Cherry picking in the design of trade policy: why regional organizations shift between inter-regional and bilateral negotiations

Katharina L. Meissner

To cite this article: Katharina L. Meissner (2019) Cherry picking in the design of trade policy: why regional organizations shift between inter-regional and bilateral negotiations, Review of International Political Economy, 26:5, 1043-1067, DOI: 10.1080/09692290.2019.1625421

To link to this article: https://doi.org/10.1080/09692290.2019.1625421

© 2019 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group

Published online: 26 Jun 2019.

Article views: 719

View related articles

View Crossmark data
Cherry picking in the design of trade policy: why regional organizations shift between inter-regional and bilateral negotiations

Katharina L. Meissner

Department of Political Science, Centre for European Integration Research (EIF), University of Vienna, Vienna, Austria

ABSTRACT

As states have established preferential trade agreements outside of the World Trade Organization over the past three decades, different designs have been developed: region-to-region, region-to-single state or state-to-state even if members belong to regional organizations. What accounts for this variation? Conventional approaches which focus on domestic politics provide no fully sufficient explanation for this variation. I argue that coherence within regional organizations, or a lack thereof, triggers design changes between inter-regional and bilateral. More specifically, I hypothesize that a lack of coherence within a region leads to the adoption of a bilateral design by the negotiation partner in situations where this partner competes with other states for a trade agreement with the same region. I test my argument on interactions of the European Union (EU) with regional organizations in Asia and Latin America by employing rigorous process-tracing and interviews with negotiation officials from all three regions. The findings show that the EU shifted from trade negotiations with these regional organizations to singling out member states when regional coherence faded. This was part of an attempt by the EU to advance commercial interests against its competitors China and the United States in these regions.

KEYWORDS Bilateralism; European Union; process tracing; regional organization; trade

Introduction

States have, over the last three decades, established 669 preferential trade agreements outside of the World Trade Organization (WTO). The design of these agreements varies. First, agreements include different sets of trade and non-trade issues (Lechner, 2016). Second, they cover different sets of member states: region-to-region, region-to-state, state-to-state. The European Union (EU) is no outlier in this regard. Rather, it used to pursue trade negotiations in other world regions through region-to-region agreements (thereafter inter-regional), but has increasingly shifted to region-to-state
negotiations. I will refer to these as 'bilateral' trade negotiations from here on. A large proportion of current and concluded EU trade negotiations are, in fact, bilateral (Renard, 2016). At the same time, the EU has unfinished inter-regional negotiations underway in Latin America and the Gulf region.

Why does this variation of inter-regional and bilateral trade negotiations between members of regional organizations exist? While the reasons for states turning to preferential trade agreements outside the WTO are well understood (Heydon & Woolcock, 2009; Thompson & Verdier, 2014), the design changes of negotiations between regional organizations have not yet been addressed by scholarly research. This is anything but trivial since such design changes ultimately bear unintended consequences for economic, security, and political relations between and within regions. A first consequence which results from the negotiation of multiple bilateral trade agreements is an increasing fragmentation of the global economy (Aggarwal & Evenett, 2013). On one hand, actors, like the EU, circumvent the WTO when negotiating bilateral deals (Aggarwal & Evenett, 2013). On the other hand, bilateral negotiations between members of regional organizations undermine their economic integration processes (Renard, 2016, p. 1). One example is the Southern African Development Community (SADC) where further regional integration in form of a SADC customs union was disturbed by negotiations with the EU on Economic Partnership Agreements (Muntschick, 2013). This was because SADC members, being heavily dependent on trade with the EU, prioritized bilateral deals with external actors in the context of these negotiations rather than further internal economic integration (Muntschick, 2013, p. 688). A second set of unintended consequences of a bilateral design of negotiations is security implications. This occurred when the EU negotiated an agreement with the Ukraine although the negotiation partner was an anticipated member of the Eurasian Economic Community with Russia. These negotiations between the EU and Ukraine created tensions for regional security in Europe and its immediate neighborhood (Gehring, Urbanski, & Oberthür, 2017) because Russia perceived the bilateral association agreement as a threat to its geopolitical interests (Mearsheimer, 2014). Third, finally, bilateral negotiations can also incur major political consequences. Brexit, which is looming on the horizon (at the time of writing in January 2019), presents a challenge for the EU27 to remain united and prevent single member states from pursuing bilateral deals with the United Kingdom. Multiple bilateral agreements between EU member states and the United Kingdom would significantly undermine credibility of the EU27 as a unitary actor in international negotiations. Design changes of trade policy therefore matter.

Existing research on the design of EU trade policy focuses on domestic politics: the influence of interest groups (Dür, 2008), trade unions (Lechner, 2016) or firms (Eckhardt & Poletti, 2016) as well as member state interests and agency of the European Commission (Da Conceição-Heldt, 2011; Elsig, 2007). I argue that these explanations are not fully sufficient in explaining design changes from inter-regional to bilateral. Rather, when state-like actors pursue trade agreements, coherence, or a lack thereof, in regional organizations triggers design changes between inter-regional and bilateral (see also Aggarwal & Fogarty, 2004). More specifically, I hypothesize that a lack of coherence within a regional organization leads to the adoption of a bilateral design by the negotiation partner even though this increases transaction costs in terms of time and resources. This is especially the case when actors compete with other states in concluding a trade agreement with the same
region. Taken together, actors pursue bilateral trade agreements in order to advance commercial interests in cases where regional organizations are incoherent. I conceive of this explanation as complementary to and not in competition with conventional approaches rooted in domestic politics.

The empirical case studies illustrate how the EU turned from an inter-regional to a bilateral design of trade policy with regional organizations in Latin America and Asia in order to advance its commercial interests against those of its competitors, China and the United States (US). A lack of coherence within the regional organizations Mercado Común del Sur (Mercosur) and Association of South East Asian Nations (Asean) prompted the EU to advance trade agreements with single member states, Brazil and Singapore, rather than inter-regional negotiations, when faced with commercial competition with China and the US. While the advances towards Brazil remained a Strategic Partnership, the negotiations with Singapore resulted in the first comprehensive free trade agreement (FTA) between the EU and Southeast Asia.

In order to test the argument on empirical interactions between the EU and regional organizations in Latin America and Asia, this article develops a causal mechanism between coherence within a region and design changes in trade policy. In doing so, it is one of the first systematic advances in this area of research that elaborates transparent process-tracing tests with assigned test-strength which can be replicated by researchers and students. This causal mechanism is assessed against a set of domestic expectations. The case studies rely on data from official documents and semi-structured elite interviews with 31 officials from the European Commission’s Directorate General (Directorate General) Agriculture, Trade and Energy, the European External Action Service (EEAS), the European Parliament (EP), officials from the Latin American and Southeast Asian representations to the EU, and experts on Mercosur. Interviews were carried out in Brussels, Belgium, and Montevideo, Uruguay, in 2014.

