An inter-disciplinary study of strategic interactions in foreign economic policy-making of the EU: agent, structure and knowledge

by

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For God, my parents, parents-in-law, wife, son and daughter
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List of Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific countries</td>
</tr>
<tr>
<td>BDI</td>
<td>Bundesverband der Deutschen Industrie</td>
</tr>
<tr>
<td>BIAC</td>
<td>Business and Industry Advisory Committee</td>
</tr>
<tr>
<td>BRITE</td>
<td>Basic Research in Industrial Technologies for Europe</td>
</tr>
<tr>
<td>Bull. EU</td>
<td>Bulletin of the European Union</td>
</tr>
<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
</tr>
<tr>
<td>CCP</td>
<td>Common Commercial Policy</td>
</tr>
<tr>
<td>CDU/CSU</td>
<td>German Christian Democratic Union/Christian Social Union</td>
</tr>
<tr>
<td>CEU</td>
<td>Commission of the European Union</td>
</tr>
<tr>
<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
</tr>
<tr>
<td>CIME</td>
<td>Committee on International Investment and Multinational Enterprises</td>
</tr>
<tr>
<td>CMIT</td>
<td>Committee on Capital Movements and Invisible Transactions</td>
</tr>
<tr>
<td>COM</td>
<td>Commission Document</td>
</tr>
<tr>
<td>COPA</td>
<td>Committee of Professional Agricultural Organisations of the European Community</td>
</tr>
<tr>
<td>COR</td>
<td>Committee of the Regions</td>
</tr>
<tr>
<td>COREPER</td>
<td>Committee of Permanent Representatives</td>
</tr>
<tr>
<td>CSCE</td>
<td>Conference on Security and Cooperation in Europe</td>
</tr>
<tr>
<td>DG</td>
<td>Directorate General</td>
</tr>
<tr>
<td>DIHT</td>
<td>Deutscher Industrie- und Handelstag</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of trade and industry</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>ECOFIN</td>
<td>Council of Economic and Finance Ministers</td>
</tr>
<tr>
<td>ECOSOC</td>
<td>Economic and Social Committee</td>
</tr>
<tr>
<td>ECSC</td>
<td>European Coal and Steel Community</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community</td>
</tr>
<tr>
<td>EDF</td>
<td>European Development Fund</td>
</tr>
<tr>
<td>EFTA</td>
<td>European Free Trade Area</td>
</tr>
<tr>
<td>EMS</td>
<td>European Monetary System</td>
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</table>
EP European Parliament
ESC Economic and Social Committee
ESF European Social Fund
ETUC European Trade Union Confederation
GATT General Agreement on Tariffs and Trade
GATS The General Agreement on Trade in Service
ICFTU International Confederation of Free Trade Unions
INGO International Non-Governmental Organisations
MAI Multilateral Agreement on Investment
MERCOSUR the Common Market encompassing Argentina, Brazil, Paraguay and Uruguay
NATO North Atlantic Treaty Organisation
NGO Non-Governmental Organisation
OECD Organisation for Economic Cooperation and Development
OJ C Official Journal of the European Communities – Notices and Information
OJ L Official Journal - Legislation
PASOK Greek Socialist Party
PCF French Communist Party
PHARE Poland and Hungary: Aid for the Restructuring of Economies
QMV Qualified Majority Voting
R & D Research and Development
RACE Research and Development in Advanced Communications
SCA Special Committee on Agriculture
SEA Single European Act
TEU Treaty on European Union
TNCs Transnational Corporations
TNGO Transnational Non-Governmental Organisations
TRIPS Trade-Related Aspects of Intellectual Property Right
TUAC Trade Union Advisory Committee
Abstract

The guiding research question in this thesis is how to improve our understanding of the global dynamics in both the process of establishing and the actual content of the EU’s foreign economic policy. To answer this question this study has raised, first, in terms of the concept of FEP, the question of whether traditional accounts of inter-mestic policy, centred around economic performance, i.e. mono-dimensional FEP, are reasonable or not. As a result, this study suggests that it is desirable to take into account other dimensions of FEP, such as economic diplomacy and foreign economic policy, in order to generate a multi-dimensional account of FEP.

Second, this multi-dimensional account requires us to establish a new framework, and to deal with issues related to the establishment of methodology. There have been a series of debates between those who emphasise comparative politics and those who emphasise international relations. In addition, those who suggest the analysis of foreign policy have been contending with those who are in favour of an international political economy approach. This study recognises that all of those approaches have individual merits and discovers the possibility of convergence in terms of a meta-theoretical dimension.

Ultimately, this study suggests an analytical synthesis of the traditional foreign economic policy approaches, which is based on the dialogue of agent-structure and structure-structure relationships. This cognitive framework of dialogue encompasses a series of concepts such as order, power, heterogeneity, similarity, justice and distribution. The account of such a series of concepts constructs the epistemological components of meta-theoretical convergence between comparative politics, international relations, the analysis of foreign policy and the international
political economy approach. Consequently, general explanation and explanations of the timing and content of policy outputs are provided.

On the other hand, in accordance with the theoretical suggestions above, this study suggests the following agent-centred scenarios of the likely course the EU might take in the formation of the EU’s foreign economic policy in the near future. We may distinguish these visions from those of the traditional realists in IR or interest-centric foreign economic policy-making processes based on intergovernmentalism and undertaken in the bounds of foreign policy. These are the three models of ‘civil society democracy’ in the citizen-friendly institutional or regulatory structures, and the European and international public spheres, where international and domestic structures or other political, economic and social agents are conferred the recognition of true partners with legitimacy in their own right to civil society organisations.
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Part I. Introduction

Chapter 1: Conceptual definition of Foreign Economic Policy and Research Questions

1.1 Conceptualisation of 'Foreign Economic Policy' and objectives of research

1.1.1 What is Foreign Economic Policy?: conceptual definition or ontology

One way to understand the basics of foreign economic policy (FEP) is to deconstruct its name. FEP consists of the three words ‘foreign,’ ‘economic’ and ‘policy’, which individually have a distinct sense. First is the word foreign indicating that the target space for the formulation and implementation of policies, i.e. the actions and their resultant impacts, is not the home country, but another one. Such a context would support groups that recognise FEP as a particular country’s actions, i.e. decisions and policies, with more than one objective, aimed at an external environment. This orientation has a connecting thread to the analysis of foreign policy with respect to the meaning of an action in terms of methodology. However, given that one-way actions of a country are transferred to actions and reactions between and among nation-states, FEP would shift into the realms of international politics or international relations including International Political Economy (IPE) (Holsti, 1995, ch. 1, Sondermann, 1961, pp. 8-17).1

Constrained by this boundary, the meaning of action does not exist any more. Furthermore, the changing nature of the contemporary global political economy such as interdependence and
interpenetration gradually makes unilateral actions meaningless. As such, all the states demonstrate a structural shift towards a concentration on the concept of interactions.

Meanwhile, it is time to expand the scope of applying FEP to encompass issues both at home and abroad. This is necessitated by the fact that the features of contemporary global political economy induce an interconnection of the domestic and the international. In addition, under the multilateralisation of world politics and economics, the number of forms of actors increase, and as a result “interests of various actors are responding to events within an even more complex policy milieu” (Hocking and Smith, 1997). Such a domestic-international linkage and the increase of actors blur the distinction between the domestic and the international.

The same blurring of domestic and international levels is also the case in the EU’s FEP, which is shaped at the Community level. At the Community level, the feedback between internal negotiations and the processes of international actions are intertwined. The continuous negotiations concerning the EU’s FEP progress at this very level (Smith M., 1994a, p. 463). In doing so, even internal policies such as agricultural, industrial, and technology policies have never been exclusively in the domain of the EU. All of these policies are subject to the coordination process between internal negotiations of the EU and changing environments of international political economy. In the same context, Katzenstein (1978) expresses “[the] main purpose of all strategies of foreign economic policy is to make domestic politics compatible with the international political economy”.

Attached to this complexity, the case of FEP yields greater complexity in the sense that unlike foreign policy, it also has a direct linkage to the societal level as an indispensable condition. The evolution of FP is associated with the common value of the state and society. That is the value of military security that has been principled as a common value, whilst it has no
direct connection to civil life (or individual interests). In contrast, FEP is characterised by deep linkages to domestic politics because its results directly impact on civil life (Hocking and Smith, 1997).

Such a competition of socio-economic interests is not confined to the domestic economy. The process of formulating FEP is exposed to the influences of external actors and foreign governments. It also gradually expands through diverse transnational actions and connections with societal actors in foreign countries, including a number of types of non-governmental organisations (NGOs). In addition, to understand the EU's FEP-making it is imperative that institutional perspectives be taken into account along with the divergence of member states' interest. The reason why is that there is a difference of opinion within EU institutions. Consequently, the EU's FEP represents the outcomes of multi-level negotiations up to domestic, national, the EU and international levels (including even on a local level). In this process, the EU's FEP-making process assumes an aspect of a complex system of governance in which domestic groups, governments, the Community institutions and external state-actors and non-state actors are interlocking.

Foreign Economic Policy is secondly economic, meaning that it deals with economic issues such as trade, monetary issues including investment and finance. FEP is also based on economic rationality and economic analysis that focus more on issues of income, wealth and individual interest compared to the issues of power and national interest. In fact, however, FEP also involves IPE topics such as the use of state power to make decisions about who gets what, when, and how, between and among nation-states. On this point, FEP study may be classified to the sub-field of IPE combining economic analysis and political analysis.
Foreign Economic Policy has developed as a part of IPE as the interest in IPE increases (Tooze, 1994, p. 64). IPE addresses the power gap or asymmetry between the state and market that decides the matters of how scarce resources are used, where the power of collective action is used, who gets resources, and who gets to use the power surrounding the allocation and distribution of resources (Strange, 1995). FEP studies shares these basic implications of IPE (Tooze, 1994).

In defining FEP, above all, the comparison with external economic policy or commercial policy is required, since their use in conjunction with one another is based on their similarities. Generally, research on external economic policy or commercial policy can be divided into two methods: one focuses on trade as an international economic activity and the other focuses on policy as a part of the general decision-making process of public policy. As for the latter, it is the one that places a heavy weight on analysing the policy-making activities of a state relevant to external trade rather than trade itself. FEP is closer to the perspective of the latter. Unlike the traditional term of external economic policy or commercial policy, it seems that in foreign economic policy the perspective of international political economy or economic diplomacy receives greater emphasis.

Today, the increase of basic interconnections between politics and economics has resulted in a meaningless dichotomy between 'low' politics and 'high' politics, which is traditionally used as a means of describing policy environments. As a result, demise of traditional dichotomy "challenge[s] key traditional assumptions regarding both the nature and conduct of the two forms of external policies: foreign policy and foreign economic policy" (Hocking and Smith, 1997, p. 7).
In the post-1945 context, FEP has been counted as a form of economic diplomacy (Tooze, 1994, p. 64) utilising economic tools for political purposes (Pastor, 1980). In the same context, FEP is sometimes considered in tandem with the term ‘economic’ foreign policy, which is separate from ‘political’ foreign policy (Richardson, 1936, pp. 12-16). Simply, the definition of FEP encompasses decisions and actions of government that affect both foreign and economic concerns. More practically, it includes government actions with important impact on a certain country’s relations with other governments and on the production and distribution of goods and services at home and abroad. On this point, Tooze (1994, p. 65) would call FEP a ‘direct foreign policy’.

Finally, the aspects of FEP characterise different forms based on the diverse purposes or intentions of decision-makers in targeting the final goal, as described in Figure 1.1. In Figure 1.1, the two big rectangles present the domestic and international levels respectively. All of those areas are divided into politics and economics alongside the dotted line. This distinction is nothing but convenience without any meaning for the size. FEP is established in the overlapping area of these two levels that blankets economic and political areas. 6 Square A1, A2, A3 and A4 represents the form of policy with four different purposes. Angular point A1 indicates to achieve a domestic political purpose through the external policy. Angular point A2 intends to realise a domestic political goal via external policy. Unlike all of these, angular point A3 represents the intention to obtain an international economic goal, while angular point A4 sets up its goal as an international political end.

Triangle A2, A3, and A5 represents the form of policy with three different purposes. Angular points A2 and A3 are the same as the above-mentioned, whilst angular point A5 functions as A4 does. Whether a policy shape is triangular or rectangular depends on the
decision-maker’s intention. For example, if a decision-maker has intended to make an impact on global inequality, as usually shown in development aid policy, then it would be classified as FEP. Meanwhile, the intention to inspire human rights or democracy leads us to the term of economic diplomacy (Pastor, 1980). A series of agreements on development aid that the EU has concluded with third non-EU member states is an example of the former. By contrast, a number of trade and association agreements between the EU and third countries (including Eastern Europe) in which provisions for human rights and democracy are introduced are a demonstration of the latter.

Figure 1.1 Category of Foreign Economic Policy by purpose

Note:
1.  = purpose node
2.  = angular points of the different type of policy
3. This schematic is modelled in the basis of Pastor (1980)'s idea by the author.
It is, meanwhile, the dimension of inter-mestic policy when decision-maker’s purposes or intentions set up on domestic-economic goals such as the promotion of exports, or domestic-political goals like domestic political stability and staying in power (Pastor, 1980). That is, if the purpose orientates ultimately towards political affairs, then it would belong to the category of economic diplomacy, whereas FEP sets the ultimate purpose of economic affairs including IPE to be justice and distribution.

The significant element in such a distinction lies in the definition of national interests and its time-point. The first two forms focus on the long term, whilst the latter takes account of the short term. Inseparability of those purposes, however, is proved in the sense that the effects of those policies do not appear independent of each other. In other words, the goals of FP in a particular country aiming at the solution of global inequity and the inspiration of human rights and democracy may impact on the domestic level via their economic effects. As such, those consequent impacts trigger the evaluation of policies at the social level across the support for or protest against them. Ultimately, this kind of evaluation leads all actors to the confidence or non-confidence in decision-makers, imposing constraints on or offering opportunities to agents who are politicians in reality.

Lastly, insights into the meaning of policy involve the issues of functional policy areas and the difference in the methods of FEP analysis caused by diverse understanding of the concept of policy. As for functional policy areas, three functional policy areas of trade, monetary issues including investment, and aid are generally covered above all by the definition of foreign economic policy (Destler, 1980). Besides, looking at FEP in terms of diplomacy, issues such as food, the import and export of energy, domestic economic stabilisation and taxes could be included in the delimitation of FEP. The reason why is that they potentially involve diplomatic
affairs. Thus it can be said that the distinction of FEP from the other areas that affect international economic relations is mostly a technical matter (Destler, 1980).

As for a major area of FEP, the focus on trade issues is a time-honoured approach for both FEP analysis and international political economy. This trend is based on the assumption that other issues become important only if they have a remarkable impact on trade. This trend, however, is widely criticised by a number of scholars (Michalet, 1982, Tsoukalis, 1991, Dicken, 1992, Reisen, 1999, Keohane and Nye, 1977, Cerny, 1989, Strange, 1986, 1988, Tooze, 1994). In particular, Strange (1988) defined trade as a secondary and derived activity of the global economy that is led by other structures and forces such as finance, credit, technology, and production (Tooze, 1994). In doing so, she focused on financial structures, capital flows and the informal regimes governing the allocation of transnational credit. Meanwhile, Tooze (1994, p. 74) argues that FEP’s focus on trade is not suitable for understanding Europe in the 1990s, and should incorporate finance, currency, and investment as long as it is connected to theory.

Going back to the keynote of policy study, the word ‘policy’ generally also refers to the principles that govern action directed at achieving a given end (Boulding, 1958). On the other hand, FEP study can be divided into two directions: one is an IPE approach in which FEP is recognised as actions of the state to influence the international economic activities centred on economic diplomacy. This approach mainly employs a factor-centric macro analysis. The other direction is a decision-making approach in which FEP is treated as the formal decisions of the state that are related to a certain country’s foreign economic activities. A relatively micro and process-oriented analysis surrounding a specific mechanism is employed in this framework.

From the viewpoint of the former, Cohen (1968, p. 1, 10) defines FEP as “the sum total of actions by the nation-state intended to affect the economic environment beyond the national
jurisdiction”, and as “a part of a country's total foreign policy and to some extent [it] serves the same goals.” In the meantime, Tooze (1994, p. 65) indicates its implications as follows, rather than suggesting a direct definition of FEP:

“Foreign economic policy implies an empirical domain constituted by economic activity between and among states where the identities of these entities/processes are secure and the boundaries of the processes are discernible – between economics and politics and between the international and domestic. It also implies a model of international political economy and the way national economies fit into this IPE in order for policy to have the desired outcome.”

Finally, to summarise all the aforementioned viewpoints, this study would define FEP as the principles that govern the decisions and actions or interactions of a government that affect relationships with other governments (IP or IR including IPE) in terms of both foreign (military and security) and comprehensive economic concerns (production and distribution of goods and services, investment, finance, credit and technology at home and abroad). In terms of its character, those principles would influence both the domestic and international economic environments and its realm is of IP or IR including IPE, away from the realm of a simple FP. Those principles would be embodied into the direct means for achieving national interest representing the keynotes of consistent orientation of foreign actions. In addition, unlike FP their direct linkage to civil society (or individuals) would yield different impacts on domestic politics (Skidmore and Hudson, 1993, p. 38).
1.1.2 Why should it be studied?: objectives and the contributions of the research

Based on the above-mentioned definition, the study of FEP would yield a systemic focus on the politics of international economic relations. In doing so, all kinds of matters would be defined as international and basically economic. Then those internationally and economically defined events are subject to analysis of their natures in terms of politics. The outcomes through such a process of research would help a country's national economy harmonise with the international economy, and simultaneously discover methods of achieving national economic goals. Furthermore, FEP would help individual states acquire the means and methods for the ultimate objectives of survival, prosperity and prestige, i.e. national interest. That is what the central value of FEP study offers in terms of economic diplomacy.

Another value of studying FEP lies in the realm of economic security. As since the middle 1970s, the structural shift from the security state to the trading state has developed (Rosecrance, 1986) the keynotes of national security has been doomed to the continued build-up of national strength through reinforcing its economic power. Even within the viewpoint of foreign policy, trading-centric economic diplomacy formats another significant pivot of a country's FP, away from the traditional arrangements centred around political and military diplomacy. Furthermore, with the Asian crisis of 1997 and 1998, and the subsequent crisis in financial markets in Brazil and Russia in 1998, economic issues in far-reaching sectors such as finance, investment, scientific technology, and resources have entered the stage as the main tasks of FP. In this context, the study of FEP by examining its attributes and structures closely and generally, and inducing methodological implications, would shape theoretically and empirically positive
reactions to the changing features of contemporary global political economy. Consequently, such a shaping would result in protecting the value of a country’s economic security.

In the meantime, FEP has a deep linkage to domestic political stability that is derived from direct linkage to civil society. This attribute indicates another potential value of the study of FEP. In the realm of domestic politics, where actual politics takes place, and further in the transnational realm, FEP study offers the fundamental insights into the issue of ‘justice and distribution’. Through such insights, individual countries can try to resolve inter-class and inter-state conflicts by finding out the ways to balance domestic demands and international pressures (constraints). It is palpable that such an individual countries’ endeavour would contribute to achieve domestic political stability, but also peace or equality in the global political economy.

In particular, the EU, the object of this study, is currently the world’s largest trading power, a principal target and source of foreign direct investment (FDI) and foreign portfolio investment (FPI) (Reisen, 1999, Laffan et al., 1999). In addition, it is an increasingly influential force on world currency values and movements. The sense that “the policy agenda for the EU is shaped fundamentally by the development of the global economic arena, and the EU has become an active player in some of the most dynamic parts of that arena (Laffan et al., 1999, p. 51)” also deserves study. On this point alone the EU’s FEP merits great attention.

Meanwhile, given that great attention is paid to regional economic blocks as a new regionalism rises to the surface, the EU becomes a good model for comparison. Thus, this study will function as a flagship for intercontinental studies in the broader scope and in the near future, as the Asia-Europe relationship is gradually developed.
1.2 The Issue Area and Research themes: what to ask and how to answer

The debates surrounding the analytical framework for the analysis of the EU's FEP have been constantly developed within the stop-and-go process of the literature concerning European integration. Above all, in terms of macro-level, such development is summarised by the debate in the subfields of political science of comparative politics (CP) and international relations (IR) in the study of the EU, and that of foreign policy (FP) and international political economy (IPE) in studying foreign economic policy. At the same time, the debate of state-centred, society-centred and system-centred approaches has developed in terms of a micro perspective surrounding what is focused on. All these debates are fundamentally associated with the issues of the EU's actorness, agent and structure, and the level of analysis deriving from the difference in thinking about the influential forces operating between them.

One of the guiding research questions in this thesis is: to what extent can an analytical synthesis of the traditional foreign economic policy approaches based on the dialectic of agent-structure and structure-structure relationships improve our understanding of the global dynamics in establishing foreign economic policy. The shortcut answer to this question is that it provides an important analytical perspective to analyse the linkage between the domestic and international level, the issue of actorness, the blurring of subfields' boundaries in political science, and agent-structure and structure-structure dynamic interactions. Such a research question is induced from sub-questions concerning methodology, which are raised by a range of debates centred around the appropriate framework for foreign economic policy analysis and its application to the EU's FEP analysis.
Meantime, in terms of policy-making process, policy content and policy evaluation, general analytical statements of FEP may be divided into three categories: to characterise FEP as consistent, coherent and liberal; to prescribe a proposition of how it is formulated; and to evaluate its efficiency (Pastor, 1980, p. 9). Smith M. (1994b) would add an issue concerning the nature of the EU's statehood to those general three categories, in which the fundamental question of whether the EU has FEP is asked.

In general, until the late 1990s, the EU's FEP study tends to (1) state how the EU performs in a particular negotiation, (2) analyse the preference of the EU's FEP to liberalism or protectionism, and (3) research how the EU interacts in the system of the global political economy (Young A., 2000). As mentioned before, the word 'policy' generally refers to the principles that govern action directed towards given ends. Any study on policy therefore should concern itself with three things: what we want (the ends), how we get it (the means), and who are we, that is, what is the nature of the organisation or group concerned? Unlike those general statements Tooze (1994) would suggest a question of 'who benefits' from the perspective of IPE, i.e. 'Who-gets-What', as another issue for the EU's FEP study in contemporary global political economy. Additionally, he argues that it is necessary to answer a series of questions: "how the processes of interdependence work, how and to what extent each national economy/state is embedded in the European and global structure, what policies bring about the changes we desire, what are the appropriate political, economic and social structures that will facilitate our aims, [and] how we can maintain a democratic control in Europe (Tooze, 1994, p. 67)."

In this study, beyond the prescriptive and normative questions, a series of questions concerning the EU's FEP will be asked surrounding who-gets-what, when and how as follows.

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First, it will be a good idea to start with a question of 'does a specific propensity exists in the EU’s FEP-making processes?' That is, 'whether a specific route to reflect the desires of interest groups, for example labour and capital, and transnational actors exists in the formulation of the EU’s FEP' is going to be asked.

Second, as a sub-question to the first question, the question will be continued to explore 'what influences or effects the attributes of individual member states’ domestic structures such as political, economic and social systems would have on the formulation of the EU’s FEP and their own external policies?

Third, as the second sub-question, 'what kind of opportunites and constraints produce the international structural contexts on the EU’s and individual Member States’ FEP-making?' is going to be asked.

Finally, this study will examine closely 'how the EU interacts with the system of global political economy.' This examination involves a question of the relationship between the EU’s economic weight and its political and economic influence.

It will be possible to obtain answers to that series of questions through insights into the features of dynamic interactions among multi-level structures: the domestic/societal structures of the member states, the EU’s institutional and regulatory structure, the market and the structure of the international system. In doing so, such insights will be necessarily followed by the account of the EU’s actoriness, the effectiveness of its FEP, institutional perspectives, interactions between agent and structure, domestic-international linkage, and structure-structure interactions. Ultimately, these insights will lead us to ontological, epistemological and methodological understanding of the EU’s FEP-making.
1.3 Literature Review

The literature on the EU’s Foreign Economic Policy may be divided into two categories: general literature on Foreign Economic Policy and on the EU’s Foreign Economic Policy. In particular, for the former, the general literature is divided into three categories: international system-centric, domestic approaches and linkage theory. In those literatures, FEP is treated as a part of foreign policy or diverse approaches derived from comparative politics, international relations and international political economy are introduced.

Meanwhile, for the latter, besides the works of economists and political scientists, there are many exclusive works that have been undertaken by lawyers concerning the issue of authority. In such cases, the EU’s FEP is addressed within the boundary of empirical issues concerning contemporary policy formation and its implementation beyond the theoretical arena that has been shown in the former case. This section, on this point, will summarise those research orientations and clarifies the central approach of this research.

1.3.1 General literatures on foreign economic policy analysis

Above all, in terms of the general literature on FEP, the approaches of FEP can be classified into three categories: system-centred, society-centred and state-centred approaches (Ikenberry et al., 1988a, 1988b). A system-centred approach explains American policy as a function of the attributes or capabilities of the United States relative to other nation-states. The society-centred approach views American policy either as reflecting the preferences of the dominant group or class in society, or as resulting from the struggle for influence that takes place amongst various interest groups or political parties. Fundamentally, this approach is the function of domestic
politics. Finally, a state-centred approach understands FEP as highly constrained by domestic institutional relationships that have persisted over time, and also by the ability of state officials to realise their objectives in light of both international and domestic constraints.

To address the view of explaining Foreign Economic Policy at the international level by domestic conditions as merely 'residuals' results in missing the interactive dynamics between domestic and international variables. In fact, 'which one has a relative dominance between domestic and systemic variables' is more an empirical issue than a logical issue. Depending on domestic factors only to explain 'residuals' would just mass-produce ad hoc or post hoc hypotheses that explore anomalies thus cutting reasoning dead (Moravcsik, 1994, p. 14, Milner, 1992, pp. 466-96). In the same critical context, Krasner (1978a, 1978b), Katzenstein (1976, 1978), Rosenau (1966), Lowi (1967) and Pastor (1980) highlight the importance of domestic perspectives.

Krasner (1978b), in the same context as Katzenstein's viewpoint, would focus on the domestic constraints on a state and reject the concept of a state that is regarded as a billiard ball, which is impenetrable by external pressures, i.e. structuralism. It seems to him that a central analytical attribute in deciding the capacity of a state is the strength of that state to its society. Such a strength is embodied as a capacity to resist societal pressures, to shift behaviour in private sectors and to shift societal structure, and according to these, he proposes four ideal types concerning the relations between state and society as weak, moderate, strong and dominant states.

Katzenstein (1976, 1978) points out that traditional FEP research focuses exclusively on international sources and structure in contrast to relatively great nonchalance to domestic sources and structure. He disregards claims about the existence of a unique explanatory variable of
power distribution, away from the traditional realists paradigm in which the state plays, as a unit of construction, and exercises a unique function. He tries to explain the causation between the attributes of state structure and the main orientations of foreign policy by comparing market-orientations in the U.S.A., UK and Germany with managed policies in France and Japan.

A domestic structure-centred approach provides more abundant academic insights from the perspective of opening a black box. Thus, a domestic approach brings internal attributes of states such as individual society, culture and political institutions into perspective. However, it does not cater for the dynamic interactions between those domestic attributes and their explanatory factors at both an individual level\textsuperscript{14} and system level\textsuperscript{15} in a framework.

Such an individual view may prove effective in comparing the similarity and differences of individual countries’ FEP, and yield parsimony that is a component of building a theory. By contrast, its shortfall is that it lacks predictability and accuracy, which derives from the negligent linkage of systemic, societal and national levels. In addition, it shows another disadvantage caused by not taking account of an actor’s cognitive level.

On the other hand, unlike such individual approaches, another approach tries to explain the contents and timing of policy-making through collective frameworks such as markets, domestic politics, power politics, and men and ideas supporting the insights of multi-perspectives and the synthesis of diverse frameworks (Story, 1988, Odell, 1990, Pastor, 1980). In particular, Story (1988) explores changes in the EU’s Foreign Economic Policy around the EMS (European Monetary System) in the late 1980s using a collective approach. His research rejects analysis from a neo-classical perspective of markets, and instead analyses through the lenses of primary actors and their ideas, power politics and domestic context.
Pastor (1980) examines the U.S.A.'s Foreign Economic Policy through a set of theoretical models that consists of one system-level model and four domestic-level models. His research asks which model is reasonable for fully understanding the U.S.A.'s Foreign Economic Policy, and is distinct from most other studies that take a domestic approach without theorising systemic variables. He concludes, via such a model, that no one of those five conceptual lenses does directly indicate the dependent variables of Foreign Economic Policy.

However, this collective approach based on synthesis would yield a disadvantage as it does not capture the interactive dynamics among diverse levels. Due to such criticism, Gourevitch (1986), Rogowski (1989) and Putnam (1988, 1993) suggest more dynamic linkage theories such as 'The Second-Image Reversed' and 'Two-level Game' and the extension of linkage theory that was provided by Rosenau and Lowi in the 1960s. Their claims are contrary to a Singerian belief that the accumulation of empirical generalisation cannot be obtained through an analysis of a multi-level game, i.e. the mutual exclusiveness of domestic and international levels of analysis. Gourevitch (1986) and Rogowski (1989) explore the linkage between the international system and societal construction, and Putnam (1988, 1993) inquires into the linkage between the societal construction of a state and that of the other states through a two-level game metaphor. They are basically based on the domestic-international linkage, and introduce not first the simple sum of individual approaches, but the dialogue of interlocking a group of three variables such as the international system, societal construction and national structure in a more dynamic way.

1.3.2 Literatures on the EU’s FEP analysis

On the other hand, unlike the above-mentioned approaches, some endeavours exist that examine the EU’s FEP directly (Smith M., 1994a, 1994b, Hocking and Smith, 1997, Tooze, 1994, Young
Smith M. (1994a, 1994b) examines the EU’s FEP from the viewpoint of a system of governance or multilateral diplomacy. In doing so, he explores the issues of ‘statehood’ that are caused by the structure of state and the nature of authority, and the ‘effectiveness’ of the EU’s FEP starting from the perspective of traditional state-centric analysis. In addition, centred around the concept of ‘externalisation’ he inquires into the phenomena whereby the internal concerns of the EU spill-over into international contexts by examining the mixed nature of the EU’s policymaking and institutionalised processes of negotiations.

By contrast, he also explores what is happening to the ‘spillback’ of external concerns centred around the concept of ‘internalisation’, and questions the way in which the EU’s FEP reflects the changing nature of the international domain. Finally, Smith reaches the conclusion that, under the changing features of a contemporary global political economy such as interdependence and interpenetration, the EU tends to orientate towards multilateral policymaking. In the same time, besides him, there are many other scholars who examine the EU’s FEP in terms of governance (Marks et al., 1996, Marks, Hooghe, and Blank, 1996, Scharpf, 1994, Wallace, 1994).

Young A. (2000) scrutinises the EU’s FEP from the perspective of historical institutionalism. What he is trying to say is that in the features of the EU’s FEP, changing dynamics exist depending on the results of the European Court of Justice (ECJ)’s judicial explanations for all institutional regulations including treaties, i.e. the impacts of the EU’s institutional framework, as authority is transferred from the member states to the EU. The core of his argument is that the EU’s institutional framework would structure the choices of member states in new arenas of co-operative policy. His framework refutes the assumption of two-level game that internationally negotiating governments should not be structured by institutions, thus
the European structure is attached to domestic and international structures, and takes account of *acquis*\textsuperscript{18} as an institution that structures inter-member states' interactions.

Meanwhile, in terms of methodology, Tooze (1994) suggests an arbitration of international political economy (IPE) and foreign policy analysis as a theoretical basis for the study of the EU's FEP. He regards the view that the theoretical device of foreign policy that does not contain FEP, and vice versa, as nonsense. Finally, what he tries to suggest as his reasoning is to adopt a post-positive theory that reflects intersubjective meaning very well, takes into account the structuration processes of agent and structure, plus the understanding of historical structures, and build a model that encompasses the global production of ideas and knowledge, and the analyses of foreign policy and international political economy are incorporated also.

### 1.3.3 Theoretical proposition

In practice, this study will adopt the conceptual lenses of two-level game, even more extended level games, 'The Second-Image Reversed' and actor-centred multi-level governance as a basic approach, which are based on the skill of inter-field and meta-theoretical dialogues, not a simple synthesis. Above all, this study pursues dialogues by arbitrating not only international political economy and foreign policy analysis, but also comparative politics and international relations. As such, theoretical bases and rationale of framework for this study accord with the complex metaphors of domestic-international linkage and systems of governance. This metaphor interlocks a group of variables such as the international system, societal construction, domestic structure and market with each other in a more dynamic way. As a result, this model may generate the dialectical synthesis of individual state-centric, society-centric and system-centric
approaches. This metaphor also assists our discovery of any similarity or difference in individual states’ FEP, and political order or power relations in the international economic structure.

In terms of building a theory, the metaphors of two-level game and the Second-Image Reversed represent a theoretical construction comprising a generally parsimonious theory of the international system with that of domestic politics that focuses on prescriptive and explanatory accuracy. In such a framework, it is possible to pursue parsimony via the shift of analysis level from a domestic level to an international level, while predictive quality would increase by addressing incorporate variables. That is, it may provide explanatory power as well as predictive quality by integrating middle-range theory and utilising more than one level of analysis.

The logic of two-level game is suitable for an analysis of specific events in the sense that it takes account of situational contexts of policy-making or agreement based on agent-structure interactions and the intersubjectivity of domestic political conditions and those of international politics (Caporaso, 1997b). Methodologically, the concepts of ‘context’ and ‘intersubjectivity’ are against the high level of generalisation such that it is necessary for specific events under contexts and intersubjectivity to be analysed in the middle level of abstraction. This implies that the two-level game metaphor can be used as an appropriate analytical tool for pursuing a middle-range theory. The intra-EU study is essentially intra-regional comparative analysis in comparatively homogeneous contexts. On this point, the appropriate level of abstraction for researchers lies in the middle-range, which is based both on generalisation and differentiation. On the other hand, another reason for a middle-range abstraction in the intra-EU study derives from the general fact that it is relatively easier to get the quality of predictability in the middle-range of abstraction rather than in high generalisation.
In the meantime, from the meta-theoretical perspective, this study adopts the concept of agent-structure dialogue based on the assumption (or probably the fact) that they have always been interacting in the process of policy-making. A simple causation based on the dichotomy of agent and structure cannot provide a sufficient explanation of changing features in contemporary global political economy. In fact, agent and structure is not subject to ontological distinction. Even when the distinction between agent and structure is necessary for an analytical background, this distinction has no other reason than the analytical aims (Patomäki and Wight, 2000, p. 30).

The agent-structure dialogue adopted by this study is that structural inconsistency provides relatively better opportunities for agents’ actions. Consequently, the structural inconsistency might create a new actor, whilst this actor might generate significant impacts on structural contexts. These significant impacts might create a new structural context, and the creation of a new structure and actor reiterates as the reasonable accumulation of a contextual shift proceeds. In this process, dialogue access is undertaken through the expansion of an agent’s cognitive scope of objectives, agenda-setting capacity and political actions associated with structural contexts. However, agent-structure interactions cannot occur without the arbitration of knowledge system between them. Agents recognise constraints or opportunities from structures via the knowledge system, and reflect structural cognition on their choices. Knowledge can be used as a resource of power, whilst through agent-structure, agent-agent or structure-structure dialogues, knowledge leads to coordination. As such, it is possible to recognise agent-structure dialogue via the arbitration of the knowledge system. This dialogue results in status quo or movement to a new structural context.

On the other hand, the conceptual lens of the system of governance above is a framework that integrates domestic and international domains in which actors are governmental, political,
economic and social agents in the national and transnational levels. In this conceptual lens, the state is regarded as a set of institutions. Thus, it is possible to explain the institutional structure of the state, and to grasp the diffusion of authority from central state to supranational and subnational institutions. In addition, the logic of two-level game convincingly grasps changes in inter-state foreign economic policies through setting inter-static or inter-governmental relations as well as transnational actors including societal forces, for example civil society organisations, as the unit of analysis. Thus, the issue of the state as a dominant actor in traditional IR theories would be resolved.

In particular, as for the case of the EU, such an actor-centred conceptual lens on a system of governance is useful as an analytical framework because governmental agents play the role of manifest actors in domestic power locations and international regimes. Furthermore, such an actor-centred approach to a system of governance tries to incorporate comparative politics with international relations by posing actors as agents between domestic and international contexts (Marks, 1997). Finally, the arbitration among diverse approaches above makes it possible to conduct cross-level linkages and make insights into agent-structure interactions, and it involves interdisciplinary research among sub-fields of political science (Caporaso, 1997a, 1997b). Furthermore, analytical approaches based on negotiations (bargaining) such as two-level game is better than static regime analysis in taking account of dynamic causation (Strange, 1995).

1.4 Research Structure

As this study aims to suggest a theoretical account and a middle-range empirical review, it is reasonable to construct the whole frame of the dissertation in three parts: introduction,
methodological review and empirical domains. Above all, the establishment of method should
proceed prior to the others. Thus, chapter 2 addresses the analytical implications of FEP in terms
of ontology, epistemology and methodology, and suggests the basic modelling including basic
assumptions and experimental hypotheses for this study. The basic modelling is based on a
revised actor-centric multi-level game model. This modelling also illustrates the bargaining
structure and bargaining procedure at domestic and international levels. In doing so, a number of
empirical utility functions are suggested by utilising theoretical bases of game theory.

In part II (Methodological Review) Chapters 3 and 4 review methodological debates
between CP and IR, and between FP analysis and IPE aiming to arbitrate these sub-fields of
political science. Such a review is undertaken in terms of meta-theoretical issues such as the
nature or actorness of the EU, agent-structure and level of analysis and the comparison of
differences in recognition of major research themes. Only an empirical study linked to a broader
conceptualisation of the nature of the EU can reveal the complete significance of its actorness.
Nevertheless, the exploration of the other perspectives enables us to find some points of
arbitration from which other sub-fields of political science can be analysed.

Meanwhile, in part III (Empirical domains) the agent-structure and structure-structure
interactions are explored in every chapter. This separation derives from the sense that it is more
advantageous that agent-structure and structure-structure interactions are examined in a separate
way. According to the logic of two-level game, chapter 5 compares the domestic ratification
games of Germany, France and the UK in the Multilateral Agreement on Investment (MAI)
negotiation of 1998. The reason why these three countries are chosen is that even though they do
not represent the EU, they describe political heterogeneity and increasing potentiality for
conflicts that is characterised by political relations in the North. Besides, economic resources
controlled by these countries are overwhelming such that they construct the core of the international economy.

Chapter 6 takes insights to agential perspectives in international negotiations in terms of an actor's interest, preferences or knowledge, as well as the timing for his or her actions, i.e. choices. Civil society organisations and decision-makers are assumed to be significant agents in the MAI negotiation of 1998 and concerning individual Member States’ foreign direct investment (FDI) policies. As for civil society organisations, it is the expansion of an agent's cognitive scope of objectives, transnational linkage to activities, agenda-setting capacity and his or her knowledge system that are adopted as an angle. The reason why civil society organisations are assumed to be agents is that FEP is directly connected with civil life, and that civil society organisations were significant as agents in the MAI negotiation of 1998. Meanwhile, as for decision-makers, their strategic choices vary among unemployment, balance of trade and balance of payments. Their political survivability as politicians is adopted to verify this variety.

Chapter 7 addresses 'political conditions' concerning human rights and democracy that the EU has inserted in a series of trade and cooperation agreements with Latin America, Asia and Central and Eastern Europe and Newly Industrialised States (NIS). The account of this perspective constitutes three contexts of FEP objectives associated with economic diplomacy and foreign economic policy. As such, all of these issue areas contextualise third generation agreements, which represent the Millenium Round.

Finally, all the resultant implications from every chapter are going to be assembled and summarised in chapter 8, in which the interdisciplinary and meta-theoretical implications in terms of methodology are suggested. Besides, in terms of policy content and evaluation, three
agent-centred scenarios of the likely course the EU might take in the formation of FEP are suggested.

References

1 This point is addressed more thoroughly in the section of methodological review.
2 Allocation in terms of the viewpoint of economists.
3 Allocation in terms of the viewpoint of political scientists.
4 Distribution from economists.
5 Distribution from political scientists.
6 Unintended outcomes are ruled out of the consideration of this study.
7 The international monetary system governs exchange rates between national currencies, while the international financial system governs the creation, access to and trade in credit (Strange, 1998, pp. 1-2).
8 Of course, as mentioned before, a certain domestic policy would be subject to FEP analysis in a case where its foreign effects are extremely significant.
9 See also Dent (1997), Piening (1997) and Tsoukalas (1997).
10 The methodology of this study concerning such insights is going to be mentioned later.
13 This illustration is originally used by Moravcsik (1994) to criticise Waltz’s neo-realism that excessively emphasises structural factors.
14 Individual’s personality, beliefs and ideas or cognitive characteristics.
15 A state’s position in the international system, power relations and hegemony.
16 Structural theory of the IPE, bureaucratic politics and process, congressional behaviour, interest groups and private organizations, and interbranch politics.

17 It indicates things such as formal and informal principles, norms, rules, and decision-making processes that structure actor relations (Hall, 1986, Thelen and Steinmo, 1992, Krasner, 1983).

18 *Acquis communautaire.* This includes most notably the Treaties in their entirety, all legislation enacted to date, and the judgments of the Court of Justice. New Member States are legally obliged to accept not only the Treaties, but all previous legal decisions taken by the various Union institutions, and all agreements.
Chapter 2:
Revised actor-centred approach for FEP analysis and Modelling of negotiations

2.1 A revised actor-centred multi-level game

Contrasting methodological advantages that are suggested in the previous chapter, the metaphor of two-level game brings out some issues in undertaking conceptualisation: first, the analysis of negotiations such as two-level games admits the importance of domestic politics through examining the linkage of agents into domestic constraints, and recognising the non-monolithic nature of negotiation parties. The analysis of domestic factors, however, is so limited and tends to be descriptive in its account. Thus, this model has a demerit in that it overlooks the dynamics of processes driven by giving undue value to policy outcomes. Furthermore, as for the EU’s FEP-making processes and its implementation, looked at from the perspective of three-level game, two-level game metaphor omits deliberate insight over issues, which are caused by the EU’s institutional and regulatory structure. On this point, it is required to develop a more detailed account of the perspectives of domestic and EU politics.¹

Second, it is when domestic politics is meaningful that the logic of two-level game can occur. The existence of domestic politics does not always imply an inevitable two-level game (Caporaso, 1997b). If societal preferences, for example, transmit very fast to central decision-makers, then domestic politics would lose its meaning resulting in a two-level game between domestic politics and international politics would not occur. By contrast, if the preferences are divergent or variable, i.e. the case in which central decision-makers’ preferences are different
from those of social actors, then the two-level game could happen. This study is going to fix this issue by setting an assumption: societal preferences do not converge with those of central decision-makers.

Third, this model does not properly incorporate international factors in the sense that it does not theorise systemic or structural factors. It just focuses on the issue of power relations among groups in societal structure, domestic political institutions and negotiators' strategies. With such an architecture it is impossible to take a reasonable insight into the logic of agent-structure and structure-structure interactions in IR, even though it may provide a minimal hypothetical context to examine the agent-structure and structure-structure interactions. This metaphor, therefore, needs to encompass the theorising of systemic variables to avoid the troubles or limitations, which the general analysis of domestic level would confront.

Fourth, two-level game would be applicable only to the cases in which the negotiations are able to generate joint gains in general. In case of disagreement, both actors get the payoff of zero. The disagreement is thus the worst outcome. This implies that no actor has an incentive to deliberately strive for a disagreement, and that no player has true alternatives or valuable outside options.

Fifth, only in a case where strategies are linked to each other, i.e. the outcome of many actions taken by one actor tend to be contingent upon another's actions, is two-level game applicable. This situation is called 'strategic interaction' (Buzan, Jones, and Little, 1993, Milner, 1998), and "negates a purely individualistic theory of action expressed only in terms of the intentions, goals, desires, and beliefs of individual agents" (Buzan, Jones, and Little, 1993, p. 105). This implies the meaninglessness of simply agent-centric analysis, and suggests the appropriateness of interactions among agents as an analytical basis. Furthermore, it points out the
importance of insights into agent-structure from the viewpoint that structural factors would influence the agent's attributes, and structure-structure interactions in terms of structural changes. This study aligns its fundamental starting point with this series of viewpoints.

Sixth, in terms of methodology, if uncertainty were introduced to the two-level game, then it would be impossible to explain the outcome (Dupont, 1994). Uncertainty would force the significance of negotiator's strategies in the international level (Level I). This is because the outcome of negotiations may vary according to the extent uncertainty is utilised as an opportunity or resource. This point, therefore, would lead the analysis of negotiations to focusing on means or strategies, and in the same context, result in its necessity as the core parts of this study.

Finally, it is doubtful whether actors act in practice being conscious of themselves as components of a two-level game. That is, it is only when actors take a simultaneous account of domestic and international political situations as decisive factors to make political decisions that the two-level game metaphor would be valid. The empirical conclusion for this issue is still unsettled (Dupont, 1994). This study would set up an assumption for this issue: individual actors do act aware of themselves as components of a multi-level game.

### 2.2 Basic assumptions and experimental hypotheses

#### 2.2.1 Assumptions for a basic framework

The completion of a basic framework for the EU's FEP analysis would consist of a series of assumptions as follows. Above all, for the parsimony of a theoretical model, it is necessary to
suppose at least two points: there are only two players with opposed preferences, i.e. **Actor A and B**, who act between domestic and international levels on the one hand; and on the other hand they play in two periods such as periods 1 and 2 in order. Actor A prefers a lower agreement price, like the buyer, representing an international actor, while actor B prefers a higher agreement price, like the seller, representing the EU or its member state actor. Thus, for actor A, the ‘minimum requirement level’ or the ‘reservation value’, say, $a$, is the highest price that would be accepted in the ratification process, while for actor B, it, say, $b$, is the lowest price that would be accepted in the domestic or European ratification vote.

Negotiation game would be infinite in practice meaning the demand for attaching the terminal node for the form $(P, t)$ presenting an outcome of agreement, $P$, and time period, $t$, when an agreement is reached. For the theoretical parsimony, however, the hypothetical choice of period 1 for actor A, and period 2 for actor B is required. Thus in period 1, actor A offers an agreement outcome, and actor B decides to accept or reject it. If actor B does reject it, then the negotiation game would move on to period 2. In period 2, in turn actor B offers an agreement outcome, and actor A would decide to accept or reject it.

**Assumption 1**: There are only two players with opposed preferences, who represent domestic and international levels respectively.

Two actors = $A$, $B$

Actor A’s reservation value or minimum requirement level for ratification = $a$

Actor B’s reservation value or minimum requirement level for ratification = $b$

**Assumption 2**: Two actors play in two periods in order, i.e. period 1 and then period 2.
The finite set of times = \( T = \{1, 2\} \)

Actor \( A = \) an offer in period 1, while actor \( B = \) an offer in period 2

The model adopted by this study is non-cooperative zero-sum bargaining, which means that actors typically are uncertain about the value to others of reaching an agreement. Each of the actors knows what kind of strategies a counterpart holds, but do not know which strategy a counterpart would choose. On the other hand, the sum of two actors’ gains or losses is always zero.

**Assumption 3: Game is a non-cooperative zero-sum bargaining.**

In the next stage, from the structural perspectives, assumptions are required to make domestic politics get significance (assumptions 1 and 2) and provide applicability to the logic of two-level game (assumptions 2 and 3).

**Assumption 4: The international system does not have an overriding force.**

**Assumption 5: Societal preferences do not converge with those of central decision-makers.**

**Assumption 6: Negotiations in principle generate joint gains.**

**Assumption 7: The outcomes of negotiations tend to be contingent upon interactions taken by actors.**

On the other hand, a traditional causal and conceptual statement concerning the state as a major actor would be the object to redefine. This viewpoint derives from the logic when representatives
of individual countries act as a mediator under the constraints of domestic and international structures. At this time, it would be useful to recognise the state not as an actor, but a set of institutions. In doing so, the state is a set of rules, and provides contexts of rules for authoritative decision-making resulting in the structuring of authoritative relations in a polity.

**Assumption 8: The major actors are governmental agents, and the state is not an actor, but a set of institutions.**

Governmental leaders possess the authoritative positions in the state, are elected by the people, interact with sub-national actors and have political aims. Finally, it is not the state itself, but governmental leaders that are involved in international negotiations (Marks, 1997, p. 22). Intergovernmental negotiations are more inter-actors bargains than those of inter-state, who represent the state. They, governmental leaders, can take goal-oriented actions as distinct actors in the location of domestic authorities, the intra-EU location of authorities and international regimes. They are, however, just principal actors in the international system. It is not to say that they are sole actors in the international system.

Sub-assumptions are required corresponding to assumptions 8 as following:

**Sub-assumption 1: Individual actors act aware of themselves as components of a multi-level game.**

**Sub-assumption 2: Inter-state negotiations reflect involved political leaders’ interest and their relative abilities to realise it.**
In inter-state negotiations, the concept of national interest and state interest refers to subjective and competitive explanation by actors who represent the state. That is, these concepts are an abstraction that does not refer to objective reality, and further do exist outside political actors’ preferences (Marks, 1997, p. 34). Consequently, inter-state negotiations reflect not national interest or the relative power, but the relevant political leaders’ interest and their relative ability to realise it. At this time, the state provides actors with the institutional contexts, who would like to pursue their goals.

Sub-assumption 3: Co-operative gains are those of political actors.

Above-mentioned sub-assumption 1 implies that co-operative gains from interactions are more political actors’ gains rather than national gains. Governmental leaders act based on practical benefits such as re-election, strengthening of their political party, and intensifying their own position in their political party. This means that it is possible to give answers to the question of ‘why relevant political actors would reach a specific outcome’ outside a framework in which political actors’ preferences and resources are involved (Marks, 1997, p. 35).

2.2.2 Experimental hypotheses

2.2.2.1 Structural hypotheses

The experimental hypotheses of this study are both structural and agential. Here, only trunk hypotheses are referred to, and branch hypotheses concerning international (globalisation, capital
mobility and security interest) and domestic contexts (political, economic and social system) are addressed in chapter 6 and 7 respectively.

*Hypothesis 1. The EU’s Foreign Economic Policy is the interactive outcome of domestic politics and international politics.*

*Hypothesis 5.1: The impacts of the international structure depend on the elasticity of policy preference of domestic authorities to the changes in the international structure.*

*Hypothesis 5.2: There is no influential balance between domestic context and international context on the foreign economic policy-making of a country.*

To what extent do structural influences depend on the elasticity of domestic policies to the changes in international environment? For instance, if the policy preference of domestic authorities on a national investment policy were reasonably elastic to the structural changes such as the changes in the international financial market and global changes, the choice of policy authorities would positively reflect the changing environment. By contrast, if inelastic, the changes in the international environment would be reflected negatively on domestic policies. This is saying that there is no influential balance between domestic context and international context. Thus the explanation of the relationship of domestic and international variables is developed in the two technical terms of ‘elasticity’ and ‘balance’.

*Hypothesis 5.3: The more sensitive national economy of a state is to the international economy, the more constraints it confronts from the international structure.*
From the viewpoint of IPE, international structural factors such as industrial capital and financial capital, rapidly changing technology and the increase in capital flow reveal the sensitivity of national economy to international developments. They also constrain the political strategies including foreign economic policy of individual states. Such constraints vary depending on the sensitivity or elasticity of individual national economies to the international environment.

**Hypothesis 5.4: The increase in capital mobility as a structural impact makes agents’ policy preferences convergent.**

The consequences of international structural impacts imply that an increase in capital mobility strengthens agents’ (mainly investors) negotiating power with institutions, including the state, such that it is more likely that agents can push their policy preference onto domestic decision-makers. Dialectic relationships are thereby established between them, such that the increase in capital mobility causes an increase in foreign direct investment (FDI) flow that leads to the convergence of agent’s policy preference.

**Hypothesis 5.5: The dynamics of demand and supply spur today’s global production, and this structural change brings out inward FDI shifting balance. As a result, the policy preferences of individual states result in to a positive consensus on international investment rules.**

The market-based perspective that this study adopts is based on the neo-classical logic of market analysis, ‘market leads changes in policy’. Market is the place where demand and supply meet
and exchange occurs. Households, firms and governments are fundamental agents operating in dynamic interactions. The core logic that decides interactions among agents in markets is the dynamic of demand and supply.

