What Happened to Fortress Europe?: External Trade Policy Liberalization in the European Union

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One of the most striking features of the international economy since the mid-1980s has been the proliferation and intensification of regional trading arrangements around the world. Among the most prominent developments, the European Union (EU) implemented a program to create the world's largest single market, embarked on creating a common currency, added five new member states, and is contemplating the further addition of ten or more countries.[1] The United States, Canada, and Mexico launched the North American Free Trade Agreement and have announced their intention to expand the arrangement widely in Latin America to create a Free Trade Area of the Americas. In Asia, the rapid growth of regional trade and investment flows has piqued interest in the creation of formal regional trade arrangements. The most ambitious plan has been the declaration of the Asia-Pacific Economic Cooperation group to create a regional free trade area by 2020.

This eruption of regional economic initiatives has aroused deep concerns about their impact on the international economy. Many fear that decades of progress toward increased international trade liberalization reached though the rule-based multilateral system of the General Agreements on Tariffs and Trade (GATT) and the World Trade Organization (WTO) will be destroyed as Europe, North America, and Asia become ''fortresses'' in which some trading partners obtain refuge, while others

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1. In order to minimize confusion, the designation *European Union (EU)* will be used throughout this article as a simplification. It should be noted, however, that trade policy falls under the first pillar of the European Union, which continues to be named the European Community. Further, references in the text to ''EU states'' are meant to apply only to the states in the European Community or European Union at the time referred to by the statement.

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are excluded by trade barriers.[2] In 1996 Director-General Renato Ruggiero of the WTO warned, ''[Regional economic initiatives risk] a division of the trading world into two or three intercontinental preferential areas, each with its own rules and with free trade inside the area, but with external barriers existing among the blocs.''[3]

In this context, assessing the direction of external trade policy in Europe is especially important. Regional integration has proceeded further in Europe than anywhere else in the world. Moreover, numerous alarming predictions have been made about the course of European trade policy during the last decade, and the European Union is seen as the region most likely to adopt a ''fortress'' trade policy.[4] Some analysts have warned that with the completion of the single market, the EU would open trade internally, while building a wall against goods from outside. Concerns about Europe closing its markets intensified with the souring of European economies in the 1990s, accompanied by record levels of unemployment in many member states. Conventional wisdom and many prominent theories hold that during economic hardship protectionism tends to increase. Indeed, in the 1970s and 1980s recession and unemployment in Europe sparked sharp increases in trade protection.

What is most remarkable about European trade policy in the 1990s is that, despite ominous warnings and theoretical expectations, fortress Europe has not been built. To the contrary, this article shows that since the late 1980s not only have few new trade barriers been erected, but external trade policy in Europe has been significantly liberalized in recent years, even in politically and economically sensitive sectors. This marks a significant departure from the past and occurred at a time when liberalization was least expected. How can European external trade policy liberalization during hard times be explained? What might it tell us about the implication of regional trade blocs for the global economy?

I argue that European integration has played a considerable role in the liberalization of European external trade policy by changing the institutional context in which trade policy is made, creating a systematic bias toward liberalization over increased protection. Although the EU has formally had jurisdiction over trade policy since 1969, in practice member states used national policy measures to protect sensitive sectors in the 1970s and early 1980s. The completion of the internal market, however, greatly undermined the ability of member states to use national policy tools, and EU voting rules make it very difficult to replace national policies with protectionist measures at the EU level. Thus, contrary to those who expected integration to lead to a fortress Europe, regional integration in Europe has led to trade policy liberalization. The specific details of my explanation apply primarily to the EU. However, the analysis of how integration can affect national policy tools and how policymaking rules at the supranational level create policy biases suggests a research strategy for examining variation across regional trade blocs.

2. For example, see Thurow 1992; Bhagwati 1991, 58–79; and Stoeckel, Pearce, and Banks 1990.
3. Ruggiero 1996.
4. See Thurow 1992; Stoeckel, Pearce, and Banks 1990; and Wolf 1994.

The first section of the article presents evidence of the recent trend toward liberalization of trade policy in Europe. The second section probes the trade policy literature for possible explanations of the pattern of liberalization and suggests that existing theories do not account well for recent policy outcomes in Europe. The third section presents an alternative explanation for how the combination of the completion of the single market and EU decision-making rules has undermined the effectiveness of national trade restrictions and led to a systematic pattern of external trade policy liberalization. The fourth section briefly applies this explanation to the critical case of the motor vehicle sector. The conclusion discusses the implications of this analysis for European trade policy and for understanding the politics underpinning the increased openness of the international economy.

The Puzzle of Liberalizing External Trade Policy in Europe

There are several reasons why one would have expected levels of protection in the EU to have increased significantly in the 1990s. First, analysts widely predicted that the completion of the internal market in the EU would lead to the creation of a ‘‘fortress Europe.’’ Some analysts argued that in order to make internal free trade politically sustainable, EU member states would offset new competition from other member states by imposing restrictions on imports from third countries—in effect, by replacing goods that were currently imported with goods supplied from within the EU.[5] Other analysts contended that EU voting rules requiring the support of super majorities or unanimity on most trade issues would promote logrolling and produce trade policies catering to the most protectionist member states. According to this view, states would simply veto any legislation that would not provide sufficient protection for their producers.[6] Still others contended that the EU might block imports in an attempt to create ‘‘EU Champions’’ capable of competing on world markets.[7] These predictions have not disappeared, and analysts continue to warn that the EU is inherently inclined to increasing levels of external protection.[8]

Fears that Europe would become more protectionist have also been fueled by severe recession and record levels of unemployment in Europe during the 1990s. According to several well-accepted theories, economic downturns and high levels of unemployment tend to trigger protectionist trade policy responses. Firms and workers are more likely to demand protection under these circumstances, and politicians are more likely to grant it.[9]

5. See Sapir 1990, 205–206; Conybeare 1993; and Thurow 1992, 68.
6. See Patterson 1983; Conybeare 1993, 145–49; and Jackson 1995, 343.
7. Koopmann and Scharrer 1989, especially 212–13.
8. For example, Wolf 1995.
9. In times of high domestic demand and economic growth, it is relatively easy for the domestic economy to absorb imports without imposing severe adjustment costs on domestic firms and workers. During periods of recession, however, increasing imports threaten to reduce profits, idle existing productive facilities, and cause worker layoffs. Furthermore, widespread unemployment increases the costs to workers of adjusting to rising levels of imports. Workers who are displaced by imports will find it progres-

During the serious recessions of the 1970s and 1980s, which were characterized by stagnating or declining levels of output and rising levels of unemployment, trade policy in Europe followed exactly this pattern. By 1980 European unemployment rates had climbed to 6 percent in France, 7 percent in Italy and Great Britain, and 3 percent in West Germany and were decried as intolerable.[10] At the time most Europeans saw rising unemployment as the direct result of growing imports, particularly from Japan and the newly industrializing countries.[11] Greater opening of their economies to non-European competitors, it was widely feared, would fuel even higher levels of mass unemployment and pose a direct threat to the social and political peace that the postwar welfare state had achieved.[12] Given this situation, many concluded that increased protectionism was necessary, and numerous economic theories were advanced, particularly in Great Britain, France, and Germany, advocating higher trade barriers.[13]

Policy reflected this analysis, and national nontariff barriers soared across the EU from the mid-1970s to the early 1980s.[14] The number of known voluntary restraint agreements increased five-fold from 1970 to 1980.[15] The sectors most effected were electronics, motor vehicles, steel, and agriculture. The number of import surveillance and monitoring measures jumped from seven in 1971 to ninety-seven by 1985.[16] The number of antidumping measures in force in the EU shot up from 5 in 1973 to 187 by 1984.[17] In the textile and apparel sector, quotas were dramatically tightened with the implementation of the first set of bilateral agreements under the 1973 Multi-fiber Arrangement (MFA), which extended the trade regime from cotton to also include woolen goods and all synthetic fibers. The MFA was further tightened with its renewals in 1978 and 1982.[18] Even relatively free-trade-oriented countries, such as West Germany, negotiated new trade restrictions for sensitive sectors, such as automobiles, consumer electronics, and textiles and apparel. At the EU level, manifestations of an increasingly restrictive trade policy included the unwillingness of the European Economic Community to make substantial new concessions under the renewed Lomé Convention and the retention of tight safeguards under the Generalized System of

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sively more difficult to obtain alternative employment, and when they do, their wages are likely to be lower. Together, recession and high levels of unemployment result in increasing demands to restrict the flow of imports. For elaboration of these arguments, see Magee and Young 1987; Takacs 1981; Bergsten and Cline 1983; McKeown 1984; Cassing, McKeown, and Ochs 1986; and Mansfield and Busch 1995. Politicians seeking to enhance their electoral fortunes have incentives to provide protectionist policies during periods of high unemployment, because such measures are likely to be popular and may blunt the short-term effects of macroeconomic pressures. See Lewis-Beck 1988; Kiewiet 1983; Kinder and Kiewiet 1979; and Kramer 1971.