The contribution of this article is threefold. First, while recent research on the design of trade policy, especially in the context of the EU, has adopted a rather narrow focus on domestic politics (Poletti & De Bièvre, 2014; Sbragia, 2010), I start from a wider perspective on EU trade policy by examining the influence of explanatory factors on the international, parallel to the inner-European level: coherence of regional organizations and commercial competition with states. In so doing, I acknowledge that the EU factors in domestic actors’ preferences when entering international negotiations. However, speaking in the language of a two-level game (Frennhoff-Larsén, 2007; Putnam, 1988), I argue that bargaining dynamics in international negotiations (level I) may supersede lower level preferences rooted in domestic politics (level II) in the context of design choices. Second, this article moves beyond the existing dichotomous classification of the launch versus non-launch of trade negotiations by actors outside the WTO (e.g. Eckhardt & Poletti, 2016) to the institutional choice between inter-regional and bilateral. Third, I develop and evaluate transparent process-tracing tests for the empirical case analysis. This advances qualitative research on the design of trade policy since no such systematic process-tracing exists in this area of research or International Political Economy more generally.

The article proceeds as follows. First, I identify the gap in the literature in analyzing design changes between inter-regional and bilateral in trade policy. The
second section reviews existing, conventional explanations on EU trade policy, rooted in domestic politics, and provides empirical insights into their leverage for explaining design changes from inter-regionalism to bilateralism. In the third section, I develop an alternative explanation that locates explanatory power at the international level. I contend that (in)coherence within regional organizations triggers design changes of trade policy under the condition of competition for commercial interests within such regions. Moreover, I develop a causal mechanism with transparent process-tracing tests. Fourth, I test this argument and the accompanied causal mechanism on the empirics of EU interactions with regional organizations in Latin America and Asia. As the empirical findings are restricted to these two cases, the discussion section explores design changes between inter-regionalism and bilateralism in other cases and policies. The conclusion, finally, elaborates on the broader relevance of the empirical findings.

State of the art

This article is grounded in three strands of research in the area of international trade: regime design and institutional choice rooted in International Relations literature (Thompson & Verdier, 2014), EU trade strategies building partially on EU studies (Aggarwal & Fogarty, 2004; Elsig, 2007), and the design of trade agreements as present in International Political Economy literature (Dür, Baccini, & Elsig, 2014). I think of the variation between inter-regional and bilateral trade negotiations as an institutional choice in the design of trade strategies. Hence, in situations of strategic choice (Lake & Powell, 1999), an actor designs its external trade policy and thereby decides about membership – including a set of actors through inter-regionalism or targeting just one state through bilateralism. Although I treat them analytically as two categories I explore variation between them and assume that they can be, in principle, compatible (see also Renard, 2016; Thompson & Verdier, 2014).

There is a new, vibrant debate on the design of trade agreements. In this area of research, scholars explore the varying scope of issues in agreements (Lechner, 2016), the depth of concluded agreements (Dür et al., 2014) and their flexibility (Baccini, Dür, & Elsig, 2015; Johns, 2014). Yet, this research is rather detached from questions of varying membership in preferential trade agreements – their ‘-lateralisms’.

Existing literature on ‘-lateralisms’ in international trade focuses primarily on the variation between multilateralism and bilateralism (e.g. Davis, 2009), while inter-regionalism is underexplored terrain in this area of research. Thompson and Verdier (2014, pp. 16 and 26) develop a formal model on design changes between multi- and bilateralism and argue that high transaction costs can be controlled by multilateralism. Similarly, Rixen and Rohlfing (2007) contend that multilateralism reduces transactions costs by avoiding multiple bilateral negotiations. The same can be stated about the variation between inter-regionalism and bilateralism where an inter-regional design helps to overcome transaction costs of several bilateral negotiations with member states of the same regional organization. Nevertheless, there is variation between these institutional choices. Elsig (2007) explores these choices in the context of EU trade policy. However, he analyses the EU’s general end to its moratorium on preferential trade agreements outside the WTO, while not
operating on case studies. In the volume by Aggarwal and Fogarty (2004), scholars examine EU inter-regionalism towards several regional organizations in in-depth case studies. Yet, their research is restricted to just one institutional choice, inter-regionalism, consequently not considering variation between inter-regional and bilateral trade strategies. Hence, we lack empirical knowledge on why design changes between inter-regional and bilateral exist. This article remedies this gap in the literature and explores design changes between inter-regionalism and bilateralism by focusing on the empirics of EU interactions with regional organizations in Latin America and Asia.

**Domestic politics in the design of EU trade policy**

Conventional approaches on the design of EU trade policy focus on explanatory factors rooted in domestic politics rather than the international system. Hence, there is a gap in the literature on the influence of factors located outside of the EU on trade policy. Conventional explanations ascribe explanatory power to domestic politics: the influence of firms or interest groups (Dür, 2008; Osgood et al., 2017) and, in the EU, member states’ interests (Da Conceiçao-Heldt, 2011; Elsig, 2007). While I have to refer the reader to a publication elsewhere in which I systematically tested these variables against explanatory factors located at the international level (Meissner, 2018), I argue here that interest groups and member states’ interests are not fully sufficient to explain design changes from inter-regional to bilateral. Instead, coherence within regional organizations is the missing piece in explaining this change in trade policy.

The latest literature on trade negotiations suggests that benefits from comprehensive agreements primarily favor multinational corporations (Baccini, Pinto, & Weymouth, 2017). Hence, firms and business organizations are expected to lobby the EU most intensively on its trade policy. To these, belong competitive exporters (Osgood et al., 2017) and import-dependent business actors (Eckhardt & Poletti, 2016). From existing literature, we can deduce two different kinds of preferences these actors adopt with regard to EU trade policy. Some scholars (Aggarwal & Fogarty, 2004, pp. 7–10) assume that they prefer the widest possible trade liberalization, and therefore lobby in favor of an inter-regional design as a second best option to multilateralism. Davis (2009, p. 26), on the other hand, argues that actors take into account the anticipated complexity and speed of negotiations. Given that bilateral negotiations reduce complexity, with just one member state of the partner region, we could assume that export-oriented and import-dependent groups favor bilateralism over inter-regionalism (Eckhardt & Poletti, 2016). While research on firms and interest groups agrees that these actors are crucial in the launch of trade negotiations, they provide limited leverage in predicting a particular design of EU trade policy – bilateral or inter-regional.