**Hypothesis 5.6:** The difference in domestic structure dominates different strategic choices in the formation of foreign economic policy of individual states (Katzenstein, 1984, p. 3).

**Hypothesis 5.7:** Foreign economic policy of a country is a continuum of its domestic politics.

- **Sub-hypothesis 1:** Domestic politics does not provide any input, while international factors structure Foreign Economic Policy.
- **Sub-hypothesis 2:** The reason of the consistency in the EU's Foreign Economic Policy derives from the fact that external factors are not able to change on a large scale.
- **Sub-hypothesis 3:** The reason of the consistency in the EU's Foreign Economic Policy derives from the immutability of domestic factors.

To the extent consistency in the EU's FEP may be object to the analysis of exogenous factors such as inter-state balance of power being equivalent to reasoning unchangeable nature on a large scale of external factors. On the other hand, the attention to domestic factors may give an answer to the question over such a consistency suggesting that policy-makers or policy-making processes do not change, and even if they do change, it is steady and trifling enough to be disregarded (Viotti and Kauppi, 1993). Verifying these hypotheses may provide a vital
implication to the debate between comparative politics (CP) and international relations (IR) in EU study.

2.2.2.2 Agential hypotheses

Hypothesis II. Foreign Economic Policy is generated through the interactions of agent and structure.

Hypothesis 6.1: Policy outputs are not produced or given by the structural variables, but by agents' interactions with the structure.

Hypothesis 6.2: An agent is not simply reactive to, but intentional and proactive regarding the structure. As such, it results in structural change.

Sub-hypothesis 4: The formation of Foreign Economic Policy operates by the dynamic interactions with societal level.

Sub-hypothesis 5: Individual actors' responses to similar exogenous impacts or similar input variables differ.

Sub-hypothesis 6: It is impossible to reduce the EU's response to exogenous impacts to that of actors in individual levels.

There are many types of actors in the EU: domestic actors in individual member states' level, supranational actors in the EU level, and international or transnational actors. Such a series of actors respond to exogenous impacts in different ways implying that it is impossible to reduce the EU's response to exogenous impacts to that of actors in individual levels. In addition, interest groups need to be taken into account. Interest groups not only form agendas through lobbying
and campaigns, but also suggest political threats and compensations to policy-makers. In doing so, they play an important role in deciding domestic win-set. For example, the French government did withdraw at the meeting for the Multilateral Agreement on Investment (MAI) after taking domestic civil societies’ arguments most seriously.

2.3 The Basic Modelling

2.3.1 The bargaining at the international level

2.3.1.1 The bargaining structure and procedure

2.3.1.1.1 The bargaining structure

![Figure 2.1 Effects of reducing win-set size](source: Putnam (1988).

Figure 2.1 illustrates the structure of bargaining. ‘A_M’ and ‘B_M’ are Actors A and B’s maximum outcomes respectively. ‘a’ and ‘b’ are two actors’ valuations for ‘reservation price’ or the
minimum requirement level' of domestic ratification. They represent the worst utility for actors: zero. ‘P’ represents the zone of possible agreement between actors, and is called ‘win-set’. Actors A and B act according to, and are bounded by ‘a’ and ‘b’. At this stage, any agreement in the range between ‘a’ and ‘b’ could be ratified by both bargaining parties.

Furthermore, ‘a’ and ‘b’ are defined by information distribution about an actor’s valuations, and are also bounded by international and transnational constraints or opportunities being reduced or extended. Conversely, constraints or opportunities caused by the distribution of power, preferences, and possible coalitions between domestic and EU level (Levels II and III) constituents will influence ‘a’ and ‘b’, thus resulting in a shift in the size of the win-set. So do political institutions at domestic and EU level (Levels II and III), and negotiators’ strategies at international level (Level I). In particular, negotiators’ strategies may disguise the size of a domestic win-set on purpose to get the increase of their own bargaining power or control that of a bargaining partner’s win-set to assure that an agreement is reached.

If the win-set of Actor B were contracted to b’, outcomes between b and b’ would no longer be feasible, and the range of feasible agreement would thus be truncated in Actor B’s favour. However, if Actor B, emboldened by this success, were to reduce their win-set still further to b””, the win-sets no longer overlap at all. As a result, the set of agreement P would be an empty set and this results in the deadlock of negotiations. To put it in another way, a small exaggeration of win-set by Actor B has a high possibility of being successful, and therefore, they may confront a ‘dovish’ bargaining partner. By contrast, a large exaggeration may be counterproductive resulting in meeting a ‘hawkish’ Actor A. As for Actor A, he may regard Actor B’s exaggeration as an attempt to get a ‘free ride’, because Actor B will be able to win greater concessions from
Actor A who wants to reach an agreement. Consequently, Actor A would have no reason to believe that Actor B is really facing tight domestic constraints.

On the other hand, if \( b \) is smaller than \( b' \), say, \( b < b' \), then the bargaining power of Actor B would increase from \( \frac{\text{AM}_b}{\text{BM}_a} \) to \( \frac{\text{AM}_b'}{\text{BM}_a'} \) by \( bb' \). At this time Actor A’s bargaining power is \( \frac{\text{BM}_a}{\text{BM}_a'} \). The contraction in size of Actor A’s win-set also results in the increase of their bargaining power, for example, from \( \frac{\text{BM}_a}{\text{BM}_a'} \) to \( \frac{\text{BM}_a}{\text{BM}_a'} \).

Individual Actors A and B are rationally concerned with the outcomes from the zone of agreement, say, \( P \), and have different preferences for the outcomes, say, \( p_i \) and \( p_j \), \( i \neq j \), which expressed in \( p_i, p_j \in P \) or \( p_i, p_j \notin P \) with \( i \) or \( j = \{1, 2, \ldots, n\}, \ i \neq j \).

### 2.3.1.1.2 The bargaining procedure

The procedure for negotiations can be expressed by a game tree, which consists of one actor’s ‘offer node’ and the other’s ‘decision node’. In the former, every actor may have no restrictions when choosing an agreement outcome and there is a continuum of agreement outcomes, say, \( p_i \) or \( p_j \) with \( i \) or \( j = \{1, 2, \ldots, n\} \). In the latter, an actor may accept or reject the other’s offer. This is illustrated on Figure 2. The players can only make an offer at times in the finite set such as periods 1 and 2, say, \( T = \{1, 2\} \). In period 1, \(^4\) Actor A proposes an agreement with an outcome \( p_i \) such that \( p_i \) is an element of \( \text{AM}_a \), say, \( p_i \in \text{AM}_a \), and Actor B confers this offer to the process of domestic and the EU ratification. According to the result of that ratification, Actor B would accept or reject that offer when he meets Actor A in Level I, say, \( r_1 = 1 \) for an acceptance, and \( r_1 = 0 \) for a rejection. If Actor B accepts an agreement in Level I, i.e. \( p_i \in P \), then the procedure of negotiation would end, which is expressed as Agreement \((p_i, 1)\).
By contrast, if it were rejected, i.e. \( p_1 \not\in P \), then the game would move to period 2 of negotiation. In period 2, Actor B offers an agreement with an outcome \( p_2 \) such that \( p_2 \) is an element of \( bB \), say, \( p_2 \in bB \), and Actor A would accept or reject it, say, \( r_2 = 1 \) for an acceptance and \( r_2 = 0 \) for a rejection. In this case, \( p_2 \in P \) is for an acceptance resulting in Agreement \( (p_2, 2) \), while \( p_2 \not\in P \) is for a rejection. In doing so, if Actor A accepted, then the negotiation would end; while if it was rejected, then the negotiation would be broken off, and consequently both actors would receive a disagreement payoff, \( D \), zero. All these relationships are formulated as appendix 2.1.
2.3.1.2 Strategies and equilibrium under various information distributions

A strategy includes the basic procedural strategies such as an acceptance and a rejection throughout the whole bargaining processes and the dynamic ones that are used as bargaining means by negotiators confronting domestic and endogenous pressures. As for the basic procedural strategies, in period 1, Actor A’s strategy is to suggest $p_1$, at this time $p_1$ lies in the continuum of agreement outcomes, i.e. $p_1 \in [b, a]$, while that of Actor B would be a response, i.e. $r_1(p_1) \in \{0, 1\}$ meaning 0 for a rejection and 1 for an acceptance. By contrast, in period 2, Actor B’s strategy is to offer $p_2$ within limited agreement outcomes, i.e. $p_2 \in [b, a]$, while Actor A would decide to accept or reject it, which is equivalent to $r_2(p_2) \in \{0, 1\}$ with 0 meaning for a rejection and 1 for an acceptance, respectively. Therefore, the equilibrium would be a set of strategies as $(p_1, p_2, r_1, r_2)$.

In period 2 Actor A can accept the outcome of $p_2$, say, $r_2(p_2) = 1$, as long as it does not exceed $a$. By contrast, if the outcome, $p_2$, were greater than $a$, he would reject it, say, $r_2(p_2) = 0$. This is Actor A’s equilibrium strategy in period 2, which is equivalent to appendix 2.2 (A). In period 1 Actor B would accept the outcome of $p_1$, i.e. $r_1(p_1) = 1$, as long as it does exceed $b$. By contrast, if the outcome, $p_1$, were smaller than $b$, he would reject it, say, $r_1(p_1) = 0$. As a result his equilibrium strategy in period 1 would be formulated as appendix 2.2 (B). Here, attention must be paid to the fact that such a set of strategies is bounded by various information distributions. Aforementioned, and particularly, it is individual actors’ belief system or types and their direct strategies, i.e. agential factors that play an important role under the condition of incomplete information. By contrast, with complete information, individual actors’ agential
factors may not be the main variables. Thus, the understanding of agential perspectives is necessary to explain the formation of decision-making under the condition of incomplete information.

It would be a good idea to start with a complete information game that establishes the framework of an incomplete information game, since its outcome would provide a benchmark for evaluating the outcomes of incomplete information games. Strategies with Incomplete Information about the Actor’s Valuations are going to be explored later in chapter 7 concerning agential perspective.

2.3.1.2.1 Strategies with Complete Information about the Actors' Valuations

Under complete information it is Actor B’s time preference, i.e. whether he is patient or impatient, that is the driving force for a negotiation structure. In addition, the loss of bargaining gains would not happen and the negotiation would end in period 1.

As mentioned in the part of explaining ‘discount factor’, if under complete information Actor B were fully patient, i.e. \( \delta = 1 \), then Actor B would receive the outcome of \( a \), i.e. the largest utility, while it would result in Actor A’s payoff of zero, say, \( U_A(a) = 0 \). Consequently, in period 1 Actor B would reject a smaller agreement outcome than \( a \), which is suggested by Actor A. In period 2 Actor B would like to suggest an agreement outcome of \( a \), while Actor A would accept the outcome of \( p_2 \) if it is equal or smaller than \( a \), which is expressed as \( p_2 \leq a \). In doing so Actor B’s utility would be \( \delta (a - b) \), i.e. \( U_B(a, 2) = \delta (a - b) \) resulting in Actor A’s utility of zero, say, \( U_A(a, 2) = 0 \). Since rational Actor A fully understands this point, under the condition of complete information, they would want to reach an agreement in period 1. In period 1 to avoid
delay costs, Actor A suggests $p_1$, and Actor B would accept an outcome of $p_1$ that provides an equal or bigger utility than that with the outcome of $a$, i.e. the biggest outcome, in period 2. This is formulated as appendix 2.2 (C). As a result, Actor A, who fully understands Actor B's preference of valuations would offer the agreement outcome of $p_1$ so that Actor B's utility with $p_1$ in period 1 would become equal to that with $a$ in period 2, say, $U_B(p_1) = U_B(a, 2)$. This is formulated as appendix 2.2 (D).

Finally, it is $p_1 = b(1-\delta_B) + \delta_B a'$ that Actor A would like to suggest. By contrast, if Actor B were fully impatient, i.e. $\delta_B = 0$, then Actor A would offer the outcome of $b$ in period 1, and fully impatient Actor B would accept it as a point of agreement meaning Actor B's pay-off is zero, say, $U_B(b) = 0$. Finally, with complete information negotiations can be happened between $a$ and $b$.

2.3.1.2.2 Strategies to control the size of a win-set with Complete Information

What would happen if the size of a win-set were changed by domestic and international constraints or opportunities? To answer this question, what would happen could be divided into three situations.

2.3.1.2.2.1 The contraction of Actor A's win-set only

The case of Actor A's win-set is reduced to $a'$ by domestic constraints or external constraints, say, $a' < a$, while that of Actor B is still the same. In this case, in period 1 Actor A would suggest the agreement outcome of $p_1 = b(1-\delta_B) + \delta_B a'$, say, $p_1 = a'$ if $\delta_B = 1$, and $p_1 = b$ if $\delta_B = 0$. and
Actor B would accept it. Ultimately, this case would, in theory, generate lower agreement outcomes than that in unconstrained cases because of the loss of the agreement zone $\bar{a}'a$. Thus, Actor B’s utility would lower, which is equivalent to appendix 2.2 (E). Such severe domestic constraints affecting Actor A would change the general nature of the case where Actor B is fully patient, i.e. $\delta_B = 1$. As for Actor B, their profit with $p_I = a'$ may lower in relation to the case with $p_I = a$ resulting in a negative effect for them.

By contrast, in the case where Actor B is fully impatient, say, $\delta_B = 0$, the contraction of Actor A’s win-set may not change the nature of bargaining for Actor B. Thus, $U_B (b)$ with $a = U_B (b)$ with $a' = 0$. Meanwhile, as for Actor A in the case where Actor B is fully patient, i.e. $\delta_B = 1$, Actor A may enjoy relatively greater profits, say, $U_B (a') > U_B (a)$. Moreover, the case where Actor B is fully impatient, say, $\delta_B = 0$, results in the loss of Actor A’s absolute utility. However, such a loss of absolute utility may confront the opportunities to get offset. The loss of absolute utility indicates a lower probability of reaching an agreement caused by the contraction of the overlapping zone between two actors’ win-sets. This condition may lead Actor B not to avoid the greater concessions aimed at reaching an agreement in theory. Such a relative profit is expressed in the increase of Actor A’s bargaining power, say, from $B_{Ma}$ to $B_{Ma'}$. Finally, Actor A may be in a better position than in $\delta_B = 1$ because of reduction of a domestic win-set. All these relationships are formulated as appendix 2.2 (F).

### 2.3.1.2.2.2 The contraction of Actor B’s win-set only

We may assume the case where Actor B’s win-set is reduced to $b'$, i.e. $b' > b$, while $a$ is still maintained. This results in Actor A’s suggestion of an agreement outcome of $p_I = b' (1-\delta_B)$ +
\( \delta_a \) in period 1 and Actor B’s acceptance of it. Looking at this happening in theory, this case would generate relatively higher agreement outcomes than that in unconstrained cases. Thus, it would operate as a disadvantage for Actor A meaning that his utility would lower relatively. In doing so, if Actor B were totally patient, i.e. \( \delta_B = 1 \), then severe domestic constraints of Actor B would not shift the negotiation outcome in a sense that Actor A’s utility with \( b' \) is the same as that with \( b \), say, \( U_A(a) \) with \( b' = U_A(a) \) with \( b = 0 \).

By contrast, if Actor B were fully impatient, say, \( \delta_B = 0 \), then the agreement outcome would be settled at higher levels, i.e. \( b' \), resulting in negative effects and would provide a lower utility to Actor A than that with an agreement outcome of \( b \), say, \( U_A(b) = a - b \). In this case Actor B’s utility with \( b' \) is the same as that with \( b \), say, \( U_B(b') = U_B(b) = 0 \). Moreover, in the case where \( \delta_B = 1 \), Actor B’s absolute utility may lower, i.e. \( U_B(a) \) with \( b' = a - b' \) \( \leq U_B(a) \) with \( b = a - b \). However, Actor B may enjoy relatively greater profit derived by confronting their increased bargaining power. This is caused by a contraction of win-set. In addition, Actor B may benefit from causing negative effects to Actor A when \( \delta_B = 1 \). This relation is equivalent to appendix 2.2 (G).

### 2.3.1.2.2.3 The contraction of two actors’ win-sets

Finally, the case where the two actors’ win-sets are reduced to \( a' \) and \( b' \) respectively. In this instance, the agreement outcome of \( p_I \) is \( b' (1-\delta_B) + \delta_a a' \), which is equivalent to appendix 2.2 (H). The agreement outcome in this case also depends on the value of \( \delta_B \in [0, 1] \). The contraction of Actor A’s win-set brings out a relatively lower agreement outcome, while that of Actor B’s win-set results in a relatively higher agreement outcome. In this case, the size of \( \overline{bb'} \)
and $a'a$ is the main variable. If the size were same, the mixed outcome of the first two cases where only one actor's win-set is reduced would be generated in this case. This mixed outcome is equivalent to an equal increase in the two actors' bargaining power, say, $N_B = N_A$, and the contracted zone of feasible agreement, i.e. relatively smaller zone, say, $ba > b'a'$, which is equivalent to appendix 2.2 (I).

By contrast, if two actors had different variations of win-sets, say, $bb' \neq a'a$, then one of two actors would be at an advantage, while the other would be disadvantaged in terms of bargaining power, say, $N_B \neq N_A$, and consequential concessions in international negotiations, say, $C_B$ for Actor B's concession $\neq C_A$ for Actor A's concession. These relations are equivalent to appendix 2.2 (J).

In sum, relatively positive outcomes of controlling the size of win-set may encourage actors to contract or strategically disguise the size of their domestic win-set. Such strategies may generate absolutely greater profits for actors whose strategy does work in the end. By contrast, bargaining parties in international negotiations may also try to extend the size of bargaining partner's domestic win-sets in a strategic way aimed at obtaining relatively greater benefits. Transnational actors, mobilisation of bargaining partner's domestic actors, and threats to bargaining partner's government via sanctions to make it to extend its own domestic win-set can be used for this trial.

### 2.3.2 The Dynamic Ratification Game

As figure 2.3 shows, bargaining parties bring the price that is suggested at an international level into the process of domestic ratification. After that they start the international bargaining at the international level again with the outcome of domestic ratification. The significance of a
ratification game derives from the fact that the veto of constituents may lead governments into decision-making traps such as ratification failure and negotiation breakdown. In particular, rigid ratification procedures in the weak states may prove disadvantageous to internationally strong governments because the latter may provide more concessions to the former to reach an agreement.

![Figure 2.3 The Dynamic Ratification Game with Complete Information](image)

Figure 2.3 consists of two large branches for two types of government, say, $N_1$ and $N_2$. In each separate branch players are unsure what their opponents are like as defined by their pay-off functions, or what they know about the other players. This is classified as a game with incomplete information. According to Harsanyi (1967, 49...
The first position is called the initial node and is an open dot, all the rest are filled in. Thus, solution techniques for complete information can be applied to this transformed game.

Static games are ones where we can think of players making their moves simultaneously. In contrast, a game can be dynamic because players are able to observe the actions of other players before deciding upon their optimal response. This situation may be called 'strategic interaction'. The ratification games of the EU and individual member states are also dynamic games. Interactions between the government and domestic constituents are conditioned by the relationship of strategic interaction. Such a relationship can be represented by the extensive form diagram shown in Figure 4. Figure 4 can be applied to the ratification game at EU and domestic levels. The latter in particular with complete information, however, is going to be taken into account in this study, and assumes that all player's pay-off functions are common knowledge.

In the ratification procedure at domestic level, governmental executives with information about the negotiation outcomes take the first move on 'Campaign' or 'No Campaign' that constituents would accept or reject ratification. If the government and their constituents were to make their moves simultaneously, their constituents would have only two strategies. These would be either to accept or reject the ratification. However, constituents initially observe a government's decision and makes its decision conditional upon what a government does. As a government has two possible actions, and so do constituents, the constituents have four (2 x 2) strategies. Figure 4 shows that constituents have eight (2 x 2 x 2) strategies, since a government's initial move is separated into two cases, i.e. NI and N2.

For simplicity, it is necessary to assume that there are only two types of countries within the EU. The EU member states would represent NI or N2 regarding the issue of 'two-speed Europe' or 'two-tier Europe.' These terms denote that "not all member states are willing and able to
proceed towards integration at the same pace, and that some means should be found of allowing the more enthusiastic to make progress without being held back by the others” (Bainbridge and Teasdale, 1996, p. 454). In the same context, $N_1$ represents the countries that find treaties beneficial, while $N_2$ represents the member states that regard treaties as unbeneﬁcial. On the other hand, $C_1$ and $C_2$ are constituents of $N_1$, and the former is confronting the information campaign of $N_1$, while the latter is not. $C_2$ and $C_4$ denote constituents of $N_2$, and the former makes a decision confronting the information campaign of $N_2$, while the latter decides without it.

After evaluating treaties in terms of their beneﬁts, member states would start information campaigns, if the beneﬁts were greater than the total costs. When they expect the beneﬁt generated by a campaign to exceed the costs of running a campaign, say, $U(\text{Campaign}) > U(\text{No Campaign})$. This criterion of behaviour can be applied to both types of government, say, $N_1$ and $N_2$, even though the former may expect the ratification, while the latter may not. This is, however, not to say that $N_2$ would try to run campaigns against the treaty. With such governments, the constituents of individual member states would interact in the same set of information, thus implying that the constituents of one member state can make decisions before knowing those of the constituents of the other member states. This relationship is expressed by linking $C_1, C_2, C_3$ and $C_4$ with the broken line.

2.4 Defining characteristics of the EU’s foreign economic policy games

An understanding of the EU’s institutional and regulatory framework helps when identifying the nature of its foreign economic policy games, which vary according to the issue in hand. This is
because the institutional and regulatory framework of the EU, constrains the choice of Member States concerning new issue areas, development aid, trade and economic cooperation agreements and association agreements. As such, the basic impact of the EU institutions on foreign economic policy shapes Member States’ position to be located between two-level game (the international- and the national levels) and three-level game (the international-, the EU- and the national levels).

In particular, the insight into the contending principles within the EU policy-making procedures such as ‘direct effect’, ‘supremacy’, ‘doctrine of implied powers’ and ‘subsidiarity’ makes it possible to understand the regulatory framework that structures the actors’ choices. Such explorations result in the identification of the natures of diverse games and lead to the sorting of feasible explanatory variables and the appropriate level of analysis for rational thinking. The ‘doctrine of implied competence’, established by the ERTA case in 1970 (Case 22/70), contend that the external power of the Community is always co-extensive with its internal power. Thus, where Community institutions have the power to regulate a matter internally, they may also act externally. Furthermore, if the matter in question is the subject of formally established common rules, the Community’s power to act externally becomes exclusive: individual member states may no longer act independently. This doctrine indicates that Member States engage in a three-level game in the international negotiations, in which qualified majority voting is adopted as the rule of policy-making.

Meanwhile, subsidiarity is the principle that decisions should be taken at an appropriate level consistent with effective action. “In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by
the Member States and can, therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.\textsuperscript{10}

2.4.1 Inter-mestic policies: the Multilateral Agreement on Investment (MAI) (Two and Three level game)

In 1995 when OECD countries tried to conclude a binding multilateral agreement on Foreign Direct Investment (FDI), the European Commission was willing to interpret it as belonging to the scope of Common Commercial Policy (CCP). In this issue the scope of the Community's exclusive competence is legitimised, and the Member States' joint decision-making is not allowed. That is, the subsidiarity principle is not applicable to this issue area. Such an orientation, however, collided with a controversy in the formal decision-making procedures with the Council and the European Parliament (EP). Also when the MAI negotiation was in progress, the EP made recommendations to the European Commission the same as the case of general trade agreements. The EP asserted that international rules of investment are necessary for firms, whilst states, in particular developing countries, deserve a right to pursue independent economic policies. As mentioned in previous section concerning general trade agreements of the EU.

"Recognizes the need of companies which are active internationally for a harmonized regulatory framework for investment, and the right of each and every state, in particular if it is economically less developed, to pursue an independent economic policy, of which laws and other provisions governing foreign investment are an integral part...."\textsuperscript{11}
This knowledge is connected to the formal position of the EP emphasising that the issue of foreign investment rules should be based on the principle of subsidiarity.

"Considers that, given the internationalisation of markets, it is incumbent upon Member States to address the diminution of their powers in respect of investment and other related policy issues, and to ensure that any growth of Union competence in this area is matched by increased accountability to the democratic institutions of the Union, with full regard to the principle of subsidiarity"12

In the progress of such a debate, at that time, the European Court of Justice (ECJ) judged that this area is not subject to the scope of CCP (Opinions 1/94, 2/92) recognising that it would be more properly implemented at the national level of individual Member States. This judgement was against the opinion of the Commission, but in accordance with those of the most Member States. Consequently extra-EU investment has been governed by bilateral investment treaties (BITs).13

There is a convergence in the institutional interpretation of the EU that MAI is the one that 'doctrine of implied competence' is applied to, whilst it represents a hybrid characteristics of targeted cooperation (three-level game) and consultation on unilateral action (two-level game) (Young A., 2000, p. 107). In addition, the issue area of FDI in which 'institutional adaptation' has evolved through interpretations rather than the amendment of treaty is not regulated by any formal cooperation procedure.14 As such, the institutional framework of the EU as a structure in MAI game characterises 'soft institutions' with which individual Member States interact as actors (Young A., 2000).
Individual Member States in the MAI game had an option in deciding whether to participate in the targeted objectives of the Community. Such autonomy enabled Member States to choose to adopt a common position of the Community to blockade the application of liberalisation to the cultural industry such as film and broadcasting. By contrast it was also possible to choose an option to exercise only consultations with the EU institutions on the other issues including the national exception of Most Favoured Nation (MFN) treatment and national treatment principle.

Thus, it is possible to say that the MAI game meets a necessary condition for applying the principle of subsidiarity for the distinction between the Community competence and the Member States competence. As such, the MAI game is also subject to the classification as a hybrid game, in which concurrent competences between Community and individual member states are recognised.

2.4.2 Foreign economic policy and economic diplomacy

2.4.2.1 Development aid policy (Two and Three level game)

According to the general policy principles under the development cooperation the EU has actively involved itself in the promotion of third world and developing countries. The forms are general preferences, food aid, emergency aid, the support for non-governmental organisations (NGOs) in the third world, and additionally assistance of special relations through economy, trade, industry, technology and financial cooperation agreements. The objectives are “to foster the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them; to foster the smooth and gradual integration of
the developing countries into the world economy; to foster the campaign against poverty in the developing countries”.  

Practically, development cooperation arrangements under the Lomé Convention IV, cooperation programmes with third countries such as Technical Assistance to the Commonwealth of Independent States (TACIS), and Pologne, Hongrie, Assistance à la Réstructuration Économique (PHARE), Bosnia and Herzegovina Regulations, trade agreements with third countries, Generalized System of Preferences (GSP) operation of the EC, and humanitarian assistance policies can be referred. It is the Lomé Convention that is the most important and comprehensive, and that represents the development aid policy of the EU.

The development aid policy of the EU does not belong to the scope of Community exclusive competence. The two bases for this viewpoint are generally referred: first, a regulatory basis from Art. 130u of Title XVII clarifies it.

“Community policy in the sphere of development cooperation, which shall be complementary to the policies pursued by the Member States, …..”

As such, for some perspectives the EU plays a leading force, whilst for the others the supplementation to, and the coordination with, national development policies are its objectives.

Meanwhile, the second basis derives from the practical financial assistance. Development aid is financed by non-European Development Fund (non-EDF) aid that is funded by the EU budget and EDF aid that is funded by special distribution of the Member States. As such, financial aid for the development aid policy from the Community level is only 15% of total endeavour. It is possible, therefore, to say that in fact the Member States are dominant in terms
of financial aid, whilst the Community is in charge of the perspective of trade in development aid policy.

Here the confirmation of policy consistency and convergence between the EU and the Member States is in question. That is why the Council issued a series of guidelines for a solution in 1992 and 1993. These guidelines aimed to promote the optimal coordination in terms of policy content, policy operation, and policy position in international fora. According to them, the most important actors in development aid policy of the EU are the Council, the Commission commissioners in charge of cooperation and development, Directorate General (DG) VIII (Development), the EP Committee on Development and Cooperation, and a number of diplomatic missions of third world in Brussels who are accredited to the EU.

On the other hand, procedures vary depending on a series of envisaged decisions. Above all, if the Council intends to issue simply a declaration or a resolution on the issues, then it does not have an obligation to consult with the EP. Rather, in this case the Council has only to do proceed cautiously only after receiving a proposal from the Commission and ad hoc working party of the Council. By contrast, if a trade agreement is envisaged, the Commission and the Council play key roles based on the Art. 133 and Qualified Majority Voting (QMV). In this case, the European Parliament (EP) does not have any formal role. Unlike these cases, if a cooperation agreement or an association agreement is suggested, the assent procedure of the EP, set out in Art. 228, would be used followed by the application of QMV (for the cooperation agreements) or unanimity voting (for the association agreements) and the veto of the EP (Nugent, 1994, pp. 407-408).

Finally, development aid policy of the EU characterises another hybrid game. Underlying principles of this policy representing universality, indivisibility and interdependence include: the
reliance upon the international standard; the recognition of the need to work through multilateral organisations; the insistence upon the centrality of human rights in international relations; dialogues with partners, and; the preparedness to balance the reactive policies, designed to respond to human rights violation, and the pro-active policies, designed for the respect of human rights (including the sanctions as the last resort). Among them, today the tense concern on human rights, i.e. democratisation, the control of law, and good governance, has become significant. This account operates as an important criterion in characterising a game together with the 'political conditions', concerning human rights and democracy, in trade and association agreements with non-EU countries.

2.4.2.2 Trade and economic cooperation agreements and association agreements: 'political conditions' (Two and Three level game)

Trade agreements, one of several forms of the EU agreements with third parties, are operated by the Community exclusive competence in the context of common commercial policy (CCP), based on Art. 133 (ex. Art. 113). By contrast, trade and economic cooperation or association agreements are negotiated based on Art. 228 of the EC Treaty, and they aim at the establishment of preferential or special relations. Meanwhile, Art. 238 of the EC Treaty provides a legal basis for the association agreements that include the prospects of preferential access to the EC market, free trade area, economic and technical cooperation, financial assistance, political dialogues, and the associated countries to be members of the EU.

Among them, cooperation procedures such as trade and economic cooperation agreements and association agreements share a similarity to trade agreements in the context of CCP, but make a difference in the sense that Council decisions in the former require unanimity voting...
rather than QMV. As such, it is accompanied by the increase in the possibility of positively reflecting preferences of the Member States, and the reduction of the dominant position of the Commission. In addition, the EP exercises more power caused by formally requiring the assent procedure\textsuperscript{19} of the EP.

Since the late of 1980s 'political conditions' started to be attached to those agreements - mainly concerning human rights and democracy, and the EU has recognised these agreements as means of promoting 'political liberalisation'. The debates on 'political conditions' have been continued since Lomé Convention II in 1979, and it was Lomé Convention IV that contained them for the first time in practice. Lomé Convention IV is a comprehensive trade-and-aid agreement between the member states of the EU and 71 developing countries in Africa, the Caribbean and the Pacific (the ACP states), and covers the period of 1990-2000. Its Preamble affirms the perspective of human rights, and contains the preference of special tools such as Universal Declaration of Human Rights and European Convention. Article 5 and 366a of the revised Lomé Convention refer that human rights, democratic principles and the rule of law are now an essential element of EU-ACP relations. Besides these elements become a regular feature of trade agreements and association agreements, too (Cremona, 1996). The direct driving force for a generalisation of human rights provision to be contained in the Community agreements was the European Council Resolution of 28 November 1991 concerning human rights, democracy and development.

As for the competence of human rights policy, although judicial protection of human rights is rooted in the legal order of the Community, in terms of its implementation there is a gap. Despite the need for a comprehensive human rights policy, the EU reveals inappropriate institutional arrangements for the implementation of human rights policy in both internal and
external relations. Above all, in terms of internal policy, tasks concerning human rights are located in entities reinforced by ambiguous mandate, little expertise and less interest.

On the other hand, in terms of external policy, the Commission encompasses the established Units with particular mandate such as Unit 2 of Directorate A of DG IA (Human Rights and Democratisation) and Unit 4 of DG VIII (the control of law, fundamental freedom, democratisation, the coordination on issues concerning institutional supports). As such, 5 different Commission commissioners and their staffs play key roles generating complexity, fragmentation and the lack of cohesion and institutional leadership (Alston and Weiler, 1999, pp. 11-12). In addition, in the perspective of constitutional competence, the Community characterises the lack of constitutional competence caused by not listing human rights in the set of objectives even since the Amsterdam Treaty.

In accordance with such an institutional perspective, the debate on negative and positive integration of human rights policy has been in progress. The former requires an affirmative step to expedite the achievement of a special objective, whilst the latter is limited to the ban of violation of principles. Yet, today it starts to be recognised that negative integration is not enough to reach agreed objectives, and consequently the logical conclusion of the debate is positive integration. In this process, the ECJ plays a key role through its interpretation of the interdiction that regards the starting point of human rights in the same light as the principle of four free movements for the creation of a single market (Alston and Weiler, 1999, p. 10). In addition, the ECJ can undercut the legal basis for the financial assistance to the human rights agencies today. However, the ECJ cannot confirm these four free movements and the convergence of human rights policy alone, and it requires the positive will of the other EU institutions, in the sense that it is not an executive organ.
From the viewpoint of the Commission it is necessary to confer plenary jurisdiction to the Community to confirm the respect of human rights. Such a thought is supported by non-governmental organisations (NGOs) that evaluate the value of national sovereignty anachronistic. Meanwhile, the Council suggests that the common human rights policy of the Community impinges upon domestic activities of the Member States, and the issue of human rights is outside the legislative jurisdiction of the Community. In such a series of development process, as unlike the trade agreements in the context of CCP, sometimes the EP withheld its assent through the assent procedure because of the abuse of human rights and the lack of democracy in the signatory parties.

Contrasted to contending viewpoints between these two institutions, it is self-evident that in the issue areas of exclusive competence such as the CCP, the Common Agricultural Policy (CAP) and the Single Market only the Community can be regarded as a custodian of human rights. By contrast, in the areas of national jurisdiction including criminal law, individual Member States are custodians of human rights (Alston and Weiler, 1999, p. 23). According to this interpretation, the EU has kept an intention to evolve subsidiarity as the EU has involved the national constitutional order of the Member States and European Convention system.

However, the guideline in the protocol on subsidiarity that is attached to the Amsterdam Treaty emphasises that Community action is necessitated by diverse elements including the transnational domain of the issue and the existence of treaty obligations. As such, the human rights policy of the Community is not in accordance with the principle of subsidiarity. Nevertheless, in some measures it can be a necessity being characterised by a hybrid game.
References

1 In the same context, the logic of two-level game is modified into a three-level game consisting of international organisations (GATT or WTO), the EU's institutions and the Member States' governments (Patterson, 1997, Moyer, 1993), or 'nested games' (Tsebelis, 1990) in which two alliances play a competitive game to determine total payoffs, while the individual players within each alliance contend over their shares.

2 In fact, Putnam's two-level game analysis indirectly addresses the issue of uncertainty in a negotiator's strategies.

3 Such a study refers to society-centric approach, which is one of three main general approaches to FEP analysis.

4 Note that the 'period' has two stages, corresponding to one player's offer and the other player's acceptance or refusal.

5 Incomplete information should not be confused with imperfect information. Imperfect information is where at least one player does not know all the moves other players have made in either past or current periods (Romp, 1997, p. 43).

6 The transformation is done by assuming that Nature determines each player's type, and hence pay-off function according to a probability distribution. This probability distribution is assumed to be common knowledge. Each player is assumed to know his or her own type but not always the type of other players in the game. This is now a game of complete but imperfect information as not all players observe Nature's initial move (Romp, 1997, p. 44).

7 Besides, a game is dynamic if a one-off game is repeated a number of times, and players observe the outcome of previous games before playing later games.

8 Service, intellectual property rights, and foreign direct investment.

9 On 20 March 1970 the Council of Ministers discussed the position to be taken by the member states of the European Community in relation to the European Road Traffic Agreement, then being negotiated under the auspices of the UN Economic Commission for Europe. The European Commission challenged the Council's conclusions in the ECJ (Case 22/70) on the grounds that since this was a Community matter the Treaty of Rome (Article 228 EEC) gave the Commission an implied competence in the negotiating procedure that the Council had ignored. The ECJ
decided in the Commission’s favour, and this case was of great importance in that it served to establish the role of the Commission in external relations.


11 OJ C 17/176, (COM (95) 0042-C4-0118/95) 1996

12 OJ C 17/176, (COM (95) 0042-C4-0118/95) 1996

13 153 bilateral investment treaties were concluded by 15 Member States and 65 third countries between January 1994 and July 1996 (UNCTAD, 1998).

14 This judgement is also the case of the principle of subsidiarity.

15 (Art. 130u of Title XVII)

16 This programme dates from a December 1990 decision by the European Council meeting in Rome. Its main objective is to help the so-called Newly Independent States make the transition to a market economy and a democratic society.

17 This was set up by a decision of the Group of Seven in July 1989 as the means whereby aid of all kinds from the industrialized world would be channelled to Poland and Hungary.

18 Besides the other types of agreements, the cooperation procedure, set out in Art. 189c, is adopted, and thus QMV and two readings between the Council and the EP are accompanied by this. However, in the second reading the EP can amend or reject the proposal by overturning with an overall majority (Nugent, 1994, p. 408).

19 The assent procedure was a mechanism introduced by the Single European Act (SEA) to give the EP the right of veto over certain important decisions, of a non-routine legislative character, taken by the Council of Ministers. The procedure is applied to two areas: the conclusion of Association Agreements with third states (Article 238 of the Treaty of Rome) and the accession of new member states to the Community (Article 237 EEC). Only in a single reading and when the approval of the EP is given without amendment, the agreements are authorised and finally signed.
Part II. Methodological Review

Chapter 3:

A methodological arbitration between comparative politics and international relations

3.1 Introduction

The guiding question of this chapter concerns the possibility of mediating between International relations (IR) and Comparative Politics (CP) approaches to the EU as well as between inter-paradigm debates within IR (Hix, 1994, 1996, Risse-Kappen, 1996, Jacobsen, 1996). The shortcut answer is a set of ontological, epistemological, and methodological discussions provide analysers of the EU with a possibility for such arbitration: the nature of the EU; investigation of the state as a main actor; level of analysis; and agent-structure relationships.

From the perspective of agent, the exploration of the nature of the EU is directly connected to the main issue of statehood in the study of foreign economic policy. The key question here is whether or not the EU has the capacity to form and implement a common foreign economic policy. Such an investigation of the nature of the EU as an actor may be very important in a sense that it is the only empirical study associated with broader conceptualisation of the nature of the EU that can obtain a complete significance (Caporaso, 1996).

On the other hand, the investigation of the nature of the EU engages in insights into the
issue of the state as an actor. Such a continuum derives from the changes in the nature and
capacity of the state, which correspond to changes in the contemporary global political economy.
There is, therefore, a call for a new recognition of the state as a traditional major actor. Such a
recognition is based on the challenge to the state as a rational, unitary and sole actor in
international relations. This call may touch the issue of level of analysis associated with the level
of activities of newly defined actors in the realm of foreign economic policy.

In the issue of level of analysis new epistemological challenges exist, also, in terms of the
linkage of domestic- and international politics and state-society (-system) relationships. These
challenges result in an ontological, epistemological, and methodological arbitration of sub-fields
of political science. This arbitration can mediate the debate between sub-fields and even between
individual paradigms, which approach the EU’s foreign economic policy with different
perceptions of the relationship between these concepts.

3.2 The nature and actoriness of the EU

There is no fundamental consensus between CP and IR on the nature of the EU system derived
from differences in the point of view and emphasis (Jordan, 1997). The issue of the nature of the
EU provides a starting point for the constructing of a basic methodological cognitive framework
for the study of the EU as well as the question of statehood, which is one of the main issues in
the study of the EU’s foreign economic policy.¹ Does the EU have enough statehood to exercise
the right to form and implement foreign economic policy? As for this question, this study argues
that the debate on statehood of the EU is useless and even results in methodological inefficiency,
which puts barriers to more fruitful analytical outcomes.
3.2.1 Moving down the ladder of abstraction

Putting the EU on Sartori's 'ladder of abstraction' helps us to build a concept, i.e. unit of analysis, at an appropriate level, which leads to research orientation for more theoretically reasonable comparison. It also provides components of contemporary global political economy with an acceptable abstraction of the nature of the EU.

Terminology may be used abstractly or concretely depending on an individual researcher's place on 'the ladder of abstraction' (Sartori, 1970), stopping the ascent or descent at the rung where one is satisfied that the kind of understanding one seeks has been achieved (Rosenau and Durfee, 1995, p. 3). Here, abstraction of a concept is represented by intension (or connotation) and extension (or denotation). The latter implies the number of cases to which the concept is applied while the former indicates a series of attributes by which cases are defined.

There are two directions on the ladder of abstraction: one is to move up, accompanied by decrease of intension (reducing attributes), and in turn the increase of extension (expanding the number of cases). This results in the avoidance of conceptual stretching; concepts with fewer defining attributes commonly apply to more cases and are therefore higher on the ladder of generality. The other option is to move down, leading to expanded intension and reduced extension, which means that concepts with more defining attributes apply to fewer cases and hence are lower on the ladder of abstraction. With such a scope Figure 3.1 explores abstraction of the nature of the EU. Moving down the ladder of generality is often accomplished by differentiating the classical subtypes of things which we are trying to define. These subtypes are full instances of the root definition, and generate great particularity.
Figure 3.1 The conceptualisation of the EU on The ladder of Abstraction

- raising the standard
- does not avoid stretching
- increasing differentiation

State
  - sovereignty
  - territory
  - citizenship
  - recognition
  - control
  - unitary actor
  - monopoly of legitimate violence

Actor
  - external presence
  - unbalance between economic weight and political capacity
  - not a unitary actor
  - exclusive independence
  - complexity of dimensions of effect

- lowering the standard
- avoiding stretching
- increasing differentiation

Entity
  - presence

Note: This schematic is modelled on the discussion of different versions of democracy in Collier and Levitsky (1997, p. 449).
‘Actor’ is divided into two categories such as individual and societal (organisational) actors. The former indicates each individual, while the latter refers to the committee (cabinet or local associations), organisations (central government, representative agency, voluntary authorities, private business, local governmental posts, expert associations, trade unions, and organised press groups), household, and other micro groups (Harre, 1981, pp. 144, 150-52). They operate in the realms of domestic and international politics and encompass a different grouping in the same way as state actors are opposed to non-state actors. Each shares a common capacity and means to form and implement actions or decisions for the reproduction or change of a certain social condition, and is an entity with causal accountability for the outcomes (Sibeon, 1999, Hindess, 1988, p. 105). When moving down the ladder, the EU can be seen as an international organisation or an international regime from the viewpoint of an international actor. In terms of the former, the EU is a material entity with material location (Brussels, Strasbourg and Luxembourg), offices, personnel, facilities and budget. Furthermore legal personality is given to the EU by the international community.

Meanwhile, from the viewpoint of the latter the EU makes differences to international organisations in a sense that as far as member states are concerned it exercises the same action as a state making a binding law. Usually international organisations have been created by inter-state treaties and power to make a binding law would not be given to them. In addition, the EU has the character of an international regime in a sense that it is a specific structure, governing the geographical realms of some actors, well-defined activities, and resources (Breckingridge, 1997). Thus, to sum up, the EU can be recognised as an ‘international regime with organisation’ in which diverse norms, principles, rules and decision procedures operate.

Here the differentiation would increase in the sense that many kinds of actors, who are
recognised as sharing the home area in a Root Concept, are limited to more specific areas. Such a downward movement, however, may increase the actorness by defining more specifically an actor's attributes, so that it may lead the researcher to conceptual stretching. Consequently, it may interfere with the establishment of an appropriate analytical tool (Collier and Levitsky, 1997, pp. 434-37).  

Sartori's strategy is to climb the ladder to avoid conceptual stretching, which implies moving up to concepts with fewer defining attributes and a correspondingly broader range of cases. Such an ascent, however, generates a drawback in the sense that it may in addressing more general things, cause a loss of conceptual differentiation.

3.2.2 Moving up to the root concept: four elements of actorness

As the concept of an actor in traditional international relations indicates the state, so the properties of an actor are the same as a state's. However, as the rapidly changing contemporary global political economy challenges the nature of state and its functions in international relations, there is a call for the reconsideration of the attributes of an actor. Linked to this call, this study accepts Jupille and Caporaso's suggestion for four attributes of an actor that suits the contemporary global political economy, and will explore the actorness of the EU: recognition, authority, autonomy and cohesion.

Recognition is understood as acceptance by and interactions with other entities (Jupille and Caporaso, 1998), and as a political matter that enables supporting or weakening of a targeted government (Krasner, 1999, p. 15). Recognition also has the character of a political condition that might result in a legal consequences (Evans and Newnham, 1998, p. 468). Recognition of
state or government is generally based on two doctrines: declaratory theory and constitutive theory. The former is when the UK recognised the People’s Republic of China in terms of ‘effective control on territory’ (the so-called Lauterpacht Doctrine). In this case, a factual requirement is emphasised. The latter is when the international community endows legal personality to a state. Such recognition by others allows for a presence in global politics, and this presence is a *sine qua non* for global actorness (Jupille and Caporaso, 1998).

Since the Westphalia Treaty in 1648 it has been conceived that the concept of sovereign territorial state implies that only states can make treaties, participate in international organisations and hold responsibilities and obligations to the other states. Then, as the International Court of Justice (ICJ) approved the legal status of the United Nations (UN) in 1948, the EU also obtained this legal personality. This represents the recognition of the EU by the international community in terms of constitutive theory.

Recognition of the EU by third parties is not given by a simple production of external effects such as trade creation and diversion that is accompanied by the completion of single market. According to declaratory theory, the criterion of recognition would fill out whenever third parties would interact with the EU rather than approach individual member states (Jupille and Caporaso, 1998, p. 216, Evans and Newnham, 1998, p. 468). At this point of time, it is necessary to have a closer look at the institutional structure of the EU in which the actorness of the EU is embedded and reflected.

If one wanted to mention a representative institutional attribute that structures the actors’ relationships within the EU, then it must be *acquis* without saying anything further. *Acquis* denotes “the whole range of principles, policies, laws, practices, obligations and objectives that have been agreed or that have developed within the European Union”, including “most notably
the Treaties in their entirety, all legislation enacted to date, and the judgments of the Court of Justice” (Bainbridge and Teasdale, 1996, p. 4). Acquis structures these interactions within a multi-linked game, deciding whether the competence for a specific issue of the EU’s foreign economic policy lies with the EU or with the member states. The General Agreement on Trade in Service (GATS) international agreement constitutes a successful three-level game according to the narrow opinion of the exclusive competence area of the EU in respect to the interpretation of its authority. In this case, recognition of the EU by third parties is produced. By contrast, the Air Services international agreement represents a competitive two-level game in the sense that member states conclude bilateral agreements with third countries, such that the EU as an international actor is not recognised by third parties.

Authority is used for actions or commands in terms of legal and institutional perspectives, and distinguished from power, which indicates capacity more than right (Kassim and Menon, 1996, p. 3). The logic of international politics, for example, lacks a concept of authority, but is power-operated, indicating that this concept of authority is mostly national or domestic (Evans and Newnham, 1998, p. 39). The absence of international authority therefore leads us to the concept of international anarchy. Such authority limits agents' actions or constrains the scope of their competence to the range that is acceptable for principles. The account of structural (institutional) aspects, therefore, is nested in the investigation of authority.

The matter of legal authority is connected to that of legal personality. The Treaty of European Union (TEU) came into effect in November 1993, but is not an internationally comprehensive agreement. The reason why is the incomplete formation of co-operation in politically sensitive areas such as foreign policy, security policy, immigration policy, and internal national security. As a result, it is impossible to expect the activities of the EU in these
areas, and this limitation of the EU is not consistent with its legal personality in terms of international law. The Treaty of Amsterdam, therefore, tried to modify those kinds of anomaly.

It is 'direct effect', 'supremacy', 'pre-emption' and 'subsidiarity' that represent the fundamental principles of competence location within the EU. A set of these principles judge the appropriateness of competence location between member states and the EU level by sometimes locating exclusive competence to the EU level in some arenas, as opposed to concurrent cases in which the EU and member states act together.

However, such an account of legal authority is necessary but sufficient for understanding the actorness. A weak state, for example, with incomplete legal authority would lack actorness in global political economy, while even before 1948 the EU had important functions even if it lacked legal personality as a significant actor in global political economy. Legal authority, however, would keep encompassing significance as long as it continued to form the expectations of the other actors, and to define the limitation of accepted actions (Bretherton and Vogler, 1999, p. 18).

The literal meaning of autonomy is a self-government associated with ideas of sovereignty and independence (Evans and Newnham, 1998). Autonomy is recognised in two ways: institutional distinctiveness (whether having distinct institutional apparatus or not, i.e. whether these institutions are making a difference or not) and the independence of the other actors, especially state actors (discretionary goal formation, decision-making and implementation) (Jupille and Caporaso, 1998). Such a concept of autonomy is more flexible than that of sovereignty as the former focuses on the freedom of the EU in the relationships to societal forces within Europe and to external sources, while the latter is concerned with formal authorities and their transfer (Kassim and Menon, 1996, p. 3).
When the account of the EU is taken in terms of autonomy, there are two main points to be found. One is that autonomy is more of the matter of the relative than the absolute. This kind of account is mainly given by pluralists, but is supported by most scholars of today (Evans and Newnham, 1998, p. 40). As for the EU, the concept of relative and absolute autonomy depends on the issue area. The miniature state-like structure located in Brussels does not exercise a significant role in the areas of foreign and security policy, welfare policy, social policy, citizenship, police and governing international security. Thus, it relatively has thin and limited autonomy compared to domestic institutions.

By contrast, in some areas, including competition policy, the EU enjoys reasonable autonomy from national political institutions, i.e. nation-states, through its competence to make decisions and recognise authorities. In these areas the EU seeks to abandon or reduce supports for national champions at individual member state level, and makes it difficult to pursue policies of industrial patriotism by establishing and applying the Community rules (Thatcher, 1997). On this point, the EU that enjoys relative autonomy depending on issue areas could be seen as a post-modern state whose properties contradict the Westphalian state (Caporaso, 1996, p. 45).

The other main point is that it is necessary to consider two sides of autonomy. Defining autonomy as a state’s capacity to transform national policy preferences to authority actions cannot comprehend the challenges from external sources as it does the challenges from societal forces. Moravcsik (1991, 1993a, 1993b, 1994) says that member states would not lose their autonomy as a result of the activities of the EU. Despite this argument it is clear that the EU institutions actually constrain national autonomy by pursuing supranationalism. The Commission and the European Court of Justice (ECJ) define a set of possible policy options by quasi-judicial function and by jurisprudence, respectively, in some areas such as competition policy.
Meanwhile, in the coalition with the EU institutions (usually the Commission and the European Parliament) the EU can constrain national autonomy by mobilising constituents who favour transnational interests.

On the one hand, to the extent that interest groups re-orientate their endeavour towards Brussels, and to the extent that governments forfeited their roles as gatekeepers of domestic interests and the EU the extent that the locus of state power is transferred to supranational level is also indicated. At the same time, all of those are explanatory indicators for how autonomous the EU is to national government and societal forces (Kassim and Menon, 1996, p. 8). On the other hand, autonomy of the EU from external sources confronts the challenges from potential alternatives such as human rights, minority authority, financial accountability and maintenance of international stability, which are competing at the EU level with norms such as soft law, negotiated enforcement, waiting for a policy window, punctuated equilibriums, package dealing, subsidiarity, informal decision-making and consensus at (almost) any cost.

In fact, in the interdependent world of today, final authority for the decision-making of national governments cannot be free from the challenges of external sources. Thus, simultaneous account of those two sides is necessary. Furthermore, the conceptualisation of autonomy in terms of two perspectives, i.e. from internal and external sources, would fill the gap between these two areas that still remains despite the blurring of boundaries between international relations and the other sub-fields of political science (Kassim and Menon, 1996, p. 3).

