Domestic and International Asymmetries in United States–European Union Trade Negotiations

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Abstract. This article studies the determinants of international bargaining power in instances of trade negotiations between the European Union and the United States. The authors' central hypothesis is that an appraisal of the US–EU trade relationship requires an understanding of the ways in which "domestic" political institutions shape the bargaining behavior of international actors. In particular, this article argues that the frequent EU "successes" in its negotiations with the US are the result of the bargaining power that its unique institutional arrangements grant its negotiators. In order to explain the distributional outcomes of international trade negotiations, the authors explore the "Schelling conjecture" and analyze why it is particularly relevant to the understanding of the unique bargaining power of EU negotiators when they are confronted with their American counterparts. To examine the explanatory power of domestic institutions in episodes of trade negotiations, the article analyzes the US-EC Uruguay Round agricultural negotiations (1986–1993).

Keywords: trade negotiations, Uruguay Round, bargaining power

The study of international trade agreements is a study of contrasts. On the one hand, there is broad consensus that reductions in barriers to trade enhance the welfare of all parties concerned. On the other hand, a nagging polit-

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ical intuition suggests that international trade agreements typically produce winners and losers. Our ability to explain these distributional outcomes is unfortunately rather limited – particularly when compared with the power and elegance of economic models emphasizing the efficiency gains from trade liberalization. The contributors to this volume have taken important steps toward understanding the marked asymmetries in the structural conditions under which international trade negotiations take place and the distributional consequences of these asymmetries on the outcomes of these negotiations. In this paper, we explain variations in negotiated outcomes between structurally equal partners.

The United States (US) and the European Union (EU), the world's two largest trading entities, occupy relatively similar structural positions in the global economy. Moreover, they have enjoyed a fairly balanced trade and investment relationship with each other in the past few decades. Since the creation of the European Common Market in 1957, they have engaged in bilateral and multilateral negotiations to reduce trade barriers between them. In some instances, the US emerged as the "winner" in these negotiations, while at other times the EU seemed to obtain a better deal. The only notice-able patterns that stand out from a quick survey of US–EU trade negotiations over the years are, first, that the EU seemed to do better in its trade nego-tiations with the US than most other US trade partners (Bayard and Elliott 1994; Duchesne 1997); and second, that the EU has been able to hold out to US demands in trade negotiations, even when it was an infant institution with a clearly intergovernmental decision-making process and a membership of only six states.

In the absence of asymmetries in structural power, then, what can account for variation in the distributional outcomes of trade negotiations between the United States and the European Union? Our central hypothesis is that an understanding of the US–EU trade relationship requires an understanding of the ways in which "domestic" political institutions shape the bargaining behavior of international actors. Specifically, this article argues that the frequent "success" of the EU in its negotiations with the US is the result of the bargaining power that unique institutional arrangements grants its negotiators.

Following an analysis of the various determinants of international bargaining power, we focus on the need to take into account domestic institu-tional variables in order to explain the distributional outcomes of international negotiations. In particular, we explore the "Schelling conjecture" and analyze why it is particularly relevant to explain the unique bargaining power of EU negotiators. After establishing the structural symmetries and institutional asymmetries in the US–EU trade negotiating relationship, the third section of

this article analyzes the explanatory power of domestic institutions in the case of EU–US agricultural negotiations in the Uruguay Round (1986–1993). We conclude by examining the potential theoretical extensions of our institutional argument, by assessing the multiple trade disputes currently arising between the US and the EU, and by making predictions about the future of transatlantic trade negotiations in the absence of extension of the fast-track authority in the US.

The Determinants of International Bargaining Power

Power is often defined as the ability of one actor to induce another actor to act differently from how he or she would have otherwise.[1] This definition invites tautology due to its "failure to distinguish clearly enough between a bargaining outcome and the bargaining process which leads to it" (Cross 1969: 17). To retain explanatory leverage, power ought not be defined by a description of the outcome of a bargaining episode. A more helpful definition should concentrate on the determinants of the outcome, not the outcome itself. This study, therefore, focuses on the structural and contextual elements of analysis that emphasize the ability of one player to impose heavy costs for the burden of delay in negotiations on the other player, coupled with its own insensitivity to costs imposed on oneself.

It is impossible to analyze the distributional outcomes of trade negotiations between the United States and the European Union without taking into account their respective bargaining power. Who gets what in a negotiation is a function of who has the capacity and leverage to force the opponent into making concessions. Yet bargaining power is an elusive concept. Scholars of international relations can agree neither on its definition, nor on its determinants. To evade a tautological definition of the concept, our focus should turn to the factors determining the ability of one player to get another player to alter his/her behavior. In this section, we explore the strengths and weaknesses of the structural determinants of bargaining power, survey some alternative and complementary factors, and conclude with the need to focus more specifically on domestic institutions as a crucial variable for explaining the outcomes of international trade negotiations.

Bargaining Power as Structural Power

The discipline of international relations has long been dominated by a positional notion of power revolving around such theories as balance of power (Claude 1962; Haas 1953; Singer, Bremer and Stuckey 1972), hegemonic leadership (Gilpin 1981; Thompson 1988), and power transition (Organski

1968; Organski and Kugler 1980). Despite the absence of a clear consensus regarding its meaning, power is the core concept for both realists and neorealists. In a large part, given that states seek either to keep power, to increase power, or to demonstrate power (Morgenthau 1985), it is generally assumed that the actor with the larger amount of power has the advantage over an actor with a smaller amount. In other words, by classical "power politics" theory, the actor with the greater capabilities, will by definition prevail in any encounter (military or otherwise) with a weaker actor.

Negotiation theorists who adopt a relational conceptualization (Iklé 1964; Lall 1966) do not see power acting in any different way in international negotiations than in any other aspect of international interactions (Habeeb 1988: 10). For them, the stronger state, by tautological definition, will win in a bargaining situation (ibid.: 3). In other words, asymmetries in structural power determine the winners and losers in international negotiations, while symmetry would predict a draw, or leave the door open for other explanatory factors.

The structural determinants of bargaining power in international trade negotiations are mainly of two kinds: market-related and security-related. Negotiating strength can be derived from the size of one's market and by one's dependency on the economy of the negotiating opponent (Hirschman 1945): the larger one's own internal market and the smaller the dependency on the other, the greater the bargaining power in bilateral negotiations. Structural theorists also expect systemic political factors, such as the international security environment, to affect bargaining power. The larger one's military might and the smaller one's security dependency on the other, the higher the bargaining power in bilateral negotiations.