10. Lewis-Beck 1988, 3.
11. Hine 1985, 8–9.
12. See Hager 1982; Keohane 1984, 34–35; and Gilpin 1987, 373–74.
13. Kahler 1985.
14. Grilli 1988.
15. This number excludes new restraint agreements for the textile and apparel sector, which fall under the Multi-fiber Arrangement. Grilli 1991.
16. Ibid., 153.
17. See GATT 1991, 114; and Grilli 1991, 158.
18. See Aggarwal 1985; and Cline 1987.

Preferences. Recession also contributed to the slow progress and meager results of the multilateral Tokyo Round of GATT.[19]

Given this history, one would have expected a surge of protectionism during the 1990s recession, when many European countries faced even greater economic hardships than they had in the 1970s and 1980s. The economic downturn of the 1990s has been the largest recession since World War II for many EU states, and levels of unemployment have grown precipitously, setting new records in many countries. In the three years from 1991 to 1994, six million jobs were lost EU-wide, and the average unemployment rate reached 11 percent. Moreover, the number of people employed in the EU declined by 4 percent in this period—a decline twice as large as in any comparable period since World War II—and has been felt throughout the EU. From 1991 to 1994, Italy suffered a decline in employment of over 1.7 million. The United Kingdom lost almost nine hundred thousand jobs, following a decrease of almost the same size in 1990. Spain lost over eight hundred thousand jobs, the former West Germany lost almost six hundred thousand jobs, and the former East Germany lost more than a million jobs during these three years.[20] Given the massive increase in unemployment combined with rising import competition, many feared increased protection would follow. At a minimum, these countries were expected to retain the level of protection already in place.

Surprisingly, despite severe economic distress, a history of protectionism during hard times, and predictions of a ‘‘fortress Europe,’’ external trade barriers have not increased during the 1990s. To the contrary, an overview of trade policy developments during this period reveals a remarkable pattern of trade policy liberalization that extends across sectors and across types of trade policy instruments. Since 1990, individual EU member states have unilaterally abolished over sixty-three hundred quantitative restrictions against imports from third countries.[21] The number of surveillance measures (designed to signal to exporting countries that their activities are being monitored and more restrictive measures are under consideration) has also decreased significantly, even in the most sensitive sectors. In 1992, for example, the EU discontinued import surveillance for certain machine tools and electrical and electronic products from Japan that had been introduced in 1983 and extended annually ever since.[22] And although the use of antidumping measures has not declined significantly, it has also not increased. From 1990 to 1995, the number of antidumping measures in force has remained about 150, with that number declining somewhat

19. For further description of the trade policies of European states during the 1970s and 1980s, see Hayes 1993; Pearce, Sutton, and Batchelor 1985; and Hine 1985.

20. See European Commission 1995a; and World Trade Organization 1995, 57–58.

21. Only a very few of these national restrictions have been replaced with EU-level trade restrictions. The four product areas where major new EU quotas have replaced national restrictions are auto imports from Japan, bananas, canned tuna, and canned sardines. In addition, EU measures have replaced national restrictions on a few consumer products from China (working gloves, six types of footwear, tableware of porcelain or ceramic, glassware, car-radios, and three types of toys) and iron and certain steel categories from Mongolia, Vietnam, and some members of the Commonwealth of Independent States. World Trade Organization 1995, 57–60.

22. GATT 1993.

for the years 1992–93.[23] Regarding subsidies, new common guidelines clarified or tightened rules for state aid, especially in traditional manufacturing industries facing tough import competition, such as textiles and clothing, motor vehicles, shipbuilding, steel, and other base metals, and industrial subsidies on the whole have declined during this period.[24]

The EU has also provided increased market access for imports from non-EU countries through both multilateral and bilateral trade agreements negotiated during the recession of the 1990s. In the Uruguay Round of the GATT talks, the EU agreed to deep tariff cuts, reducing its tariffs on manufactured goods by an average of 38 percent. In addition, tariffs were eliminated for many product categories, including construction equipment, agricultural equipment, medical equipment, pharmaceuticals, most steel categories, paper products, and furniture.[25]

Since 1990 the EU has signed twenty-six bilateral free-trade-area agreements to increase EU market access for non-EU countries.[26] Among the most prominent are the so-called Europe Agreements. These bilateral preferential trade agreements between the EU and six central European countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic) were concluded between 1991 and 1993 and allow most industrial products originating in these countries to enter the EU market free of tariffs and quantitative restrictions.[27] Increased market access was even granted in the most sensitive sectors, such as textiles, apparel, and steel. Bilateral free-trade agreements were also signed with Estonia, Latvia, and Lithuania in 1994, which removed EU tariffs and quantitative restrictions on their imports. A free-trade agreement negotiated with Turkey in 1995 allowing the free movement of industrial goods beginning in January 1996 is notable for its potential threat to EU textile and apparel producers.[28] Of the other free-trade agreements negotiated by the EU, some of the most important are with Switzerland, Norway, Israel, and Slovenia.[29]

In sum, European trade policy has liberalized significantly in recent years. Despite severe recession, extraordinarily high rates of unemployment, and predictions of fortress Europe, levels of external protection have not increased in the way they did during the periods of economic hardship in the 1970s and 1980s. This is not to say that the EU has suddenly abandoned all forms of protection in all industries. Rather, recent EU trade policy has been marked by two characteristics: the erection of very few new protectionist trade barriers and a significant reduction in levels of protection

23. European Commission 1995b.
24. See GATT 1993; Adams 1995, 107–108; and Dylla 1997.
25. World Trade Organization 1995, 51–52.
26. *The Financial Times*, 16 February 1996, 6.
27. The Europe agreements for Hungary and Poland entered into force on 1 February 1994, and those for Bulgaria, the Czech Republic, Romania, and the Slovak Republic on 1 February 1995. For additional details of the Europe Agreements, including implementation periods and safeguard provisions, see GATT 1993, Chapter II(5)(iii). At the worst point of the recession, in June 1993, the EU even agreed to accelerate the tariff liberalization schedule for these agreements and agreed to lift almost all tariffs and quantitative restrictions on industrial imports from these central European countries. World Trade Organization 1995.
28. Ibid., 21–23.
29. *The Financial Times*, 16 February 1996, 6.

for many industries. In other words, industries that demanded and received increased trade barriers during periods of economic hardship in the past now face similar economic challenges but can no longer obtain the same levels of trade protection. How can this change in trade policy outcomes be explained? Why has external trade policy in Europe liberalized despite inauspicious economic conditions?

Alternative Explanations of Trade Liberalization

Broadly speaking, the existing trade policy literature lays out two types of approaches to explain trade policy liberalization. One approach emphasizes interest group politics among societal actors, whereas a second approach emphasizes the autonomous role of state actors in shaping trade policy. Liberalization is then explained by changes in the preferences of either societal or state actors.

The societal approach offers three prominent explanations for trade liberalization, each of which provides a different argument for how increased international economic integration should induce changes in the character of societal demands for protection.[30] The first explanation, *sectoral attrition*, contends that liberalization occurs when increased international competition erodes the size of uncompetitive sectors to the point that they are no longer economically or politically important enough to retain their level of protection. The second explanation, *sectoral internationalization*, argues that liberalization occurs within a sector when the increasing dependence on the global economy drives the preponderance of firms within that sector to switch their trade policy preference from protectionism to free trade. The third explanation, *societal counter mobilization*, argues that as international trade flows increase, the political power of groups benefiting from economic openness increases, as do the incentives for these groups to mobilize against those demanding trade protection.