The minimal level of cohesion is another property of actorness. Cohesion is not a simple aggregation of internal preference or external presence, but the capacity of an entity to form and arbitrate policy preferences (Jupille and Caporaso, 1998). Moravcsik (1993b, 1995) argues that the policy outcomes of the EU are produced by an inter-state liberal process of preference-
convergence. Policy preferences of individual member states, however, are easily and already constrained by membership of the EU. Furthermore, the EU does not characterise a formal or nominal multilateralism by putting weight simply on the number of members. By contrast, the EU is a substantive and qualitative multilateral regime, with common principles such as indivisibility of collectivity, non-discrimination and diffused reciprocity, and emphasis on the relationships between members (Ruggie, 1992). In such a multilateral regime the principles of ‘generalised’ actions (Ruggie, 1992), norms and rules operate. All of those components generate capacity (control) of the EU to form and arbitrate consistently policy preferences.

Even though the establishment of a security community is left as a final target, cohesion of the EU would have significance to Waltz’s international structure at least in two senses: member states are pooling their ‘interdependence sovereignty’, i.e. ‘control and not authority…capacity of a state to regulate movements across its borders’ (Krasner, 1999, p. 4) to the supranational EU institutions, and the former Eastern Europe countries are willing to connect their economic fates to the EU, i.e. the feature of economic community. The EU, however, even makes a distinction between the other forms of entities in global politics only with standard of external consequences, despite the absence of minimal level of cohesion (Jupille and Caporaso, 1998).

In particular, taxonomic collectivity does not correspond to the attributes of actorhood. Entities such as social movement, social class, men, the black, the white, and women have neither an identified means for taking decisions, nor a causal accountability for the outcomes. It is, therefore, impossible to say that they are actors (Hindess, 1988, p. 105).
3.2.3 Lowering standards: conceptual expansion of statehood

The exploration of the nature of the EU on the top rung of the ladder of abstraction confronts the dominance of state. In international relations tradition, the nation-state has been recognised as the main actor, which produces foreign policy. However, unlike the area of the EEC, i.e. the first pillar of the EU, the EU does not feature a unitary actor in the area of foreign policy. In addition to this, the statehood of the EU in forming and implementing foreign economic policy has been questioned, largely because of the imbalance between its economic weight and its capacity to exercise power through purposeful and state-like policies (Smith M., 1994b). The basis for such a scepticism lies in the adherence to the traditional meaning of statehood, consisting of sovereignty, recognition by other states, citizenship, control of territory and transactions, and monopoly of legitimate violence.

It has mainly been sovereignty that represents properties of state as a major actor in international relations (Howe, 1990, Beetham and Lord, 1998). Sovereignty consists of internal and external sovereignty: the former is defined as 'a supreme decision-making and enforcement authority with regard to a particular territory and population' (Evans and Newnham, 1998, p. 504), while the latter means 'the absence of a supreme international authority and hence the independence of sovereign states' (Evans and Newnham, 1998, p. 504). These two accounts of sovereignty involve the concept of final and absolute authority as a specific form of political and legal authority (Hinsley, 1986, Held, 1989), and concern its transfer.

What matters is that the concept of state attached to the property of sovereignty is not appropriate for explaining international relations of today. The basis of this idea lies in the fact that political and legal authority that the concept of sovereignty are mainly concerned with
national and domestic consensus, and this consequently means the absence of international authority. Generally this idea is referred to as the concept of an anarchical system which is guided and operated by not authority but power, meaning capacity. Furthermore, in the interdependent world of today in which a certain country's domestic policy cannot be independent of the other states' political and economic development, *de jure* authority and *de facto* power do not coincide any more (Keohane and Nye, 1974, Hanrieder, 1978, Hoffmann, 1987).

Thus, a concept of sovereignty which is mainly concerned with *de jure* authority does not suit the properties of the state in the contemporary global political economy. In the same context, the concept of sovereignty is too narrow to capture the extent to which the EU member states condition their own *de facto* powers (Kassim and Menon, 1996, p. 3). In this situation, if someone asked whether or not the EU has a capacity to form and implement foreign economic policy, as according to the traditional concept of state, then he or she would try to put new wine into an old bag.

By contrast, by adopting a contrasting stance that expands statehood by emphasising autonomy, representation, and the quality of influence (i.e., lowering the standard), the EU can be regarded as an entity with a capacity to establish and enforce foreign economic policy equivalent to that of the state, showing its 'external presence' in terms of trade policy, development co-operation, foreign policy, and interregional dialogue. Furthermore, the EU generates matters of interest arbitration, representativeness, and mediation, as well as qualities associated with national political systems such as alternative lines concerning the question of distribution (who-gets-what, when, and how) (Rosamond, 2000).

Meanwhile, from the perspective of the state as a political structure, implying a
reproductive set of process or patterns across different agents, the concept of state comprehends not only formal rules that guide inter-state interactions, but also norms, understandings, and process of standard operation (Caporaso, 1996, p. 32). In the same context, soft law (Wellens and Borchardt, 1989, Caporaso, 1996), approval of national methods that achieve Community goals, interest groups, policy professionals, national bureaucrats, and informal networks between the Commission professionals would support the concept of the EU as a political structure.

The system of the EU, however, has different characteristics from the existing political systems of states. Its political system does not contain a continuum from loose intergovernmentalism to a superstate (Marks, Scharpf et al., 1996, Marks, Hooghe and Blank, 1996, Richardson, 1996), and consequently its external outcomes are not generated through an integrated policy-making process. In terms of methodology, differences between the existing political systems of member states and those of the EU have been found. The traditional political systems of the state require a criterion for comparison derived from its exclusive independence in a comparative analysis, while assuming that its sub-units are under the same influence. By contrast, in the EU system, although it shows differences depending on the issue area, generally such exclusive independence is deprived of its meaning and the dimension of the same influence is shown to be more complex.

Thus, the EU is recognised as an actor-like entity (Allen and Smith, 1990, Hill, 1994, Sjostedt, 1997, Smith M., 1996, Whitman, 1997), confederation (Wallace W., 1983), sub-system of the international system (Hill, 1994) or an example of multi-level governance (Ebbinghaus, 1998, Caporaso, 1996) instead of a traditional state. Each of these types is an incomplete form of actor because they have less of its defining attributes. Thus, they would be higher on the ladder of generality, and would therefore provide less differentiation. The recognition of the EU as a
provisional actor, however, strengthens differentiation and makes it possible to avoid conceptual stretching by specifying the missing attributes and consequently creating new analytic categories. On the other hand, it may be less vulnerable to conceptual stretching in the sense that researchers would be more modest in arguing the perfection of the EU as an actor (Collier and Levitsky, 1997, pp. 438-41).

3.3 The unit of analysis: the state as a unitary actor and state-society relationships

3.3.1 Challenge to state as a unitary and rational actor

There is a conflict between IR and CP centring round the concept of state as an actor that is located in the top rung of the ladder of abstraction. In terms of the unit of analysis, IR (intergovernmentalism and neo-functionalism) is attached to the Weberian definition of the state as the hierarchical structure of authoritarian decision-making enjoying external and internal sovereignty (Risse-Kappen, 1996). According to this, the state is seen as a unitary actor representing sovereignty and territory or an interdependent and dependent sub-system. Such recognition does not provide us with the theory of the state (showing the formation and changes of the state, and its relationship with society and its autonomous role), although it is a state-centric approach. In addition to this, it overlooks differences in internal preferences and political institutions in a society. The problem is that these differences represent an important influence on international politics (Milner, 1998). Thus, many scholars in IR raise the issue of dismantling
the definition of the state by turning to political sociology (Krasner, 1983), historical sociology, the consideration of the change from medieval to modern and Durkheim's dynamic density (Ruggie, 1986), interdependence, institutionalism, globalisation, and multilateralism.

By contrast, CP understands the state in terms of a moral order, an ethnic-cultural unit, a monopolist of just forces in a society, a proxy or agent of the ruling class, a multilateral polity, a neo-multilateral or cosmopolitan polity, the ruling elite, and bureaucratic or administrative organisation. Increasingly Comparative Politics conceptualises the state as an interlocking institution in which the political and societal groups interact with subsets of national governments, and the political decisions are the result of complex negotiation processes (Héritier, 1996). Such conceptualisations make us recognise the political system of the state as a discrete entity away from the Weberian definition of the state. Furthermore, it contributes to a deeper understanding of the nature of the decision-making procedures in the EU, distinguishing between the internal structure of a society, i.e. the nature of political institutions, and the society-state relationship, that is the policy network in which the national government is only one actor (Risse-Kappen, 1996).

Basically, the mediation of the debate on foreign economic policy in the EU starts with the challenge to state-centric recognition. The fundamental dynamics of such a challenge derive from the cessation of the Cold War, the diffusion of democratisation (Milner, 1998, pp. 767-79) and the expansion of globalisation. The cessation of the Cold War agitated the stability of the state as the sole actor in the international system and raised the importance of other actors, including international institutions (Milner, 1998, pp. 767-79). In the Cold War era power relationships were clearly stable or fixed, making 'problem solving theory' of demonstrable theoretical usefulness. This theory regards dominant social power relationships and the
institutions in which such a relationship is organised as a given framework of action. Furthermore, it makes it easy to perform minute and accurate investigations by attaching variables to the issue areas, reducing the statement of specific questions to a limited number of variables. By contrast, in an era such as the post-Cold War World when the power relationship is unstable, the theoretical utility lies in critical theory's ability to capture the opportunities and risks of change (Cox, 1986). Critical theory projects socio-political complexity not as separated parts, but as a whole, i.e. it tries to understand the processes of changes involved by both the parts and the whole.

Meanwhile, the denial of unity in the state leads naturally to critiques of its rationality. The basis of the denial of rationality is derived from the diverse non-governmental actors seeking their own different interests from national interest, linking with national actors through conflicts of interests or the opportunities for negotiation and compromise. From the perspective of sub-systemic forces, the point that individual decision-makers may act irrationally based on their own erroneous cognition or beliefs which they acquire by their personal status or historical experiences, is also another major reason for such a denial. The challenge here is to capture when and how constraints and opportunities are conferred on individual member states and the actors of the EU’s representative institutions by domestic interest, i.e. non-governmental actors’ interests, and those in the EU and international level in the field of foreign economic policy of the EU.

### 3.3.2 Challenge to the state as a sole actor

Even though there are various actors in the study of foreign economic policy, the state or
government has been seen as the major actor and structure. Actors and structures other than the state and government have been regarded as prominent only to the extent of their impact on the areas of the states' concerns. Such a point of view has been adopted by statists whose observations mainly centre round trade and realists in IR. For them, the state alone has the properties of an appropriate unit of analysis: 'the highest level of generality subject to,' and 'the ability of this collectivity to act as a coherent unit' (Frey, 1985, p. 142).

Hix (1994) criticises IR approaches (the realist approaches such as intergovernmentalism, preference-convergence approach, and elite-bargaining theory), as to the extent that they see the state as a unitary actor with a single interest, they neglect the influence of non-governmental actors. In addition, he points out that there is much left to be desired in terms of the definition of national interest, which has neglected economic interest as opposed to attaching importance to the recognised interest of government. Many scholars in CP argue that IR exclusively focuses on inter-state interactions, or those among governmental elites.

Such criticisms of IR, however, may be applicable to limited paradigms. Other approaches in IR, such as liberalism and structuralism, pay attention to actors other than the state, departing from the Weberian idea of the reason of the state and the assumption of the state as a unitary and rational actor. For example, international professional organisations and their technocrats are assumed as major actors in functional integration theories, while neo-functional integration theories regard trade unions, political parties, trade associations and transnational bureaucratic societies as significant actors. Multinational corporations and transnational and transgovernmental associations are understood as major actors by interdependence theorists.

In addition, liberal paradigms in IR address the issues of how inter-state interactions and international norms transform the ways of defining national interest. Furthermore, they consider
how international factors interact with domestic factors to explain the changes in national interest. There is a need to point out the shortcomings of the rational choice approach in CP; it regards member states as unitary actors with hierarchical and single-peaked preferences, and it views political conflicts within the EU from a single dimension. As a result, they failed to incorporate effectively and formally internal competition among states and the institutional or ideological accounts into their model (Hix, 1994, p. 15).

The challenge to the singularity of the state as an actor also turns up in the reinforcement of transnational relations and the central role of institutions. Transnationalism emphasising international variables and challenging the role of the state relaxes the assumption that the state is the sole actor in international politics and focuses instead on the importance of transnational actors and the interaction amongst societies. Consequently, the actors other than the state such as nongovernmental organisations (NGOs), international non-governmental organisations (INGOs), multinational corporations (MNCs), foreign investors, the Vatican, revolutionary organisations, trade unions, and scientific organisations enter into the analysis of international politics (Keohane and Nye, 1972).

The challenge to the singularity of the state as an actor also turns up in the reinforcement of the central role of institutions. A few empirical studies based on the institutional approach to the study of foreign economic policy generate persuasive cases for the central prospects on the balance of power between the organisational structures, institutions and their constraining roles. Beyond Katzenstein’s emphasis on institutional constraints in his domestic structure approach, research of Goldstein (1989, 1993), Pastor (1980) and Destler (1980) on the USA’s foreign economic policy established the central role of the structure of domestic institutions in the formation of policy, especially those of commercial policy (Mercado, 1995, p. 116). Moravcsik
(1993a, 1995) also does not neglect the influence of institutional actors, although by contrast he rejects the research that focuses on institutions. As the external impact of the Cold War disappears and moves away from the maintenance of the order based on the existing balance of power, various institutions such as international organisations are beginning to play the role of a new mediator in the balance of power in a trade war, i.e. a new form of power game. Various agencies in such institutions impact on the international system through their strategic interactions while institutions form or reflect these agencies' interactions (Milner, 1998).

3.4 **The level of analysis**

3.4.1 **Linkage between domestic and international politics**

The term of international relations imposes complexity and variety on the object of research, which includes all manner of interactions amongst the members of an individual society (Holsti, 1995, p. 18). International relations theories makes not only interstate relations, but also other performers such as international groups, MNCs, and international terrorist groups its objects of research. In addition to this, domestic political factors in a state such as bureaucratic political associations, interest groups, the president, and leading political authorities are the focus of profound research (Viotti and Kauppi, 1993). Such concentrations on domestic political factors grant IR the possibility of connecting with other fields of political science (Milner, 1998). However, in terms of a tool that is employed in analysing the internal working of the state, it fails to draw upon the enormous resources of CP (the theory of comparative government) (Hurrell and
Menon, 1996). The existing research of domestic politics in IR either fails to closely examine strategic interactions internally or does not go beyond a simple assumption on a few methods of aggregating preferences through the national choice of policies. Consequently, it demonstrates a lack of intensive methods for predicting outcomes (Milner, 1998).

Conversely, pluralism in CP contributes to the analysis of political processes within the Community by concentrating on the nature of decision-making processes within the EU (Hix, 1994). However, the nature of the EU, consisting of diverse factors including intergovernmental and national factors, neutrality of member states shown in the policy-making processes, and the consistent importance of power to be considered, indicates that the CP approaches alone are not enough to interpret the politics of the EU. In addition to this, public policy approaches generally cannot be applied without reference to the international factors which condition and form policies (Hurrell and Menon, 1996). As such, there is a need to draw reciprocally upon the ideas of these two sub-fields of political science (Richardson, 1996, George, 1996, Young O., 1994, Bulmer, 1994).

Addressing the level of analysis question within IR theory, neo-realists and globalists emphasise the importance of the system as a level of analysis, although each has different images. By contrast, perspectives focusing on domestic and external factors are variously adopted by realists and liberalists in IR. Generally, realists emphasise the international system, and do not try to open 'Pandora’s box' (Hollis and Smith, 1990, p. 93) containing the internal characteristics of components (i.e. the individual state) of the international system, assuming instead that the state is a rational actor. In addition, realists are mainly interested in the status quo, i.e. the maintenance of the system, away from the structural changes of the system, regarding the international system as a constant.
Waltz’s neo-realism takes the position that individual differences between states and domestic politics can be overlooked by underestimating the influences of domestic politics on national policy-making. According to his cognition, national domestic factors are never important compared to the external imperatives of the international system, and thus despite internal differences all the states are understood as reacting in the same ways to external stimuli. The exclusive consideration of domestic factors in foreign economic policy-making is accompanied by the risk of isolating foreign economic policy from international relations. External environments contain the ‘how question’ (how foreign policies are decided and how possible choice is conditioned by the type of method chosen) by exercising reasonable influences on the contents of foreign policies and policy-making processes. Even external environments (the alliance structure of the world, the structure of power, control, dependence, and interdependence) constrain the national policy-makers’ actions without regard to decision-makers’ ideological orientation or personal ideas, let alone domestic public opinion or the economic and social demands which are components at an individual national level (the state and individual i.e. decision-maker) (Holsti, 1995, pp. 17-18). From the standpoint of such features, Hix (1996), who emphasises the relative propriety of CP approaches as a tool of analysis, also admits that the importance of international pressures including global economy and political interdependence are excluded both at a national and the EU level by CP approaches.

By contrast, such features of external environments make it possible to recognise the scope of changes in a political system as a dependent variable which change depending on system environments by the existing macro theories such as system theory or structural and functional theories (LaPalombara, 1970). This is a work excluding the meaning of politics in the research of political phenomenon (Sartori, 1970). Thus, many scholars including G. Almond, a
comparativist, place an emphasis on the interactive model of CP and IR, i.e. cross-disciplinary work. On the other hand Haggard and Simmons (1987) argue that structural theory such as the analysis of power is not enough to explain the dynamics of the international regimes, and that a theory that is able to link the processes of domestic politics into the international level is needed.

Out of such a series of phenomena and a necessity, as another necessary starting point for the analysis of foreign economic policy of the EU, the importance of a simultaneous inquiry into domestic politics, domestic EU politics and international politics incrementally comes to the front. The reasons are that it is unrealistic to expect an approach coming out of a sub-field to provide an appropriate explanation of policy outputs, and that it is not obvious what constitutes internal politics and the essence of international relations, as the era of globalisation arrives in which the linkage between domestic affairs and international affairs is increasing with the expansion of interdependence, power of the state, and the increase of inter-state institutions and their density (Hurrell and Menon, 1996). In such a context, the existing CP orientation towards domestic factors increasingly penetrates IR areas in terms of the focus of analysis (Jacobsen, 1996), and inversely in IR the introduction of the studies of domestic politics is actively processed.

3.4.2 Challenge to state-society relationships

The traditional IR paradigms such as realism and neo-realism recognise that the state, seen as a national-territorial totality, acts independently of the society as 'the range of institutions, individuals and practices lying beyond the direct control and financing of this central entity [the state]' (Halliday, 1994, p. 81), and represents values that are separated from those of the society.
In addition, the definition of state in international relations is repleted with legal and value assumptions as well as analytical convenience (Halliday, 1994).

By contrast, the other paradigms challenge the dominance of state in a sense that with the increase of interdependence and transnationalism, the global system and structure start dominating state and non-state actors (Halliday, 1994, pp. 74-93). Those paradigms try to simultaneously understand how the state locates itself in the area of domestic politics, the international system, the structure of class, and the international capitalist economy (Cox and Sjolander, 1994, Smith, Boath and Zalewski, 1996, Booth and Smith, 1995). In addition, they seek the origins of foreign policy in the societal and economic structure of state. Pluralists in IR have the tendency to place an emphasis on state-society or individuals (Viotti and Kauppi, 1993, p. 44). In such a framework, the time-honoured intellectual tradition of IR that sees foreign policy as a pure expression of national interests is challenged by the distinction of state and civil society.

Liberal theories such as intergovernmentalism, neo-functionalism and institutional approaches (functionalism and federalism) have the advantage of being able to open the national 'black box'. They are, however, lacking a consideration of societal actions by assuming that actors’ own interests are a dynamic of European integration, failing to distinguish the society-state relationships. On the other hand, the domestic structures of a society, i.e. the nature of political institutions, can not be described by them. Namely, they cannot answer the question of whether or not the actors’ interests relationships and preferences are formed by the institutions of the EU or its integration itself, deriving from their adherent recognition to the utility function defined in an economic aspect (Risse-Kappen, 1996).

In the comparative politics tradition, state-society relationships are addressed on the basis
of state-centric viewpoint. In CP, the state has been conceptualised as a 'black box' (Easton, 1965) into which inputs (influences, pressures and attitudes) flow and out of which authoritative decisions flow. Since the middle of the 1980s, however, this traditional viewpoint has confronted a challenge that concerns societal inputs to political decisions. Being consistent with this challenge, CP has paid greater attention to non-governmental institutions such as abnormal governmental organisations, political parties and interest groups, and attitudes and recognitions of elites and the public. Such a shift in viewpoint led newly to emphasise the role of the state in the state-society relationships as well as public policy-making (Verba, 1985). However, comparative politics approaches define the importance of institutions in terms of the strength and autonomy of state to society, which would lead us to the error of ignoring the perspective of state-society interactions. Even this kind of account would push society out of consideration (Remmer, 1997, p. 57).

In fact, in European Studies, nation-state-centric perspectives have prevailed apart from the perspective of global dynamics (Rosamond 1995), though Mitrany’s integration theory seeks a world polity. In the sense that the EU consists of nation-states, it is obvious that the nation-state is a major actor in European affairs. It is not possible, therefore, to exclude the nation-state when pursuing European Studies. That is, however, not to say that the nation-state is the optimal unit of analysis for European affairs. Rather, social forces and the development processes of different forms of the state and the fundamental procedures (interactions) that operate in the structure of world political economy should be included in the framework of European Studies. Only by this, the question of 'ceteris paribus' (formal with other conditions remaining the same) leading the assumption of the static situation of the whole could be resolved (Cox, 1986).

In particular, the area such as foreign economic policy that is linked directly to the interests
of civil society deserves to be addressed within the framework based on the linkage of state and society. As the case where U.S. Ethyl Corporation brought the Canadian government to court shows, 'a situation where, by virtue of the implementation of a law or regulation by a government, the assets of a private party lose value' (UN, 1998, p. 61), i.e. the rubric of 'regulatory taking', represents explicitly how foreign economic policy is connected with civil society.\textsuperscript{12}

For establishing a framework based on state-society linkage, first, it is necessary to secede from the definition of state as a national-territorial totality. Instead of such a definition, the notions of state as 'a set of administrative, policing and military organizations headed, and more or less well coordinated, by an executive authority (Skocpol, 1979, p. 29 cited in Halliday, 1994, p. 79) or a specific set of coercive and administrative institutions should be stressed. Such provocative notions are in theory autonomous, but make it possible to take institutions into account, which are influenced by the state and a match for the regulatory and reproductive functions of the state. In addition, it embraces state-society interactions as a necessary condition, including the perspective of the state as ultimately constrained by society, not as a mechanism to dominate, regulate, and reproduce society (Halliday, 1994, pp. 74-93).\textsuperscript{13}

Second, this account of state-society linkage confronts the question of how to examine state-civil society relationships centring round the pursuit of special interests or universal interests and the arbitration of them. Civil society is distinguished from such economic areas that pursue economic interests exclusively associated with specific members. Civil society plays a role to realise the common good that the community pursue, and thus is defined as diverse non-governmental organisations with development, disarmament, women's equality, democracy, environmental protection, and human rights as its objectives. Those objectives are reflected in a
state's foreign economic policy, and are not limited to the national level in terms of the realm of activities. Civil society exists everywhere in the world in diverse shapes and forms at different levels of organisations, capacity and strength. Meanwhile, civil society participates in the process of transnational structuralisation (Cerny, 1997) together with the other political, economic and societal actors through transnational linkage.

3.5 Strategic interactions in nested games: agent and structure

The issue of the level of analysis connects closely with that of agency-structure, which is a fundamental issue for political science and its efforts to conceptualise the relationship between state actors and the international system. Above all, if the structure of a system is defined exclusively in terms of a component unit, as is the assumption in realism and neo-realism, such a structure is not capable of generating actors or state actions (Wendt, 1987). In addition, an individual reductionism is also a biased viewpoint, in which the structure of the system is defined as a factor of a unit such as a distribution of capabilities.

The actors and the structure of a system, therefore, must be regarded as entities (substances) that are reciprocally constituted, i.e. reciprocate (exchange) reciprocal influences, apart from these two extreme epistemologies or ontologies. Such an intention, attaching simultaneous importance to unit and structure, appears analogous to neo-realism in terms of basic assumptions. Fundamentally, it demonstrates explicit differences, recognising the one's dominance between agency and structure as a unit of analysis. Realism in IR regards the system as a given and does not go beyond this unit of analysis. By contrast, neo-realism contends that
only by including consideration of structural influences to the analysis at a unit level is it possible to properly understand international politics. Such a position is sympathetic with world-system theory. These theories, however, are weaker at properly explaining the nature and dynamics of the major objects of analysis, and are often unable to interpret state action itself because either structure or agency is given a priori dominance over the other (Wendt, 1987).


Basing analysis on the logic of strategic interactions means the orientation of antireductionism in the confrontation of holism-reductionism centred round the level of analysis. In other words, unlike reductionism that regards attitudes of the whole as a simple sum of individual entities, it recognises the attitudes of the whole as including specific relations as well as the whole's inherent characteristics derived from its interactions with different environments. Thus, the whole of the EU's foreign economic policy-making is regarded as being beyond a simple aggregation of the domestic features of individual member states' foreign economic policies (levels II and III, domains of the EU and domestic politics, respectively, which are not exposed to level I, i.e. the domain of international relations). In other words, it is regarded as
possessing individual member states’ policy preferences, formed by interactions with world political economy environments or structures that control the range of individual states’ determinative capability on their actions (level I and its exposed level III) as well as opportunities and constraints on inherent attitudes of the Community’s policy-making (level I and its exposed level II).

This indicates the need to confer an equal ontological status to agency and structure, without attempting to reduce the structure of the international system to a unit of the state, i.e. states’ attitudes, or vice versa (individualism and holism), as well as separate agent and structure for analytical purposes (positivism and rationalism). In other words, an understanding of the dynamics of the international political system as an outcome of social interactions within a framework of the interactions between domestic, EU and international system levels is required, i.e. the changeability of variables. IPE theory based on a positivist understanding which prefers the distinction of agency and structure does not give us the tools needed to capture the complexity of the global economy (Higgott, 1993).

The EU is a polity beyond an international organisation, an interstate forum, an instance of emergent supranationalism, an interstate co-operative body (Hix, 1994, 1999), or a regime (Rosamond, 2000). Within the EU, member states are still dominant players, and dominant intergovernmentalism exists while the role of the key player in interactions with external forces is conferred to the representatives of the EU, not member states themselves. In addition to this, the processes of negotiation within the EU are actor-centric, and the actors are not personified states, but civil servants, the Commission officials, MEPs, national ministers, and Prime Ministers (Christiansen and Jørgensen, 1999). According to these natures, almost all EU policies characterised by direct interactions with the international system, intergovernmentalism among
member states, and multi-level features are formed by the processes of interactions between the
EU authorities and the international system.

In the framework of such multi-governance the position of the state is determined by the
actors' preferences on policies, and by the institutions for their power sharing on the continuum
between the domestic politics and the international system (Milner, 1998). This linkage between
domestic environments and the international system within the context of a multiple-layered
governance leads to the trend of focusing on IR influences in domestic interests and institutions,
and consequently to how IR relates to other fields of political science (Milner, 1998). Such an
emphasis on the context of interactions within strategic environments is shared by game theory.

Game theory, however, shows great differences between the strategic interactions approach
which rejects the idea of thinking of government (consisting of central decision-makers,
bureaucrats, and other domestic groups) as an agent and using a single utility function in
presenting all representatives in a society, in the sense that it assumes that the state is a unitary
actor (Milner, 1998). In addition, game theory cannot explore how societal interactions construct
actors who are recognised as a given, since it concentrates on what decisions a given actors
make, the so-called technical perspective (Wendt, 1987, pp. 368-369).

In a similar context to the linkage between domestic- and international politics, the EU's
FEP is subject to both processes of externalisation and internalisation (Smith M., 1994a, p. 464).
The process of externalisation occurs when the internal bargaining between member states and
within inter-EU institutions is projected onto an international context. By contrast, the process of
internalisation occurs when external developments and actors become part of the EU's
bargaining process, which might then be used by either member states or the EU's institutions in
the determination of EU policies. These two processes can be seen as an extension of the
understanding of the linkages between domestic politics and interstate diplomacy, which is referred to as a two-level game (Paarlberg, 1997, Schoppa, 1993, Putnam, 1988). It will be further modified into a three-level game (Patterson, 1997, Moyer, 1993) consisting of international organisations (GATT or WTO), the EU institutions and the member states' governments.

By contrast, from the perspective of actors, domestic actors who participate in a three-level game consisting of domestic politics, the EU and the international system would compete over individual interests, i.e. their own portions, together with national and the Community policy preferences or interests. This feature is a 'nested game' (Tsebelis, 1988, 1990) and may provide, in particular, the actor-centric process of negotiation within the EU, i.e. metaphor of two-level and three-level games, with an interesting and supplementary angle.

Figure 3.2 describes EU governance concerning the features of two-level and three-level games in policy-making. The distinction between levels I, II and III clarifies some of the dynamics and interrelationships, and thus attempts to explain exactly when and how the EU interacts within international economic diplomacy. Level I signifies the strategic interstate bargaining between negotiations (Milner, 1998) leading to a tentative agreement in the GATT or WTO game. Level II is the EU's policy-making process whereby the Level I agreement must be ratified. On the other hand, Level III is the national Level in which competing domestic socio-economic interests constitute the bargaining positions and power configuration at Level II (Putnam, 1988).
Figure 3.2 Multi-level game in the EU's foreign economic policy-making process

Source: This schematic is modelled on the basis of relevant EU documents by the author.
In these level-games, outsiders are not key players in the inter-EU FEP game, and the EU's member states do not play directly and bilaterally in the GATT or WTO game without going through the ratification games in the national and EU levels. Thus, each game is autonomous. Equilibrium in a game, however, creates the need to re-evaluate the payoff from the other game. At this point, each game is linked (Coleman and Tangermann, 1998). Such a linkage of games generates a double constraint. In the negotiations with non-EU countries there is a need to choose policy tools offering the possibility of achieving ratification in Levels II (EU politics) and III (domestic politics). By contrast, the EU needs to consider possible solution-sets of policy tools to be approved in international fora.¹⁴

In Level I, the perspective of international relations is emphasised more than that of foreign policy. When the EU is understood as a sub-system of the international system (Hill, 1990, 1993, 1996), the EU's external policy is not simply a European foreign policy; it generates multi-dimensional international relations, which interact on the three parallel sets of politics, military affairs, and economics. Via an empirical analysis of such interaction, the answer to the question of the role of the EU in the world political economy can be pursued at Level I. Thus the EU's role not only in multi-lateral trade agreements, but also in new bilateral agreements, inter-regional association, co-operation, and partnership agreements with third countries or emerging regional economic groups is worthy of notice (Collinson, 1999). In such a multi-level game, the general classification of foreign economic policy approaches such as system-centred, society-centred, and state-centred approaches (Ikenberry et al., 1988a) converges to a synthesis.

The analysis of foreign economic policy from the perspective of the strength and autonomy of the state against a society does not consider how competition among societal interest groups impacts upon the convergence of diverging preferences (Gourevitch, 1986, Milner, 1988, 1998,
Frieden, 1991, Rogowski, 1989). However, focusing on the groups of domestic actors who contain hegemonic power in producing the collective outcomes highlights the lack of consideration given to how to aggregate the other actors’ diverse preferences into the policies by making it pay attention only to these groups’ preferences. Finally, foreign economic policy of a polity is beyond a ‘function of domestic politics’ reflecting the preferences of the dominant group or class in society, or resulting from the struggle for influence that takes place among various interest groups or political parties (Ikenberry et al., 1988a).

As such, foreign economic policy is a collective systemic outcome produced as the result of implicit aggregation of diverse domestic preferences through state-society interactions within a political system. Simultaneously, it is a function of internationally obvious strategic interactions between state, society and system beyond the ‘function of attitude or capacities of the state’ involving other states (Milner, 1998). The function of such a strategic interaction is also operating in close state-society-system interactions concerning the formation and implementation of foreign economic policy of the EU in the processes of internalisation and externalisation. Within these processes, the EU institutions plays the role of a filter or mediator to form or reflect the interactions between the preferences of individual member states produced by the convergence of governmental and societal preferences, i.e. state-society interactions, and those of the international system, i.e. the structural power. Meanwhile, individual actors, i.e. decision-makers, operate as nested agents to pursue their own objectives within these processes.
3.6 Conclusion

In conclusion, the debates on approaches to the EU between IR and CP can be arbitrated through some meta-theoretical points as the following: first, in terms of a unit of analysis it is vital to define the nature of the EU on the middle-range of the ladder of abstraction. It has found out that the EU characterises recognition, authority, autonomy and cohesion that constitute the root concept of actorness. Meanwhile, there is another finding that the concept of state based on sovereignty as its main property does not suit to the conceptualisation of actors, including the EU, in contemporary interdependent global political economy. Such unsuitability derives from the sense that the concept of sovereignty highlights formal authorities and their transfer rather than control or capacity, which are more often and mainly addressed in international relations. There is a need, therefore, to limit standards of statehood to the qualities of a political system such as the arbitration of interests, representation, mediation and autonomy, i.e. the conceptual expansion. As such, it is more appropriate to recognise the EU as a state-like entity, i.e. an actor in the international system, which has the capacity to implement the common policies such as foreign economic policy.

Second, the denial of the unity and rationality of the state, as well as its soleness as an actor, is required as a starting point, and also as a basis to capture a proper understanding of the political economic dynamics that occur in EU's foreign economic policy-making. As such, not being dependent on a conception of states as unitary actors, IR can share conceptions or theories in CP, and provide strong and parsimonious tools to, and greater empirical accuracy for understanding strategic interaction within different institutional environments than the other approaches (Milner, 1998).
Third, as for level of analysis, there is a need to focus on state-society interactions that operate in the process of interlocking domestic politics, the EU politics and international politics. It is, therefore, necessary to open ‘Pandora’s box’ (Hollis and Smith, 1990, p. 93, Haggard, 1991, p. 408) that represents internal characteristics of individual components, and adopt the viewpoint of comprehending the basic interactions that operate in the process of the development of societal forces and national structure, and the structure of world political economy.

Finally, it is necessary to develop a framework based on agent-structure interactions. The issue of agent-structure covers not only IR but also political science, even social science, as relevant fields. An appropriate answer to this question can be found in the orientation towards to agent-structure duality meaning that agent is constrained by structure and on the other hand changes structural environment, away from the dichotomy of agent and structure based on the logic of parsimony of theory or structure-determinism. Actors in this account are not personalised state but political actors (officials, Commission officials, MEPs, national ministers, and Prime Ministers), economic actors (firms, IMF, IBRD, and foreign investors) and societal actors (non-governmental actors such as NGOs, international non-governmental organisations (INGOs), transnational non-governmental organisations (TNGOs), civil society and transnational actors).

What does matter here is how we construct a framework to address these perspectives. Under the necessity of such a method, what this body of academic work is trying to suggest as a new framework is the aggregation of diverse preferences via interactions among various agencies with different preferences, and those interactions within a structure (domestic, European and international) within a two or three (or even more) level-game. This work involves the inquiry into the content of policies as its output and policy-making processes as its process. Thus, it is
possible to acquire an understanding of a method to explain the policy results of such interactions or the development of hypotheses to examine how to relate the changes of preferences or institutions to those in the choice of policies (Milner, 1998).

References

1 In addition the issue of effectiveness couples with.
2 Cerny (1997) divides actors to three categories such as economic, political and societal actors.
3 Actor is locus of decision and action where the action is in some sense a consequence of the actor's decisions (Hindess, 1986, p. 115).
4 As such the EU obtains authority and recognition.
5 In the same context, Collier and Levitsky (1997) suggests to divide the concept of democracy to diminished subtypes such as parliamentary, presidential, two-party, and federal democracy by specifying missing attributes.
6 Even though institutions could be recognised by liberalists.
7 In international law focused on inter-state systems the formal concept of actoriness is developed by the perspective of legal personality (Bretherton and Vogler, 1999, p. 16). Legal personality imposes not only an authority to participate in international organisations but also a responsibility and obligations on an entity.
8 In the 1995, the USA concluded this agreement with Austria, Belgium, Denmark, Finland, Ireland, Luxemburg, Norway, Sweden and Switzerland, and then in 1996 Germany also joined.
9 On the other hand, pluralists would recognise of autonomy not as a substitute but as an alternative of sovereignty.
10 This expansion proceeds together with globalisation and transnationalisation of economic and social processes.

11 There are two more methods such as 'precising' and 'shifting the overarching concept', which are suggested by them.

12 Ethyl claimed that the decision by the Government of Canada to ban the import and transport of MMT – a petrol additive produced by Ethyl that is considered allegedly to have an adverse effect on the operation of vehicle pollution control components – was effectively 'expropriation' since it reduced the value of the company's assets.

13 Furthermore, it explains why the participation of state in international realms enables state to be strengthened and to act more independently of society.

14 This feature of a double constraint is also relevant to the case of Common Agricultural Policy (CAP) reform.
Chapter 4:

A Methodological Arbitration Between Foreign Policy Analysis And The International Political Economy Approach

4.1 Introduction

The guiding question of this chapter is whether the need for the cross-disciplinary research of foreign policy (FP) and FEP approaches is vital in order to capture the dynamics in the formulation and enforcement of the EU’s FEP? Corresponding to this question, on the one hand, this chapter explores methodological propositions in a middle-range arena based on a dialectic synthesis of major sub-fields of political science such as international politics (IP) and international political economy (IPE). On the other hand, in accordance with such an exploration of methodological propositions, this chapter finally suggests a more rigorous method, which allows the systemic and modest conceptualisation of FEP as a dependent variable.

Ultimately, this chapter aims to advocate the need for the expended conceptualising or re-theorising of foreign policy incorporating economics with politics by accepting the overlapping phenomena in the sub-fields of international relations study. The need for such an approach derives from several explanatory factors: the blurring of boundaries among academic fields caused by diverse structural changes in the contemporary global economic system; and, the collapse of boundaries that combines national economies into a global economy. Other important factors calling for this synthesis include the multiplicity of levels as well as the complexity of
structures, processes and organisations, which describe the EU’s empirical areas. Finally, such changes call for a reconsideration of theoretical questions of explanation, leading us to recast the components of FP and basic issues about the nature of IR and power (Tooze, 1990, 1994).

As for a concrete approach to the above-mentioned goals, this chapter examines the issue of 'what questions should be asked' as the first task to achieve a dialectic synthesis of sub-fields. This part concerns 'Order' and 'Justice and Distribution', the questions of 'Why and What', and 'Who-gets-What'. After that, as the second task, the issue of the level of analysis will be explored, centring around the linkage between domestic politics and international politics, state-society relationships, and agent-structure interactions that determine how the above questions are answered. Ultimately the insights derived from these questions reveal a group of explanatory variables with fundamental theoretical implications for a concrete methodology that rises during the blurring of the boundaries between FP and IPE.

4.2 Task 1 for dialogue: distinction in terms of different outputs, keywords and research questions

4.2.1 Blurred Categories of Foreign Policy and Foreign Economic Policy

Traditionally, Foreign Policy is understood as 'the system of activities evolved by communities for changing the behaviour of other states and for adjusting their own activities to the international environment' (Modelski, 1962, p. 6); or 'all the attitudes and activities through which organized national societies seek to cope with and benefit from their international environments' (Rosenau, 1970, p. 366); or 'a stable set of attitudes towards the international
environment, an implicit or explicit plan about a country's relationship with the outside world (Wallace, 1971, p. 11). According to these opinions, FP analysis concerns the relative potency of particular variables and role variables, the way in which an operating code is affected by advice in decision-making processes and multiple sources of advocacy, and diverse channels by which domestic opinions are fed into bureaucratic politics (Rosenau, 1988, p. 23). Corresponding to those, and according to the genealogy of the discourses of international relations, FP is classified as a sub-field of IP. By contrast, FEP is taken as a sub-field of IPE by embracing technical terms such as aid, currency, financing, foreign aid, foreign economic policy-making and decision-making, international political economy, political economy and trade in the development of an empirical analysis (Rosenau, 1988, p. 17). With such features, there have been two ways to approach the analysis of FEP in political science: one is to employ the category of FP analysis in international relations (Papadakis and Starr, 1987), and the other is to analyse FEP away from the mainstream of FP analysis (Pastor, 1980).

However, as one of the significant features in contemporary global political economy, it is likely to recognise that the boundary of FP has blurred associations with that of FEP in shaping streams of external policy. There is a put-back-the-clock general recognition: FEP can be held distinct from FP in terms of operational arenas such as trade, finance, investment, resources, and technology opposed to that of FP, i.e. military security (Hocking and Smith, 1997, p. 7). The idea, however, that theoretical devices of foreign policy do not contain FEP, is mistaken. It is also mistaken to think that the theorising of FEP does not encompass the issue of military security (Tooze, 1994). Such an argument derives from the fact that in terms of idea the traditional concept of power and security has changed and FEP operates today as FP caused by the expansion of the issue linkage concerning the definition of national interests.
First, changing ideas of power and security result in overlapping operational arenas of FP and FEP. This feature of FEP as FP corresponds to changes in the contemporary global political economy such as the increase in the significance of economic issues and to the extent of the issue linkage. Since the demise of the Cold War the global political economy has confronted dramatic shifts that exert meaningful impacts on the distinction of FP and FEP. Above all, the end of the Cold War has increased the relative importance of economic issues compared to that issue of military security. Such an increase of relative significance results in the blurring of the ‘low and high politics’ dichotomy as a means of describing the reality of policy environments. On the other hand, it inspires the conceptual extension and the multiplicity of structures through the change in the idea of the concept of security, from military security to economic security, investment security, environmental security, and identity security etc. Consequently, the general tendency in the sub-fields of political science inclines to politicisation. Such changes make the contemporary foreign policy area distinguish the ‘old’ agenda of military security from the ‘new’ agenda of economic bases (Hocking and Smith, 1997, p. 8).

Meanwhile, the second basis of the blurring of boundaries derives from the partial similarity of the goals to be achieved by FP and FEP. This similarity is caused by the (re)definition of national interests and the diffused linkage of the relevant issues. The goals of FP are to exercise influences in the external environment, to maintain or shift others’ behaviours, and, as a result, to form the future state of affairs and future set of conditions that are targeted (Snyder, Bruck and Sapin, 1962, p. 82). They refer to values such as the carrying of resolutions in the UN General Assembly, territorial incorporation or unification, maintaining of friendly relations, concession in international negotiations, increase in prestige, peace, and constraints on others’ belligerent policies. These goals of FP have been regarded as the same as the concept of national interest as
a means of political actions and way of thinking of goals in the sense that they represent values and interests that operate as internal factors in the process of FP formation.

As such, generally (military) security and order have been set as the main goals of FP. Nevertheless, looking at the issues by which a national system penetrates another national system or takes part in each other’s political processes, their dynamics enable us to recognise that the affairs of IPE have been dealt with by FP. As a result, the partial arbitration of those two sub-fields turns up, and it is possible to confirm that by the existence of three perspectives in FEP. Those three aspects of FEP characterise different forms based on the diverse purposes or intentions of decision-makers in targeting the final goal, as described in Figure 1.1 in chapter 1.

4.2.2 Key Words: Order, Justice and Distribution

Since 1945, external impacts caused by the failure of the hegemonic international economic system and the globalisation of economic activities FEP analysis has developed away from the main stream of FP analysis (Tooze, 1994). This has occurred through the recognition of the politicisation of the international economy. Indeed, terminologies such as aid, currency, financing, foreign aid, foreign economic policy-making, international political economy, political economy and trade have never been included in the empirical studies of FP (Rosenau, 1988, p. 17). Thus, FEP has been classified as a sub-field of IPE, whilst FP has been regarded as a component of IP, derived from the fact that the outputs generated by what have been regarded as major actions in individual areas make a significant difference in their nature. In addition, such a difference in outputs also links to their contrary focuses on the macro-level, including firms and interest groups, and the micro-level, including individual actors (Rosenau, 1988).
According to such a distinction, FEP analysis, as a sub-unit of IPE, shares the merits and shortcomings of IPE, thus reflecting the traditional assumptions and values of IPE as they are (Tooze, 1994, p. 63). Moreover, theories of FEP analysis derived from IPE form have found their theoretical resources distinct from those provided by those of the traditional FP analysis (Tooze, 1994, p. 70).

The main starting point of social science is ‘how-to-explain-it’. Nevertheless, ‘What-question-to-ask’ is second to none in its importance. The discussion of which question to ask should precede the creation of explanatory tools establishing a new framework for the analysis of the EU’s Foreign Economic Policy. Furthermore, there is another reason in that as far as they are concerned with different theoretical resources, FP and FEP analysis generate differences in individual efficiency representing a difference in pursuing the main issues.

Despite a little redundancy, international politics or international relations studies can be divided into five schools in terms of research question, methodology, and research objectives (scope of theorising): traditional analysis, study of strategies, the grand theorists, middle-range theory, and international political economy (IPE) (Holsti, 1995). Traditional analysis focuses on the technical analysis of international politics and international organisations, whilst the study of strategies focuses on the development of schemes to achieve practical policies. Meanwhile, grand theorists seek consistency based on the understanding of evidence via a range of concepts (power politics, equilibrium, policy-making, system, and communication model). Middle-range theory applies problem-oriented analysis by empirically examining selected aspects of international politics and foreign policy, and by pursuing an exact description or explanation of concrete phenomena.²
By contrast, IPE aims to identify and resolve problems in the real world, which exist in the gap between politics, economics, international relations, and international economics. In such a real world approach centred on the allocation and distribution of resources, IPE analyses the power gap between the state and the market, which decides issues of ‘justice and distribution’, such as how scarce resources are used (allocation in terms of the point of view of economists), where the power of collective action is used (allocation in terms of the point of view of political scientists), who gets what (distribution from economists), who gets to use it (distribution from political scientists), and the consideration of structural power and economic power, which provide the contexts of actions (Tooze, 1990, Strange, 1988, 1995, Balaam and Veseth, 1996).

IPE is generally regarded as a sub-field of International Relations (IR) (Goldstein, 1999, Holsti, 1995), largely because the three major theories of IPE - mercantilism, liberalism, and structuralism - are the variants of those of IR. Such recognition leads to the application of a conceptual framework that studies issues of international security centred on the major concepts of power and negotiation to IPE. Within this framework, the state is seen as the major actor, deciding actions according to its interest (Goldstein, 1999). International Political Economy, however, demonstrates a difference in terms of ‘what-question-to-ask’, contrasting with other schools of IR.

The consistent questions in IR or IP concern the issues of the basic units constituting the international system and the global system, and how such units are linked to each other. These questions have fundamentally been based on the state-centric viewpoint, which leads analysts to ‘order’ as a theme. The other four schools share a common concern about understanding the issues of war and peace, i.e. ‘order’, whilst IPE is concerned with the issues of ‘justice and distribution’, including the economic welfare and equity of citizens, the welfare of economic
benefit, the loss or opportunity of the people, the wealth of the nation at an international level, and the analysis of international inequality and its remedy (Holsti, 1995, Strange, 1995).³

4.2.2.1 Three domains of Justice: National, Economic and Individual Justice⁶

The issue of 'justice' is one of the core normative concepts of IPE⁷ alongside that of 'distribution' concerning 'what ought to be'. However, such concepts have been neglected by contemporary IR because of radical positivist distinctions of facts and values, the scepticism of epistemological positions of value description, and the dominance of realism. Since the 1970s, however, as practical questions posed by normative answers developed in world politics,⁸ IPE again attracted political scientists (Rawls, 1999, Frost, 1994, Glaser, 1995).⁹ Above all, it is important to note that such normative political thought generates an issue contradictory to that of 'order', which has been a key word in traditional political science (Hocking and Smith, 1990, Bull, 1977, 1995). This point can be summed up in terms of national, economic and individual justices as briefly outlined below.

National Justice: In the 1960s and 1970s a number of issues created by conflicts between (the established) order meaning assumed permanence of the existing specific state-system and voiced concern about the achievement of justice in world community. In terms of national justice, such conflicts between order and justice resulted in the desire for statehood itself and the demand for national status within the system of states (Hocking and Smith, 1990). In addition, they generated a call for a new international order to reflect the correction of fundamental imbalances and inequities in the established order created by Western hegemonic powers and international institutions (Keohane, 1980, 1984, 1989). On the other hand, such a demand for
national justice, i.e. the demand for an international status extending into trans-national linkages starting from a national internal level as the mixed actor system does develop caused by internal fragmentation of the state. In addition, it continues to challenge the Western state-system and its particular distribution of power as well as the state-system itself.

Economic Justice: The development of the state-system with features of inequality and diversity, and the maintenance of unequal inter-state economic relations stimulated the demand for economic justice. Superpowers wishing to establish the rules of world economic game tried to arrange a close linkage between economic power and international status. This arrangement was mainly conducted by the extortion of economic advantages and their dominance to the states with relatively less economic weight in the world economy. More practically, it was performed by the shift from hegemonic power to international institutions (or regimes) (Keohane, 1984, 1989), or the successful development of negotiation strategies through issue-linkages (Putnam, 1988). Thus, in the 1970s and 1980s, the demand for economic justice increased dramatically, as demonstrated by the New International Economic Order (NIEO) suggested by the third world, and other calls for the redistribution of resources. Furthermore, conceptual expansion and structural multiplicity such as economic security in the area of security study happened (Baldwin, 1997, Sperling and Kirchner, 1998). The question of economic justice is not second to national justice in its importance as an international agenda deriving from the blurring of boundaries between high politics and low politics.

Individual Justice: Traditional explanations based on the existing dominance of the state assume that the collective actions of the state aggregate the demands of individuals and legitimise the supremacy of national interest over individual or group interest. Thus, the intervention of individuals or subgroups has only an indirect effect, and the point of time when
the principle of justice takes over national interest becomes ambiguous. As a result, conflicts between national interest and individual or group justice in terms of their relative importance are exacerbated (Hocking and Smith, 1990). As the perspective of inter-mestic policy in FEP indicates, the implementation of FEP by the government may produce injustice in terms of individual interests, since the economic issues connect directly to the daily lives of citizens.

4.2.2.2 Distributional Justice

Distributional justice means locating scarce resources to societal members in a desirable and just way. From a broader perspective, it involves the distribution of all benefits and burdens that are socially valuable, such as power, social status, information, freedom and suffrage, to social members. By contrast, in a narrow definition, it refers to the distribution of benefits and burdens limited to economic values such as material goods and services. Such distributional justice comprehends the four elements of rights, fairness, equality, and the qualification for being granted.

According to these criteria, in the state of just distribution no one’s just rights should be infringed, and consistent attitudes without propensity should be firmly maintained. Furthermore, based on common moral values that are shared by all members, the qualification for being granted according to ‘capacity’, ‘to the extent of endeavour or contribution’ or ‘material need’ should be accepted. Those four characteristics of distributional justice are interpreted in political processes of ‘who-gets-what’ and ‘when and how’ (Tooze, 1997) at the international level concerning the issues of international political economy such as production, investment, finance and trade.
There are some debates on economic effectiveness such as efficiency, transaction costs, and the economy of size in the formulation and implementation of the EU’s FEP. This is because such a discourse of effectiveness is not in accordance with a series of contradictory political and social issues including ‘democratic deficit’, ‘the pooling of sovereignty’, and ‘regional inequality’ (Smith M., 1994). Such discordance derives from the conflicts between the idea of effectiveness and the matter of choosing the way for the effective and just distribution of all sorts of benefits in the basic structure (Rawls, 1999).

In the economic activities within the EU, meanwhile, the justice of distribution of resources for the production and goods as its outputs is called for. In addition, as for the political actions, justice in the formulation of policy preferences is provoked corresponding to the distribution of power and authority based on equal freedom and equal opportunity. The viewpoint of intergovernmentalism, as advocated by Moravcsik (1993a, 1993b, 1995, 1998), argues that the different policy preferences of the existing member states are expressed in the common policies of the EU via the process of convergence. Unlike these, however, the other sides emphasise that a value-free and autonomous process of preference-convergence may be exposed to the operation of the other exogenous variables, or endogenous variables may occur in such a preference-convergence process. Such an exposition may result in a priori constraints on the member states.