Insights into empirical evidence also show that these explanations, focusing on firms and interest groups, provide limited leverage in the explanation of design changes from inter-regional to bilateral in the concrete cases of EU interactions with Mercosur and Asean. Interviewees stated, for example, that lobbying efforts were low regarding the EU’s Strategic Partnership with Brazil (Interview 36). In the case of Asean and Singapore, the EU made its decision to shift from inter-regional to bilateral negotiations with little consideration of domestic groups. Rather, the
European Commission informed them about its turn to bilateralism once it had already made its decision (Civil Society Dialogue, 2009). Moreover, interviewees reported that lobbying activities in the case of Singapore were unusually low compared to other negotiations, and that there was no particular sector voicing strong preferences in favor of either bilateralism or inter-regionalism (Interview 7).

Next to firms and interest groups, research on EU trade policy highlights member states’ interests (Da Conceição-Heldt, 2011). Explanations in this area are based on the principal-agent framework and argue that heterogeneity of preferences lead to high discretion by the European Commission in international negotiations. This often results in institutional struggles between the European Commission and member states. However, interviewees reported neither institutional struggles between the European Commission and member states in the design change in favor of bilateralism, nor particularly active EU countries in pushing for bilateral trade negotiations. Rather, in the case of Brazil, the European Commission launched the Strategic Partnership in unison with then Portugal’s EU Presidency (Ferreira-Pereira, 2008). Also in the case of Singapore, there was no conflict between the European Commission and member states on whether or not to shift to bilateral negotiations with Singapore (Interview 3). On the contrary, interviewees pointed out that the negotiations with Singapore were uncontroversial with almost no concerns from member states (Interview 7, 29).

From the perspective of domestic politics, hence, it remains elusive why the EU made a design change from inter-regional to bilateral in its trade policy towards Latin America and Asia. I argue that, in order to explain this puzzle, interest groups and member states’ interests are no sufficient explanatory factors. Instead, there is a need to shift attention to explanatory factors located at the international level in order to account for the EU’s varying trade strategies.

Theorizing design changes between inter-regionalism and bilateralism in trade policy

In this section, I integrate International Relations, International Political Economy and EU studies literature in order to develop an explanation for design changes in EU trade policy between inter-regionalism and bilateralism. The argument put forward in this article situates explanatory power on the level of the international system akin to existing research on international trade in International Relations literature (e.g. Gilpin, 1987; Gowa, 1994; Grieco, 1990; Hirschmann, 1969). Hence I explore and test ‘international factors’ for explanatory power.

Competition in the global economy

These factors are rooted in the international system and influence the EU’s power position. They are ‘systemic’ as coined by Aggarwal and Fogarty (2004, p. 12). Aggarwal and Fogarty (2004) conceptualize EU trade policy as a ‘means to manage international power relationships’ (Aggarwal & Fogarty, 2004, p. 13). One major source of EU power is its internal market (Damro, 2012; Drezner, 2007). Therefore, it is plausible to assume that the EU seeks to maintain or enhance its economic power position vis-à-vis competing actors. In striving for such power,
trade policy serves the EU to compete with other economic powerhouses (Zimmermann, 2007).

Recent research points out a structural change in the design of trade relations. Trade in the twenty-first century shifted by and large from export and import of finished goods to trade in intermediate goods (Baldwin, 2010). Such global supply or value chains sparked an intensive debate on their consequences for the politics of trade (Baccini & Dür, 2018). One implication is that trade agreements, nowadays, have a comprehensive scope: they cover more issues than trade in goods and agriculture, namely also investments, services as well as regulatory standards next to political issues (Dür et al., 2014). This is partly because trade agreements shall set up “deep provisions” that are pro-supply-chain’ (Baldwin & Lopez-Gonzalez, 2013, p. 3), including, for instance, regulations on intellectual property rights or investments.

Competition among state-like actors in the global economy, therefore, covers far more areas than the creation of foreign markets to sell domestic products and retrieve scarce resources (Gowa, 1994). Rather, industrialized states put particular emphasis on non-traditional issues of trade: investments, services and regulatory standards (Blockmans, 2013). This is accelerated by the shift from trade in finished goods to trade in intermediate goods. Without a comprehensive agreement industrialized states and their firms face hindrances in global supply chains and are potentially disadvantaged vis-à-vis their competitors. In their preference formation in favor of comprehensive trade agreements, industrialized states hence also factor in the positions of domestic actors, including firms and interest groups (Eckhardt & Poletti, 2016). This is because any agreement requires eventual ratification and therefore support by domestic actors (Collinson, 1999, p. 216). Firms’ prioritization of ‘deep and comprehensive’ trade agreements (Baccini et al., 2017) and the internationalization of global supply chains thus reinforce the perceived need by industrialized states to conclude such deals vis-à-vis their competitors.

The EU, represented by the European Commission in international trade, is a prime example in this regard: it communicates clearly in its Trade for all strategy paper (European Commission, 2015) that it has a priority for deep trade agreements that tackle non-tariff trade barriers. Hence, the EU competes with other powerful actors in the global economy, such as the US, for the creation of third markets as well as the setting of regulatory standards. Regulatory standards may ensure favorable provisions for industrialized states and their firms in order to trade intermediate goods (Baldwin & Lopez-Gonzalez, 2013, p. 3). Recent scholarly debate therefore puts particular emphasis on regulatory issues in how state-like actors generate economic power (Bradford, 2012; Coffee, 2015; Drezner, 2007). Especially in situations where regulatory standards between economic powerhouses such as the EU and the US differ, we can expect competition between them for setting and imposing their own standards in other world regions.

Alberta Sbragia (2010) conceived of such competition in the context of international trade negotiations as ‘competitive interdependence’. This implies that in situations of strategic interaction the EU is reactive to powerful actors, such as China or the US, in order to balance their trade initiatives towards other regions. These initiatives can cover access to foreign markets in a broad sense: selling domestic products, retrieving resources, creating favorable conditions for firms, investors and services actors, ensuring pro-supply-chain provisions, and setting
regulatory standards. Thus, I expect that the EU launches simultaneous or subsequent trade initiatives towards regional organizations or their members in order to follow those of its competitors: China or the US. These initiatives are designed in such a way as to include trade-relevant issues also covered by competitors. In this sense, I argue that the EU’s trade policy is reactive to its competitors because it seeks to remedy potential threats to its commercial competitiveness (Dür, 2008; Sbragia, 2010; Zimmermann, 2007). In making my argument, I am indiscriminate to the source for such a commercial threat: it may stem from scarce resource, the need for foreign markets, or the proliferation of global value chains. In situations of competition, actors such as the EU have to make decisions about the design of trade initiatives towards third regions. Hence, there is variation between an inter-regional and a bilateral design towards regional organizations.

