The Impact of EU’s External Economic Relations on the Common Foreign and Security Policy (CFSP)

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Abstract

The paper analyses the relationship between the European Union’s external economic relations (EER) and the Common Foreign and Security Policy (CFSP). The significance of any impact of EER on the CFSP has not gained much credibility in the past. Yet, globally blurring lines between foreign policy and foreign economic policy, a de facto norm of EC financing of CFSP actions, and the impact of EER on national foreign policies all indicate the relevance of addressing how EER may influence CFSP. The focus of the paper is on how EER may sway how resources are sought, provided, reallocated, and distributed in order for European foreign policy aims to become actions. The paper provides a working framework for, how actor’s preferences over economic transactions in EER relate both with the institutional competence of the Union in EER and the institutional structures and reforms of the CFSP. The paper furthermore attempts to sophisticate the notion of economic interests emphasising what economic interests may comprise when the agenda regards the financing of a CFSP action using EER resources for this purpose. In this respect, the framework suggests to extend previously held focus on absolute values and heterogeneity of economic transactions among actors. New dimensions are suggested to be the EER sector involved and the time-horizon of the transaction in a given third country. Apart from being input in the infant and non-formalized IR sub-discipline European foreign policy analysis, the approach should have relevance for the debate on economic globalisation. In particular, one may imagine that a possible impact of EER on the CFSP would also imply an impact on the World Political Economy on the CFSP.

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<td>BAe</td>
<td>British Aerospace</td>
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<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
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<td>Council</td>
<td>European Union Council of Ministers</td>
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<td>EC</td>
<td>European Community until 1993/first pillar of the</td>
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<td>EER</td>
<td>External Economic Relations of the European Union</td>
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<td>EFPB</td>
<td>European Foreign Policy Bulletin</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EP</td>
<td>European Parliament</td>
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<td>EPC</td>
<td>European Political Cooperation</td>
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<td>ESDP/ESDI</td>
<td>European Security and Defence Policy/Identity</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GAC</td>
<td>General Affairs Council</td>
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<td>GATS</td>
<td>General Agreement of Trade in Services</td>
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<td>GATT</td>
<td>General Agreement of Tariffs and Trade</td>
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<td>GSP</td>
<td>General System of Preferences</td>
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<td>IR</td>
<td>International Relations</td>
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<td>LCD</td>
<td>Lowest Common Denominator</td>
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<td>MFN</td>
<td>Most Favoured Nations</td>
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<td>NGO</td>
<td>Non Governmental Organisation</td>
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<td>OJ</td>
<td>Official Journal of the European Communities</td>
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<td>PESC</td>
<td>French for CFSP</td>
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<td>QMV</td>
<td>Qualified Majority Voting</td>
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<td>R &amp; D</td>
<td>Research and Development</td>
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<td>SEA</td>
<td>Single European Act</td>
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<td>TEC</td>
<td>Treaty of the European Communities</td>
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<td>TEU</td>
<td>Treaty on European Union</td>
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<td>UN</td>
<td>United Nations</td>
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<td>Union</td>
<td>European Union</td>
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<td>UNITA</td>
<td>União Nacional para a Independência Total de Angola</td>
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<td>US</td>
<td>United States</td>
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<td>WPE</td>
<td>World political economy</td>
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INTRODUCTION

This paper will discuss how the EU’s external economic relations (EER, henceforth used interchangeably) may influence the Union’s foreign policy as pursued under the Common Foreign and Security Policy (CFSP). The paper analyses how the institutional powers of EER alongside preferences about economic transactions in the EU’s external economic relations interact with the institutional structure of the CFSP in the process of deciding upon the resources to be engaged in European foreign policy actions. The paper, in other words, focuses on the dynamics of the internal burden-sharing problem of the Union’s foreign affairs.

The internal burden-sharing problem one may believe would resemble a classical coordination dilemma regarding how to act when being determined to act. However, often what seem to be coordination dilemmas instead result in failure to agree among Member States on any action at all. It often looks as though not agreeing turns out not to hurt all the negotiating parties after all. The paper is therefore the attempt to provide an initial working framework - including some assumptions and hypotheses - that pictures the European external political economy’s influence on European foreign policy decision-making. The assumption is that there is some relationship between EER and CFSP. Consequently, the paper endeavours to develop some hypotheses regarding the contents of this relationship.

Beyond the fact that the topic in general has find only sparse coverage in the past, there is at least one motive for pursuing this study. This motive is that European studies have

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1 The Union’s external economic relations (or the Union's Common external economic policy) is the “Common Commercial Policy” (Title IX, Treaty of Amsterdam) dealing with 1) trade issues such as export policy, tariff and trade agreements, trade protection, anti-dumping measures, export credits and credit insurance and 2) economic and commercial measures such as services, capital, intellectual property rights, investments, establishment and competition. EER does therefore not explicitly include Title XX development cooperation.

2 As Javier Solana recently noted, “In dieser neuen situation brauchen wir nicht notwendigerweise mehr Ressourcen, sondern muessen unsere bestehenden anpassen” (1999, 2-3). Chris Hill calls it an “internal burden sharing problem” (October 2000, in a panel on the ESDP at the European University Institute, Florence).