4.3 Task 2 for dialogue: the level of analysis and agent-structure

In terms of levels of analysis such as national or system levels, FEP analysis has confronted the same problem that the traditional analysis of FP has to overcome. The framework of arbitrating
FP analysis and IPE approaches suggest a basis of agent-structure interactions and state-society linkage as further structure-structure interactions, state-market relationships and the linkage between domestic and international levels. The reason why all of these are emphasised is that differences between FP analysis and IPE approaches caused by different focus between macro- and micro-levels can be replaced by the mutually supplementary relationships via such a series of linkages. As long as more close insights are involved, above all, the aspect of agent-structure interactions is addressed with, and then that of structure-structure linkages is going to be explored.

4.3.1 Interactions between Agent and Structure in FP and FEP

It is possible to understand Foreign Policy in a narrow way so that the outputs are interpreted in terms of factors at the unit level such as a bureaucratic process, personality of leadership, governmental organisations, and organised ideology of the state. In reality, however, Foreign Policy study has been conducted from the perspectives of domestic politics, international relations, comparative foreign policy, case study, and middle-range theory (Smith S., 1989, Light, 1994). From the viewpoint of domestic politics, Foreign Policy is understood as being decided by processes in the decision-making structure of formal national instruments excluding circumstantial impacts on decision-making and structural effects by the state actions.

By contrast, Foreign Policy study in IR pursues a broader generality to explain the systemic reasons for state actions, climbing further up Sartori's ladder of abstraction. In particular, realism and neo-realism focused on the pursuit of power and national interest to explore the theoretical structure in a systemic context (Ziring, Plano and Olton, 1995). This approach, therefore, fails to address different empirical contents within contemporary Foreign Policy
(Smith, S., 1989). With this criticism in mind bridging studies have been conducted to explore
generality and speciality through relatively narrow conceptualisation.

In fact, the analysts of FP have confronted the explanatory implications of agent-structure
issue less than scholars in IR (Carlsnaes, 1992, p. 245). This finding derives from the features of
FP analysis such as the stress on economic logics and functional modes, collectivism based on
the pursuit of systemic interests, and monolithic concern on the roles and recognition of
individuals. The rational choice theories including game theory in FP study are classified in the
category of actor-centred approaches, would not like to explain the agents' choices and
preferences. As a result, they cannot take account of the way in which individuals produce a new
251).

Furthermore, they put an emphasis on the functional modes rather than agent-structure
interactions, as the actors are defined in terms of collectivism that is based on the pursuit of the
systemic interests. The approaches of FP, on the other hand, assume explanatory actors rather
than rational actors, and pay attention to both the roles of individuals and the content of their
perceptions (for example, Allison's bureaucratic model). They (examples include Harold and
Sprout, Jervis, George, Holsti, Hermann, Lebow, Larson, and Vertzberger) also focus on actors’
cognitive and psychological structures. The shortcomings, however, turn up, as for the former, as
it tries to reify FP behaviours from the structural and institutional perspectives, and structural
factors are not incorporated to the explanatory variables.

By contrast, Sprout and Sprout (1957), Snyder, Bruck and Sapin (1962), Brecher et al.
(1969) and Papadakis and Starr (1987) suggest an environmental model in which the emphasis is
put on the relationships of environment and FP that is moderated by the process of decision-
making. Furthermore, it proves the absence of deterministic relationships between FP processes, environment, and outputs. In this model FP is recognised as process, output, and behaviour, whilst what is the important thing is not the collection of variables themselves, but the environmental matrix. In such a matrix, constraints by a set of factors can be offset by the opportunities provided by a set of other factors. Most importantly the influence of the environment on the formulation of FP has a dual nature: on the one hand, it provides the international actors with constraints and opportunities, and on the other hand, agents’ actions are predicated depending on how actors to recognise the environment. As such, it highlights the decision-making process that plays the important role of mediating the environmental set of FP, outputs, effects and outcomes. Finally, it is to say that the decision-maker’s recognition of and reaction to environmental factors impacts on the content of FP. To sum up, the environmental model of FP analysis is an approach focusing on the linkage between the policy-making and decision-making processes of FP in which agent-structure interactions operate (Papadakis and Starr, 1987, pp. 413-419).

International Political Economy is also the discipline into which the issue of agent-structure does not penetrate broadly. The issue of agent-structure in IPE revolves around three limited areas, which are the relations of state and market, public and private, and production, investment, and exchange (Laffan et al., 1999, p. 54). IPE is not fundamentally interested in the actors who act at the micro-level, for example the representatives of firms, bankers, producers, traders, workers and investors. Their recognitions, motivations, roles and actions are not subject to attention. As such, it is lack of the concerns on the environment in which they exercise discretion. By contrast, IPE finds ‘what kind of goods are produced’, ‘how much they are
distributed', 'under what constraints it does happen', and 'profitability or survival in world capitalism' interesting (Rosenau, 1988).

The main theme of IPE, that is fundamentally interested in the macro institutions and processes, is the power gap or asymmetry between state and market (Strange, 1988). The state in IPE is sometimes understood as a gatekeeper between national political economy and international political economy, or as a controller over economic activities within borders by realists. In addition, the state and government may cooperate with private economic actors including enterprises or transgovernmental organisations, for example international organisations. As such, dynamic interactions occur through the formation of associations or convergence between public economic activities and those of private actors (Laffan et al., 1999). Such goals and control of the state have been in conflict with markets in which interactions of economic power operate and it hold their own dynamics.

By contrast, sometimes overall global economic welfare and goals of private organisations by sector confronts a conflict. In addition, the balance also fluctuates in the production process of goods and services, the way in which investment is determined and located, and the way in which goods, services, and knowledge are exchanged. In particular, the inconsistency between consistent pressure for production location in the context of the state or region and that for the internationalisation of investment and exchange by government is a core issue of IPE (Laffan et al., 1999). In fact, the above-mentioned areas are entangled enough not to separate. As such, it is, in practice, not easy to isolate agent from structure in IPE. Rather, the trial to isolate them may bear no fruit in a piece of academic research.
4.3.2 Structure-Structure (domestic and international levels)

It is the linkage of domestic- and international politics, state-society linkage, and state-market linkage that is required in terms of the meta-theoretical perspective for the integration of FP analysis and IPE approaches. First, FP and IPE confront a task to free themselves from the dichotomy of domestic- and international politics. Generally speaking, FP analysis also confers a meaning to the micro level, by including characteristics of the actors who locate in the lower level than the abstraction of the state as subjects: bureaucratic processes, attributes, capacity or recognition of individual leaders, negotiations, governmental organisations, and organised ideology of the state (Buzan et al., 1993, p. 48, Rosenau, 1988, pp. 21-23). As such, the outputs of FP are called by the individuals’ names such as the Marshall Plan or Nixon Doctrine (Rosenau, 1988, pp. 21-23). By contrast, IPE assumes the individuals’ actions in the analysis of the same self-interests to benefits-costs, and pays attention to the synthetic outcomes of system-dominant patterns over individuals’ actions. In accordance with this, IPE is only concerned with the macro-induced transformations that impose common impacts on relevant individuals. As such, banks, firms and departments rather than individuals like representatives are subject to the account of IPE, and the geographic distinction such as Tokyo-round or Bretton-Woods System is the nucleus of IPE. With such a distinction, IPE adheres to the macro orientation by subsuming a number of actors under the macro processes, structures and the rubric of the state (Rosenau, 1988, pp. 21-23).

Most studies in world politics and international politics are in fact FP analysis. Nevertheless, there is a difference in using the main level of analysis. In IP, the international system is chosen as its main level of analysis, while the nation-state stands as the level of analysis for foreign policy theory. These two levels of analysis may be regarded to have difficulties to mix up
together. However, it is the meaningless existence of the boundaries between levels of analysis exhibited when a certain country’s FP is considered in terms of the inter-state interactions, away from the concepts of actions, i.e. the stage of analysis of actions to external environment or domestic conditions in which those actions form. This is because as soon as FP is taken into account in terms of inter-state interactions it may extend to the realm of international politics (Holsti, 1995, pp. 18-19). In the same context, comparative foreign policy as a sub-field of FP analysis explores how internal and external factors interact in the process of FP formation, and focuses on the convergence of the national system and the international system. As such, FP and IPE share a similarity of focus on the system level. IPE also focuses on the convergence of those two systems, and is interested in the dynamics of the production cycle and trade practices that are a source of and reaction to global financial patterns (Rosenau, 1988, p. 17). However, despite the similarity in terms of the level of analysis, FP and IPE lack interactions (Rosenau, 1988, p. 17).

Second, it is necessary to incorporate the account of state-society relations into the framework of FEP analysis. The rationale for this suggestion lies in the cognitive incongruity of the state as an actor, and the inconsistency of both agent and structure. Above all, what is important in addressing the issue of agent-structure is also to take account of social changes except particular changes, since both agent and structure are inconsistent. The agent-structure interactions are temporary because they exist in the dynamic process of being conditioned by time. On this point, the agent-structure interactions are not subject to causation (Carlsnaes, 1992, p. 250). As a result, social changes are worth being taken into account for explaining agent-structure interactions. Social changes are inherent to dynamic phenomena and are not independent variables, not being decided by factors, but get tangled in temporary processes (Cerny, 1989, p. 4 cited in Carlsnaes, 1992, p. 246). In addition, they are characterised by being
dependent on the flow of time. Such a series of distinct characteristics plays the role of environmental variables by defining (time-space) contexts in which agent and structure interact.

Meanwhile, the significance of the insight to the state-society relations meshes into the need for the recognition of the state as a structure or institution. It is inappropriate to recognise the issue of agent-structure as the relations of the state and the system. The reason why is that the recognition of the state, not as a social structure or institution, but as an actor in itself may iterate the same mistake as the blackboxing in which the account of the domestic politics that is omitted by politics in reality. The issue of action and structure has been discussed in the form of micro-macro linkage in the U.S.A. In this case, it implicates slightly general distinction that may be empirical and analytical between social phenomena per se in both a large and small scale (Carlsnaes, 1992, p. 246). In Europe, attention has been paid to the relationships between an actor or agent and social structure on behalf of the issue of agent-structure. Here an actor indicates individuals or collective groups, while social structure comprehends bureaucracy, institutions or the state.

As mentioned previously, there is another reason for the need for the account of state-society relations concerning FEP approaches. Unlike the decision-making of external political policy, FEP may bring out potential social conflicts caused by the different impacts on social groups. FEP, therefore, has no choice but to be different from FP. In the same context, the study of FP behaviours of today must explain when individual variables (social groups, the personality of leaders, and systemic constraints) become important, and how they interlock to generate particular outputs, away from the existing system-centric thinking (Skidmore and Hudson, 1993, p. 21). Thus, the debate of comparative foreign policy appears to deal with the effects of comprehensive state-society relations beyond the simple relations of policy-making groups.
Finally, it is necessary to take account of the market that mediates economic actors and decision-makers, and structural powers in generating the phenomena of political economy including policies. Given the fundamental four structures in the global political economy, namely security, production, finance, and knowledge (Strange, 1988), the market restricts particular actions and promotes other actions, not as an economic actor but as a structural factor (Waltz, 1979). Not only in the financial structure in which credit is created, but also in the production structure in which the nature of raw, manufacture and service, and the location and processes of production are determined, the market operates as a structural power. In addition, also in the knowledge structure in which the forms of knowledge, its accumulation and restoration, and modes of communication are determined, the market carries out the deterministic role. On the other hand, in the security structure in which the state dominates, influences of the market on security outcomes have increased, as the market access to arms is constrained at least partially or is open through de-regulation. In such a group of categories, if the market sets up, then it would provide everyone in the market with constraints, risks, and opportunities (Strange, 1995).

However, the market would take a dominant position in the method in which political economy functions, only when it is allowed to do so by the one who owes authority and generates power (Strange, 1988). Also in the above-mentioned four structures, the market and the state determine the processes, not determined in a unilateral way by one of them. Even some states can shape the way in which the market operates. In the case of the EU, such a power gap between the state and the market generates the gap between outputs in two different areas such as the interdependence of the market and that of policies (Strange, 1994a). This implies the direct explanation of an estrangement between European economic integration and political integration. Scaperlanda (1967) undertook an empirical study of this concluding that the dynamic flow of
foreign direct investment in Europe does not have correlations with the speed up of European integration. This conclusion indicates the gap between the market and policy interdependence. By contrast, Wallis (1968) proved that in turn the speed up of European integration correlates with the capital flow. These contradictory studies suggest the methodological need for take insights into the market, market operator, and non-state organisations beyond its truth or not (Strange, 1995, p. 173). Finally, the power gap between the state and the market in IPE implies that it is necessary to incorporate the state and the market into the framework as two contradictory structures in which the interactions of micro-level actors are mediated.

4.4 Dialectical Synthetic View

4.4.1 Theoretical Framework

This study suggests a framework for FEP analysis by incorporating FP analysis to IPE approaches based on the agent-structure interactions (even structure-structure) from the results of the above-mentioned discourses as figure 4.2 depicts. Above all, FEP formation is defined as consisting of decision-making and policy-making processes, outputs and behaviours. Policy-making indicates the patterns of complex interactions between pertinent officials and governmental organisations that generate outputs and decide the practical line of behaviours (Bacchus, 1974, pp. 17-18). Those patterns conceive environmental variables that operate in the domestic and international structures, and in turn environmental variables provide them with constraints and opportunities. In addition, the market also operates as a structural factor by
exerting influences on the orientation and goals of governmental policy-making. Of course, the market is sometimes constrained by governmental authority.

**Figure 4.2 The Dialectical Synthetic Framework of Foreign Economic Policy Formation**

Source: This schematic is modelled in the basis of Papadakis and Starr’s (1987, p. 417) suggestion by the author.
In the meantime, the policy-making process interacts with the decision-making process. Decision-making is to choose one option among diverse alternatives, in which individuals, structures and interactions interlock by carrying out their own distinct roles. Decision-making is distinguished from policy-making with the 'time-limit' in the sense that a policy is in progress and it consists of a series of decisions and behaviours. Such a decision-making process does not represent a simple interaction in which actors are separate and reciprocatal actions, constraints and opportunities. It depicts a complex interaction between political, economic and social actors in which they reciprocate actions, constraints and opportunities in an already tangled statement.

On the other hand, a complex interaction between them is embodied in the choice of strategy \( = \{1, \ldots, n\} \) with effect \( = \{1, \ldots, n\} \) via the recognition of environmental variables that are mediated by knowledge. In this process, environmental variables provide agents' actions (choices) with constraints or opportunities. In addition, the market also exerts an influence as a structural factor here. The market constrains the units' particular actions, i.e. economic actors, and supports taking another action. The market is unintended and spontaneously generated, and is not enough of an institution or agent to be perceived concretely. The market that is created by voluntary interactions of economic units chooses the actions of economic actors depending on the results of those actions. That is, it provides actors with constraints or opportunities sentencing high profits and bankruptcy (Waltz, 1979). The actor who gets offered opportunities by a series of factors becomes a new dominant actor in that context. However, it simply means that he can lead the context in which he is by utilising his dominant position, not meaning that he can take a unilateral action.
The condition that is contextualised by decision-making interacts again with the institutions and structures in FEP decision-making that is established through the interactions with environmental variables. As such, via interactions between two processes, the interactions of agents and structures ultimately generate FEP as its output, and consequently FEP is realised in an implementation of an output. In the final stage, FEP as such an output and behaviour, exerts two effects that are divided into status quo and direct effect / strategic learning. The former leads to maintenance of the existing context, while the latter leads to a shift to a new context.

Finally, a group of possible explanatory variables from such a framework are extracted as follows: the ‘market’ in terms of structure, the ‘domestic / international structures and politics’, ‘individuals’ in terms of agent, and ‘knowledge’ in terms of a mediator. The aspect of the market offers a general explanation revealing the background of particular policy’s emergence, and clarifies a number of possible objective policy options. Meanwhile, it has a potential to explain the timing of a particular policy’s emergence. However, generally speaking, there is a tendency that its explanatory power for timing is relatively less significant than that provided by other perspectives. This is because general policy formation has a tendency to be under the control of political and decision-maker’s factors. However, the perspective of the market is significant in the sense that the operation of those factors is not purely independent of market economy forces.

The viewpoint of the domestic structure provides policy formation by general explanation and the understanding of the timing, and further generates the explanation of policy content by clarifying the linkage to particular classes or interest groups. In addition, it offers objective policy options and appropriate explanation of domestic political phenomena (related to staying in power or a change of regime). The sub-category of the viewpoint of the domestic structure is
divided into the relations between the domestic position of decision-makers and policy outputs, between the domestic political structure (including the bureaucratic structure) and policy outputs.

In addition, the relations between state-society relations and policy outputs, between social construction and policy outputs, and general attitudes or orientation of external policy are subject to such classification. Among them, as for state-society relations, the following variables can be used as indicators: the extent of the autonomy the state against society (Rosenau), policy network, institutional and organisational arrangements (Risse-Kappen), autonomy of the state in terms of distinction of the strong, the weak, and the mediation, the extent of the centralisation of national institutions, the distinct capacity of the political system to control society or to overcome domestic resistance (Krasner), the extent of the autonomy of the state through society-dominant / state-dominant characteristics, changes in the domestic coalition, i.e. the realignment of political forces, political action groups, the coalition of firms and the state, and the strength of the state (Katzenstein). On the other hand, the characteristics of the bureaucratic structure, the relationships between administrative departments, the consistency of bureaucratic goals (Rosenau), and the nature of political institutions (state) (Risse-Kappen) are referred to. The indicators of social construction refer to the power centralisation and preferences of social forces (Rosenau); social actor’s impacts on policy; public attitudes on foreign affairs; the extent of social fragmentation (among Left and Right ideologies, religions, and classes); public opinion (Risse-Kappen); balance of power between industrial, financial, and commercial elites; and interest groups (Katzenstein).

The viewpoint of the international structure provides the general explanation, and the understanding of the timing and policy content. While the market changes very fast, the perspectives of the domestic and international structure are relatively slow. The insights of the
latter, therefore, comprehend more long-term information concerning the analysis of policy content. The sub-category of the aspect of the international structure refers to the multilateral economic system, the international flexibility market, and the international primary goods market (Rosenau) in terms of the international system. Meanwhile, in terms of international relations, bilateralism, unilateralism, multilateralism (regional), and transnationalism or supranationalism are referred to. In particular, transnationalism includes the insights to transnational corporations (TNCs) and civil society (including non-governmental organisations (NGOs)).

The perspective of individuals, unlike the above-mentioned series of structural aspects, refers to the belief-system of decision-makers, ideological orientation, cognitive structure (Rosenau), idea (Goldstein and Keohane, 1993), knowledge, political survivability of politicians (Weingast and Marshall, 1988, Downs, 1957), and the recognition of goals (Rosamond, 2000). In addition, the matter of inter-decision-makers relationships (for example, trust), realistic attitudes and liberal attitudes, and decision-maker’s discretion as hawkish and dovish orientations, difference in personality, and dominant ideas and challenges to them. In particular, it is possible to find knowledge playing a political role in the sense that an empirical test can be taken as the utilisation and learning model for that becomes refined, and that the process in which a cognitive matrix is realised is the process in which the logic of power unfolds.

Simultaneously, the viewpoint of knowledge can be used as a resource by entrepreneurial actors, since it is shaped in the form of narratives, and suggests the structure in which actions are embedded. On this point, it suggests a lens to understand the agent-structure relations within the processes of decision and policy-making. Such an analysis of knowledge proceeds in sequential stages as follows: firstly, it is to distinguish the forms of knowledge in terms of the functions of realising sociality; secondly, it is to cope with and connect knowledge forms and a cognitive
system with particular groups; thirdly, it is to connect a cognitive system with the overall social forms; and finally, it is to analyse the correspondence or correlation between the framework of macro social structure, the cognitive system and the knowledge forms (Gurvitch, 1971, p. 42). The consequence proves positive or negative relationships between the knowledge system and social structure in a particular society, whilst the latter indicates that the knowledge system of individual decision-makers is independent of social structure.

There is, meanwhile, an aspect that locates a series of structural and agential perspectives in the middle-range of the above-mentioned. It is the very historical context that history as the shadow of the past, covers the present is incorporated to social science that pursues the explanation of real society (Braudel, 1980, p. 38, p. 50). It also suggests the explanation of interplay between meaningful actions and structural contexts (Skocpol, 1984) that is subject to historical push and shove (Mills, 1970, p. 12). Thus, history is regarded as a sound basis for IPE study (Strange, 1995), whilst it is used as a method to challenge the cognitive basis of traditional IPE by historical sociologists and those who adopt the Gramscian approach. More practically, the account of historical contexts adds insights to the multiple domains of ‘social time’ to the relations of agent-structure (Braudel, 1980, Cox, 1995, Germain, 1996). The multiple domains of ‘social time’ indicate the concreteness of historical contexts that appears through different impacts on the forms of agency (Amoore et al., 2000). As such, it shows the complexity of structural and relational factors that construct policy outcomes (Strange, 1995), and suggests supplementary explanations to actors’ difference in policy orientations under the same structural contexts. The viewpoint of historical contexts, therefore, is not a particular analytical mode, but a supplementary ingredient to the other perspectives (Amoore et al., 2000).
4.4.2 A mediator between agents and structures: knowledge

Knowledge operates as a cognitive variable in the structure and progress of FEP-making, together with variables of the international system, international relations, societal construction, national structure, and the individual at the multiple levels of analysis (Rosenau, 1966). However, there are other cognitive variables such as the belief system, ideal orientation, and cognitive structure. Generally, they are classified as major variables in a middle-range theory of foreign policy study by S. Smith (1989). Cox (1986), however, recognises them as a major component of 'the frame of actions' (or historical structure) which is used to understand the control structure of international political economy, based on the interactions of material capabilities, ideas, and institutions. Such a framework of actions shapes the structure of world order. Neo-realists in particular envisage the structure of world order as a dynamic of material capacities among three categories of forces without giving attention to cognitive and institutional perspectives such as ideas and norms. This is lumped together under the term balance of power (Cox, 1986). Unlike their understandings, knowledge is worth being paid attention to because of the following reasons:

First, attention is paid to the political roles of knowledge. The nature of knowledge comprehends that of politics. The existing paradigms of political science, centring around conflict (problem)-solving, are filtered by the study of 'the power of idea' of today in the realms that they cannot guarantee the explanatory power of their own tools. Applied practically the extension of limited politics and the broadened concept of power to structural power, relational power, and power that impact on other's idea (Strange, 1995, p. 173), the concepts of 'learning effect' or 'globalisation of knowledge' provide more fruitful explanation of political affairs. In addition, knowledge becomes a means for power analysis concerning the analysis of leadership
by analysing the belief-system of leaders, ideas, and ideologies. This finding does not derive from focusing on learning, persuasion, and cognitive dynamics makes concepts of power, leadership, and hierarchy meaningless. Rather, cognitive matrix is the process in which the logic of power unfolds in its realisation. In addition, it becomes possible to test empirically the roles of knowledge, as the utilisation and learning models of knowledge emerge.

Second, in particular, the changes in the contemporary global economic environment such as the widening and deepening of global economy into national economies, confer new functions upon knowledge. This conferment of prestige is derived from the changing global environment; large and technically developed firms shape new international economic policy networks associated with core governmental authorities. Within this structure, knowledge includes technology functions as a key factor for selecting the most suitable agency for the contemporary global environment, and articulates the structural power which is trying to penetrate the state and alert its internal power structure via the process of 'national internationalisation' (Cox, 1986) or 'internalisation' (Smith M., 1994a).

Third, knowledge enables the orientation of a country's FEP to be changeable via conceptual redefinition. Knowledge stirs a series of conceptual variation. There is the creation of a cross point in which the concept of national interests, one of the main key words in the analysis of FP, engages with the construction of knowledge, consisting of normative idea (or principled knowledge) and causal idea (or causal knowledge), via the materialisation of normative and technical aspects. For example, the characteristics of the concept of national interests, representing normative and technical aspects, generally generate a basic accord among decision-makers in terms of the general goals of the state to be achieved in the world. By contrast, the aspects of the role, character, and mission of a country do not drive the decision-makers' entire
differences in the practical outline of implementation. It is this very point that knowledge casts a
significance for the analytical value suggesting the space in which it can operate as an
explanatory tool.

Fourth, the knowledge system of a policy is produced or reproduced by the interactions of
agent and structure within the policy processes. The agent-structure relationship does not mean
anything until it is recognised by an agent, since it is dialectic. It is not until agent monitors and
reflects structure on its actions that structure exercises power to an agent. That is, structure is
enacted and interpreted by the agents (Giddens, 1984, Wendt, 1987, p. 359). It is the knowledge
system that is in charge of such an interpretation process. The knowledge system operates within
the ‘reproduction process by decision-makers’ that is a necessary process for the cognitive
components of public policy to be institutionalised.¹²

Fifth, the knowledge system is not metaphysical, but a concrete output of the political
(policy) process in which purposeful actors offer and diffuse interpretation, narratives, and
paradigms. In such a political process, entrepreneurial actors utilise knowledge as a resource. On
the other hand, they can also contribute in the development of a cognitive structure via actions,
for example, of amending interpretation, or finding out an unprecedented meaning or output of
the public policy. By contrast, knowledge shaped in the form of narratives can constrain an
actor’s choice by providing the structure in which actions are embedded. Finally, the exploration
of knowledge in the policy processes suggests an appropriate lens for understanding agent-
structure relations.

Finally, knowledge encompasses historicity. The historicity of knowledge means the process
in which the form of knowledge is reproduced (Amoore et al., 2000). This process produces the
way of understanding society by actors, and social practices that offer reflections or constraints.
Meanwhile, such outputs represent significance as an explanatory variable in the sense that they can be evaluated as an accepted rationality even when they are beyond the scope of traditional rationality. For example, the historical experience of Europeans who went through consecutive wars becomes a practical motive for European integration based on at least peace to be expected. As such, integration is principled as a common value of Europeans, while causal knowledge (idea) differs in terms of a means and method for achieving such a goal. In addition, it was not until the 1970s that the U.S.A. started realising the issue of human rights in the area of FP, contrasting with Europe's earlier launch that goes way back to the post-World War II era. This story proves the relative weight of historical contexts derived from the fact that anything else perspectives cannot suggest any explanation of it. As such, knowledge understood in the historical context can properly explain the timing of the launch of a particular policy.

### 4.5 Conclusion

In conclusion, the theoretical implications for the established concrete framework can be summarised as follows: first, the importance of national domestic structures should receive attention, focusing on at least four social structures which constitute the state: domestic-economic, domestic-political, international-economic, and international-political factors (Wendt, 1987). Simultaneously, such a framework needs to include the concept produced and reproduced by agents. In the case of the EU, the fundamental structural changes generate dynamic evolution in the concept of sovereignty (Carlsnaes, 1992, p. 262).
Second, the analysis of state actions requires a resolution of agency-structure relations. In other words, correlative or causal effects amongst different structures should be evaluated, departing from the standard structural monism. There has been a recognition that Contemporary FP needs to recognise not only national interests concerning the other social and international actors, but also structural constraints on actions since FP arises from the state that locates in political economy-shaped actions of the state. As such, it supports the need for considering the linkage between domestic and international structures.

Third, the theorising of the international system or structure is needed. This work requires two prerequisites: to complete a model by which it is possible to avoid the general principles that produce and reproduce structures, and to establish another model by which the emergence and reproduction of the structures can be explained (Wendt, 1987). As to the former, it is vital to define the structure in contexts based on the orientation towards the agent-structure interactions (Cerny, 1989, Carlsnaes, 1992). This is because agent and structure interact in space and time and consequently form a temporary context. That is, the interactions of agent and structure can generate another context or status quo according to their results. The framework, therefore, based on the interactions of agent and structure explores dialectically the way in which the consistent constraints and opportunities posed by contextualised structures activate, as well as another important way that actors influence in such a way. As to the latter, meanwhile, such unstable factors as time flow across the differences in the contexts of agent-structure, for example, traditions or practices, shapes the state that shapes the international system. That is why it is necessary to consider historical contexts.

Fourth, the structure offers constraints to the weak compared to providing the strong with opportunities via posing strategic selectivity (Hay, 1995). This aspect must be dealt with in IPE
in terms of the issues of justice and distribution. In this address, the main themes are probably the concerns of the government or the agent who gets the control power beyond the inter-governmental relationships ('who or what governs outcome'), or gains and losses caused by their outcomes ('who or what gains and who or what loses from such outcomes') (Strange, 1994a, pp. 19-20).

Finally, above all, it is necessary to try to find a mediator between agency and structure to overcome the dichotomy in their relationships. Putting a mediator into a framework makes it possible to increase the possibility of solving the *ceteris paribus* question, for which the existing problem-solving theories are still criticised. Knowledge may act as such a mediator (Strange, 1988, 1995, Radaelli, 1999), while liberals suggest institutions as an agency-structure mediator. This thesis suggests knowledge as such a mediator. Knowledge in the middle-range of agent and structure is reflected on agents' actions as constraints or opportunities via the explanation of structures. In addition, knowledge produces or reproduces structures by transforming actors' interpretative system. As such, the interactions of agent-structure are mediated or arbitrated by a knowledge system, and finally, result in a particular policy output. It is such an insight of knowledge to make it possible that the time when actors operate not as negative reactioners, but as positive reactioners to structural powers, is distinguished from the contradictory time when agents are simply constrained by the structures (Rosamond and Yang, 2000).
References

1 Derived from such a range of changes, the changing nature and capacity of the state as a structure and an agent has become the most important issue (Tooze, 1994).

2 Middle-range theory also puts its ultimate objective on prediction, not explanation.

3 For them, IPE is a field of addressing trade, monetary relations, multinational corporations, the economic integration of Europe, the international politics of the global environment, the economic gap between North and South, and the issues of development (Goldstein, 1999).

4 Even though pluralism has a conservative propensity to the value of ‘order’ as realism does, it puts more weight on democratic ideas about freedom and justice for individual, group, and society (Viotti and Kauppi, 1993).

5 By contrast, IR inclines to a single focus on an actor or interaction model, and misses a bit better whole focus caused by the dominance competition of individual paradigms. Some scholars think that IPE, on this point, is greater set than IR (Strange, 1994b, Rupert, 1995).

6 These terms derive from Hocking and Smith (1990).

7 As for core normative concepts, there are the others such as liberty, equality, human rights, political obligation, sovereignty, group rights, self-determination, property rights, restitution, redistribution (Frost, 1994).

8 For example, what duty does the EU have to economic refugees from the East? (Frost, 1994)

9 Rawlsian viewpoint of justice regulates concretely the basic structure of society through the accumulation of decisions about the circumstantial system.

10 Singer (1969) suggests that systemic theory loses its explanatory power when it is far from a broad generalisation.

11 Wendt did also agree with me on this point.

12 Here as long as decision-makers follow the shared explanatory paradigms, adhere to the common opinions about political, social, and economic reality, and are those who recognise the common meaning that is attached to the actions, the cognitive components of the public policy becomes institutionalised.
Chapter 5:
The interactive structural contexts in the formation of an inter-mestic policy: domestic, international and market contexts in the Multilateral Agreement on Investment (MAI) game in 1998

5.1 Introduction

This chapter aims to verify the hypothesis by applying conclusions that are extracted through the methodological debates mentioned in previous chapters to empirical facts. Practically, it aims to prove whether or not a series of facts (outputs) derived from dynamic interactions between agents and structures in the MAI negotiations matches the rules of a game and reasonable outputs under the assumption of a rational actor; to confirm the interactions between domestic variables and international variables by verifying the hypotheses 5.1, 5.2, 5.3, 5.4, 5.5, 5.6 and 5.7 in chapter 2; and to confirm the structural consistency between the French domestic ratification game of 1998 and the French traditional foreign direct investment (FDI) policy. Here, an experimental sub-hypothesis is suggested as follows:

Sub-hypothesis 7: The structural inconsistency between the French domestic ratification game on the MAI of 1998 and the French traditional FDI policy indicates the potentiality of
structural shifts. As such, these structural shifts provide relatively better opportunities for the agents' actions.

Alongside this series of possible accounts over policy outputs, it leads us to the capturing of decisive factors in the French governmental decision-making on the MAI in 1998. As such, it is possible to verify interactions between the structural contexts of status quo and the emerging structural contexts through the comparison of their consistency. For the verification of hypotheses, above all, it is necessary to take account of the objective structure that offers opportunities and constraints on the strategies, i.e. an agent's choices. Structure-centred accounts comprehend the aspects of capital mobility, globalisation, and power politics in the changing international politics and contexts, domestic politics and contexts, and market contexts. In such structural contexts, it is possible to understand the state linked to three perspectives: as a rational (and unitary) actor pursuing the national interest, as a reactor to different preferences in a non-cooperative game between economic agents (i.e. a ratification game), or as a negotiator in an international negotiation game. As such, structural accounts connote these three perspectives of the state.

As for the practical method, quantitative and qualitative analysis are adopted in a complementary way. For the former statistics are introduced, while for the latter documentary analysis is used. In particular, for the third aim of this chapter, from the viewpoint of comparative politics, heterogeneity of the German, French and British FDI policies are subject to a cross-cases analysis. This cross-cases analysis is undertaken to acquire the expansion of space applicability for generalisation, i.e. cross-sectional expansion, as one of space control types in a comparative analysis. The Most Similar Systems Design is adopted based on the method of

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difference or concomitant variation in which inter-systemic differences is the only one that is assumed to be an independent variable (Przeworski & Teune, 1970, p. 33). On the other hand, diachronic analysis, so-called time-series analysis, is adopted to strengthen the time applicability of generalisation. The adoption of this method aims to confirm whether the structure of domestic ratification games over the MAI of 1998 is different from that of the traditional FDI policy of individual Member States. In this process, the data up to one year before 1998, when the MAI negotiation happened, has been partially adopted to avoid the simultaneous bias between dependent variables, independent variables, and control variables. Besides, logarithms of feasible variables are taken to reduce hetero-scedasticity of the data.

5.2 Possible variables and solutions from a rational model of the domestic ratification game

This section aims to analyse the different structure of the ratification games of the French and British governments confronting the MAI which was a full-scale negotiation in the OECD over a comprehensive and binding investment agreement including the high level of liberalisation, investor protection, and a dispute settlement mechanism is in the late 1990s.

5.2.1 Possible explanatory variables

Linked to the variables that operate in the domestic ratification game, benefits and costs can be summarised as follows:
■ $b_1$: the constituent’s benefit from accepting a beneficial treaty. This is not contingent upon undertaking an information campaign that results in the same outcome, which is equivalent to $U_2 (\text{accept/campaign}) = U_2 (\text{accept/no campaign}) = b_1$. The former denotes the benefit of the acceptance with an information campaign, while the latter is for the case of acceptance without campaigns.

■ $b_2$: the constituent’s benefit from rejecting a non-beneficial treaty.

■ $r_l$: a popularity bonus. Member states would receive this as a result of successful ratification followed by an information campaign. It is obvious that domestic constituents whose acceptance results in ratification would like to positively evaluate the government’s attitudes in a sense that the government provides detailed information about the treaty. In reverse, it implies that there would be no $r_l$ without campaigns, even if ratification were successful. That is, a successful ratification without campaigns would not affect the popularity of governments.

■ $r_2$: the voting costs.

■ $f_l$: a penalty for unsuccessful ratification. If a member state did not get a successful ratification, it would be punished by this penalty.

■ $i$: a cost to engage in an information campaign. This implies that an unsuccessful ratification with an information campaign would cost $f_l + i$.

■ $c_l$: a cost by the decisive constituent’s withdrawal of its long-term support. The constituent would withdraw its long-term support when it realised that the treaty was not advantageous. Such a cost would happen only to $N2$, since its constituent approves of the treaty, while $N2$ evaluates the treaty as unbeneﬁcial. In this case, a sudden withdrawal of long-term support by constituents would cost much to $N2$. Furthermore, if the constituent were a decisive one, then the cost would be greater. By contrast, as for $NI$, both $NI$ and its constituent evaluate the treaty as
beneficial. Thus, the change to the constituent’s long-term support would not influence $NI$ and can be ignored.

- $c_2$: a cost caused by mistakenly approving the treaty that a government does not want to be ratified. Such a mistake would impose this cost on the constituent. This cost would not be imposed on the constituent of $NI$, but on that of $N2$, since $N2$ evaluates the treaty as not beneficial and its constituents would accept it.

- $c_3$: politically negative effects followed by the ratification of a treaty such as the damage of national sovereignty and the negative impact on the efficiency of national economic policy.

The function of the payoffs in the ratification game would be $(\Pi_N, \Pi_C)$, which $\Pi_N$ is for the decision of a government whether to undertake an information campaign or not, while $\Pi_C$ is for the utility of its constituents. $\Pi_N$ is decided by a greater popularity bonus (+), the cost of an information campaign (−), a penalty for unsuccessful ratification (−) and the cost of the decisive constituent’s withdrawal of their long-term support (−), say, $r_1 - c_1 - f_1 - i - c_3$. Meanwhile, $\Pi_C$ consists of the constituent’s benefit from accepting a beneficial treaty (+), the cost caused by mistakenly approving the treaty (−) and the voting costs (−), i.e. $b_1 + b_2 - c_2 - r_2$.

In doing so, more practically for $NI$, $(r_1 - i - c_3, b_1 - r_2)$ would be its payoff function for acceptance with an information campaign, since $c_1$, $c_2$, $f_1$ and $b_2$ do not take place in this case, say, the value of zero, $c_1 = c_2 = f_1 = b_2 = 0$. The payoff function for the rejection with an information campaign would be $(- (f_1 + i), - r_2)$ caused by the values of $b_1 = b_2 = 0$, $r_1 = 0$, and $c_1 = c_2 = c_3 = 0$. On the other hand, with no information campaign the acceptance of the treaty is generated by the payoff function $(- c_3, b_1 - r_2)$. Such a function derives from the value of $r_1 = c_1 = c_2 = f_1 = i = b_2 = 0$, since all these variables would not take place. In the same condition, the
rejection of the treaty provides the payoff function of \((-f_I, -r_2)\) on the basis of the values of \(r_I = c_I = i = b_I = b_2 = c_2 = c_3 = 0\) caused by their inexistence.

By contrast, with an information campaign, \(N2\) would have its payoff functions such as \((r_I - c_I - i - c_3 - c_2 - r_2)\) for the acceptance, \((- (f_I + i), b_2 - r_2)\) for the rejection of the treaty. In the former, since \(c_1\) and \(c_2\) do take place, while \(b_1, b_2\) and \(f_I\) do not happen, while the latter derives from the values of \(r_I = c_I = b_I = c_2 = c_3 = 0\). Meanwhile, no campaign would generate \((-c_3, -c_2 - r_2)\) for the acceptance and \((-f_I, b_2 - r_2)\) for the rejection of the treaty. The former derives from the values of \(r_I = c_I = f_I = i = b_I = b_2 = 0\), while the latter is the result of \(r_I = c_I = c_2 = c_3 = i = b_I = 0\).

On the other hand, \(N1\) and \(N2\) would start an information campaign under the condition that the expected pay-off generated by a constituent's acceptance of the campaign exceeds that of a constituent's acceptance with no campaign. That is, it is possible to assume that a popularity bonus which a member state would receive as a result of successful ratification followed by an information campaign is always greater than the sum of the costs of an information campaign and the decisive constituent's withdrawal of its long-term support, say, \(0 < r_I - i\) or \(0 < r_I - c_I - i\). At this time, \(N1\) and \(N2\) have the value of 1 for 'an information campaign'. Finally, \(N1\) and \(N2\)'s decision over whether or not to proceed with an information campaign has two elements of 0 and 1, say, \(I_1 \in \{0, 1\}\) for \(N1\) and \(I_2 \in \{0, 1\}\) for \(N2\). Meanwhile, the expected pay-off is smaller from a constituent's rejection with a campaign than that from a constituent's rejection of a 'No Campaign' provides \(N1\) and \(N2\) with an incentive to send a message to the constituent via campaigns. All these functions are represented in Appendix 5.1.
5.2.2 Sub-game Perfect Nash Equilibrium and Backward Induction

In many dynamic games there are multiple Nash Equilibria. Often, however, these equilibria involve incredible threats or promises that are made by players but are not in their interests to carry out. In a pure-strategy Nash equilibrium, each player acts rationally given their belief about what the other player might do. Meanwhile, to understand players’ maximised profits, it is easy to think of a player making various threats or promises, and the other player acting accordingly. However, a threat or promise is only credible if it is in that player’s interest to carry it out at the appropriate time. Assuming that players are rational implies that incredible statements will have no effect on the other players’ behaviour. The concept of sub-game perfect Nash equilibrium rules out these situations by saying that a reasonable solution to a game cannot involve players believing and acting upon incredible threats or promises. On the basis of this logic, each player must act in his or her own self-interest in every period of the game.

A sub-game is defined as “a smaller part of the whole game starting from any one node and continuing to the end of the entire game, with the qualification that no information set is subdivided” (Romp, 1997, p. 32). A sub-game is, therefore, a game in its own right that may be played in the future, and is a relevant part of the overall game. From the extensive form of the ratification game, given in Fig. 4, we can observe that there are four sub-games starting from each of the constituents’ decision nodes. For the predicted solution to be a sub-game perfect Nash equilibrium it must contain a Nash equilibrium in each of these sub-games. The procedure of finding out sub-game perfect Nash equilibria makes it possible to identify which government would maintain the characteristics of a strong state against its constituents.
However, considering each of the Nash equilibria identified for the entire game to see which, if any, is also a sub-game perfect Nash equilibrium is time-consuming. Instead, there is often a quicker way of finding the sub-game perfect Nash equilibrium for a dynamic game, which is called 'backward induction'. Assuming that under the condition of perfect and complete information, no player is indifferent between two persons' possible actions at any point in the game. This principle involves ruling out the actions where players would not play because other actions return higher pay-offs. Meanwhile, in applying this principle to dynamic games we start with the last period first and work backwards through successive nodes until we reach the beginning of the game (Romp, 1997, p. 33).
Applying backward induction to $NI$, at the first node government $NI$ has started a campaign, and thus constituents will either earn $b_1$ if they accept, or $-r_2$ if they reject it. In this situation constituents will accept ratification, since $U(\text{Accept/Campaign}) = b_1 > U(\text{Reject/Campaign}) = -r_2$. Consequently, to accept is a dominant strategy. This is presented by crossing out the corresponding pay-off vector ($-f_1$, $-r_2$). At the second node government $NI$ did not start a campaign, and thus constituents will earn either $b_1 - r_2$ if they accept ratification, or $-r_2$ if they reject it. In this situation constituents will accept ratification, if $U(\text{Accept/No Campaign}) = b_1 - r_2 > U(\text{Reject/No Campaign}) = -r_2$.

In doing so, we can rule out the possibility of the case where constituents reject ratification and government $NI$ does not start a campaign. This is shown by crossing out the corresponding pay-off vector ($-f_1$, $-r_2$). We can now move back to the preceding nodes, which in this game are the initial nodes. Here government $NI$ decides whether or not to start Information Campaigns. However, if a government assumes that constituents are rational, then they know the game will never reach the previously excluded strategies and pay-offs.

Therefore, government $NI$ can reason that it will either receive $r_1 - i - c_3$ if it starts a campaign, or $-c_3$ if it does not start a campaign. Given this reasoning, and according to an assumption $r_1 - i > 0$, we can rule out the possibility that constituents will accept ratification. The reason why is that $r_1 - i - c_3$ is always greater than $-c_3$, i.e. $r_1 - i - c_3 > -c_3$, since $r_1 - i$ is positive. As a result, we can cross out the corresponding pay-off vector ($-c_3$, $b_1 - r_2$). This leaves only one pay-off vector remaining, corresponding to government $NI$ starting campaigns and constituents accepting ratification. This is the sub-game perfect Nash equilibrium. Lastly we can reach an equilibrium as follows:
**Possible solution 1:** If the government can present a beneficial treaty, it will engage in an information campaign and the constituent will accept the treaty.

Meanwhile, as for the case of N2, we have two nodes, starting with the last period of the game first. 

- \( (r_2 + c_2) \) is always smaller than \( -r_2 \), since \( r_2 \) and \( c_2 \) are positive numbers, and \( b_2 - r_2 \) is greater than \( -(r_2 + c_2) \), since \( b_2 \) is greater than zero. According to the logic of \( (r_2 + c_2) < -r_2 \) \( b_2 - r_2 \) a rejection of ratification is always the dominant strategy for a constituent regardless of the preceding action by the government. As a result, at the first and second nodes the constituent will reject ratification, crossing out the corresponding pay-offs \( (r_1 - c_1 - i - c_3, -r_2 - c_2) \) and \( (-c_3, -r_2 - c_2) \).

Moving back to the preceding nodes, here government N2 would not start an information campaign, i.e. a dominant strategy, since \( -f_1 > -f_1 - i \) in theory. In doing so, we can rule out the possibility that government N2 will start a campaign, and so cross out the corresponding pay-off vector \( (-f_1 - i, b_2 - r_2) \). As a result, this leaves only one pay-off vector remaining, which corresponds to government N2 not starting a campaign and the constituent rejecting ratification. This result leads us to another equilibrium as follows:

**Possible solution 2:** If the government cannot present a beneficial treaty, it will refrain from an information campaign and the constituent will reject the treaty.
5.2.3 Empirical illustrations

5.2.3.1 A ratification game in France

As public opposition rocketed in the beginning of 1998, member states' governments started to become more sceptical towards the MAI. In France, public opposition against the MAI increased in Autumn 1997 and increased further in Winter 1998. The press attacked the agreement and there was a series of demonstrations. Consequently, the French government called for a deferment of the negotiation excused by domestic consultations. Finally, the negotiation was delayed until October 1998 when the French government announced its withdrawal from the agreement based on the conclusion produced by domestic consultations. This declaration was committed without any formal consultation with the EU.

As such, the ratification game of the French government represents the case of N2 in Figure 5.1, that is, a government finds an agreement not beneficial. According to the optimal solution produced by backward induction, it is possible to say that the French government did not commit any campaign to inform the MAI negotiation to domestic constituents on the positive side. Such 'No Campaign' results in no popularity bonus.

By contrast, also when the anti-campaign against the EU policy by a member state goes together with the failure of the domestic ratification, a popularity bonus is generated. This kind of popularity bonus may be greater than that in the case of 'No Campaign'. The French government led the Council of Ministers to controversy by mounting the high profile campaign of resistance against the settlement terms that were proposed by the EU Commission in the agricultural sector under the Uruguay Round. In the process of the MAI negotiation, the French government did not hesitate in making an individual voice through claiming national exceptions
including its cultural industry and reacting positively to the calling of civil society against a collective voice of the EU that found MAI beneficial.

As such, the pay-off of French government was in fact not \((-fl, b2 - r2)\), but \((-fl + r2', b2 - r2)\). Here \(r2'\) is a popularity bonus that is given to French government by domestic constituents when the French government does commit an anti-campaign and a domestic ratification game fails to be agreed. \(r2'\) \(r2\) if domestic constituents are dominated by Euroscepticism. As such, along as the equilibrium of the rational model, the French domestic ratification game moves to the node of ‘Reject’, in C4, where the costs of committing anti-campaign is going to be included to the pay-off of the strategic choice.

Formally the French government gave four reasons for the decision to withdraw from the MAI negotiation: exemptions for cultural reasons, refusal of extra-territorial application of US law, accounting for European integration, and derogations linked to social and environmental norms. In addition, French officials emphasised the importance of opinions from civil societies. The equilibrium from the rational model consists of the pay-off of constituents \((b2 - r2)\). \(r2\) is voting costs, while \(b2\) is the constituent’s benefit from rejecting a non-beneficial treaty. In particular, from the perspective of the latter, the rejection of treaty in the FDI sector provides domestic firms that lack international competitiveness by an opportunity to develop ‘the economies of scale’ so that they can be in relatively more effective and competitive condition as they are exposed to international competition.

There is another positive point. Domestic producers win the overwhelming per cent of market share resulting in benefits so that it is likely to reinvest these benefits to firms (Reich, 1989, pp. 576-577). Besides, it is possible to avoid imbalance in the industrial structure in favour of capital-intensive and high-technology-intensive industry that would generate a negative effect.
to labour-intensive industry. This avoidance protects the workers in labour-intensive industry, i.e. their jobs and incomes.

Such perspectives compare to the constituent’s benefit from accepting a beneficial treaty, i.e. $bI$. In the account of $bI$ linked to the FDI sector, practically, as for firms the transfer of technology and management skills, while as for households job creation and as a result the increase in household income can be referred to. However, in fact it is possible that job creation and the increase in household income are offset by job export and consequent decrease in household income caused by the movement of production centres accompanied by outward investment. Thus it is necessary for the cost-and-benefit calculus to get precise data about the relevant sector.

In the meantime, looking at a sub-game for the pay-off of the French government’s choice with ‘Reject’ of MAI by the constituents, the case of ‘Campaign’ has a pay-off of $-(fI + i)$, while the case of ‘No Campaign’ has $-fI$. Furthermore, $fI$ is not economic costs, but political costs that are given to a Member State with unsuccessful domestic ratification. In fact, such costs make a significant difference in terms of economics, whilst in terms of politics it can be ignored. As such, it is saying that Campaign/Reject node and No Campaign/Reject node do not make any politically significant difference. This point of view offers another account in considering $fI$, i.e. the punishment by the EU of the unsuccessful domestic ratification, in the pay-off of the French government.

In fact, the French government was not occupied by the account of $fI$ derived from the regulatory structure of the EU. It was partially because of ‘soft institutions’ of the EU (Young, 2000) that lack of significantly binding political regulations, that the French government could declare its withdrawal from MAI negotiation without the formal consultation with the EU
negotiation partners. Confronted with such an attitude of the French government it is possible for the other Member States of the EU only to impose the political costs such as condemnation or non-co-operation on other sectors (Young A., 2000).

5.2.3.2 A ratification game in the UK

Until the middle of 1998, the British government had been in favour of MAI, as shown the feature of N1 in figure 5.1. This understanding derives from the fact that at the time the British government supported the proposed general aims of MAI, and was working to achieve the successful outcome of the negotiation on time for the OECD Ministerial meeting in 28th to 29th April 1998. In MAI negotiation, the British Prime Minister, Tony Blair, presented a positive attitude to multilateral investment rules, in the following way:

"The multilateral agreement on investment is supported not just by the United States, but by Britain. Indeed, we have been active in promoting it, for a very good reason. Contrary to some of the things that are being said, it does not prevent decent regulations, either on labour standards or on the environment. What it does prevent is means of discriminating against foreign companies, and it is actually very important for British business and British exports that we prevent countries using regulation as a backdoor means of discriminating against foreign investment."4

As such, the British government is aiming for a comprehensive, multilateral and legally binding agreement providing the high standard of investment protection and liberalisation of the investment regime. In accordance with these objectives, the British government explained that
the MAI does not prevent the government from enforcing policies as confirmed in a letter from Lord Clinton Davies, the trade minister, to MPs setting out the governmental position.

"[The MAI] does not prevent government from implementing policies that favour small firms or particular industries or regions. Furthermore if a government wishes to offer subsidies to firms to employ local people, or the long-term unemployed, the MAI will not stand in its way. It is important to realise that, more generally, MAI obligations will not affect a country's right to maintain its own internal regulations, nor will the Agreement prevent governments holding companies accountable for their actions."\(^5\)

The positive attitude of the British government to MAI is also confirmed by Clare Short's, Secretary of State for International Development, speech in July 1997.

"Negotiations are now under way on the Multilateral Agreement on Investment (MAI). Our overall objectives are clear - to achieve high standards of investor protection which reflect our commitment to sustainable development, environmental protection and core labour standards."\(^6\)

A domestic ratification game in the UK representing N1 moves on to the node of Campaign/Accept on C1 alongside equilibrium of rational model. The pay-off is \((r1 - i - c3, b1 - r2)\) and the constituents enjoy the net benefit from accepting a beneficial treaty less voting costs. Meanwhile, the British government enjoys the net popularity bonus from successful
ratification followed by an information campaign less a cost to engage in an information campaign and politically negative effects followed by the ratification of a treaty. Such a governmental pay-off is calculated under a decision-maker's belief of $rI - i - c3 > 0$.

In the case of $c3$, sensitive issues that are core in national political and social activities such as the damage of national sovereignty and negative impact on the efficiency of national economic policy involve in this pay-off. $rI$ means much to decision-makers as politicians in the sense that it imposes a direct price on power maintenance of political parties and politicians, i.e. political survivability. Linked to such a calculus it is likely to happen that a decision-maker as a politician finds a dominant strategy when $rI > i + c3$ or probably at least $rI = i + c3$. Strategies in the condition of $rI < i + c3$ make a decision-maker pay a price such as resignation, the change of regime, a power change, of an unsuccessful candidacy.

