Globalization,
Business Interests,
and the
Development of Continental Free Trade
Agreements

by

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Globalization, Business Interests and the Development of Continental Free Trade Agreements

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Abstract

The thesis is a comparative study on the role played by "big business" peak interest associations in the development of continental trading regimes in North America and Western Europe (specifically the FTA, NAFTA and the Single European Act (SEA)). The paper explains the role and level of influence of business groups by examining changes that have been occurring in the international political economy over time which have increased the influencing power of business and weakened the ability of states and civil society groups (and labour) to act in certain policy areas. The increased "influencing power" of business caused by globalization and reflected in the agency and structural power of capital, allowed business groups in Canada, the United Kingdom, and at the European level, to play an active and important role in the agenda-setting, negotiation and implementation phases of these agreements.
In memory of two special people
who have had a profound impact on my life

Herta Marie Holz & Elsaida Ambrosine Ilgner

I will always love you and I will never forget you
“Protection is not left-wing or right-wing; it is simply passe. Liberalization is not a right-wing or left-wing issue; it is simply a fact of life.”

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Over the past quarter century, the creation of a truly global economy has had a profound effect on the power structure of the international state system, on the sovereignty of states, and on the shape of public policy. At the close of this century, the world has entered a period that one U.S. President predicted would be a "new world order" for humankind and development. Indeed, since George Bush spoke those hopeful words, a series of events rapidly developed that included the abrupt end of the Cold War and the dissolution of the USSR, the near-economic collapse of the Japanese and East Asian economies, and tremendous instability as global politics transformed from a bipolar system into multipolar and multicivilizational chaos.\(^1\) The world without order became one of deregulation, privatization and trade liberalization – a three-pronged trident aimed at the heart of the Keynesian Welfare-State System by the emerging paradigm of the times. The emergence of neoliberalism as the description of weakened state power and the prescription for state policy, emerged out of two powerful and interwoven forces that molded the shape of the state and the historic balance between government and market. The first of these has been the renewed globalization of business and the spread of multinational modes of production across a variety of states at different levels of development, causing increased international interdependence of which the world has never seen.\(^2\) The second has been a weakening of state power, both *de jure* and *de facto*, as nation-states have gradually lost the power to control their economies and create policies for the benefit of their citizens.\(^3\) Globalization has taken a hammer to the nation-state and has splintered away power in three directions: downward to sub-

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\(^1\) Huntington, 1996: 21.

\(^2\) The globalization of business is not new. Indeed, the entire British Empire was founded upon private ventures and private firms seeking out trading opportunities in the "new world" and in India. Examples include the East India Company which helped colonize India, and the Hudson’s Bay Company that established a series of trading posts across vast parts of Canada.

\(^3\) This is a much more controversial proposition that has divided academia. Some like Razeen Sally, Louis Pauly and others, suggest that governments *never* had complete power over the economy and society and that nothing has changed over the past thirty years. (See Sally, 1998 and Doremus, Keller, Pauly and Reich, 1998) The late Susan Strange along with Robert Cox and others suggest that while globalization is not new, the power of business over states *has* grown since the Second World War to become an autonomous force. What is new is the level of interdependence among states and the *real* power that firms have in the domestic policy-making process. (See Stopford, Strange, and Henley, 1991 and Cox, 1987). This paper is informed by Wyn Grant’s cautionary note that “overstating the impact of globalization is a
national and local levels, upward to emerging continental and global governance structures, and horizontally to business groups.  

A major consequence of these changes in the international political economy has been the rise of economic regionalism ubiquitously across the globe. Economic regionalism is the promotion of international economic linkages among countries that are geographically proximate with economies that have become interdependent. Regional integration agreements (RIAs) are the manifestation of these political and economic pressures, developing largely in the aftermath of the Second World War. Regional integration or continentalism if one is referring to the integration of parts of a continent, has come in different waves as well as forms. The first example of modern-day continental integration was the creation of the European Economic Community and the European Free Trade Agreement. While consisting of a major trade component, these agreements were a response to the devastating economic consequences of the Second World War, but were also created to maintain peace in Europe, contain Germany, and develop a counterbalance to the U.S. and the USSR. Agreements in other parts of the globe that developed were a result of decolonization and proved to be more cosmetic than real. However, since the 1980's regional integration has developed in virtually every corner of the globe. Agreements such as the Single European Act (SEA) of 1986, the Canada-United States Free Trade Agreement (FTA) of 1988, the North American Free Trade Agreement (NAFTA) in 1993, the Southern Common Market (Mercusor) in 1991, the Association of South East-Asia Nations (ASEAN), and Asia-Pacific Economic Cooperation (APEC), represent some of the many different continental and regional groupings that have developed over the past two decades in response to the pressures of globalization.

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7 Wise, 1994: 75.
as well as more confused analysis of “comparative continentalisms” than has been possible in the past.  

The purpose of this paper is to examine the development of “continentalism” in Western Europe and North America in the 1980’s and 1990’s as a response to the pressures of globalization. Specifically, it compares the activities of business interest associations that led to the development of the SEA in the European Community, and the FTA-NAFTA in North America. I begin with the premise that these agreements were created in response to the effective decline of national sovereignties which had begun to undermine the capacity of nation-states in the developing and developed world to govern and regulate their economies effectively. I will explain the role and level of influence of big business groups\textsuperscript{11} by examining changes that have been occurring in the international political economy over time, which I suggest have increased the influencing power of business and have weakened the ability of states to act in certain areas (particularly in areas of industrial-trade policy), and in short, help to explain the creation, form and timing of these trade pacts. My thesis is that globalization has transformed the hegemonic concept of control that governed the state-market relationship for most of this century, weakening the power of states and increasing that of capital to ultimately cause the development of regional trade and economic integration agreements around the globe.

The increased “influencing power” of business, caused by globalization and reflected in the increased agency and structural power of capital, allowed big business in Canada and the United Kingdom (domestically and through continental contact) to play an active and significant role in the agenda-setting, negotiation and implementation phases of the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement, and the Single European Act. Business groups strongly advocated that these projects of continental market integration be kept to an “informal level” by restricting the powers of supranational bodies to the governance of the market; their relative success or failure in

\textsuperscript{10} Clarkson, 1998: 7.

\textsuperscript{11} I use the term “big business” to refer to refer to the largest corporations that operate in a state or in a number of states. I am referring particularly to firms that are members of business interest associations such as the Business Council on National Issues (Canada), the European Roundtable of Industrialists (EU), the Business Roundtable (U.S.), but also to large firms that are not members of these organizations but are similar in size and influence to those that are members.
achieving this endeavour was a result of the domestic structures that mediated the pressures of globalization and the effectiveness of their lobbying efforts.

As Clarkson has suggested, comparing “continentalisms” is a tricky business, especially with these two continental associations. Differences and conundrums abound about the uniqueness of each continental “constitution”, suggesting metaphors of comparison that frequently reference types of fruit. Comparing “continentalisms” has become a discussion about what to include when making a fruit salad: can you mix bananas, apples, and oranges with grapes? At the same time, the “banana-is-a-banana-is-a-banana analysis” teaches us nothing about “bananas” if there are none with which to compare. While researchers can quickly fall into the pitfall of making non-comparisons, they can equally step into the trap of writing biography rather than creating theory.

The purpose here is not so much to discuss different kinds of “fruit”, but rather to examine what makes fruit grow. Our “fruit” is the development of these three agreements and the role that organized big business interest associations (or BIAs) played in each. Our “fertiliser” is globalization and its effect on states, societal groups, and particularly on capital interests. What makes apples - apples, and oranges - oranges, is the “earth” that the “seeds of globalization” have been planted in: the institutional structures, culture, history, domestic actor power relationships of integrating states, along with numerous other variables, all which shape the kind of integration that develops when these forces intertwine. Leaving the metaphors behind, it is true that the EU is very different from the continentalism that developed in North American in numerous ways: the supranational institutions of Western Europe are much stronger than in the FTA/NAFTA where they remain relatively puny or non-existent; the EU is much older (forty years older) than North America’s de jure economic union; the EU is not dominated by one overall hegemon as is the case in North America, despite what some say of unified Germany’s economic clout. However, while there are countless differences between both regions, it is no coincidence that the re-launch of Europe and the integration of North America began at virtually the same time as indeed it did with numerous parts of the globe in the 1980’s and 1990’s. Rather than viewing these

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12 Clarkson, 1998.
13 For a long period of time, this had been the case with the examination of the EEC where academics often treated it as sui generis. (See O’Brien, 1995)
integration experiences as parochial events, I view them here as different outcomes of the same forces and processes, leading to regional integration with different levels of supranational (continental) institutionalization. Robert O'Brien takes a similar view, where he states that:

the best understanding of regional integration in the 1990's can be achieved through an approach that stresses developments in the global political economy as catalysts for change, and looks at national characteristics to explain the form that regional integration takes. 14

Our purpose here is not to discuss the differences between the SEA and FTA-NAFTA, but rather to account for the development of these agreements in the first place, with particular attention to the role played by big business groups.

The paper will begin by surveying briefly some of the alternative explanations for regional integration in chapter one. In the second chapter, I outline my theory that borrows from the international political economy literature and globalization theory which I suggest is better suited to examining the development of these agreements. In chapter three, I will review the role of UK business in the development of the Single European Act, and will begin by briefly surveying the state of the British political economy outside and inside the EC from the Second World War to the mid-1980's, and explain how the UK and the supranational state of the EC have attempted to control the pressures of globalization and the crises of the 1970's. I will also survey the history and development of UK BIAs and European business groups with UK membership to examine how globalization has altered the views of members. Following this survey, I will then outline the actions taken by big business BIAs in all three stages of the integration process: agenda-setting and coalition building, negotiation, and implementation. In chapter four, I will briefly examine the Canadian political economy for the post-war period to the end of the Trudeau era (1984) and will illustrate how changes in the global political economy have affected Canadian macro-economic and industrial-trade policy. Following this examination, I will analyze the evolution of Canadian big business BIAs and their preference change to the free trade option in the early 1980's. Business influence on government will then be examined for the agenda-

setting period prior to the announcement at the Shamrock Summit, the negotiation phase as well as the ratification period. Business influence will be examined for the NAFTA negotiations concurrently with my analysis of the FTA.
Chapter I: Theoretical Review - Alternative Explanations for Regional Integration

Whereas traditionally state-association took the form of alliances because of security concerns, state-association in the post-war period has been in policy areas other than defence and security. Indeed, prior to the 1950's there have been very few occasions where states have formed associations for reasons other than defence purposes. European efforts to colonize other parts of the globe could be considered as a form of economic integration as economic concerns were often the reason for colonization in the first place. However, all of these were coercive impositions by one state upon others, rather than the free association of states for economic purposes that have become prevalent in the post-war period, and particularly since the 1980's. Thus, regional and continental economic integration is a relatively new phenomenon in international affairs. What causes states to form these economic and political associations? Why is it that so many regions of the globe, particularly since the 1980's, have sought associations based on trade and economic concerns? What role have societal and capital interests played in the development of these agreements? Is the development of these agreements around the globe a result of similar forces and changes?

In a search for answers, one is overwhelmed by the variety of competing theorems that address these questions. Explanations are wide and varied, drawing upon literature from international relations theory, political science, comparative politics, public policy and international political economy. Most of these explanatory theories propound that a certain mix of key actors and external forces were primary variables that account for

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15 A modern example prior to the Second World War was the creation of the Greater East-Asian Co-Prosperity Sphere by Japan in the pre-war years to unify the industrializing economies of Japan's conquered neighbours to feed into the country's industrial-military complex. (Beasley, 1990: 193-4, 201).

16 There are a few examples of regional integration agreements before this century. The Hanseatic League that developed between German cities in the thirteenth century is a good example as the League remained narrowly focussed on promoting trade connections and maintaining foreign trade privileges. The Deutscher Zollverein (Customs Union) of 1834 is another example and was the precursor to Germany's first union under the craftsmanship of Otto van Bismarck. (Herweg, 1994: 88 and Jacek, 1999a: 7) So was the Reciprocity Treaty of 1854 that focussed on trade between British North America and the United States.

integration, and most of these concentrate solely on a particular region of the globe that has become integrated. While useful in providing a detailed account of integration in each case, examining integration in one part of the globe tells us little about why integration is occurring elsewhere, almost simultaneously. Indeed, the majority of integration theory has been narrowly focussed on the integration of Europe.

This paper proposes a theory of continental integration that draws upon the literature of international political economy (IPE) as an explanation for the development of both the SEA in Europe and the FTA and NAFTA in North America. The common causes for continental economic integration in the 1980’s and 1990’s was the increasingly competitive environment for firms and states caused by globalization. Instead of viewing these agreements as isolated events, the IPE literature provides a wider perspective by viewing these agreements within the context of changes in the international political economy. What the competing theories of regional integration gain in specificity they lose in their acute generalizations, but in building a new theory one should not reject the construction of past theoretical accomplishments.