Applied to the case of trade negotiations between the United States and the European Union, the structural hypothesis predicts that US negotiators should have fared better than their European counterparts when the EU market was still made up of a small number of countries, when EU competence applied to a limited number of policy areas, and when Europe felt that it needed the US defense umbrella for its protection. Vice versa, the EU should obtain better results in trade negotiations with the United States now that it is made up of 15 members, now that sectors in which EU economies are very productive are being discussed in negotiations, and now that the Cold War is over.[2]

Limitations of Structural Explanations and Alternative Determinants of Bargaining Power

Structural analyses of bargaining power, however, seem neither sufficient, nor even pertinent to explain the distributional outcomes of international trade

negotiations. Indeed, the world is strewn with counter-intuitive cases where the party that is believed to be weaker, measured through military and other classical structural factors, had the upper hand in an international encounter or at least did nor fare worse than its opponent (Keohane 1971; Wriggins 1987; Zartman 1987; Habeeb 1988; Paul 1994). The Vietnam War and the Soviet-Afghan conflict are perhaps the best-known examples of foreign affairs outcomes where the structurally weaker party ended up winning.

Similar paradoxical results exist in international trade negotiations. For instance, John Odell (1993) finds that the United States was more successful when negotiating with the European Community regarding its decision to elevate trade barriers on U.S. feedgrains after Portugal and Spain joined the EU in 1986 than it was when dealing with Brazil when the Latin American country introduced a national program designed to promote its national computer industry. Clearly, any classical aggregate measure of power[3] would assign greater power to the European Community than it would to Brazil. Hence, aggregate power could be an inadequate predictor of trade negotiation outcomes when it is not used in conjunction with other explanatory factors. Bayard and Elliott (1994), and Duchesne (1997) have also uncovered the deficiencies of structural power as the sole determinant of bargaining power in their studies of the U.S.' use of the retaliatory trade tool known as Section (Super) 301. A reliance on trade dependence as *the* predictor of bargaining power is often misleading. For example, the United States has obtained various degrees of success with "small" as well as "large" economic powers, and various amount of success with the same country on different issues. Studying 91 cases of the use of Section (Super) 301 between 1974 and 1994, Bayard and Elliott actually found that the success rate for Section 301 has increased overtime, especially for cases involving the EU, thus casting some serious doubts on a purely systemic and aggregate analysis of bargaining power (1994: 65).

Another similar paradoxical pattern is highlighted by Meunier (1998a), who finds that the outcomes of the Kennedy Round negotiations (1963–1967) clearly favored the newly-created, six-member European Common Market over the strong, hegemonic United States, while the outcomes of the Uruguay Round (1986–1993) were distributed more evenly between the two super-traders. Once again, the structural explanation based on market-related and security-related power does not suffice to account for the outcomes of international trade negotiations.

Therefore, if structural factors are neither necessary, nor sufficient, to explain – or even misleading in attempts to predict the distribution of bargaining outcomes, what other variables account for the paradoxical "wins" of the structurally weaker over the structurally stronger parties in interna-

tional negotiations? Analysts of international negotiations have focused on a variety of alternative and complementary factors to explain distributional outcomes. Some are specific to the negotiations in question, such as the skills of the negotiators themselves, the nature of the issue under discussion, and the possibility of cross-issue linkage. Others find their roots in the domestic polity, or in the "second image," according to Waltz's classification of the levels of analysis (Waltz 1959). Domestic variables such as electoral cycles, changes in domestic coalitions, and interest group pressure have all been documented to have an effect on the international bargaining power of states.

Joining the growing literature which has recently examined the interrelation of domestic and international levels of analysis in the study of international political economy, this article argues that an understanding of the US–EU trade relationship requires an understanding of the ways in which "domestic" political institutions shape the bargaining behavior of international actors. In the absence of fundamental structural asymmetries between these two trade partners (and rivals), it is the evolution of their domestic and international institutional contexts which determines their respective bargaining power, and ultimately their level of success, in international trade negotiations.

Domestic Institutions, Bargaining Power, and the "Schelling Conjecture"

Extending an idea put forth by Schelling nearly four decades ago, Putnam (1988) raised the possibility that international negotiators might be able to use domestic constraints to their advantage at the international negotiating table. Recent attempts to analyze the conditions under which such a strategy will be effective have led to conflicting views. Using a limited information Nash Bargaining model, Milner and Rosendorff (1996) argue that the conditions under which behavior consistent with "the Schelling conjecture" occurs in equilibrium are quite limited. Clark and Duchesne (1995), in contrast, use a limited information Ståhl-Rubinstein model and a different informational assumption and find a more robust equilibrium that is consistent with the behavior described by Schelling and Putnam and identify such behavior at work in the negotiations leading up to the Canadian–U.S. Free Trade Agreement. We argue that further evidence can be found in the case of US–EU relationship. In fact, attention to the "Schelling conjecture" is a necessary part of an attempt to explain the outcomes of US–EU negotiations.

The "Schelling Conjecture"

In his "Essay on Bargaining," Schelling addressed the paradoxical idea that bargaining strength can, under certain conditions, derive from a position of weakness. In particular, he noticed that an actor operating under certain constraints might be able to better accomplish his or her goals in a negotiation than a similarly situated, but unconstrained, actor. "Ordinary" bargaining, Schelling writes, occurs when the bargainers do not know each other's true reservation price and, so, go through a process by which they attempt to misrepresent their own reservation price while discovering that of their counterparts'. In this context, bargaining *is* the strategic use of information – party A wants to manipulate what party B believes about A's reservation price. Bargaining revolves around attempts by the actors to learn the reservation prices of their counterparts while obscuring their own.

This transmission of information is the function served by the often dramatic posturing that occurs during real life bargaining situations, but which is often absent in formalized bargaining models. However, since each actor knows that its counterpart has strategic incentives to misrepresent their reservation price, this posturing is likely to convey little information that can be taken at face value. Since it is impossible for the seller to observe the buyer's preferences directly, and the merely verbal revelations of his preferences will be discounted by the seller, the buyer's efforts will be directed toward showing how he could not choose to spend more than his reservation price *even if he wanted to.* The seller's efforts, in contrast, are directed at determining whether or not the buyer's statements regarding these constraints are true.[4] It is in this sense that Schelling asserts that "the process of discovery and revelation quickly becomes merged with the process of creating and discovering commitments" (1960: 27).