**Coherence of world regions and their impact on the design of trade policy**

Existing research on EU trade policy and its interactions with world regions suggest that we can assume an inter-regional design as the EU’s default option. This is so for two reasons. First, studies on EU inter-regionalism provide evidence that the European Commission has a preference for inter-regional interactions with regional organizations because the EU serves as a model of regional integration to them (Aggarwal & Fogarty, 2004; Söderbaum, 2015). Second, the European Commission prefers wide economic liberalization (Aggarwal & Fogarty, 2004; Da Conceição-Heldt, 2011). An inter-regional trade agreement provides a much broader geographical scope for trade liberalization than a bilateral agreement.

However, there can be tensions between comprehensive trade negotiations, which tackle a broad set of trade issues including regulatory standards, and an inter-regional design of trade initiatives. This tension occurs when regional organizations lack internal coherence for example: when their member states have diverging preferences on the organization’s external trade agenda (Meissner, 2018). A lack of coherence within regions can undermine inter-regional interactions (Aggarwal & Fogarty, 2004). Further, lack of coherence on trade policy within a regional organization will lead negotiations on trade agreements with third partners to the lowest common denominator. Thus, inter-regional negotiations between regional organizations can clash with the ambition of reaching a comprehensive trade agreement when one of the organizations is highly incoherent, i.e. members have diverging preferences on the external trade agenda.

Tension between a comprehensive agreement, on one hand, and lacking coherence within a regional organization, on the other hand, is problematic for the EU as this might result in a little ambitious trade deal lying outside of the inner-European win-set (Collinson, 1999; Putnam, 1988). Having recourse to an adjusted version of Putnam’s (1988) two-level game, the EU, in international negotiations (level I), is restricted by a win-set delimited by national EU governments (level II) as well as domestic actors (level III) (Frenhoff-Larsén, 2007). This is because any trade agreement will have to be ratified by EU member states’ governments which in turn rely on approval by important domestic actors such as their largest and most competitive firms (Osgood et al., 2017). Since the latter have a clear preference for deep and comprehensive trade agreements, an inter-regional but shallow trade agreement is likely to be located outside of the domestic win-set which the
European Commission, as the EU’s chief negotiator, factors in an international negotiations (level I). At the same time, bargaining dynamics in international negotiations (level I) supersede potential lower level preferences of member states (level II) or domestic actors (level III) in favor of an inter-regional agreement when such an inter-regional design of trade policy is in tension with a comprehensive FTA.

Therefore, coherence within regional organizations is a precondition for the success of inter-regional negotiations on comprehensive trade agreements. It is necessary for the EU to negotiate with a highly coherent regional organization when it seeks to conclude a comprehensive trade agreement. In the absence of coherence, thus, the EU is likely to change design of trade policy in favor of bilateralism when inter-regionalism inhibits the conclusion of an ambitious and comprehensive agreement. Hence, the EU is most likely to apply an inter-regional design of trade initiatives when the partner region is coherent; whereas it is most likely to employ a bilateral design of trade policy when the partner region lacks coherence.

Coherence, in this article, is understood as the process or fact of sticking together and remaining united in satisfying members’ interests (see also Da Conceição-Heldt & Meunier, 2014, p. 964). I apply this definition to regional organizations in the context of international trade. Hence, members’ interests refer to preferences on a region’s external trade agenda. Therefore, a regional organization is considered coherent when member states have converging preferences on the format of trade negotiations (see methods section for further information).

In brief, the argument I am making in this article is that coherence, or a lack thereof, in regional organizations triggers design changes between inter-regional and bilateral approaches in trade negotiations. This is because actors pursue comprehensive agreements. These can be undermined in inter-regional negotiations when regional organizations are incoherent. Applying this argument to the EU, I argue that when the EU competes with other powerful actors such as China or the US in the global economy, it advances its commercial interests. These can be in tension with an inter-regional design of trade policy when the partner region is incoherent. In such situations, the EU adjusts its design of trade policy in such a way that it increases the likelihood of reaching a comprehensive agreement. Thus, it changes design from inter-regional to bilateral when the partner region lacks coherence.

I assign ex-ante observable implications to four steps in the causal mechanism from coherence of a region to design changes between inter-regional and bilateral (process-tracing evidence, PTE). According to the reasoning above, this mechanism starts with competition in the global economy, leading to updates on the design of trade policy (Figure 1):

1. PTE: The EU observes its competitors and monitors their activities in third regions.
2. PTE: The EU evaluates trade initiatives by China or the US as competing to its own trade agenda and anticipates negative externalities.
3. PTE: Due to evidence (1) and (2), the EU observes coherence in regional organizations.
4. PTE: Based on information in step (3), the EU judges what design of trade initiative, inter-regional or bilateral, is most appropriate. Therefore, the EU can expect a successful conclusion of trade negotiations.
Methods and process-tracing evidence

I test the expectations of my argument on interactions by the EU with regional organizations in Latin America and Asia: Mercosur and Asean. The reason for choosing these three actors is that the EU has long-lasting, established inter-regional relations with these regional organizations (Söderbaum, 2015). It has a vital interest in supporting regional integration in these organizations (Hänggi, 2003). Given these established relations, the EU’s interactions with Mercosur and Asean are least likely to change design from inter-regional to bilateral.

In testing the expectation of the causal mechanism, this article triangulates two methods: congruence testing (George & Bennett, 2005) and rigorous process-tracing (Beach & Pedersen, 2013; Collier, 2011) in a comparative research design. While comparative case studies and congruence testing relies on covariation between an explanatory factor X and the outcome Y, process tracing seeks to test a causal mechanism between X and Y. Process tracing, therefore, can make no claims about whether an explanatory factor is necessary or sufficient for an outcome. However, it can test a theorized mechanism of causation (Beach, 2018, p. 2). Confidence in findings of a causal path can be increased by combining process tracing with the congruence method (George & Bennett, 2005, p. 201).

In a first step, this article employs congruence testing. In the cases examined, it tests the congruence between the explanatory factor X (coherence of regional organizations Mercosur and Asean) and the outcome Y (design of EU trade initiative). In other words, I investigate whether the explanatory factor X matches the...
outcome Y as theorized in the previous section of this article. Regarding the empirical assessment of the explanatory factor X, namely coherence of regional organizations, this article relies on heterogeneity or homogeneity of preferences over negotiation partner and negotiation issues expressed orally or numerically. This corresponds to measures of a region’s coherence in form of economic convergence employed in literature on trade negotiations (Aggarwal & Fogarty, 2004). Homogeneity and heterogeneity of preferences are assessed by using interview and trade data (UN Comtrade, 2012). Trade data on export and import relations between the region of interest and the EU was collected for the time from 1995 to 2010 relying on the UN Comtrade database (2012). When the development of trade relations was similar among all member states of a regional organization prior to negotiations of a particular design (inter-regional or bilateral), this was defined as homogeneity of preferences. By similar trade relations, I mean consistently stable or rising export and import relations with a third trade partner (here the EU) across member states of a regional organization. When the development of trade relations was diverse among the member states of a regional organization – when export and import relations pointed in dissimilar directions across member states of a regional organization – this was defined as heterogeneity of preferences. Orally expressed preferences over the negotiation partner and the negotiation issues were asked for in semi-structured interviews by using the following two questions:

1. Comparing the region’s trade relations with the EU to those with China/the US. Which country is the most important partner for the region’s member state?
2. What issues did the region’s member state want to see included in an agreement?