Rather than “throwing out the baby with the bath water,” an examination of these competing theories is useful, particularly how each identifies the primary independent variables (the mix of actors and international forces that were important) which led to integration in each particular case. My theory builds upon the strengths of some of the hypotheses in previous philosophical constructs in an effort to build a better, more generalizable theory. In this chapter, I will examine the evolution of regional integration theory briefly (dominated by Europeanists) and provide an assessment of where these theories have fallen short.

Realism and the regional integration of Europe
Regional integration falls within the realm of international relations theory which is dominated by the realist perspective that emphasizes the role of the nation-state as the sole actor on the international stage. It is generally agreed that realism has never been a

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19 Indeed, this is perhaps the greatest criticism of realism in that International Relations theorists have created a discourse for themselves which effectively precludes any serious consideration of the role of other interests and organizations as important actors. See Underhill, 1999.
systematic theory of behaviour and outcomes in international relations, but has served rather as a descriptive set of assumptions about the character of nation-states in the world system upon which other explanatory theories have drawn. Neorealism has attempted to organize realist assumptions into a coherent framework with explanatory value, but over time, other explanatory models have developed that are based on realist assumptions including interdependence theory, liberal intergovernmentalism, bargaining and game theory, and regime theory.

The chief assumption of these “neorealist” theories has been that governments pursue clearly defined national interests in conflict with other countries and it is this “conflict among states” that is the primary constraint for governments in the international system. For neorealists, the creation of regional integration agreements is a result of the convergence of views of the member states along with their trade-offs and bargains, rather than the role of lesser actors. It is the member-state that is the essential component of the association rather than the supranational institutions that are created (i.e. in the case of the EC, the Commission, the European Court of Justice, the European Parliament, etc.) Thus, the neorealist view of the European Community is that it represents an international rather than a supranational institution.

While persuasive in its simplicity, the general assumptions made by neorealists of a single national interest and a government that is somehow artificially made separate from domestic political forces simply does not reflect the reality of how international relations works or the development of these continental integration agreements. The pluralist critique of realist theory has outlined that the decision-making process within states (institutions) and the role of interest groups is fundamentally important for understanding the development of the “national interest” and the actions of states in

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22 Cameron, 1992: 28, Rhodes and Mazey, 1995: 8 and Schmitter, 1996: 2. There are indeed two extreme views of the EC-EU: that it is an intergovernmental organization limited to the collective pursuit of tasks which protect and enhance the sovereign autonomy of its members; or, that it is an emerging supranational state that will inherit the tasks performed by members which have transferred their sovereign power to the new institution. This second view, that the EC has “rescued” the European nation-state, is similar to Hobbes' Leviathan where citizens surrender their rights and privileges to the Leviathan so that it may protect them from the state of nature—“where every man is Enemy to every man...and the life of man, solitary, poor, nasty, brutish, and short.” Here, the state of nature would be globalization and the state of chaos that has erupted through hyper-competition between states and firms (examined later). (See Hobbes, 1985: 186).
international affairs. Moreover, pluralism suggests that the interplay of interest groups within the boundaries of states also extends from time to time, beyond them.

**The Pluralist Challenge: Neofunctionalism**

The dominant alternative to neorealism was neofunctionalism, a pluralist theory of international relations that reached its height of popularity in the 1950's and 1960's in its explanation of European integration. According to Amitai Etzioni, a truly integrated region possesses three kinds of integration: (1) effective control over force and violence to exert the states' will; (2) a centre of decision-making that is able to affect significantly the allocation of rewards and resources throughout the community; and (3), it is the dominant focus of political identification for the large majority of politically aware citizens. Neofunctionalism rejects the notion that the state is the only important actor in international affairs. Other actors within the state – such as the bureaucracy, political parties, social groups, and international firms – all exert pressure on governments and help to shape national preferences and foreign policy goals. Thus, neofunctionalists reject the notion of abstracting governments from the political pressures of the societies which they represent, arguing that the external actions of governments are the outcome of a *domestic* process in which decision-makers are influenced by these various pressure groups.

While the effective pressure that these groups display varies from state to state, neofunctionalists note that groups possess linkages not just domestically but *transnationally* with interests in other states that allows for the sharing of ideas and strategy co-ordination. In explaining integration, the neofunctionalist tradition assumes that political outcomes based on co-operation between private and public interests form incrementally and transnationally, "spilling over" from one series of issues to others that are related, causing co-operation between these groups to strengthen and spurring pressure on states for further integration (leading ultimately to the creation of supranational institutions). Even outside of the actions of these transnational state and non-state actors, Ernst Haas argued in his seminal work *The Uniting of Europe* that "[s]ector integration...begets its own impetus toward extension to the entire economy

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even in the absence of specific group demands.26 Because the tasks assigned to these supranational institutions are inherently expansive, and because of the lobbying of national governments by transnational state and non-state actors acting in concert with one another for further integration, further policy sectors among the member states will continue to become transferred to the new supranational level of government as a result of this “spillover.”27 Therefore, the key difference between the neofunctionalists and neorealists is that the former views that the key political actors in integration are the political and economic elites, interest groups, and the supranational institutions created by previous rounds, whereas the latter paradigm stresses that the only actor of real importance is the member states themselves.28

The realist response: Interdependence
The realist response to neofunctionalism was led by the writings of Stanley Hoffan in the early 1960’s with his theory of interdependence. Interdependence addresses the criticisms of pluralists about how foreign policy goals are developed, and the importance of other actors in international affairs, but reaffirms the primacy of the state as the primary actor in integration and international affairs. Hoffan argued that regional integration had to be viewed in the wider context of international relations on a global scale, that national governments were uniquely powerful actors in the process of integration and would remain committed to the defence of their national interests, and recognized that although states might be willing to go the distance toward closer integration for reasons of mutual benefit in technical and functional areas, this would never occur in the areas of high politics such as national security and defence.29

Of these arguments, Hoffan’s second proposition is a clear rejection of the neofunctionalist assumption that the newly created supranational structure would take over the integration process, weakening the role of national elites. According to the neofunctionalist view, national political elites would find it increasingly difficult to fight the logic of closer sectoral integration, particularly when national and supranational

26 Haas, 1968: 297.
administrative elites, along with industrial, financial and commercial groups, were pushing for closer union. The realist argument was that despite the number and relative power of groups advocating for closer integration, states were in a uniquely powerful position as they possessed ultimate legal sovereignty and political legitimacy. As Hoffman argued:

even in the economic and social sphere, where the various interest groups and the technocrats have undoubtedly played a major role in the process of integration, it is a mistake to forget that some of the actors are neither of the same kind nor the same level as the others; I refer to states or, if one prefers, to governments: for their decisions during the process are not explainable only in terms of pressures and counterpressures from interests; often political calculations lead governments to take positions to which powerful groups are hostile.

Thus, while Hoffman acknowledges the importance of interests, the mere presence of pressure group activity does not necessarily dictate the policy decisions of governments. Hoffman’s theory of interdependence therefore falls under the realist paradigm while it corrects some of the key deficiencies of earlier realist explanations.

Within a few short years, Hoffman’s criticisms of neofunctionalism proved prophetic: the “empty chair” crisis caused by President de Gaulle in 1965 affirmed that states remained in control of the European integration process and provided empirical evidence that seemed to show that the neofunctionalists had got it wrong. Following the 1960’s and the development of the Luxembourg Compromise, neofunctionalism fell out of favour among integrationists, even among the neofunctionalists themselves (Haas, 1976), until the unexpected and successful re-launch of Europe in the 1980’s.

The SEA and the revival of neofunctionalism
Sandholtz and Zysman revised (and revived) neofunctionalism in light of the success of the re-launch of Europe in the 1980’s – an event that took many integration theorists by
surprise. Sandholtz and Zysman argue that the development of the SEA is a result of three factors: (1) the effective policy leadership of European central institutions, particularly the Commission which drove the integration process; (2) the development of a transnational business coalition which supported the Commission’s efforts and lobbied government elites in the member states to accept the single market program; and (3), changes in the domestic political context of the member states, particularly the failure of existing national-economic strategies, the decline of the left, and the presence of “vigorously market-oriented governments on the right.”34

In short, their thesis is a revival of the neofunctionalist argument. However, in response to the criticisms of interdependence theorists, neofunctionalists have incorporated an “international element” in their explanation for the SEA. In their view, the trigger for the agreement were the changes in the international economy represented mostly by the rise of Japan (and Japanese firms) and the relative decline of the United States.35 But as far as neofunctionalists have gone to address the shortfalls of the past, they caution that while “[s]tructural situations create the context of choice and cast up problems to be resolved, they do not dictate the decisions and strategies… [T]he global setting can be understood in neo-realist terms, but the political processes triggered by changes in the system must be analyzed in other than structural terms.”36 Neofunctionalists suggest that the EEC was created and developed in a period that revolved around the hegemony of the United States in security and economic matters, but with the relative decline of the U.S. since the 1970’s (in the areas of technology, money, and trade) European elites have had to re-assess the state of the Community and have lobbied national governments for a supranational solution.37 The resurrection of neofunctionalism was strongly supported by the empirical evidence and optimism of the time, particularly after years of Eurosclerosis and numerous lacklustre attempts to revive the integration process.

**The SEA: and Liberal Intergovernmentalism**

35 Sandholtz and Zysman, 1989: 100, 103-106. O’Brien’s analysis ignores this important distinction between neofunctionalist theory in the 1950’s and the 1980’s.
36 Sandholtz and Zysman, 1989: 127.
37 Sandholtz and Zysman, 1989: 106.
Andrew Moravcsik's analysis of the factors that led to the SEA was an effective counterattack to the re-emergence of neofunctionalism. According to Moravcsik's analysis, the SEA was not the result of neofunctionalist pressures for further integration, but the outcome of a successful intergovernmental regime designed to manage economic interdependence through negotiated policy co-ordination among the member states of the EC.38 Moravcsik proposed an alternative explanation following the intergovernmentalist approach, based on realist assumptions, arguing that the SEA was a product of bargaining among EC members, taking into account the domestic politics of the three leading states in the EC (Great Britain, Germany and France), as well as changes in the international political economy. Like Wallace and Bulmer before him,39 Moravcsik noted the importance of developing an interface between the IR perspective and domestic policy approaches to explain the development of the SEA and political and economic integration among states generally.

Over the years, Moravcsik has developed his theory of "liberal intergovernmentalism" which is built upon a refined version of intergovernmental institutionalism incorporating an explicit theory of national preference formation grounded in liberal theories of international interdependence.40 The theory relies upon three major theoretical components: rational state behaviour, a liberal theory of national preference formation, and an intergovernmental analysis of interstate negotiation. Moravcsik begins with the assumption that governments act purposively in international affairs but recognizes that their policy goals develop in a highly intricate domestic policy process. The policy-making nexus of a state's political institutions serves as a conduit for domestic pressure groups and aggregates these competing views into national foreign policy goals. As for pressure groups themselves, Moravcsik notes that the identity, interests and relative influence of them will vary across time and the issues because of domestic as well as trans-national factors.41 Thus, the policy goals of governments evolve to reflect the relative level of influence that interests have.

41 Moravcsik, 1994: 36-41.
The third component of Moravcsik's analysis was an examination of how these conflicting national policy goals were negotiated and resolved among states – in the case of the EC, within the Council of Ministers (CoM). Moravcsik relies on liberal economic interdependence in his analysis to suggest that the forces of globalization (the increasing trans-border flow of goods, services, people, factors, etc.) has created "international policy externalities" among nations that have in turn, created incentives for policy coordination or integration in areas where the vulnerability of states to these negative externalities is significant. In the case of Europe in the 1980’s, a convergence of national economic preferences among key member-states (Great Britain, France and Western Germany) was the cause of the Single European Act. This convergence was the result of a combination of structural economic trends toward higher rates of international trade and investment, the expansion of multinational production by large firms, and perceived domestic policy failures, particularly those industrial-trade policies that were protectionist. Putting both sides together, Moravcsik’s theory reflects a balance between the “demand” from domestic pressure groups (reflected in foreign policy goals) and the “supply” of strategic policy outcomes that are the result of bargaining among other states in the international system.

A Critique of Neofunctionalism and Liberal Intergovernmentalism
Both neofunctionalism and Moravcsik’s “liberal” intergovernmentalism present interesting albeit different reasons for the creation of the SEA and regional integration generally. The neofunctionalist argument by Sandholtz and Zysman is a strong improvement on the work of earlier theorists and illustrates the important role played by transnational interests (particularly European business groups). Moravcsik’s evolving theory of liberal intergovernmentalism has developed over a decade as an effective interface between international relations theory and the domestic politics analysis of pluralism – a model which I incorporate in my theory. Indeed, both theories have strengths in key areas but they suggest a misleading view of the present ubiquitous dynamics developing around the globe.

42 Moravcsik, 1994: 40-42.
Neofunctionalists view the development of the SEA as a parochially “European” event rather than a growing trend among states in response to pressures in the global economy. While they accept that changes in the international environment served as the catalyst for integration, they fail to effectively explain how these changes have affected states and interests alike. The explanation they provide for the “perceived policy failures” of a number of European states is also not well developed as they seem to suggest that the relative decline of the left and rise of the “right” in governments is somehow “spontaneous” and coincidental, rather than caused by deeper factors. Their review of changes on the European political scene acknowledges that left-wing governments remained in power in EC member states during the 1980’s, but nowhere do they explain why these governments chose to accept the right-wing dogma of market liberalization, privatization and deregulation.