3 Moreover, Gowa concludes, “neither students of international security nor those of international political economy can afford to neglect developments in the other subfield” (1994, 122, 3-4). This necessarily must include EER and CFSP too.
shown an impact of the Union’s policies and polities on national policies and polities. This includes - although to a minor extent - national foreign policies (Manning & Whitman 2000). Should one then adhere to the minimum definition of co-operation underlying the CFSP, i.e., assuming that the co-operation due to the unanimity ruling converges towards the intergovernmental lowest common denominator (LCD) of Member States’ interests, there would still be an (indirect) impact on the CFSP over time. This indirect impact penetrates into the CFSP through changed Member State foreign policies. If the EER thus may be demonstrated to influence the Member States’ foreign policies, the EER would necessarily influence the CFSP as well. If one adheres to a broader view than the LCD perspective, e.g., recognising that decisions are now occasionally taken by QMV as their legal basis, the argument in this paragraph should hold more strongly.

The paper consists of three parts. The first part reports on the main gaps in the sparse literature regarding the dynamics between EER and the CFSP. The second part informs the reader about the emphasis of this approach by listing three working assumptions regarding the objectives behind European foreign policy actions, the costs of these actions, and the presumed influence from the actors carrying these costs. The third part proposes a framework for the relationship between EER and CFSP. The framework is based on a combination of variables related to 1) the actors’ preferences on the external economic transactions involved, 2) the institutional power of the EER concerning a particular transaction, and 3) the institutional structure of the CFSP, including its subsequent innovations. Towards the end of the paper, the framework is summarised listing different working hypotheses.

The paper sees its main contribution in European foreign policy analysis, an emerging sub-discipline of IR dealing with the development of European foreign policy cooperation. This discipline is in its theoretical infancy – with the advantages and

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4 The decisions with qualified majority voting as their legal basis (meaning that they have earlier issued common positions or joint actions as their legal basis) from 01 May 99- 31Oct 99 were: 99/612/PESC; L242 (14.09.1999), 99/424/PESC; L163 (29.06.1999), 99/357/PESC; L140 (03.06.1999), 99/319/PESC; L123 (13.05.1999), 99/694/PESC; L275 (26.10.1999), 99/730/PESC; L294 (16.11.1999), 99/729/PESC; L294 (16.11.1999)
disadvantages of such a status. However, one may note that unlike other contributions in European foreign policy analysis, this framework is constructed with the aim of empirical testing; for which a quantitative study currently is being performed by the author.

PART I THEORETICAL GAPS

This part of the analysis will point at some problematic characteristics of the literature on IR, European foreign policy analysis and European integration related to the purpose of investigating the impact of EER on CFSP. There are plenty of studies dealing with the role, the actorness or the presence of the Union as a global actor – a foreign policy actor defined in terms of its economic credentials, force of attraction, economic power, and legitimacy (Allen & Smith 1990, Piening 1997, Grunert in Cafruny & Peters 1998, Bretherton & Vogler 1999, Carlsnaes & Smith, eds, 1994, Wallace & Wallace 2000). Similarly, one may find a vast and accumulating amount of studies on the development of EPC/CFSP (Hill 1993, 1998b, Zielonka 1998a, b, Regelsberger et al 1997, Regelsberger & Wessels 1996, Nuttall 2000, Struwe 1998). However, the interaction of EER and CFSP is highly unexplored; which seems to be a fallacy. One may emphasise four major critical features in the sparse coverage of EER-CFSP dynamics. Those are, a) the detachment of research questions from European foreign policy problems, b) the lack of attention given to European foreign policy from European integration theories, c) the deficient way institutions are incorporated, and d) underdeveloped definitions of preferences regarding economic transactions.

First, the research question of the IR debate is detached from that of the policy-oriented European foreign policy analysis. In European foreign policy (analysis) the focus is not on how liberal Member States may avoid violent conflicts among each other, such as in the literature on liberal peace. Instead, the crucial question in European foreign policy analysis is how Member States may co-operate among each other toward violent conflicts and crises in other parts of the world.

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5 European foreign policy is intended as “the formulation and execution of diplomatic and foreign policy actions of the EC and the EPC, now CFSP” (Ginsberg 1999, 430, 3).
Second, if one might have believed that European integration theories instead had formulated more specific thoughts on European foreign policy than IR theory, one not have been more mistaken. The only European integration theory addressing the issue is neo-functionalism.\(^7\) The neo-functional linkage between EER and the CFSP is provided by “externalisation”. The idea is that regardless of the original intentions, the Member States (~“regional actors”) will “find themselves engaged in elaboration of a common foreign policy” with growing impact of intra-EU mutual transactions on policy deliberations. The problem with neo-functionalism is that soon after being formulated, neo-functionalists and others began rejecting its relevance in the common foreign and security policy field (more recently Schmitter 1996).\(^8\) Neo-functionalism thus has become more and more a theoretical artifact in contemporary CFSP developments.

Third, IR approaches such as realism and liberalism are far too parsimonious for the sui generis phenomenon European foreign policy. In the controversy among liberalists and realists about the impact of economic interdependence, (“commercial”) liberalism would state that European economic integration (or economic interdependence) foster political stability which promote peace and international co-operation among the Member States. The reason is that foreign policy communities on economic issues reflect the nature and configuration of national preferences. In contrast, the neo-realist camp (Kenneth A. Waltz 1979) would maintain that close (economic interdependence) as well may raise the prospect of occasional conflict (Gowa 1994, 5, 17-22). The problem with both approaches with respect to European foreign policy is a matter of empirical applicability alongside theology of the individual scholar. European foreign policy cooperation is a phenomenon combining paralysis, and set-backs of co-operation (e.g. in Bosnia 1991-1995) with what may be termed as gradual intensification of cooperation (ESDP, South Africa (Holland

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\(^6\) On liberal peace literature, see, for instance, MacMillan 1998

\(^7\) As expressed by Schmitter (1969). Neo-functionalism describes how increased transactions and contact change attitudes and transnational coalition opportunities (Keohane & Nye 1989, 248).