These features of the British ratification game changed in late 1998. Anti-MAI-ism in the ranks of the Parliamentary Labour Party conformed to the slow advancement of negotiation in the House of Commons, and the MAI impacts on British international development aid policy was in question. The minister for Employment provoked the examination of environmental impacts of FDI to OECD, and pushed stronger wording for labour and environmental standards (Smythe, 2000, p. 86).

5.3 (Three) Feasible structural contexts to explain the outputs

It is necessary to distinguish systematically diverse international influences that impact on foreign economic policies of individual states. Above all, the international structure refers to the internationalisation of industrial capital and financial capital from a Marxian viewpoint, and the
change in technology, the increase in capital flow, and the sensitivity of national economy to other international developments (for example, hegemony, and constraints on foreign economic policy imposed by the increasing extent of international division of labour) from the perspective of liberals (Katzenstein, 1978).

Global political economy imposes diverse constraints on individual national economic agents. Thus an international politics approach such as IPE offers not the diverse strategies of individual states, but the diverse limitations imposed by the structure. In this section through the accounts of capital mobility, globalisation and power politics representing those structural perspectives, the influence of the international structure is examined by verifying the hypothesis 5.3 in chapter 2. A dependent variable for the relational analysis with such a series of independent variables is the difference in foreign investment policy of individual states, especially France, the UK and Germany. As such, a group of hypotheses are going to be verified by this section.

5.3.1 A government as an international negotiator in the international context

The case of MAI questions concerning the extent to which structural changes such as capital mobility and globalised production reshape and limit national economic sovereignty (Smythe, 2000, p. 87). Such structural impacts on national economic sovereignty cause fundamental changes in decision-makers’ preferences and strategies and the scope of their choices. For example, these structural changes induce changes in the implications of exchange rate policy through setting domestic decision-makers’ strategies. Furthermore, structural changes make domestic decision-makers give up a number of regulatory measures by which foreign investors might be constrained.
Based on the logic above, this section aims to verify the hypothesis 5.4 in chapter 2. As for operational definitions to verify this hypothesis, above all 'the increase of capital mobility' is represented by 'overall balance' or, according to a dialectical logic, 'FDI flow'. 'Overall balance' consists of balance of current account and capital account, and overall balance curve, i.e. BP (Balance of Payments) curve reflects to the extent of capital flow. Meanwhile, 'inward/outward FDI shifting balance' represents 'the convergence of agents' policy preferences'.

Operational definition 5.1:

1.1 'The more horizontal 'overall balance' is, the more the capital mobility increases'.

1.2 'The increase in FDI flow accompanies the increase in capital mobility'.

1.3 'Inward/outward FDI shifting balance reflects a change in a agent (a decision-maker)'s policy preference'.

5.3.1.1 Globalisation

Globalisation has brought out changes in interest in, ideas concerning, and the influence of the state and non-state actors as the international investment regimes develop. Such changes mainly incline toward rules that are designed to constrain national economic sovereignty over multinational capital. Globalisation impacts on states by redefining their definitions of investment interest through this bias. Such a redefinition materialises through inward/outward investment shifting balance and the decrease in the negotiating power of the state against firms.
Globalisation suggests significant implications from both the structural and *agential* viewpoint. Above all, from the structural viewpoint of neo-liberalism, it means the complexity of structure caused by growing interdependence. Such a structural complexity is comprised of closer connections between the domestic and international economy, as well as the extension or multiplicity of action level caused by a transnationalisation of interest. By contrast, from the *agential* perspectives, it suggests an increase in the number of actors in decision-making and policy-making processes. Such an increase of actors happens not only at the national level, but also at the transnational level. If there is a significance in terms of an actor, it would refer to the increase in non-state actors.

A significant structural change brought out by globalisation is the transnationlisation of interest. Although this change also derives from the fact that issues are related to transnational or supranational norms, it can happen only via changes in agents’ knowledge or recognition of the scope of objectives. So to speak, an agent-structure interaction is a precondition for structural changes. It is possible that in such an interaction the extent of its dynamics varies by time and space. Globalisation accelerates the dynamics of an agent-structure interaction by making the gap of the time and space narrow. As for its main method to make time and space narrow, technological development can be referred to above all. Globalisation is promoted by the development of global networks such as the internet in accordance with new technology.

The development of global network makes it possible to rapidly spread information and makes it easier to get access to information so that the dynamics of an agent-structure interaction are extremely accelerated. The existing old-fashioned technology limits agents to simply reactive actions such that actors are monitoring the structure via their own knowledge and choose constrained strategies. By contrast, the current significantly developed technology provides
agents with information in more rapid and precise ways so that actors are able to take more proactive actions in regard to the structure via the formation of more proactive knowledge. As such, a hypothesis is established as the following.

**Hypothesis 5.8: Globalisation in the development of the international investment regime brings out changes in agents’ knowledge of interest.**

As for operational definitions to verify this hypothesis, above all ‘trade in goods’, ‘growth in real trade less growth in real gross domestic product (GDP)’, ‘gross private capital flows’ and ‘gross foreign direct investment’ are adopted as indicators of ‘globalisation’. The growing importance of trade in the world’s economy is one indication of increasing economic globalisation. Trade in services also can be referred to as an important element of globalisation. In addition, identification of economies with dynamic trade regimes can be achieved by measuring the difference between the growth of real trade in goods and services and the growth of GDP.

Meanwhile, investment flow is a spearhead of globalisation, since investment flow is a major component of capital mobility that represents globalisation. Capital mobility is a function of income and interest rates that are functions of current balance and capital balance. Meanwhile, ‘inward investment shifting balance’ is adopted to indicate when rational agents redefine the notion of investment interest, since such a shifting in investment balance derives from changes in policy preference and the pay-off calculus.

**Operational definition 5.2:**

2.1 “trade in goods’, ‘growth in real trade less growth in real GDP’, ‘gross private capital flows’ and ‘gross foreign direct investment’ indicate the growing globalisation.”
2.2 "Inward investment shifting balance' suggests changes in agents’ definition of investment interest and preferences.'

5.3.1.2 Power Politics (International relations)

The foreign investment policies of Germany and the UK have generally been conducted in a liberal way, whilst French foreign investment policy has been based on strictly controlled protectionism. Such strict protectionism in French foreign investment policy is rooted partially in the mainstream of French foreign policy. In the same context, this section examines the relationships between international economic order and international politics or security order centring around the positions of the French and British governments on international investment rulemaking. A targeted hypothesis is the following.

*Hypothesis 5.9: It is impossible to isolate economic interest of a nation state from its security interest. In the same context, international security (or political) order is a necessary condition for FDI flow and the activities of multinational corporations.*

Applying this understanding to the case of the EU, it is plausible to say that European security order induces an increase in FDI flow. To verify this, it is necessary to take account of European security order divided into the Cold War and Post-Cold War periods. The reason for this is that the different features in the structure of the order generate diverse accounts for policy outputs.
5.3.1.2.1 French foreign policy and the US hegemony in the era of the Cold War

Above all, in the era of the Cold War the European security order was heavily dependent on US hegemony. In terms of Susan Strange's four components of structural power, the Pax Americana system contained 'knowledge' to produce nuclear weapons as an absolute power. As such, in terms of 'security' it was only the US that had nuclear weapons in the 1940s, and the US offered a nuclear umbrella to Western Europe and Japan via North Atlantic Treaty Organization (NATO) and the US-Japan security agreement. In addition, from the viewpoint of 'production', the US won over 50 per cent of world production volume, and in terms of 'credit' over around 50 per cent of world currency reserve was occupied by the US Dollar (Gilpin, 1975). The component of 'security' created the hegemony of a certain country, i.e. the US, and again induced growth in production and finance.

During the Cold War, the Western European countries' greatest objective was the strengthening of European power within the framework of Atlantic integration (NATO). Compared to such a highly qualified objective, contending individual preferences between Germany, France and the UK are nothing but incidental (Gilpin, 1975). At the time, the US, with support from Germany and the UK, aimed at establishing a European political order as a bridging objective, and furthering greater Atlantic economic and political community as the final objective against the threat of the Soviet Union. By contrast, the French government, with supports of the other groups, preferred a more closed and autonomous Europe.

In the 21st century France has wanted political, economic and military independence and ultimately the status of the ruler in world politics. To realise this goal the French government needs to acquire the status of a super power through obtaining an autonomous nuclear deterrent,
checking on German power expansion, and maintaining influences in Africa. The practical strategy for these aims is to check Germany through close ties with Eastern Europe, countries of Latin origin and the UK, and to make Europe grow up as a giant force to be capable of competing with the US and Japan, as France plays the role of a core in such a Europe. These strategic objectives are generally reflected in the pursuit of European integration policy. In this process, France maintains competitive relationships within co-operation with Germany, whilst it pursues autonomous foreign policy within the co-ordination with the US.

This mainstream of French foreign policy recalls De Gaulle’s foreign policy in the era of the Cold War. The fundamental objectives that underlied De Gaulle’s foreign policy were military security, economic prosperity, and the restoration of national prestige or the pursuit of national grandeur. De Gaulle tried to achieve the recovery of French grandeur through making France surface as the third super power, independent of the US and the Soviet Union. In practical terms, he tried to possess an individual nuclear deterrent; to secede from NATO; to accelerate European integration through reconciliation with Germany aiming at checking German force as well as forming a unitary European force against the US and the Soviet Union; to maintain single political, military and economic influence in Africa aiming at ensuring a political voice as a new superpower in the Third world, and a wider global political role.

5.3.1.2.2 French foreign policy, international regimes, economic sovereignty and the US capacity in the Post-Cold War era

In the Post-Cold War era, France saw German reunification and Ostpolitik as the naked pursuit of ‘economic giant’. Consequently, the French government hurried the progress of the Maastricht Treaty (concluded on 9th December 1991) in. This was targeted at accelerating
European integration to prevent Germany from deviating from Western Europe. On the other hand, France took another track to prepare for the possibility of Germany taking a negative attitude by pursuing an individual hard line to penetrate central Europe: to strengthen its ties with the US and the UK and to re-approach NATO (Christopher, 1993, Lellouche, 1993); to reinforce co-operative relations with countries of Latin origin such as Spain, Portugal, and Italy (Mortimer, 1992, Vernet, 1992); to reactivate its ties with the Soviet Union; and to promote economic and security cooperative relations with the central European countries aiming at checking Germany’s ties with those countries.

However, the fundamental lines of De Gaulle’s foreign policy were never ever abandoned. In the contemporary period, Chirac’s France has devoted its best efforts to the recovery of the domestic economy, whilst it orientated towards a single military hard line through the resumption of nuclear tests accompanied by loi prigrammation militaire (i.e. a long-term plan to reinforce military power). Such an orientation is evaluated as a resurrection of Gaullism, so-called neo-Gaullism. These aspects of changing foreign policy are basically supported by De Gaulle’s nationalist foreign policy. Meanwhile, the fact that in the era of the Post-Cold-War the French government recognised the limitations of diplomatic alternative strategies that are established by itself, that confronts the possibility of German Sonderweg supports those contents. These fundamental policy objectives continued to be reflected in the unilateral declaration of the French government to withdraw itself from MAI negotiation in 1998 and Chirac’s strong appeal to the public in terms of military independence of Europe from NATO in the Nice Summit in December 2000.

Meanwhile, changes have also happened in the international economic order. It is the retreat of hegemony and significant roles of a series of international institutions that are the most
significant changes in the international economic order. Such international institutions involve new forms of power, whilst a series of norms such as co-operation, co-ordination, participation and consultation are emphasised. However, structural features in the era of the Cold War have been maintained in the form of regimes. In particular, there are a few significant political implications in the issue of the liberalisation of investment through multilateral rules.

First, the perspective of a special state's consistent hegemony in the form of agenda setting power encompasses a significant political implication. Neo-liberals think that economic interdependence changes national interest, whilst it creates regimes as a method to save costs. In the same context, Keohane (1984) suggests that a stable hegemony is going to be replaced with regimes after the retreat of hegemony. By contrast, realists understand that the resurgence of regimes mirrors the power relationships in the international system. Still, hegemonic power relations are alive in institutions. As for the budgetary architecture, one of the necessary components of institutions, the more contributions a state makes, the higher voice it has in rule making. Such a variation does not reflect widespread antipathy against 'hegemony'.

When the notion of power is defined as a capacity to transform social, political and economic material environments for achieving objectives based on the mobilisation of resources, the creation of system rules, and the control on infrastructure and institutions (Held, 1996, p. 255), then international relations led by institutions create a new form of the notion of power. International rules on foreign investment were launched by simply attaching the issue of investment to the Uruguay Round agenda, a trade negotiation, and have developed as a series of international investment regimes.

As such, investment protection is currently provided by a web of international agreements and understandings at various levels: 1) Multilateral agreements, including elements of various
agreements negotiated under the auspices of the World Trade Organisation (WTO), such as GATS, TRIMs and the Trade-Related Aspects of Intellectual Property Right (TRIPS). 2) Plurilateral arrangements, such as the EU, the NAFTA and MERCOSUR (the Common Market encompassing Argentina, Brazil, Paraguay and Uruguay), and the agreements reached between them. 3) Bilateral agreements, of which 1513 have now been concluded.7

It was the US that took the initiative in such activities. In fact, it was also the US that initiated the MAI negotiation. The US possesses a sufficiently strong power of agenda setting to provoke the inclusion of the issue of investment in the agenda of trade negotiations. Such power makes it possible to internationalise even the sensitive issues that connote the potential imbalance of interest, and ultimately creates a normalised or principled knowledge.

Secondly, monetary hegemony, as a traditional structure in international relations, is embedded in new institutions that put an emphasis on cooperation and liberalisation. Aliber’s (1970, 1973) perspective of ‘capital market’ concerning foreign investment indicates asymmetrical power games of inter-economic agents, of inter-foreign investors from different countries, and between foreign investors and domestic firms. General theories concerning the motives of investment countries in terms of investment supply (mentioned later in the section of market perspective) are not perfect in the sense that they omit the perspective of capital market relations. Such an asymmetry derives from asymmetrical advantage of foreign investors caused by the difference in stability of the exchange value of currency.

Foreign investors from a foreign country that has a currency with a high exchange value, for example, the US Dollar, have greater capacity to pay for real assets. As a result, they have advantages compared to local firms. In addition, it is likely that investment firms from a foreign country of unstable exchange value of a currency prefer equity holdings that are marked by a key

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currency (Triffin, 1954, Dunn, 1963). Domestic firms of a key currency country are able to loan in better conditions and lower interest rates compared to foreign firms from non-key currency countries. As such, firms of a key currency country always have advantages both in the domestic and international levels (Gilpin, 1975). That is to say that despite liberalisation of investment, it is possible that the existing structural nature of world economic order is still maintained because of the monetary hegemony of a key currency country (mainly the US). It is France that recognises this perspective. In the same context as the abovementioned account, De Gaulle emphasised the significant role of the US dollar as a reserve fund, and French officials appealed for reverting back to the gold standard (Gilpin, 1975).

As long as the status of the US dollar as a key currency continues, the original intention of liberalisation of investment fades by making it plausible to prefer political price to lose to economic efficiency to acquire. In particular, it is likely that the 'political price' structures the rationality of policy making for the French government, where the pursuit of national prestige and grandeur connotes significance. In 1998 when the French government decided to withdraw from MAI negotiation, French decision-makers took account of the 'political price' in terms of the erosion of national sovereignty by foreign firms and the cultural issue covering cultural industry caused by the increase in inward investment flow.

The liberalisation of investment infringes on national sovereignty and results in the dominance of economic society, i.e. economic community. Such a feature is the same as the social structure observed by Gramsci where economic society dominates civil society and government. By contrast, in the sense that this economic society has nationality, in particular mainly the US and Japan, it makes a great difference. Such a feature of an economic society means a reproduction of the US hegemony, since quantitatively foreign investment from the US
takes the greatest share in world investment volume. In the sense that the draft of the MAI included strong measures for allowing foreign investors to sue governments, significant attention was paid to the erosion of national sovereignty by economic society. In 1998 Jospin said:

“[T]he MAI, in its current form, threatened the sovereignty of states, which are asked to commit themselves in an irreversible manner.”

5.3.1.3 Quantitative analysis

Turning to hypothesis 5.8, let us examine the relationships between ‘European security order’ and FDI flow (between Europe and the US). As for operational definitions to verify this hypothesis, it is possible to use ‘the speed of European integration’. This is because European integration started with economic integration, completed a Single Common Market through the Single European Act (SEA), and now is approaching a political and military community since the Maastricht Treaty. In fact, an autonomous military committee was organised by the Nice Summit in December 2000. In addition, the fact that the US and France have pursued European integration as a means of achieving European security since the Cold War indicates the possibility of adopting ‘the speed of European integration’ as an indicator.

Operational definition 5.3:

‘The increase in the speed of European integration is a positive sign for European security’.
5.3.2 A government as a preference-taker in a non-cooperative game between domestic actors

Domestic structure consists of political, economic and social systems. In this section, from the perspectives of these three systems, hypotheses 5.6 and 5.7 in chapter 2 are examined.

5.3.2.1 Domestic political system and policy outputs

A domestic political system consists of bureaucratic structure and political party structure. For the former, the stronger national institutions and the national control on a policy network are, the more difficult public approaches to the policy-making process. France characterises the centralised political system where the executive has the strongest power. Since De Gaulle all presidents have reinforced this system so that it is to say that France has constructed the strongest national institutions. The French parliament, unlike that of the US, does not encompass a strong position in the legislative procedure under the principle of ‘rationalised parliamentarianism’ (Gabriel and Brettschneider, 1994). In the procedure of foreign policy-making, the president has ‘domaine réservée’, and such a centralisation of decision-making is the most significant in the section of foreign policy compared to other issue areas (Krasner, 1983).

In Germany the control of the executive on foreign defence policy is stronger than that of the US, whilst the parliament plays a limited role. The German parliament has more limited economic sovereignty to take legal measures compared to those of the UK and France (Gabriel and Brettschneider, 1994). However, Germany is unique in that the weakness of parliament does not result in the strengthening of the executive, but rather in a strong political party system that controls both the executive and the legislature.
The UK grants a communication function rather than legitimacy with more significant meaning. In the continental tradition, the parliament plays only a role of a cooperative legislative body, and the legislature confers the limitations on contents. By contrast, the UK parliament is free of any legal limitation under the principle of sovereignty of parliament, and enjoys sovereign and uncontrolled autonomy. In the UK, unlike the other liberal democratic systems, a few legally founded committees (more than France) are permitted and overall meetings are often held. From the executive to networks by sector the ratification of the adopted bill is more strongly guaranteed by the structure of committees than in the other systems (Gabriel and Brettschneider, 1994).

In this section, the characteristics of bureaucratic structure are divided into 'open' and 'closed' ones, and are evaluated by 'the independence of central bank' to examine the relationships between domestic bureaucratic structure and the outputs of foreign economic policy. A hypothesis is as the following.

**Hypothesis 5.10: Open domestic system is elastic to the changes in international environment.**

To verify this hypothesis an operational definition for 'open domestic system' is required. The characteristic of national system of a country is indicated by 'independency of central bank' that represents the relationships between governmental institutions as well as 'the corporation-state relationships' that is dealt with in a later section. It is also possible to adopt 'shifting balance in the international investment flow' for 'the elasticity of national policy to the changes in international environment'.
Operational definition 5.4:

4.1 ‘The more open a domestic system is, the more independency the central bank has’.

4.2 ‘The extent of changes in investment flow balance’ indicates the elasticity of the national policy to changes in international environment’.

On the other hand, for the latter, i.e. the structure of political party, it is possible to distinguish types by the criteria of the Left-Right propensity. Appendix 5.2 depicts the inclination between the Left and the Right of national political parties in individual member states of the EU. Empirical data reflects diverse perspectives that derive from political viewpoints, the goal setting, rhetoric, the positions of party members or executives, and supporters of individual political parties. As Appendix 5.2 shows, Spain and Greece reveal the strong variation between the Left and the Right. Greek Sinaspismos and Spanish I.U., the extreme Left, are in striking contrast to New Democracy (Greece) and PP (Spain), the extreme Right.

In France P. Communiste, the extreme Left, contrasts with RPR, the extreme Right, so that it is to say that the constituents of political parties lack a political middle-of-the-road. As such, it is possible to say that the French political party system never characterises a lesser bipolarisation than those of Greece and Spain. In France decision-makers in the Left-Right conflicts pursue the objective of economic growth with a set of formidable policy instruments that impinge on individual firms or special sectors. In addition, national officials possess a dominant advantage in the relationships with business community, and the policy network is integrated tightly (Katzenstein, 1978). As such, policy networks are completely dominated by the state, and such a dominance of the state has been promoted by an elite group who supports the independence of
France in world politics and ‘force de dissuasion’ as well as ‘defence consensus’ among all political parties (Risse-Kappen, 1996, p. 49).

However, Germany does not show a strong variation between the Left and the Right, such that it is relatively easier for political consensus between the Left and the Right and between the opposition and the government to be established. Germany resembles corporatism with a smaller and less bipolarised system of political parties than France. German policy networks and political structures emphasise consensus building and the institutionalisation of a coalition that support a specific policy. Thus, the public puts relatively less direct input in the policy-making process (Risse-Kappen, 1996).

However, the impacts of the public on the policy outputs are rather more consistent in the sense that the political party system not only penetrates national institutions, but also forms the most important link between society and the political system. In fact, in Germany the main two political parties, SPD and CDU, operate as catchall organisations to integrate divergent social demands. Under such a structure, in the reflection of domestic structure on German foreign policy, frequent volatility and unpredictability of policy does not exist (Risse-Kappen, 1996). As such, hypothesis 5.10 adopts operational definitions as the following.

Operational definition 5.5:

‘The Left-Right cleavage among political parties reflects the difference in domestic political structure’.
5.3.2.2 Economic system and policy outputs

It is likely that in the domestic ratification game, decision-makers confront a significant difference in domestic constituents’ preferences. Domestic agents have different preferences on foreign investment, and the governmental structure inclines toward a specific group of them enough to make a striking difference. On this point, hypothesis 5.10 is established, and generally the interest groups approach is adopted to explore the relationships between domestic interest groups and FEP. However, the approach that this section adopts is intended to explain the interaction relations between domestic structure and interest groups, and differs from the existing interest groups approach.

As for domestic interest groups concerned with the issue of investment, it is possible to restrict these to capitalists (firms) and workers (trade unions). It is reasonable to adopt these groups in the sense that the conflicts between capitalists (firms) and workers (trade unions) are the most significant ones in regard to foreign investment. Generally speaking, capitalists welcome the liberalisation of investment sharing the same position with the Business and Industry Advisory Committee (BIAC) on the MAI in 1998. This is because when the economy of scale is utilised ineffectively due to the small size of the domestic market, domestic firms can get greater profit through gaining access to foreign markets.

In addition, firms can save on the costs of production input factors through the method of local production. In accordance with these market logics, the establishment of an international investment rule, i.e. the MAI, generates the acquisition of transparency and predictability by removing the ambiguity derived from the existence of different national investment rules. In addition, it stipulates the supply of investment from TNCs by eliminating the investment risks in individual states.
By contrast, workers (trade unions) generally aim to increase employment through a specific policy, to utilise labour-intensive comparative advantage and thereby, eventually acquire more income. Under a system of economic liberalisation the law of comparative advantage operates effectively, and the liberalisation of investment is accompanied by job creation. As such, workers possess positive pay-offs in games. Furthermore, workers are not just producers, but consumers. The liberalisation of investment provides them with greater benefits as it generates a lower price of goods, and price and service competitions among firms due to the lower costs of production input factors.

However, with the establishment of an international investment rule under the MAI, this is not the case. This is because from the beginning of negotiations for the MAI, measures to bind effectively the abuse of domestic labour standard in which a certain government offers lower labour standards to attract foreign investment were omitted. Thus in 1998 workers agreed with the liberalisation of investment, but disagreed with on the MAI, which did not protect labour standards.

Individual agents express these different preferences through (political or economic) actions towards a government. As for the forms of these, capitalists can switch their investments from the domestic market to a foreign market, or choose non-investment. This ‘capital flight’ can be used as a means of capitalists’ negotiating power in the sense that it imposes costs, i.e. price, on a government, such as the following: the export of domestic jobs, unemployment and the decrease in household income, loss of opportunities to promote industrialisation, decline of productivity, loss of opportunities to create human capital and loss of opportunities to increase governmental income through the sales tax on goods and services and an income tax on capitalists and workers. Besides this, lobbying and protests are available methods of influencing government.
On the other hand, workers express their preferences through general strikes, non-general strikes, sabotage, secondary boycotts, lobbying, protests and voting. These actions generate the temporary paralysis of domestic economic activities and the loss of household income, and, furthermore, induce social instability, and disturb the stock market. Ultimately it results in damaging the popularity of the government that is a significant political price.

Contending preferences between capitalists (firms) and workers (trade unions) creates a non-cooperative game, and in this game a government forms three different types of neutral, capital-friendly or labour-friendly games. Above all, a neutral government, generally speaking, would like to choose a policy in favour of an actor who undertakes more political actions. Appendix 5.3 A depicts this neutral game. Under a neutral government, players, i.e. capitalists and workers, take strategic choices according to the expected pay-offs or possible solutions. So to speak Capitalists acquire a pay-off of $P_1$ through political and economic actions to the policy of a neutral government, whilst a pay-off of $P_2$ is given to workers. Two players receive a pay-off of zero through no actions respectively. Among these possible solutions, Backward Induction picks $(P_1, P_2)$ up as an optimal solution in which both capitalists and workers take actions to the government.

In the meantime, under the capital-friendly governmental structure (the upper sub-game in Appendix 5.3 B), $r$, representing costs and benefits given to workers and capitalists by different political systems, is reflected on pay-offs. In this process, the capital-friendly governmental structure provides capitalists by positive $r$, whilst negative $r$ is given to workers. By contrast, the opposite phenomenon happens to the case of labour-friendly structure (the bottom sub-game in Appendix 5.3 B). As such, as Appendix 5.3 B depicts, two sub-games are available to take account of. In these games, the optimal solutions are $(P_1 + r, P_2 - r)$ for a capital-friendly
structure, and \((P1 - r, P2 + r)\) for a labour-friendly structure respectively, when \(P1 - r > 0\) and \(P2 - r > 0\). These optimal solutions differ that in the case of a neutral government only in terms of the pay-off, whilst the optimal node of players' strategic choices is completely the same. By contrast, when \(P1 - r < 0\) and \(P2 - r < 0\), then the optimal solutions are \((P1 + r, 0)\) and \((0, P2 + r)\) respectively. Thus the players' action routes are changed.

Finally, only if domestic (governmental) structure impacts significantly on players' pay-offs, does it play a role of structural power to agents' strategic choices. By contrast, in the case when domestic structural impacts are not significant, simply the agents' pay-offs are changed, whilst the nodes of agents' strategic choices are still unchangeable. Let us apply this rational model to Germany, France and the UK. To verify the abovementioned hypothesis a few operational definitions need to be adopted. Capital-friendly and labour-friendly domestic structures are recognised by 'unionisation of individual states', 'specific gravity of tax on corporations in governmental income' and 'the Left-Right propensity of governmental structure'. As such, the adopted operational definitions are as the following.

**Operational definition 5.6:**

6.1 'The higher the extent of unionisation is, the lower specific gravity of tax on corporations is and the higher Left propensity a governmental structure has, the more labour-friendly its structures'.

6.2 'The lower the extent of unionisation is, the higher specific gravity of tax on corporations is and the lower Left propensity a governmental structure has, the more capital-friendly its structures'.

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5.3.2.3 Social system and policy outputs: state-society relationships

State-society relationships are divided into two types: society-dominated and state-dominated ones. In fact, these types are always mixed so that a sharp distinction of them is not available. In addition, the feature of state-society relationships is changeable over time so that the distinction of types is on the assumption of the limitation by time.

Rosenau's pre-theory (1969) analysed the relationships between the type of a state and determinative factors of foreign policy. According to the result of analysis, as for a big state characterised as a developed and open political system, social variables, systemic variables and individual variables of decision-makers, in that order, have explanatory powers. By contrast, as for a big state characterised as a developed and closed political system, individual variables of decision-makers, systemic variables and social variables in order have explanatory powers for foreign policy. As such, a hypothesis is established as the following.

Hypothesis 5.11: In a super and developed state with an open political system, society enjoys greater autonomy against the state. In such a system, social variables have greater explanatory power for foreign economic policy than systemic and individual variables. By contrast, in a big and developed state with a closed political system, social variables lack significant explanatory power compared to the other variables.

France, Germany and the UK differ from each other in terms of their ruling coalition and their policy networks that link public actors with private actors. This difference reflects the different domestic structures in which policy is defined and enforced, and impacts directly on strategic choice in the formation of foreign economic policy. The UK relies on limited policy measures
that influence the overall economy rather than specific sectors or firms. State-firm coalitions are relatively not in favour of national officials, and policy networks that link the public sectors with the private sectors are relatively fragmented.

On this point, Germany is similar to the UK (Katzenstein, 1978), but differs in a few viewpoints. In Germany, society has relatively more autonomy, and is highly participatory in the coalition with its government. Firms, trade unions and the Church are the most important and centralised social organisations that do not hesitate to attempt to influence foreign policy. These social actors overcome internal fragmentation so that they have the power to create a strong mediating mechanism (Risse-Kappen, 1996, p. 490).

On the other hand, Germany prefers consensus building and is founded on the institutional arrangements and corporatism in which *Interessenausgleich* (i.e. divergent social interests) and mutual beneficial reconciliation are emphasised. Economic policies of the federal government are conducted through the consultation with broad interest groups including *Bundesverband der Deutschen Industrie* (BDI) and *Deutscher Industrie- und Handelstag* (DIHT), and the witnesses from relevant interest groups are invited to the *Bundestag*. Social values (culture) that emphasise consensus building are established in Germany as principled or social knowledge, and construct structural features. As such, it is impossible that a two-level game is established, since in policy networks it is likely that the accordance between elites’ preference and that of the public happens. This accordance enables decision-makers to take a strategic choice by themselves without a domestic ratification game.

France has comprehensive policy measures including financial control to change the behaviour of private actors. Financial control derives from the strong control of the government over capital market, and the high dependence of French firms on loans from the capital market.
In particular, the latter originates in the low equity capital rate of French firms (Krasner, 1983). Meanwhile, French economic policy is based on a strong ‘dirigiste’ approach that is conducted by dominant branches of the executive, supported by a technical civil service, and buttressed by informal networks of Ministers, officials, industrialists and bankers (Hayes, 1993).

Furthermore, traditionally, in French governments the administrative elites have enjoyed public control over private agents by choosing interest groups who share a common viewpoint with the government, and granting privilege to them. The inter-bureaucrats boundary is less distinct than that in the UK, and officials share the knowledge that there is general interest that outranks special interest, and it is only the state that can decide what is general interest and protect it. France with these features is classified as a strong state according to Krasner’s (1983) governmental typology. Looking at the formation of foreign economic policy, it represents a closed political system in which the decision-making process lacks social input (Risse-Kappen, 1996). Thus, the public and elites suggest different preferences so that a two-level game structures French domestic ratification and international negotiations.

Turning to the verification of the abovementioned hypothesis 6.11 based on the assumptions of Rosenau’s Pre-theory (1969), the classification of Germany, France and the UK has priority. Above all, as for ‘a super state’, ‘the contribution of individual Member States to the EU budget’ is available to be adopted. For ‘the developed state’, GDP is adopted, whilst ‘open or closed system’ is represented by ‘the independency of a central bank’. Two indicators such as ‘the extent of interest in politics’ and ‘satisfaction with domestic democracy’ are adopted for representing ‘the power of social variables in explaining state-society relationships’. This adoption derives from the knowledge that a state whose people share the participative political culture and the satisfaction with domestic democracy characterises a soft state to its society.
The reason for this is that satisfaction with domestic democracy explains the type of the government, for example, authoritarian or liberal. These types of government indicate the features of the route by which social agents' preferences are reflected in the foreign economic policy of the government. Under a participative political culture and liberal government, it is likely that public opinion or the viewpoints of interest groups will penetrate into governmental decision-making and policy-making processes. As such, social agents' preferences are positively reflected on foreign economic policy.

Operational definition 5.7:

7.1 'A super power contributes a large amount to the EU budget'.

7.2 'GDP of a developed country is higher that that of developing countries'.

7.3 'In an open system, the independence of a central bank is higher than that in a closed system'.

7.4 'The more people are interested in politics, and the higher satisfaction with domestic democracy that the people have, the higher autonomy their society enjoys against the government'.

5.3.3 The perspective of market as a structure

5.3.3.1 Dynamic demand and supply

Linked to the market logic, this section aims to verify the hypothesis 5.5 in chapter 2. There are two kinds of FDI. First, the creation of productive assets by foreigners who build something from scratch – Greenfield investment; and second, the purchase of existing assets by foreigners –
acquisitions, mergers, takeovers, etc. FDI encompasses investments made with the express purpose of taking ownership and control of domestic companies abroad. Direct investment does not only include the initial acquisition of equity capital, but also subsequent capital transactions between the foreign investor and domestic and affiliated enterprises. Market variables concerning FDI are as follows.

5.3.3.1.1 Demand variables

5.3.3.1.1.1 Positive variables (+)

- **w**: benefit in terms of production and the increase in social welfare including technology and management skills. Host countries benefit from technology and management skills as well as capital transfer. That is to say that they benefit from the transfer of know-how, management and control skills, and marketing-related skills.

- **sI**: high industrialisation in terms of production. From the dynamic perspective, FDI can contribute to the industrialisation of a specific sector by supplying necessary capital. That is, the effect of relocation of capital as a resource.

- **j**: job creation. This is the effect that is accompanied by the influx of capital.

- **eI**: guarantee for the effect of domestic policy (in case of financial policy). FDI accelerates the capital flow. Under the floating exchange rate system, the extent of capital flow generates contradictory effects for monetary and financial policy. As for the former, it is only when international capital flow does not exist that monetary policy benefits in terms of effectiveness. By contrast, for the latter, the greater the capital flow is, the more effectively financial policy operates. Meanwhile, Such effects of (financial) policy convert to the increase in income from Y1 to Y2, as Appendix 5.4 depicts.
- \( i1 \): the effect of income creation caused by the increase in production and employment.
- \( t \): governmental revenue derived from taxation on TNCs.
- \( d \): resource development. Host countries can have a chance to develop resources, in the sense that investing countries supply desired capital and technology, and find markets for goods and services.

### 5.3.3.1.1.2 Negative variables (-)

- \( c \): the decrease in competitiveness. FDI dominates host countries’ local markets, and results in the increase in dependency of host country on investment country. In addition, FDI curtails Research and Development (R & D) ability of a host country so that it results in the decrease in competitiveness of the host country’s firms.
- \( e2 \): impediment of effective economic policy. Foreign firms establish an international network centring around a holding company in an investment country. As such, when the economic policy of a host country operates against these firms, they can avoid this problem with support from a holding company. This results in the impediment of economic policy of the host country.
- \( i2 \): a drop of domestic investment. Transnational Corporations (TNCs) do not reinvest high profit in a host country, but remit it to their home country or convert investment to other areas. As a result, the domestic investment of the host country is going to drop.
- \( p \): the deterioration of balance-of-payments. FDI continues to exert pressure upon balance-of-payments of a host country, since the patent royalty that the host country has to pay is high, whilst the benefit for the investment country of FDI is greater than that of host country. As a result, an outflow of foreign currency occurs.
r: the drop of R & D capacity. R & D activities are centralised upon the holding company of a foreign firm, whilst R & D activities in the host country aim only to confirm how effectively the outputs from R & D activities can be operated in the specific environment of a host country. As such, R & D activities that are desirable for the host country are neglected, and the objective is only to transfer technology that is developed through a centralised mechanism. It results in the drop of R & D capacity of the host country.

s2: asymmetrical industrial structure. In the development stage of an economy, the host country needs labour-intensive technology, whilst investment country supplies capital-intensive and high-tech technology. As such, it is likely that the technology transferred to the host country by FDI cannot diffuse to every sector. As a result, the industrial structure of the host country becomes asymmetrical.

5.3.3.1.2 Supply variables

a: advantageous variable

FDI has also increased for a number of the firms’ strategic reasons and these can be summarised as follows: to diversify regionally and politically; to protect profit margins by acquiring market share; to cope more readily with the shortening of the product life-cycle; to obtain economies of scale to compete internationally; to take it as a countermeasure to trade friction; to maintain close business relationships during a period of de-investment by some companies; to mitigate against legal controls on mergers and acquisitions and foreign investment; to provide access to desired technology; to broaden product lines; to expand markets; to restrict competition, and; to improve a branch network (Cooke, 1992, p. 51).
FDI also has demerits as follows: (1) the overestimation of the value of the target company; even though the company researched and confirmed the condition of the target company, the value of the target company can be lower, contrary to expectation, (2) cultural clash between acquirer and acquired company; the relationship between employees who have a different nationality may become worse caused by the difference between organisational cultures. As a result the decline of organisational efficiency or the outflow of competent human resources may occur, (3) financial aggravation; because FDI outflow requires massive capital, the financial condition of a company may worsen, and (4) anti-trust laws; an important consideration in any contemplated acquisition is the potential constraint imposed by antitrust laws (Buckley, 1995, Gilpin, 1975, Mansfield, 1994, Rogers, 1993, Dunning, 1998).

According to the abovementioned variables, economic agents decide to supply or not to supply foreign investment. Their behaviours are established in the theoretical forms of oligopoly theory, product-life-cycle theory and organic theory. Above all, oligopoly theory explains that domestic enterprises, possessing technological advantage, better financial resources, professional management and new products or a new production line, invest in foreign markets to exercise their control power on the market, aiming to restrict inter and external competitions. Such FDI is aggressive (Joyce and Gabriel Kolko, 1972). The product-life-cycle theory suggests that in the stage of maturity of product-life, competitive advantage derived from technological advantage is reduced, and moves on to low technology, low wage and labour-intensive economy in the consequential stage of standardisation. In the latter, domestic firms come to confront competition from foreign firms. Enterprises therefore implement foreign investment before the stage of
standardisation to prevent this from happening. Such FDI is defensive. Meanwhile, the organic theory of investment suggests that firms choose foreign investment not to pursue the maximisation of profit, but to prohibit the loss of market share, i.e. to protect earning capacity. This kind of investment aimed at ‘loss avoidance’ is a defensive and long-term strategy.

5.3.3.1.3 Dynamic game of supply and demand

The function of the payoffs in the supply-demand game with complete information is \((x, y)\), which \(x\) is for the decision of an investing country whether to supply the investment (capital) or not, while \(y\) is for the utility of a host country. \(x\) is decided by supply variables, i.e. advantages – disadvantages. Meanwhile, \(y\) consists of the costs-benefits variables of host country, i.e. \(w + sI + j + eI + iI + t + d + c + e2 + i2 + p + r + s2\). In addition, the pay-off of a supplier is greater than zero, since only if it is, foreign investment is in supply. In the same context, the pay-off of the demander is greater than zero, too.

Based on economic logic, applying backward induction to the game of supply-demand, the French government must make a decision regarding its investment demand irrespective of the decisions of any investing country, for example, the US or Japan. Contrasting strikingly with this logic, the French government has actually kept a foreign investment policy characterised by limited access and discriminatory intervention.

Furthermore, as Figure 5.2 shows, economic indicators for Germany and the UK produce negative results, whilst those of France produce positive results. In terms of French net direct investment, unemployment, trade balance at current price, net current and capital account and net current account, these have all been in strong balance, fair improvement, fair black or great black.
Figure 5.2 Types of the EU member states on external investment policy and their economic performance

<table>
<thead>
<tr>
<th>Country</th>
<th>T</th>
<th>I</th>
<th>U</th>
<th>B1</th>
<th>B2</th>
<th>B3</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 15</td>
<td>less and fair</td>
<td>fair</td>
<td>black in</td>
<td>black in</td>
<td>black in</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Limited access and</td>
<td>balance</td>
<td></td>
<td></td>
<td>recessions</td>
<td>recession</td>
</tr>
<tr>
<td></td>
<td>discriminatory</td>
<td>strong</td>
<td></td>
<td></td>
<td>fair black</td>
<td>great black</td>
</tr>
<tr>
<td></td>
<td>intervention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>great black</td>
</tr>
<tr>
<td>Germany</td>
<td>Unlimited access and</td>
<td>balance</td>
<td>EU 15</td>
<td>great black</td>
<td>fair red</td>
<td></td>
</tr>
<tr>
<td></td>
<td>discriminatory</td>
<td>less balance</td>
<td></td>
<td></td>
<td></td>
<td>fair red</td>
</tr>
<tr>
<td></td>
<td>intervention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United</td>
<td>Unlimited access and</td>
<td>fair</td>
<td></td>
<td></td>
<td>great red</td>
<td></td>
</tr>
<tr>
<td>Kingdom</td>
<td>nondiscriminatory</td>
<td>balance</td>
<td></td>
<td></td>
<td>fair red</td>
<td></td>
</tr>
<tr>
<td></td>
<td>intervention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>fair red</td>
</tr>
</tbody>
</table>

Notes: (1) T = type of the EU member states on external investment policy; I = direct investment net, Mio ECU; U = unemployment rate (%); B1 = trade balance at current prices, 1000 million ECU (trade in goods); B2 = current and capital account net, Mio ECU; B3 = current account net, Mio ECU, (2) strong balance = even though that it was less than equilibrium since 1998; less balance = a little bit underneath equilibrium, and the rapid increase of outward flow since 1999; fair balance = almost near to equilibrium, despite the reduction since 1998 and the rapid increase of inward flow in the end of 1999; less and fair balance = underneath Germany's performance and since 1998 a big fluctuation between zero and -120000, (3) great black = be in the black in a large scale; fair black = be in the black in a small scale; great red = be in the red in a large scale; fair red = be in the fluctuation between 5000 to -5000 for the case of 'current account net, Mio ECU'; and between 5000 to -10000 for the case of 'current and capital account net, Mio ECU'; black in recession = be in the black and on the decrease.

As such, the rationale for French protective foreign investment policy is founded on sound economic indicators. This is to say that market logic cannot lead the French government to the liberalisation of investment, and consequently that the abovementioned hypothesis based on neo-classical logic of economics, i.e. ‘market induces changes in policy’, must be abandoned.

5.3.3.2 Money: capital mobility

Let us take account into the effect of capital mobility through the market logic of monetary and financial policy effects under a floating exchange rate. Today’s investment flows among the developed countries comes to be almost perfectly correlated with deregulation, the development of information and communication technology and the decrease in transaction costs. Perfect capital mobility means that, between two countries, capital flow does not confront any barrier and financial assets are completely substitutable: as capital moves at once from one country of lower interest rate to the other country of higher interest rate after every single subtle difference in interest rates so that interest rates of these two countries become the same. As such, the domestic interest rate is the same as that is decided in foreign countries so that any unbalance of current balance is corrected by capital flows at once. As a result, the BP curve, representing balance-of-payments and the combination of income and interest rate, becomes horizontal at the level of foreign interest rate.

In the case of perfect capital mobility under a floating exchange rate, monetary policy never impacts on income level, whilst financial policy can be very effectively utilised. By contrast, under a fixed exchange rate, monetary policy impacts seriously enough on income to be an effective policy tool, whilst financial policy does not impact on income. As such, capital mobility plays a significant role in deciding national income through its impact on the domestic
economic policy of individual states. In addition, capital mobility generates a significant effect on national economies through inducing change in exchange rates and, consequently, in trade conversion or price change.

Today’s world economy is characterised by the floating exchange rate system and high interstate interdependency. In such an international environment, individual states generally orientate toward the international free movement of goods and services, independent economic policy and stability of exchange rates. However, it is not easy to achieve these three objectives at once. Thus the state needs to make a choice, and generally speaking international free movement of goods and service is preferred in common, whilst of the last two one is taken and the other given up. Such a context leads individual states to take financial policy into account.

In the 21st century, developed countries target the stability of exchange rates. Generally speaking, they think that it is better to utilise monetary and financial policies harmoniously rather than intervene directly in the foreign exchange market. As such, capital mobility exerts a structural power over the policy intentions of individual states by impacting on this harmony of monetary and financial policies. Such a structural power forces states to consider international economic cooperation for the establishment of an international rule aiming at acquiring a better payoff. However, economic cooperation is not easily available, since players have enough incentives to cheat on partners as they believe that they can get better payoffs from the other players’ sacrifice. In other words, players can utilise a realist strategy that emphasises not absolute gain, but relative gain as the basic logic of their strategic choice.

Meanwhile, it is also possible to get an explanation from the viewpoint of individual decision-makers. It is decision-makers, i.e. human agents and politicians that are in charge of international economic cooperation. Their basic objective lies in political survivability so that
they would like to pay market price of monetary and financial policies rather than political price such as resignation, unsuccessful candidacy and power shift, whenever market logic and political rationality are in conflict. Consequently, it is necessary to explore whether capital mobility, i.e. investment flow, impacts on economic performance enough to effect domestic economic policy or not. As such, a hypothesis is established as the following.

*Hypothesis 5.12: Capital mobility shifts the policy preference of individual states by impacting on their economic performance.*

To verify this hypothesis a few indicators need to be adopted. Current and capital balance, i.e. BP curve and the combination of income and interest rate, is adopted as an indicator for the extent of capital mobility. This also means net foreign investment, as was explained before. In the meantime, as for basic lines of foreign investment policy of individual states such as Germany, France and the UK, the extent of access permitted for foreign investors to domestic market and the governmental attitude to the local foreign firms are adopted as an indicator.

### 5.4 Framework of an empirical analysis

#### 5.4.1 Setting modelling and measurement of variables

To verify the abovementioned series of hypotheses, a model is established as the following:
\[ Y_i = a + b_1 X_{1i} + b_2 X_{2i} + b_3 X_{3i} + e_i \quad (5.1) \]

\( Y_i \): the predicted score on the dependent variable

\( X_{1i} \): the score on the independent variable (the international context)

\( X_{2i} \): the score on the independent variable (the domestic context)

\( X_{3i} \): the score on the independent variable (market context)

\( a \): the Y-intercept, or the point where the line crosses the Y-axis; therefore \( a \) is the value of \( Y_i \) when \( X_{1i} \), \( X_{2i} \) and \( X_{3i} \) are zero. This is known as the regression constant.

\( b_1 \), \( b_2 \) and \( b_3 \): the slope of the line, or the change in \( Y_i \) with a unit change in \( X_{1i} \), \( X_{2i} \) and \( X_{3i} \). These are known as the regression coefficient.

\( e_i \): the potential impacts of the other variables

As an analytical tool, multiple regression analysis has been adopted. This analytical method is used to investigate how a dependent variable changes as independent variables change when all component variables of a population correlate. As such, independence, interaction and correlation are subject to verification. Meanwhile, two technical methods have been adopted to improve the validity of analysis outputs. First, every model for verifying individual hypotheses is going to be analysed in a grouping: international context, European security context, domestic context (political system, economic system and social system context) and market context. This is to avoid serious omitted variable biases. Secondly, the model (1) is bound to take logarithms of the skewed variables to reduce heteroscedasticity, so that instead of it, we estimate:

\[ \log Y_i = a + \log b_1 X_{1i} + \log b_2 X_{2i} + \log b_3 X_{3i} + e_i \quad (5.2) \]
Possible variables and their measurement are depicted by figure 6.3. The international context means globalisation and power politics, and each account consists of trade in goods, gross in real trade less growth in real GDP, gross capital flows, gross foreign direct investment and the speed of European integration (European security order). As for the domestic context, political, economic and social systems are referred to. The political system is represented by the independency of central banks and the Left-Right cleavage of political parties, whilst the account of economic system consists of union density, the share of corporate tax in total governmental revenue and Voters’ Left-Right propensity. The specific gravity of employees tax in inland revenue, expenditure on unemployment function, specific gravity of individual Member States in the EU budget, GDP, interest in politics and satisfaction with domestic democracy construct the perspective of social system. On the other hand, the market context is going to be explored by two perspectives of dynamic supply-demand and money: the former consists of the overall balance of individual states, unemployment, trade balance, R & D expenditure (Business enterprise sector, 1989-1997), and total expenditure on social protection at current prices, and the latter is represented by the capital mobility of individual states. $e_i$ indicates the impacts of the other potential variables that are not included in this model. As for dependent variables, the diverse preferences of individual states on foreign investment and the elasticity of national economy to international economy are adopted. Inward FDI shifting balance is an indicator for the former, and the latter is expressed by the special gravity of national economy in the international economic performances.
## Table 5.1 Measurement of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Context</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Globalisation</td>
<td>• International Trade in goods (I₁ and I₂)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• International Gross capital flows (I₃)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• International Gross foreign direct investment (I₄)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• The speed of European integration (European security order) (I₅, I₆ and I₇)</td>
<td>% by country in interval scale (1 to 7)</td>
</tr>
<tr>
<td>• Power politics</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average % of PPP GDP (I₁) and % of goods GDP (I₂)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Average % of PPP GDP</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Slowly (1-3) (I₅), At medium pace (4) (I₆) and Quickly (5-7) (I₇)</td>
<td>%</td>
</tr>
<tr>
<td><strong>Domestic Context</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Political system</td>
<td>• The independence of central banks (D₁)</td>
<td>Weighted value</td>
</tr>
<tr>
<td></td>
<td>• The Left-Right cleavage of political parties (D₂)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• Union density (D₃)</td>
<td>%</td>
</tr>
<tr>
<td>• Economic system</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The share of corporate tax total governmental revenue (D₄)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• Voters’ Left-Right propensity (D₅, D₆, D₇, D₈ and D₉)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• Share of employees tax in inland revenue (D₁₀)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>• Expenditure on unemployment</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Political independence and economic independence</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Interval scale 1 to 5 (LL, L, M, R and RR)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Overall Net Density (% dependent labour force)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Corporate tax/tax revenue</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Voters’ self-evaluation (after 1992) – Extreme Left (D₆), Left (D₇), Middle (D₈), Right (D₉) and Extreme Right (D₉)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Employees tax/tax revenue</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>% of total social benefits</td>
<td>%</td>
</tr>
<tr>
<td>Variables</td>
<td>Measurement</td>
<td>Unit</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------</td>
<td>------</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Dynamic Supply-Demand</td>
<td>• Overall balance of individual states (M₁)</td>
<td>Current and capital account net</td>
</tr>
<tr>
<td></td>
<td>• Unemployment (M₂)</td>
<td>Balance of international trade in goods and services at current prices</td>
</tr>
<tr>
<td></td>
<td>• Trade balance (M₃)</td>
<td>R &amp; D expenditure/GDP</td>
</tr>
<tr>
<td></td>
<td>• R &amp; D expenditure (Business enterprise sector, 1989-1997) (M₄)</td>
<td>Total expenditure on social protection</td>
</tr>
<tr>
<td></td>
<td>• Total expenditure on social protection at current prices (M₅)</td>
<td>Current and capital balance, net foreign investment, and vertical and horizontal BP curve</td>
</tr>
<tr>
<td></td>
<td>• Capital mobility of individual states (M₆)</td>
<td></td>
</tr>
<tr>
<td>• Money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent variable</td>
<td>Preferences of individual states in foreign</td>
<td>Inward FDI shifting balance (Y₁)</td>
</tr>
</tbody>
</table>
5.4.2 Interpretation of analysis outputs

The interpretations of these regression outputs are given in the following order: 1) above all, it needs to suggest two hypothesis: the null hypothesis, symbolised as $H_0$, and the experimental hypothesis, i.e. the alternative hypothesis, symbolised as $H_1$. The former is $H_0$: $b_1$, $b_2$ and $b_3 = 0$, stating that independent variables do not have any correlation with dependent variable. That is, $H_0$ states that in the population, there is no difference between performance under the mnemonic and control conditions. By contrast, the latter contradicts the null hypothesis, i.e. $H_1$: $b_1$, $b_2$ and $b_3 \neq 0$ stating that there is a significant correlation between independent variables and dependent variable. If $H_0$ fails the test, we shall conclude that our experimental hypothesis, which in statistical terms is known as the alternative hypothesis, is correct. This test is undertaken by using the p-value of the statistic that indicates the probability, assuming that $H_0$ is true. This study adopts 5% as the level of significance. 2) analysing correlations between input variables, since if there is not any correlation among variables, then it is impossible to get a desirable output, 3) analysing the suitability of model through reading $R^2$ in ‘Model Summary’ or Sig. in analysis of variance (ANOVA for short). This research adopts the latter. 4) the last stage of regression is to evaluate the significance of the individual independent variables. Only if the impact of individual variables on a dependent variable is significant, is it possible to determine the extent to which an independent variable changes a dependent variable.
5.4.2.1 France

Table 5.2 Regression output (France)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficients 1</th>
<th>Coefficients 2</th>
<th>Independent variables</th>
<th>Coefficients 1</th>
<th>Coefficients 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>I_1</td>
<td>-.960* (.701)</td>
<td>.711</td>
<td>D_3</td>
<td>.730</td>
<td></td>
</tr>
<tr>
<td>I_2</td>
<td>-.804</td>
<td>-1.436</td>
<td>D_4</td>
<td>-.729* (-1.548)</td>
<td></td>
</tr>
<tr>
<td>I_3</td>
<td>-.989* (.775)</td>
<td>-.702</td>
<td>D_5</td>
<td>.695</td>
<td></td>
</tr>
<tr>
<td>I_4</td>
<td></td>
<td></td>
<td>D_6</td>
<td>.717</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>ANOVA Sig. .024*** (.373)</td>
<td>(Constant)</td>
<td>2.223</td>
<td>ANOVA Sig. .031***</td>
</tr>
<tr>
<td>I_5</td>
<td>.286</td>
<td>-1.851</td>
<td>D_12</td>
<td>.558</td>
<td></td>
</tr>
<tr>
<td>I_6</td>
<td>-.276</td>
<td>1.389</td>
<td>D_13</td>
<td>-.881* (-13.705)</td>
<td></td>
</tr>
<tr>
<td>I_7</td>
<td>-.348</td>
<td>-2.192</td>
<td>D_14</td>
<td>.260</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>ANOVA Sig. .936</td>
<td>(Constant)</td>
<td>46.126</td>
<td>ANOVA Sig. .398</td>
</tr>
<tr>
<td>D_1</td>
<td>.272 (.691)</td>
<td>-.021</td>
<td>M_1</td>
<td>-.452</td>
<td>.474</td>
</tr>
<tr>
<td>D_2</td>
<td>-.950 (-.811)</td>
<td>-.225</td>
<td>M_2</td>
<td>-.823** (-.216)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>ANOVA Sig. .049***</td>
<td>(Constant)</td>
<td>0.329</td>
<td>ANOVA Sig. .027***</td>
</tr>
<tr>
<td></td>
<td>4.304</td>
<td></td>
<td>M_3</td>
<td>-.731* (-.893)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>M_4</td>
<td>-.102</td>
<td>6.882</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>M_5</td>
<td>-.694</td>
<td>.573</td>
</tr>
</tbody>
</table>
Notes:
1. ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed); *** A model is significant at the 0.05 level
2. The figures in ( ): Analysis results in the case of 'Elasticity of national economy to international economy as a dependent variable.
3. Coefficients 1: standardised coefficients in regressions of every independent variables and dependent variable, or simple correlations.