The supranationalist explanation proposed by Sandholtz and Zysman is enlightening but the role of supranational state actors is perhaps overstated. The European Parliament was largely ignored during the SEA negotiations despite the Solemn Declaration in the early 1980’s and the efforts of Euro-Parliamentarians like the Crocodile and Kangaroo groups. The role of the European Court of Justice in promoting European integration through its judicial activism (particularly since the Cassis de Dijon decision in 1979) perhaps accelerated the process of integration but it was not a direct contributing factor to the agreement. However, the Commission’s role cannot be ignored: at a minimum, the Commission White Paper served as the agenda for the SEA negotiations. The role of supranational policy entrepreneurs like Lord Cockfield and Commission President Jacques Delors played a significant part in the shape of the agreement and its implementation. Even more importantly for our purposes, the role of transnational business groups was significant and is very well developed in their analysis. Along with domestic business groups, organizations like the European Roundtable of Industrialists played a dominant role in shaping the agenda of the single market as well as being a driving force in the final agreement.

45 Sandholtz and Zysman, 1989: 111.
Moravcsik’s developing analysis has consistently acknowledged the role played by business but at the same time has repeatedly dismissed its role as a primary actor. While not all business interests organized in Brussels played a role in the development of the SEA, Greenwood and Ronit (writing on the pharmaceutical industry) and McLaughlin (examining the European car industry) have shown that certain industrial sectors were far more important actors in the integration process than intergovernmentalists suggest.47 Indeed, the purely intergovernmentalist approach is somewhat misleading because there is ample evidence illustrating that national governments were fully aware of the interests of those industries and firms which were likely to benefit from greater national economic integration.48

Aside from these general observations, Moravcsik’s analysis of the role played by business groups is weak in a fundamental sense because of the theoretical conceptualizations he makes about which groups were important and those which were not. Moravcsik’s approach seems to distinguish between domestic firm/BIA action and that of European-wide BIAs, arguing that European-level organizations did not play an important role, whereas pressure from domestic firms was relevant.49 His conceptualization of “supranational pressures” is key here: while suggesting that pressure for market liberalization would most likely come from those “domestic” firms which had been exposed to the global economy, Moravcsik ignored that most of these were members of the highly influential and supranational body known as the European Round Table of Industrialists (The ERT). As George (George, 1996) has also recognized in his analysis of liberal intergovernmentalism, Moravcsik’s distinction of domestic and European-level business pressure is “particularly unhelpful” since governments were the target of heavy lobbying to agree to market liberalization from businesses that were European or global in scope in their operations and were members of the ERT. Indeed, as George states plainly:

The consequence of the existence of the network is that when the governments of the member states come to tackle problems of public policy and turn for advice to national interest groups, they are all likely to be met by the same advice from the largest and most influential commercial enterprises, because a common view of the

The co-ordination of pressures from national actors which had developed their policy arguments through these transnational networks is a more satisfying explanation that explains the reorientation of national interests that took place in the 1980's in Western Europe, than is Moravcsik’s perspective that treats each state as a closed political system suggesting that the SEA (and regional integration in general) is more the result of coincidence or spontaneous policy convergence. While weak in this sense, Moravcsik’s approach provides an excellent model for the interface between domestic politics and international affairs, albeit in a unidirectional way (pressure of actors → foreign policy goals → supply of outcomes from negotiation).

David Cameron’s review of both competing explanatory theories has suggested that “[w]hen all the factors are reviewed, neither neofunctionalism nor neorealism seems to fully explain the process by which 1992 came into being.” Robert O’Brien makes a similar observation, arguing:

the conflict and struggle around the form of regional integration is not between states, but between state/business elites and large sections of their domestic population. International relations or domestic theories of politics unable to integrate these levels of analysis in a systemized manner, paint a misleading view of present dynamics.

To understand the events that happened in Europe in the 1980’s, we need to examine more than just the parochial politics of Europe. The development of the SEA needs to be examined within a larger framework of economic integration that was ongoing in the 1980’s and 1990’s, like the FTA and NAFTA in North America. A model is needed that illustrates how changes in the international political economy have affected states, particularly the policy choices of governments. In tandem, we need to see how these international changes are also altering the organization and preferences of domestic

52 Cameron, 1992: 30.
groups that play a part in the policy-making process of states – the relative balance and organization of business, labour and societal groups. The integration of the North American continent and Western Europe provides the template for which a new theory of continental integration can be constructed. Both neofunctionalism and liberal intergovernmentalism provide useful theoretical building blocks upon which a better more general theory of regional integration can be constructed. Thus, rather than proposing to “throw out the baby with the bath water”, my theory will draw upon the strengths of both paradigms, but will correct their key deficiencies which I have noted above in the next chapter.
Chapter II: An International Political Economy Explanation for Regional Trade Agreements

International political economy theory (IPE) explains the interaction between politics and economics by comparing how political power shapes economic outcomes and how economic forces influence political action.\[1\] It is essentially a discussion about the relationship between states and markets. To fully understand the developments in North America and Western Europe in the 1980's and 1990's, a wider perspective is needed that views these agreements as outcomes of a larger process that has transformed the international political economy over the past quarter century. IPE provides the overall theoretical framework that not only explains how these regional economic integration agreements came into being, but also the level of influence of political actors in this process, including the role of big business interests. The IPE approach is appropriate for this comparison of different continental integration agreements and is an improvement upon both neofunctionalist and liberal-intergovernmentalist theory in three ways. First, its frame of reference is greater than that proposed by realism which focuses intently upon the interstate system and on states as the sole actors in the integration process.\[5\] It recognizes that there are other important actors, both within and outside of states, which wield immense power. These include firms, social movements, and regional/global governance institutions, among others. Second, IPE recognizes the important role played by global political economy structures in influencing actor behaviour.\[56\] These supranational structures are themselves shaped by forces that alter the power structure and relationships among actors in the international political-economic system. Third, IPE stresses the importance of ideas and ideology as sources of power that can transform the state-society matrix within and among states if they become

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55 O'Brien, 1995: 702 and Underhill, 1999: 22. Indeed, IPE theorists view the state as institutionalized or bargained socio-economic relationships: "[t]his set of relationships between private organized interests and the multiple agencies of political authority known as the state interact to produce historically- specific notions of the public good and public policy." See Underhill, 1999: 22.
56 O'Brien, 1995: 702. Global political economy structures include supranational institutions, either regional or global such as the EEC and the World Bank, or in the form of treaties and agreements among states like the General Agreement on Tariffs and Trade and the Geneva Convention on Human Rights.
adopted by actors in the international/domestic policy-making apparatus. In short, IPE provides a framework upon which a better theory of regional integration can be created.

Using the IPE framework, my research rests on eight premises, which I will develop in the remainder of this chapter:

1) the seemingly unrelated developments in world politics and world business have common roots as they are a result of changes in the global economy and society;

2) states are not equal as they differ greatly in their capacities for governance, the size of their domestic markets, their exposure to the international economy, and in their external economic clout;

3) the power of all states has weakened dramatically (but variably) as a result of globalization and its effects on capital;

4) globalization increases the bargaining power of firms (finance and productive) in relation to governments, labour and societal groups, as capital has gained increased structural power over states along with increased agency power within the state policy-making apparatus;

5) states are less able to regulate firms which have increasing flexibility in shifting production and tapping global capital markets;

6) governments are more dependent on the expertise of multinational firms in public policy-making on technical issues where capacities lie within cross-border networks, particularly in trade negotiations;

7) globalization has fundamentally changed the nature of diplomacy as governments must bargain with firms as well as each other, causing macro-economic and industrial-trade policies to become more important than traditional/conventional foreign policies; and,

8) firms, as international actors, will influence international relations.

This chapter begins by identifying the key theoretical concepts in the IPE literature that are important for this study to explain how globalization has altered the balance between

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58 Structural Power is the ability of capital to influence policy without having to apply direct pressure on governments through its agents. It is essentially the power of “exit” rather than voice. (Farnsworth and Gough, 1999).
59 Agency Power refers to the “influence” that capital agents (firms, employer organizations, business interest associations, etc.) have in the policy-making process. (Farnsworth and Gough, 1999).
60 Sally, 1996: 73-4.
state and market and has led to the development of these continental trade agreements. It will define and outline the process of globalization in the world economy and its effects on the post-war order: on the power and sovereignty of the state, on the shape of the productive firm, and on the balance between finance and productive capital. It will explain the birth of neoliberalism as a product of the agency and structural power of capital interests in rearticulating the “concept of control” in the capitalist world. Finally, it will outline a model of how the SEA, FTA and NAFTA came into being as a result of these structural changes and the agency power of big business.

**IPE Concepts: Comprehensive Concepts of Control, Fractions of Capital and Globalization**

Over the past several decades, the world economy has undergone rapid increases in international exchanges with the effect of making national economies increasingly more open to the rumblings of the world economy. The IPE literature increasingly refers to this process as globalization (or internationalization) which is altering the balance between "states and markets" and concomitantly, eroding the operational sovereignty of states while increasing the relative balance of power of certain societal interests (i.e. business). Defining globalization is difficult because of its abstract nature which allows the term to be used to describe a variety of phenomena including the prevalence of American fast food chains across far-flung parts of the globe, changes in global weather caused by pollution, to the diffusion of the Walt Disney “culture” and products across the globe. Indeed, there are many competing definitions, but for the purposes of this paper, I define globalization as both a macroeconomic as well as microeconomic process that has over time, increased the interdependence among states, de-coupled finance capital from operationalized (productive) capital, shifted the operations of firms from single-nation operations for a “domestic” market to multinational modes of production for a global market, and reorganized individual national economies to coincide with the requirements of global production. It is thus as an economic phenomenon that has led to the integration of markets globally and a heightened mobility of goods, services and capital.

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63 Milner and Keohane, 1996b: 3, 10.

64 Globalization has come to mean many things to many people. See Reinicke, 1998: 11, Lubbers, 1998b: 1, and Huntington, 1996: 68 for other definitions.
than has previously existed, transforming the post-war order established in 1944 at Bretton Woods, California.65

The balance between state and market is fundamentally founded upon ideas – both normative and positivist – about the role of the state and the power relationships among interests (capital, labour and society). The way that states and markets function are based on what Overbeek and van der Pijl have called “comprehensive concepts of control”, a conceptualization of how power is divided in society and how society is organized in a specific hierarchy of classes and class fractions.66 Comprehensive concepts of control are essentially a theoretical description of the power structure within states between fractions of capital, labour, societal groups and government. As such, they are a useful conceptual tool providing a predictive element about outcomes in the policy-making process as they describe the level of influence that interests have as well as the general frame of reference that decision-makers hold about what is considered “rational.”

Robert Cox’s work has suggested that Western society is essentially organized around the hegemonic mode of production, the predominant process of accumulation among states, with the interests of labour and society organizing themselves around the expressions of these general interests. Thus, the comprehensive concept of control (shaped by the general mode of capital accumulation) is the central frame of reference for decision-makers and other interests alike. Public policy choices are evaluated by how closely they conform to the rational logic of this perspective.

Capital interests are themselves not uniform but are made up of “fractions of capital” which are structures of socialization that form around a particular function of the process of capital accumulation.67 As many have shown, these interests can be divided into two forms or fractions of “total capital”: finance capital (the circulation of money and commodities and the exchange of money against labour) and operationalized or

66 Overbeek and van der Pijl, 1993: 3-5.
67 Overbeek and van der Pijl, 1993: 3. Indeed, at least three internal cleavages exist: between sectors, especially between finance and manufacturing (noted above); between size groups (as is the case in this paper, which concentrates on the role of “big” business firms which have become multinational in outlook and in the way they have organized production versus small domestic firms producing for a “home” market); and between capitals of different nation states. Farnsworth and Gough, 1999. See also van Apeldoorn, 1996 and Greenwood and Stancich, 1998: 156.
productive capital (the tangible factors of the production process such as labour, raw materials and other means of production). The particular “historic” configuration of capital fractions thus shapes the comprehensive concept of control that in turn shapes the general rational mode of thinking of decision-makers. The hegemonic position of one fraction over the other has changed over time, shaping the history of human development and political organization over several periods. Retracing the historical shifts between both fractions is beyond the scope of this paper, but to know what has changed it is necessary to remember what was before.

The dominance of the productive capital perspective: Bretton Woods and the Post-War Order
The hegemonic concept of control from the First World War to the 1970’s followed the productive capital perspective of capital accumulation (productive capital over finance capital). This concept of control was essentially a balance between state monopolism and corporate liberalism which was based on a mode of capital accumulation following the Fordist Model combined with a Keynesian welfare system that supported this process. Guided by this dominant concept of control, Lord Keynes and the other delegates at Bretton Woods established a framework of supranational centralized institutions to manage the international economy. Market functions were “woven into the social fabric so that moderately liberalized trade and international capital movements under the pax Americana were subordinated to the interests of autonomous domestic macro-economic management.” Keynesian demand-management along with varieties of corporatism sustained the international economic order they established through the swings of boom and bust. Ultimately, Bretton Woods was perhaps the most ambitious attempt by states to control the international economic order by striking a balance between the liberal market world and the domestic responsibilities of states, making them accountable to agencies of a supranational order.