The most prominent state-centered explanation contends that rather than shifts in interest group politics, liberalization is primarily driven by changes in the beliefs of national policymakers. Policymakers reject the notion that trade protection is beneficial in times of economic hardship and adopt the belief that liberalization will provide greater economic benefits. How well can these explanations account for the recent pattern of external trade policy liberalization in Europe?

The Attrition of Uncompetitive Sectors

The first possible explanation for trade liberalization, sectoral attrition, is that all of the uncompetitive sectors that had received protection in the past have either disappeared or lost political influence by the 1990s. In this view, levels of trade protection are seen primarily as functions of the political strength of the interest groups demanding protection. Liberalization comes about as exposure to international competition

30. By increased international economic integration or globalization, I am referring to increased flows of international trade of goods and services, and foreign direct investment.

wears down uncompetitive sectors, causing them to shed so many workers and to become so unimportant economically that their demands for protection can be safely ignored by politicians. Politicians are no longer able to preserve large numbers of domestic jobs by providing protection to these sectors, and the electoral cost of liberalizing these sectors has become very low. The French shipbuilding industry might be offered by proponents of this view as an illustrative example in Europe. Once an important industry in the French economy that received increasing levels of protection in the 1970s, shipbuilding today has dwindled to almost nothing, and trade policy toward the sector has been greatly liberalized.

Although some sectors in some EU countries have been devastated by international competition, as a general explanation for trade policy liberalization in Europe, this explanation has three significant problems. First, the pattern of external trade policy liberalization has not been limited to small insignificant sectors. Rather, substantial liberalization has occurred in some of Europe's most important industries, such as motor vehicles, and textiles and apparel.[31]

Second, this explanation implies that intense international competition is currently a problem only for small and politically impotent industries. If large and politically important sectors were threatened by foreign competition, they still would be expected to demand and obtain protection. In fact, many of the sectors most central to European economies are being hard hit by import competition. Seven out of the eight largest EU industrial sectors, in terms of employment, have faced sharp increases in import penetration or significant declines in export dependence in recent years or both.[32] As Table 1 demonstrates, a number of important sectors that still employ large numbers of workers or are important to EU economic performance are struggling to compete domestically and internationally.[33]

Third, the attrition explanation has difficulty accounting for the timing of the current liberalization in Europe. To the extent that economic sectors have shrunk or lost employment, they have done so at different rates over the last couple of decades. Why is trade liberalization occurring now, and why has it occurred simultaneously across so many different sectors in so many different countries?

Sectoral Internationalization and Changing Firm Preferences

The second societal explanation, sectoral internationalization, sees trade policy liberalization as the consequence of an increase in the international sales and investments of firms in a given sector.[34] This view assumes that trade policy is primarily determined by the preferences of the firms within a given sector. Liberalization is ex-

31. World Trade Organization 1995, especially 99–107.

32. These sectors include textiles and apparel; electrical engineering; food, drink, and tobacco; mechanical engineering; metal products; motor vehicles and parts; chemicals and synthetic fibers; and rubber and plastics. European Commission 1994.

33. Because these industries tend to be concentrated in a limited number of member states, the proportion of overall employment and economic activity represented by a state in which one of these industries is located is likely to be even greater than the aggregate numbers imply.

34. Milner 1988.

TABLE 1. *Industry performance data in the EU*

Industry	*EU employees, 1992*	*EU production, 1992 (in millions of ECU)*	*Import penetration, 1992*[a]	*Change in import penetration, 1986–92*	*Export dependence, 1992*[b]	*Change in export dependence, 1986–92*
Textiles and clothing	2,730,000	188,000	20.9%	59.0%	15.5%	16.0%
Electrical engineering	1,489,000	171,168	29.2%	20.6%	18.8%	1.6%
Metal products	2,129,174	181,211	5.3%	35.9%	7.7%	18.0%
Motor vehicles and parts	1,820,774	265,643	9.0%	4.6%	11.6%	−65.5%
Chemicals and synthetic fibers	1,714,338	295,794	13.0%	16.1%	16.9%	−2.3%
Telecommunications equipment	880,785	25,378	13.5%	12.7%	20.3%	−17.1%
Consumer electronics	338,000	39,684	40.1%	27.7%	22.4%	28.0%
Computer and office equipment	251,100	46,259	40.3%	24.0%	21.6%	0.1%

Source: Eurostat, with calculations by the author.
[a]Extra-EU imports as percentage of apparent consumption.
[b]Extra-EU exports as percentage of production.

pected when the balance of firm policy preferences in a given sector changes from protection to free trade.

In her widely cited study, Helen Milner argues that a firm's trade policy preference is determined by its degree of export dependence and multinationality, measured in terms of direct foreign investment, profitability of foreign operations, and intrafirm trade.[35] The more export dependent and multinational the firm, the more it is expected to oppose protection and promote liberalization. For firms with international ties of this nature, the expected costs of protecting the domestic market are greater than the benefits of protection, because protection could trigger foreign retaliation that might threaten the firm's exports and could increase relative production costs by imposing tariffs or restrictions on imported inputs. Under these conditions, even when a firm with extensive international ties comes under intense pressure from import competition, it is expected to favor free-trade policies for itself and for its industry as a whole. Liberalization, according to this view, should proceed sector by sector, following patterns of increased internationalization of firms within each sector.

Although it is true that many European firms have increased sales and investment in foreign countries, this explanation runs into many difficulties when trying to account for the recent pattern of trade liberalization. The first problem is that it fundamentally mispredicts the general direction of European trade policy in the 1990s. Instead of expecting liberalization of trade policy in Europe, it seems to predict that

35. Ibid., especially 18–44.

the completion of the internal market in the EU would have significantly *increased* protectionist demands by European firms. With the completion of the internal market, trade barriers between European countries are to be eliminated, and the only remaining trade protections are against non-EU countries. Since trade barriers at the EU level do not affect trade within the EU, sales, production, and earnings from the firm's operations in other EU states should no longer be considered ''international'' for purposes of predicting a firm's trade policy preference. Companies whose ''international'' activities are largely limited to the EU would seem to lose their incentive to press for trade policy liberalization. Indeed, given that intra-EU trade represents 50–70 percent of total trade for individual EU member countries, one might reasonably expect that the completion of the internal market would significantly *increase* the proportion of firms that could be considered highly domestically oriented and likely to demand protectionist trade policies.[36] This is precisely the logic that led many people to erroneously predict the emergence of a fortress Europe.

This explanation also has difficulty accounting for the general pattern of European trade policy liberalization in four additional ways. First, significant trade liberalization has occurred in sectors that have not experienced increases in export dependence or multinational investment. In the automobile sector, for example, liberalization has occurred despite a 65 percent drop in export dependence.[37] Second, with its emphasis on linking producer demands to policy outcomes, this explanation cannot help us understand why some of the most significant liberalization has occurred in sectors where the vast majority of firms continue to want protection, for example, motor vehicles and textiles. As I demonstrate later, liberalization in the automobile sector occurred even though there was no change in the trade policy preferences of auto producers toward liberalization. Third, this explanation does not seem to account well for enduring calls for protection by industries that have significantly increased their degree of international activity. The data in Table 1, for example, suggest that protectionist demands should have decreased in the consumer electronics and metal products sectors; yet in both cases demand for trade barriers has remained strong.[38] Finally, given different rates of internationalization of firms in different industries, it is not clear why such a pronounced pattern of liberalization should occur across so many sectors at the same time.

Societal Counter Mobilization for Liberalization

The third type of explanation, societal counter mobilization, encompasses several specific theories, all of which emphasize the role of cross-sectoral or cross-class pressures in the liberalization of trade policy. In simplified terms proponents of these theories argue that increasing international flows of goods, services, and capital change

36. World Trade Organization 1995, 5.

37. See Table 1. Because the data in Table 1 are aggregate data for the entire sector and not firm level data, they may not reflect variations between firms. Even so, they do provide an overview of the aggregate position of all firms in a given sector.