Coefficients 2: unstandardised coefficients in regressions of every contexts.

4. I₁: International Trade in goods (% of PPP GDP); I₂: International Trade in goods (% of goods GDP); I₃: International Gross capital flows; I₄: International Gross foreign direct investment; I₅: The speed of European integration (slowly); I₆: The speed of European integration (at medium pace); I₇: The speed of European integration (quickly); D₁: The independency of central banks (sum of political and economic independency); D₂: The Left-Right cleavage of political parties; D₃: Union density; D₄: Specific gravity of corporate tax in inland revenue; D₅: Voters’ Left-Right cleavage (Extreme Left); D₆: Voters’ Left-Right cleavage (Left); D₇: Voters’ Left-Right cleavage (Middle); D₈: Voters’ Left-Right cleavage (Right); D₉: Voters’ Left-Right cleavage (Extreme Right); D₁₀: Specific gravity of employed tax in inland revenue; D₁₁: Expenditure on unemployment function; D₁₂: Specific gravity of individual Member States in the EU financing of expenditure; D₁₃: GDP; D₁₄: Interest in politics (frequently + occasionally); D₁₅: Interest in politics (never); D₁₆: Satisfaction with domestic democracy (very satisfied + fairly satisfied); D₁₇: Satisfaction with domestic democracy (not very satisfied + not at all satisfied); M₁: Overall balance of individual states; M₂: Unemployment; M₃: Balance of international trade in goods and services at current prices; M₄: R & D expenditure (Business enterprise sector); M₅: Total expenditure on social protection.

The regression outputs show that all hypotheses are verified in terms of negative or positive value, whilst only a few hypotheses are supported by statistical significance.

- International context

In terms of simple correlations, international trade is in negative simple correlation with foreign investment policy and is not supported by significance, whilst International gross capital flows is in a significant negative correlation with the dependent variable.
A regression analysis, consisting of international gross capital flows and international trade in goods (% of PPP GDP) (independent variables), and inward FDI shifting balance (dependent variable), results in a significance 0.024. Thus, this model is acceptable by the significance criteria of $p < 0.05$, and the null hypothesis ($H_0$) is rejected, whilst the alternative hypothesis 5.6 is approved. As for unstandardised coefficients in a regression, international gross capital flows is negatively correlated with the dependent variable, whilst international trade in goods is positively correlated with the dependent variable. This is equivalent to:

$$Y_t = 4.304 + 0.711X_{t1} - 1.436X_{t2} + e_t \quad (5.3)$$

In the meantime, when according to the hypothesis 5.3, international trade in goods and international gross capital flows are adopted as independent variables, whilst the elasticity of national economy to international economy is adopted as the dependent variable, the regression output shows that the model is not significant showing greater p-value than 0.05. Thus, the null hypothesis is accepted, whilst the alternative hypothesis 5.3 is rejected.

- **The context of the European security order**

The speed of European integration (slowly) is positively correlated with a dependent variable, whilst the speed of European integration (at medium pace) and the speed of European integration (quickly) are negatively correlated. Both of them are not significant. Meanwhile, the regression model is not significant due to a greater p-value than 0.05. Thus, the null hypothesis is accepted,
whilst the alternative hypothesis 5.9 is rejected such that the abovementioned function (5.1) is not valid for the French government.

- Domestic context (the political system)

Taking account of the political system and inward FDI shifting balance (dependent variable), the independence of central banks and the dependent variable are positively correlated, whilst the Left-Right cleavage of political parties is negatively correlated with an inward FDI shifting balance. Both of them are not significant. However, the significance of a model is significant in that it generates a smaller p-value than 0.05. Thus, the null hypothesis is rejected and the experimental hypothesis 5.7 in chapter 2 is accepted. In addition, the hypothesis 5.6 is approved, which is equivalent to:

\[
Y_i = 4.066 - 0.021X_{1i} - 0.225X_{2i} + e_i \quad (5.4)
\]

On the other hand, looking at the relationships between the elasticity of national economy to international economy and the domestic political system, the model is not significant as it shows a greater p-value than 0.05. Thus, the null hypothesis is accepted, and the alternative hypothesis 5.10 is rejected. Furthermore, the hypothesis 5.6 is rejected.
Domestic context (the economic system)

Union density is positively correlated with the dependent variable but is not significant. The share of corporate tax in governmental tax revenue proves negatively correlated with the dependent variable, and is significant. Voter's Left-Right cleavage variables of Extreme Left and Left are not significant but are positively correlated with the dependent variable. Voter's Left-Right cleavage variables of Middle, Right and Extreme Right are negatively and not significantly correlated with the dependent variable. The share of employees tax in tax revenue, expenditure on unemployment function and the dependent variable are positively correlated, but are not supported by statistical significance.

According to the output of a regression adopting the variables of the share of corporate tax in tax revenue and the share of employees tax in tax revenue, the model is significant. Thus, the null hypothesis is rejected, whilst the alternative hypothesis 5.6 is approved. The result is equivalent to:

\[ Y_i = 2.223 - 1.548X_{1i} + 4.475X_{2i} + e_i \]  (5.5)

Domestic context (the social system)

The share of individual Member States in EU financing of expenditure, representing a superpower, is positively correlated with the dependent variable, whilst GDP, representing the developed country, is negatively correlated. The former is not significant, whilst the latter is significant. Meanwhile, interest in politics and satisfaction with domestic democracy are not significant, and both of them are negatively correlated with the dependent variable.
According to a regression output from a model that consists of GDP, interest in politics and satisfaction with domestic democracy (independent variables), and inward FDI shifting balance (dependent variable), the model is not significant showing a greater p-value than 0.05. Thus, the null hypothesis is accepted and the experimental hypothesis 5.11 is rejected.

- **Market context**

The overall balance of individual states is negatively correlated with transforming national preference to the liberalisation of international foreign investment. This variable is not significant. As for unemployment, it is also negatively correlated with inward FDI shifting balance, but is significant. The balance of international trade in goods and services at current prices are significant, and correlated negatively with the dependent variable. The significance of variables indicates that they are significant factors for determining the policy preference of individual states. R & D expenditure and total expenditure on social protection are negatively correlated with the dependent variable, and are not significant.

Meanwhile, in the regression of these variables, the model concerning market context is significant at the level of p < 0.05. As a result, the null hypothesis is rejected, and the alternative hypotheses 5.5 and 5.12 are accepted. In particular, the overall balance of individual states, the balance of international trade and R & D expenditure have a very high t-value, meaning that these variables are consistent, despite their little variances. This correlation is equivalent to:

\[ Y_i = 0.329 + 0.4748X_{1i} - 0.216X_{2i} - 0.893X_{3i} + 6.882X_{4i} + 0.573X_{5i} + e_i \]  

(5.6)
### Table 5.3  Regression output (UK)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficients 1</th>
<th>Coefficients 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>I₁</td>
<td>-.767 (.508)</td>
<td>10.316</td>
</tr>
<tr>
<td>I₂</td>
<td>-.628</td>
<td>-13.487</td>
</tr>
<tr>
<td>I₃</td>
<td>-.843 (.457)</td>
<td></td>
</tr>
<tr>
<td>I₄</td>
<td>-.586</td>
<td></td>
</tr>
<tr>
<td>(Constant) 2.001</td>
<td></td>
<td>ANOVA Sig. .034*** (.786)</td>
</tr>
<tr>
<td>I₅</td>
<td>.521</td>
<td>5.907</td>
</tr>
<tr>
<td>I₆</td>
<td>.459</td>
<td>-8.426</td>
</tr>
<tr>
<td>I₇</td>
<td>.707</td>
<td>7.465</td>
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<tr>
<td>(Constant) -3.853</td>
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<td>ANOVA Sig. .024***</td>
</tr>
<tr>
<td>D₁</td>
<td>-.617 (.289)</td>
<td>-.057</td>
</tr>
<tr>
<td>D₂</td>
<td>-.611 (.926)</td>
<td>.334</td>
</tr>
<tr>
<td>(Constant) (-.380)</td>
<td></td>
<td>ANOVA Sig. .037***</td>
</tr>
<tr>
<td>D₃</td>
<td>.710</td>
<td></td>
</tr>
<tr>
<td>D₄</td>
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<td>.509</td>
</tr>
<tr>
<td>D₅</td>
<td>.723</td>
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</tr>
<tr>
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<td>.696</td>
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<tr>
<td>D₈</td>
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<tr>
<td>D₉</td>
<td>.774</td>
<td></td>
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<td>D₁₀</td>
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<td>-5.383</td>
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<tr>
<td>(Constant) 9.317</td>
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<td>ANOVA Sig. .039***</td>
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<tr>
<td>D₁₂</td>
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<td>-12.324</td>
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<tr>
<td>D₁₃</td>
<td>.004</td>
<td>-5.741</td>
</tr>
<tr>
<td>D₁₄</td>
<td>.314</td>
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<td>.974</td>
</tr>
<tr>
<td>D₁₇</td>
<td>-.289</td>
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<tr>
<td>(Constant) 48.625</td>
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<td>ANOVA Sig. .532</td>
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<td>M₂</td>
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<td>.850</td>
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<tr>
<td>M₃</td>
<td>.252</td>
<td>.193</td>
</tr>
<tr>
<td>M₄</td>
<td>-.375</td>
<td>-2.831</td>
</tr>
<tr>
<td>M₅</td>
<td>-.299</td>
<td>-7.325</td>
</tr>
<tr>
<td>(Constant) 14.054</td>
<td></td>
<td>ANOVA Sig. .048***</td>
</tr>
</tbody>
</table>
As for the UK, like the French government, only a few hypotheses are supported by statistical significance.

- **International context**

In terms of simple correlations, all variables are negatively correlated with inward FDI shifting balance. A regression analysis, consisting of international gross capital flows and international trade in goods (% of PPP GDP) (independent variables), and inward FDI shifting balance (dependent variable), shows the significance of the model. Thus, the null hypothesis ($H_0$) is rejected, whilst the alternative hypothesis 5.4 is approved. This is equivalent to:

$$Y_1 = 2.001 + 10.316X_{1i} - 13.487X_{2i} + e_i \quad (5.7)$$

In the meantime, in terms of the elasticity of the national economy to international economy (dependent variable). Both elasticity and international trade in goods are not statistically significant, whilst they have positive correlations. However, the output of regression shows that the model is not significant, and thus the null hypothesis is accepted, whilst the alternative hypothesis 5.3 is rejected.

- **The context of the European security order**

In terms of relationships with European security order, all variables are not significant. In detail, the speed of European integration (slowly) is negatively correlated with liberal foreign
investment policy, whilst the speed of European integration (at medium pace) and the speed of European integration (quickly) are positively correlated. In addition, the greater speed it has, the greater correlation comes out. On the other hand, the model is significant at the level of \( p < 0.05 \). Thus, the null hypothesis is rejected, whilst the alternative hypothesis 5.9 is accepted such that it is equivalent to:

\[
Y_i = -3.853 + 5.907X_{1i} - 8.426X_{2i} + 7.465X_{3i} + e_i \quad (5.8)
\]

- **Domestic context (the political system)**

The independence of central banks and the Left-Right cleavage of political parties are all negatively correlated with the dependent variable. Both of them are not significant. On the other hand, the model is not significant, as it generates a greater p-value than 0.05. Thus, the null hypothesis is accepted and the experimental hypothesis 5.7 is rejected. In addition, the hypothesis 5.6 is invalid.

On the other hand, looking at the elasticity of the national economy to the international economy and the domestic political system, the model is significant, as it shows a smaller p-value than 0.05, i.e. 0.037. Thus, the null hypothesis is rejected, and the alternative hypothesis 5.10 is accepted. The Hypothesis 5.6 is also accepted, which is equivalent to:

\[
Y_i = -0.380 - 0.057X_{1i} + 0.334X_{2i} + e_i \quad (5.9)
\]
Domestic context (the economic system)

Union density is positively correlated with the dependent variable but is not significant. The share of corporate tax in tax revenue is negatively correlated with the dependent variable but is also not significant. A series of voter’s Left-Right cleavage variables from Extreme Left to Extreme Right are all not significant, and positively correlated with the dependent variable. The share of employees tax in tax revenue is both negatively correlated and significant, whilst the expenditure on unemployment function and the dependent variable are positively correlated but again not significant.

According to the output of regression by adopting as variables the share of corporate tax in tax revenue and the share of employees tax in tax revenue, the model is significant. Thus, the null hypothesis is rejected, whilst the alternative hypothesis is approved. In this model, the share of corporate tax is not significant with the p-value of 0.596, whilst the share of employees tax is significant, as it shows a smaller p-value than 0.05. The result is equivalent to:

\[ Y_i = 9.317 + 0.596X_{1i} + 0.097X_{2i} + e_i \]  \hspace{1cm} (5.10)

Domestic context (the social system)

The share of individual Member States in the EU financing of expenditure, representing a superpower, is negatively correlated with the dependent variable, whilst GDP, representing the developed country, is positively correlated. Both of them are not significant. Meanwhile, interest
in politics (frequently + occasionally) and satisfaction with domestic democracy (very satisfied + fairly satisfied) are not significant showing positive correlations. By contrast, interest in politics (never) and satisfaction with domestic democracy (not very satisfied + not at all satisfied) are not significant, showing negative correlations.

According to a regression output from a model that consists of GDP, interest in politics and satisfaction with domestic democracy (independent variables), and inward FDI shifting balance (dependent variable), the regression model is not significant, as it produces a greater p-value than 0.05. Thus, the null hypothesis is accepted and the experimental Hypothesis 5.11 is rejected.

■ Market context

The overall balance of individual states, unemployment, balance of international trade in goods and services at current prices are all positively correlated with transforming national preference to the liberalisation of international foreign investment. All these variables are not significant. R & D expenditure and total expenditure on social protection are all negatively correlated with dependent variable, and are not significant.

Meanwhile, in the regression of these variables, the model concerning market context is significant at the level of p < 0.05. As a result, the null hypothesis is rejected, and the alternative hypotheses 5.5 and 5.12 are accepted, stating that market context as a structure operates as a positively decisive factor for forming foreign investment policy. All of these outputs are equivalent to:

\[
Y_t = 14.054 - 0.96X_{1t} + 0.850X_{2t} + 0.193X_{3t} - 2.831X_{4t} - 7.325X_{5t} + e_t \]  
(5.11)
### 5.4.2.3 Germany

Table 5.4  Regression output (Germany)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficients 1</th>
<th>Coefficients 2</th>
</tr>
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<tbody>
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<td>I₁</td>
<td>.668 (-1.568)</td>
<td>(-1.568)</td>
</tr>
<tr>
<td>I₂</td>
<td>.611</td>
<td>(.619)</td>
</tr>
<tr>
<td>I₃</td>
<td>.750 (-.389)</td>
<td>(.389)</td>
</tr>
<tr>
<td>I₄</td>
<td>.616</td>
<td>(.619)</td>
</tr>
<tr>
<td>(Constant)</td>
<td>(1.710)</td>
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</tr>
<tr>
<td>ANOVA Sig</td>
<td>.323 (.040***)</td>
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<table>
<thead>
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<th>Coefficients 2</th>
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<tr>
<td>D₄</td>
<td>.200</td>
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<tr>
<td>D₅</td>
<td>.097</td>
<td></td>
</tr>
<tr>
<td>D₆</td>
<td>.531</td>
<td></td>
</tr>
<tr>
<td>D₇</td>
<td>.962**</td>
<td></td>
</tr>
<tr>
<td>D₈</td>
<td>.867*</td>
<td></td>
</tr>
<tr>
<td>D₉</td>
<td>.619</td>
<td></td>
</tr>
<tr>
<td>D₁₀</td>
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<td>-1.716</td>
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<td>ANOVA Sig</td>
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<table>
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<th>Coefficients 2</th>
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<tbody>
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<td>D₁₂</td>
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<tr>
<td>D₁₃</td>
<td>.479</td>
<td>.575</td>
</tr>
<tr>
<td>D₁₄</td>
<td>-.358</td>
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<tr>
<td>D₁₅</td>
<td>.284</td>
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</tr>
<tr>
<td>D₁₆</td>
<td>-.786*</td>
<td>-3.973</td>
</tr>
<tr>
<td>D₁₇</td>
<td>.750</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>78.911</td>
<td></td>
</tr>
<tr>
<td>ANOVA Sig</td>
<td>.045***</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficients 1</th>
<th>Coefficients 2</th>
</tr>
</thead>
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<tr>
<td>M₁</td>
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<td>.474</td>
</tr>
<tr>
<td>M₂</td>
<td>.158</td>
<td>-.216</td>
</tr>
<tr>
<td>M₃</td>
<td>-.625</td>
<td>-.893</td>
</tr>
<tr>
<td>M₄</td>
<td>-.501</td>
<td>6.882</td>
</tr>
<tr>
<td>M₅</td>
<td>.708*</td>
<td>.573</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-36.847</td>
<td></td>
</tr>
<tr>
<td>ANOVA Sig</td>
<td>.551</td>
<td></td>
</tr>
</tbody>
</table>
Like the two countries in the previous sections, the regression outputs for Germany show that all hypotheses are verified in terms of negative or positive value, whilst only a few hypotheses are supported by statistical significance.

- **International context**

In terms of simple correlations, all variables with foreign investment policy are positively correlated. However, international gross in real trade less growth in real GDP is the only one that is supported by significance.

A regression analysis, consisting of international gross capital flows and international trade in goods (% of PPP GDP) (independent variables), and inward FDI shifting balance (dependent variable), results in no significance at the level of $p < 0.05$. Thus, the null hypothesis ($H_0$) is accepted, whilst the alternative hypothesis 5.4 is rejected.

In the meantime, international trade in goods and international gross capital flows are all negatively correlated with elasticity of the national economy to the international economy. The regression output shows that the model is significant, as it shows a smaller $p$-value than 0.05. Thus, the null hypothesis is rejected, whilst the alternative hypothesis 5.3 is accepted, which is equivalent to:

$$Y_i = 1.710 - 1.568X_{1i} + 0.619X_{2i} + e_i \quad (5.12)$$

- **The context of the European security order**

The speed of European integration (slowly) is positively correlated with the dependent variable, whilst the speed of European integration (at medium pace) and the speed of European integration
(quickly) are negatively correlated. Both of them are not significant. The regression model is not significant, as it results in a greater p-value than 0.05. Thus, the null hypothesis is accepted, whilst the alternative hypothesis 5.9 is rejected such that the abovementioned function (1) is not valid for the German government.

- **Domestic context (the political system)**

Taking account of the political system and the inward FDI shifting balance (dependent variable), the independence of central banks and the dependent variable are negatively correlated, whilst the Left-Right cleavage of political parties is positively correlated with inward FDI shifting balance. Both of them are not significant. Meanwhile, the regression model is not significant, as it shows a greater p-value than 0.05. Thus, the null hypothesis is accepted and the experimental hypothesis 5.7 is rejected. In addition, the Hypothesis 5.6 is rejected.

On the other hand, looking at the relationships between the elasticity of the national economy to the international economy and the domestic political system, the regression model is significant showing a smaller p-value than 0.05. Thus, the null hypothesis is rejected, and the alternative hypothesis 5.10 is accepted. Furthermore, the Hypothesis 5.6 is also accepted, which is equivalent to:

\[
Y_i = 3.353 - 0.293X_{1i} - 0.798X_{2i} + e_i \quad (5.13)
\]

- **Domestic context (the economic system)**

Union density and the share of employees tax in tax revenue prove positively correlated with the dependent variable, but are not significant. The share of corporate tax in tax revenue is
negatively correlated with dependent variable, and is significant. The other variables including voter’s Left-Right cleavage variables, are positively correlated with the dependent variable. Among them, only voters’ Left-Right cleavage variables (Middle) and voters’ Left-Right cleavage variables (Right) are significant.

According to the output of a regression which adopts the variables of the share of corporate tax in tax revenue and the share of employees tax in inland revenue, the regression model is not significant at the level of p < 0.05. Thus, the null hypothesis is accepted, whilst the alternative hypothesis 5.6 is rejected.

- **Domestic context (the social system)**

The share of individual Member States in the EU financing of expenditure, representing a superpower, and GDP, representing the developed country, are positively correlated with the dependent variable. Both of them are not significant. Meanwhile, interest in politics (frequently + occasionally) and satisfaction with domestic democracy (very satisfied + fairly satisfied) are negatively correlated with dependent variable. However, the former is significant, whilst the latter is not significant.

According to a regression output from a model that consists of GDP, interest in politics and satisfaction with domestic democracy (independent variables), and inward FDI shifting balance (dependent variable), the regression model is significant, as it shows a smaller p-value (0.045) than 0.05. Thus, the null hypothesis is rejected and the experimental hypothesis 5.11 is accepted.
Market context

From the viewpoint of market context, the overall balance of individual states and unemployment are positively correlated with transforming national preference to the liberalisation of international foreign investment. However, these variables are not significant. In the meantime, the balance of international trade in goods and services at current prices and R & D expenditure are not significant, and correlated negatively with the dependent variable. Total expenditure on social protection is positively correlated with the dependent variable, and is significant.

In the meantime, in the regression of these variables, the model concerning market context is not significant at the level of p < 0.05. As a result, the null hypothesis is accepted, and the alternative hypotheses 5.5 and 5.12, which state that the market context as a structure does operate as a positively decisive factor for forming foreign investment policy, are rejected.

5.5 Conclusion

According to the above series of verifications, the following conclusions are generated: first, for the French and British governments, globalisation led by capital and goods flows provides significant impacts on changes in actors’ knowledge in the development of international investment regimes. By contrast, for the German government, globalisation led by capital and goods flows has no significant impacts on changes in actors’ knowledge in the development of international investment regimes. Meanwhile, we have another conclusion concerning the impact of international context: for the British government, like the French government, the elasticity of
the national economy to economic globalisation does not have a significant relationship with the international structural context. By contrast, for the German government, the elasticity of the national economy to economic globalisation does have a significant relationship with the international structural context. As such, it proves that individual states generate different reactions to the same international structural contexts. It also proves that the account of the international structural contexts, like the billiard balls model, is not supported by the space applicability, which is a necessary condition of generalisation.

Secondly, in terms of the relationships between security and economic interests, the analysis outputs indicate that for the British government, the acquisition of European security order through European integration has a supplementary impact on FDI flows. By contrast, for the French and German governments, European integration does not provide a supplementary impact on liberal FDI flows. As such, it is possible to interpret this as indicating that for the British government, there is no cleavage between economic interests and security interests. It also means that the basic line of British foreign policy, traditionally understood in terms of the balance of power in the European continent, constructs a necessary condition of FDI flows and activities of TNCs. By contrast, for the French and German governments, there is a cleavage between economic interests and security interests. Besides, it also means that the basic line of French and German foreign policies does not construct a necessary condition of liberal FDI flows and activities of TNCs. As such, it proves that for the German and French governments both the perspectives of power politics and the diverse preferences of individual states on foreign investment policy are not significant, whilst they are significant for the British government.

Thirdly, in terms of domestic political system, the results imply that for the French government, the diverse preferences of individual states on FEP derive from the difference in
domestic political systems. By contrast, for the British and German governments, it is invalid to say that the diverse preferences of individual states on FEP derive from the difference in domestic political systems. Meanwhile, for French government, the extent to which a national political system is open is not significantly correlated with the elasticity of the French economy to the changes in global economy. By contrast, for the German and British governments, the extent to which the national political system has openness is positively correlated with the elasticity of their national economies to changes in the global economy.

Fourthly, in terms of domestic economic system, the outputs prove that for the French and British governments, differences in the domestic economic system leads individual states to different strategic choices in the formation of FEP. By contrast, the verifications, for Germany, it is possible to say that the difference in domestic economic systems does not lead individual states to different strategic choices in the formation of FEP. By the way, it is interesting to note that in the case of the British government that is supported by significance, there is a close linkage between FDI policy and domestic firms, whilst the linkage with labour is negative. By contrast, the case of the French government was quite the other way round.

Fifthly, in terms of domestic social system, it is interesting to note that the traditional German government's decision-making concerning FDI has been constrained by the social system, whilst the French and British governments have been free from that constraint. As a result, in France and the UK, there have been not many rooms for social agents' interactions with structures. By contrast, it is also interesting to note that the structure of the French domestic ratification game over the MAI of 1998 was different from that of the traditional FDI policy. The former was not a two-level game derived from the preference-convergence between decision-makers and the social agents, whilst the latter is a two-level game in which diverse domestic
preferences are contending. This structural inconsistency provided relatively better opportunities for the agents' actions in 1998. The further account of this point is undertaken in chapter 6.

Finally, in terms of market context, for the French and British governments, market context as a structure operates as a positively decisive factor for forming foreign investment policy, and the structural changes led by dynamic supply-demand and capital mobility, shifts policy preferences of individual states. By contrast, for the German government, the market context as a structure does not operate as a positively decisive factor for forming foreign investment policy. Furthermore, the structural changes led by dynamic supply-demand and capital mobility does not shift policy preferences of individual states.

References

4 HC Deb 18 February 1998 c1077-1078W.
5 Standard letter from Lord Clinton-Davies.
6 Speech by Clare Short, Secretary of State for International Development, Institute of Directors, Tuesday 8 July 1997.
8 Financial Times, 12 December 2000.
Chapter 6:

Agent-structure interactions in the formation of an inter-mestic policy: the 1998 Multilateral Agreement on Investment (MAI) as a game

6.1 Introduction

Unlike the structural contexts addressed in Chapter 5, in the perspective of an objective agent that underlies the theory of rational choice, an objective actor is able to reorganise successfully his or her own policy environment. In this chapter, therefore, the verification of two experimental hypotheses 6.1 and 6.2 in chapter 2 concerning agential perspectives runs parallel with structural hypotheses that have been outlined in chapter 5.

Linked to these hypotheses, agential accounts explore an agent’s cognitive scope of objectives, an agent’s actions in terms of reactivity or pro-activity, the individual context and the arbitration of principled, causal and private knowledge between agents and structures. These factors enjoy ‘causal autonomy’ from the objective surrounding, i.e. the structure (Parsons, 2000, p. 51). In particular, emphasis is placed on the context of knowledge, which is derived from the fact that the institutions of individual states which are concerned with investment vary due to differences in the dominant political or economic idea or motive in individual societies. Despite the value of this perspective as a basis for comparative politics and international political economy, it has been ignored due to the intellectual dominance of economics (Strange, 1998).
6.2 Changes in the structure of an international game by an agent who is produced by the structure: civil society organisations as transnational actors

6.2.1 An actor's recognition of his or her own objectives is broad enough to induce structural changes: normalised objectives and transnational linkages

The matter of the extent to which an agent understands the scope of his or her own objectives is critical to the question of how to verify the abovementioned hypothesis. This is because it is likely that if an agent limits his or her own objectives to a scope narrow enough to not form an interactive relationship with the structure, he or she remains a simple reactor to the structure. By contrast, if an agent recognises his or her objectives in a broad scope, he or she forms more sensitive reactions to structural impacts.

These reactions are undertaken in a positive manner and result in structural changes (Rosamond and Yang, 2000). In the late 1990s, during the stage of determining appropriate actions against the MAI, the objectives of civil society organisations were expanded to transnational scope in order to realise the common generalised principles of the community, away from specific interests at the national or private levels. Such a wide construction of objectives derives from the following fundamental resources.

6.2.1.1 Actor's Sosein in the public sphere

First, the expanded scope of civil society organisations' objectives links closely to the basic concept of civil society organisations. This concept varies across time between classical thinkers,
Scottish philosophers of the Enlightenment, Hegel, Marx and modern sociologists (Bryant, 1992). The conceptual difference among them derives from their viewpoint that centres around the pursuit of special and universal interests and their way of how to define the relationships between civil society organisations and the state, and more fundamentally, regarding their diverse ways of understanding the state in terms of its permanency and transitionality.

As for the classical thinkers such as Aristotle, Locke, Kant and Rousseau, the conceptual distinction between civil society organisations, political society and state did not exist either in Locke’s idea of civil society organisations, which was the same thing as political society, or in Rousseau’s notion of état civil. Such classical thought recognised the state as Sosein that has supreme morality, and was based on a dichotomy between the private and public lives. In accordance with this dichotomy, they classified the state, political society and civil society organisations as the public sphere, distinguishing it from private life.

The complete distinction of civil society organisations and state was provided by Hegel (1821, 1989). Hegel regarded civil society organisations as the sphere in which individuals pursue their own specific interests within the legal boundary guaranteed by the state. This was located between the state and the private sphere of households. For Hegel, civil society organisations was located between the state and private life, and mediated national interests and private interests. He argued that such arbitration is an historical movement through which the development of moral beings and ultimately the completion of rationality beyond special interests and the realisation of the common national interests are evolved.

Unlike Hegel who emphasised the arbitration of specific interests, Gramsci, a neo-Marxist, argued that it is possible to distinguish civil society organisations from political society by putting an emphasis on ideological hegemony (Martin, 1998, Holub, 1992). For Gramsci, civil
society organisations are the sphere in which bourgeois monopoly is not acceptable, and autonomous and diverse organisations are allowed, through which industrial workers or their spokesmen grasp (political, moral and intellectual) hegemony. Economic society is where bourgeois control prevails and is characterised by the concepts of control and pressure. Meanwhile, Gramsci recognised that civil society organisations and political society construct the state together with political economy, (i.e. economic structure or economic society), and it is possible that these two societies are both isolated from and included in the state.

In modern times, civil society organisations are defined as the part of society which tries to realise the common principles of the community, free of state control or regulation, and away from private life that is characterised by the pursuit of private interests. In addition, civil society organisations is isolated from the economic sphere that pursues economic interests linked exclusively to its members. Nevertheless, it is not to say that civil society organisations do not have anything to do with the state. Rather, besides keeping their own independence, civil society organisations try to reflect citizens’ interests and concerns through exerting an influence on national organisations.

The United Nations (UN) has adopted the term of the non-governmental organisations (NGOs) in its charter, which aims to define non-governmental actors’ relatively limited universe, in particular, development, disarmament, the equality of women and human rights. However, besides NGOs, civil society organisations are also made up of the Community-based and grass-root organisations, representative organisations of professional associations, enterprises and financial communities, trade unions, the media, scholar organisations, expert guilds and a series of major social interest groups. These all provide an interface between citizens and states, and
reject the argument that regards them as belonging to the same category as those in private sectors that are led by the profit motive.

6.2.1.2 Actor's cognition of the goals and the appropriate level to act at

Secondly, the broadness of the goals in civil society organisations' cognition is also linked to both the nature of the goals and the appropriate level at which these goals can be achieved. As it was defined in the previous section, civil society organisations in the public sphere set goals such as achieving development, the defeat of poverty, equality, gender discrimination, disarmament, democracy, culture, environmental protection, labour standards, sovereignty and ensuring human rights. These goals are not issues of order or power that derive from the realist account of interests, but of justice and distribution. In the late 1990s, NGOs are interested in ensuring that:

"[T]he MAI does not impair the ability of governments to exercise their powers over the environment, labour practices, consumer standards, anti-competitive activities, and other important matters of public policy. [NGOs] are also concerned about the position of countries who are not directly engaged in the MAI negotiations, especially developing countries."\(^2\)

These goals require both universality and consistency as necessary conditions. The former is required to pursue objectives in a transnational context, whilst the latter is needed to expand the coverage of targeting to all of the regions. In particular, in terms of transnational linkages, 'consistency' resembles that of domestic political cross-border alliances such as agricultural groups within the EU. However, the objectives of civil society organisations become norms at
the international level where they operate as structural powers. As such, the concepts of national or private interests, i.e. national or private justice, are excluded from actors' selfish pay-offs. It is obvious that it is not appropriate to take actions for realising such objectives as transnational norms at the national level. In the late 1990s, civil society organisations shared this knowledge with regard to the MAI negotiations. In the late 1990s, a coalition of development, environment and consumer groups from around the world, with representation in over 70 countries, agreed that the MAI is unacceptable.

Simultaneously, civil society organisations also sought to restrict the exercise of national discretion, aiming to ensure a regulatory floor for labour and environmental standards, at both national and international levels (Smythe, 2000, p. 88). However, it was not easy to reach an agreement between citizens and governments. In particular, for developing countries, it seemed easy to establish a shared knowledge of labour standards compared to the issue of environmental standards. Thus, civil society organisations took a strategic choice to engage in both domestic ratification games of individual states and international negotiations simultaneously.

In the meantime, the late 1990s is a time when the norms or principles of 'participation' and 'consultation' are being given the recognition in the processes that shape international debates. These norms provide civil society organisations with a rationale for establishing that the transnational linkage needs to be clearly defined. Therefore, the attributes of civil society organisations which were defined and recognised as the public sphere which existed only in the national context, has evolved, beyond national borders, to the transnational category as international society has developed. The game structure accompanied by these features differs from that confronted by traditional nation-states. Civil society organisations, so far, have been defined and recognised only in the national context. However, since the late 1990s, in the game
structure accompanied by the development of civil society organisations based on transnational linkage, civil society organisations has worked together with international organisations in the processes of reflecting the globalised agenda on policy outputs.

The Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) represented civil societies that were involved in the MAI negotiation. These two bodies are well-established organisations enjoying official consultative status with the Organization for Economic Cooperation and Development (OECD) such that they are able to readily communicate their opinions to the OECD. The BIAC consists of a federation of business bodies from 29 member states. The chairs of the policy committee of the BIAC consist of representatives from the biggest enterprises based in the member states (BIAC, 1996). The BIAC is highly influential on OECD decisions due to the legal procedures of these large TNCs. From the beginning of the MAI negotiation, the BIAC assembled an expert group that consisted of the corporate legal staffs from some of the biggest enterprises. They all were authorised for the issues of trade, investment and employment. At the beginning of 1997, the BIAC had provided detailed comments even on the draft text of the MAI (BIAC, 1997).

The TUAC consists of over 55 national trade union organisations from the 29 OECD industrialised countries, which together represent some 70 million workers. The TUAC is also in contact with the International Confederation of Free Trade Unions (ICFTU) and the International Labour Organisation (ILO). These two organisations have in the past and present operated as international umbrella bodies for the labour movement. The TUAC has also been present as an observer in a series of general meetings or conferences, in which the BIAC has participated. Furthermore, the Committee on Capital Movements and Invisible Transactions
(CMIT) and the Committee on International Investment and Multinational Enterprises (CIME) have regularly consulted with the TUAC (Smythe, 2000, p.82).

6.2.2 Agents' proactive actions sufficient to shift the structures

It is necessary for another exploration of the experimental hypothesis to take the following question into account: do civil society organisations recognise themselves as reactive or proactive agents in their relations with governments or the international forum? That is, do civil society organisations recognise their role as one of forming an appropriate response to information regarding the domestic or international environments that they collect? Or do civil society organisations recognise themselves as an autonomous player, directly shaping the domestic and international environments?

6.2.2.1 Actor's agenda-setting power

The question of reactive versus proactive actors is linked with the influence of civil society organisations. In general, as an actor, the influence of civil society organisations can be understood in three ways: first, civil society organisations have an agenda-setting power. The extent to which an actor gets easy access to information is the starting point in determining the attributes of their actions. In the late 1990s, people were not very well informed regarding the MAI negotiation. It was in fact an isolated process. From 1995 when the MAI negotiation was launched to 1998 when an agreement on the MAI in fact failed to occur, the Financial Times reported only less than 30 articles concerning the MAI, and the Le Monde only about 21 (from 1997 to 1998). As for the Financial Times, the MAI negotiation never was in the headlines.⁶
Such a lack of information means that a necessary condition for enabling agents' significant actions to happen has not been fulfilled. However, as the working documents were opened to unlimited access in late 1996 and the beginning of 1997, many of the groups which comprise civil society organisations started promoting their own diverse opinions to the MAI decision-makers. The actions of civil society organisations were then significantly recognised by the decision-makers. Governments could no longer negotiate behind closed doors and had to explain to their civil societies what goals they were pursuing through the negotiations. Submitting the results of these negotiations to the legislators for their final approval was no longer sufficient.

On the other hand, as the principles of 'participation' and 'consultation' had been accepted incrementally as an international norm, civil society organisations have indeed taken a part of setting the list of matters to be considered or decided in a series of international negotiations with economic society. Until September 1996, the agenda of the MAI focused on 'wider investment instruments' such as the liberalisation of investment regulations and improvement in the national treatment of foreign investors. Such a content of negotiation was confronted with the challenge from the TUAC, which emphasised labour and environmental standards.

The TUAC was a representative NGO during the MAI negotiations, and was a counterpart to the BIAC which supported the liberalisation of international investment rules. When labour and environmental standards pushed onto the agenda, major business groups (especially those in the US and Europe) including the BIAC expressed concerns that the agreement may dismantle some international barriers while creating costly new ones relating to environmental and labour standards.

By contrast, from the viewpoint of the TUAC, intensified capital mobility, if not accompanied by core labour standards, magnified the possibility for states to attract FDI by
suppressing labour rights and reducing labour standards (Smythe, 2000, p. 83). The TUAC, therefore, appealed for the need to take labour issues into account through a series of informal consultations with Negotiating Group Members. Consequently, since September 1996 the issue of labour has been discussed by the Negotiating Group, and at the December 1996 meeting of the Group, the Chair (the Netherlands) concluded:

"[that] a clear majority was in favour of addressing labour matters in the MAI through a package of provisions, based on “three pillars” namely: - a preamble statement; a provision stating that “Parties should not weaken domestic core labour standards in an effort to encourage foreign investment”; and association of the Guidelines.”

The TUAC has been campaigning for the agreement to include the protection of the rights of labour and of working conditions. To achieve this, the TUAC attempted to put stronger emphasis on core labour standards in the text of the MAI agreement. Furthermore, the TUAC asked the decision-makers to ensure that the signatories to the MAI would be prevented from using lower labour and environmental standards as an incentive for attracting Foreign Direct Investment (FDI) (TUAC, 1998a).

“That enshrining legally binding investors rights in the Agreement should be balanced inter alia by binding commitments by signatories to observe internationally recognised core labour rights and not reduce or offer to reduce domestic labour standards to attract foreign direct investment. Without this, the
Agreement will be perceived as unbalanced and unfair and many TUAC affiliates will be campaigning against ratification of any agreement in national legislatures.”

In regard to this attempt at agenda-setting, some delegates were indeed opposed to the inclusion of a provision on labour standards in the MAI agreement, as this issue had already been dealt with by the ILO. Responding to this rationale from opponents, the TUAC argued the case for such provision as follows:

“The OECD Guidelines are a parallel instrument to the ILO Tripartite Declaration on Multinational Enterprises and Social Policy which are also not legally binding, and contain elements that are included in several ILO “core” Conventions on fundamental workers rights. However, the Guidelines are addressed to multinational enterprises, not governments. Moreover, whilst covering the core standards of freedom of association and collective bargaining, they do not cover explicitly the other core labour standards identified by the ILO.”

Clearly, civil society organisations actively generated a series of debates, from the narrow and technical in scope to broader issues of regulation and globalisation. In return, this expanded scope of issues offered civil society organisations the capacity to generate structural changes. This will be addressed in more detail in a later section.
6.2.2.2 Actor's direct actions

Secondly, civil society organisations also exerted influence by taking direct action, or by exercising its legitimate rights in regard to elections. These actions can generate two effects, depending on the preferences of civil society organisations, which may diverge from or converge with the policy preferences of the relevant government. In a divergent case, civil society organisations operate as an actor in ratification games comprised of more than two states. In these games, the actions of civil society organisations serve as negative political influence, lowering the popularity of the government. It is therefore possible for civil society organisations to acquire a measure of control over the possibilities that their preferences will be reflected in new domestic policies. On a broader level, civil society organisations can also simultaneously engage in international negotiation games, based on the transnational linkage. In such a situation, it is possible for civil society organisations to execute the so-called hijacking of inter-state negotiations.\(^\text{10}\)

In February 1997, in the Briefing Note concerning the inclusion of the protection of the rights of labour and working conditions into the MAI, the TUAC made the following two demands:

"[first], the incorporation of the OECD Guidelines for Multinational Enterprises into the MAI so that the increased rights of investors are counterbalanced by obligations on their behaviour towards their workforce and host countries: [second] the inclusion of a labour clause in the MAI and a similar approach to environmental issues."\(^\text{11}\)
These were to establish a legally binding power on both firms and governments. This pair of regulations appears to confer a degree of power on civil society organisations, allowing it to exercise some substantial control over the other two parts of the social construction, i.e. the government and economic society. Such a feature would contrast heavily with the social structure in which economic society dominates, as observed by as Gramsci. However, this new ability of civil society organisations to break through the balance of the social structure did not occur in the late 1990s, when the MAI negotiation failed.

By contrast, where the preferences of government and civil society organisations converge, a democratic rationale in a bottom-up manner comes into effect for governmental decisions. For example, campaigns against international agreements conducted by civil society organisations amplify the effects of a 'No Campaign' implemented by a government during the rational ratification game. Throughout the MAI negotiations of 1998, civil society organisations' anti-MAI campaigns were expressed in such practical actions as internet guerrillas, letter-writing campaigns, petitions, public protests and mock auctions. Opening the negotiations to the public through web sites in February 1997 allowed more than 600 civil society organisations from more than 70 countries to participate in these anti-MAI campaigns.

Working through a guerrilla internet network, civil society organisations actors were able to inundate MAI decision-makers with a barrage of electronic protests. As a result, decision-makers called for a time-out to consult with domestic social groups such as NGOs, firms and trade unions. In addition, the government found it needed to consult with its counterparts in the international negotiations. Finally, after three years of negotiation and protest the MAI was in fact dropped in April 1998.
It is also possible for a non-cooperative game to take place amongst domestic groups with diverse preferences. Throughout the MAI negotiation in 1998, economic and civil society organisations confronted a lack of consensus, centred around the issue of labour and environmental standards. At that time, individual governments chose a strategy which took the side of civil society organisations. Economic society reacted to civil society organisations' efforts with extensive lobbying, as Guy de Jonquieres notes:

“Business organisations have stepped up their lobbying partly to counter demands by trade unions and other non-government bodies for tough provisions in the MAI to enforce core labour standards and strengthen environmental safeguards.”

As such, in a situation where economic and civil society organisations confront each other, it was for civil society organisations to be able to take a strategic choice to confer legitimacy to the state that allowed it to realise its objectives. This strategy is able to protect a state which supports the pursuit of transnational objectives from the influence of economic society based on private interests. Generally speaking, such a strategy is undertaken through elections, which result in the acquisition of social power by the state.

6.2.2.3 The recognition of agents by structures

Thirdly, it is not until the recognition of agents by the domestic and international structures that these agents' proactive actions gain political significance. Throughout the MAI negotiation in the late 1990s politicians recognised the significance of civil society organisations:
"[t]he profile of the negotiations of the draft MAI, low at first, increased considerably during the second half of 1997 and in 1998. This change came about largely through the efforts of non-governmental organisations (NGOs) throughout the world who, rightly or wrongly, were alarmed at various aspects of the draft Agreement and complained that it was being negotiated in secret."\textsuperscript{16}

Only when an organisation is well established, would it be likely that the significance of agents’ actions are recognised by the structures. A large group in civil society organisations, like Greenpeace, ensures its constituents by collecting funds through specialised bodies and supporting political organisations. This indicates that it is possible to think of Greenpeace not only as a civil society organisation, but also as an economic society or political society organisation in the extended scope of its influence. It is not easy, however, for groups in civil society without widespread popular support and large memberships to establish an organisation powerful enough to undertake significant and sustained influence.

It is the ‘issue-linkage’ strategy that enables some groups in civil society organisations to establish a significant organisation. In fact, throughout the MAI negotiation, the TUAC became interested in environmental standards, which is reflected in:

“We have also supported the inclusion of a labour clause in the MAI and a similar approach to environmental issues. Moreover a specific labour clause should be added whereby governments would undertake not to seek to attract foreign investment by violating internationally recognised core workers rights. This is
akin to Article 1114 in NAFTA on environmental standards although referring to international as opposed to domestic standards.”

Furthermore, such an expansion of actors' concerns is reflected in their cognitive shift of roles. The TUAC came to recognise that within its role of balancing global markets lay an effective social dimension, as globalisation brings out a series of structural changes. Such a cognitive change is confirmed in the acknowledgment of the TUAC, in the following way:

“The OECD is not changing again, taking in new members and becoming the forum for intergovernmental discussions on globalisation. TUAC’s role is now one of ensuring that global markets are balanced by an effective social dimension.”

The liberalisation of foreign investment was an issue that impacted upon political, social and cultural sensitivities, not to mention those of labour and the environmental groups. In the late 1990s, the decision-makers recognised the importance of this issue-linkage, emphasising:

“[Ministers recognise] the need to complete work on MAI disciplines and exceptions with a view to achieving a high standard of liberalisation and a satisfactory balance of commitments, which takes full account of economic concerns and political, social and cultural sensitivities.”

Such a cognitive shift brought out by the abovementioned series of anti-MAI campaigns by civil society organisations was reflected in the decision-makers' pay-offs in individual two-level
games comprised of domestic ratification and international negotiation games. Furthermore, the structural change in the pay-offs embodied the decision-makers' practical responses in the following manner: French MPs took heed of the intellectuals' argument, which stated that the MAI would allow crude foreign culture to penetrate France; the issue of the MAI was therefore elevated from the level of officials to the level of ministers (Kobrin, 1998); according to the statement of Belgian Foreign Trade Ministry the increase in pressure from civil society organisations exacerbated disagreement within the OECD; and, the OECD (1998) Ministers possessed a shared knowledge that government needed to discuss the implications of globalisation and the MAI with their respective social interest groups:

“They re-affirm the importance they attach to achieving a comprehensive multilateral framework for investment with high standards of liberalisation and investment protection ... They also recognise the importance of the public debate on the implications of globalisation.”

The British government also took the viewpoint of civil society organisations into account during its review of the rationale underlying the MAI:

“Several NGOs, including Consumers International, Oxfam and Save the Children, criticised the suggestion that the draft MAI would be primarily aimed at developing countries, the vast majority of whom have not been able to participate in the OECD negotiations,...”
In particular, as for the UK, during the MAI negotiations, priority consideration concerning a rationale of the international investment rules was given to civil society organisations rather than to local governments. The potential implications of the international investment rules to local governments were indeed not subject to hot debate. As such, the British local governments, throughout the MAI negotiation, could not effectively participate. They lacked dialogue with the section of the department of trade and industry (DTI) in charge of the MAI, and even any MAI-related information they did receive from the World Development Movement (WDM), which campaigned for the rights of the poor. As a result, "it was not until 4 February 1998 that the MAI was an item on the agenda of the Policy Board meeting of the Local Government Association (LGA)." 22

Finally, further progress on the MAI was delayed after the French Prime Minister, Jospin, proclaimed that France would not participate in the MAI negotiation on the 14 October 1998.23 With France's withdrawal from the process, negotiations at the OECD level stalled and discussion of the MAI was deferred until the WTO Ministerial Meeting in 1999.24 It is worth noticing that the French government took the viewpoint of civil society organisations into account when deciding to withdraw from the MAI negotiation. An interim report was written by Catherine Lalumière, Députée européenne, in September 1998, entitled Rapport sur l'Accord multilatéral sur l'investissement (AMI). This report, nine pages long, contained four pages concerned with civil society organisations. In particular, the analytical section of the 'diagnostic' in this report was marked by a detailed consideration of civil society organisations, in the following way:
"More than any other international agreement of economic vocation, the MAI has brought out objections and tensions at the core of civil society organisations...[The MAI] has brought new actors into play. In addition to traditional representatives of the professions, unions and other economic sectors, one should note the lobbying undertaken by non-governmental organisations."25

"In opposition, certain non-governmental organisations (notably, Greenpeace) fundamentally reject the agreement for the reasons of sovereignty evoked below"26

"The French democratic federation of labour favours the inclusion of practices that constrain social norms, but even more, to the idea that union organisations might actively participate in the management and application of the agreement. It sees it as a dynamic instrument for raising awareness of the social impact of international investments."27

These viewpoints led the French government to the conclusion that the concerns raised by French civil society organisations with regard to the MAI could not ultimately be met by any reform or adjustment of the MAI negotiating process.28
6.3 Knowledge of foreign investment and policy outputs: principled and causal knowledge

The following hypotheses concerning FDI are subject to verification in this section.

Hypothesis 6.4: Agents induce structural changes by participating in the construct of knowledge (system) as a proactive player.

Hypothesis 6.5: A decision-maker, as an incumbent politician, tries to accrue not only tangible electoral benefits through the creation of new jobs, but also intangible benefits by presenting a tough image as a protector of national jobs.²⁹

Hypothesis 6.6: while decision makers favour politically manipulating the terms of trade in this way because it attacks short-term balance-of-trade and unemployment problems, they fail to recognise the potential long-term costs to both the state's autonomy and the balance of payments associated with such a policy.³⁰

Knowledge concerning foreign investment is principled as well as causal. The former derives from the existence of disagreement over the question of whether the liberalisation of foreign investment is a legitimate objective or not. By contrast, the latter addresses the issue of what kind of foreign investment policy is the most effective. That is, the latter focuses on the relationships between desirable objectives and necessary measures.

By the criteria of degree of access granted by the state to foreign firms and the type of support provided by the state to domestic firms, France can be classified in the case of 'limited access and discriminatory support'. The UK is characterised by 'unlimited access and non-discriminatory support'. Meanwhile, Germany belongs to the group of 'unlimited access and
discriminatory support' (Reich, 1989). This difference in policies of individual states partially derives from the different coherent frameworks of knowledge. As such, the following questions are raised: to what extent is French foreign investment policy based on the coherent framework of knowledge; and what makes a specific knowledge exert asymmetrical influence in individual states?