The problem with the system was that it never worked – not at least in the way that it was envisioned by Keynes and its other creators. Rather than being controlled by

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68 Overbeek and van der Pijl, 1993: 3.
69 Overbeek and van der Pijl, 1993: 3 and Underhill, 1999: 35.
71 Clarkson and Lewis, 1999: 2.
the IMF and World Bank, the system was run by the dominant economic power of the post-war era – the United States. By the end of the Second World War, the U.S. economy was the world’s largest with half of the globe’s manufacturing output, half of all shipping, one-third of the globe’s exports, and 61 per cent of the world’s gold reserves.\(^2\) So long as the U.S. could retain its dominant economic position, the system was able to function. American hegemony over the international economic order lasted until the 1960’s when the U.S. economy ran into difficulty. U.S. economic leadership weakened as a result of the tremendous growth in the war-torn economies of Europe and Japan which were doing better than expectations causing U.S. current account surpluses to diminish. This in turn affected the ratio of U.S. reserves to liquid liabilities that started dropping, causing the dollar to be exposed to speculative attacks. The country’s military expenditures and long-term investments abroad continued at high-levels producing large deficits in the country’s overall balance of payments. By August 1971, the Nixon administration could no longer balance the needs of the international economy with the domestic concerns of U.S. politics: convertibility of the dollar into gold was abandoned, and within a few months, the Smithsonian Agreement devalued the U.S. dollar by ten per cent. Bretton Woods was over.\(^4\)

Globalization: the transformation of the structure of capital, the multinationalization of the productive firm, the weakening of states and the birth of neoliberalism

The international financial instability that developed coincided with the rapid growth of international investment flows which weakened the effective sovereignty of states, altered the “historic” structure of capital, and transformed the nature and shape of the productive firm. By the mid-1960’s, a number of industrialized countries began relaxing their capital export controls especially in Europe with the innovation of Eurocurrency dealings. This process across industrialized nations did not come simultaneously, but in waves, first with Canada, the United States, Germany and Switzerland which removed restrictions on capital movements in 1973, followed by Britain in 1979, Japan in 1980, France and Italy in 1990. The globalization of finance that began in the mid-1980’s was

\(^2\) Cox, 1997: 159.  
\(^3\) Kennedy, 1989: 461.  
related to this dismantling of regulations and controls. The economies of war-torn Europe and Japan became attractive to foreign investors as their recovery outperformed negative expectations, leading to highly unequal rates of growth among the different regions of the world economy. In the 1970's, innovations in computers, transportation and technology allowed some firms to produce more goods faster and cheaper (and further away) than others not employing these new "technological" factors of production. Indeed, firms without these new technological production factors were at the mercy of finance capital for investment and paid exorbitant amounts to "technologize" themselves so they could continue to compete. In the high technology sector, towering R & D costs required large markets to sell the innovative products created in order to recover the initial investments. Some productive firms found that their domestic market was too small to recover the costs of these investments. The result of these forces was that over time, all sorts of firms that "were until recently, comfortably ensconced in their home markets [were] forced, whether they like[d] it or not, to seek additional markets abroad in order to gain the profits necessary to amortize their investments in time to stay up with the competition when the next technological advancements [came] along." In order to remain competitive, productive firms had to invest large amounts in research and development and minimize the costs of production, while recouping costs as quickly as possible before the innovative products created became obsolete. These pressures that faced productive firms are reflected in trade figures. The second half of the twentieth century has experienced a phenomenal expansion of international trade flows: world exports increased from $61 billion in 1950 to $315 billion in 1970 to $3447 billion in 1990. Throughout the last 25 years, the growth in world trade has been significantly higher than world output and consequently, an increasing proportion of world output entered into world trade. The share of world exports in world GDP rose from about six per cent in 1950 to twelve per cent in 1973 and

77 Strange, 1992: 3.
78 Nayyar, 1997: 15, see note 4.
16 per cent in 1992. For the industrialized countries, the figures were 12 per cent in 1973, rising to 17 per cent in 1992.\textsuperscript{79}

During the 1970's, firms that were dependent on foreign markets for their goods found that these external markets were becoming inaccessible due to non-tariff barriers (NTBs) being created by many states to protect their domestic industries. This posed serious problems for multinational companies in two ways. First, those firms that relied on foreign markets for goods were in jeopardy as the loss of access to foreign markets meant a loss of revenue. Secondly, from 1950 onward an increasing proportion of international trade became intra-firm, across national boundaries but between affiliates of the same firm. In the 1970's, this accounted for one-fifth of world trade, but by 1990, this proportion was one-third.\textsuperscript{80} Thus, NTBs were adding tremendous costs to multinational firms that were trading with themselves across "artificial" territorial boundaries. For firms that were more tied to the domestic market, the hyper-competition from Japanese firms during the period caused these companies to seek protective and other favourable measures from their respective governments to preserve the domestic market for their products. The explosion of NTBs and other macroeconomic, industry and investment policies were designed to protect and encourage domestic firm growth and increased employment for citizens, but at the expense of multinational investment and production. Moreover, these policies proved ineffective as states in Europe and North America continued to languish behind economically.

All of these pressures over time transformed the relationship between capital fractions that had favoured the productive firm. Finance capital became decoupled from productive capital, becoming an independent and unchecked force.\textsuperscript{81} The concept of control that guided Keynes and the others to create the Bretton Woods international economic structure no longer reflected the reality of the new-found power of finance capital. Indeed, a new comprehensive concept of control emerged to reflect the changed balance between fractions of capital. Neoliberalism, the comprehensive concept of control that emerged out of the crisis, was not just a product of the concrete agency of finance capitalists, or the power of their ideas, but a reflection of the true strength that

\textsuperscript{80} Nayyar, 1997: 22.
\textsuperscript{81} Cox, 1997: 160 and Overbeek and van der Pijl, 1993.
this fraction had gained over the production structure as well as the sovereign power of states. As the emerging comprehensive concept of control during the 1970’s, neoliberalism had implications not just for the productive firm and the production structure, but also the power of states and the strength of labour and societal groups.

The dictates of neoliberalism (of finance capital) required productive firms to operate beyond their “provincial” settings becoming either continental or global in operation to serve a market greater than their home. To achieve this, the increased power of finance capital transformed the productive firm and the mode of accumulation. As Cox recognized:

> The large integrated plant employing large numbers of semi-skilled workers on mass production of standardized goods became an obsolete model of organization. The new model was based upon a core-periphery structure of production, with a relatively small core of relatively permanent employees handling finance, research and development, technological organization, and innovation, and a periphery consisting of dependent components of the production process.

The Fordist model of centralized production had become obsolete to a more “flexible” form of production. Finance capital required a cheaper form of production based on a “hub and spoke” model: the “hub”, the headquarters of a firm, remained integrated with finance, whereas the “spokes”, the production lines and factories, became decoupled and more loosely linked to the overall production structure. In this way, the periphery components of industry, whether located within one country or dispersed across many, could now be created or disposed of with relative ease. The transformation of industry into the core-periphery model had the effect of weakening the power of trade unions and strengthened that of finance capital within the production process, making business less accountable to any single state authority.

Empirical evidence of the increased power of finance capital over the production structure is persuasive. Perhaps the best example is outlined in Robert Cox’ study about the decision of General Motors to close 21 plants and cut 71, 000 jobs just prior to Christmas in the early 1990’s. This decision was a pre-emptive strike against a potential down-grading of the company’s bond rating which would have meant higher costs of

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82 Overbeek and van der Pijl, 1993: 2 and especially 14-16.
84 Cox, 1997: 160.
borrowing in international markets. In an effort to prevent the *possibility* of such an action by finance capitalists, the company opted to cut costs to increase profits.87

For firms in small states with small markets, these pressures posed serious problems. Domestic markets were too small to recover the costs of investment, while exportation was at the mercy of non-tariff barriers. Confronted by protectionism in external markets and markets that were too small at home, productive firms in “small” states had very limited choices while being at the mercy of finance capital. For those firms that were suffering because of the inability to recover the costs of production, there were indeed only two options: exit and relocation to markets that were large enough to recoup the costs of production, or convincing domestic governments to create a free trade space large enough for the recouping of production costs where competition would be unhindered by NTBs and where they could reorganize themselves according to the dictates that the new mode of production required.

**Globalization and the rise of Finance Capital: Direct and Indirect affects on States and the Emergence of the International Neoliberal Epistemic Community**

While globalization transformed the production structure and the shape of the productive firm, it also has had serious implications for the state. Capital mobility and the growth of internationalized market structures during the 1970’s undermined the ability of states to regulate their economies and prevent or counteract market failure. Macroeconomic industrial-trade policies became less and less effective in many states because of the level of openness of their economies to the emerging global economy and the rapid growth rates of money and capital across borders.88 Indeed, the crises of the 1970’s altered the balanced relationship between state and market as the sovereignty of states overall became effectively weakened by the increased power of capital interests. This section reviews how globalization has affected the domestic politics of states through the preferences and relative influence of domestic actors in the policy-making process, the power of capital interests particularly finance capital, and the effective policy choices of decision-makers which have become limited as a result of these changes.

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86 Cox, 1997: 160.
87 Cox, 1997: 160.
88 Cerny, 1996: 84.
In exerting "direct" and "indirect" pressure on states, Helen Milner and Robert Keohane have suggested that the pressures of globalization and the global economy altered domestic politics within states in three ways:

1) by creating new policy preferences among actors and bureaucrats as well as new policy coalitions;

2) by triggering domestic economic and political crises; and,

3) by undermining government control over macroeconomic policy.89

To begin, deregulation in international capital markets has increased the power of finance firms vis-à-vis states, as has the command of technology by productive firms and ready access to major markets in North America, the EU, and Japan.90 The tide of neoliberalism that emerged out of these changes in the balance between firms and states transformed the discourse of domestic politics and political parties. Changes in the price of goods that policy actors were involved with affected the policy preferences of public and private sector actors and their motivations to form policy coalitions to push for either greater liberalization or protection.

Indeed, the changes caused by globalization created a new international epistemic community made up of big business leaders, senior national and international bureaucrats, politicians and academics. Policy communities, made up of these different groups within states were members of this emerging international community as they shared similar neoliberal values prescribed by the evolving concept of control. The emergence of these groups inside states and led by big business had a direct effect on state policy choices as these communities dominated the domestic policy-making nexus.

Globalization not only affects the preferences of actors and coalition formation but also their relative influence in the domestic political process through increased agency power. In the case of owners of mobile production factors, such as banks and productive firms that can relocate their production-line operations, the removal of capital controls and trade barriers grants advantages over immobile factors of production such as labour. This also has had an effect on the relationship between firms and states as capital exerts pressure on governments through the threat of exit if policy choices and outcomes

89 Milner and Keohane, 1996a: 243. See also Cerny who has a similar view. (Cerny, 1996: 84).
do not reflect the concerns of capital interests. This structural power of capital that varies
across states and among firms has increased because of globalization and has allowed
these actors to influence public policy without having to apply direct pressure on states.\textsuperscript{91}
While both capital and labour have agency power\textsuperscript{92} in the domestic policy-making
apparatus, only capital has this structural power which accounts for the increased
influence of capital interests in many Western states since the 1980's. The effects of
globalization on actor preferences and the relative level of influence of actors in the
policy-making process has in turn affected the policy choices of decision-makers and the
content of public policy in states. Therefore, the effective policy choices of governments
and the content of public policies have begun to reflect the increased agency and
structural power of big business interests over time.\textsuperscript{93}

Increased sensitivity to the world economy and price shocks can generate
economic crises that can erupt into major political reforms and policy reversals. Pressure
on a state's currency acts as a signal to governments that currency and government debt
holders have lost confidence in the government's ability to manage the economy and/or
dislike the policy decisions that have been made. The power of finance capital over
states is so great that relative price changes can wreak havoc on a state's economy.\textsuperscript{94}
Globalization also undermines the efficacy of macro-economic policies and trade and
capital controls that governments create and maintain to control their economies. Due to
the breakdown of Bretton Woods, firms are able to operate outside the regulatory
framework of states if governments enact policies that do not conform to the general
interests of capital (i.e. taxation, infrastructure policy, environmental controls, etc.).\textsuperscript{95}
The policy U-turn of the Mitterand government in 1983 is an excellent example of how
the pressures imposed by globalization can affect the decisions of policy-makers – even

\textsuperscript{91} Farnsworth and Gough, 1999.
\textsuperscript{92} Milner and Keohane, 1996a: 244, Cerny, 1996: 85-86, Safarian, 1993: 5. In addition, funding of
political parties is another way that interests exert themselves although both big labour and big capital have
the resources to do this activity.
\textsuperscript{93} Again, I do not suggest that all public policy has come to reflect the interests of business, but rather the
level of input of business has increased and the decisions of states are made bearing in mind the reaction of
business groups to avoid the threat of capital flight and de-investment. The current debate on taxes in
Canada and Ontario's overarching concern to be competitive with the Great Lake states for capital
investment reflects this power that capital has over governments which has grown since the 1970's.
\textsuperscript{94} Milner and Keohane, 1996a: 246.
\textsuperscript{95} Milner and Keohane, 1996a: 247.
socialist ones. Indeed, internationalized production and the forces of globalization were responsible for U-turns in economic policies in a variety of countries as diverse as Burma, Turkey, Thailand, Argentina, India and Australia.96 These policy U-turns reflect the immense pressure that globalization has on decision-makers which has grown since the 1970's. In Canada, the last major industrial-economic experiment was the National Energy Program (NEP) which was an attempt to organize the Canadian oil industry in the early 1980's but ultimately failed when oil prices dropped.