38. See Flamm 1990; and Koopman and Scharrer 1989.

the economic opportunities and constraints facing societal actors and therefore their preferences over what trade policy best serves their interests.[39] Those sectoral or class-based interest groups that benefit from increased liberalization mobilize to promote trade policy liberalization and to oppose the demands of groups seeking protectionist policies. Employing a pluralist logic, proponents of this view expect that as the proportion of groups in society with an interest in free trade grows, they will become politically more powerful and able to outweigh protectionist interests in the political process.

The groups expected to support or oppose protection varies by author. Some predict that those sectors with high levels of asset specificity (meaning employing labor skills or capital that cannot be easily redeployed to other economic uses) will seek protection, whereas industries with more mobile assets will fight protection.[40] Others predict that groups benefiting from imports (that is, producers using imported inputs, retailers, and consumers) will lobby for openness against nationally oriented firms' demands for protection.[41] Others see demand for or against protection breaking down along factor lines (that is, labor, capital, and land), with abundant factors clamoring for openness and scarce factors demanding protection.[42] Thus, in Europe capital would be expected to support liberalization, and labor would be expected to support protection.

It is certainly true that some societal actors benefit from liberalization and could be expected to favor the liberalization of trade policy. However, in the case of recent European trade policy a key question for these explanations is whether a sufficiently large coalition of political supporters has developed to account for the wide-ranging liberalization of some of the largest economic sectors in Europe. If trade policy liberalization is the product of contesting societal interest groups, one would expect that it would take a large and powerful coalition to roll back protection held by such important economic sectors as automobiles. This explanation is convincing to the extent one can demonstrate the existence of such a set of societal interests and show that their policy preferences were decisive in determining trade policy outcomes. After consulting secondary literature, however, and conducting interviews with government officials, industry representatives, and labor unions in France, Germany, Great Britain, and Brussels, I have not found much evidence that a counter mobilization of societal groups has been responsible for the pattern of trade policy liberalization in European countries. Moreover, societal interests rarely seem to divide along the class or sectoral lines predicted by many of these counter-mobilization explanations.

The Changing Beliefs of Policymakers

Whereas the three preceding explanations of trade policy liberalization emphasize the preferences of societal actors, the explanation discussed in this section sees states

39. For a fuller discussion of these arguments, see Milner and Keohane 1996.
40. Frieden and Rogowski 1996.
41. See Destler and Odell 1987; and Frieden and Rogowski 1996.
42. See Midford 1993; Rogowski 1989; and Frieden and Rogowski 1996.

as having some degree of autonomy from these interests and policy as being shaped by the ideas and beliefs of policymakers. Judith Goldstein argues that in most cases policymakers have incomplete information about their environment and thus must rely on causal models in making policy choices.[43] Ideas, defined as shared beliefs about causal connections between interests and policies, act like road maps linking policies to a constellation of interests by showing actors how to maximize their interests. For example, policymakers may know that they want to promote the competitiveness of their domestic firms, but their understanding of what policies will be most beneficial for improving the competitiveness of their firms may vary. Some policymakers may believe that competition brought about by freer trade is the best spur to improve firm performance, whereas others may think that protection, which provides an opportunity for firms to restructure, is the best policy.

Applied to recent European trade policy, an argument along these lines would be that in the 1970s and 1980s European countries used protectionist measures to combat pressure from imports in order to allow domestic firms to become more competitive and to protect domestic jobs. This policy failed and was discredited when protected industries did not become internationally competitive and levels of unemployment remained high. By the late 1980s or early 1990s, European policymakers abandoned their belief in the virtues of protectionism and searched for alternative causal ideas. They adopted the neoliberal economic belief that exposing domestic firms to international competition is more effective than protection for improving the competitiveness of domestic producers and promoting economic prosperity for the society.

Over the last decade or so, neoliberal economic ideas and policies have been on the rise in Europe; however, evidence suggests that there may not be consensus around the idea of liberal trade policy in all member states. France, for example, has a long tradition of ideological support for protectionist policies, and it is not clear that French political leaders, the French public, or French economists have completely abandoned their ideas about the virtues of protection, especially against non-EU producers. Indeed, at the height of the French recession in the summer of 1993, both President François Mitterrand and Prime Minister Édouard Balladur advocated that the EU abandon free trade in favor of a European preference system.[44] This plan proposed to discriminate between the imports of countries based on their level of social standards, allowing those countries with labor, social, and environmental regulations closest to those in Europe to have the least restricted access, whereas countries with lower social and environmental standards would have substantially less access to the European market. The French public also supports protectionist policies, as reflected in a 1993 public opinion poll in which 67 percent of the respondents agreed that the importation of non-European products into the EU and into France should be limited.[45] Even among professional economists in France there is no con-

43. Goldstein 1993.
44. Berger 1995, 203–205.
45. *Le Parisien*, 22 June 1993, 2–3, as cited in ibid., 196.

sensus against protectionist trade policy. In a survey published in 1984 only 27 percent of French economists said they generally believed that protection reduces the economic welfare of a country.[46] Although France is only one country in the EU, it is particularly important because of its size, its central role in EU politics, and because it has been one of the countries whose key industries have been the most affected by trade liberalization in Europe. If beliefs about trade policy have been slow to change in France, it is likely that they have also been slow to change in other EU countries that have significant postwar traditions of protectionism.

I have reviewed the most prominent theories for the resilience or expansion of liberal trade policy during times of economic hardship. None accounts very well for recent patterns of external trade liberalization and resistance to new protectionist measures. How then can trade policy in Europe be explained?

The Politics of Trade Liberalization in Europe

In contrast to explanations of European trade policy that focus on changes in the preferences of domestic political actors, I argue that much of the timing and scope of trade policy liberalization and the general resistance to new protectionist measures in Europe can best be understood as an unintended consequence of European integration. The completion of the single market initiated a two-step process that both liberalized existing trade policies and systematically disadvantaged interests seeking new trade protection. First, the completion of the internal market induced the liberalization of protected markets by severely eroding the effectiveness of national trade measures. Second, restoring protection lost at the national level required the establishment of new trade policy measures at the EU level, which was made difficult because of institutional arrangements that significantly advantaged those states wanting to block the expansion of EU protection. The result has been that industries have lost protection at the national level and have been unable to reestablish it at the EU level. Furthermore, other attempts to create new protectionist measures also have been made vastly more difficult due to the same institutional impediments.[47]

Completing the Internal Market: Changing the Political Context of Trade Policymaking

The implementation of the Single European Act (SEA) created a widespread, de facto liberalization of trade policy in EU member states by undermining the effectiveness of national trade barriers. Before the SEA, member states could limit imports by a variety of national regulations—bilateral import quotas and voluntary export

46. This compares to 79 percent of American economists who responded that protection reduces national welfare. See Frey, Pommerehne, Schneider, and Gilbert 1984.

47. For an innovative view of the ways in which European integration has affected the bargaining strength of the EU in international trade negotiations, see Meunier forthcoming.

restraint agreements with non-EU states, and health, safety, and technical standards.[48] With the completion of the single market, states lost the tools they needed to maintain effective national trade barriers even against non-EU imports.

In order for these national trade barriers to be effective EU states must be able both to shut out direct imports and to block the transshipment of non-EU imports through other EU countries. If free trade is allowed between countries of customs unions or free-trade areas, national trade barriers can be circumvented by importing a non-EU-produced good first into another EU member state with lower trade barriers and then shipping it freely from there into the member state with higher levels of protection. One way member states blocked indirect imports was through Article 115 of the Treaty of Rome. Under Article 115 member states could request European Commission approval to block indirect imports to preserve preexisting national import restrictions, and, as Table 2 shows, Article 115 exemptions were widely used.[49] States also employed a wide range of national policy measures to block indirect imports, including national border controls, customs procedures, and nontariff barriers such as health, safety, and technical standards.

One of the primary goals of the SEA was to eliminate exactly these types of barriers to trade between member states in order to create a single market, which was defined as ‘‘an area without internal frontiers in which the free movement of goods, persons, services, and capital is ensured.’’[50] From 31 December 1992 all national border controls between member states were to be made illegal.[51] This meant that states could no longer use Article 115. The Commission ruled out the possibility of revitalizing Article 115 authorizations on the grounds that with the disappearance of internal border controls, as demanded by the internal market, the legal grounds for Article 115 no longer existed.[52] As shown in Table 2, Article 115 authorizations came to an end in 1993.