In the meantime, it is necessary to approach the knowledge system by two models: ‘elite networks’ and ‘interest groups networks’. The former shapes groups within bureaucracy, and these groups try to mount persistent and sustained campaigns aimed at achieving objectives. In addition, it is likely that their knowledge system operates as a major coherent framework in the process of national policy-making. On the other hand, the latter tries to push knowledge systems that reflect specific private interests by avoiding systematic decision-making within diverse governmental machines. These networks, recently, have come out in more varied and stronger manners, as transnational linkages develop.

6.3.1 Principled knowledge in elite networks

Above all, from the viewpoint of elite networks, let us compare principled knowledge of individual states concerning foreign investment. For the UK, since the end of World War II, officials have been trained by the logic of liberal economy. Knowledge that national control should be administered on a non-discriminatory basis to avoid economic distortion has established elite groups including the neo-Cambridge school as a traditionally prevalent idea in England. This is the case for foreign investment policy. In terms of principled knowledge concerning the liberalisation of foreign investment, the British government has believed that foreign investment flows are heavily influenced more by economic fundamentals than
investment rules. This derives from the fact that the British FDI policy has already been non-discriminative such that the multilateral investment rule does not mean anything negatively to the British economy. In fact, in chapter 5, the case study indicated that the explanatory power of the market context for the British FDI policy is significant. By the way, throughout the MAI negotiations of 1995 to 1998 the British government suggested that the MAI would not divert foreign investment flows from non-signatory countries, and rather induce the increase in global FDI flows (Hillyard, 1998, pp. 15-16).31

In addition, the decision-makers of the UK expected the MAI not to impact seriously on the national economy, since British foreign investment policy is based on a non-discrimination principle concerning the ownership of investment. This is characterised partially by a relatively liberal foreign investment policy towards foreign investors. Concerning inward FDI, the UK has adopted a liberal approach. Thus, a non-discriminatory policy is usual. For example, foreign-owned firms have been dealt with with the same or almost the same national treatment as domestic-owned firms in terms of taxation and industrial and commercial laws. Even though there are some sectors to which this rule is not applied, it could be said that these cases are more the exception than the rule. In accordance with this, generally the British government does not think that the MAI would impair the capacity of the UK to attract high value-added investments. Rather, British enterprises will gain benefits through liberalising capital transfer and removing risks caused by expropriation that is not accompanied by compensation.32

In Germany, since World War II, national economic policy has been dominated by liberalism and Keynesianism, as liberalism and corporatism have mixed. Consequently, persuasion for foreign investment and propensity towards discriminatory behaviour in favour of domestic firms have coupled. Under Erhard liberalism, who was the liberal economic minister of
the Bonn Republic, a liberal foreign investment policy was undertaken, and FDI was preferred as a valuable resource for the shortage of capital. On the other hand, the Bonn Republic conferred market access to US enterprises until the middle 1960s. This reflected liberalism in the macro level. However, simultaneously in strategic sectors, Germany has pursued a discriminatory foreign investment policy. This mixed strategy results in the maintenance of profitability of domestic firms, large market shares and a high employment rate.

Meanwhile, as for France, knowledge that the government shall make a choice in shaping the national economic structure has prevailed. Thus, knowledge that the government shall not allow the pattern of international competition to determine the national economic structure in a passive way is principled. As such, the value of gain derived from the international difference in comparative advantage does not mean anything to French decision-makers (Hayes, 1993). In accordance with this, interventionism has always dominated French policy-making, and grandes écoles politicians have closely engaged in supporting this interventionist knowledge. The elite, composed of French politicians, officials, industrial managers and bankers who have trained in the tradition of public service in grandes écoles, have been extremely preoccupied by interventionism (Hayes, 1993, p. 63). In the Fifth Republic, despite the reinforcement of a propensity towards less interventionism, it was not easy to change the dirigiste way of thinking in grandes écoles elite networks. As a result, there was no significant change in the formal attitudes of the French government.

Recently, FDI flow has rapidly developed compared to trade flows. Until the MAI negotiation of 1998, its rate of growth over the past decade (1986-96) was more than twice that of gross fixed capital formation indicating an increasing internationalisation of national production systems. Together with this phenomenon, the main idea of FDI which goes way
back to the 1970s reappeared in the 1990s. This is concerned with whether the liberalisation of foreign investment is a legitimate objective or not, the main viewpoint concerning FDI in the 1990s has based its rationale on the improvement of developing countries, non-discrimination, transparency and predictability. A World Trade Organisation study reports:

"Low levels of trade and inflows of Foreign Direct Investment (FDI) are symptoms rather than causes of the plight of many of the poorest countries. Without an increased inflow of FDI in these countries and increased trade, it is difficult to imagine how a major improvement in their economic prospects can be achieved. FDI brings with it resources that are in critically short supply in poor countries, including capital, technology and such intangible resources as organisational, managerial and marketing skills."34

In 1995, developing countries took in approximately US $ 90 billion (38%) of the US $ 240 billion total of world-wide FDI.35 This investment flow has been undertaken to establish the basis of economic development in developing countries by providing capital, organisation, management and marketing skills and technology. It is, therefore, necessary to protect investment activities of foreign investors and reduce transaction costs through emphasising nondiscrimination, transparency and predictability principles in promoting foreign investment flow. As such, a series of foreign investment regulations based on a number of bilateral agreements needs to be established as an international rule.
Such expected gains from the promotion of the foreign investment flow through establishing an international foreign investment rule are also the case for the developed countries. In the same context, Tony Blair, the Prime Minister of the UK, understood:

"[It] is actually very important for British business and British exports that we prevent countries using regulation as a backdoor means of discriminating against foreign investment"\textsuperscript{36}

As such, a series of knowledge that found market logic to be the most valuable has been shared by decision-makers. They think that market logic deserves the effective location of capital and the consequent stimulus of economic activities brought out by the common foreign investment rule, as the Secretary General of the OECD appealed:

"While market factors are, of course, the primary determinants of investment decisions, the investment climate is also a major factor. Investors need long-term stability of rules and procedures, guarantees for entry and establishment, equal competitive opportunities and protection of existing investment. By adhering to common international rules of the game, countries become more attractive for investment and economic activity, and avoid distortions bound to have a detrimental effect on economic growth and development."\textsuperscript{37}
6.3.2 Causal knowledge in ‘interest group networks’

Nevertheless, despite the aim to ensure the effectiveness in the location of resources on a global scale, in terms of a method, i.e. causal knowledge, the MAI did not receive support from civil society organisations and intellectuals. The process of global-level foreign investment rulemaking does not reflect monolithic preferences of financial or corporate capitals and specifically significant economic agents. In this process, specific agents refuted knowledge that appeals for the need of establishing globally binding rules on foreign investment. This reactive knowledge is to be understood as causal knowledge. For example, generally speaking, even the NGOs, concerning developmental and environmental issues, were hostile to the MAI, and have done no more than criticise the potential negative effects that would be caused by globalisation. Their concerns were not to deny the need for establishing an international foreign investment rule itself. That is, they had a shared knowledge by admitting the need for a multilateral investment rule, and this knowledge was principled among civil society organisations actors. By contrast, civil society organisations appealed to divergent viewpoints derived from causal knowledge based on the fear concerning the political, social and cultural sensitivity of the MAI. In the late 1990s, civil society organisations set a rationale for the need of MAI in social and environmental disruption instead of the supply-demand of foreign investment. For example, in a joint statement on the MAI, a coalition of development, environment and consumer groups from around the world, with representation in over 70 countries, declared:

"There is an obvious need for multilateral regulation of investments in view of the scale of social and environmental disruption created by the increasing mobility of
capital. However, the intention of the MAI is not to regulate investments but to regulate governments. As such, the MAI is unacceptable."

Such a disagreement from agents was also found in Jagdish Bhagwati's statement, who is an economist at the University of Columbia and has called for the liberalisation of foreign investment and trade:

"MAI, in its current form, is unbalanced in three ways. It argues for eliminating restrictions on the functioning of corporations, presumably to ensure efficiency in world allocation of resources. But it fails to extend the proscriptions to subventions to attract corporations: but these distort efficiency equally! The MAI more generally is conceived as a set of rights of corporations, instead of systematically including also their obligations. The latter would also require that notions such as the 'stakeholder' obligations of corporations to the communities they operate in should also be laid down in the agreement. Moreover, MAI makes little concession to the political sensibilities of the host countries and to their own definitions of their economic interests."  

As this letter shows, the MAI did not take enough account of subvention in technical terms, and emphasised nothing but the rights of firms, whilst it did not examine the obligation of foreign investors. In addition, the MAI lacked the account of political sensitivity of the host country. That is, the MAI examined only the perspective of supply-demand to spur investment flow based on economic logic, whilst it excluded the problems that would occur through making a
connection with the other issues. Thus, the liberal economist, Bhagwati suggested that the negotiation be moved onto the World Trade Organization (WTO) level, and extend the scope of account into the issue-linkages between capital, labour and environment, stating:

"These deficiencies may well be fixed if the MAI is negotiated at the World Trade Organisation, ... what is good for "capital" at the WTO is not good for "labour" or for "nature"."\(^4^0\)

Such a series of knowledge from civil society organisations and intellectuals shifted structural contexts by bringing out the changes in the framework in terms of causal knowledge concerning investment. This shift in a cognitive framework compromised of two spheres: first, in terms of the scope of an issue, agents' knowledge extended the issue area from a narrow and technical level to a broad and global level through issue linkage. As such, a single issue was examined in the extension of complex issues such that the linkage between investment and environment, and between investment and labour was undertaken. Throughout the MAI negotiation of 1998, decision-makers' reports also contained the understanding of political and social implications generated by such agents' knowledge. Alan Larson, US assistant secretary of state, said in Paris:

"[T]he current draft of the MAI was unacceptable, particularly because it did not deal adequately with environmental and labour standards and needed to gain public confidence."\(^4^1\)
Secondly, the cognitive shift provoked the need for the protection of global public goods including the environment as well as common concerns over national sovereignty, development and labour, i.e. the issue of justice and distribution in international relations. The cognitive shift did not find a rationale from the effective relocation of capital brought out by the common investment rule and the consequent impetus for economic activities, i.e. market logic. The Secretary General of the OECD made a speech in an informal consultation with NGOs:

"Those rules must, of course, account for other vital public policy goals: governments must be able to protect their national security, protect the environment, maintain high labour standards, and offer solid consumer protection. The task of the negotiators is to find the right approach to achieve that objective. We are, therefore, glad to have this opportunity to hear your views."42

As this speech indicates, in the late 1990s, the following knowledge was being established: the application of market logic for the economic effectiveness and the establishment of an investment environment to spur investment flow should be undertaken through a method by which a number of relevant issues such as national security, environment, high labour standards and consumer protection are simultaneously considered. In accordance with this knowledge, the profile of negotiations became more significant such that decision-makers evaluated this shift as a consequence of agents' actions.43
6.4 Actors' private knowledge concerning foreign investment and political survivability

6.4.1 Setting a modelling and interpretation of analysis' outputs

Concerning foreign investment, decision-makers' private knowledge is significant in the sense that it reflects different preferences on a specific policy, and as a result generates a different policy output. Private knowledge concerning foreign investment can be divided into two categories: for one thing it is the one concerned with employment and trade balance, and for the other it is also concerned with the overall balance of payments or income distribution (i.e. potential welfare). The function of the former is closely connected to some political interests. Decision-makers, as politicians, would not like to lose the votes of those who are damaged by structural changes. In particular, significant large groups such as labour groups impact directly on decision-makers' political survivability through voting. Thus, it is likely that governmental policies will be based on avoiding the absolute diminution of a real income in specific sectors of the community.

According to the logic of such a 'conservative social welfare function' (Corden, 1984), politicians did not take into account 'if foreign investors exercise their rights to withdraw investment in the future, then what is going to happen'. As for decision-makers, their most important concern is to ensure the tangible benefits at elections through job creation, and the intangible benefits by projecting a tough image as a protector of domestic jobs (Reich, 1989, pp. 545-546). Decision-makers favour politically manipulating the terms of trade in this way because FDI attacks short-term balance-of-trade and unemployment problems. They fail to recognise the
potential long-term costs to both the state’s autonomy and the balance of payments associated with such a policy.

Meanwhile, the balance of payments consists of the current balance and the capital balance, meaning the all of economic transactions that are performed between a country and the others in a definite period. The former is the difference between receipt and payment brought out by ordinary transactions in which goods and services are bought and sold with other countries. The latter is the difference between receipt and payment produced by capital transactions. The balance-of-payments is in the black when the sum of the current balance and the capital balance results in a greater receipt than payment. The opposite case generates adverse balance-of-payments.

The balance-of-payments of a country is an important macroeconomic indicator, which exerts its influence on that country’s production, income, employment, consumption, investment and the amount of currency in circulation. The current balance in the black is accompanied by the increase in the export of goods, domestic production and employment, and consequent growth in national income. Furthermore, these increases enable a country to redeem foreign loans such that foreign exchange holdings would be improved. It is also possible for a country to increase FDI to overseas aiming at ensuring the stable supply of major raw materials, and to avoid trade frictions. Even when a country tries to choose an economy-invigorating policy, it does not need to worry heavily about the increase of imports. As such, a country can manage its national economy more properly, since the scope of choices for an economic policy become broad.

Based on this market logic, in this section, the following hypotheses 6.5 and 6.6 are going to be explored. To verify these hypotheses let us conduct a new regression model compromised of:
a group of independent variables such as overall balance ($X_{1i}$), unemployment ($X_{2i}$) and balance of international trade in goods and services at current prices ($X_{3i}$), and a dependent variable of inward FDI shifting balance ($Y_i$). This is equivalent to:

$$Y_i = a + b_1X_{1i} + b_2X_{2i} + b_3X_{3i} + e_i \quad (6.1)$$

Every item in this model shares its meaning with those in the model 5.1. In addition, the same two technical methods as in the model 5.1 have been adopted in this model. As a result, we estimate:

$$\log Y_i = a + \log b_1X_{1i} + \log b_2X_{2i} + \log b_3X_{3i} + e_i \quad (6.2)$$

The results said that France and the UK are significant, whilst Germany is not significant at the level of $p < 0.05$. The results indicate that French decision-makers preferred the balance of international trade in goods and services at current prices and the overall balance to unemployment. The two formers are positively correlated with the dependent variable, whilst the latter is negatively correlated with the dependent variable. These relationships are equivalent to:

$$Y_i = 6.400 + 1.759 \times 10^{-02}X_{1i} - 2.668X_{2i} + 6.299 \times 10^{-02}X_{3i} + e_i \quad (6.3)$$

For the UK, the outputs indicates that decision-makers preferred the overall balance of individual states to unemployment and balance of international trade in goods and services at current prices, which is equivalent to:
\[ Y_t = 2.824 + 3.637E-05X_{1t} + 1.119X_{2t} + 7.254E-02X_{3t} + e_t \quad (6.4) \]

In the meantime, the German model is not significant at the level of \( p < 0.05 \). As a result, the null hypothesis \( (H_0) \) is accepted. Thus, the two hypotheses above, which state that decision-makers' policy preferences differ from each other in terms of balance-of-payments, short-term balance-of-trade and unemployment, are invalid for the German decision-makers. That is, it is possible to say that German decision-makers do not take a strategic choice between variables in the formation of FDI policy. However, in terms of a simple correlation and significance, balance of trade is the strongest factor in shaping German FDI policy, implying that German decision-makers would like to consider this point urgently.

### 6.4.2 Empirical Illustrations

As shown in the practical time-series data of France, in figure 5.2 in Chapter 5, decision-makers preferred current and capital balance and trade balance to unemployment as resources of policy-making. The unemployment rate in France has always been higher than those of the UK, Germany and the EU 15. The tendency has been similar to the average of the EU 15. In terms of current and capital balance, France recorded by and large a stable consistency of more or less than 10000. This contrasted with the dull drop that happened to the UK and Germany within 2000 in 1997 II to – 5000 in 1999 IV. These tendencies of the UK and Germany implies that during late 1998 to 1999 III, inward FDI flow exceeded outward FDI flow. However, in 1999 IV, FDI flow turned to equilibrium again.
This tendency indicates that the French government inward FDI flow has been less than those of the UK and Germany. The average of the EU 15 net FDI developed near to equilibrium until 1996 II, and incrementally inward FDI flow tended to increase. In particular, since 1998 rapid inward FDI flow occurred, and then fluctuations near to equilibrium repeated. By contrast, France has kept a relative equilibrium, except a small variation between inward and outward FDI flows since 1998 IV. Finally, French decision-makers chose a policy option of investment balance rather than the liberalisation of foreign investment.

This option resulted in both current and capital balance and trade balance in the black, whilst it produced no dramatic improvements in the unemployment rate. As such, French decision-makers decided to take policy preferences for current and capital balance and trade balance rather than unemployment, as the economic basis of enforcing private knowledge that is not exposed to the need for a new international investment mechanism.

For the British government, during the subject of period of study, balance-of-payments fluctuated between being in the black and the red. Balance of investment developed near equilibrium, and since 1995, inward flow is tending upwards showing dramatic fluctuations during 1998-1999 between equilibrium and minus 200000. This fluctuation was accompanied by the rapid decrease in the unemployment rate since 1993. Contrasting to this tendency, even though still remaining in the red, the balance of trade did undergo steady improvements during 1988 to 1991.

After that, the deficit ran in a horizontal tendency until 1997, and since late 1997 again the range of deficit was magnified. Meanwhile, current and capital balance fluctuated badly between 5000 and minus10000, and since late 1998 turned thoroughly to red figures around – 5000. Finally, preferences of the British government in favour of inward FDI flow operated as a
positive factor in improving unemployment, whilst as a result the balance-of-payments became worse. As such, the British decision-makers inclined towards private knowledge, i.e. conviction, which put greater value on unemployment rather than balance-of-payments in making FDI policy.

Germany recorded a great range of black figures in balance of trade, whilst current and capital balance worsened. Unemployment rate tended to increase keeping under the average of the EU 15, and since 1997 turned to the tendency of a steady decrease. This level generally has represented the most stable unemployment rate within the EU except 1995 and 1996 when the UK recorded a relatively lower unemployment rate. By contrast, in terms of the current and capital balance Germany recorded a steep fluctuation between 5000 and – 5000 during 1997 to 1998. Yet since 1999 current and capital balance worsened coming to minus 10000.

Meanwhile, even though there was a time when trade balance in goods was tending downwards, it has been always in the red. Its tendency indicates that since 1991 trade balance turned to cumulative improvements between 5000 and 10000. This improvement contributed to the increase in household income. Turning to the tendency of FDI in Germany, except times when inward FDI flow exceeded outward flow in 1998 and outward FDI flow rocketed in 1999 IV, inward FDI flow has kept slightly in excess of outward FDI flow near a equilibrium.

This implies that German FDI policy is characterised by its conservatism, and it reflects the negative attitude of the German government in giving a preference to the settlement of unemployment rate. Finally, it is possible to say that the German decision-makers did not orientate heavily towards settling the unemployment rate compared to current and capital balance. By contrast, they had private knowledge, i.e. conviction, that puts greatest value on trade balance as the resource of decision-making.
6.5 Conclusion

From the observations and verifications above, we shall conclude that: first, civil society organisations, occupied by the cognition of realising global objectives at the transnational level, were not a simple reaction to the structural powers. Rather, civil society organisations monitored the implications of structural powers for the shaping of their behaviour through their objective or subjective understanding of those structures. On the other hand, civil society organisations also tried to reflect their own preferences on structures. In these processes, civil society organisations were a proactive agent that transformed the structural contexts through this cognitive shift, rather than being prisoners to the structural environment (Rosamond and Yang, 2000).

Secondly, it is possible to interpret that a series of agents took a part in shaping principled knowledge concerning the liberalisation of FDI rather than that principled knowledge concerning liberalisation brought out changes in the agents’ knowledge system. Furthermore, it is desirable that constructivism in terms of knowledge is adopted as a better approach starting from a dialectical viewpoint based on the interactions between agents and structures.

Finally, decision-makers of individual states reflect their objectives as politicians in policy-making by putting different values on the national competences, economic security, investment security and ultimately economic sovereignty against the market logic. As such, their different knowledge leads the asymmetrical significance of individual decisive factors to reflect in policy-making.
References

1 In particular, Hegel and Scottish philosophers of the Enlightenment differ from each other on this latter point.
2 Donald J. Johnston, secretary-general of the OECD, summarised the concerns that he had heard from NGOs in this way, Informal Consultation with NGOs on the MAI 27 October 1997.
4 It was founded originally in 1948 as a trade union committee in connection with the Marshall Plan.
6 According to author’s calculation via websites.
13 Outside Foreign Affairs and Trade building, those who were against MAI held a mock auction in which states were subject to the sales to McDonalds, Pepsi and Shell.
14 They included the World Development Movement (WDM), Oxfam (UK and Ireland), Preamble Collaborative (PC in Washington) and Friends of the Earth (FOE).


24 This meeting was known as the 'battle of Seattle'.

25 This text is translated from French text of Rapport sur l'Accord multilatéral sur l'investissement (AMI) by the author.

26 This text is translated from French text of Rapport sur l'Accord multilatéral sur l'investissement (AMI) by the author.

27 This text is translated from French text of Rapport sur l'Accord multilatéral sur l'investissement (AMI) by the author.

28 Lalumiere Report, 1998; "Supplementary memorandum submitted by the Department of Trade and Industry", Select Committee on Trade and Industry Third Report, March 1998,
In addition, the basic line of the Labour party was to accept the global economy as a reality, and recognised that the international environment should be safeguarded in the negotiations of the international trade ("The Labour Party Manifesto").


World Bank, 1996.

HC Deb 18 February 1998 c1077-1078W.

HC Deb 23 July 1997 c883.


HC Deb 23 July 1997 c883.

Chapter 7:

Agent-structure interactions in the formation of foreign economic and economic diplomacy policies: ‘political conditions’ in trade and cooperation agreements

7.1 Introduction

The dialectical dynamism between agents and structures is understood as the way in which actors assist the shaping of structures by reproducing or transforming international institutions and other structures. Structures, on the other hand, conceptualise the situations where actors are located, and exert influence on actors’ choice of strategic actions (Carlsnaes, 1992, pp. 261-262). This complex and dynamic process implies potential redefinition of both the unit of collective actions and the principle of authoritarian allocation. As a result, the concept of sovereignty within the EU has to undergo a dynamic evolution derived from structural changes. As such the evolution has been legitimised by Europeans (agents) and ultimately becomes the legitimate concept of sovereignty on which individual Member States take actions. This accompanies the restructuring of the European system or the wider international system (Carlsnaes, 1992, p. 262). As such, agent-structure codetermination occurs as time flows and the space crosses, i.e. the contexts change or cumulate.

In accordance with the abovementioned perspectives, above all, this chapter explores, in terms of the structural effects on agents, whether the fundamental structural shifts in the EU impact on the conceptual changes of sovereignty of individual Member States in shaping FEP or not. Then from the viewpoint of agential power to structures, the attention moves on to whether
the EU undergoes a fundamental restructuring of FEP. In addition, this chapter examines the timing and the content of policy outputs with 'When' and 'Why' questions concerning the appearance of knowledge of human rights and democracy in a series of trade and cooperation agreements between the EU and non-EU countries. Thus, to explore the timing, it is necessary to summarise the development of the EU's human rights policy over the last decade. Meanwhile, in terms of the policies' content, the inconsistency of norms or principles that appeared in different forms of clauses is subject to comparative study, which reflects the difference in political and economic negotiating powers between parties.

7.2 The significance and development of human rights and democracy principles within the EU

7.2.1 The characteristics and typical classification of the EU human rights policy

Before World War II, there was not a single country that had a human rights policy. After the end of World War II, the US and Europe developed human rights policies until 1988 through a gradual process. European human rights policy differs from that of the US in terms of the timing of policy choice, the target of human rights pressure and the tools or channels used in enforcing the policy. In terms of the timing, it was not until the middle of 1970s that the US adopted the human rights issue as one of its foreign policy components. This was when the Nixon administration (1969-1974) institutionalised human rights. By contrast, Europe has run human rights regimes since the post-World War era. Meanwhile, looking at the nature of human rights
policy, Europe preferred utilising the multilateral channels or legal tools provided by the European Convention. By contrast, the US tends to prefer bilateral channels or more political forms of pressure (Sikkink, 1993). In addition, even in Europe individual Member States have different human rights policies, and these attributes are depicted by figure 7.1.

<table>
<thead>
<tr>
<th>External human rights policy</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multilateral human rights policy (partial surrender of sovereignty)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Norway</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>Denmark</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>Netherlands</td>
<td></td>
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<tr>
<td>Norway</td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>U.S.A.</td>
<td></td>
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<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.K.</td>
<td>Ireland</td>
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</tr>
<tr>
<td>Portugal</td>
<td>Belgium</td>
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</tr>
<tr>
<td>Spain</td>
<td>Austria</td>
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</tr>
<tr>
<td>Italy</td>
<td>Switzerland</td>
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</tr>
<tr>
<td>Iceland</td>
<td>Greece</td>
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<tr>
<td>Luxembourg</td>
<td>Finland</td>
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</tr>
<tr>
<td>Germany</td>
<td>Malta</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Liechtenstein</td>
<td></td>
</tr>
<tr>
<td>Source: Sikkink (1993, p.144)</td>
<td></td>
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</tr>
</tbody>
</table>

Countries in Box I have a external and multilateral human rights policy such that they can be regarded as having a comprehensive human rights policy. Countries in Box IV have no human rights policy. Countries in Boxes II and III possess a partial human rights policy. Most European
countries are located in Box III, even though the Netherlands is characterised by a more active human rights policy compared to the UK, which has only made limited initiatives on human rights. Meanwhile, in terms of the history of development of human rights policy, most countries have moved from Box IV onto Box III except Greece (Sikkink, 1993).

In terms of the EU, the Treaty of European Union (TEU) Article F reveals the position of the Community on human rights. Article J.1 (2) refers also to human rights concerning the objectives of CFSP. Besides this, the EC Treaty Article J.1 (2) describes the linkage between human rights, democracy and development. In the meantime, in terms of the foreign economic policy of the EU, all these human rights and democracy clauses continue consistently by appearing in the fourth Lomé Convention, which entered into force in 1991. In fact, the tendency to inscribe ‘political conditions’ as the basis of Community policy has started in the field of development policy (Kuyper, 1993, p. 405). A first attempt to inscribe human rights and democratic values was undertaken during the negotiations for the Lomé Convention. The Lomé Convention originated as a trade and cooperation agreement between the EU and African, Caribbean and Pacific (ACP) countries. ‘Political conditions’ clauses concerning human rights and democracy have been discussed since the second Lomé Convention in 1979, and third Lomé Convention contained a preambular paragraph which referred to the parties’ “faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small.” However, no direct reference to classical individual human rights was contained in its text. It was not until the Preamble and Article 5 of the fourth Lomé Convention that the perspectives of human rights and democracy were reaffirmed, and references to specific measures such as the Universal Declaration of Human Rights and the European Convention were included. Article 5 stated that:
“Cooperation shall be directed towards development centered on man[sic], the main protagonist and beneficiary of development, which thus entails respect for and promotion of all human rights.”

Besides this convention, human rights and democracy clauses became a regular feature in a series of trade and cooperation agreements and association agreements between the Community and non-EU countries. Above all, it was the European Council Resolution of 28 November 1991 that operated as a direct driving force in inserting human rights and democracy clauses into a series of such agreements.

7.2.2 Competence allocation on the issue of human rights and democracy and its significance: subsidiarity and priority

As figure 7.2 shows, since the Amsterdam Treaty, we find that support for EU joint decision-making is most widespread for the fight against human trade and exploitation, humanitarian aid, accepting refugees and rules for political asylum. By contrast, people want the national governments to take a choice in areas that concern their families or countries more directly. Figure 7.2 depicts that people are most likely to support national decision-making in the areas of policing, justice and defence. As such, people tend to follow the principle of subsidiarity by supporting joint EU decision-making in areas that either transcend national borders or have a limited impact on their day-to-day life.
Generally speaking, since the middle of 1990s, human rights and democracy issues have been evaluated as one of the Community's exclusive competence areas, despite little variances between individual Member States. The trend line in figure 7.3 shows the convergent tendency to recognise the subsidiarity principle as a principled knowledge. Meanwhile, the variance between the Member States derives from the different way of understanding subsidiarity concerning centralisation and decentralisation. Even in a member state the extent to which people agree with subsidiarity has fluctuated, as figure 7.3 depicts.

Source: Eurobarometer 52 (1999).
Sources: Eurobarometer 34 (1990) to 52 (1999).

In the meantime, figure 7.4 gauges the extent to which the public regards the current actions of the EU as priorities. The issue of human rights belongs to the second group in terms of priority of the EU actions. The first group consists of K, I, G, E and D, whilst J, H and C construct the third group. The proportion of people who consider this action a priority range from 71% in Germany to 90% in Denmark. It is remarkable to note that the desire of people for internal
actions of the EU is not accordance with that for external relations. This is because priority of the EU actions on the issue of foreign policy downgrades into the third group. As such, it is not likely that internal actions of the EU on the issue of human rights and democracy will continue to be linked with significant initiatives on ‘political conditions’ in external relations with non-EU countries.

Figure 7.4 EC actions: priority or not (EU 15, %, 1999)

Notes: A: Enlargement; B: Citizens; C: The euro; D: Poverty; E: Environment; F: Consumers; G: Fighting unemployment; H: EU reform; I: Drugs + crime; J: Foreign policy; K: Peace + security; L: Human rights
Source: Eurobarometer 52 (1999).

In addition, principles of human rights and democracy have been considered one of the important criteria in evaluating membership of the applicants to the EU. In December 1997, the EU launched the process to enlarge to the South and the East, through which new countries should
be in a position to join the Union from the end of 2002 as soon as they have demonstrated their ability to assume obligations of membership. It was necessary to set up the criteria for examining these new applicants, and thus during the 1993 Copenhagen European Council, the Heads of State and Government agreed on a number of criteria, which countries wishing to join the European Union had to meet. The components of the criteria are: the respect of human rights and democracy, fighting drug and organised crime, the capacity to pay their allocated budget share, acquis communautaire,\(^5\) that it should not be costly for existing member countries, and that the applicant has the level of economic development and readiness to put the interest of the EU above its own national interest. As figure 7.5 shows, there is widespread public support for these criteria, and in particular more than 9 in 10 people feel that applicant countries should respect Human Rights and the principles of democracy.

\[\text{Figure 7.5 Importance of enlargement criteria (EU 15, \%, 1999)}\]

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>100</td>
</tr>
<tr>
<td>G</td>
<td>90</td>
</tr>
<tr>
<td>F</td>
<td>80</td>
</tr>
<tr>
<td>E</td>
<td>70</td>
</tr>
<tr>
<td>D</td>
<td>60</td>
</tr>
<tr>
<td>C</td>
<td>50</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
</tr>
<tr>
<td>A</td>
<td>30</td>
</tr>
</tbody>
</table>

Notes: A: Human rights; B: Economic development; C: Accept acquis; D: Not costly; E: EU interests; F: Fight crime & drugs; G: Protect environment; H: Pay budget share
Source: Eurobarometer 52 (1999).
7.3 The structural and agential explanations for introducing ‘political conditions’ to foreign economic policy

7.3.1 Impacts on human rights and democracy principles by structural contexts: conceptual changes of sovereignty caused by structural shifts within the EU

7.3.1.1 Changes in the nature and structure of agential choices: experimental hypotheses

In this section, the following hypotheses are examined:

Hypothesis 7.1: Structural changes shift the content of policy outputs through the agents’ cognitive conversion. In the same context, it was through the conceptual change of sovereignty that enabled ‘political conditions’ such as human rights and democracy to be inserted into a series of trade and cooperation agreements between the EU and non-EU countries.

Hypothesis 7.2: Internal demand for human rights and democracy is in accordance with the introduction of ‘political conditions’ and other general principles of the EU in external relations. That is, the voice for the need of human rights and democracy at the national level continues to pursue objectives at the EU level, and also reflects in the external relations with non-EU countries in the same manner.

Hypothesis 7.3: The introduction of ‘political conditions’ to foreign economic policy of the EU in the beginning of the 1990s was the output derived from the independent policy choice of domestic constituents.
Hypothesis 7.4: In shaping the FEP of the EU, there is not a gap between market interdependence and policy interdependence (This is a null hypothesis against Susan Strange's argument).

7.3.1.2 Setting modelling and measurement of variables

As mentioned in chapter 1, the FEP of the EU, including human rights and democracy clauses, is subject to the application of the subsidiarity principle in the sense that individual Member States and supranational institutions make decisions and enforce them in the cooperation process. In addition, according to the democratic approach, which is one of the FEP approaches, decision-makers of individual states would like to choose policy options, which positively reflect public demand. Of course, when preferences between decision-makers and the public are convergent, a two-level game would not occur. Under this assumption, concerned with human rights and democracy principles, the change in the public's support rate for subsidiarity corresponds to the decision-makers' cognitive shift. As such, the adoption of this variable as the dependent variable is in accordance with the goal of measuring the conceptual changes in knowledge of sovereignty. Together with this, when a series of variables constructing structural powers are introduced as the independent variables, the following model is established.

\[ Y_t = a + b_1X_{1t} + b_2X_{2t} + b_3X_{3t} + e_i \]  (7.1)
In this model, every item's explanation is the same as that in the model 5.1 in chapter 5. As an analytical tool, multiple regression analysis has been adopted, and the same two technical methods as in the Model 5.1 have been adopted to improve the validity of analysis outputs. As such, instead of the model 7.1, we estimate:

$$\log Y_i = a + \log b_1 X_{1i} + \log b_2 X_{2i} + \log b_3 X_{3i} + e_i \quad (7.2)$$

From this model, to verify the above three hypotheses let us conduct a new regression model compromised of: a group of independent variables such as international structural contexts ($X_{1i}$ for trade flows and $X_{2i}$ for capital flows) and domestic context ($X_{3i}$), and an independent variable of the support for subsidiarity principle by people or sectoral support for subsidiarity by peoples such as cooperation with developing countries, including the third world, or foreign policy towards non-EU countries ($Y_i$). Possible variables and their measurement are depicted in Table 7.1 below.

| Table 7.1 Measurement of variables |

<table>
<thead>
<tr>
<th>Independent Variables ($X_{1i}$, $X_{2i}$, $X_{3i}$ and $X_{4i}$)</th>
<th>Measurement</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Context</td>
<td>• Globalisation</td>
<td>• International Trade in goods ($X_{1i}$)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• International Gross foreign direct investment (capital mobility) ($X_{2i}$)</td>
</tr>
</tbody>
</table>
Concerning operational definitions for every variable, above all, all the operational definitions of the relevant independent variables in previous chapter 6 are also adopted for this model. In particular, the extent to which the public is satisfied with domestic democracy represents the domestic context, and enables us to extract the imbalance between internal and external policies concerning human rights and democracy.

Meanwhile, for the operational definitions of the dependent variable, the public’s support for the application of the subsidiarity principle to the general areas is adopted. In addition, its sectoral application such as cooperation with developing countries and the third world, and foreign policy with non-EU countries is also adopted. The adoption of this method is based on

<table>
<thead>
<tr>
<th>Domestic Context</th>
<th>• Political and social systems</th>
<th>•Satisfaction with domestic democracy ($X_{3i}$ and $X_{4i}$)</th>
<th>Very satisfied + fairly satisfied (1-2), Not very satisfied + not at all satisfied (3-4)</th>
<th>% by country in interval scale (1 to 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Context</td>
<td>• Market context</td>
<td>• Exports to EU countries ($X_3$) • Recipients of EU direct investment, intra-flows ($X_6$)</td>
<td>As % of total national exports Million ECU</td>
<td>% Million ECU</td>
</tr>
<tr>
<td><strong>Dependent variables (Yi)</strong></td>
<td>• Subsidiarity (general) • Cooperation with developing countries and third world • Foreign Policy towards non-EU countries</td>
<td>Jointly within the EU Jointly within the EU Jointly within the EU</td>
<td>% % %</td>
<td></td>
</tr>
</tbody>
</table>
the democratic approach of FEP that is characterised by the decision-makers' will to positively reflect the public's preferences and the consequent reflection of this in policy outputs. In this case, the public's preferences and those of decision-makers are convergent such that a two-level game would not occur. The issue of human rights and democracy in the FEP of the EU is subject to the application of concurrent competence, and did not occur suddenly, cutting out time and space. Rather, it was an output of cumulative contexts of time, space and knowledge.

In fact, as figure 7.3 shows, the conceptual change of sovereignty concerning human rights and democracy has been established as a principled knowledge through such a cumulative process among decision-makers. This is to say that the initial game between decision-makers and the domestic constituents, not having shared preferences or knowledge, has evolved to a single-level game (Level I, i.e. the international level) or a two-level game (against the three-level game) representing convergent preferences or knowledge. As such, it is reasonable to adopt the change in the public's support for subsidiarity as the dependent variable representing decision-makers. The following operational definitions are available:

**Operational definition 1:** The high rate of support for the application of subsidiarity to cooperation with developing countries and the third world indicates the conceptual change of sovereignty from Westphalian sovereignty to the pooling of sovereignty.

The adoption of three dependent variables derives from the potentiality in which the interpretation of the general subsidiarity principle distorts the implications of the outputs in the sense that it includes both internal and external perspectives, despite mainly focusing on the former.
7.3.1.3 Interpretation of analysis outputs

7.3.1.3.1 The international structural contexts

In the model of subsidiarity (general) (the dependent variable, Y1) and trade and gross capital flow (the independent variables, X1i and X2i), the results say that this model is not significant at the level of p < 0.05. As a result, the null hypothesis (H0) is accepted, whilst the abovementioned alternative hypothesis 7.1, which states that structural changes shift the content of policy outputs through the agents’ cognitive conversion, is rejected. As such, the international structural contexts do not generate changes in the contents of policy outputs, i.e. the change in the concept of sovereignty.

In the same context, ‘political conditions’ was not inserted into a series of trade and cooperation agreements with non-EU countries by changing the concept of sovereignty derived from the international structural contexts. On the other hand, a regression analysis, consisting of cooperation with developing countries and the third world (the dependent variable, Y1), X3i and X4i results in no significance, saying that this model is not acceptable. Thus, the null hypothesis (H0) is accepted. As such, we reach the same conclusion as that in the previous model.

By contrast, the model concerning Foreign policy towards non-EU countries (the dependent variable, Y1), X3i and X4 is significant at the level of p < 0.05. As a result, the null hypothesis is rejected, and the alternative hypothesis 7.1 is accepted. As such, it is possible to say that ‘political conditions’ were introduced into a series of trade and cooperation agreements with non-EU countries by changing the concept of sovereignty. This redefinition of sovereignty originated from international structural contexts. In addition, in terms of the significance of individual variables, trade is not significant and is negatively correlated with the dependent
variable. By contrast, capital flows are significant and positively correlated with \( Y_i \) on a high t-value meaning that this variable is consistent, despite their little variances. These correlations are equivalent to:

\[
Y_i = 1.813 - 3.021E-03X_{i1} + 5.075E-02X_{i2} + e_i \quad (7.3)
\]

7.3.1.3.2 The domestic contexts

In the model of subsidiarity (general) (the dependent variable, \( Y_i \)) and satisfaction with domestic democracy (Very satisfied + Fairly satisfied, \( X_{3i} \) and Not very satisfied + Not at all satisfied, \( X_{4i} \)) (the independent variables), the results say that this model is significant at the level of \( p < 0.05 \). As a result, the null hypothesis \( (H_0) \) is rejected, whilst the hypothesis 7.2 is valid, allowing us to conclude that the internal demands for human rights and democracy principles corresponds to those in both the EU level and the external relations. These relationships are equivalent to:

\[
Y_i = 0.369 + 0.505X_{3i} + 0.291X_{4i} + e_i \quad (7.4)
\]

Meanwhile, a regression analysis, consisting of cooperation with developing countries and the third world (the dependent variable, \( Y_i \)) and satisfaction with domestic democracy (Very satisfied + Fairly satisfied, \( X_{3i} \) and Not very satisfied + Not at all satisfied, \( X_{4i} \)) (the independent variables) results in a significance of 0.774. Thus, this model is not acceptable by the significance criteria of \( p < 0.05 \), and the null hypothesis \( (H_0) \) is accepted. By contrast, the alternative hypothesis 7.2 is rejected. Thus, we can conclude that the inclusion of ‘political
conditions' in a series of trade and cooperation agreements with non-EU countries does not derive from the changing concept of sovereignty caused by domestic contexts. In the model of Foreign Policy towards non-EU countries (the dependent variable), $X_3$, and $X_4$, are also the case.

7.3.1.3.3 **The international structural and domestic contexts**

Unlike the models in which the international and domestic contexts are isolated, the model consisting of cooperation with developing countries and the third world (the dependent variable, $Y_1$), the international structural and domestic contexts (the independent variables) are not significant. This is also the case in the models with the other two dependent and independent variables. This indicates that when the international structural contexts and the domestic contexts are operating in combination with the dependent variable, the significances of these two groups would be offset. As such, decision-makers can take strategic choices in a relatively looser situation between the domestic and international structures.

7.3.1.3.4 **Market interdependence and policy interdependence**

According to the output of a regression adopting the independent variables of recipients of EU direct investment (intra-flows) and exports to EU countries (as % of total national exports), and the dependent variable of subsidiarity, the model is not significant. Thus, the null hypothesis is accepted, whilst the experimental hypothesis 7.4 is rejected. This result indicates that there is a gap between market and policy interdependences.
Meanwhile, in the regression of these independent variables and the dependent variable of cooperation with developing countries and the third world, the model concerning market interdependence is significant at the level of $p < 0.05$. As a result, the null hypothesis is rejected, and the alternative hypothesis 7.4 is accepted, which states that there is no gap between market and policy interdependences. In addition, in terms of significance of individual variables, all the independent variables are significant, whilst 'exports to EU countries' is negatively correlated with the dependent variable. This correlation is equivalent to:

$$Y_i = 2.274 - 0.266X_{3i} + 2.271E-01X_{6i} + e_i \quad (7.5)$$

Foreign policy towards non-EU countries (the dependent variable) and the independent variables also form a significant model. This leads us to the same conclusion that market and policy interdependences are positively correlated. In this model, 'exports to EU countries' is significant with the p-value of 0.032, whilst 'recipients of EU direct investment' is not significant, as it shows a greater p-value than 0.05. The result is equivalent to:

$$Y_i = 2.331 - 0.315X_{3i} + 1.543E-02X_{6i} + e_i \quad (7.6)$$

### 7.3.2 Agents' principled and causal knowledge

The perspective of knowledge between agents is accompanied by accounts of the changes in the construction of FEP contents, and the competence allocation or sovereignty concerning the availability of this change in the content about to happen, in particular, in the case of the EU 'political conditions' to be introduced. These issues link the consistency and symmetry of the
basic line of the EU's FEP with the competence allocation within the EU. In particular, the latter
is necessarily accompanied by discussion over the different understanding of subsidiarity that has
been introduced by the Maastricht Treaty. As such, the following hypothesis is suggested:

\textit{Hypothesis 7.5: The agents' knowledge impacts directly on the policy such that the power of
principled knowledge shaping a policy generates changes in the structure of foreign economic
policy. As a result, the basic possible strategies of a country have been changed.}

\subsection*{7.3.2.1 Principled knowledge of national interests}

Decision-makers' knowledge consists of 'principled knowledge' and 'causal knowledge'.
Regarding the issue of human rights and democracy, 'principled knowledge' questions whether
human rights and democracy are legitimate objectives of foreign economic policy or not. By
contrast, 'causal knowledge' questions what kind of foreign economic policy is the most
effective for promoting human rights and democracy in the external relations of the EU (Sikkink,
1993, p. 141). Above all, as for the former, there is no complete consensus between decision-
makers. Some groups of political entrepreneurs would argue that the defence of human rights
and democracy is the optimal strategy for ensuring safety or security.

By contrast, the other more realist decision makes are more concerned with securing and
reinforcing material means; their thoughts being centred on the concepts of interest and power.
Traditionally, foreign policy has focused on the choice of the appropriate method to promote
national interests, starting with the definition of national interests. In this context, for defining
national interests, the knowledge that constructs the consensus (at least acquiring the relative
majority) between decision-makers becomes shared. Then, shared knowledge is established as
principled knowledge and then ultimately reflected in a series of policies. Human rights and
democracy are introduced to the priority list of foreign policy through a similar process.

Above all, in terms of the definition of national interests, human rights and democracy must be the most necessary elements of national interests. The concept of national interests is nearly regarded in the same light as objectives of foreign policy that express values and interests. These values and interests are the internal elements operating in the process of setting up objectives. Such national interests are the means of political actions and structure the way of thinking concerning objectives.

If so, what are practical national interests? In practice, national interest is not a scientific concept, since it contains preferred values. This feature of containing preferred values is accompanied by conceptual ambiguity, which is divided into two categories. First, from the viewpoint of realism based on the concept of power, national interest is defined as 'one guiding star' or 'one standard for thought' (Morgenthau, 1951, p. 242), as a technical function is emphasised. As a result, the state is regarded as the supreme good, the survival of the state and the basic objectives that are shared with all the other social groups are regarded as optimal, and national selfishness is regarded in the same light as national interest.

Second, by contrast, it is possible to define national interest as some ideal set of purposes, which a certain country is trying to realise in enforcing a foreign policy. As such, normative and citizenry perspectives are emphasised (Seabury, 1963, p. 86). This knowledge orientates a better world or international society or world community, as it sees the state as the need of all citizens. Such a nature of national interest constructs a large part of international political economy based on the concepts of 'justice and distribution' rather than international relations based on the concepts of 'order and power'.
Meanwhile, since 1991, a series of trade and cooperation agreements between the EU and non-EU countries are obviously third generation agreements with references to democratic principles and observance of human rights. A “third generation agreement” aims at stepping up and diversifying trade and providing for very extensive cooperation covering not only economic and industrial aspects but also culture, environment, training, drug abuse control, tourism, etc. Furthermore, it also contains a future developments clause meaning that no area of cooperation is ruled out, but it must be based on observance of democratic principles and human rights. The emphasis of these new norms or principled knowledge and the setting of new objectives proves its consistency as a policy by being allocated a budget within the EU budget, and expending it since the early 1990s.

**Figure 7.6 The EU budget - External action (Subsection B7)**

(EUR million)

Notes: B7-2: Humanitarian and food aid; B7-7: European initiative for democracy and human rights

Figure 7.6 shows the changes in the percentage of the budget allocated to the EU’s initiatives for human rights and democracy within the EU budget. However, human rights and democracy clauses within the Community agreements are characterised by asymmetry by region or country. This feature reveals the gap of political and economic bargaining powers between signatory parties, and the inconsistency between national interests and the values of new norms or principles. This will be described in greater detail in section 7.4 below.

### 7.3.2.2 Causal knowledge of national interests

On the other hand, even decision-makers who have a shared principled knowledge often show differences in causal knowledge. The direct driving forces of differences in causal knowledge are summarised as follows. First, difference in causal knowledge derives from the fact that knowledge of human rights that is mainly embodied by institutions and laws creates bureaucratic interests based on the perpetuation of policies (Sikkink, 1993, p. 167). The bureaucratic interests are nested in a series of institutions for implementing principled knowledge orientating towards a popularity bonus. Such a structure generates the potentiality in which the public sphere is refracted by the legitimacy of the political society. Civil society organisations operate as a counterforce against bureaucratic interests.

Knowledge of human rights and democracy can be also promoted by NGOs. These NGOs emerged as organised groups during the late 1970s, for example, Amnesty International, Human Rights Watch and Lawyers’ Committee on Human Rights. They have contributed to the integration of human rights into foreign policy. In Europe, such NGOs have interacted with bureaucratic and institutional interests. This interplay is not always congenial, but its linkage has
been mutually reinforced (Sikkink, 1993, p. 167). In fact, these NGOs do not have the power to mobilise the constituents for elections concerning human rights and democracy unlike other interest groups in international relations. In addition, they do not provide political funds to any political bodies so that they do not have direct political or economic influences. These NGOs’ influence can be recognised only through responding to decision-makers’ normal concerns.

However, NGOs can induce changes in the structure of decision-makers’ knowledge by broadening the scope of their objectives, pursuing the achievement of these objectives in both the national and transnational levels, exercising agenda-setting power, and extending issue linkage. In particular, civil society organisations are not prisoners who are constrained by structures, in the sense that all such actions of civil society organisations are not simply reactive, but proactive to external environments and in collecting relevant information. As Moravcsik (1995, p. 157) observed, European regimes have FEPs which are based on the pursuit of human rights and democracy, and do not function through external sanctions or reciprocity, but through an autonomous and independent civil society and robust municipal (domestic) legal institutions.

In the meantime, concerning the supranational institutions of the EU that are associated with these NGOs, the ECJ and the Commission are regarded as the most effective bodies in promoting human rights and democracy (Sikkink, 1993, p. 168). However, in terms of its enforcement, i.e. from the viewpoint of causal knowledge, between individual organisations, there is no consensus. In particular, the Commission shows a negative position in enforcing human rights and democracy principles. In the Lomé Convention IV in May 1994 the insurance of democracy, the control of law, good governance and the respect of human rights have been established as necessary elements. By contrast, the Commission was in an ambiguous position concerning the issue of accompanying with an immediate and unilateral suspension clause, which would be
taken if these elements were violated. In the trade and cooperation agreements with Ukraine, Russia and the Baltic countries, the Commission has also taken a positive attitude towards a unilateral suspension.

Secondly, on the other hand, different causal knowledge also derives from individual agents’ private knowledge. Agents understand and interpret structural contexts through their own private knowledge such that agents decide their own specific rational and strategic actions. This process is characterised by subjectivity and contextuality in the sense it can be multi-dimensional, and in nature *ad hoc*. When these actors’ subjectivities intersect each other through their interactions, repeated intersections make autonomous individual knowledge converge to an intersubjective knowledge, which becomes principled.

From another perspective of knowledge, concerned with the availability of including ‘political conditions’ in FEP of the EU, i.e. the allocation of policy competences, it is necessary to explore the decision-makers’ cognition of subsidiarity. Individual states say in the formation of the EU’s FEP premise that they are ready to put the interest of the Community above their own. Linked to the issue of ‘effectiveness’, this premise is based on knowledge that actions at the level of individual Member States are not ‘better’ than those of the Community level. In terms of ‘Enlargement’, this knowledge concerning the priority of the Community interests to the national interests has been discussed as an important criterion to judge the membership of new applicants to the EU, as figure 7.5 depicts.

However, it is possible that the pursuit of Community interests generates significant damages to a certain country. In addition, there is another potential risk that unlike expectations, the Community actions are not effective or better than those of individual Member States. Concerning the potentiality of this ‘government failure’, the subsidiarity principle was
introduced to prevent it from occurring. Looking at a series of formal documents as below at the beginning of the 1990s, principled knowledge concerning the necessity of subsidiarity has been shared by elites’ private knowledge at the EU level.

Throughout a series of conferences and consultations, there is a consensus, i.e. principled knowledge, over subsidiarity between individual agents and institutions at the EU level. In 1992, the most important question on the agenda of the meeting of the Consultative Council of Regional and Local Authorities was that of subsidiarity. At this meeting, Bruce Millan, Commissioner for regional policies, addressed and stressed the importance of a regional and local representation within the Community and the need to listen to its views, especially on regional issues, saying:

“I am convinced that the subsidiarity principle needs to be applied below the national level, and not only between the Community and Member States and there are references to the role of the regions in the Commission’s document on subsidiarity.”