Whereas domestic actors within developed states have been the principal influence on domestic policies, globalization favours foreign owners of capital particularly finance capital.97 Finance capital has altered the operational or effective sovereignty of states directly and indirectly through a variety of ways. These include pressure on the state policy-making process as a result of its agency power, control of credit ratings, government debt financing, and foreign currency speculation. It also affects states through finance capital's "hegemonic control" over productive capital which is an active player within the domestic policy-making structure. This indirect form of control over the state I refer to as "transferred agency power".

Empirical evidence of the increased power of finance capital over the state is strong. The rapid growth of multinational corporations and banks during the post-war period was explosive. By 1971, the value of liquid assets held by the top 100 U.S. MNEs exceeded the combined reserves of the largest industrialized countries. The hyper-growth of multinational banks was even more surprising: between 1965 and 1974, the value assets of US banks held by branches outside the United States rose from $9 billion to $125 billion.98 With these kinds of resources, multinational banks engaging in foreign currency speculation only had to switch a relatively small proportion of their assets from one currency into another to cause a major exchange rate crisis - which they did against the American dollar throughout the 1960's sparking a number of financial crises for the U.S. government.99

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Finance capital also influences the state indirectly through government debt financing. During the 1970’s, governments began to rely increasingly on debt financing as a mechanism for funding programs as opposed to taxation. Over time, foreign ownership of government debt allowed these investors to exert considerable influence on the content of public policies through the threat of exit and control of the cost of borrowing. States became very aware of this new-found power of finance capital. In Canada, the first act of the newly elected Parti Québécois government in 1976 was to go to New York to reassure the bond market. The newly-elected NDP government in Ontario in 1990 did the same, and through the half-way mark of its mandate, began to halt and reverse a number of its left-leaning policies because of the “pinch” of New York investors and international bond raters. Recently in Mexico, the government was forced to abandon an agricultural program designed to expand medium-sized farming for local consumption goods, and revert to large-scale production of luxury export crops in order to earn dollars to service the country’s debt. Like the Sword of Damocles, governments became powerless to the dictates of finance capital and foreign debt holders. External bond markets, currency exchanges, and international credit-raters, now wield more power over governments than the publics which elect them.

As mentioned in the previous section, the increased strength of finance capital over productive firms also had implications for state policy. Because of the hegemonic control of finance capital over the production structure, and because of the changes in the global economy, productive firms lobbied governments for neoliberal policies of privatization, deregulation, and the creation of large continental markets. This was done for two reasons: first, because the macro-economic and trade-industrial policies of many states were protectionist and failed to provide adequate incentives and opportunities for productive firms to make profits and compete; and second, productive firms were under intense pressure from finance capital which controlled credit ratings and debt financing and advocated this type of restructuring. Therefore, the lobbying efforts of productive firms within states for the creation of continental markets was not just a result of the changes in the global economy which affected them, but was also a result of the

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100 Monahan, 1997.
transferred agency power of finance capital applying investment pressure on productive firms to reorganize themselves in a manner that required larger continental markets.

The effects of globalization on the domestic politics of states has varied. In some states, public opinion turned against governing parties which seemed incapable of controlling the economy and creating job growth, opting for new parties on the right that prescribed neoliberal solutions as the antidote to economic stagnation. In others, parties in power began to realize that the macroeconomic plans they were using no longer conformed to the reality of the international system which had changed and endorsed alternative programs proposed by big business. As Susan Strange noted in 1992, “[s]tructural change...has altered the perception of policy-makers... In the space of a decade, there has been a striking shift away from policies of import-substitution and protection towards export promotion, liberalization and privatization.”

Governments of all political stripes became well aware of the power of finance capital and the changes occurring in the international economy. For states like Canada in the early 1980’s, industrial-trade and macroeconomic policy failures triggered a response to re-examine Canada’s relationship with its closest trading partner and its overall economic strategy generally. The British electorate, tired of policies that seemed incapable of wrestling economic weakness and stagnation, chose the neoliberal prescription advocated by Margaret Thatcher. Indeed, the changes in the international political economy, mediated by institutions within states, called for a re-examination of policy options that coincided with the new-found power of finance capital and the reality of the changing balance between state and market in the international political economy.

**Accounting for Differences: Why the FTA-NAFTA and SEA are so different**

Clearly, globalization as a phenomenon is placing intense pressure on domestic economic and social policies but responses around the globe have been quite different. Milner and Keohane suggest that the potential impact of globalization on state sovereignty will depend on a multitude of factors, including: the political institutions that a state has and the ability of these institutions to “block” the effects of globalization; the incentives affecting citizens groups and politicians; how “open” a state’s economy is and how exposed various sectors are to changes in the world economy; the strength of labour
unions and electoral rules; the number of veto players; the extent of independence that key bureaucracies possess; as well as the type of government structure and democratic nature of the state. Clarkson and Lewis make a similar point, arguing that a state's history, structural forces, institutional capacities, and constitutional framework are all elements that mediate the pressure and effects that globalization has on the shape of society and the public policy of governments. The impact that globalization has on states is thus mediated by domestic political factors which often reflect varied historical and cultural experiences. Therefore, to understand the effects that globalization has on domestic policy requires an analysis of its influence on policy preferences and incentives as well as on the "political reactions of socio-economic groups to its effects and the way that political struggles over openness are mediated by domestic institutions." The state is not a completely at the mercy to the forces of globalization.

What then accounts for the rampant spread of neoliberal ideas among both developed and developing states? As mentioned above, the rise of neo-liberalism has been determined by the restructuring of world capitalism on a global scale since the 1970's and as such, it is a transnational phenomenon. As the emerging concept of control, transnational finance capital (the coagulation of transnational money capital and globally operating productive capital) represents a powerful force for change. Neoliberalism manifests itself at the national level, not as a distillate of external determinants, but as a set of intricate mediations between the "logic" of global capital and the historical reality of national political and social relations. However, the spread of neoliberalism around the globe is not so much that it has become simultaneously popular among developed and developing states because of the merit of its arguments; rather, it seems that governments of all political stripes have found little choice other than to accept the prescription that the dogma dictates.

Epistemic Communities and Policy Networks: Apples, Oranges and the Comparison of Business Group Action in Europe and North America

103 Milner and Keohane, 1996b: 5-6, and especially, 9.
104 Clarkson and Lewis, 1999: 2.
106 Overbeek, 1993b: xi.
In outlining the evolution of the “new international political economy,” Underhill states that the principal tasks for IPE theorists is:

to build models of how transnational economic structures, and the coalitions of organized market actors involved, are integrated into the policy processes of states at domestic and international levels of analysis... Unfortunately, most IPE accounts remain less than explicit on the precise role organized configurations of business interests, but a point to emphasize is that as these coalitions of market interests become increasingly transnationalized, they begin to operate in the politics of several states simultaneously.  

Comparing the FTA-NAFTA and the SEA is made difficult because of the different histories and institutions of both integrating continents, as well as the role of supranational institutions in the European case. In the case of FTA-NAFTA, the lack of an “institutional pull” upon business interests to continentally integrate themselves helps to explain the lack of development of continental business interest associations. However, even though the creation of supranational big business interest associations did not develop in the North American case as it did in the EC in the 1980’s, domestic business groups did engage in “international diplomacy” with the other participating states. The action of big business groups was dependent upon the institutional structures that were present.

To understand the role played by big business groups both within states and transnationally, Richardson has suggested combining two conceptual tools from two different paradigms: epistemic communities from the IPE literature, and policy networks from political science. Peter Haas has defined epistemic communities as:

a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity - that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise - that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.

107 Underhill, 1999: 36.
108 Jacek, 1999a: 5.
109 Richardson, 1996.
110 Haas, 1992: 3.
Policy networks are associations that develop within states that are institutionalized and include politicians, bureaucrats and members of various sectors that deal with a particular issue. Epistemic communities and policy networks are thus very similar as they both focus on sets of actors as stakeholders in the policy process, but they come from very different approaches. The very nature of epistemic communities in the IPE literature implies that these groups are transnational operating in policy fields that are outside or greater than the domestic policy issues that governments confront. Policy networks are very much a domestic consultation process on issues that affect states internally. Richardson suggests the advantage of combining these two approaches is that:

they enable us to focus on a phenomenon now recognised as central to any understanding of the policy process; the role of knowledge and ideas in bringing about policy to both the national and transnational levels.

Using epistemic communities allows for the examination of the supranational EC and the role of organized interests, particularly big business BIAs in the agenda-setting stage of the SEA. The policy community/policy network approach assists our study by explaining the ways firms and BIAs lobby within the state, as they did in the UK and Canada for the creation of these continental business pacts. At different stages in the policy process, and for the different institutional structures of governance that exist in North America and Europe, different conceptual tools will need to be used. For each stage of the policy process, different approaches must be utilized to understand the nature of British firm influence in the policy process at the domestic and European level and for Canadian firm participation in “international” lobbying. Both approaches help to explain how the free trade issue got on the UK/European and North American agendas and they shed light on the role big business groups played during all three stages. With respect to UK firms

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111 I use the term formalized to distinguish from the ad hoc lobbying that many groups engage in. Because policy networks are created by governments and are institutionalized to varying degrees, the costs for groups that participate is greatly reduced compared to lobbying where costs are the burden of the groups that are lobbying. See Verdier, 1995: 7-12.
112 Richardson, 1996: 27. van Apeldoorn, 1996, also suggests the benefit of combining IPE with comparative politics.
Globalization and the International System

The growing interdependence and interpenetration of capitalist economies over recent decades has meant that governments must not only be aware of the effects their decisions can have on the citizens they serve, but also the foreign capital and currency holders who can vote with their investments at a moments’ notice. With the lowering of trade barriers and the hyper-mobility of capital which has resulted in “regime shopping” by firms and “competitive deregulation” by states, globalization in all its manifest forms has weakened the ability and freedom of states to implement policies. Gradually, industrial-trade policies enacted by governments in Canada and the UK (and EC) became less and less workable as firms in these states began looking for better regulatory environments or ways to by-pass government legislation and regulations through restructuring. Because of the absence of international institutions to manage this increasing level of interdependence, governments in the EU and in North America began to view the “market” as the only solution to sustain wealth and employment for their citizens.

The net result of these structural changes has been the intensified competition among states for “world market shares.” This competition is forcing states to bargain with foreign firms to locate their operations within the territory of the state, and with national firms to remain at home. As Susan Strange recognized, the transnational firm has command of “an arsenal of economic weapons” which include command of technology, ready access to global sources of capital, ready access to major markets in America, Europe and Japan, all of which are badly needed by states wishing to win world market shares. Wealth for the state now equals the wealth of the firm(s) selling on world markets; the goal for states is the “successful management of society and the efficient administration of the economy in such a way as to outbid other states as the preferred home to the transnational firms most likely to win and hold world market

115 Richardson, 1996: 36. The paper will note the particular interests of UK firms that participated in UNICE and the ERT from the views expressed by these interest associations, especially when they were divergent.
The bargaining assets of firms are specific to the enterprise they are engaged in, whereas the bargaining assets of states are specific to the territory they rule. Firms can operate in states only by permission of governments. However, states are not only bargaining with firms but also with other states through “competitive deregulation” in order to get value-added work done in their territory and not elsewhere. This has had a significant impact on international relations in that states now compete more for the means to create wealth in their territory than for the power over more territory. Power used to be the means to wealth, but now, wealth is the means to power – not just military power, but popular/electoral power as well. Thus, international diplomacy includes not just states but multinational firms and big business interest associations that encompass some of the largest firms on the globe with more resources than many states. As the Policy Research Secretariat recently stated in a report:

In a world in which the revenues of Exxon and General Motors exceed the GDP of many medium-sized countries (including Saudi Arabia, Indonesia, Nigeria and Egypt) national governments can easily find themselves playing second fiddle to non-state actors.

Nation-states are no longer the key players on the global economic stage as they once were.