The existence of constraints can help a buyer accomplish her goal of minimizing the cost of the good by making it more difficult (or, better still, impossible) to retreat from a particular offer to something close to her true reservation price.[5] In the case of U.S. government strategy in trade negotiations, Schelling points out that

> If the executive branch is free to negotiate the best arrangement it can, it may be unable to make any position stick and may end by conceding controversial points because its partners know, or believe obstinately, that the United States would rather concede than terminate the negotiations. (1960: 28)

Two-Level Games and Multilevel Diplomacy

In a seminal article published in 1988, Robert Putnam elaborated on Schelling's argument and triggered a scholarly debate on the strategic interaction between domestic and international variables in international negotiations (Putnam 1988). Putnam used an extended metaphor in which international negotiators are simultaneously seated at two tables – each corresponding to a different level of analysis.[6] At level one, the international level, negotiators interact with their foreign counterparts. At level two, the world of domestic politics, negotiators interact with their domestic principals. Putnam describes the logic of the two-level game in the following way:

> At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. (1988: 432)

Since each of the actors possesses an effective veto over any agreement that would displace the status quo, Putnam's model implies that an agreement must lie at the intersection of each of the actors' "win sets" – that is, the set of alternatives that each actor prefers to a no agreement outcome. For example, imagine that countries A and B are bargaining over the division of the gains from cooperation. Assume that Level I and II actors in country A have identical views of what outcome would be ideal, they differ only in their reservation prices.[7] The location of the actor's reservation point determines the size of her win set. It is important to point out that the international negotiator can be constrained by the domestic veto player only if the latter's win set is smaller than the former's. This situation is depicted in Figure 1, where A* and B* are the most preferred outcomes for all actors in both countries and ρ_I^A and ρ_D^A are the reservation prices for actors I (international) and D (domestic) in country A (note, that since both actors in country B have the same reservation price, there is no actor index for country B). Negotiators from state A can be expected to respond to state B proposals that fall to the right of ρ_D^A by reminding their counterparts that they are operating under domestic constraints that would make ratification of such a proposal impossible. Under complete information, therefore, the agreement should fall in the interval between ρ^B and ρ_D^A. In the absence of such a domestic veto player in country A, the outcome would fall somewhere in the interval between ρ^B and ρ_I^A.

How does the existence of a domestic veto player with a smaller win set than its international agent affect the distribution of the gains from cooperation between countries A and B? A fair number of technical issues enter in
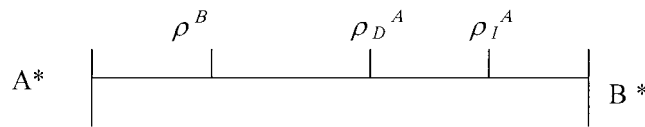
$$\rho^{B} \qquad \rho_{D}^{A} \qquad \rho_{I}^{A}$$

A* $\qquad$ B *

Figure 1.

here if we are to provide a rigorous answer to this question, but suffice to say that if the expected agreement in both of these cases is something like the mid-point of the interval in each case, and the probability of reaching an agreement is independent of the existence of a veto player (though its not necessary for this probability to be independent of the location of the proposed agreement), then an agreement in the presence of such a domestic veto player will be closer to the ideal point of the country A actors (and further from the ideal point of the country B actors) than it would be in the absence of such a domestic veto player.[8] Furthermore, the distributional consequences of having a veto player can be expected to be an increasing function of the difference between the size of the domestic and international veto player's win set (given, remember, that the former is smaller than the latter). Note, however, that it is the size of the domestic win set – not the difference in preferences between domestic principals and their negotiators that drives the distribution of the gains in the outcome. In fact, if the domestic win set is smaller than the international win set, then the outcome is likely to be independent of the latter. Conversely, when the international negotiator has a smaller win set than the domestic veto player, then it is the former's reservation price that, along with country B's reservation price, that will set the bargaining parameters.

While the presence of a domestic veto player can constrain the international negotiator in a way that produces a better outcome for country A, this is not, under complete information, the result of the sort of strategic behavior – the bluffing and fooling – that Schelling was most interested in. If bargaining is about "the ability to set the best price for yourself and fool the other man into thinking this was your maximum offer,"[9] then the essence of *two-level* bargaining would be the attempt to misrepresent the reservation price of the actor that your foreign counterpart is least informed about – your domestic veto player. Thus, the heart of the "Schelling conjecture" is the attempt by the international negotiator of country A to convince country B's negotiators that the domestic veto player in country A has a lower reservation price than it actually does. If it can do so, then country A may be able to appropriate a bigger share of the gains from cooperation than it might be "objectively" entitled to.

*Recent Formalizations of the Schelling Conjecture and the Two-Level Game
Metaphor*

It is clear that "bluffing and fooling" can not occur under complete infor-
mation. Milner and Rosendorff (1996) argue, on the basis of their limited
information model, that the conditions under which behavior consistent with
"the Schelling conjecture" occurs in equilibrium are quite limited. Clark and
Duchesne (1995), in contrast, identify behavior consistent with the "Schelling
conjecture" at work in the negotiations leading up to the Canadian–U.S. Free
Trade Agreement. They argue that the reason "Schelling conjecture" behavior
does not occur under a wide set of conditions in the Milner and Rosendorff
model is because of the particular way in which they interject limited infor-
mation into their model. Clearly, in order for negotiators from state A to
"fool" negotiators from state B, they would have to take advantage of private
information about the reservation price of the domestic veto player in state
A. But since Milner and Rosendorff are primarily concerned with explaining
why state A negotiators would sign an agreement that is subsequently not
ratified by its own domestic veto players, they locate the uncertainty between
actors *within* country A. Clark and Duchesne, in contrast, construct a model
in which country B is uncertain about the domestic veto player in country A's
reservation price and generate an equilibrium where country A negotiators
can profitably "fool" country B negotiators. Key to their argument is that
Level I negotiators can learn more about their counterparts' reservation price
at the negotiating table than they can about the reservation prices of their
counterparts' domestic veto players.