The program to complete the single market also eliminated national nontariff barriers between EU states. The EU launched an ambitious program of both harmoniza-

48. Despite the commitment made in the 1957 Treaty of Rome to pursue a unified common commercial policy, in practice member states had retained a large measure of national autonomy over their external trade policies. Even after 1968, when the EU adopted a single set of external tariff rates, individual countries retained control over a myriad of nontariff barriers, which they imposed more or less at will. The surge of import protection in Europe during the 1970s and 1980s is mostly accounted for by increases in these national trade barriers. Although the majority of restrictions were imposed by Italy, France, Great Britain, Greece, and the Irish Republic, at some point during the 1970s and 1980s all EU states resorted to such national measures. For discussions of trade restrictions before the SEA, see Koopmann 1989; Sapir 1990; Koopman and Scharrer 1989; European Commission 1992; World Trade Organization 1995; Hayes 1993; and Hine 1985.

49. The Commission considered that Article 115 could only be used to defend commercial policy measures taken in accordance with the Treaty of Rome (meaning formal quotas) and not to defend voluntary restraint agreements or other such informal arrangements. The duration of Article 115 restrictions varied between two months and one year, depending on the Commission’s decision. GATT 1993.

50. Article 8a of the SEA.

51. European Commission 1992.

52. Interestingly, the Maastricht Treaty on European Union, signed in February 1992, modifies rather than discards Article 115. The new language continues the provision for restraint of imports of particular items into individual member countries ‘‘to ensure that the execution of measures of commercial policy taken in accordance with the Treaty by any Member State is not obstructed by deflection of trade, or where differences between such measures lead to economic difficulties in one or more Member States.’’ GATT 1993; and interviews by the author of EU Commission officials, May 1994.

TABLE 2. *Article 115 measures approved by year*

Year	*Measures approved*	*Year*	*Measures approved*
1976	74	1985	176
1977	79	1986	141
1978	197	1987	157
1979	260	1988	128
1980	222	1989	119
1981	166	1990	79
1982	174	1991	48
1983	188	1992	8
1984	165	1993	0

Source: Official Journal of the European Communities, various issues.

tion and mutual recognition of product standards. A key component of this effort was the nearly three hundred pieces of EU legislation to eliminate national trade barriers.[53] Where there was not harmonization of national regulations through common EU legislation, the principle of mutual recognition applied.[54] In other words, goods meeting the standards of one EU state are now entitled to be imported without discrimination into any other member state. Although national derogations from harmonized policies are still possible on the grounds of ''major needs,'' the Commission has emphasized that any such exemptions will be of exceptional character.[55] As health, safety, and technical standards have been either harmonized or mutually recognized, states have lost their ability to use such standards to keep indirect imports out of their markets.

Implementing the SEA meant the de facto liberalization of the *external* trade policies of EU states. *Because the national trade measures of any given state could be circumvented, individual member states found that the external trade policy status quo had changed from protection through national policy to liberalization through transshipment.* New protectionist measures were required at the EU level, even just to retain the levels of protection previously provided nationally.

EU Decision-Making Rules: A Liberal Bias

When states looked to the EU level to replace eroded national protections, they found that EU decision-making rules and procedures systematically disadvantaged those

53. According to the Commission, this program has been remarkably successful, with some 95 percent of the policy measures adopted into EU legislation by the end of 1993. Of the 219 policy measures that also needed to be formally adopted in the member states by April 1995, about 90 percent had become national law in at least ten member states. World Trade Organization 1995, 16.

54. Although the principle of mutual recognition was implied by the European Court of Justice's *Cassis de Dijon* decision in 1979, the decision on its own did not lead to de facto mutual recognition, as shown by Alter and Meunier-Aitsahalia 1994.

55. So far it appears that only one case has been approved by the Commission, German restrictions on sales of PCBs. World Trade Organization 1995, 14.

seeking to replace national trade barriers with equally effective EU measures. New trade measures, like most other policy areas, require the approval of the Council of Ministers, which is composed of representatives from each member state. Formal voting rules for most trade measures require the support of a qualified majority of member states for passage. Thus the dissent of a small coalition of states can prevent the passage of a new external trade measure.[56]

Given the decision-making rules of the EU, the states seeking the most liberal trade policy are in a very strong bargaining position, and trade policy outcomes tend to reflect their preferences. The bargaining strength of states favoring more liberal policies is based on their ability to credibly threaten to veto any proposed trade measure more restrictive than those they favor. For states confronting a situation of national trade measures made obsolete through the completion of the single market, almost any agreement is better than the liberalization of its domestic market by the unregulated flow of indirect imports into their markets. Thus liberal states have little incentive to agree to greater levels of protection than they favor, and states seeking protection have little leverage to obtain more than they are offered. Trade policy outcomes, under these conditions, tend to reflect the policy preferences of the producing state favoring the most liberal policy, and EU trade policy is likely to be *more* liberal than a simple summing up of all the national trade policies in effect before the implementation of the SEA.

From this logic one might expect that EU trade policy for a given sector would be largely determined by the preferences of states with no production in a given industry. Such countries would be expected to favor complete free trade, because liberalization of the sector would provide its consumers with cheaper products and have no negative impact on its industries or employment level. In practice, however, intra-EU negotiations over important trade policy matters are largely left to the states with significant production in a given sector, and smaller states without significant production typically do not get involved in negotiations over trade policy for that industry.[57] This means that the states in the strongest bargaining position are those preferring the most liberal trade policy for an industry in which it has significant production.[58]

This explanation provides an account not only for liberalization of trade policy, but also for the resistance to new protectionist measures in Europe. In the 1970s and 1980s new trade protections usually took the form of national policy measures, but completing the single market has undermined this strategy as a viable option. Now, new trade protections must be agreed to at the EU level, which is difficult because they can be easily vetoed by a small coalition of states.

This is not to say that protectionist policies will never be made at the EU level, or that states will never be able to replace national protection with equally protective EU measures. Rather, my argument is that policy outcomes will largely reflect the distribution of trade policy preferences of member states and their relative bargain-

56. In practice, some aspects of trade policy require unanimity for action. Meunier forthcoming.
57. Interviews by the author with various officials at the European Commission, June 1994.
58. In many cases, this state is Germany.

ing strength based on the status quo trade policy. If all states with significant production in an industry prefer retaining or increasing levels of protection, new protectionist policies will likely be adopted at the EU level. This scenario, however, is understandably rare, because small minorities can so easily block the establishment of new trade restrictions.

Within the EU framework, societal groups and states preferring protectionist barriers higher than they are able to obtain through the EU have very little recourse. Even if they would like to, national governments within the EU are not able to reconstitute national trade restrictions without blocking indirect imports from other EU states. To do so would require violating their treaty commitments to allow the free flow of goods within the internal market, and these obligations can be enforced by injured parties through the European Court of Justice. Absent the ability to negotiate a change of policy in the EU, states would have either to leave the European Union or obtain an agreement to change the fundamental character of the EU in order to be able to provide higher levels of protection. These alternatives seem quite extreme and would likely be unappealing for states, because the economic and political costs of abandoning the EU would be large.

In sum, implementing the SEA has produced a systematic liberalization of external trade policy in Europe. Liberalization has occurred as national trade protection has been undermined by the threat of indirect imports, and states have not been able to reestablish protection at the EU level because of decision-making rules biased against them. This explanation would expect a sweeping liberalization of trade policy in the EU in the aftermath of the SEA, which would occur in sectors protected by national trade policy measures. The extent of liberalization would be expected to largely reflect the preferences of the most liberal producing state in the sector. In addition, the explanation would expect that erecting new trade barriers of any kind would be difficult without great consensus among member states.

The Question of Foresight: Was the SEA Intended to Liberalize External Trade Policy?

If completing the internal market made it more difficult to protect against third-country imports, one must wonder whether this was not the intent all along. Were states looking to tie their hands so as to be better able to deflect protectionist demands? Were multinationally oriented firms trying to create an inherent bargaining advantage for themselves? Was the Commission acting to shape an outcome it desired?