\(^8\) European foreign policy did not fit very well empirically into the notion of “automaticity” of integration with the EPC/CFSP consistently based on intergovernmental cooperation. One may note that neo-functionalism not only has been attacked for these empirical shortages, but also more fundamentally for its normative bias, its geo-graphic specificity and its teleology (DiMaggio and Rosenau 1992, 64-65 cited from Thomsen 1997).
1994, 1995a, b, etc.). The ambiguity of the development could not be predicted from either a steadily growing economic interdependence among Member States or the reverse.

Fourth, alternatives are available. For instance, those are approaches including institutions. Institutions are particularly relevant to incorporate where the question of this paper is how the process of raising resources for foreign policy actions takes place and may be facilitated (Karen Smith 1998, Moravcsik 1998, 3, 33-38). “Wie sollen wir dass alle bezahlen” (Solana 1999, 2, 3cl.) as the High Representative of the CFSP recently wrote. Elsewhere, institutions enter the analysis as a mediator, a facilitator, a policy deliberator or a forum of embedding ideas that may help overcome otherwise highly complex problems of distribution, allocation of costs eventually through issue-linkages, increased degree of information etc. In the literature on the CFSP, however, institutions often take the opposite role of the facilitator. The view has been that the pillar structure instead of improving conditions for cooperation effectively hinders EER and CFSP to correlate. As Regelsberger & Wessels notes, “the link with instruments outside of CFSP is not developed to the degree that it would be available whenever needed” (1996, 53, 24-31).

This conventional way of regarding the institutional structures of the EER and the CFSP has several limitations; two of which should be mentioned below. If the dual structure really is an artificial barrier, it must at least imply the existence of one of the following two dynamics between EER and CFSP. Either the dual structure becomes increasingly unsustainable over time. For instance, governments may find themselves cumulatively unable to gain credibility in their constituencies for their CFSP and EER actions. This may happen if governments due to the dual structure are not able to link political demands for comprehensive foreign policy actions with the ability to implement them by raising resources. Alternatively, pulling EER and CFSP apart could as well have

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9 For example, while the Union was labelled as paralysed in its decision-making in the beginning to the mid-nineties exemplified by the failure to act cohesively in the former Yugoslavia, the CFSP actually provided an unprecedented increase in non-statement actions, such as common positions and joint actions involving fairly extensive use of various resources from the EU.

10 Karen Smith’s study on political conditionality of the Union to some extent moves into the area of judging the Union’s actorness partly in terms of its ability to raise costs to foreign policy actions – and not just considering the Union as a global actor.
reinforced the division between EER and CFSP. Hereby, some may see the division as a mode by which it becomes easier to secure that the “trade ministers do their job”-philosophy of the EER can remain unaffected of political demands for action in the name of human rights norms and democratic principles.11

The empirical story is not less intriguing. Globally, lines between foreign policy and foreign economic policy have become increasingly blurred (e.g. Hocking & Smith 1997).12 Also, in the day-to-day foreign policy making, EER is becoming cumulatively present (Allen & Smith 1990, Bretherton & Vogler 1999), for instance, through the use of political conditionality (K.E. Smith 1998).13 This development overlaps with the more frequent use of economic sanctions as a tool in actions taken by the Union. Notably, economic sanctions involve both EER and the CFSP as economic sanctions are decided in the CFSP (e.g. as common positions or joint actions) and implemented within the EER (TEU, Article 228a). Moreover, failing to agree at Member State level of financing EU actions through national keys of distribution has since the TEU (1993) forced the CFSP to become dependent on the norm of EC financing (McGoldrick 1997). This norm includes the indirect “communautarisation of the CFSP where the Commission presents the budget and the EP can decide in relation to non-obligatory expenditures” (Bonvicini 1999, 27, 21-28). The recent merger of European defence industries14 finally makes us begin thinking in terms of the emergence of an almost “functional” (Moens 1997) relationship between EER and CFSP.15

11 Interview in the Council Secretariat of the EU Council of Ministers, November 1999
13 Political conditionality entails “the linking by a state or international organization of perceived benefits to another state (such as aid) to the fulfillment of conditions relating to the protection of human rights and the advancement of democratic principles” (K.E. Smith 1998, 9-12)
14 Countries such as France, Germany, Italy, Spain, UK and Sweden now join forces in the so-called “Eurofighter” project. British Aerospace (BAe) and German Aerospatiale Matra merged last year. Together with BAe’s take over of Italian Marconi it created the largest defence industry in the EU area. Other cooperations in the defence area are the creations of the Occar the EU joint procurement agency and the joint French, Italian, and British frigate program.
15 Bonvicini envisages a larger role for the Commission in the implementation of the so-called defence criteria that were introduced to increase the European defence capabilities under the European Security and Defence Identity/Policy project. This may involve the field of industrial cooperation and R & D with a view of creating a single market for defence industries (1999, 27, 14-18). Such an increased role would according to Bonvicini imply the reform of Article 223 that currently excludes national defence markets from the Single space; a step that would blur the lines between foreign policy and foreign economic policy even further.
Finally, as briefly flagged discussing the liberalist/realist divide previously, literature fails to pin out what constitutes *economic interests* and the sources of these *economic interests*. For example, one may evaluate the neo-liberal definition of which economic interests matter. Put differently, this could be Keohane & Nye’s (1977, 1989) concepts of “sensitivity” and “vulnerability interdependence”. In fairness, there is some validity - also of geo-strategic origin - using concepts such as vulnerability and sensitivity interdependence. Those may, for example, explain why the Union did not engage in oil-embargoes towards Nigeria, Iran, Iraq and Libya at the same time despite sincere pressure in the 1990s from human rights groups and individuals to do so. Had such an embargo been initiated, one could have foreseen serious energy supply problems in Europe disrupting most EU economies and even creating repurcussions for the stability of EU as a whole. One may further use interdependence concepts to conclude that changes in interdependence over time logically must lead to changes in the degree of foreign policy actions over time; despite not at all being able to predict the degrees of cooperation using measures such as K & N’s (Anker Svendsen 1980).