It is possible to see the way in which private information creates opportu-
nities for strategic behavior on the part of country A's negotiator in a simple
spatial illustration that extends the above discussion. Assume, for starters,
that both countries know their own and their domestic veto player's reser-
vation prices but are uncertain about the reservation prices of both actors in
the foreign country. "Ordinary bargaining" as Schelling describes it, then,
would involve the negotiators attempting to hide their (and/or their domestic
veto player's) true reservation prices while attempting to discover the relevant
reservation price in country B. At first blush it might seem reasonable for
the negotiator for country i to claim that $i*$ was its relevant reservation
price. The problem, of course, is that the win sets of the relevant actors in
countries A and B would not overlap, and so, absent movement by either
or both negotiators, no agreement will be reached and mutually beneficial
exchanges will be foregone. Thus, if the negotiators in A want to increase
the probability that an agreement will be reached – while maximizing their
share to the benefits of the agreement – they will declare their reservation
prices to be the point in the set of offers acceptable to B that is closest to
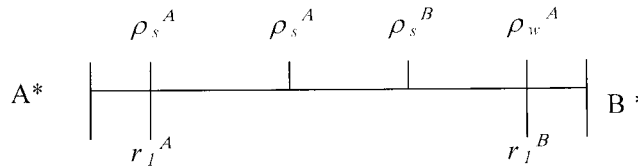
$$\rho_s^A \qquad \rho_s^A \qquad \rho_s^B \qquad \rho_w^A$$

A* |————|————————|————————|————————|———| B *

$$r_1^A \qquad\qquad\qquad\qquad r_1^B$$

Figure 2.

their ideal point. Suppose for example, that the negotiator in country A (B) believes that the relevant actor in country B (A) has a reservation price that lies somewhere between ρ_w^B and ρ_s^B (ρ_w^A and ρ_s^A) in Figure 2. If bargaining costs are sufficiently low (and or, the probability of B's true reservation price is evenly distributed within that feasible range), we would expect negotiator A to initially declare that its relevant reservation price, r_1^A, is equal to ρ_w^B (where the subscript 1 denotes the first of n revelations of reservation price by player A). By symmetry, negotiator B would initially declare its relevant reservation price, r_1^B, to be equal to ρ_w^A. Note that these disclosures reveal no information about their own reservation prices, instead they reveal information about the limit of their subjective probability estimate of their counterpart's reservation price. According to Schelling, the discovery process inherent in bargaining involves the attempt, for example, of country A to shrink the zone of indeterminacy that lies between ρ_w^B and ρ_s^B while at the same time, attempting to make the revelation of r_1^A credible. If this proceeds in such a fashion that the win sets defined by r_n^A and r_n^B (the nth revelations by A and B) overlap an agreement will be reached. The distributional implications of this agreement are determined by the ratio by which revelations of r_1^A to r_n^A converge toward B* and revelations of r_1^B to r_n^B converges to A*.

What induces the relative success of these strategies of discovery and strategic revelation? First, it is reasonable to suspect that it is easier for the negotiators to discover each other's reservation prices than it is to discover the reservation prices of the domestic veto players in other countries. As a consequence, negotiators, in country A for example, are likely to begin negotiations by declaring r_1^A to be the reservation price of the domestic veto player.[10] Negotiators may at the same time declare their reservation price – which may or may not be the same or different than r_1^A. If their declared reservation price is to the right of r_1^A than they are, in effect, declaring themselves the "good cop" in the "good cop-bad cop" strategy. If their declared reservation price is to the left of r_1^A than they are declaring themselves the "bad cop." Negotiators that declare themselves the "good cop" are in effect, saying, "don't waste your time tying to find out what my "fall back" position is, what I want and say is irrelevant." This strategy offers the possibility of getting negotiators in B to accept an outcome closer to A's ideal point, but

runs the risk of a no agreement outcome. In contrast, if the negotiator in country A plays the bad cop, he is in effect saying "you're going to have to make me happy in order to get a deal. If you succeed in this, I can guarantee you that it will be ratified." Consequently, since maintaining the credibility of a low reservation price is what will tilt the outcome in their direction and it is easier to prevent the erosion of a low reservation price if the actor is not at the table, the choice between "good cop" and "bad cop" strategies amount to a trade-off between maximizing the share of the pie and maximizing the probability of reaching an agreement.

If we assume for the moment that distributional concerns are sufficiently important to the negotiator that he will choose to be a "good" cop, the main problem of two-level bargaining comes in convincing his counterpart that the domestic veto player's win set is as small as he claims it is. From the standpoint of country B, bargaining is, therefore, about establishing the true reservation point of country A's domestic veto player.

How does the negotiator from country B go about this? He is likely to have three sources of information. First, he will have the statements from country A's domestic veto players. Second he will have statements from country A's negotiators both about their own and their domestic veto player's reservation price. Third, he will have information about the institutional processes involved in the formation of the domestic veto player's reservation price.

Recent analyses have begun to examine the ways in which these institutional processes can be expected to influence the possible divergence between the reservation prices between the negotiators and domestic veto players in a systematic fashion. Meunier (1998a, 2000) stresses processes of pre-commitment in the European Union's bargaining strategy. This pre-commitment allows negotiators to strike the optimal balance between maximizing distributional gains and minimizing the chance for involuntary defection. This latter goal is particularly important for the EU because the existence of multiple veto players would otherwise reduce the likelihood of ratification to the point where it would deter serious negotiating efforts from their trading partners. A similar logic is at work when the U.S. Congress grants Fast Track authority to the president, reducing the propensity that international agreements will die under the weight of multiple amendments.

Similarly, Duchesne and Clark (1995) argue that the existence of a Congress with a smaller win set than executive branch negotiators convinced Canadian negotiators to sign an agreement that granted the U.S. the lion's share of the benefits produced by the agreement. Together these studies suggest that the ability of negotiators to maintain the credibility of claims regarding low reservation prices is increasing with the number of domestic veto players and with the ability to make pronouncements by domestic veto

players credible. This is true for at least two reasons. First, the proliferation of domestic veto players increases the uncertainty that country B negotiators face in trying to ascertain the relevant reservation price in country A. Second, the proliferation of domestic veto players, all else equal, increases the probability that a domestic veto player with a smaller win-set than that of country A's negotiators.

The results of Duchesne's (1997) multinomial logit analysis support Schelling's conjecture: American negotiators obtain a lower level of success when they are facing a target that is highly institutionally constrained at the domestic level.[11] Furthermore, when Duchesne conducts an analysis of the level of American bargaining success vis-à-vis specific targets, this variable is what sets the European Union apart from other targets. For instance, American negotiators obtain a much higher level of success when facing Japan than they do when confronting the EU. One salient difference between the two targets is that the European Union potentially[12] encompasses a large number of "domestic" veto players, while Japan has a parliamentary system where institutional veto players do not exist when a majority government controls the Diet.

The Role of Domestic Institutions in US–EU Trade Negotiations

The United States and the European Union have engaged in a multitude of trade negotiations with each other since the creation of the Common Market in 1957. We argue that the distributional outcomes of their negotiations can be explained by institutional factors. Furthermore, in contrast to the Duchesne and Clark study of the Canadian–U.S. Free Trade Agreement, the absence of structural asymmetries brings the role of asymmetries in domestic institutions into sharper focus. In particular, the frequent "success" of the EU in its negotiating with the US is largely the result of the bargaining power that its unique institutional arrangement grants its negotiators.