These questions were employed to assess the preferences of each region’s member state(s) and to assess the extent to which they converged or diverged. Respondents to these interview questions were officials working in embassies who were involved in the negotiations of their respective regional organization with the EU. I compared answers to these questions to information obtained from official documents and newspaper articles to verify factual correctness and filter out biases from interviews. Gathering the numerically and orally expressed preferences together in a cumulative logic, this is the basis for an overall assessment of low or high coherence. Taking into account that coherence is relational, it is compared over time for each region. Trade data and orally expressed preferences over the negotiation partner and negotiation issues are understood as proxies for (in)coherence of a regional organization in this article. As part of a broader research project, I double checked these proxies with further measures of coherence derived from literature on actoriness (Jupille & Carporaso, 1998) and cohesiveness (Aggarwal & Fogarty, 2004; Da Conceição-Heldt & Meunier, 2014). Based on this literature, an index of coherence was created (Meissner, 2018) which maps developments of (in)coherence over time in the cases of Mercosur and Asean. The result of this mapping matches heterogeneity or homogeneity of preferences as measured in this article (see online supplement information).

In a second step, the article tests the theorized causal mechanism (Figure 1) in a structured and systematic fashion in two cases (Beach & Pedersen, 2013; Collier,
In other words, I rely on theory-testing process-tracing (Beach & Pedersen, 2013). The online supplement assigns values of certainty and uniqueness to the four observable implications (PTE) and assesses the strength of each process-tracing test. The PTE (1) to (4) perform a straw-in-the-wind and a hoop test. A straw-in-the-wind test can lend support to (in case of confirmatory evidence) or put in doubt (in case of failure) the plausibility of a theoretical expectation. In case an expectation passes several straw-in-the-wind tests, as performed in this article, this ‘adds up to important affirmative evidence’ (Collier, 2011, p. 826) in favor of the theorized causal mechanism. Hoop tests establish necessary criteria for a theorized causal mechanism under consideration (Collier, 2011, p. 826). If empirical evidence fails a hoop test, this practically eliminates a theoretical expectation. While the straw-in-the-wind test is thus relatively weak, a hoop test substantially supports an expectation in case of confirmation and eliminates it if it is falsified. Hence, if I do not find my expectations confirmed I can be confident that it does not hold in the cases of EU interaction with Mercosur and Asean. If I find them confirmed, instead, this lends empirical support to this expectation.

**Design change of EU trade policy from inter-regional to bilateral in Latin America**

With Mercosur, the EU signed an Interregional Framework Cooperation Agreement (1995) which laid out the inter-regional principle of relations. This principle played out in 1999, when the EU and Mercosur started negotiating an Association Agreement covering institutional and political cooperation as well as a deep FTA lasting up until 2004. Immediately after the stagnation, the European Commission started preparatory talks on a bilateral Strategic Partnership with Brazil (Carlos Lessa, 2010) which materialized in 2007. The EU-Brazil Strategic Partnership is no FTA but it serves to discuss a range of trade issues: investments and non-tariff trade barriers (Interview 6) (in addition to political issues). It was a direct consequence of the stagnant Association Agreement negotiations (van Loon, 2015) and an alternative to inter-regionalism in advancing commercial relations with Brazil (Interview 6). Although the EU and Mercosur revitalized the negotiations on an Association Agreement in 2010, no consensus has been reached on the FTA so far (at the time of writing in January 2019). In this context, the EU-Brazil Strategic Partnership complements inter-regionalism, but also means a bilateral fall back option for EU trade policy with Latin America. After years of investing resources into negotiating an Association Agreement with Mercosur, why did the EU change design from inter-regional to bilateral in 2007?

The EU’s initial launch of negotiations on an Association Agreement was a reaction to the US’s FTA of the Americas (FTAA) (this has been widely acknowledged by the academic literature; Grugel, 2004). The FTAA targeted entire Latin America and aimed to include trade in goods, agribusiness, investments, services and non-tariff trade barriers such as government procurement, subsidies and compensatory rights, competition policies and intellectual property rights (‘US-Brazil anticipate Miami success’, 2003). This comprehensive format made the FTAA unprecedented which the EU mirrored in its mandate (Klom, 2003).

From the historical order of negotiations and from interviews and secondary literature, it is clear that the EU monitored the FTAA (PTE 1). Interviewees widely
admitted that the European Commission observed competing actors such as the US on different levels such as summits or political dialogues (Interview 6; 9; 10). The EU mirrored the FTAA in timing, in included issues and in suggested formats. It started preparatory talks at the same time that the FTAA rounds began with the Summit of the Americas in Miami; the EU initiated bargaining rounds with Mercosur just when the FTAA members had their first ministerial meeting Quebec in 2000; and, eventually, the EU-Mercosur talks stalled in the early months of 2004 at the exact same time the FTAA talks did. Even when the negotiations were already ongoing, the EU experienced similar difficulties to those in the FTAA talks (Klom, 2003). The EU clearly believed that it was in competition with the US for economic influence in Latin America (Interview 20; 21; 39; 40; 41) (PTE 2). Anecdotally, an EU official said in 2000 that he believed the FTAA could not interfere with the EU-Mercosur negotiations, but only because the FTAA includes 34 governments thereby suggesting that he does not fear the FTAA could materialize (‘Europe three times the US’, 2000).

As soon as the FTAA negotiations stagnated, the US made it clear that it was no longer interested in negotiations with Mercosur as a group. Instead, it intended to focus only on bilateral relations with Brazil (‘US reject 4 1 agreement with Mercosur’, 2005) which was followed immediately by the EU (Interview 20; 21). The US signed in 2006 a letter of intent to facilitate trade, investments, business exchanges and energy cooperation followed by bio-fuel cooperation agreements and memorandums of understanding (US, 2015). Since 2001, China has also become increasingly important to Mercosur. Trade flows rose from 3% in 2001 to 14% in 2010 (UN Comtrade, 2012). This importance was accompanied by Chinese agreements with Latin American countries among them Brazil. They committed themselves to a bilateral strategic alliance in 2004 and signed 10 agreements covering trade, investments and oil among other policies (‘Chinese president in Latin America,’ 2001).