Both economic theory and historical precedent are clear that internal liberalization within a trade bloc does not necessarily lead to external trade policy liberalization. Economic theory on customs unions shows that there is no necessary economic link between internal and external trade policies; it is possible to liberalize the internal market in combination with external protectionism.[59] Looking back in history, inter-

59. The classic statement is Viner 1950.

nal trade liberalization frequently does not lead to external trade liberalization. For example, the previous wave of regional trade blocs in the 1960s consisted mostly of arrangements that combined internal free trade with external protection.[60]

In the case of Europe, most evidence indicates that neither governments, business, nor the Commission foresaw that completing the internal market would result in a significant liberalization of external trade policy. There is a strong consensus in the literature that negotiations on the SEA focused intensely on the implications of completing the single market on *internal* trade barriers and virtually ignored consideration of *external* trade barriers.[61] This view is supported by the documents and agreements that guided the project. The Cockfield White Paper of 1985, which launched the single market project, lacked any serious consideration of the external trade aspects of the internal market. The only sentence about the subject is, if anything, somewhat threatening: ''The commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concessions.''[62] Moreover, the actual text of the SEA is nearly silent on the issue of external trade for the EU.[63]

Turning attention to specific actors, little evidence suggests that national policymakers recognized that completing the single market would lead to external liberalization in the ways described in the last section of this article. Indeed, in some respects the idea of liberalizing external trade policy goes against the purposes articulated for creating the single market. Driven by concerns over Europe's slumping international competitiveness, the single market was intended to create greater economies of scale for EU firms and promote closer collaboration among EU producers in order to benefit European producers.[64] The idea was not to create greater market access for the benefit of foreign competitors, such as the Japanese. Indeed, some member states argued for a policy of internal market liberalization combined with external protection in order to permit certain sectors of European industry to become internationally competitive. In a memorandum circulated during the negotiations over the single market, the French government advocated eliminating internal barriers to trade and raising external barriers so European producers could ''reconquer'' the European market and strengthen international competitiveness of European producers.[65] The French did not hold this view alone. Many saw external protection as an important element in capturing the benefits of the single market for European firms. The articulation of these positions was one of the main sources of widespread fear of a coming fortress Europe.

60. Examples include the Andean Pact, the Central American Common Market, and the Caribbean Common Market.

61. See, for example, Redmond 1992. Notably, in the literature analyzing the motives and goals of actors involved in the negotiation of the SEA, external trade policy goals are not discussed. See Cameron 1992; Cowles 1994; Moravcsik 1991; Sandholtz and Zysman 1989; and Tsoukalis 1993.

62. European Commission 1985, 8.

63. The main exception being that it requires European parliamentary approval for EU external trade agreements.

64. See Milward 1992, 430–40; Sandholtz and Zysman 1989; and Tsoukalis 1993, 301.

65. Pearce, Sutton, and Batchelor 1985, especially 68–73; and Tsoukalis 1993, 300–302.

Those opposed to French calls for new external protection did not trumpet the virtues of liberalizing external trade policy, but rather argued for maintaining the status quo. At the time of the SEA negotiations, close observers predicted that if fortress Europe was not realized, ‘‘For the foreseeable future the present tendencies of European trade policy are likely to persist. Even if the European economies revive, and there is no upsurge in protectionism elsewhere in the world, lack of international competitiveness will continue to generate pressure to protect some sectors in some or all member states. The inclination of governments to yield to these pressures will probably not change much.’’[66]

Little evidence suggests that large multinational corporations advocated completing the internal market in order to achieve liberalization of external trade policy. To the contrary, in 1985 the European Round Table of Industrialists (ERT) put forward a proposal for completing the single market in which external trade *protection* was a key component.[67] In addition, position papers by the ERT show that to many of Europe’s largest firms the single market program primarily meant a bounty of trans-European infrastructure projects such as new railroad lines.[68] Little evidence indicates that promoting external trade liberalization was a goal of the multinational businesses supporting the completion of the single market.[69] Rather, many large multinational firms advocating completion of the single market were also advocating protection. Philips, for example, made this case to the National Economic Development Office in London.[70] Furthermore, many of the firms active in business groups advocating the completion of the single market, such as Renault, have subsequently found themselves fighting to prevent the resulting liberalization of external trade policy in their sector. The linkage between the internal market and external trade policy seems to have been a surprise.

Finally, little evidence demonstrates that the Commission was able to intentionally shape the SEA to promote external trade openness. As mentioned earlier, Lord Cockfield’s White Paper did not indicate that the Commission intended to promote external liberalization through the SEA. After the passage of the SEA, statements from the Commission responding to concerns about the emergence of a fortress Europe disturbed as much as they pacified. A 1988 Commission document, ‘‘Europe 1992: Europe World Partner,’’ which sought to clarify the position of the EU on the impact of the SEA on its external relations, talks of ‘‘vigilantly’’ applying trade policy measures, and following a trade policy of reciprocity that seems at times menacing.[71] In addition, some of the early proposals made by the Commission seemed blatantly protectionist. The most obvious example is the first draft of the Second Banking Directive, which restricted bank access to the European market to those banks whose

66. Pearce, Sutton, and Batchelor 1985, 87.
67. Mayes 1993, 8–9.
68. European Round Table of Industrialists 1984.
69. For a detailed discussion of the role of European business in the negotiation of the SEA, see Cowles 1994.
70. Mayes 1993, 9.
71. For a fuller discussion, see Redmond 1992.

home countries provided reciprocal benefits to European banks. This would have required the United States to provide more favorable benefits to European banks than to U.S. banks![72] Protectionist threats continued to be issued from the Commission as well. Jacques Delors, president of the Commission, declared, ''The single market will be open, but it will not be given away.''[73] Commissioner Willy De Clerq, who was in charge of external trade policy for the EU, declared, ''We are not building a single market in order to turn it over to hungry foreigners.''[74] As late as 1988 he was arguing for a quota limiting the Japanese to importing only two cars into Europe for every one European car imported into Japan. Given the huge trade imbalance in automobiles at the time, and the fact that Europe tends to sell much higher priced cars in Japan, this would have been an extremely restrictive trade measure.

There is little evidence that the external trade policy consequences of implementing the SEA were understood at the time of its negotiation. The key actors, national government, business interests, and the Commission, were focused overwhelmingly on the internal aspects of creating a common market. To the extent external trade was even considered, many of these actors believed that internal market opening should be combined with external protection. Rather than being the product of intentional maneuvering for advantage, the external trade consequences of the SEA provide striking evidence of how decisions taken at one time can have profound effects on future events by shifting the institutional rules under which policy is made. Current external trade policy in Europe cannot be derived from the aspirations of those who created the SEA.[75]

The Motor Vehicle Case

Recent trade liberalization in the European motor vehicle industry illustrates the argument developed in this article. In this section, I show that the institutional argument about the effects of implementing the SEA provides a more compelling explanation of trade policy developments in this sector than explanations based on changing societal or state preferences. This application can hardly be considered a full test of my explanation, but in many ways the motor vehicle sector is a critical case. It is one of the largest industries in Europe, has faced tremendous import pressures and declining levels of international competitiveness, and has been protected under similar circumstances in the 1970s and 1980s. If any industry should have been able to retain its protection, it was the motor vehicle sector.