Symmetries and Asymmetries in US–EU Trade Negotiations

Structural symmetries. The largest two economies in the world, the United States and the European Union occupy relatively similar positions in the international political economy. Their total gross domestic product is comparable in size, and their shares of world trade are roughly equivalent, as indicated by Table 1.

Their bilateral economic relationship is quite balanced, as shown in Table 2. The US and the EU import and export a relatively similar share of

Table 1. Basic EU/US structural data

1997 figures	EU 15	US
Population	373.3 million	267.6 million
GDP	$8093.4 bn	$7819.3 bn
GDP per capita	$21,681	$29,220
% of world trade		
Imports	17.1%	20.3%
Exports	19.6%	16.5%
Trade as% of GDP		
Imports	9.4%	11.5%
Exports	9.1%	8.8%

Sources: Eurostat, OECD, US Census (http://www.eurunion.org).

Table 2. Bilateral EU/US trade relationship

	EU 15	US
% of imports from the other's economy	20.5%	18.1%
% of exports to the other's economy	19.6%	20.4%
Direct investment in the other's economy	$381.9 bn	$369.0 bn

Sources: Eurostat, US Doc (http://www.eurunion.org).

goods and services from and to each other, and their companies engage in comparable levels of cross-border investment.

While the creative reader might detect important asymmetries in the structural relationship between the U.S. and EU in tables 1 and 2, clearly the EU is a close match in terms of structural power.

Duchesne (1997), expanding on previous work by Bayard and Elliott (1994), looked at all cases between 1975 and 1993 when the United States employed Section (Super) 301 to point out "unfair" trade practices by an international target. Table 3 reproduces some of the data he collected. We include data from the five targets with the largest amount of exports to the United States during the period of his study. The table provides information on two measures of U.S. trade sensitivities. "U.S. Trade Dependence" (column 3) measures the ratio of the target's share of the United States' trade output (exports) over the United States' share of the target's trade output (exports). The fourth column measures the ratio of the United States' share of its gross national product that is accounted for by its exports to the target over the target's share of its gross national product that is accounted for by its exports to the United States. These two variables measure sensitivity to

Table 3. Trade sensitivities

Target	Target's export to the United States (billions)	U.S. trade dependence	Trade dependence controlled by GNP
European Union (20)	94.64	3.342	1.027
Canada (5)	102.32	0.281	0.077
Japan (12)	92.54	0.354	0.254
Taiwan (6)	23.57	0.076	0.011
Korea (7)	20.84	0.095	0.017

Source: Duchesne (1997). This table represents average values from all Section (Super) 301 cases between the United States and a specific target. The number of cases for each target is indicated between parentheses. See appendix 1 for full details on sources and calculations.

trade interruption. A ratio greater (or less) than one suggests that the U.S. is more (or less) sensitive to the target than the target is to the U.S. Appendix 1 explains how the data were collected and all original sources.

Table 3 demonstrates that the European Union is the United States' favorite Section (Super) 301 target. Almost 27% of all Section (Super) 301 cases were directed at the European Union (20/75).[13] Due to the formal nature of the Section (Super) 301, we believe that a majority of the cases are resolved before reaching this official stage. These cases are either dropped or resolved beforehand because the United States does not have a "strong" case, or because the target prefers to make concessions instead of facing American concessions. Therefore, it is likely that cases reaching the formal Section (Super) 301 stage are cases for which the outcome is uncertain. Furthermore, cases involving targets with a more or less symmetrical bargaining power with the United States are more likely to fall in the "murky" zone where the outcome is uncertain. This would explain the large number of cases involving the European Union. Table 3 supports our claim. Of all the major targets, only the European Union has either a favorable trade asymmetry with the United States or an equal sensitivity to trade interruption, depending on which measure we use. If we concentrate only on trade values, we find that the United States is less sensitive to trade interruption with all targets, but the European Union. In one case (Taiwan), the target is thirteen times more like to be affected by trade interruption with the United States than vice versa. However, the internal disruption from a trade war between the European Union and the United States is three times more likely to affect the United States than the European Union. Nevertheless, this measure of trade interdependence has its limitations. It does not account for the economic size of the trading partners. The data from the fourth column accounts for the strength

of the national economies. When we control for Gross National Product, we discover a similar sensitivity to trade interruption between the United States and the European Union (Ratio approximately equal to 1). In all other cases, this measure indicates that the United States is much more likely to sustain trade interruptions between itself and an international target. Finally, Bayard and Elliott (1994) and Duchesne (1997) show that the United States' level of success when resorting to Section (Super) 301 is higher when targeting Japan, Taiwan, and Korea than it is when confronting the European Union. All these results point out to the realization that the large number of trade disputes between the United States and the European Union, and the mitigated successes of the United States may be due, in part, to their symmetrical sensitivity to trade interruption. We also argue that the European relative level of success is due to domestic institutional factors.

Many analysts, including members of the EU Commission, have indeed argued that this structural symmetry is the main cause of the increasing number of trade tensions which have plagued the US–EU relationship in the past decade. From a more theoretical standpoint, Conybeare (1987), and Gates and Humes (1997: Chapter 4) propose game theoretical models that account for a high propensity of trade conflicts between the US and the EU. In these studies, the "size" of a country is defined as its import price elasticity. "Large" countries face relatively higher import price elasticity while "small" countries are more at the mercy of the international market, facing low import price elasticity. In terms of international trade encounters, these authors demonstrate that trade wars are more likely to occur between two large countries, while two small countries will cooperate and a large country will use its leverage to exploit a small country.[14] According to these authors' definition, trade relationships between the US and the EU can be characterized as trade relationships between two large countries. Consequently, one is to expect episodic trade conflicts between these two international entities.

Institutional asymmetries. The US and the EU use different institutional procedures for handling international trade negotiations. In both cases, the power to conduct trade negotiations has been delegated by assemblies representing diverse interests (the US Congress, the EU Council of Ministers) to the most centralized level of government (the US Executive, the EU Commission). In both cases, negotiators have, in theory, full latitude to conduct negotiations, as long as they remain within the parameters of the delegation (congressional authorization in the US, negotiating mandate in the EU). Finally, in both cases the international agreement has to be ratified by the authority that delegated the negotiating competence (the Congress in the US,

the Council of Ministers in the EU). Similarities between the trade policy-making process in the US and the EU have been the object of several studies, which analyze the delegation of trade authority to the most centralized level of government from a principal/agent perspective (Nicolaïdis 1998; Meunier 2000).

