-institutional problem'. The EU is only just arriving at the stage where because of its status in a variety of institutions it can put together and execute a strategy based on the combined use of a number of institutional channels (for example, the OECD, the WTO and other bodies on matters of foreign direct investment.)

The Private Management of the Global Political Economy

The EU in common with the US and other industrial 'governments' has to face the challenges created by the global spread of private business, and the emergence of essentially private structure of management in the global arena. It could be argued that this is another area in which the EU's long experience of operating in a multinational context has created an inbuilt advantage for it. On the other hand, this is one of the areas in which there are important cultural and other differences between and within EU member-states, and this could be seen as a limitation on its ability to become a legitimate actor at the strategic level.

This is an arena in which the interests of the US and the EU come into contact at many points - and have done so almost since the establishment of the EC in the 1950s. The management of EU/US relations is thus quintessentially a task in which public strategy and private interests have to be accommodated, especially at the level of day-to-day exchanges (Smith 1997.) But there are also important elements of this public-private interface at the level of broad principles and structures. It is thus not insignificant that the new economic dialogue between the EU and the US during 1995 made explicit provision for the establishment of a Transatlantic Business Dialogue, which produced a wide-ranging set of recommendations to the Madrid summiters, and which established in turn a mixed government/business infrastructure to follow up on the principles established (Cowles 1997). Private business is one of the major stakeholders in an effective transatlantic economic dialogue, and through its access to the policy process on both sides of the Atlantic it is likely to play an increasing role in the management of the relationship. This is also true when it comes to US/EU interaction in other institutional contexts: for example, in discussion of regimes for foreign direct investment, the private sector is likely to have considerable influence on the strategies pursued by both the US and the EU in the WTO, the OECD and elsewhere.

EU/US Economic Relations: an Overview

What can be discerned from the brief discussion of the dimensions of EU/US relations above? In terms of the argument put forward in this paper, the following general evaluation can be made:

- First, there is a set of conflicting trends and tendencies in EU/US economic relations, which might conveniently be labelled: institutionalisation, multilateralisation, diffusion and competition
- Second, these trends and tendencies can be discerned at a number of levels: bilateral, regional/inter-regional, global

- Third, there has grown up a wide range of institutional contexts to express and accommodate these trends and tendencies, incorporating both public and private interests
- Fourth, there has been a secular trend in all of these contexts towards the emergence of the EU as an *interlocuteur valable*, with increasing status and credibility as a strategic actor

These tentative conclusions relate back directly to the questions posed at the beginning of the paper in terms of strategic bargains and international co-operation (see p. 2.) It appears that despite its lack of statehood the EU has become a credible and legitimate participant in international co-operation. It also appears that there are important questions to be investigated in relation to the different forms of bargains characteristic of EU/US economic relations, and that one element in shaping these bargains is the overlapping of institutional contexts. Perhaps most importantly, the conclusions outlined above bear out the importance of the notion of 'competitive cooperation': the four qualities noted are themselves an encapsulation of the complex mixed motives, actions and processes suggested at the beginning of the paper.

These variations and trends in turn relate to the second key theme raised earlier: the linkage between processes of foreign economic policy-making in the EU and its effectiveness as a participant in international co-operation. This linkage will be explored in the final section of the paper.

The EU as a Strategic Partner: the relevance of policy-making processes

Earlier in the paper, I outlined a number of arguments about the bases on which the EU might operate as a credible strategic actor in the world political economy, and in particular in relations with the United States. The later parts of the paper have established a *prima facie* case for an accumulation of credibility and legitimacy on the part of the EU, but also significant variations between different fora and issue-areas. This brings me back directly to the two propositions derived from my discussion of foreign economic policy-making processes, which can be restated here:

- First, that co-operative bargains struck by the EU will be more reliable and credible the more they reflect "Community policy-making" and the less they are penetrated by 'Union policy-making' and 'negotiated order'. Policy legitimacy will thus be created from the 'top down' by credible participation in international arrangements.
- Second, that in sectors characterised by diversity, complexity and inter-penetration, the operational policy process will reflect the process of 'negotiated order' rather than those of 'Community policy-making' or 'Union policy-making'. Bargains will tend to be incremental rather than strategic, and reliable insofar as they attract the commitment of specific interests and groupings. Policy legitimacy will thus tend to be created from the 'bottom up' through the building of networks and patterns of practical collaboration.

Much of the admittedly sketchy evidence marshalled here points to the validity of these propositions, which are to be seen as complementary rather than mutually exclusive. The 'grand bargains' of EU/US economic relations can be linked quite directly with the accumulation of credibility and legitimacy on the part of the EU, and particularly the Community institutions. This applies in the case of the 'new transatlantic bargain' and to the EU/US interaction which lies at the heart of the multilateral trade regime. Increasingly, it applies to areas of inter-regional and inter-

system competition, but the lessons here are less clearcut. On the other hand, there is also evidence that at the sectoral level there is considerable accumulation of incremental bargains and the construction of issue-specific networks which can generate problem-solving momentum (for example, on the issue of technical standards in the Transatlantic Business Dialogue). Often, there are mixed cases of 'governmental' and private participation, which can be seen as further adding to the credibility and legitimacy of EU activities.

This general picture suggests important avenues for enquiry about the growing impact of the EU on international economic co-operation, and about the ways in which this equips the EU to operate in partnership or competition with the US. It suggests especially that studies of the EU's external economic relations should pay more attention to the ways in which external policy is generated and to the contexts within which it is pursued.

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