The automobile industry has traditionally been successful in winning protection. When facing economic hardship in the 1970s and 1980s, every state with significant motor vehicle production provided vigorous protection for its industry, usually in the

72. Mayes 1993.
73. Wolf 1994, 48.
74. Winters 1993, 207.
75. For a more general discussion of this phenomenon in the context of European integration, see Pierson 1996.

form of national quotas and voluntary export restraints (VERs) against Japanese auto imports. Great Britain imposed a limit on Japanese imports of 10–11 percent in 1975, and two years later France restricted Japanese imports to 3 percent of market share. Italy, Spain, and Portugal had even tighter restrictions in place: Italy kept Japanese market share to 0.14 percent; Spain limited imports to one thousand cars and two hundred commercial vehicles; and Portugal allowed in only twenty thousand passenger cars. Even the relatively free-trade-oriented Germans negotiated a 10 percent cap on Japanese imports during the early 1980s.[76]

Furthermore, the automobile industry came under increased pressure from foreign competition in the late 1980s. Export sales fell a staggering 65.5 percent relative to total EU production from 1986 to 1992.[77] In 1990, a global study of automobile industry performance found that European companies, both volume producers and the specialist producers, had significantly lower levels of productivity and product quality than either Japanese or even the struggling American producers.[78] Given the uncompetitive state of European producers, there were widespread fears in Europe that trade policy liberalization would lead to potentially huge market share losses, especially to Japanese producers.[79]

The auto industry has been so successful in obtaining protection because it is one of the largest employers in several large member states and is seen as critical to future economic prosperity. Both these conditions continue to hold in the 1990s. In 1992 the industry directly employed over 1.8 million people in the EU as a whole.[80] Adding in the industry's suppliers, total employment has been estimated to be 4.5 million workers or about 15 percent of EU industrial employment.[81] One 1991 study concludes that one in every ten jobs in the EU is either directly or indirectly dependent on the automotive sector.[82] In addition the sector is often viewed as a creator of demand in the rest of the economy because of its high wage jobs and consumption of high value-added production inputs.[83] Liberalizing this sector in the midst of a recession seemed unlikely because it could be expected to exacerbate the intensity of the economic downturn and worsen unemployment. Moreover, because the industry is highly concentrated, it should also have been able to organize itself relatively easily for political action to assure continued protection.[84]

Finally, one would have expected trade liberalization of autos to be rejected outright by France and Italy because of the particularly severe impact it would have on their producers. French and Italian automakers rely extremely heavily on sales in

76. See Mason 1994; and Hayes 1993. During the recession of 1981, states with smaller levels of car production, including the Netherlands, Belgium, and Sweden, also obtained promises by Japan to limit imports in their markets to 10 percent. Womack and Jones 1994.

77. See Table 1.

78. Womack, Jones, and Roos 1990.

79. See Stephen 1996; and Mason 1994.

80. Direct employment levels in the four largest EU economies in 1992 were 794,100 in Germany, 343,000 in France, 257,600 in Great Britain, and 203,700 in Italy (Eurostat).

81. Vigier 1992.

82. European Commission 1991, 13–18.

83. Holmes and Smith 1995, 128.

84. Olson 1971.

some of the most protected markets in Europe. Two-thirds of Fiat's West European car sales are in Italy alone, and the two French producer groups control 60 percent of the French motor vehicle market and over 30 percent of the Spanish market.[85] Liberalization would hit these firms especially hard as more efficient foreign competitors rushed into these markets. France and Italy would have been predicted to be adamantly opposed to the liberalization of this sector because the adjustment costs would fall particularly hard on their domestic producers. In short, the motor vehicle sector is the type of industry that would have been most likely to have maintained or increased its level of protection during the recent recession. Yet in this period external trade barriers were liberalized to a surprising extent.

In July 1991 the Commission and the Japanese Ministry of International Trade announced an agreement to replace the bilateral VERs between individual member states and Japan with an EU-wide agreement. Although the agreement still provides protection to the five ''restricted'' markets, and it is possible that the full liberalization date may be renegotiated and delayed, the agreement is still significantly more liberal than the bilateral agreements it replaces. Compared with the national trade restrictions previously in place, the 1991 agreement with Japan liberalizes motor vehicle imports in two important ways.

First, the agreement commits the EU to the ''progressive and full liberalization'' of the importation of Japanese motor vehicles (cars, off-road vehicles, and light commercial vehicles) by the beginning of 2000. This commitment is far more liberal than the national VERs it replaced, which had no fixed end date and could have been continued indefinitely. Second, even in the interim period, before the full liberalization of the EU market (1993–99), import quotas for Japanese cars were substantially increased for those EU states that had national import quotas. By 1999 the estimated Japanese export levels to the five ''restricted'' markets are France, 150,000 (5.3 percent of market); Italy, 138,000 (5.3 percent of market); Spain, 79,000 (5.4 percent of market); Portugal, 23,000 (8.4 percent of market); and the United Kingdom, 190,000 (7 percent of market). The share of the remaining EU markets allotted to exports from Japan would be 12.5 percent.[86] This represents an almost fourfold increase in the number of Japanese cars allowed into Italy and a near doubling of the quota for France. After this agreement took effect market shares of Japanese cars shot up in previously restricted member states.[87] This liberalizing outcome is even more surprising because it does not appear that Japan offered any significant concessions to obtain increased market access to the EU or specific member states. How can one explain the content and timing of this liberalizing trade agreement? Why did the states with the most to lose, such as France and Italy, agree to these terms?

Neither the theories based on societal preferences nor those based on state preferences seem to be able to account for this trade policy liberalization. The sector attrition explanation, that the auto sector was liberalized because it had atrophied to the

85. Holmes and Smith 1995, 127.
86. GATT 1993, 170.
87. World Trade Organization 1995, 104–105.

point that it had become politically and economically marginal, is easily refuted. Given the sector's level of employment and its importance for national economic performance in many states, it is hard to argue that the motor vehicle sector has lost its political significance. To the contrary, trade liberalization in this sector during a recession would be predicted to be very difficult and would likely add to the already massive levels of unemployment.

The sectoral internationalization explanation would expect liberalization to result from the changing balance of firm trade preferences within the auto sector, with firms having changed from desiring protection to supporting free trade as they become more export dependent and more multinational. However, no firm within the motor vehicle sector changed its trade policy preference toward liberalization leading up to or during this period. Indeed, with external export dependence of the sector plummeting 65.5 percent between 1986 and 1992, this theory would have predicted an *increase* in protectionist sentiments within the sector. And, in fact, the large majority of auto producers became increasingly concerned about Japanese auto imports during this period.[88]

The liberalization of the auto industry is particularly confounding for this explanation, because, within the sector, interests favoring liberalization seem to have been hopelessly outnumbered in all the states with national protectionist measures in force at the time and in the EU as a whole. The only car makers supporting liberalization were Daimler-Benz, BMW, and Porsche, and the only major motor-vehicle-producing country supporting increasing liberalization was Germany, reflecting the interests of their luxury car manufacturers over the protectionist sentiments of the volume producers in the country, including German-owned Volkswagen, and U.S.-owned Ford and Opel (General Motors).[89] The other European automobile producers and four of the other vehicle producing states—France, Italy, Spain, and Portugal—actively pressed for strong controls over Japanese vehicle exports to the EU after 1992, reflecting the positions of their producers who felt very threatened by Japanese competition. Even Great Britain quietly signaled its willingness to support continued import controls on Japanese autos and concentrated on its demands for complete freedom of Japanese transplants to produce and ship their goods throughout the EU. The six EU states without significant domestic auto industries—Belgium, Denmark, Greece, Ireland, Luxembourg, and the Netherlands—remained largely silent during the formulation of this policy.[90] In sum, the trade liberalization of the auto industry cannot be explained by a change in the balance of auto firm preferences.

The societal counter-mobilization explanation would expect that liberalization would stem from antiprotection firms, sectors, or factors (that is, capital) mobilizing against protection for the automobile sector. The negotiations over the content of this

88. Mason 1994, 439–50.

89. Even the support of German producers for liberalizing the EU market waned with the arrival of the Lexus, which proved a potent competitor for German luxury car producers. Interview by the author at the Association of the German Automobile Industry (VDA), 4 December 1996.

90. For more detail on the positions taken by automobile producers and national governments, see Camerra-Rowe 1993; Mason 1994; and Stephen 1996.

deal were limited to the automobile producers, and I have not come across evidence of other societal interests either initiating a movement against motor vehicle protection or lobbying to influence the outcome of these negotiations. In interviews with national government officials, European auto producers, EU officials, and trade unions the notion that protection in the automobile sector was sacrificed to satisfy other groups in society was dismissed. Furthermore, one would be hard pressed to predict the content of the auto agreement with Japan based on the structure of societal demands within member states or the summing of the policy preferences of EU states.

The ideation explanation, that liberalization followed a shift in the beliefs of policymakers, also seems problematic. There is evidence that the political elites of important member states had not given up their beliefs in the benefits of external protection. For example, trade liberalization for the auto industry was opposed by the French government from the inception of the negotiations with Japan.[91] The French prime minister went so far as to actively encourage the mobilization of French producers to fight for the maintenance of strong protection against Japanese imports, and the French government continued to strongly oppose the auto agreement when it was finalized.[92] Although in the end French president Mitterrand had little choice but to consent to the agreement, he had deep concerns about its effect on the French automobile industry.[93] French political elites strongly resisted, rather than favored, liberalization of auto industry trade policy. Yet, despite the objections of national leaders, the French market was among the most significantly affected by the agreement with Japan. Rather than reflecting the preferences of state actors, the terms of the auto agreement with Japan were also clearly opposed by Italian, Spanish, and Portuguese political leaders.