In a speech given to the EEP-Group of the European Parliament in London, 10 September 1992, Peter Schmidhuber, the Member of the Commission with responsibility for the budget, put forward eight propositions outlining how the principle of subsidiarity should be interpreted and implemented. He understood subsidiarity as a principle for the decentralisation as much unity as necessary, and as much decentralisation as possible by emphasising that subsidiarity requires a new way of thinking. He tries to say that the question is no longer what the Community could do,
but what it really must do. In other words, the Community must do no more than is absolutely necessary.⁷

Bruce Millan in the address at the European League for economic cooperation's conference, Cleveland, 10 July 1992, also said:

"[Y]ou could be forgiven for thinking that the concept [subsidiarity] had only just been invented. Moreover, you could be forgiven for inferring that subsidiarity means no more and no less than the renationalisation of decision-making – taking back to Dublin, Bonn or London those areas of activity that had hitherto been collectively agreed in Brussels. However, as Commissioner for regional policies, I do want to stress firstly that subsidiarity means much more than the relationship between the Member States and the Community, and secondly, that it is a principle that has been fully incorporated into regional policy since 1989."⁸

Leon Brittan thought of subsidiarity as the rationale of Community actions, mainly in the bases of the 'negative externality' and the 'community-wide effect', as he states:

"Obviously member States cannot be expected to take account of the external impact of their policies. [On this point,] an independent referee is needed to ensure fair play. That is why the Treaty made the Commission responsible for controlling state aids. … However, the Commission is only responsible for state aids which affect intra-Community trade. It is not for us to say whether the local
Council may give the local baker a grant to extend his premises or change his shop front.”

Meanwhile, vice-President Henning Christophersen emphasised this point at the Maastricht colloquium on subsidiarity, 22 March 1991, in the following way of thinking:

“[T]he fundamental element in the concept of subsidiarity is political and economic liberalism. The concept of subsidiarity is therefore not only a guideline for the distribution of power between nation states and the supranational level in the Community integration process. In a wider sense the principle of subsidiarity means a decentralised market-oriented economy where decisions are taken either by the individuals themselves or at the level that is closest to them. This level is not necessary the nation state.”

7.4 The interpretation of the timing of introducing ‘political conditions’ in FEP and the content of ‘political conditions’

7.4.1 The interpretation of the timing: international, European and historical contexts

Historically, compared to the US, Europe has been interested in human rights and democracy for longer. In the Post-World War II era, unlike the US in which this idea is less important than ideological forces combined with anti-communism, isolationism and segregationist feelings, the European experience with Nazi Germany during the war shaped knowledge that heavily
emphasised the significance of the issue of human rights and democracy (Sikkink, 1993). Furthermore, this knowledge resulted in sufficient direct impact on decision-makers’ recognition of these issues to appear in the list of policy priority. As such, the Second World War gave birth to the issues of human rights and democracy in foreign policies of the European countries.

From historical experiences, Europeans started thinking that the issue of human rights links to the causes of war, and that the respect of human rights generates an increase in European security (Sikkink, 1993, p. 155). Such knowledge keeps its consistency through being institutionalised by the consensus on its importance as well as policy measures or legal forms. In fact, human rights policy in Europe has been institutionalised as normal in agreements through being embodied in a series of European human rights documents. In addition to this institutionalisation, the Western European countries, except Greece, have held fast to human rights regimes.

Finally, Europe has recorded 40-years of expansion of human rights and its activism (Sikkink, 1993, p. 166), and this long history continued into a series of trade and cooperation agreements between the EU and non-EU countries throughout the 1990s. As such, in terms of timing, those trade and cooperation agreements were not outputs of a sudden change in policy orientation or principle knowledge. Nevertheless, it is remarkable to note that it was since the beginning of the 1990s that ‘political conditions’ such as human rights and democracy started being introduced into a series of trade and cooperation agreements. Here, the explanation of its timing moves on to other accounts.

In the late 1980s, and the early 1990s, in the Community trade agreements, European decision-makers’ recognition of the significance of human rights and democracy was riding on the back of political shifts. In the late 1980s, the collapse of communist regimes resulted in
increased trust in democracy. This derived from knowledge that the democratic governmental system can provide stability, which is necessary for economic development. Consequently, as the basis for economic transformation, the need for good governance based on legal rules became significant such that it continued into the protection of human and fundamental rights.

On the other hand, as the bloodshed of Tiananmen Square in China, apartheid in South Africa and the so-called ‘ethnic cleansing’ in the former Yugoslavia in 1991 happened, Europeans (agents) paid attention to the issue of human rights and democracy. Linked to this recognition, it was a neo-functional account that Europeans took as a practical method of strategic choice aiming at promoting the observance of human rights and democracy principles through economic exchange. This account constructs a causal knowledge expecting a spill-over effect from economic cooperation to political dialogue based on non-automatic evolution that is characterised by ‘carrot and stick.’ However, in terms of access, the EU would like to distinguish the values of human rights and democracy, i.e. normal knowledge, and democracy from causal knowledge of them. For example, in the Communication from the Commission to the Council, “Towards a New Asia Strategy” the EU stated that:

“[The Union] will not be able to take for granted automatic acceptance of European values and ways of doing things. Universal Human rights are recognised in Asia as in Europe, but the manner in which these are advocated and defended is crucial.”
This paragraph connotes the understanding that the practical method, in terms of causal knowledge of human rights, should be different from its implications in terms of normal knowledge.

Meanwhile, in the European context, this was a time when the Maastricht Treaty was concluded. The Maastricht Treaty, unlike the Single European Act (SEA) was aiming at completing the European Single Market, and was orientated to political and security cooperation. Formally entitled the Treaty on European Union (TEU), the Maastricht treaty was the output of two Intergovernmental Conferences (IGCs) and was agreed at a meeting of the European Council in Maastricht, the Netherlands, in December 1991. Formally signed in Maastricht on 7 February 1992, the Treaty entered into force in November 1993. It was the Amsterdam Treaty and the Nice Treaty that succeeded and enforced this objective further. In particular, at the Nice Summit, European decision-makers declared military autonomy from NATO. These meetings concerning political and military security paved a way towards the establishment of common foreign and security policy at the EU level. In the same context, the basic line of such political integration has been reflected in a series of third generation agreements between the EU and non-EU countries since 1991, which include, in practice, political dialogues with external parties.

The abovementioned contexts explain the timing when, since 1991, the human rights and democracy clause appeared in a series of trade and cooperation agreements between the EU and non-EU countries. The priority of human rights and democracy was also recognised by the Community and continued to be written in a series of documents and agreements including the TEU Title I Article 6 (2) (ex. Article F), which states that:
"The Union shall respect fundamental rights, as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms signed in Rome on 4 November 1950 and as they result from the constitutional traditions common to the Member States, as general principles of Community law."\(^{13}\)

7.4.2 The interpretation of contents: the inconsistency of principled knowledge concerning human rights and democracy

The EU has pursued the objective of promoting the extent of integration between the EU and third countries by introducing human rights and democracy principles in trade and cooperation agreements with non-EU countries. This objective has not run parallel to that in a series of agreements with Latin America and Asian countries, at least until 1996 (Cremona, 1996).

7.4.2.1 The Framework Agreement for trade and economic cooperation between the EEC and Latin American countries

It was not until the beginning of the 1990s that trade and cooperation agreements between the EU and Latin American countries contained a human rights and democracy clause (mainly, Article 1). In previous cooperation agreements, there was only a general reference to international cooperation based on the fundamental rights, equality, justice and progress in the Preamble.
The Framework Cooperation Agreements between the EC and the Republic of Chile, the Argentine Republic and other Latin American countries were one of the first of the “third generation” agreements. This is because they are evaluated as being highly structured and complete due to all possible forms of cooperation and its special nature. Above all, it is remarkable to note its “ultimate objective” to establish a political and economic association, which goes well beyond traditional cooperation. Eventually, the forming of the basis of such an association is accompanied by the way for gradual and reciprocal liberalisation of all trade. In addition, based on this knowledge, these agreements rank amongst the most progressive of Community agreements due to their future development clauses, which supplement most-favoured-nation treatment. The future developments clause completes the arsenal of means. Generally speaking, on the basis of EEC Treaty Articles 113 and 235, through these agreements, cooperation is of the widest possible kind and the future development clause allows for further broadening, in the following way:

"1. The Contracting Parties may by mutual consent expand this Agreement with a view to increasing the levels of cooperation and supplementing them, each in accordance with its laws, by means of agreements on specific sectors or activities.
2. With respect to the application of this Agreement, either of the Contracting Parties may put forward suggestions for widening the scope of mutual cooperation, taking into account the experience gained in its execution."\(^{15}\)

In addition, it is remarkable to note the terms of Article 1 on the democratic basis for cooperation between the EC and Argentina, Chile and other Latin American countries, which spell out the
legal framework for the development of Community policy towards non-member countries. The democracy clause establishes the bedrock of cooperation and for setting out the relevant mechanisms.

"Cooperation ties between the Community and Chile and this Agreement in its entirety are based on respect for the democratic principles and human rights which inspire the domestic and external policies of both the Community and Chile.\(^{16}\) [and other Latin American countries]."

In addition, in the cases of Paraguay and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Article 1 in the agreements is followed by a provision that supports domestic democratisation (Article 2), in the following way:

"1. The Contracting Parties consider the support that the Community can offer towards the consolidation of the democratic process in Paraguay to be crucial. In this regard, the Community reaffirms its readiness to help strengthen the democratic institutions of Paraguay [and other relevant Latin American countries] to the extent of its powers and its ability.

2. The Parties likewise agree to devote special attention to encouraging, by appropriate measures, the return to Paraguay [and other relevant Latin American countries] of persons obliged to leave it on political grounds."\(^{17}\)
Contrasting these general features, the Framework Agreement with Mexico of 1991 did not include 'political conditions' such as human rights and democracy clauses, whilst it contained a future developments clause (Article 45). Article 1 states:

"Both Parties hereby undertake to impart renewed vigour to relations between them. To achieve this essential objective, they resolve to promote in particular the development of cooperation relating to trade, investment, finance and technology, taking account of Mexico's special situation as a developing country."\(^{18}\)

The 1991 cooperation agreement continues to apply in part, pending conclusion of the new agreement which is entitled the 'Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and its Member States, on the one part, and the United Mexican States, on the other part'.\(^{19}\) This new agreement, signed on 8 December 1997 and not yet in force, is an extremely comprehensive and complex agreement. All trade and cooperation fields are covered as well as means of protection, including for intellectual property, and respect for democratic principles forms the basis of the agreement (Article 1). In addition, the future developments clause (Article 43), as a \textit{pactum ad contraendum}, completes the extensive range of partnership instruments.\(^{20}\)

7.4.2.2 The Framework Agreement for trade and economic cooperation between the EEC and Asian countries

Before 1990, the trade and cooperation agreements between the EU and Asian countries did not include 'political conditions', as they had a reference to cooperation based on freedom, equality
and justice. It was in the trade and cooperation agreement between the EU and Macao in 1992 that 'political conditions' such as human rights and democracy were first introduced. However, the human rights and democracy clause was a weak version, in terms of its binding power, compared to that in trade and cooperation agreements between the EU and Latin American countries, as the second paragraph was attached to Article 1 in the following way:

"The two parties undertake to strengthen their relations and resolve to promote cooperation between them, taking account of Macao's special situation and of its level of development. [an attached paragraph]

Cooperation ties between the Community and Chile and this Agreement in its entirety are based on respect for the democratic principles and human rights which inspire the domestic and external policies of both the Community and Macao. [usual paragraph]"

By contrast, since 1993, other trade and cooperation agreements with Mongolia and Sri Lanka in 1993, and with India in 1994, contained a strong version of 'political conditions'. These agreements stated that human rights and democracy clause were an essential element of agreements in the same way as agreements with Latin American countries.

Meanwhile, it is interesting to note that in the trade and cooperation agreement with Vietnam and a new agreement with ASEAN, the Community institutions do not share knowledge. The European Parliament (EP) argued that human rights and democracy clauses should be developed as essential element of agreements, whilst in the Commission there was an ambivalence in the
approach to ‘political conditions’ and trade issues (Cremona, 1996). In the Communication from
the Commission to the Council “Towards a New Asia Strategy” the Commission stated that the
development of democracy, consolidation, legal rules and the respect of human rights and
fundamental freedom construct the major objectives of foreign policy of the EU. By contrast, the
Commission did not mention the human rights and democracy clause in new Asian trade
agreements. This silence implies that the Commission would like to leave ‘political conditions’
as the basis of economic cooperation to political dialogues. In fact, negotiations for a new third
generation cooperation agreement with ASEAN groups were deadlocked because of the East
Timor issue.

Unlike other trade and cooperation agreements with Asian countries, that with China is not a
third generation agreement because it does not contain ‘political conditions’. This agreement
contained a reference to the MFN status instead of ‘political conditions’, providing two
implications: first, from the viewpoint of the Community level, the Commission tries to adopt an
independent stance in accordance with its general principles; secondly, in the international
context, the ambivalence of the Commission, as its general knowledge, corresponds to the
decision of the Clinton administration to extend MFN status to China, implying de-linking
between trade and ‘political conditions’.

7.4.2.3 Central and Eastern Europe and the Former Soviet Union

The first association agreement that was concluded between Poland, Hungary and
Czechoslovakia in December 1991, the so-called Europe Agreement, mentioned the Helsinki
Final Act and Charter of Paris. However, it did not include ‘political conditions’ concerning
human rights and democracy. However, in 1992 and 1993, the second Europe Agreement between the Czech Republic, Slovakia, Bulgaria and Rumania contained a human rights and democracy clause.

In the agreements with Baltic countries and Albania in 1992, unlike the existing agreements with Latin American and Asian countries, express reference to unilateral and immediate actions that could be undertaken in the case of violation of human rights was included, which states that:

"The parties reserve the right to suspend this Agreement in whole or in part with immediate effect if a serious violation occurs of the essential provisions of the present Agreement."^{23}

As such, the EU raised the enforceability of ‘political conditions’ by identifying the essential provisions for the unilateral suspension to signatory parties. By contrast, in 1994, the newly concluded free trade agreement with Baltic countries did not repeat the provision of unilateral suspension, even though it embraced a strong form of human rights and democracy. On this point, it is possible to say that this arrangement derives from the fact that, as integration with Baltic countries deepens, the existing provisions became unnecessary in a strong manner. In addition, this feature indicates that the human rights and democracy policy of the EU is regional and multilaterally bounded in Europe.
7.5 Conclusion

From the accounts above, the following conclusions are reached. First, whether the international structural contexts impact on the conceptual change of sovereignty or not, i.e. the explanation of policy outputs, depends on the dependent variable. This variation derives from the fact that the conceptual change of sovereignty concerning general subsidiarity and that in external relations, i.e. the pooling sovereignty, are isolated in terms of the level of significant activities. That is, the former is considered at the internal level (Levels II and III), whilst the account of the latter is undertaken at the external level (Level I). As such, in the late 1980s and the beginning of the 1990s, ‘political conditions’ in a series of trade and cooperation agreements between the EU and non-EU countries was not an output of the conceptual change of sovereignty at the internal level. Rather, it was an output of the conceptual change at the external level following the impacts of the international structural contexts.

Second, the domestic preference or need represented by the extent to which the public are satisfied with domestic democracy accommodates general subsidiarity at the internal level, whilst it does not admit subsidiarity at the external level. Consequently, the agents’ cognitive scope of the appropriate level to achieve the objectives accommodates the conceptual change of sovereignty at the internal level, as it is limited to Levels II and III. By contrast, in settling the problems derived from the national level, agents do not prefer potential tools which become available through the pooling of sovereignty to the external level beyond the EU level. As such, it is obvious that the inclusion of ‘political conditions’ into a series of trade and cooperation agreements with non-EU countries is not an extension of the specific domestic preferences of
individual Member States. In addition, it indicates that the policy outputs of the EU orientate towards regionalism, in which in terms of the allocation of competences for problem-solving, the maximum permissible level is defined at the internal level. This feature has a connection with the fact that the existing European human rights policy, unlike that of US, is characterised by the bounded multilateralism at the European level.

Third, from all the above models, market interdependence as a structure operates as a positively decisive factor for forming foreign economic policy. By contrast, in terms of the internal level of the EU, there is a gap between market and policy interdependences. As such, in external relations of the EU, the extent of the Member States' market interdependence is in accordance with that of policy interdependence, in particular, in shaping foreign economic policy.

Finally, the FEP of the EU connotes ambivalence. This derives from the sense that, despite TEU Article J. 1 (2) containing a reference to positive measures including the support for elections and free media, there is no express link between trade and 'political conditions' such as human rights and democracy in transforming the objectives to actions. 'Political conditions' is a means of the EU's FEP in terms of the economic diplomacy, in the sense that it has a double objective to change the practices of the repressive governments and to isolate the EU from their practices. However, strains between the EU Member States occur, since they take national development and EU policy development into account. Such a conflicting causal knowledge derives from decision-makers' different purposes or intentions concerning the three angular points that construct the objectives of FEP. In particular, the EU's FEP has generated inconsistency in terms of the purpose or intention of human rights and democracy policy, whilst development aid policy has comparatively kept its consistency.
References

1 See SEC (90) 2087 final of 19.11.1990.
5 This denotes the whole range of principles, policies, laws, practices, obligations and objectives that have been agreed or that have developed within the EU. The significance of the acquis is most obvious when new member states join the EU. They are legally obliged to accept not only the Treaties, but all previous legal decisions taken by the various Union institutions, and all international agreements concluded by the Union.

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CONSOLIDATED VERSION OF THE TREATY ON EUROPEAN UNION, p. 13.

Signed on 2 April 1990 for a period of five years. Renewable thereafter on an annual basis unless notices of termination are given.


ANNOTATED SUMMARY OF AGREEMENT LINKING THE COMMUNITIES WITH NON-MEMBER COUNTRIES, EUROPEAN COMMISSION DG EXTERNAL RELATIONS B/5, Brussels, 1 November 1999, p. 179.
21 OJ No L 404, 31.12.92, COUNCIL DECISION of 14 December 1992 concerning the conclusion of a trade and cooperation agreement between the European Economic Community and Macao (92/605/EEC).

22 3 July 1994, COM (94) 314 final.

Part IV. Conclusion

Chapter 8:

Ontological, epistemological and methodological suggestions for establishing an explanatory framework for, and alternative scenarios to, the EU's foreign economic policy-making process: civil society democracy

8.1 New necessary recognition for the analysis of FEP

The guiding research question in this thesis is how to improve our understanding of the global dynamics in both the process of establishing and the actual content of the EU's foreign economic policy. To answer this question this study has raised, first, in terms of the concept of FEP, the question of whether traditional accounts of inter-mestic policy, centred around economic performance, i.e. uni-dimensional FEP, are reasonable or not. As a result, this study suggests that it is desirable to take into account other dimensions of FEP, such as economic diplomacy and foreign economic policy, in order to generate a multi-dimensional account of FEP.

The traditional dichotomy between low politics and high politics reflects distinctiveness in the characteristics of those two categories of politics, but also implies a hierarchy of importance. It seems that in such a dichotomy, a political process operates in the formulation of foreign economic policy only when the practical policies diverge from economic rationality or theories.
That is, the dichotomy excludes the explanation of political processes in their own frameworks, even though it is necessary to discern the political causes or consequences of foreign economic policy (Pastor, 1980, Brown, 1997, Hocking and Smith, 1997). In fact, foreign economic policy contains multiple dimensions. FEP aims to make domestic politics and economics compatible with international political economy, ultimately seeking to protect the national interest - survival, prosperity, and prestige. In addition, according to policy-makers' intentions, FEP would expose different features of economic diplomacy which reflect political purposes: foreign economic policy for setting rules for economic transactions; or inter-mestic policy for pursuing a home country's benefits.

Second, this multi-dimensional account requires us to establish a new framework, and to deal with issues related to the establishment of methodology. There have been a series of debates between those who emphasise comparative politics and those who emphasise international relations. In addition, those who suggest the analysis of foreign policy have been contending with those who are in favour of an international political economy approach. This study recognises that all of those approaches have individual merits and discovers the possibility of convergence in terms of a meta-theoretical dimension.

This discovery fundamentally derives from an absence of exclusiveness among the abovementioned three categories or boundaries of FEP. Such non-exclusiveness leads to a necessary arbitration of relevant sub-fields of political science, concerning the relevant unit of analysis and agent-structure. Thus, FEP basically includes not only the realm of international politics that concerns economic issues only in terms of economic diplomacy, but also the realm of IPE in which the questions of who-gets-what, when and how are mainly asked surrounding the issue of justice and distribution including global inequality.
In accordance with these fundamental features of FEP, this study suggests an analytical synthesis of the traditional foreign economic policy approaches, which is based on the dialogue of agent-structure and structure-structure relationships. This cognitive framework of dialogue encompasses a series of concepts such as order, power, heterogeneity, similarity, justice and distribution. The account of such a series of concepts constructs the epistemological components of meta-theoretical convergence between comparative politics, international relations, the analysis of foreign policy and the international political economic approach. Consequently, general explanation and explanations of the timing and content of policy outputs are provided.

8.2 Meta-theoretical implications for establishing a practical Method: agent-structure dialogue through knowledge system

In this research, from the considerations above, meta-theoretical components for a dialectical synthesis are suggested as the following. First, in terms of the unit of analysis, i.e. concepts, adopting reduced subtypes of the EU, i.e. actor-like entity or multi-level governance, is more appropriate than ‘precising’ the concepts or engaging in conceptual stretching. Generalisation recommends that we move up the ladder of abstraction as far as possible. Stretched terminology, however, leads us to excessive extension, in which “all the cows look black and eventually the milkman is [mis]taken for a cow (Sartori, 1970, p. 1040).” Here, most researchers confront the substantial question of how high an empirical term can go up the ladder without losing its concreteness. Thus, it is necessary to find a way of moving up the ladder of abstraction and
increasing extension without losing more accuracy and empirical nature than is necessary. Adopting the diminished subtypes of the EU is in accordance with such a need.

Second, in terms of the level of analysis, the simultaneous analysis of domestic and international politics is vital, thus avoiding holism and individualism. Furthermore, it is necessary to introduce a deeper understanding of domestic structure to the framework. As hegemonic states decline and the international economic system loosens, the explanatory power of the traditional systemic theories which regard the domestic structure as billiard balls has been eroded. By contrast, domestic structure has been recognised not as the consequence, but the cause of international politics. Meanwhile, despite such an evident shift in the level of analysis, structuralism and system theory have consistently been adopted when taking international affairs into account. This is because of their capacity to provide a precision that encompasses manifest implications for domestic sources of foreign economic policy, and parsimony that is a component of building a theory.

Theory-building, however, necessitates other components of cogency and predictive quality or accuracy. Rather, it may be possible to say that parsimony is less important than accuracy in the sense that a structural lens is not suitable to understand the complexity of foreign economic policy (Pastor, 1980, pp. 29-30). The complexity of foreign economic policy derives from the diverse levels of analysis, which is led by high sensitivity based on the relationships with other issue areas. Furthermore, it is practically represented by the number of relevant agents and structures. As mentioned before, FEP, unlike FP, is directly connected with civil life. In this close linkage, on the one hand, educational and ideological agencies shape culture and morality, which have been maintained by the coherent apparatus of the state. As such, civil society is shaped by this structure. On the other hand, civil society can shape the structures by playing the
role of a potential agent in maintaining the status quo, reproducing the existing structure and generating variations. This dialectic inherence enables the state and civil society to interact (Cox, 1999). The next generations of the Multilateral Agreement on Investment (MAI) should be negotiated giving consideration to demands from this non-governmental agent. A structural lens cannot provide a framework for understanding this dialectic inherence such that it cannot produce a comprehensive explanation of FEP connected with civil life. Such insufficiency is proved by the cross-cases analysis in chapters 6, 7 and 8.

Third, dialogue needs to contain a consideration of the greater sensibility of agent-structure and structure-structure. This study examined the EU’s foreign economic policy through a set of theoretical models that consist of a one system-level model, three domestic-level models, one market model and agential models. In this examination, the question of ‘which model is reasonable for fully understanding the EU’s FEP, and is distinct from most other studies that take a domestic approach without theorising about systemic variables or vice versa’ is asked. It can be concluded, via the series of those models, that not one of those six conceptual lenses directly indicates the dependent variables of the EU’s foreign economic policy. More practically, the dialectical synthesis approach in this study attempts to give due weight to the importance of domestic influences and interests in international negotiations.

At the same time, it argues the case for recognising the role of policy-makers, i.e. an agential perspective, operating at the interface between domestic and international arenas and being capable of influencing both of them. The rationale for this framework is that the traditional framework in political science has dealt with agent and structure in a separate way because of the parsimony of theory, even though those are always interacting. Nevertheless, Galtung’s problem (pointing out the plausible independence caused by the ‘diffusion’ effect of individual variables)
that is raised in comparative politics may also occur in the case of the separation of agent and structure. Therefore, it is desirable to take a look at agent and structure together to bear more fruitful explanation. If existing international relations analysis adopts interactions between the actor’s choices and the structural constraints or opportunities as an explanatory variable, then the embedded basic logics could be seriously undermined. Nevertheless, it is necessary to take account of agent-structure relations to achieve a framework in which the significant aspects of the empirical reality itself can be dealt with, i.e. increase the predictability of empirical theories of strategic actions.

Meanwhile, the rationale derives from the fact that the relationships between the international and domestic structural contexts and the policy outputs are asymmetrical. In chapter 6, through the cross-cases analysis of Germany, France and the UK, it is proved that these three countries vary in terms of causation of structural context. Furthermore, the account of the domestic structural context also proved an asymmetry in the explanatory power of political, economic and social systems. The other rationale is that, in an international context, reference to the state as an agent has been done at the expense of human agents who are representing the state. In such an international context human agents are constrained by both domestic and international structures (Buzan, Jones and Little, 1993), and international linkage forces human agents to come to terms with domestic and international accounts. As a result, the position of a country in a negotiation would be defined by the dynamic interactions of endogenous and exogenous variables, and structural and agential constraints or opportunities.

In the meantime, the state plays the role of a bridge to mediate those structures and agents. In this case, the state should be understood as an institution used to change or manipulate the specific agents’ interests and to redefine national interest, not as an actor. Furthermore, structure
needs to be accepted as a social construct in which it is intersubjectively understood by states and reproduced by interactions with states rather than fixed and external to the interactions with state (national) structures. Regarding a practical method, such a framework evaluates correlations or causal roles of different structures, unlike structural monism. Meanwhile, it involves the analysis of national domestic structure (state-society relationships) centred around four social structures, which are domestic-economic, domestic-political, international-economic and international-political factors that constitute the state (Wendt, 1987).

Finally, agents act under the influence of the structure of prevalent knowledge. Knowledge is one of the structural powers that construct structure together with security, credit and production (Strange, 1988). Knowledge shapes a specific structure that engenders certain strategies, whilst it impedes others. Such knowledge is understood as principled knowledge concerning the dimension of norms or principles. However, agents can induce structural changes through applying or reflecting their own knowledge in their understanding of particular structural powers. At this stage, knowledge is concerned with practical method or apparatus being recognised as causal knowledge. As such, knowledge is more a mediator than simply a unilateral structure, since it connects agents with structures. In such a process of arbitration, knowledge refers to the extent of dynamics between agents and structures rather than to the relationships between them.

The arbitration of knowledge between agents and structures also appeared in agenda changes throughout the MAI negotiation of 1998, and ‘political conditions’ in trade and cooperation agreements between the EU and non-EU countries. The MAI started to reinforce protection of investors and to sweep away the barriers of FDI. It aimed to establish a binding disputes mechanism by which investors can sue governments which are accused of asset expropriation or

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discriminatory policies. In this process, agents participate proactively in the formation of a knowledge system as a structural power by interacting with the structures throughout the mediation of knowledge.

On the other hand, French decision-makers put greater value on national competences, economic security, investment security and ultimately economic sovereignty against the market logic in which the structural powers of global production and capital mobility enforced states to surrender a set of national regulations of foreign investment. This knowledge resembled that of civil society, in particular, as well as labour and environmental bodies. The latter took account of the possibility in which capital mobility erodes the national regulatory sovereignty by persuading competitive deregulations. As a result, firms have competences that enable them to control the states. In the same context, the French domestic ratification game was deviated from a two-level game, since agents’ preferences (i.e. decision-makers’ and the other agents’) and knowledge were convergent. In addition, these agents were interacting with structural powers (such that they were participating in the process of foreign economic policy-making as proactive actors) sufficiently to bring out structural changes.

On the other hand, it is obvious that the human rights and democracy policy of the EU has become principled knowledge, in the sense that it has been institutionalised in a series of agreements. By contrast, in terms of causal knowledge, the enforcement of ‘political conditions’ leaves much to be desired, in the sense that there is a gap in enforcing its policy objectives. As such, the perspective of the inter-mestic policy in the EU’s FEP is embossed, whilst the perspective of economic diplomacy to promote human rights and democracy indicates the gap between the goals and their enforcement. By contrast, the principled knowledge of orientating
towards the settlement of global inequality and consistent development is operating consistently by being pursued throughout practical performance.

8.3 Alternative scenarios of the EU's foreign economic policy-making process: civil society democracy

This study suggests the following agent-centred visions or scenarios of the likely course the EU might take in the formation of the EU's foreign economic policy in the near future. We may distinguish these visions from those of the traditional realists in IR or interest-centric foreign economic policy-making processes based on intergovernmentalism and undertaken in the boundary of foreign policy. These are the three models of 'civil society democracy' in the citizen-friendly institutional or regulatory structures, and the European and international public spheres, where international and domestic structures or other political, economic and social agents are conferred the recognition of true partners with legitimacy in their own right to civil society organisations. The two former ones are characterised by the European boundary, whilst the concept of the public sphere is expanded to the third one. In the civil society democracy of these three models, civil society organisations enjoy civic dialogues with institutions, which could be effectively undertaken by providing for a large measure of co-operation with NGOs and grassroots activists, scientists, or committed members of the associations. The explanatory power of these visions depends essentially on whether civic identity is established and on the degree of institutional rearrangement involved.
8.3.1 Scenario 1: ever closer Union in citizen-friendly subsidiarity through ‘soft’ state-centric model

Besides the Advisory bodies, a dialogue is embodied in a series of institutions including norms and principles within the EU’s foreign economic policy-making. Above all, particular attention is paid to the principle of subsidiarity, which is introduced by the Maastricht Treaty in order to solve democratic deficit and balance of power between the supranational, national and subnational institutions. Its introduction derives also from the calling for ‘an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen’. This intention is an advanced form of citizen-friendly policy-making process despite continuing problems concerning the criteria for applying this principle. Thus, in terms of national, economic, individual and distributional justice, this study suggests the following test of subsidiarity.

The economic approach for the rational application of subsidiarity is concerned with the matter of whether or not the assignment of functions to the EU level is appropriate. The main problem is what kind of criteria are appropriate for the propriety of EU action. It may be possible to find an answer for this problem in the economy of federalism. Political economy theory offers three main reasons why certain policy functions can better be executed at the Union level than at the level of the separate Member States: transaction costs, economies of scale and externalities (internal and external or negative and positive). These reasons can be used as criteria for the application of subsidiarity. Using these criteria and interpreting Art. 3b of the EC Treaty, a framework for implementing subsidiarity that does derive the assignment of competences between the EU level and the Member States through four steps is generated as the flowchart in diagram 9.1 shows.
Diagram 8.1 The subsidiarity test for the EU's foreign economic policy-making

Source: This schematic is modelled in the basis of Pelkmans' (1997, p. 49) suggestion by the author.
At stage one, the starting point of test, transaction costs, externalities, economies of scale and possibly other criteria (scale or effects or EU interest) can be used to decide which area belongs to the concurrent competence and why. At this stage, there might be conflicting points of view. If this consideration results positive, then the test should proceed to the next, that is, ‘need to act’ stage which belongs to the ‘reason’ stages of the test together with ‘credible co-operation’ stage. In ‘need to act’ stage, comparative efficiency of the Member States action and the Community action and the direct relationships between the Community action and the objectives being pursued in a policy area should be examined. If it is concluded that those criteria are positive, then in the next stage, the question of whether ‘credible co-operation is possible or not’ should be examined. What should be considered above all here is the fact that the existence of important spill-over or economies of scale is a necessary but not sufficient condition for the transfer to the Community level.

It must be examined whether the externalities or economies of scale in question cannot be taken care of by ad hoc voluntary co-ordination to the Union level. This is justifiable only if the gains it permits from removing the ‘market failure’ are not offset by high administrative or compliance costs, or by ‘government failure’, i.e., by the poor quality of the Community policy replacing the previous national ones. If in this stage, the answer is yes, then the test should be stopped, and Community action should be eliminated. Based on the scale of the matter, scales of co-operation are divided into bilateral, multiple, and Community-wide. Each matter requires the scale of co-operation corresponding to its scale, and if this is fulfilled, the intervention of the Community becomes unnecessary.

By contrast, if the answer is no, then the Community action will confront the stage of measures in which proportionality, consistency, communication and ‘near to citizens’ play
important roles. These criteria mean that measures should be directly related to objectives and be least disruptive to existing practices in the Member States, that new measures should complement existing ones, and that measures should be discussed at an early stage of policy-making by those most affected and be explained to the public. Through this process, government failure deriving from the poor quality of the Community policy replacing the previous national ones can be averted to a large extent by striving for a maximum degree of decentralisation in the execution of Community measures. In addition, this would at the same time avoid the uncontrolled growth of a Brussels bureaucracy too distanced from the ordinary citizen.

8.3.2 Scenario 2: ever closer Union in European public spheres through recognition of civil society organisations within Europe

Homogeneous international organisations including the UN, the OECD or the OSCE confer civil societies with the right to speak within the Economic and Social Council, subsidiary bodies and a series of meetings. By contrast, at the EU level, the legitimacy of NGOs has never been fully recognised. Indeed, the EU regards civil society organisations as merely auxiliary rather than as true partners. On 24 April 1986, according to the European Convention on the recognition of the legal personality of international non-governmental organizations, seven members of the Council of Europe, Austria, Belgium, Greece, Portugal, Slovenia, Switzerland and the UK, adopted a common concept of NGO. In the case of the Maastricht treaty, it has a short declaration addressing with Art. 117 on ‘social policy,’ but this annex remained limited.

In recent times, with increasingly good news concerning the legitimacy of civil society organisations becoming available, many commentators have adapted their expectations and
switched from more to less pessimistic visions. On 4 July 1996, France joined this Convention and ratified it in December 1998. In 1996, the 'First European Forum on Social Policy' referred to 'the building over time of a strong civil dialogue at European level to take its place alongside the policy dialogue with national authorities and the social dialogue with the social partners'. In particular, Convention No 124 in 1996 provided a system of mutual recognition that would make it easier for civil society organisations to become fully established within the EU, as Art. 2 in the Convention states:

"[T]he legal personality and capacity, as acquired in the Party in which it has its statutory office, shall be recognized as of right."

Meanwhile, in the preamble to the Treaty on European Union (TEU), the Member States refer in passing to 'the solidarity between their peoples', the strengthening of 'economic and social progress for their peoples' and 'the safety and security of their peoples'. However, the TEU assumed the model of the state, in which the state was recognised as a mover of the common foreign and security policy together with the Community. On the other hand, the Amsterdam Treaty started taking individuals into account, as the preamble to the Treaty seeks to 'establish a citizenship common to nationals of their countries' reproducing the state model on a different scale. For example, 'national treatment' was replaced by 'European treatment', and resulted in a better protection of individuals against discrimination.

In the meantime, after the MAI failure in 1998, the European Commission has set up the Investment Network. This is a formal new channel for consultation and partnership with European Business interests over investment issues that runs in parallel with a number of other
outreach initiatives involving non-business civil society. Indeed, the current Commission has exercised civil society dialogue by establishing institutional arrangements such as *Ad hoc* meetings with civil society, New Issue Groups, Contact Group, Internet Dialogue and General Meetings. This new phase of dialogue started in February 2001 on broader representation on the civil society side and the legitimacy of the dialogue aiming to develop a confident working relationship between all interested groups or individuals. In addition, it also aims to get better mutual understanding of concerns and better contacts between all the key players. General principles for the dialogue are ‘timely information and agenda-setting’ ‘broad representation’ and ‘transparency of participation.’

Throughout this process, the EU has been oriented towards the creation of civil society democracy via dialogues beyond the simple aggregation or synthesis, by increasing the transparency of policies and promoting the development of citizens as components of Europe. Dialogue is evidently self-interested, in which civil society organisations are frequently perceived as intermediaries. In addition, dialogue generates an arbitration of knowledge among political, economic and social agents. Through dialogue, civic knowledge can be reflected in the decision-maker’s knowledge and choice to pursue power. As such, it is natural that political agents’ power is based on civic power. Such a dialogue nullifies the structure of a two-level game between individual states and external negotiating partners in which decision-makers’ preferences differ from those of domestic constituents, for example civil society organisations. Furthermore, in the case of the EU’s foreign economic policy-making, the structure of three or four-level games between the EU institutions, individual member states’ decision-makers, local governments and domestic constituents is nullified. Consequently, in a close alliance of knowledge and power, the members of the Committees that are established by the
institutionalisation of dialogue would possess greater moral legitimacy. In addition, they would produce a great effect on public opinion in elucidating the social issues leading to the establishment of civil society democracy.

The necessary condition for this creation is to officially recognise NGOs’ political legitimacy by setting up a genuine action programme together. Europeans have always been provoked into forming defensive alliances against hegemonic attempts. Thus, the core discipline of international relations in Europe has been balance of power. In European history, no empire lasted for an extended period of time, and the shared knowledge of most intellectuals and the founders of the EC was confederation. Indeed, the European public would not like to create a European state. In the same context, Europeans are not willing to respond to a project of strong political unity in a reconstructed Europe. This seems to implicate that it is more desirable to accept a European civil society rather than a supranational European state as the ultimate goal of the construction of Europe (Alexander, 1998, p. 220).

Within the EU, several instances of partnership with NGOs including the Advisory Body on the Ethics of Biotechnology and the European Monitoring Centre on Racism and Xenophobia have already been set up. Committees composed of independent experts or qualified legal personalities are operating. These autonomous bodies have been established in order to maintain close links with the Council of Europe, and to enforce the effectiveness of work in collecting and analysing information. Such a 'structured dialogue' between European bodies and organs of civil society (Decaux, 1999, p. 912) through institutions would be very useful in taking into account the experience gained by NGOs in the field beyond a simple means of offering information. As a result, the quality and efficiency of the EU institutions could be greatly increased.
To ensure parliamentary legitimacy in establishing foreign economic policy within the EU, EU governance needs another zone of democracy between the European citizens, the Europe of nation states and the EU bureaucrats, in which balances, mediation and intermediate bodies are fully recognised. In this zone, it is more possible to expect 'ever closer Union' among the peoples of Europe or confederation, and individuals are recognised as significant actors at the heart of the Community. In a large and complex society, it is obvious that representative democracy does not correspond to knowledge prevalent among the European public. In a representative democracy, the individual's knowledge is easily reified to that of the representatives, who are usually incorporated into political parties. As such, there are more potentialities for the gap between decision-makers' political decision-making capacity and democratic consensus in foreign economic policy-making to occur.

By contrast, the individual-centric European society is certainly to be found in a space where national, economic, individual and distributional justice are set up as main objectives. As a result, the balance in national status within the system of states and equal inter-state economic relations are ensured. In addition, individual or group interests are not reified to the national interests or collective actions of the state, and regional inequality and the democratic deficit become meaningless. The subject of European (political) unity should not be absent from the everyday conversation of the majority of Europeans. This continuous civic dialogue is a necessary condition for building European political construction in the present and future. As such, it involves a critical mass of concerned European citizens and allows a lively internal pluralism. That is a feature of civil society democracy beyond the purely economic vision of civil society that was recognised by classical thinkers.
By civil society this study means an ideal type referring to ‘a set of political and social institutions, characterised by limited, responsible government subject to the rule of law, free and open markets, a plurality of voluntary associations and a sphere of free public debate (Alexander, 1998, pp. 220-221).’ Civil society within the European public sphere consists of free individuals who do not pursue their own private interests, and engage pro-actively in communication on public affairs and in the formation of civic identity. This perspective of civil society provides the basis for democracy in the sense that it establishes the ground rules for the proper relations between decision-makers of foreign economic policy and citizens. Civil society democracy is characterised by good governance, the rule of law, good citizenship, participation, consultation and solidarity. Civil society democracy is governed by the rule of law, and good citizenship. Participation and solidarity prevent the danger of depoliticisation and withdrawal in a private or uncivil society with no foundation other than selfish calculation, i.e. not in the national or international public sphere, from occurring. This type of democracy is agent-centred like most policy-making processes including foreign economic policy.

In civil society democracy, foreign economic policy is established on the basis of three angular points of intentions: national economic growth, the promotion of human rights and democracy, development and breaking of poverty and inequality. As such, the individual is perceived in all his or her dimensions, i.e. in a citizen-friendly knowledge system, based on international political economy themes of ‘justice and distribution’, away from the foreign policy of international politics, based on the theme of ‘order.’
8.3.3 Scenario 3: global civil society democracy in international public spheres through dialogue with non-EU civil society organisations

'European citizenship' has produced the risk of discrimination against nationals of European non-member countries, since it is perceived as one of the elements of European identity vis-à-vis the external world (Decaux, 1999, p. 900). This potentiality contrasts the with objective of the new Article 2 of the Amsterdam Treaty (ex Article B), which states that:

“…maintain and develop the Union as an area of freedom, security and justice,...”

Despite this objective, it seems that there is very limited space for individuals within the EU governance. For example, concerning human rights within the EU Member States, associate countries and trade and cooperation partnerships with non-EU countries, in so far as they adhere to respect for human rights, democratic principle and the rule of law, individuals are not subject to legal consideration. This situation may be construed as a difficulty but also as a new opportunity to be able to build an international public sphere. Today, we live in an international civic society, in which numerous voluntary and non-profit organisations and movements, including human rights groups, are taking pro-active action on public policy issues in the international public spheres. A European sphere indicates ‘a critical mass of concerned citizens who discuss European issues and will be ready to support European policy.’

By contrast, the international public sphere is the expanded concept of the European public sphere as being defined as sites ‘of interaction in which actors routinely reach understanding about norms, identities and interests through the public exchange of discourse (Lynch, 1999, p. 11).’ The international public sphere does not necessarily correspond to state borders, and thus
state interests should be understood in terms of the interaction between the preferences of state actors and public deliberation (Lynch, 1999, p. 3). Above all, it is remarkable to note that in the international public sphere, state actors, individuals, institutions and non-state actors interact. In this process, state and individual interests are arbitrated by the international civil society organisations. 6

Rather, this concept refers to the capacities of individuals to have some say over international political and economic processes, including FEP, that affect them. Besides, it also refers to the responsibilities between persons who suggest the need for democratic political change in world politics. In the European single market based on the free movements of the four elements of goods, services, capital and people, the capacity of the European supranational institutions to face up to the challenges of competitiveness and productivity would be defective. This is the case in particular in external relations with the US or Japan. In such a situation, an adequate FEP should not be pursued country by country or government by government. Rather, it is desirable to be based on the perspective of individuals beyond nationality.

Meanwhile, international public spheres can be conceived as institutions such as international law, regimes and international organisations in the sense that they seek decision-making capacities in relation to relevant issues. These institutions invested with international decision-making authority are empowered to the extent that sovereign states participate in and authorise their activity. More formal organised agents like NGOs have engaged in international public spheres. They may not be international public authorities invested by states with the power of international decision-making capacities, however, they use strategies of publicity, advocacy and networking to make international public authorities accountable to those affected by their policy choices.
In fact, the Commission remains involved in active discussions with international civil society beyond Europe. Through programmes like the Transatlantic Environment and Consumer Dialogues and non-EU parties’ participation in dialogues, the Commission has been contacting and discussing issues with US and other countries’ organisations or individuals as well. As a result, not only national but also transnational civil society organisations have been given opportunities to express their opinions directly to the Commission rather than for the purpose of any Commission pre-conceived position. However, the construction of international civil society democracy takes second place to domestic political and economic matters including welfare and democratic consensus as well as the inter-mestic perspective of FEP like the adjustment of domestic economy to the global economy. This phenomenon interrupts the creation of international and European public spheres.

Meanwhile, today, national public spheres are challenged by both internal plurality and the pressure on governments to control the effects of globalisation in a citizen-friendly manner. Typically, the scope of the public sphere has been identified with national boundaries that are limited to shared culture. However, globalisation encourages the production of ‘one culture, one public sphere’ (Bohman, 1998, p. 199). As a result of the effects of globalisation, publicity is expanding beyond the public sphere of the nation-state not to create one cosmopolitan public sphere or European public sphere but a ‘gradual transformation of local public spheres through transnational civil society organised institutions as they emerge at different levels’ (Bohman, 1998, p. 195).

On the other hand, after the launch of the European single market, the EU’s endeavour to integrate Europe into a political and social unity has gone beyond the European civil society democracy that includes a multilateral human rights policy only within the European boundary.
Consequently, this feature of European society has moved on to the global civil society democracy. As such, the political implications of European and international civil society democracy for regionalism and globalisation have become one of main themes of current research.

It is to be hoped that the Member States of the EU and the associate states will ratify the convention without further delay such that the legitimacy of NGOs is fully recognised. Furthermore, it is desirable to hope that the two dominant value systems in European politics such as national identity and democracy reconcile so that supranational identity and civic and transnational democracy form. In this form of democracy, internally generated European civic values and non-European civic values reconcile through externalisation and internalisation orientating towards international justice.

In fact, the European Union can hardly establish civil society democracy as the basis for its association without embedding civic identity (Habermas, 1992, Howe, 1995, Weiler, 1997) in its own institutional procedures. The relative homogeneity of European cultural and socio-economic systems has never led to stable political unity in Europe (Alexander, 1998, p. 219). However, shared civic values or civic identity that are a kind of infrastructure of civil society democracy do not necessarily guarantee open and tolerant political, economic and social systems (Lord, 1998, pp. 119-121). As such, some would argue that the notion of civic identity is unduly dependent on the outputs and procedures of the European political system itself. It is, therefore, necessary to ensure the institutional structure to avoid the reification or downgrading to the basis of rigid and imposed value systems.

On this point, the development of European public spheres and institutional arrangements, i.e. the accountability of the European public authority to European citizens, is an important
research theme. In particular, it is worthwhile to pay attention to civic identity from the viewpoint of constructivism, centring around the discourse implicitly or explicitly associated with a sense of the differences of national interests and identity between the European nations. As such, the question of what the civic dialogue may provide as a way of reconciling rationalist and constructivist arguments on the issue of state interests and their sources (Lynch, 1999, pp. 3-4) needs to be answered in the near future.

The presentation of an alternative scenario, i.e. civil society democracy, corresponds roughly with an increasing optimism as to its likelihood in the near future. Furthermore, policy strategies and decision-makers' intentions are important in so far as the scenario under consideration bears some relationship to alternative foreign economic policies that have been advocated. At present, it is much too early to evaluate the effectiveness of civil dialogue at the crossroads of the European institutions and the active forces of civil society. Nevertheless, in the near future, it will be pressure from civil society that is likely to produce any progressive realisation of the protection of labour treatment and social rights.
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4 Communication from the Commission, COM (97) 241 final.


6 This concept differs from Arendt, Habermas and Dewey’s definitions of the public sphere that is summarised as an important area of contestation for the realisation of democratic values.


Appendix

Appendix 2.1: If \( p_1 \in \overline{A_{\text{Ma}}} \) and \( p_1 \in P \), then \( r_1 = 1 \) and Agreement \((p_1, 1) < T = 1 > \)
If \( p_2 \in \overline{bBM} \) and \( p_2 \in P \), then \( r_2 = 1 \) and Agreement \((p_2, 2) < T = 2 > \)
If \( p_1 \notin P \) and \( p_2 \notin P \), then Disagreement \((0,0) < T = 2 > \)

Appendix 2.2 (A): \( r_2(p_2) = 1 \), if \( p_2 \leq a \) \( r_2(p_2) = 0 \), if \( p_2 > a \)

Appendix 2.2 (B): \( r_1(p_1) = 1 \), if \( p_1 \geq b \) \( r_1(p_1) = 0 \), if \( p_1 < b \)

Appendix 2.2 (C): \( r_1(p_1) = 1 \), if \( U_B(p_1, 1) \geq U_B(a, 2) \), when \( \delta_b = 1 \)
\[ r_1(p_1) = 0 \], if \( U_B(p_1, 1) < U_B(a, 2) \), when \( \delta_b = 1 \)

Appendix 2.2 (D): \( p_1 - b = \delta_b (a - b) \), \( \therefore U_B(p_1) = p_1 - b \) and \( U_B(a, 2) = \delta_b (a - b) \)

Appendix 2.2 (E): If \( a' \leq a \) and \( \delta_b = 1 \), then \( p_1 = a' \), \( U_B(a', 2) = a' - b \) \( U_B(a, 2) = a - b \), while \( U_A(a', 2) = U_A(a, 2) = 0 \)

Appendix 2.2 (F): If \( a' \leq a \) and \( \delta_b = 0 \), then \( p_1 = b \), \( U_A(b, 1) \) with \( a' = a' - b \) \( U_A(b) \) with \( a = a - b \), while \( U_B(b) \) with \( a = U_B(b) \) with \( a' = 0 \)

\[ p_1 = b(1-\delta_b) + \delta_b a' \rightarrow No Affects \rightarrow U_B(b, 1), \text{if } \delta_b = 0 \]

\[ p_1 = b(1-\delta_b) + \delta_b a' \rightarrow Relatively Negative Affects \rightarrow U_B(a'), \text{if } \delta_b = 1 \]

Appendix 2.2 (G): If \( b' \leq b \) and \( \delta_b = 1 \), then \( p_1 = a \), \( U_B(a) \) with \( b' = a - b' \) \( U_B(a) \)
with \( b = a - b \), while \( U_A(a) \) with \( b' = U_A(a) \) with \( b = 0 \)

If \( b' \leq b \) and \( \delta_b = 0 \), then \( p_1 = b' \), \( U_A(b') = a - b' \) \( U_A(b) = a - b \), while \( U_B(b') = U_B(b) = 0 \)
$$p_I = b' (1 - \delta_B) + \delta_B a$$ \text{ Relatively Negative Affects} \quad U_A(b', 1), \text{ if } \delta_B = 0$$

$$p_I = b' (1 - \delta_B) + \delta_B a$$ \text{ No Affects} \quad U_A(a), \text{ if } \delta_B = 1$$

Appendix 2.2 (H): If $a' \langle a \text{ and } b' \rangle b$, then $p_I = b' (1 - \delta_B) + \delta_B a'$

Appendix 2.2 (I): If $a' \langle a, b' \rangle b$, and $\overline{b'b'} = a'a$, then $N_B = N_A$ and $\overline{ba} \overline{b'a'}$

Appendix 2.2 (J): If $a' \langle a, b' \rangle b$, and $\overline{b'b'} \overline{a'a}$, then $N_B > N_A, C_B < C_A$, and $\overline{ba} \overline{b'a'}$

Appendix 5.1: $I_1 = 1$, if $X_1 = r_I - i > 0$ or $-f_I - i < -f_I$

$I_2 = 1$, if $X_2 = r_I - c_1 - i > 0$ or $-f_I - i < -f_I$
Appendix 5.2 The inclination between the Left and the Right of national political parties

Note: RR: Extreme Right, R: Right, M: Mediate, L: Left, LL: Extreme Left
Appendix 5.3 (A) Neutral dynamic capital-labour game with complete information

![Neutral Dynamic Capital-Labour Game Diagram]

Pay-offs

Labour 1
- Action: \((P_1, P_1)\)
- No Action: \((P_1, 0)\)

Labour 2
- Action: \((0, P_2)\)
- No Action: \((0, 0)\)

Appendix 5.3 (B): the case of a biased government

![Biased Government Diagram]

Pay-offs

Labour 1
- Action: \((P_1 + r, P_1 - r)\)
- No Action: \((P_1 + r, 0)\)

Labour 2
- Action: \((0, P_2 - r)\)
- No Action: \((0, 0)\)

Labour 3
- Action: \((P_1 - r, P_3 + r)\)
- No Action: \((P_1 - r, 0)\)

Labour 4
- Action: \((0, P_4 + r)\)
- No Action: \((0, 0)\)
Appendix 5.4 Impacts of capital mobility on domestic (financial) policy

(a) under no capital mobility

(b) under low capital mobility

(c) under high capital mobility

(d) perfect capital mobility
Note: The IS curve is the schedule that identifies the combinations of income and the interest rate at which the commodity market is in equilibrium. The LM curve is the schedule that identifies the combinations of income and the interest rate at which the money market is in equilibrium. Perfect capital mobility implies that the interest rate differential must remain at zero, the balance of payments can be in equilibrium only at a single domestic interest rate equal to the foreign interest rate. The balance of payments is in equilibrium, equal to zero, only along the horizontal line BP in (d), drawn at the position where the domestic and foreign interest rates are equal.
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