However, the concepts of interdependence fail to address why co-operation is so difficult towards a third country where interdependence may be marginal and despite the existence of high interdependence among the Member States. For the EU as a whole, we thus probably cannot say much about European foreign policy towards, e.g. the African Great Lakes Region or the former Yugoslavia by looking at the degree of interdependence only. As shown, one could not derive conclusions regarding the EU enlargement on this account (K.E. Smith 1996). One could probably develop more sophisticated measures than K & N did. Yet, a general problem seems to be that *economic interests* similarly

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16 Interdependence is a state, mutually shared by two or more parties, of being determined or significantly affected by external forces (Keohane & Nye 1977, 8, 34-36). Sensitivity interdependence measures “the liability to costly effects imposed from outside before policies are altered to try to change the situation”. K & N operationalise this liability as the volume of flows across borders plus the costly effects of changes in transactions on the societies and governments. Vulnerability interdependence measures actors’ liability to suffer costs imposed by external events even after policies have been altered. It is operationalised as the costliness of making effective adjustments to a changed environment. In the logic of interdependence theory the EPC/CFSP is a regime; that is, a governmental arrangement of procedures, rules, or institutions whereby governments regulate and control transnational and interstate relations.

17 From a different perspective Gowa holds that trade will only “follow the flag” as long as no net costs are inflicted on the state in terms of its ability to perform its market power. However, why may a foreign policy action be halted even though there is no evident risk of loosing market power, e.g. when deciding on economic sanctions against a country such as Burma.
need to be viewed by taking institutions into account as earlier discussed and by looking at the sources of these interests, i.e. factors at the individual, sub-national, and definitely sub-European level.

Michael Smith (1998) actually provides such an elaborated neo-institutional approach on the dynamics of European foreign policy. Smith’s *economic interests* include four dimensions. First, “a sector logic” causes different sectors of activity in the World Political Economy (WPE) to participate. Second, institutions may play the role of activator engaging in “institutional entrepreneurship” or “institutional co-operation”. Third, Member States demand certain actions to be taken, however, preferably with the use of EC instruments avoiding drawing on own national resources. Finally, the World Political Economy pressures the EU by external demand. Smith’s first and third logic thus mostly refers to the agency of the dynamics between EER and CFSP, either with specific sectors or Member States as the agents. The second and the fourth logic primarily relate to the structure of either the EU system or the world system. In many ways, this approach is along the lines that would adress some of the gaps mentioned in this section. Yet, one of the dimensions that would need to be added to Smith’s approach in order to adress the EER – CFSP question of this paper is the impact of the structure of the CFSP that Smith has ignored.

**Part II Assumptions**

This second part will provide three working assumptions regarding the basis of European foreign policy actions, in particular, with respect to i) the objectives, ii) the costs, iii) and the agency regarding respectively deciding (CFSP) and financing (EER) European foreign policy actions.

**Ass. I: The Objectives of European Foreign Policy:** Any negotiation whether to act or not of the General Affairs Council (GAC) and the units preparing GAC on CFSP matters\(^\text{18}\) is based on policy objectives that primarily are political in nature. As stated, for example, in

\[^{18}\text{The Working Parties, the COREPER and the PoCo (the Political Committee) with the PoCo as the coordinating unit on CFSP.}\]
the treaties those aims may involve, 1) “to safeguard the common values, fundamental interests, independence and integrity of the Union...”, 2) “to strengthen the security of the Union”, 3) “to preserve peace and strengthen international security. ..”, 4) “to promote international cooperation...”, and 4) “to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms” (Title V, J.1 (1) Treaty of Amsterdam). Put differently, issues raised within the CFSP have a non-socio economic component\(^\text{19}\), since if they were purely socio-economic they had not become an issue of the CFSP in the first place. For instance, those who maintained that human rights violations should be brought to an end in the African Great Lakes Region during the atrocities committed in Rwanda 1994-1995 - advocating among others that the Union should react through the CFSP - were hardly sincerely preoccupied with European economic market shares in the region or in the world, distribution of costs and benefits or economic efficiency. That objectives on some issues, such as the Stability Pact for South-Eastern Europe,\(^\text{20}\) must be viewed recognising the impact of peace and stability on economic development for the region as whole does not violate the assumption. Analytically, stability and security can only be considered economic objectives insofar as it is the structure of the system that indirectly influences economic transactions. The economic transaction is not the target of the foreign policy objective per se.

**Ass II: The Costs of European Foreign Policy Actions**

In any attempt to implement the foreign policy objectives of the Union mentioned under Ass. I through action, economic costs are involved. These costs are the result of Member States attaching an effort involving resources of some sort in the relationship with a given third region/country/sub-national unit.\(^\text{21}\) This effort may be tangible or intangible, present or future, involve human, physical, financial or environmental resources and may also be followed by benefits\(^\text{22}\) or additional costs.\(^\text{23}\) The costs may cover financing of an action,

\(^{19}\) Moravscik’s liberal institutional approach regards the CFSP as producer of a non-socio economic collective good and argues that liberal intergovernmentalism has nothing to say in this area (1993, 494, 3-12).