It should come as no surprise that the EU redirected its focus to bilateral relations with Brazil in 2005, when it prepared the eventual Strategic Partnership (Carlos Lessa, 2010). Having observed and monitored American and Chinese activities in Latin America (Interview 5; 6; 10) through the issue-specific and country-specific Directorate Generals and the European Commission’s trade analysis units, this information gave the EU ‘important context’ knowledge for designing trade policy (Interview 10) (PTE 1). Interviewees regarded EU competition with the US on one hand and China on the other as differently intense (PTE 2). With the US, competition was more intense because it covered regulatory standards (Interview 6; 26; 38; 39). With China, competition was less intense because Chinese activities focused mainly on raw materials (Interview 27; 39). Nevertheless, the EU now competes with both the US and China ‘to acquire new markets and no one will hesitate to occupy the other’s backyard’ (Santander, 2014, p. 70).

Initially countering the US’s FTAA with negotiations on an Association Agreement, the inter-regional trade strategy was called ‘competitive regionalism’ by some scholars (Schott, 2009). The regional format targeted Mercosur as a group although the EU primarily had an interest in Brazil (Interview 6; 23; 26). At this time, inter-regionalism was facilitated by Mercosur’s coherence: first, the regional format was Brazil’s top foreign policy priority (Bandeira, 2006; Carranza, 2003; Duina & Buxbaum, 2008; Malamud, 2005; Soares De Lima & Hirst, 2006); second,
Mercosur’s member states had converging trade preferences. Pushing the regional format, Brazil saw Mercosur’s customs union as a means to more bargaining leverage (Interview 20; 21; Hopewell, 2013). This was accompanied by converging preferences regarding the EU as a negotiation partner and regarding a single undertaking (‘Buenos Aires Brasilia axis,’ 2003; ‘Chinese president in Latin America,’ 2001) which trade data reinforce. Trade flows between the EU27 and Brazil and Paraguay increased before launching negotiations (1995-1999), and those between the EU27 and Argentina Uruguay remained constant (UN Comtrade, 2012). Export and import relations with the EU27 were, thus, relatively similar across Mercosur member states (Figure 2).

Internal dynamics in Mercosur were observed and monitored by the European Commission through country-specific and trade analysis units (Interview 11; 15) (PTE 3). The European Central Bank ran a monitoring exercise on Latin America to keep track of Mercosur’s economic level of integration (OBREAL/EULARO - Adiwaisito, De Lombaerde, & Pietrangeli, 2006). The information retrieved matched the EU’s preference for inter-regionalism as a default option because of Brazil’s insistence on the regional negotiation format (Christensen, 2013; Interview 4; 6; 20; 21; 38). The preference depended also on the perceived readiness of Mercosur to negotiate an inter-regional and deep agreement (Interview 4; 16). Having had a preference for an inter-regional and deep FTA (Interview 40), the EU believed that inter-regionalism would lead successfully to an economically beneficial agreement (Interview 6) (PTE 4).

This belief changed with increasing tensions within Mercosur, which was acknowledged by the EU and, as this article argues, led to the launch of the EU-Brazil Strategic Partnership (Carlos Lessa, 2010). The EU official Karl Falkenberg, at this time in charge of trade policy, said in 2004 that Mercosur started to seem more like vision than reality regarding regional integration, with a lack of trust among its member states (‘Mercosur is more vision than reality,’ 2004) (anecdotal evidence for PTE 3). This fragmentation translated into EU trade policy by initiating the bilateral Strategic Partnership, which

![Figure 2](https://example.com/figure2.png)

**Figure 2.** Trade flows between Mercosur member states and EU27 1997–2007. Reference: Own illustration based on data from UN Comtrade, 2012.
was not incompatible with inter-regional relations but a new tool to advance economic and political relations with Brazil (Interview 6; 39). Mercosur’s fragmentation divided the member states also on Latin America’s trade policy, with a lack of solidarity and diverging preferences (Christensen, 2013; Malamud, 2011). Although there was no clear material divergence of trade flows, EU27-Mercosur trade flows decreased to a limited degree and became more divergent across Argentina, Brazil, Paraguay and Uruguay (Figure 2). On top of that, the member states started to have different priorities regarding negotiation issues and negotiation partners (Christensen, 2013; ‘Uruguayan president in China,’ 2009). Taking into account these tensions, the European Commission chose to move forward with Brazil on a bilateral basis (Interview 39). Precisely because there was a lack of coherence among Mercosur’s member states, the EU needed a new forum to advance commercial interests; in this sense, EU trade policy designs are situation-specific and adjust to the counterpart region (Interview 5; 8). Interviewees pointed this out by saying that Mercosur was not ready for an inter-regional and comprehensive agreement (Interview 8) making bilateralism a convenient alternative (Interview 6) (PTE 4). An interviewee saying that if the EU had concluded the Association Agreement negotiations in 2004, there would have been no need for the Strategic Partnership reinforced this (Interview 9).

There was, of course, also other than economic reasons for the EU to designate Brazil a Strategic Partner. From the EU’s perspective, Brazil was a key interlocutor in the region and it was supposed to act as a regional leader (Renard, 2010). It was politically of crucial importance to the EU to maintain a privileged partnership with Brazil with whom it shared values and principles such as democracy, the rule of law and human rights (Council, 2007). Thus, the EU-Brazil Strategic Partnership was much broader by including political dialogues, environment and sustainable development, science and technology, cultural aspects, people-to-people relations, and bi-regional cooperation (EU, 2011). Nevertheless, the EU’s economic interest in Brazil was crucial and the Strategic Partnership was a useful tool to advance these interests despite the stagnant negotiations on an Association Agreement.

**Design change of EU trade policy from inter-regional to bilateral in Asia**

EU-Asean relations date back to the 1970s (Center for European Integration Studies, 2001; Gilson, 2005). In 2007, EU-Asean relations translated onto the trade policy level when the European Commission asked the Council for authorization to negotiate an inter-regional and comprehensive FTA with Southeast Asia. Only 2 years later, the European Commission considered alternatives to the inter-regional format, and in 2010 it changed to a bilateral (and still comprehensive) design starting with Singapore. Next to Singapore, the EU shifted to parallel or subsequent bilateral negotiations with Vietnam, Malaysia, Thailand, the Philippines, and Indonesia. Given the long-lasting relations with Asean this switch to bilateralism is quite surprising.