Despite these similarities, however, the EU institutional structure remains unique, most of all because of the supplementary level of bargaining that it faces. In producing the common position to be defended on its behalf during international trade negotiations, the EU needs to reconcile the conflicting demands of its constituent member states, themselves determined by the conflicting demands of various domestic groups. In order to achieve this common position, the EU Commission elaborates a negotiating proposal that is reviewed by the Council of Ministers, which then hands out a negotiating mandate – in principle agreed to by qualified majority – to Commission officials who then conduct the international trade negotiations within the limits set by the mandate (Meunier and Nicolaïdis 1999). At the conclusion of the negotiations, the Council approves or rejects the trade agreement.

EU negotiators therefore face a three, not a two level game. US negotiators, by contrast, play only on the domestic and the international boards. Under the fast-track procedure, Congress votes to delegate the negotiating authority to the Executive, which conducts the actual negotiations and concludes the agreement that is eventually subjected to an up-or-down simple majority vote (with no possible amendments) in Congress (Destler 1995). These differences between the trade negotiating procedures of the EU and the US have played an important role in determining their respective bargaining power in trade negotiations, in particular by enabling the EU to successfully use the strategy captured by the Schelling conjecture. The following case will indeed provide some illustration of how these institutional differences help to explain the distributional outcomes.

Case of US–EU Trade Negotiations: EU–US Agricultural Negotiations in the Uruguay Round (1986–1993)

The stormy history of the EU–US negotiations on agriculture during the Uruguay Round cannot be understood without reference to domestic factors. Electoral politics and interest group pressures are often used to explain the process and outcome of these negotiations. Policy networks have also been recently used as an explanation of the Uruguay Round agricultural outcome (Landau 1998). Building upon the literature, which analyzes agricultural policy reform in the EU in a multilevel game framework (Paarlberg 1997; Patterson 1997), we argue that institutional factors also played a

crucial role in determining the process and outcome of EU–US agricultural negotiations.[15]

Multilateral negotiations on agriculture started in 1986 as part of the Uruguay Round of GATT. The primary objective of the US was to put an end to the costly "subsidies war" between the US and the EU, which had intensified in the early 1980s when each side retaliated to each other's agricultural subsidies with the imposition of further protectionist measures.[16] In 1987, American negotiators proposed a complete elimination of all subsidies in agriculture by the year 2000 and demanded a phase-out over ten years of all export barriers as well as of the quantities exported with the aid of export subsidies – a negotiating position referred to as the "zero option". The European Community, by contrast, envisioned only short-term measures and certainly not a complete removal of agricultural protection. With the potential veto power of member states (led by France) adamant about maintaining the existing system of export subsidies and protected market access for agricultural products, the only common negotiating position that the EU could offer at the international table was its lowest common denominator, which was outside the U.S.' win-set. After years of deadlock in the international negotiations, this institutional inability of the EU to reach any internal agreement going beyond what was acceptable to the most recalcitrant member state almost terminated the Uruguay Round altogether. The EU representatives' lack of negotiating autonomy prevented a successful conclusion of the Brussels ministerial meetings of December 1990, originally intended to close the round. A similar attempt in December 1991 was also unsuccessful. Arthur Dunkel, the Director General of GATT, subsequently ordered the Community to conclude an informal bilateral pre-agreement on agriculture with the US before the final multilateral agreement could be negotiated.

The US–EU agricultural negotiations were put on hold while the EU reformed its Common Agricultural Policy, adopted after a year of intense debate in May 1992 (Patterson 1997; Paarlberg 1997). The Mac Sharry reform limited production, entailed a substantial reduction in support prices (to be compensated by aid) and set aside land from production. Unlike the negotiations in GATT, however, the reform did not address market access and export subsidies. But by redefining the negotiating mandate and granting more flexibility to Commission negotiators, this reform enabled the bilateral negotiations to move forward.

After intense bilateral negotiations on agriculture in October 1992 failed to produce results, the US decided to link the ongoing oilseeds dispute to the GATT discussions and menaced the EU with a full-blown trade war.[17] Finally, on 18 and 19 November 1992, US and EU negotiators reached the so-called "Blair House" agreement,[18] which had been made possible by an

increased level of autonomy for the EU negotiators (Meunier 1998b). While the agreement occurred in spite of strong opposition from France, the combination of weakened unanimity in decision-making and heightened negotiating autonomy "freed the hands" of EU negotiators, thereby breaking the negotiation paralysis to the benefit of both the US and the majority of member states.

France immediately denounced the Blair House agreement and attempted to reclaim some of the institutional competence delegated to the supranational Commission in order to alter the already negotiated "pre-agreement." Fueled by violent domestic protests from angry farmers and by crucial national elections, French politicians embarked on a crusade to contest the content of the agreement and the conditions under which it had been reached. The successive French governments ardently tried to reassert the unanimity rule in the EU in order to reject the agreement. The veto threat was reinforced by the March 1993 election of a Center-Right coalition after a campaign in which the protection of French farmers, the CAP reform, and the Blair House deal negotiated by "foreign" commissioners were central issues.

In September 1993, the twelve member states eventually compromised on the need for "clarification" of the Blair House agreement, which prevented France's isolation while not overtly jeopardizing the results of the Uruguay Round. The Commission's negotiating autonomy proved to be the dominant and most controversial issue during the special September "Jumbo" Council. France had called for changes in EU institutional procedures to ensure national governments' closer control over the Commission during multilateral negotiations and to avoid the scarcely transparent conditions under which the Blair House agreement was negotiated. The Council decided to "monitor constantly the negotiations" on the basis of Commission reports during each session of the General Affairs Council and informally decided to approve the Uruguay Round results by consensus. This represented a clear step toward a return to strict intergovernmentalism in trade negotiating matters and a reining in of the Commission's negotiating powers.

The threat of a major crisis if EU demands for "clarification" of Blair House were not met eventually contributed to a reversal of the US position on the renegotiation of the agreement. The US administration ultimately agreed to renegotiate specific elements of the agreement and weaken the original deal (Paarlberg 1997), rather than confront a possible breakdown of the talks before the crucial ultimatum enforced by the expiration of the US Congressional Fast Track Authority on December 15, 1993. As one member of the US delegation to the Uruguay Round wrote, "the Americans made very significant concessions that altered the Blair House commitments to the advantage of European – especially French – farmers. [. . .] In sum, the French

had achieved a significant watering down of the agreement made by the EU negotiators a year earlier" (Preeg 1995). As a result of the constraints created by the EU obligation to negotiate as a whole while retaining the principle of unanimity and tight control over the Commission, the most recalcitrant country exerted a preponderant influence on the final outcome. When the Uruguay Round was concluded on December 15, 1993, the veto right had been reinstated, the Commission's autonomy was curtailed, and the EU had obtained a better deal than in the original agreement. This was the result of an *ex post* revision of the rules of the game. At Blair House the new found authority enjoyed by European negotiators allowed them to approve an agreement that was outside the win set of the its most recalcitrant veto player. French protestations led to the renewal of its status as a veto player and the benefits of the agreement were, consequently, shifted back toward the EU.