\(^{21}\) Some actions of the CSFP have been aimed at sub-national units, e.g., the sanctions regime again UNITA (EFPB 97/019, “Council decision on Angola and aimed at inducing the ‘União Nacional para a Independência Total de Angola’ (UNITA) to fulfil its obligations in the peace process”, 30 Oct 1997, OJ L 309, 12. 11. 1997, p. 8)

\(^{22}\) E.g. a “peace dividend”
e.g. for sending and maintaining staff of a special envoy\textsuperscript{24}, sending election observers\textsuperscript{25}, holding a peace conference\textsuperscript{26}, convoying humanitarian aid\textsuperscript{27}, etc. Similarly, costs include economic losses stemming from restrictions on economic transactions such as the freezing of assets, trade embargoes, boycotts, withdrawals of the GATT principle of MFN preferential trade treatments, or the halt of privileged treatment given by EC to imports (from e.g. Mediterranean countries), interruption of GPS\textsuperscript{28}, etc.

Ass. III The Agency

The costs delineated in Ass. I ultimately link back to the individuals. This takes place through, e.g., private corporations, firms and other entities in the Member States, different sectors, the budget of the EC\textsuperscript{29}, national foreign policy budgets, the EIB, the working force or the private investor. Shareholders may experience reduced shareholdervalues, lacking yields, fall in the dividend and firms may as a result have to cut their working force or the wages. Costs for European foreign policy actions may necessitate politically complex reallocation of resources within sub-national, national, or European Union budgets. To the extent that individuals are able to calculate (personal) gains and losses as accurate as the available information permits them to perform such calculations, individuals will form preferences over different modes of actions according to the resource consumption involved in a given action. We may assume that the more transparently costs are allocated to specific individuals or to groups of individuals, the more individuals would recognise this allocation and act accordingly. Moreover, the more costs are being imposed extraordinarily or involves complex reallocation across sectors, individuals, or interests groups, the more complex the exchange of utility losses and

\textsuperscript{23} In practise, the costs may be assumed to be socio-economic and lie within definitions of national accounts, EU accounts or other official statistics. Issues such as environmental standards, quality of life or other non-transparent costs in theory is included, yet, due to incomplete statistics on this matter in practise often has to be excluded.

\textsuperscript{24} The four envoys sent by the Union after the TEU have been: Mostar (e.g. EFPB 96/215, 15/7-1996; OJL 185 24.07.1996, 2-4), African Great Lakes Region (EFPB 96/080, 25/3-1996, OIL87, 4.4.1996, 1-2), Kosovo (EFPB 99/047, 30/3-1999; OJL 89, 1,4,1999, 1-2) and the Middle East (EFPB 96/348, OIL 315, 4.12.1996, 1-2).


\textsuperscript{26} Considering of support of a regional conference on security and cooperation in the Great Lakes Region, 99/224, 15/11-1999, OJ 1294, 16.11-1999, 2-3

\textsuperscript{27} Support for the convoying of humanitarian aid in Bosnia and Herzegovina; OJL 286, 20.11.1993, 1-2

\textsuperscript{28} Generalized System of Preferences granted unilaterally by EEC to 129 LDC’s from 1/1-1971-1994 (Sauvé & Stern 1995)
benefits of an action will become, and thus reducing the likelihood of agreeing on a financing scheme for a particular action.

Governments are the main actors in the CFSP. Yet, being main actors, governments are still assumed to represent some segment of their domestic society and indeed the individuals that are assumed in the end to uphold the costs of European foreign policy actions. This representation will subsequently somehow be reflected in the choice of effort attached to a given European foreign policy action. Indeed, foreign policy is in many respects an élite issue. Yet, the financing of the actions are assumed to reflect the same participation of interested parties as any other issue does.

Part III Towards an Integrated EER – CFSP Framework

Preferences of EER Transactions

This section will deduce the first part of the framework for the interaction between EER and CFSP focusing here on redefining the notion of economic preferences with respect to the transactions of the EER. Preferences of EER transactions are assumed to matter through the existence of four dimensions being, a) the sector of the transaction, b) the time-horizon of the transaction, c) the heterogeneity of the transaction among actors, and d) the intensity of the transaction involved.

First, different strata of support and opposition towards European foreign policy actions are formed through the type of domestic sector engaged in EER and thus affected by a given CFSP action mobilising EER resources. Empirical studies on economic sanctions have shown a general tendency of countries to act through export sector restrictions rather than through import sector restrictions. Hufbauer & Schott explain this by the stronger laws against import restrictions that exist in some countries. In particular in the US, accounting as main sender for 80% of the sanctions cases from 1918 – 1990, there is a

29 The budgets for CFSP actions have increased considerably after SEA (from 1987-1995 the increase was 350%).
30 As a benchmark, governments comprise “all political institutions of the executive, the legislative, and the judiciary and the associated decisions, activities and outputs” (Kaase & Newton 1995, 8)
31 The recent (internal) sanctions against Austria illustrate the remaining ability of heads of states to make decisions on their own.
legal difference in the availability of using import- and export restrictions as a foreign policy instrument. In the EU such a legal difference does not exist. Then, the total welfare (i.e. consumer plus producers surplus) loss of a given reduction of the supply of a good in theory should be the same for a sender country whether it imposes an import or and export restriction. Therefore, one may conclude that if there is a difference in the use of the two measures in must be the result of other factors. Those are likely to involve, who receives the loss, and whether the loss primarily is a consumer loss or is a producer loss. Here, export sectors will primarily directly suffer from a loss in producer surplus. Import sectors will suffer from the general price increase that an import restriction causes. This will compare to the export case hurt the consumers more than the home producers. In fact, home produces of substitutable import goods may in fact benefit from a restriction in the short run due to the price increase and the temporary loss of a competitor. To reiterate, we assume that costs that are born by a very small group of individuals will make these individuals react more promptly to the costs than if they were spread out on the whole population. Thus, one should expect that for the EU, it would in fact be more difficult to find resources for European foreign cooperation in export intensive areas than in import intensive areas.