The EU planned the start of inter-regional FTA negotiations (2007) after extensive influence of American, Chinese and Japanese initiatives. In 2002, when the EU first considered an FTA with Asean (ISPI, 2010), Asean’s member states started signing their first trade agreements with powerful actors. Among these were the New-Age Economic Partnership Agreement between Japan and Singapore (ISPI,
2010), Asean agreements with China (2002), Japan (2008), India (2009), South Korea (2009), Australia and New Zealand (2009) as well as the US’s Enterprise for Asean Initiative (2002). The US concluded its first bilateral agreement with Singapore in 2004, and other negotiations followed with Thailand, the Philippines, Indonesia and Malaysia. These competing initiatives motivated also the EU to negotiate an FTA with Asean, and the eventual launch was triggered by the anticipated breakdown of the Doha Round in combination with the Asean-Japan agreement (Robles, 2008). Factoring in this competitive atmosphere, the European Commission and the Council left ‘no doubt that the EU-Asean FTA negotiations were closely linked to increasing EU concerns about economic interests in South-East Asia being jeopardized by the negotiations of the US, China and Japan of their bilateral FTAs with Asean countries’ (Centre for ASEAN Studies 2007, p. 4).

Being concerned about competing actors, the EU spent resources on observing and monitoring their activities in Southeast Asia (Interview 3; 7; 12) through issue- and country-desks in Directorate General Agriculture and Directorate General Trade (Interview 1; 17) (PTE 1). Trade analysis units kept track of Asean’s FTAs and compared them line by line in order to gather knowledge on the level of concessions and trade issues involved (Interview 3; 7; 11; 15). Regarding the impact of these FTAs, interviewees identified negative externalities (PTE 2) (and also partly positive externalities); especially where the US and the EU had different trade strategies such as intellectual property rights or rules of origin negative externalities existed (Interview 3; 12). Therefore, the EU was clearly in competition with the US over Asean’s adoption of regulatory standards, and with the US, China and Japan for privileged commercial relations with Asean (Interview 23). As the trade commissioner, Peter Mandelson, pointed out: ‘Our major competitors are picking off individual countries in the region one by one, Japan, Australia and the US are all active’ (as cited by Camroux, 2010).

Having had a preference for a comprehensive FTA, Directorate General Trade initially tried to reach an agreement through an inter-regional design (Interview 3) because it believed this matched Asean’s coherence (Interview 7; 23). Indeed, Asean’s solidarity was considerably high when the European Commission asked the Council for an inter-regional mandate and the European Commission regarded the group as having a feeling of ‘solidarity’ (Civil Society Dialogue, 2008). Asean’s member states had converging preferences on the EU as a negotiation partner and some experience of negotiating as a group. They agreed on launching negotiations with the EU and, in contrast to FTA negotiations with the US or China, this was not conflictual (Interview 22; 30). Their experience with the regional negotiation format was put into practice with China, India and Mercosur (Interview 30) and Asean had a procedure for internal negotiations on FTAs (Interview 24; 25; 30). Trade flows were also favorable to Asean’s coherence because some countries, i.e. Indonesia, Malaysia, Singapore, Thailand and Vietnam, increased trade with the EU27 and the other countries’ trade relations with Europe remained stable between 2005 and 2007 (UN Comtrade, 2012). In other words, export and import relations with the EU27 can be classified as similar for Asean member states (Figure 3).

Observing Asean’s coherence, the EU had the same procedure for doing so as with Latin America: trade analysis units, issue- and country-desks in Directorate General Agriculture and Directorate General Trade (Interview 11; 15) (PTE 3). Especially Directorate General Trade invested considerable time in monitoring
regional integration in Southeast Asia by focusing on milestones and issues required by the EU (Interview 23). A specific procedure for analyzing economic benefits of an EU-Asean FTA was established through the Vision Group on Asean-EU Economic Partnership whose information was gathered through quantitative and qualitative studies (ISPI, 2010; Vision Group, 2006). The conclusions based on this information matched the EU’s preference for an inter-regional agreement which, however, was pragmatic rather than normative (Interview 12; 13; 17; 29). Interviewees pointed out that the trade policy design had to adjust to features of the counterpart region (Interview 7; 13; 17; 23). Thus, in the case of Asean, the inter-regional approach was chosen based on the assumption that it would be more efficient to negotiate one regional FTA than several bilateral FTAs (ISPI, 2010, 6f.; Interview 7; 23) (PTE 4).

This assessment changed during the course of negotiations and the European Commission realized that an inter-regional format would not meet the desired level of ambition, forcing the EU to change to a bilateral design. Just 1 year after the launch of EU-Asean negotiations (2007), trade commissioner Mandelson made it clear that a ‘flexible approach’ would facilitate the successful conclusion of an FTA (Civil Society Dialogue, 2008) in response to Europe’s growing dissatisfaction with Asean’s level of coherence. This dissatisfaction emerged because of the member states’ growing divergence regarding the trade agenda. Trade flows with the EU27 concentrated on few Asean member states (trade flows between the EU27 and some Asean countries decreased while others increased between 2007 and 2010; UN Comtrade, 2012; Figure 3) so that some countries were more interested in an FTA with the EU than other Asian states (Lindberg, 2007). This divergence led also to different preferences regarding negotiation issues (Camroux, 2010): while Singapore was very liberal on all issue areas, other countries were not ready to the same degree (Interview 22; 30).

The fact that this heterogeneity would have led to the lowest common denominator and a limited agreement (Interview 31 and 32), alerted the EU which claimed that Asean did not understand the ‘FTA label’ (Interview 1). Having realized the different levels of ambition among Asean’s member states (Interview 7; 30) (PTE

![Figure 3. Trade flows between Asean7 member states and EU27 2005–2010. The figure illustrates trade data of seven Asean member states. It excludes Brunei, Myanmar, and Lao because trade with the EU lies under 10% of the countries’ total trade.](image-url)
3), the EU chose a more ‘pragmatic’ (Interview 17) or ‘realistic’ (Interview 33; 34) approach in shifting to a bilateral ‘tactic’ (Interview 1) in order to reach a comprehensive agreement (PTE 4). It understood only during the negotiations with Asean that an inter-regional and comprehensive FTA would be too ambitious (Interview 1; 3; 12; 30). Bilateralism, instead, was believed to deliver better and quicker agreements (Interview 12). The EU-Singapore FTA speaks truth about this belief, given that it was concluded after just two years of negotiations (2012).

**Discussion**

In the empirical analysis, this article set out to examine (a) why the EU made design changes from inter-regional to bilateral in its trade policy towards Mercosur and Asean, and (b) assess the extent to which these changes were driven by factors located at the international level, especially coherence within organizations in other world regions, rather than inner-institutional characteristics (see also Sbragia, 2010). The analysis was based on a triangulation of congruence testing and process-tracing.