The international finance system has progressively moved from one where states created an international system to regulate the “international provision of credit” and the relations between exchange rates (the Gold Standard and Bretton Woods systems), to one where states have lost control over the provision of credit to the markets. Now, even developed states are finding it difficult to manipulate the levers of government in their domestic economies through the nationalization of industries and the regulation of sectors, and those that continue to do so have found little success. Power, as Susan Strange had described it in her later writings, is no longer the preserve of states but has become progressively under the authority of what she called an “international business civilization,” made up less of elected officials, and more of international businessmen,

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121 Strange, 1992: 7.
As Deepak Nayyar has argued eloquently, the fundamental difference between the old era of globalization in the 1870's, and the modern era of globalization that is ongoing today is that “the process of globalization now has placed new players centre stage.” Whereas imperial nation-states were the key players in the old era that lasted until the 1960's, the two main sets of players in this game are multinational enterprises (MNEs) which dominate investment, production and trade in the world economy, and international banks and financial institutions which control the world of finance. Globalization has altered the preferences of internal actors, imposed constraints upon decision-makers, granted to external actors (big business) powers over policy-making that are not just “structural” but real. The “regulatory arbitrage” that globalization created has caused the intermeshing of domestic and foreign economic policies to occur. MNE-related policy that states create now extend from “foreign” trade policy issues to domestic issues such as direct investment flows, public procurement, privatization and nationalization policy, safety and environmental standards, etc. Economic globalization has brought about an “internationalizing of the state”, the gradual redefinition of national interests to coincide with the requirements of global production and the empowerment of those bureaucratic elements (finance ministers, central banks, etc) that serve these ends. The balance between state and market has become altered in favour of the market (the international market) where the state has become a transmission belt from the global to the national economy. Combined with the economic crises of the 1970's, the preferences of decision-makers became altered as their policy choices became limited, leading to a

124 Strange, 1990.
126 MNE is the newest term to refer to globalized big business. “Transnational Corporation” (TNC) was used in the 1970's to refer to these international businesses, but the term changed in the 1980's to “Multinational Corporation” (MNC) which reflected the nature of these businesses which had become multinational in outlook and which operated in a variety of states. MNE refers to corporations that are not only multinational in scope, but have a variety of different business lines. Some firms have organized themselves in such a way that they have become “stateless” – almost completely free from the shackles imposed by governments. An example of these are popular cruise line companies like Carnival Cruises which operates in the United States but flies the “star and stripes” of Liberia, an African state that is no where near water.
129 Sally, 1996: 73.
130 Cox, 1997: 162.
convergence of views that reflected the neoliberal dogma of the times. To preserve jobs and sustain economic growth for their country and their citizens, massive deregulation of the domestic economy was needed, privatization of national industries was required, and the creation of free trade agreements with other states was crucial. By the early 1980’s, large elements of the business community in Canada and the United Kingdom (and the EC) began to strongly advocate for an expansion of markets on a continental level, particularly since a compromise on a global level seemed uncertain and destined for failure. The breakdown of Bretton Woods combined with the pressures of the global economy led a number of states across the globe by the 1980’s to seek a regional/continental solution in the form of regional trade agreements.

Globalization and the Development of Regional Trade Agreements

The application of conceptual ideas from IPE theory, such as fractions of capital, concepts of control, and epistemic communities, provides a better framework for understanding the FTA, NAFTA and SEA as responses to changes in the global economy that affected the states in Western Europe and North America. Rather than viewing these "constitutional framework agreements for business" as parochial events as suggested by the writings of Sandholtz and Zysman, IPE allows for comparisons among different integrating regions of the globe and supplies a better explanation for the increased influence of business over labour within states than does neofunctionalism or liberal intergovernmentalism.

International political economy theory accounts for the transnational linkages and coalitions that big business developed to create continental trading regimes in Europe and North America. In the case of Europe, the European Roundtable of Industrialists (ERT) was created by European big business in response to the pressures of the global economy to lobby the Commission and Member State capitals on the need for a united Single European Market. As for the Union of National Industrial and Employer Confederations of Europe (UNICE), the preferences of its membership changed to favour the Single Market option and it lobbied European institutions vigorously to reach an agreement, while its national member organizations lobbied their home governments. In the case of

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the United Kingdom, this was the Confederation of British Industry (CBI) which actively lobbied the Department of Trade and Industry (DTI) along with other senior officials, but was joined by the Institute of Directors (IoD) which also strongly advocated the Single Market option. In Canada, Canadian big business created the Business Council on National Issues (BCNI) which favoured the free trade option in the early 1980's and lobbied senior officials and politicians in Ottawa, as well as officials in the U.S. including U.S. Congressmen, the United States Trade Representative (USTR), and even the Vice-President. The Canadian Manufacturers' Association (CMA), traditionally opposed to the free trade option, changed its view and policy in the early 1980's and lobbied the Canadian government as well as American officials to reach a free trade agreement.

The IPE literature allows us to avoid the “apples” and “oranges” problem of comparing two regions at different stages in the integration process. The UK became formally integrated with the EC from the 1970's but the European market remained relatively fragmented until the development of the SEA. For Canada, while it only became formally integrated with the U.S. with the FTA and NAFTA, *de facto* integration has been developing over most of the country’s history. Indeed, while there are numerous differences between both continents and their level of integration, particularly the kind of supranational institutions that have developed, the SEA and the FTA-NAFTA were a response to similar pressures that affected states over the 1970's. As Milner and Keohane along with Clarkson and Lewis have argued, domestic institutions have mediated the effects of globalization on the state and the policy responses to it. Thus, globalization has resulted in different outcomes in the kinds of agreements that were reached. Indeed, the differences in the way that business lobbied bureaucrats and officials was a result of the differences in the institutional setting that business groups found themselves in North America and Europe. Big business in Europe by the 1970's and early 1980's felt compelled to organize transnationally rather than rely on the domestic route. To act effectively in Brussels, actors had to organize cross-nationally seeking to develop effective European-wide coalitions. 133 Thus, the supranational structures of the EC were the main conduit for big business lobbying as these institutions (especially the Commission) were in control of the integration process, but lobbying was

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also prevalent in the Member State capitals. In the North American context, formal supranational structures were very limited but the linkage of the economies was significant. Rather than lobbying supranational institutions (which did not exist), the BCNI and CMA had to lobby their own governments as well as the BIAs and governments of the other states.

The consequences of the liberalized new world order has been the development of regional organizations that are narrowly focussed on trade issues and which impose little if any restraints on business.\textsuperscript{134} With the development of trade agreements, the power imbalance between state and market has solidified at the expense of national governments. In the case of the EU, the supranational structure of governance has at least attempted to minimize this transference of power to business by granting regulatory power over the market to the Commission. In North America, the FTA and NAFTA represent a direct transfer of power from sovereign states to business groups as the supranational bodies that were created are either too weak or serve only the concerns of business. Unlike the states in the European Union, there is no real pooling of sovereignties in the North American context.

\textit{Globalization transformed the hegemonic concept of control that governed the state market relationship, weakening the power of states and increasing that of capital, ultimately causing the development of regional trade and economic integration agreements around the globe. The increased “influencing power” of business caused by globalization and reflected in the agency and structural power of capital, allowed big business in Canada and the United Kingdom (and concurrently at the European-level) to play an active and important role in the agenda-setting, negotiation and implementation phases of the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement, and the Single European Act. Business groups strongly advocated that these projects of continental market integration be kept to an “informal level” by restricting the powers of supranational bodies to the governance of the market; their relative success or failure in achieving this endeavour was a result of the domestic structures that mediated the pressures of globalization and their lobbying efforts.}

\textsuperscript{134} Schmidt, 1995: 76.
Chapter III: UK and European Big Business – An Active Role in the Relaunch of Europe

While the European Economic Community was created by politicians with limited interest from business, the “relaunch of Europe” in the 1980’s arose from the demands of influential business leaders from Europe’s largest corporations. Although European integration had effectively been stalled since 1965, over the next quarter century changes in the global political economy developed that transformed the balance between state and market and between firms and governments leading to the creation of the Single European Act in Western Europe and regional integration agreements around the globe. Today, the European Union constitutes the world’s largest free trade area with 374,566,000 people.

The metamorphosis of Europe in the 1980’s, from an association based on “economic feudalism” into the world’s largest marketplace, did not happen overnight nor was it the result of parochial “European” causes. While European integration froze in the 1960’s, it began to dissolve in the following years under the pressures of globalization, a series of oil crises, economic recession and high unemployment. Non-tariff barriers and other protectionist industrial-trade activities were the fashion for many industrialized states. By the early 1980’s, states in Europe and North America recognized that these policies were failing – policy reversals and u-turns of a neoliberal persuasion became rampant across industrialized and industrializing states ultimately leading to the development of the SEA in the European Community and the FTA-NAFTA in North America.

Like the FTA and NAFTA, the Single European Act was a product of both short-term events and long-term causes. The early 1980’s were a particularly harsh time for the EC: Member State economies were languishing in recession, interest rates and inflation were high, employment and productivity levels were low, while citizen interest in...

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135 Greenwood, 1999: 77.
136 The development of the Luxembourg Compromise essentially halted deeper European integration, although limited integration did develop through the judicial activism of the European Court of Justice, especially in the Cassis de Dijon decision.
European integration was apathetic. Along with the poor economic situation, Europeans had become concerned with the poor productivity of a number of sectors in the international economy as well as Europe's poor trade performance. Indeed, the EC was losing its share of world trade rapidly: in 1973, the EC's share of global trade was 45 per cent, but within 12 years, this had dropped to 36 per cent. Europeans coined a term to characterize the calamitous concatenation that had befallen the European Community -

*Eurosclerosis* became the pathological description for the hemorrhaging of the European economy and the halted evolution of European integration that had remained essentially frozen in time.

Along with these short-term causes, a variety of long-term changes in the global political economy led to the development of the Single European Act. As mentioned in the previous chapter, a series of events and forces altered the post-war consensus on the balance between states and markets, weakening the power of states and increasing the relative influence of capital within the state policy apparatus. Transferring our central theoretical arguments from chapter two to the UK/European case, globalization has affected the EC and the UK by:

1) altering the preferences of many UK firms on the benefits of liberalized trade generally, and within Europe specifically;

2) weakening the power of the UK government and EC institutions to enact industrial-trade and economic policies as Western Europe increasingly became exposed to the emerging global economy;

3) freeing UK and European firms from the "regulatory prison" of states, allowing firms to move their capital abroad to wherever a competitive return could be ensured on their investments (due to the deregulation of international capital markets and a series of GATT rounds which repeatedly lowered tariffs);

4) increasing the relative influence of UK and European firms to a level of near hegemony over other groups in the policy-making machinery of the state.

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140 My thanks to Professor Lubbers for explaining this term. Interview with Ruud Lubbers, Former Prime Minister of the Kingdom of the Netherlands and Director of the Globus Institute, KUB, Tilburg, Holland.
141 I use the term "State" to refer to the government and political institutions of the UK as well as the "supranational" State of Europe, made up of the European Commission, the European Parliament, the European Court of Justice, the European Council of Ministers, and the other institutions of the EC.
5) creating a neoliberal policy network/epistemic community within the UK and the EC that was led by European big business (with strong representation of UK multinational firms) and included senior bureaucrats and political leaders from both levels of government, as well as academia; and,

6) causing European business to form strong business interest associations that were non-sectoral and multinational in membership that took an active role within the emerging policy network/epistemic community in the agenda-setting phase, but also in the negotiation and ratification stages of the SEA.

This chapter examines how globalization has transformed the capital-labour-society relationship in the policy-making process and will elucidate the role played by UK firms within the UK and through their membership in European BIAs in the creation of the Single European Act. I begin by reviewing the UK and EU's evolving integration, followed by an examination of trade preferences of UK and European big business. I will then survey the evolution of UK and European big business interest associations, namely the Confederation of British Industry (CBI) and the Institute of Directors (IoD) for the UK as well as the European Round Table of Industrialists (ERT) and the Union of National Industrial and Employer Confederations of Europe (UNICE) which operated Europe-wide. The chapter will then analyze the development of the linkages business groups had with industry-trade bureaucrats that developed into a policy community which became a fragment of a growing neoliberal international epistemic community. The chapter will then cover the agenda-setting, negotiation and implementation phases for the SEA.

Evolving Continental Integration: Continental choices for the United Kingdom

The birth of the European Economic Community was a response not only to the economic difficulties that arose out of the aftermath of the Second World War, but also to geopolitical concerns. Indeed, it was hoped that continental integration of Europe would maintain peace by tying the economies of the continent together, contain Germany, and provide a counterbalance to the Cold War superpowers: the U.S. and USSR.\textsuperscript{142} The European Community was really three communities: the European Coal and Steel Community (ECSC), the European Atomic Energy Community (EURATOM) and the

European Economic Community (EEC). The cornerstone of the original Treaty of Rome (1957) that created the EEC was the establishment of a European tariff-free Customs Union that was to eliminate all barriers to trade among the member states. The first internal tariffs were eliminated in 1959 and by 1968, all tariffs had been abolished between member states – an accomplishment that was noted because it was ahead of schedule.