Second, the type of transaction also differs through the time-horizon of the transaction. In other words, a distinct characteristic of a transaction is the different annuities of benefits and costs. For instance, trade of goods usually pay-off already in the shorter term. Importantly, these pay-offs continue to arrive to the traders until the trade literally is interrupted unless other sorts of problems emerge such as a moratorium on exports credit debts, etc. In contrast, the benefits of FDI cannot be cashed in the shorter term. Further, it involves a highly complex and costly investigation before the FDI even becomes physically represented with a sunk cost value above zero. Notably, at any time until the investment starts paying off, investors risk losing everything. From the moment the FDI starts paying off, investors similarly lose the difference between the invested amount and

32 FDI outflows basically reflect the willingness and ability of a country’s firms to undertake international production.
33 The level of FDI has been argued to be determined by, 1) comparative real exchange and interests rates, 2) push factors from the home economy, 3) guidelines and codes of conduct, 4) supranational agreements e.g. GATT, 5) transportation and communication costs, and 6) the extent of and form of trade restrictions on goods and services (Single Market Review 1998, 31, table 3.3).
the benefits that could be gained in the period until the investment was cut-off. The impact of this feature is that cooperation probably would be less likely to involve FDI intensive areas than trade intensive areas.

This latter feature had not been relevant had it not been for recent years’ explosion in FDI flows in and out of the EU. In 1992, FDI flows in fact superseded trade flows.\textsuperscript{34} External economic interests are thus to an increasing degree other than trade interests. The feature had neither been important had FDI still been developed countries’ interactions only. The reason is that CFSP mainly holds purposes legitimizing actions in developing countries. Recent years have, however, witnessed a shift in FDI flows into developing countries (Single Market Review 1998). What is emerging may thus be an increasing conflict between FDI interests and the eagerness to initiate, for instance, political conditionality.

Third, having advocated the problems of reducing the impact of economic intersts to heterogeneity of trade and investment flows or their absolute values does not mean that the heterogeneity of a transaction will not result in a more complicated reallocation process of resources. This necessarily may impede European foreign policy. Heterogeneity itself, viewed isolated from the institutional structure, will not make negotiations of the CFSP easier.\textsuperscript{35} Heterogeneous interests indeed exist across transactions and within a specific type of transaction. For example, the UK has large FDI interests amounting to 17.5% of total world FDI, while France and Germany have shares of 5.3% and 11.5% respectively (Dunning 1998). Former colonial powers tend to trade more extensively than others Member States do with their respective former colonies, etc. Yet, as importantly emphasised earlier, heterogeneity\textsuperscript{36} of interests and the first dimension regarding the type of transaction involved are necessarily to be viewed in the light of the

\textsuperscript{34} As noted by Andrew Wyatt-Walter “flows of FDI have grown much more rapidly than trade in the 1980s and have thereby acted as an increasingly important motor for rising levels of economic interdependence” (1999, 105). Clearly trade has also increased enormously in the past 15 years. Yet, this increase is more in absolute than in relative terms where it has only increased from 12% to 15% of world GDP (Fligstein 1998, 15). In 1992, global sales by MNE affiliates were worth $5.2 trillion while world-wide export of goods and services amounted to $5.0 trillion.

\textsuperscript{35} Gowa’s net cost condition implies that the higher the divergence in trade interests are among Member States towards a particular third country the more difficult it becomes to obtain a trade – flag convergence.

\textsuperscript{36} Lisa Martin notes that heterogeneity of interests increases the probability of creation of institutions to provide relevant issue linkages to overcome problems of collaboration (1994).
institutional context in order to make sense in a framework on possible mechanism between EER and CFSP.

Finally, the same argument as for the impact of heterogeneity applies for the impact of the intensity of a specific transaction. Yet, here, one should note that there are two dimensions of this intensity at the European level. Firstly, the higher intensity of transactions are internally in the Union the less should one believe that foreign policy cooperation would be directly counteracted by EER. Secondly, and in contrast, the higher intensity of a given transaction towards a particular third country where the Union acts, the less likely European foreign policy cooperation becomes.

**Institutions**

The Union’s ability to facilitate co-operation both in the EER and the CFSP is a function of the power/authority of the respective institution over a given issue. The relevant authority refers to the issue of economic transactions in the EER, whereas the authority in the CFSP concerns the issue of foreign policy actions.