The findings indicate that design changes in the EU’s trade policy were congruent to varying coherence within the regional organizations Mercosur and Asean. While the EU initially perceived both regional organizations as sufficiently coherent to negotiate inter-regional trade agreements with, fading coherence triggered a process of ‘updating’ preferences by decision-makers within the EU and eventually a shift to bilateral trade initiatives. This turn to a bilateral design happened in both cases in an attempt to advance commercial interests against the US and China in Latin America and Asia.

The case studies on Latin America and Asia clearly show how fading coherence within Mercosur and Asean led to design changes of EU trade policy. The EU has an established procedure to observe competing actors, the US and China, and to monitor their trade relations with regions of interest. This procedure operates on the level of Directorate Generals Trade and Agriculture, units of trade analysis and country desks within the Directorate General Trade of the European Commission (PTE 1). Trade analysis units, for example, compared concluded agreements between the US and Asian partners line by line. In both regions, Latin America and Asia, the EU classified American and Chinese activities as competing with its own trade interests, and pointed out negative externalities especially in the area of regulatory standards (PTE 2).

In an attempt to reduce negative externalities and to ‘counterbalance’ American and Chinese trade initiatives, the EU updated its design of trade policy and adjusted it to dynamics within Mercosur and Asean. The empirical evidence demonstrates that the EU actively observes the process of integration and coherence within regional organizations. Country-desks in the Directorate General Trade are primarily in charge of such activities, while also exchanging information with EU delegations in the respective region (PTE 3). In the case of Mercosur, the delegation in Montevideo, Uruguay, did ‘fieldwork’ in form of 40 interviews with experts and decision-makers in that regional organization. Interviewees on both cases pointed out that they make decisions on the design of trade policy on a case-by-case basis. Hence, they take into account the progress of regional integration and the organizations’ ‘willingness’ to act as a group (PTE 4).
The empirical findings of the two case studies on EU interactions with Mercosur and Asean, therefore, pass a straw-in-the-wind and a hoop test. Both tests affirm the relevance of the theoretical expectation that (in)coherence within a regional organization triggers design changes of trade policy.

As the empirical findings in this article rely on just two cases, EU trade relations with Latin America and Asia, I now turn to other instances where the EU and other actors updated the design decisions on external relations to adapt to coherence within regions. Firstly, in the context of trade policy, the EU made similar design changes from inter-regionalism to bilateralism in the case of the Andean Community. While it started negotiating an inter-regional and comprehensive trade agreement with the regional organization, it soon shifted to bilateral negotiations in the wake of fading coherence (Szegedy-Maszák, 2009, p. 220). The EU also made changes in reverse order from bilateralism to inter-regionalism in the cases of South Africa and the SADC, but also in the case of Mercosur. After the launch of a Strategic Partnership with Brazil, the EU resumed inter-regional negotiations, in 2010, which was based on a renewed ‘team spirit’, or coherence, within Mercosur (Meissner, 2018).

A shift to bilateralism outside of multilateral institutions or in parallel to existing regional organizations also happens in other areas and is pursued by other actors (Morse & Keohane, 2014). Topical examples where the EU resorts to bilateralism outside multilateral institutions or next to regional arrangements are the climate change regime and migration policy. In parallel to the United Nations Framework Convention on Climate Change, ‘multiple bilateralisms’ (Belis, Joffe, Kerremans, & Qi, 2015) between China, the EU and the US has emerged where the EU negotiates climate change bilaterally with the US and with China in a strategic partnership. With Tunisia, the EU links trade and migration issues by negotiating a Deep and Comprehensive Trade Agreement although this country is part of the Euro-Mediterranean Partnership. Finally, also the US is an example of pursuing bilateral negotiations despite dealing with established regional organizations. The American administration has a reputation of negotiating bilateral agreements, and did so, for example, with member states of the Gulf Cooperation Council. With members of this organization, it signed security and trade agreements such as with Bahrain and Oman (Antkiewicz & Momani, 2009, p. 20).

**Conclusion**

At the outset of this article, I asked why preferential trade agreements outside the WTO exist in different designs: region-to-region, region-to-state or state-to-state. I explored this question in the empirical interaction between the EU and regional organizations in Latin America and Asia by employing process-tracing tests. To this end, this article developed a theoretical argument that (in)coherence within regional organizations leads to design changes in trade policy between inter-regional and bilateral in order to advance commercial interests in third regions.

The empirical findings support the claim that fading coherence within Mercosur and Asean triggered an updating of preferences by EU decision-makers and eventually a change in design of trade policy from inter-regionalism to bilateralism. This design change was part of a broader attempt by the EU to secure its commercial interests in Latin America and Asia vis-à-vis its competitors, the US and China. Hence, the EU employed an inter-regional design when it seemed
appropriate, and sacrificed it when it clashed with European commercial interests in other world regions.

Given that the EU adjusted its design of trade initiatives to the partner region in order to ‘counterbalance’ the US and China, an enhanced understanding of how it did so provides new insights on EU trade policy. The significant increase of preferential trade agreements outside the WTO, their varying designs, and the proliferation of global value chains make this study relevant in understanding interactions between other states and regional organizations. By differentiating between explanatory factors located at the international level and domestic politics, this article provides a wider perspective on the design of trade policy. Decisions about the design of trade agreements do not operate in isolation, focused on domestic factors exclusively, but in relation and reaction to changes in the global economy.

As the empirical study presented here is limited to EU interactions with Latin America and Asia, this article is meant as a starting point for further exploration of interactions between changes in the global economy and the design of trade policy. The most recent research indicates such interdependencies between trade agreements (Baccini & Dür, 2015). A more systematic perspective on how international factors and interdependencies shape the design of trade policy would enhance scholarly understanding of the negotiation of trade agreements.

Notes
1. https://www.wto.org/english/tratop_e/region_e/regfac_e.htm
2. As reported by the European Commission, the EU has currently 41 negotiations on Association or external trade agreements that were recently concluded are still ongoing or on hold (European Commission 2016). Of these, 36 are bilateral by addressing single countries on top of the EU’s ten Strategic Partnerships. Table 1 in the online supplement lists all bilateral and inter-regional trade agreement negotiations.
3. Eckhardt and Lee (2018) provide evidence that firms vary in their preferences regarding the design of trade agreements.

Acknowledgments
This article benefited greatly from discussions with colleagues whom I met the European University Institute and at several conferences. I am particularly grateful to Tanja Börzel, Camille Brugier, Adrienne Héritier, Ulrich Krotz, Richard Maher, Tobias Lenz, Berthold Rittberger, Stefan Schirm, and Magnus Schoeller who provided detailed comments or continuous encouragement.

Disclosure statement
No potential conflict of interest was reported by the author(s).

References


**List of interviews**

Head of Unit. (2014). Interview 1. EEAS. Brussels, Belgium.