While France, Germany, Italy and the Benelux countries integrated, the United Kingdom continued to view itself as an undefeated world power at the top of a political-economic system based on Empire, Commonwealth, and a “special relationship” with the United States. Moreover, Britain did not favour the limitation of sovereignty that the EEC was imposing on member states, nor its protectionist underpinnings that went against its long-standing preference of free trade. Instead, Britain developed an alternative to the EC through the European Free Trade Association (EFTA) in 1960 which attempted to create a large enough market for British industrial goods while continuing to permit preferential trading arrangements with the Commonwealth, particularly for the importation of cheap food. Britain also tried to create free trade arrangements with other countries including Canada in 1957, although little developed out of these activities.

Income and production increased very rapidly in the early years after the aftermath of the Second World War as Europe rebuilt itself. The Keynesian welfare state system, the dominant framework by which states organized themselves and their economies, sustained relative success in generating a high level of prosperity, low unemployment, social security for citizens and peaceful industrial relations in Europe. Real growth for most of Western Europe was relatively high: from 1961 to 1979, real GDP growth for the EC was 4.0 per cent, with Germany at 3.7 per cent, France at 4.6 per cent, and Italy at 4.8 per cent. While the rest of Europe seemed to be doing well, the UK trailed well behind at 2.6 per cent. This was also reflected in the UK’s poor

Hilmer and Granatstein, 1994: 249.
productivity which was especially weak in the 1970’s: increases in real output per person was at 1.3 per cent in the 1970’s, less than half the annual averages in Germany, France and Italy.\footnote{Stone, 1994: 119.}

Soon after the creation of the EFTA, Britain had a change of heart: the UK’s weak economic performance along with the loss of imperial and great power status motivated the British government to apply for EC membership in 1960.\footnote{Stone, 1994: 116, Wise, 1994: 80-81 and Hillmer and Granatstein, 1994: 249.} While President Charles de Gaulle of France vetoed the UK’s entry in that year, Britain was finally able to join in 1973 although successive British governments maintained their preference for free trade over the protectionist views of other member states (most notably France).

By the 1970’s the economic situation for the EC had weakened dramatically with the oil shocks in 1973-4 and 1978-9, the inflationary pressures in the mid-1970’s, and widespread recession through much of the decade.\footnote{151 } Although most of the western world experienced a slow pace of growth over this period along with higher levels of unemployment and inflation, the European economy did comparatively worse than the US or Japan. With the EC’s share of world trade dropped substantially over the decade, the situation became compounded in 1978 when EC firms began losing market share in their own home markets.\footnote{152 }

Not all was doom and gloom for the EC economy with respect to the trade relationships within the Triad.\footnote{153 } Indeed, the EC did comparatively better in sectors such as food products, beverages, leather, clothing, textiles, tobacco, and steel products. The Community’s competitiveness in these moderate to low-demand sectors was because national markets provided large enough economies of scale to compensate for the detrimental influence of having a fragmented European market. However, in higher value-added sectors, such as data-processing, office automation, electrical and electronic

\footnote{149 Stone, 1994: 119.}  
\footnote{150 Stone, 1994: 116, Wise, 1994: 80-81 and Hillmer and Granatstein, 1994: 249. In 1961, Canadian Prime Minister John Diefenbaker approached British Prime Minister Harold MacMillan about the consequences of the UK joining the EEC, particularly that Canada’s trading relationship would be hurt as it would come to rely even more on the American market. Britain’s decision to pursue EEC membership would cause a major row in the Commonwealth particularly with Canada in the following years. See Hillmer and Granatstein, 1994: 249-55.}  
\footnote{151 Calingaert, 1990: 6.}  
\footnote{152 Wise and Gibb, 1993: 52-53.}  
\footnote{153 The Triad is made up of three continental parts: North America (led by the U.S.), Japan and the Newly-Industrialized Countries (NICs) of East Asia, and the European Community. This next section relies heavily on Wise and Gibb, 1993: 53-56.}
precision instruments, the EC continued to lose its competitive edge to the U.S. and Japan. These high-demand industries which became dominated by high technological input and were strongly dependent on research and development caused European firms to lose their market share against American and Japanese multinationals. The Community’s reduced competitiveness in these high demand, technology-intensive sectors did not only result in a loss of foreign market share generally, but also domestically. For those high demand sectors, a larger market was necessary so that firms that invested in the necessary research and development could recover the costs of their investments. The creation of a unified market would provide the necessary “size” for firms in these high demand sectors to re-organize their production systems making them more competitive.\(^{154}\)

While the Treaty of Rome not only required the removal of tariffs but also the elimination of “all measures having equivalent effect,” the changes in the global economy that began in the 1960’s and 1970’s prompted national policy choices from European member states to protect domestic industries from the competitive pressures their domestic firms were experiencing. The non-tariff barriers that were created by national governments during the 1970’s were viewed as minor measures compared to the tariff and quota restrictions that the Treaty of Rome had abolished. However, over time these measures multiplied and fragmented the Community into twelve separate markets, with different standards for products, practices and people.\(^{155}\)

The political and economic pressures that Europe experienced in the 1970’s intensified in the 1980’s: economic stagnation became rampant across member-states, with zero growth, high unemployment and increasingly recognized structural rigidities; increased competition from Japan and the US (especially in areas of high technology) was becoming a serious threat; and the inability of the Community to function as an institution led to Europessimism in the public.\(^{156}\) Macroeconomic policy co-ordination within the EC was stalled, if not reversing as Member State policies remained incompatible with the stability in international currency markets.\(^{157}\)

\(^{154}\) Wise and Gibb, 1993: 56.


\(^{156}\) Calingaert, 1990: 7.

\(^{157}\) Bulmer and Scott, 1994: 2.
Relaunching Integration: the EC tries to Rebuild itself

The decision to fix the internal market can be traced all the way back to the Paris summit in December of 1974 which reaffirmed commitments to establish economic and monetary union by the end of 1980.\textsuperscript{158} Leo Tindemans, the former Prime Minister of Belgium, was asked to report to the Community regarding the prospects for the establishment of such a union, particularly in light of the recent enlargement of the Community, the oil crisis, accelerated inflation and economic stagnation as well as the perpetual recession that was affecting Europe. Tindemans' Report recognized that in addition to the harmonization of fiscal, monetary and exchange rate policy, it would be necessary to establish a \textit{true} internal market that would eliminate the non-tariff barriers that had rapidly sprung up during the early part of the decade.\textsuperscript{159}

Following the appointment of Gaston Thorn as Commission President in June 1980, the European Council voiced its concern for the first time about the state of the internal market and in so doing, began the policy-making process that would lead to the SEA and the Single European Market by 1992. Expressing the need for a "concerted effort...to strengthen and develop the free internal market," the Council asked that the Commission as well as the Council of Ministers (CoM) report on the state of the internal market.\textsuperscript{160}

In 1981, the European Commission issued a communication on the state of the internal market, and in the following year, listed sectors of priority considered "ripe" for decision. The following year the Commission released a memo on the mobility of persons as a hindrance to the internal market, but the Intergovernmental Conference that year did not resolve the issue.\textsuperscript{161} The Commission undertook a full review and reported its results to the European Council later in 1982, recommending that it take all steps to remove non-tariff barriers in the Community, simplify customs borders, allow for competition in the area of public procurement in telecommunication services, harmonize company law among member states as well as tax codes, and establish free trade in

\textsuperscript{158} This commitment was first made in The Hague in 1969, and again in Paris in 1972. See Cameron, 1992: 31.
\textsuperscript{159} Cameron, 1992: 31.
\textsuperscript{160} This was six years after Tindemans' recommendations. See Cameron, 1992: 32. See also Dinan, 1994, that examines Britain's interests in these negotiations especially on the British budgetary question.
\textsuperscript{161} Calingaert, 1990: 8.
services (particularly in the financial services sector). A decision was taken to devote a special session of ECOFIN (The Council of Economic and Finance Ministers) to deal with the internal market issue.

In 1983, the Commission’s review of the economic crisis affecting the EC stated plainly that the problem with the Common Market was that it was far from common. The Albert-Bail Report called it “a kind of economic equivalent of feudalism” and calculated that the costs of “non-Europe” were as high as $48 billion (US). While debate on the stalled progress of European integration raged in the Council of Ministers, the European Parliament actively pushed for a relaunch of Europe. Altiero Spinelli initiated a wide-ranging debate on the constitutional and institutional future of the Community, which ultimately led to the European Parliament passing the “Draft Treaty Establishing European Union” in 1984. In the UK, Prime Minister Thatcher released a policy paper on Britain’s proposals for Europe to deal with the stagnation of the European economies: Europe — The Future stressed the need to tackle high unemployment, close the technology gap with the United States and Japan, and to make the EC relevant to the lives of citizens. The solutions proposed fit the traditional preference of intergovernmentalism over supranational solutions, and affirmed Thatcher’s view that the best way Europe could get back on track was to create a true single market, free of barriers, and with limited involvement of supranational institutions.

The decision to move on the single market issue arose from a series of undertakings at the European Council in Copenhagen in 1982 where representatives pledged action to reinforce the internal market. At the Fountainebleu Summit in 1984, the Council called for measures to abolish border controls between members. Later that year in Dublin, the Council agreed to a series of steps to complete the internal market.

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162 Cameron, 1992: 32.
164 Calingaert, 1990: 8. “Non-Europe” referred to the barriers between member states which weakened the GDP of the EC by $48 billion per year, according to Albert and Ball.
167 One of Thatcher’s main goals at Fountainebleau was a reduction in the UK’s annual budget contributions which were excessive compared to the benefits it received. Thatcher’s detailed account is enlightening. See Thatcher, 1993: 536-545 and Dinan, 1994: 109. For an analysis of the bargaining among the three powers of the EC, Moravcsik is essential. See Moravcsik, 1998 which examines the interests and bargaining tactics of the UK, Germany and France.
By the Brussels meeting in 1985, the Council endorsed the goal of 1992 for the single market and called upon the Commission to draw up a detailed program with a specific timetable.\textsuperscript{168}

**Business Organization since the Treaty of Rome and the evolving preferences of European Big Business**

While a number of Euro-federations were created in the early years following integration in the 1950's, associations representing the concerns of European big business remained absent.\textsuperscript{169} One of the reasons for this was that patterns of national industry associations in most European states did not permit firms to become direct members of associations.\textsuperscript{170} National business-government relations were another factor that influenced big business inactivity in Brussels as most large firms were national champions that were either nationalized or receiving preferential treatment and therefore did not share a common European perspective. In addition, EC officials did little to encourage the association of large firms and remained aloof to their interests.\textsuperscript{171}

Aspinwall and Greenwood suggest that there are four variables that shape firm incentive for European action: the state context, the external environment, the EU context, and the changing nature of the firms themselves. The state context proved to be a "negative" factor in shaping firm decisions for European organization, largely because historical and cultural reasons made the national route and the national organizations the traditional representatives of business vis-à-vis government. These peak national business interest associations in the member states were represented collectively in Brussels through the Union of National Industrial and Employer Confederations of Europe (UNICE).\textsuperscript{172}

Over the years, a series of factors motivated Europe's largest firms to organize themselves in European-wide coalitions to represent their interests in Brussels. The changing environment in the 1970's and 1980's brought new competitive pressures on these large companies that in turn, required a reexamination of their interests in the


\textsuperscript{169} Cowles, 1998: 109. Indeed, it was only until the very early 1980's when big business began taking an active interest in the affairs of the EU.

\textsuperscript{170} Except in the UK where the CBI has direct firm members. Correspondence from Carol Clements, CBI London, August 2.

\textsuperscript{171} Cowles, 1998: 110-111.
domestic-policy apparatus and in the EC’s institutions. National champions gradually transformed into multinational enterprises and these firms began to face serious challenges posed by international organizations that sought to control their activity such as the Vredeling proposal. In response to Vredeling and the failure of member-states and UNICE to take action against the proposal, a group of large firms met in Brussels in 1980 to discuss how they could defend and represent their interests collectively. Initially, these firms attempted to reform UNICE, but soon established their own organization: the European Enterprise Group (EEG). The EEG was created to voice the interests of multinationals directly to UNICE in an effort to transform the organization so that multinational interests could be better represented. In an effort to shore up and improve balance sheets, European big business began to pressure for greater access to European markets and an improved regulatory environment that would enhance their lagging competitiveness. Large European companies, frustrated with the perceived inability and unwillingness of national industrial associations and government leaders to address their concerns, became rapidly dissatisfied with the “national” route of European policy making which spurred European big business to consider political organization on a European level.