In the EER, *competence* defines the degree of institutional authority. As Woolcock notes, (external) competence is the “assignment of policy powers between the EU and the Member States [in] any given issue area in international trade negotiations” (2000). “[I]t is misleading to provide a listing by subject of matters for which the EC is competent” according to McGoldrick (1997). Conventional wisdom however suggests that area of trade in goods and agriculture is exclusive competence of the Union in international negotiations. Notably, this exclusive competence in trade in goods is maintained under Article 113 [133] of the Treaty of Rome. As regards services, the competence in general

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37 Authority is what Michael Smith refers to as legitimacy.
38 Fundamentally, the areas of competence such as trade, fdi, intellectual property rights and services overlap with each other, for instance, “…because trade in goods and trade in services are hard to disentangle, and must therefore be negotiated together” (Woolcock 2000, 2).
39 Moreover, the actual delegation of competence from the Member States to the EU institutions is blurred. As Meunier and Nicolaidis (1999) notes, exclusive competence does not guarantee a single voice while one voice may be obtained in areas of mixed competence of common foreign policy.
lies by the Member States, except for matters concerning cross border supply or when
labour associated with the provision of a service crossed the border (Woolcock 2000).\textsuperscript{40} Since most services are “establishment” (Mode 3 in GATS\textsuperscript{41}), this exception gives only the Union limited competence in services. However, as regards foreign policy actions such as economic sanctions that includes transport, the Union still has the competence to decide despite that the lack of exclusive competence to finalise agreements. The settlement of the 1997 Amsterdam Treaty further enshrines the partial competence of the Member States over key items of the global trade agenda, which Meunier and Nicolaïdis interpret as a “\textit{temporary setback for the integrationist project}” (Bretherton & Vogler 1999, 478, 19-22).

As regards the institutional powers of the CFSP, Regelsberger & Wessels indicate that the powers of implementation vary extensively in the CFSP (1996, 38-39). As regards, economic sanctions, Article 228a provides the Commission with its first pillar powers in the implementation. On other issues, the powers of implementation are often \textit{de facto} given to the Commission since the Member States themselves have had difficulties in administering actions on \textit{ad hoc} basis. On defence issues, e.g., the implementation of the Petersberg Tasks (Article J.7 (2) of the Treaty of Amsterdam) the Member States have the exclusive power to implement actions. On most diplomatic actions, the Union vests its authority to the Presidency, the Troijka, the High Representative that subsequently carry out the objectives of the Union. It must be expected that the CFSP will be more frequently engaged in areas where its authority is highest. Exactly due to the relatively limited authority of the Union in the CFSP, one should expect that much of what at all can be moved in the CFSP in terms of negotiating outcomes actually would be moved by the EER. The authority of the Union in the CFSP as delineated in this paragraph thus may work as boxes within which this movement can take place. One may, for instance,

\begin{itemize}
\item The European Courts of Justice rule Opinion 1/94 establishes that the international trade agreements in services (GATS), Intellectual Property Rights (TRIPS) and Investments (TRIMS) are not to be considered part of Article 113. Opinion 1/94 was de facto a shift away from supranational competence (Meunier 1998). The opinion notes that services belongs to Title IV of the Treaty and thus not to Article 113. In the treaties the so-called “Kompetenz-Kompetenz” or enabling clause, article 133.5. establishes that regarding these areas “\textit{the Council, acting unanimously, may decide to extend the application of Article 113 [133] international agreements on services and intellectual property rights} (TEC Article 133 (5) (See also Woolcock 2000).
\end{itemize}
imagine a movement taking place within three or four different boxes of CFSP authority such as defence, diplomatic actions, economic sanctions and financial support.

Changes in this institutional authority since the start of EPC in 1970 would subsequently matter in facilitating agreement on CFSP actions (Nuttall 1997). Innovations include reforms of the decision-making mode towards more communautarization (e.g. Article 228a on Economic Sanctions, abstention voting, qualified majority on implementing joint actions/common positions etc), changed procedures (inclusion of working parties, COREU network, recommendation procedures vis-à-vis the Parliament) and regular inclusion of new measures (such as common positions, joint actions). How does the EER authority then link to CFSP decision-making? Clearly, one thing is that the Union has high authority in an issue area such as trade negotiations, a completely different matter is, whether this would facilitate cooperation or the reverse in the CFSP. One of the conditions for this is that the authority of the Union in one economic issue area may follow this issue-area “around” where it is engaged also when EER resources are used for actions in the domain of CFSP, Home and Justice Affairs or elsewhere. This assumption may appear strong. However, it could be justified arguing firstly that the information involved in representing a specific issue area is exclusive and costly. Secondly, a justification is the gained legitimacy of an actor as the Union in supplying suggestions of relevance in an areas where they usually are in charge, provided that the Union is perceived credible in this role by the Member States. Finally, by representing EER interests iteratively economic agents will be aware of the possibility of policy deliberations and exchanges over time and will thus be more likely to accept a give in the short term for an expected take in the longer term.

Working Hypotheses

41 Mode 3 in GATS regards “Commercial Presence”, i.e., the supply of a service by a service supplier of one Member through commercial presence of another Member. It involves e.g. corporations, joint ventures, partnerships, representative offices and branches. Often representative offices are represented through foreign affiliate established as a result of FDI (Sauvé & Stern 1995).
42 The informal rule on issues no longer decided under unanimity is consensus.
43 Meunier (2000) however holds that her approach may be useful for explaining the likelihood and the process of reaching the final outcome, effectiveness of the EU in other international settings such as foreign affairs.
Based on the discussion in the previous section, one may now formulate a few working hypotheses regarding the impact of the EER on the CFSP. Isolatedly, most of these should appear relatively intuitive in nature. The difference from earlier approaches, however, may be that the hypotheses specifically address the impact on the decision-making on CFSP and that the hypotheses are supposed to be viewed as a whole.