This crucial instance of agricultural negotiations under the auspices of the GATT between the United States and the European Community provides an illustrative case in defense of Schelling's conjecture. Both sides at the Level I negotiation table relied on a "good cop, bad cop" strategy to portray a high level of opposition at the Level II table to all but the most favorable agreements. They used this negotiation tactic to gain more concessions from their fellow trade diplomats. On the one hand, the United State Trade Representative was prone to mention the willingness of Congress to initiate retaliation against what it considered unfair trade practices on the part of the Europeans. In the eyes of the American negotiators, their message to the European negotiators was simple: greatly reduce subsidies to your agricultural sector or face stifling American countervailing duties. On the other hand, European negotiators argued that they could be open to the American position, but the situation was complicated by the recalcitrant stance of the leaders of some of their member states. Consequently, American, as well as European negotiators, held their own trump cards. They all preferred an agreement to an outright trade war, but both sides were attempting to gain as much from an eventual agreement without making too many concessions. This slippery situation is illustrative of Conybeare (1987), and Gates and Humes (1997) depiction of trade wars between two "large" states. However, because the two sides put a high value on the agreement itself, they found ways to avoid the prospect of "involuntary defection" (Putnam 1988), in a situation where their stated "win sets" did not overlap. While the trade structure between the two international entities did not change significantly between the time the negotiations started in 1986 and their conclusion in 1993, institutional features, such as the domestic ratification process, evolved. The Europeans' move from a strong unanimity decision rule to an informal consensus rule

helped untie the Gordian knot of failed negotiations. Hence, a more moderate institutional opposition contributed to a positive outcome. On the other side of the Atlantic the situation was different. Americans had to convince their European counterparts that Congress would veto an agreement that did not give the appearance of significant European concessions. It was eventually only under the shadow of the non-renewal of the fast-track authority that both sides acknowledged the severity of the situation and compromise was reached.

Conclusions

In this article, we argued that differences in the institutional structures that enable and constrain international policy-makers are essential elements of an explanation of the outcomes of US–EU negotiations. In particular, we focused our attention on a seminal contribution by Thomas Schelling to the subject of bargaining almost forty years ago. Schelling's conjecture has often been misunderstood. We hope that through our discussion and application of Schelling's conjecture to the important subject of trade relations between the EU and the US, we will open new venues for discussion of this consequential issue. A clear understanding of the Schelling conjecture, as well as Putnam's two-level games metaphor, is particularly important because the trade relationship between the United States and the European Union is encountering rough terrain as we enter a new century.

Recent institutional reforms in the EU and the non-renewal of the fast-track authority in the US may end up eventually reducing these institutional asymmetries between the European and American trade policy-making processes. On the one hand, the EU seems to be moving toward an ad hoc system for the delegation of sovereignty in the "new" trade areas, such as services and intellectual property, and an even tighter control of the constituent member states over the negotiating process and the ratification of international trade agreements. Some analysts have compared these institutional developments to the fast-track procedure, with the member states delegating, like the US Congress, negotiating authority for a limited time to the supranational Union (Meunier and Nicolaïdis 1999). On the other hand, the US fast-track delegation of trade negotiating authority to the Executive has expired since 1994 and Congress has so far refused to renew it. If the US were to enter into international trade negotiations in the absence of fast-track authority (as it did at the November 1999 WTO Ministerial conference in Seattle), it would mean that every agreement reached at the international table could be open for renegotiation, amendment, and rejection at the national level. Both the European and the American institutional moves go in the

direction of less automatic delegation of authority, more control exerted by
the principals on their agents, and therefore even greater implementation of
the "tied hands" strategy highlighted by Schelling. More importantly, it also
highlights the propensity of "involuntary defection," even if an agreement
is reached between the agents. Together, these developments suggest that
policymakers in both the US and the EU are placing greater importance on
the distributional consequences of trade agreements, even at the expense of
reducing the probability of further progress toward liberalization.

The US–EU trading relationship has been mired lately by a series of public
conflicts (such as on Cuba, bananas, and genetically modified foods) rooted in
regulatory differences and deep concerns for national sovereignty. Even in the
face of contrary WTO rulings and in spite of internal divisions between the
member states, the EU has held firm and refused to alter its policies. How can
our central argument illuminate the recent US–EU trade disputes, predict their
resolution and assess the chances of success of the new round of multilateral
trade negotiations to start soon under the auspices of the WTO? We can look
at the situation with guarded optimism. As our discussion of the Uruguay
Round negotiations illustrated, trade discussions between the EU and the US
are marked by pragmatism. Despite frequent occurrences of histrionics and
volte-face, all negotiators involved saw it in their common interests to finalize
the negotiations and reach an agreement. As long as trade and services liber-
alization remains at the top of the international agenda, we should expect a
steady movement towards a borderless international economy. We shall not
fool ourselves though; the creation of the WTO is only one step towards
the leveling of trade relationships between the EU and the US. The desire
to capture rents is ubiquitous, pork-barrel politics and logrolling happen
wherever institutional structures permit. Americans may have perfected the
art, but Europeans have become masters in the manipulation of their insti-
tutions in order to achieve better international outcomes. Current disputes
involving bananas and hormone-treated beef are only the first blows directed
at the legitimacy of the Dispute Settlement Body (DSB) of the WTO. At
the same time, Americans and Europeans legislators have been successful at
using their specific institutional designs to reach compromise and avoid open
trade wars. If confronted with similar choices between optimizing their inter-
national outcomes at the risk of a breakdown in their trade relationships and
a compromise that sustains the international trading system, we believe that
Europeans as well as Americans will again choose to maintain a relationship
from which they benefited for more than fifty years.