I argue that understanding liberalization of the auto sector as the consequence of implementing the SEA better accounts for both the timing and the content of the auto agreement with Japan than any of these other explanations. The effectiveness of nationally imposed trade restrictions on Japanese auto imports relied on a variety of administrative measures, such as explicit border controls and car registration procedures based on discriminatory technical standards.[94] These measures allowed protectionist member states to block the importation of cars from both member and nonmember states, thus preventing the circumvention of national trade barriers by transhipment. With the completion of the internal market, however, explicit border measures were outlawed, and technical requirements were harmonized, so that auto producers only needed to meet one set of standards to sell their vehicles anywhere in the EU. This meant that national VERs and quotas with Japan could be circumvented by indirect imports through other more liberal member states.

Furthermore, Japanese auto producers responded to plans for completing the single market with a strategy of establishing transplant production capability within the EU,

91. Gandillot 1992.
92. See Stephen 1996, 243; and Gandillot 1992.
93. Gandillot 1992.
94. Mattoo and Mavroidis 1995.

especially in Great Britain, and then exporting freely throughout the EU. Producers and governments of member states with protected markets grew increasingly alarmed by the possibility of Japanese transplant production being imported into their markets without restraint.[95] The extent of the concern was demonstrated in 1988 when French authorities threatened to block imports of Nissan Bluebirds assembled and partially manufactured in Great Britain.[96] This episode underscored the difficulty faced by countries trying to maintain national trade barriers in the context of the single market. Blocking the importation of cars made in Britain, even if they were the products of Japanese transplant factories, was not sustainable within a single market. It would have been a clear violation of the free movement of goods and would have led to a case in front of the European Court of Justice. Reestablishing protection from Japanese auto imports could not be accomplished through national policy but required the negotiation of an EU-wide auto agreement with Japan.[97] Negotiations began in early 1988 and were finalized before the deadline for completing the internal market. Without the launch of the single market program, it is unlikely that an initiative would have emerged to liberalize quota levels for Japanese imports in the early 1990s.

The content of the agreement seems to reflect the relative bargaining strength of the producing state favoring the most liberal policy outcome, Germany. Germany was the only major producing country favoring easier EU market access for Japanese vehicle imports. The five other major auto-producing states—France, Italy, Spain, Portugal, and even Great Britain—favored a more protectionist policy. The German government, however, wanted to maintain some level of protection for the industry. Volkswagen was struggling against Japanese imports; and the growing success of Japanese luxury car lines, such as Acura, Infiniti, and Lexus, were posing an increasing challenge for German high-end producers. The content of the final deal matched closely the preferences of the German government.[98] Apparently, Germany was able to convince other auto-producing countries to consent to a significantly more liberal agreement than they wanted because the German position at least offered more protection to these countries than if no agreement were reached. As a result, countries with strong traditions of protection for their automobile industries agreed to a greater degree of market opening than one would have expected.

On a final note, the EU-based explanation suggests that even if this auto agreement with Japan is renegotiated and extended before full liberalization of the EU market occurs, the renegotiation will take place in a context that once again favors the producer states preferring the most liberal trade policy. Because full liberalization on 1 January 2000 has become the new status quo policy, states seeking an extension of protection will once again be vulnerable to the veto threat of more liberal states.

95. Interviews by the author at European Commission, May 1994.

96. Mason 1994, 438.

97. Many believe that the Japanese auto agreement also placed limits on Japanese production at transplant factories within the EU. For example, see Mason 1994.

98. Interviews by the author at the Association of the German Automobile Industry (Verband der Automobilindustrie) and with German auto producers, November 1996.

This case study provides support for the EU-based explanation of trade liberalization in Europe during the recession of the 1990s. Moreover, it raises questions about the ability of existing trade literature to explain external liberalization in Europe. Neither changes in societal demand for protection nor changes in policymakers' beliefs account very well for the liberalization of the automobile industry. One case study, of course, is not a rigorous test of the alternative hypotheses presented in the article. However, this case study does establish the plausibility of the explanation based on the completion of the single market for the type of liberal trade policy outcomes observed.

There are many other sectors for which new trade policy measures have been negotiated during the recession of the 1990s. The fact that over sixty-three hundred national quantitative restrictions have been discarded by member states since 1990 gives one a sense of how widespread the changes in European trade policy may be if the single market-based hypothesis I have presented is correct. Other prominent industrial sectors in which new trade measures have been negotiated in the 1990s include textiles, apparel, consumer electronics, semiconductors, computer and office equipment, machine tools, chemicals, instrument engineering, and pharmaceuticals.

Conclusion

As regional integration has advanced in the world, so have fears that this process will lead to a world divided into closed regional trading blocs in competition with each other. Among those who worry about such a possibility, the EU is usually seen as the most likely domino to fall. If the EU were to turn significantly more protectionist, the negative effect on the world economy would be serious and the danger to the liberal international trading order substantial. EU imports account for about 20 percent of the total exports of the rest of world, and its internal market is the largest in the world.[99] About 27 percent of total U.S. exports and 21 percent of all Japanese exports are sold within the EU.[100] The United States would be especially vulnerable to further protection of ''strategic'' industries, because almost one-half of its exports to Europe are high-technology goods.[101] One study estimates that ''fortress Europe'' could result in an annual loss in gross domestic product of $64 billion in North America and $214 billion worldwide.[102] A move toward increased protectionism by the EU would also have wider effects, because the EU influences the international trading system not only through its own actions, but also through the pressures that it exerts on the policies of other countries and its important role in influencing the rules governing international trade through such bodies as the WTO.

99. Hayes 1993.
100. Based on 1991 data. GATT 1993.
101. Conybeare 1993.
102. Stoeckel, Pearce, and Banks 1990.

There were many reasons to expect that the EU would have increased external trade barriers during the 1990s: Europe has experienced a severe economic downturn and record levels of unemployment; EU states have a history of providing protection in periods of economic hardship; and the completion of the single market brought forth predictions of an impending fortress Europe. During this period, however, as I demonstrate, there has been a remarkably strong resistance to new protectionism and a liberalization of trade policy in politically and economically sensitive sectors. I have suggested that the trade policy literature has had difficulty accounting for these developments in European trade policy. Increasing openness and resistance to new protection does not seem to be a reflection of the changing interests of producer groups or the product of fundamental shifts in the trade policy beliefs of national leaders in the ways expected by the literature. Rather, I have made an institutional argument that trade policy liberalization is largely the result of changes in the institutional context of trade policymaking brought about by developments in European integration, namely the completion of the single market.

One of the most striking features of this explanation is that as a result of European integration well-established national policymaking processes have been deeply disrupted. Increased European integration has meant that trade policy outcomes have become divorced from their relationship to underlying preferences of state and societal actors for some large and important member states. The demands of politically important societal interests—namely, domestic producers and organized labor in uncompetitive industries, and the unemployed—have been quashed, and politicians have been blocked from political programs they would otherwise have pursued. A number of questions about the domestic politics within member states are raised by this finding. Can liberalization achieved in this manner be sustained? How long can politicians blame the EU for forcing external trade liberalization? Why have groups that were once so effective in demanding and obtaining protection not found an avenue for restoring the policies they prefer? To what extent have the strategies of domestic groups changed in the face of EU constraints on trade policy? Have state actors tried to reshape the types of demands groups make, the composition of trade policy coalitions, or the manner in which societal interests are aggregated?

The analysis in this article represents an important step in building our understanding of the politics of trade liberalization. It raises serious questions about the explanations offered by current trade policy literature and identifies a set of important mechanisms through which European integration has imposed a powerful constraint on national trade policies. In the end, this explanation must be only partial. The next step requires additional research and further case studies to fill out our understanding of the politics of trade policy liberalization in Europe by developing a better understanding of the nature and extent of societal and state support for sustaining increased liberalization. In the process, we are likely to acquire a better understanding of the forces driving the increased openness of the international economy, not only in Europe, but in other parts of the world as well.

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