**Hypothesis I:** Within the CFSP, formal and informal institutional reforms implying increased authority (i.e. degrees of freedom to the Union vis-à-vis the Member States to decide on CFSP actions involving resources to be used at the European level) will lead to more European foreign policy co-operation, and *vice versa*.

**Hypothesis II:** Within the CFSP, the more formal an informal institutional authority the Union has over an “issue-area” in the CFSP - such as defence – the more intensive will the cooperation in this issue area become involved, regardless of other factors (such as Member States particularistic interests etc).

**Hypothesis III:** Within the EER, the higher the involvement of transactions of export sectors as compared to import sectors of the Union in a particular region/area/country which the Union seeks to co-operate on a CFSP policy towards, the less co-operation will subsequently occur within the CFSP.

**Hypothesis IV:** Within the EER, the more costly it is to establish a certain transaction relationship with a third party the more opposition will restrictions regarding this particular transaction gain after it has been established. This implies that it becomes more difficult for European foreign policy cooperation to include restrictions in this area. A special case of this is FDI which presence will have an impeding effect on European foreign policy actions to emerge compared with, e.g. trade.

**Hypothesis V:** Within EER, the later in time a given transaction is planned and effectively pays off, the more difficult will it become for Member States to co-operate on European
foreign policy towards third parties where the Union’s action would put this transaction at risk. A special case of this is FDI which presence will have an impeding effect on European foreign policy actions as compared to trade.

**Hypothesis VI:** Within EER, the higher the intensity of transactions among Member States as compared to among Member States and third countries, the more CFSP cooperation will be likely to emerge provided that there sufficient political demand exists for these actions.

**Hypothesis VII:** Within EER, the higher the intensity of a transaction involved towards a third country which the Union intends to act in the CFSP against, the less likely will cooperation occur.

**Hypothesis VIII:** Within EER, the higher the competence of the Union is regarding those transactions primarily involved towards a third party, the more CFSP cooperation may inter alia emerge.

**Hypothesis IX:** Within EER, for equal levels of competence of the EER and equal levels of intensity of primary transaction involved in the area that the European foreign policy is targeted at, the more homogenous interests are, the more European foreign policy cooperation (e.g. area 1,3, 5, 7 in figure 1 below) will emerge.

Hypothesis VII-IX (and only these) may be illustrated as in figure 1 below. In figure 1, the numbers 0-7 mark increased degree of European foreign policy cooperation. The areas with the *wide downward diagonal* pattern mark high EER competence. Areas with white background indicate low EER competence.
CONCLUSION

This paper discussed the dynamics of the *internal burden-sharing* problem of the Union’s foreign affairs focusing on the contents of the relationship between the Union’s external economic relations and the CFSP. It was assumed that a crucial ingredient of the Union’s ability to act in its foreign affairs is its ability to raise resources for this action among individuals in the Member States. This ability was proposed to be a function of three dimensions: 1) the preferences over economic transactions, 2) the authority of the Union in external economic relations, and 3) the authority of the CFSP in foreign policy matters. Hereby, the institutional structure was added to earlier contributions, and, it was emphasised that the structure of the CFSP necessarily must be included even in a discussion on what may be termed the *European political economy*. Part of the exercise was subsequently to define what these three dimensions included. Notably, preferences over transactions were assumed to comprise dimensions such as the sector, the time-horizon, the heterogeneity, and the intensity of a given transaction. The authority of the Union in EER was listed according to the competence of the Union assuming a certain mobility of competence across different issue-areas where EER resources happened to be engaged. Finally, the authority of the CFSP was defined in terms of the institutional reforms since 1970 giving the Union more degrees of freedom in some areas such as diplomatic actions rather than in others, e.g. defence. Having accepted such a
multidimensional interpretation of “economic interests” resulted in nine relatively intuitive hypotheses. The hypotheses represent both what may be termed general trends of the CFSP development, and more specific policy explanations regarding a particular third country.

Future research necessarily needs to test these hypotheses on European foreign policy cooperation quantitatively as well as qualitatively; as mentioned a study is already being undertaken, but more empirical material necessarily needs to be gathered. Moreover, having accepted and shown a relationship between EER and CFSP, there seems in theory to be many possibilities of improving and enlarging this framework. Most evidently, one should include a more generally applicable study on the sector interests underlying the relationship between EER and CFSP drawing more specifically on International Political Economy. One would also need to verify whether any other measure than the degree of competence of the Union in trade negotiations may be more relevant for European foreign policy development. Further, although the study until now explicitly has avoided mentioning the word “globalization”, its relevance for the “globalization” debate seems obvious. Neil Fligstein (1998, 5-8) conceptualises the conventional definition of economic globalisation (EG) using three dimensions. First EG is the increase in the amount of world trade such that firms do not just compete in their own economy but against firms from economies around the world. Second, EG is the substantial growth in the financial markets for debt, equity, and particularly currency. Third, EG includes the transferral of productive activities (human, financial or physical) across borders. If one should adhere to such a definition, the differentiation made in this paper between different types of transactions and their impact on the CFSP seems to address exactly what the impact of globalisation could be on the CFSP. Finally, the study could not be viewed isolated from studies on ideas about the effectiveness of using the CFSP and the impact of normative ideas about how the CFSP should act. This is so because these ideas may just as well influence the degree of effort attached to the CFSP as the factors delineated in this paper is suggested to do. Since those ideas basically regards the CFSP and not the EER, one may, however, suggest viewing the impact of interests and
institutions as delineated in this paper as complementary to any explanation focusing on the impact of ideas.

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