Notes

1. This is tantamount to Dahl's classic definition of power as "A's ability to get B to do something that B would not otherwise do" (1956: 201).
2. Conversely, it could be argued that during the Cold War Europe extracted concessions from the U.S. in order to keep it "in the West". This, at least, is a common explanation for the Marshall plan.
3. See for instance the assessments of aggregate power of Cline (1975), Jones (1954), Knorr (1970: chaps 2–3), and Organski (1968: chaps 6–8).
4. The situation has a parallel (but mirror image) structure when viewed from the standpoint of the seller. The seller wants to convince the buyer she is constrained from selling the good below some floor price and the buyer wants to determine if these constraints are, in fact, binding.
5. See Brams and Kilgour (1998) for a conceptualization of all bargaining as a contest over the extent to which each party will "fall back" to some less preferred bargain that is, nevertheless, preferred to a non-agreement outcome.
6. Although their work is not specifically about international trade negotiations, Bueno de Mesquita, Newman, and Rabushka (1985), and Bueno de Mesquita (1990) argue that the domestic bargaining situation acts as a salient determinant of the negotiators set of demands in an international encounter. They add also, similarly to Putnam, that the international process determines, often through bargaining, the outcome of an international confrontation.
7. From the standpoint of the buyer, an actor's win-set is large when its reservation price is high (because there are lots of agreements that leave the buyer better off than the agreement at his reservation price) and small when his reservation price is low (because there are fewer agreements that would be better than what he can get from a no agreement outcome). For simplicity, we assume that the domestic veto player in country B has the same reservation price as its international negotiating agent.
8. For a rigorous and complete treatment of these issues, see Hammond and Prins (1998).
9. Morgan, J.N. (1949: 376, f6), quoted in Schelling (1960: 23).
10. Putnam quotes an "experienced British diplomat" as saying that the lamenting of domestic constraints as being "the natural thing to say at the beginning of a tough negotiation," p. 400.
11. He also considers at the "importance" of a variable by looking at the marginal impact of each independent variable on the dependent variable. For instance, this method allowed him to hold all independent variables at their means, with exception of the targets' level of institutional constraint. By varying the value of this variable from its minimum to its maximum, it is possible, through a graphical method, to inspect the impact of the variable on the level of American bargaining success. This graphical method clearly showed that as the level of target institutional constraint rose, the level of American bargaining success rapidly declined. This is also consistent with the Schelling conjecture.
12. We prefer to talk about a "potential" number of veto players because there exists a number of institutional arrangements in the decision-making process of the Community, which increase or decrease the number of veto players (Meunier 1998). We elaborate on this issue below.
13. If we were to include two cases involving individual members of the EU, Portugal and Spain, this percentage would reach 29%.
14. The relationship between two large countries can be characterized as a Prisoners' Dilemma. The relationship between two small countries and between a large and a small

country are represented as Hybrid Chicken-Stag Hunt and Asymmetric games respectively. In the latter two games, trade wars don't occur as, in equilibrium, one would expect to see cooperation in the first case, and exploitation of the small country by the large country in the second case. Since trade relation between two large countries might best be characterized as an *iterated* Prisoners' Dilemma, cooperation is still possible (Axelrod 1984), cooperation is more problematic than in the non-Prisoners' Dilemma games that characterize trade relations when at least one of the participants is small.

15. See Meunier (1998b) for a detailed version of this case study.

16. In 1986, US and EC domestic agricultural support programs cost about $25 billion each.

17. In the 1961–1962 Dillon Round, the EC granted zero-duty access to the then little-used oilseeds and cereal substitutes. The EC then started to subsidize its production in order to limit imports. The dispute erupted when the US challenged the EC oilseeds subsidy program in GATT. Successive GATT panels ruled against the EC, which refused to comply.

18. The agreement offered a reduction of 21% in the volume of subsidized exports, as well as 36 percent in budget over six years, using 1986–1990 as the base period. It also provided for a 20 percent reduction in internal price support over six years, with the period 1986–1988 as reference. Finally, European and American negotiators agreed to a "peace clause" that would exempt from trade actions those internal support measures and export subsidies that do not violate the terms of the agreement. A separate deal on oilseeds was also concluded, ending several years of transatlantic disputes and canceling the promised US trade sanctions against the EC.

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Appendix 1: Calculation of Trade Interdependence

The data included in the third column of Table 3 represent the trade interdependence between the United States and the target country (or group of countries). It is measured as the ratio of the target's share of the United States' trade output (exports) over the United States' share of the target's trade output (exports). In order to measure this variable (**INTERDEP**) the following variables were created:

USTOUT: Annual United States' Trade Output (in billions)

TATOUT: Annual Target's Trade Output (in billions)

USEXP: Annual United States' Exports to Target (in billions)

TEXP: Annual Target's Exports to the United States (in billions)

TSHOUT: Target's Share of United States' Trade Output (USEXP/ USTOUT*100) (%)

USHOUT: United States' Share of Target's Output (TEXP/TATOUT*100) (%)

INTERDEP: Ratio of TSHOUT over USHOUT

The data in the fourth column of Table 3 are the ratio of the United States share of its gross national product that is accounted by its exports to the target over the target's share of its gross national product that is accounted by its exports to the United States. In order to measure this variable (**INTERDEPGNP**) the following additional variables were created:

USGNP: Annual United States' GNP (in billion)

TGNP: Annual Target's GNP (in billion) **USXGNP**: United States' Share of GNP accounted for by Exports to Target (USEXP/USGNP*100) (%)

TXGNP: Target's Share of GNP accounted for by Exports to the United States (TEXP/TGNP*100) (%)

INTERDEPGNP: Ratio of USXGNP over TXGNP

The source for USTOUT, TATOUT, USEXP, and TEXP is IMF, *Directions of Trade* ..., country tables. We used the DOTS World Total. A special table from the same document indicates the European Union exports. When the negotiations lasted more than a year, we calculated the yearly average. The values are indicated in billions of current US dollars. The trade output of Taiwan is not indicated in the FMI document. For this we used The Republic of China, 1992, *Taiwan Statistical Data Book*, Taipei, Economic Planning Council, Executive Yuan, for the 1976/77, 83/84, and 86 data. For the 1992 data, I used The Republic of China, 1994, *Monthly Bulletin of Statistics of the Republic of China*, Vol. 20, No. 1 (Jan.), Taipei, Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

The source for the GNP of the US and targets is taken from the World Bank's *World Table*. This document does not have the GNP in US current dollars. However, it has the GNP in current US dollars per capita and the population. Thus we have multiplied these two values. The values indicated are in current billions of US dollars. No aggregate data for the European Union is indicated. We had to add the GNP of each member of the Union in order to get an aggregate value. When the negotiations lasted more than a year, we calculated the yearly average. GNPs Taiwan were not available in the IBRD document. Therefore, we had to rely on Republic of China, *Taiwan Statistical* ... and *Monthly Bulletin* ..., *op. cit.*, for the data on Taiwan.