In the aftermath of the crises in the 1970’s, many European companies sought protection in various forms initially from their national governments, and then later from the Commission. The pressures that affected European MNEs included the relative competition from the US and the hyper-competition from Japanese firms which had a scale of operations and markets that were huge compared to the EU, as well as the increasing globalization of EC multi-national firms’ operations as a result of the impact of new technologies. The Commission’s relations with big business had traditionally been weak, but by the 1970’s it began to play an important policy entrepreneur role in creating incentives for big business participation in European activities. The Commission

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173 The Vredeling Proposal was an MNE Code of Conduct proposed by developing states in the UN that was later moved to the OECD. See Cowles, 1998: 112, 116.
174 Interview with Dr. Alan Butt Philip, University of Bath, Bath, UK. See also Cowles, 1998: 117.
176 National industry-trade policies were too weak to combat the forces of globalization. Over time, firms moved their lobbying efforts to Brussels to create an environment that would foster growth and R&D. Sandholtz and Zysman, 1989.
began to provide information to firms, bringing big business leaders together to discuss European solutions to economic problems, offering monetary contracts for participation in EU projects, and allow companies to provide data as well as solicit proposals that would shape EU regulatory policies.\textsuperscript{178}

Under Etienne Davignon, the Commission Vice-President responsible for industrial affairs from 1981-1985, the EC solidified these relationships through the creation of several industrial-trade strategies to encourage the development of the European high-tech industry.\textsuperscript{179} Over $100 billion in state funds were allocated among the twelve nations to bring together the R&D efforts of state-run enterprises, provide loans below market rates, to guarantee capital reserves, and possibly to shut out foreign competition in the computer, automobile and electronics sectors.\textsuperscript{180} One of the programs to develop out of this effort was the Eureka strategy that provided 300 awards for semiconductor and microchip research. Other projects included the Joint European Submicron Silicon Initiative (JESSI) that had $5 billion earmarked for semiconductors, the ESPRIT program in microelectronics and information technology (also $5 billion), as well as $1.6 billion set aside for the JET, BRITE, RACE, and COMETT projects in telecommunication, aerospace, and data-processing. Despite all these efforts, between 1977 and 1986 the output of all high-tech industries had grown by 6.8 per cent for the EC, compared to 15 per cent for Japan and 10 per cent for the United States.\textsuperscript{181} This close association that developed in the 1970's evolved into an emerging epistemic community of “transnational Europeans” which began to view these economic projects as inferior compared to the creation of a single market. According to van Apeldoorn, this epistemic community that developed was “even more dominant, or indeed, hegemonic, than the national bourgeois are within national state-civil society configurations;” unlike the national level where trade-union power retains some (albeit weakening) power, within the European order such countervailing power is virtually absent.\textsuperscript{182}

\textsuperscript{178} Cowles, 1998: 113.
\textsuperscript{180} Goldstein, 1993: 308.
\textsuperscript{182} van Apeldoorn, 1996: 19.
European big business can essentially be divided into three groups: import-competing producers for the European market, export-competing producers for the world market, and globally operating financial institutions.\textsuperscript{183} Firms in the first category are producers that operate transnationally but are geared to European markets ("National-Euro-champions"), tend to favour "Europeanism,"\textsuperscript{184} R&D super projects, investment in trans-European infrastructure and even subsidies or alternative firms of direct support. Firms in the second category are multinational giants that operate not just in Europe, but across the globe with strong representation in all three parts of the Triad. English and Dutch firms are strongly represented in this capitalist fraction with some representation from Germany. Firms in this group accept most of the dictates of neoliberalism, but still view the development of infrastructure projects and technology programs as important tasks for the EC.\textsuperscript{185} The third category is dominated by the City\textsuperscript{186} firms which is the hegemonic fraction of British big business. The orientation of firms in this group is staunchly neoliberal.\textsuperscript{187} The Institute of Directors (examined momentarily) is the BIA in Europe that most represents the views of these types of firms.

Over the period, European industries changed dramatically: more and more companies became caught up in a mixture of import/export dependence that became increasingly global rather than limited to a European scale. The changes in the international economy that were affecting profits and competitiveness for many European firms divided big business into two groups: those that favoured continental protectionist measures against those that favoured open and liberalized global trade.\textsuperscript{188} In the latter group, a number of firms began to develop global strategies, such as Shell, Unilever, ICI and Philips, although some of Europe's largest firms remained national/Euro champions.

\textsuperscript{183} van Apeldoorn, 1996: 22-23.
\textsuperscript{184} A framework whereby the competitiveness of firms is protected in a continental defensive strategy from the forces of global competition through the form of external tariffs and quotas. This is essentially the same as the notion of "Fortress Europe" examined later. French firms are predominant members of this capitalist fraction, but there are other "national" firms that share these interests. See van Apeldoorn, 1996: 23.
\textsuperscript{186} The "City" is the colloquialism that refers to the banking and financial services firms located in the City of London.
\textsuperscript{187} van Apeldoorn, 1996: 24.
\textsuperscript{188} Wallace, 1990: 215. This division was also present among the "home states" of firms: Dutch and UK firms were pro-free traders, whereas French firms tended to be protectionist. I examine British firm preferences momentarily.
and continued to focus their attention primarily on their national markets. However, prompted by consistent failures of national industrial-trade strategies to address global competitiveness and changes in the global mode of production, firms began to reexamine their preference for "home" markets and viewed Europe as a "safe" market where their products could be sheltered from the severe competition occurring in the global marketplace. The lessons and experiences of European big business over-seas transformed the policy preferences of these firms ultimately redefining their home markets as European or global instead of national.189

The Union of Industrial and Employers' Confederations of Europe (UNICE)

As mentioned above, the creation of UNICE coincided with the creation of the EEC in 1957.190 Its initial purpose was not so much to promote the customs union that was created, but rather to act as a defensive mechanism against the Commission and its policies.191 UNICE is a confederation of 32 national federations of "peak" business and employers associations from 22 European countries (i.e. more than just the EC member states). Policy direction is a cumbersome and complicated process because of the diversity of interests that the organization represents. The group has a network of permanent committee structures that helps to encourage compromise among the affiliate national associations and as such, UNICE is able to generate compromise reflecting the general interest of European business, although this is frequently "lowest-common denominator" positions.192 The group participates with the European Trade Union Confederation (ETUC) in the Social Dialogue and recently was about to agree on a "Works Council Directive" until the CBI intervened.193

The European Roundtable of Industrialists (ERT)

Among all the other big business interest groups in the EU, and at the level of member states, the ERT wields a vast amount of political clout.194 The ERT was created in April 1983 by Pehr Gyllenhammar of Volvo, who established the group in response to the

failure of member-states and EC officials to address the European economic situation.\textsuperscript{195} Gyllenhammar saw that what was needed was another "Marshall Plan for Europe" to spur growth and to build industry and infrastructure. The early ERT was made up of 17 CEOs which established working groups to come up with innovative ideas to deal with the problems plaguing the Community.\textsuperscript{196} Today, the ERT is made up of 45 CEOs and Presidents representing combined sales of over $550 billion a year and employing three million workers worldwide.\textsuperscript{197}

The ERT is a novel form of interest representation at the EU where BIAs are often federations of national federations rather than direct firm membership.\textsuperscript{198} The European Roundtable directs lobbying efforts at the Commission, as well as other European level institutions such as the European Council, the Parliament, but also enjoys direct access to national leaders in all member states. The effectiveness of the group rises from the members themselves which are influential within their home states, but also across Europe.\textsuperscript{199} The ERT works by spreading ideas (it is mostly an idea generator) through its members to home governments in an effort to convince them, and other BIAs, of the merits of the ERT's positions and views, but also meets with the head of government/state for each member country that heads the six-month presidency, as well as ad hoc meetings that are of vital importance (which the ERT has done from time-to-time).\textsuperscript{200}

When the ERT endorsed a proposal for complete integration of the European market in the early 1980's, members were not convinced that national governments would have the political will to do what was necessary. This belief was reinforced by the failure of member states to do anything constructive to accomplish the common market throughout the 1970's despite paying lip service to the needs for further integration and the removal of non-tariff barriers. ERT members were convinced that national associations in member states, and collectively represented in UNICE, did not possess the

\textsuperscript{196} Cowles, 1995: 226.
\textsuperscript{197} Interview with Caroline Walcott, Deputy Secretary-General, The European Roundtable of Industrialists, Brussels, Belgium. See also Greenwood, 1999: 84. The cap on membership in the ERT is 50.
\textsuperscript{198} Cowles, 1995: 225.
\textsuperscript{199} Cowles, 1995: 226.
political clout to launch a major initiative. These were the chief motivations for creating the ERT. The close association that the group developed with the Commission became solidified under Jacques Delors and these relationships over time became the core of an emerging epistemic community that advanced the single market option across Europe and within the member states.

**British business and the ERT**

British business played an important role inside and outside the work of the ERT in setting the agenda and driving through the single-market project as Europe's response to global competitiveness. British business strongly supported free market implementation and advocated a minimum level of regulation and bureaucratic costs to achieve it, as well as massive deregulation, openness in decision-making, and better access to East European markets. For British business interests in particular, the single market was welcome so long as it provided exceptions over production conditions involving employment and environmental costs, as well as the possibility of Britain opting out of full Monetary Union. In the realm of social policy, British big business favoured very restricted powers for the Commission in areas that would promote the free movement of people and employment creation, but not upon improvement in working conditions.

So long as these conditions were met, UK business groups actively participated in the work of the ERT.

The ERT is made up of essentially two capitalist fractions: import competing producers for the European market and export competing producers for the global market. While the members were able to see eye-to-eye on a variety of issues, the ERT split between Europeanists and globalists but was dominated by the Europeanist fraction. Indeed, in the very early years of the ERT, the groups' regional defensive position on the single market question caused three British chairmen (Shell, Unilever and

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204 van Apeldoorn, 1996: 25.
ICI) to walk out of the group because of the protectionist ideas of French members.\textsuperscript{205} This caused the ERT to be beholden to the Europeanist views of many of the members, but over time, the strategy of the association shifted in a globalist/neoliberal direction.

**The Thatcher Government and British Firm Preferences for Free Trade**

Britain was from the start an enthusiastic supporter of trade liberalization and the single market program which reflected the long-standing preference and demands of British industry, the competitiveness of service providers (particularly the financial services), and the Prime Minister's personal beliefs.\textsuperscript{206} The UK was indeed far in advance of the rest of Europe (with the possible exception of Holland\textsuperscript{207}) as it unilaterally liberalized its capital controls, deregulated services, and simplified customs procedures prior to the White Paper even being published.\textsuperscript{208} As Moravcsik has suggested, "the preponderance of evidence strongly supports the conclusion that Thatcher's European policy was driven primarily by economic interest"; the single market was an extension of her domestic regulatory reforms.\textsuperscript{209}

Thatcher's views reflected the long-standing preferences of British big business. An examination of British big business reveals that most large-scale firms operating in the country are multinational enterprises and a large percentage of these are foreign owned. Among the largest 100 manufacturing firms in Britain (based on employment), 20 are from another country, while of the 130,000 companies in manufacturing, 1507 are foreign-owned.\textsuperscript{210} In sectors such as the chemical industry, office machinery and data processing equipment manufacturing, electric and electronic engineering, and Auto and auto-part makers, foreign-owned companies account for more than 20 percent of employment.\textsuperscript{211} Production abroad by British-based MNEs has been estimated as being the equivalent to nearly 130% of exports and 36% of GDP in the period 1980-1988. Among the European-10, the UK is second only to Holland in the involvement of MNEs

\begin{thebibliography}{99}
\item \textsuperscript{205} van Apeldoorn, 1996: 25 and fn. 23.
\item \textsuperscript{206} Moravcsik, 1998: 319 and Thatcher, 1993.
\item \textsuperscript{207} Interview with Ruud Lubbers, former Prime Minister of the Kingdom of the Netherlands and Director of the Globus Institute, Tilburg, Holland.
\item \textsuperscript{208} Moravcsik, 1998: 319 and Stone, 1994: 116.
\item \textsuperscript{209} Moravcsik, 1998: 324.
\item \textsuperscript{210} Sawyer, 1996: 234.
\item \textsuperscript{211} Sawyer, 1996: 235.
\end{thebibliography}
Thus, British big business was already intimately involved in the international economy by the time that the SEA finally got on Europe’s agenda and these preferences for freer liberalized global trade were reflected in their interest associations. The next section examines the two key players domestically in the UK during the lead-up to the SEA, as well as some of the other BIAs that played a contributing role.

**British Business Interest Associations and Support for the Single Market**

British business has generally been enthusiastic about Europe as it indeed needed to be. From 1979 to 1992, the UK attracted 44 per cent of all total direct investment in the EU as a base for external capital. In the first two decades of EC membership, British exports to Europe rose from one third to one half of all British exports. A recent survey conducted by the British Chamber of Commerce and the Confederation of British Industry (CBI) found that 90 per cent of firms thought that the interests of UK firms are best served by staying in the EU, while only 7 per cent advocate withdrawal.²¹³ Indeed, it was business contributions that largely financed the “Yes to Europe” campaign in the referendum on British accession.²¹⁴ This section examines the structure and membership of Britain’s most influential BIAs as well as others that contributed to the Single market program.

**The Confederation of British Industry**

The Confederation of British Industry (CBI) established in 1965, represents 250,000 firms from almost every sector of the British economy, in addition to 200 trade, commercial and employment associations.²¹⁵ Ninety per cent of the CBI’s membership are small-medium sized enterprises (SMEs). The mandate of the group is based on regular surveys of members as well as direct consultations, but policy positions are formed by a number of specialist executive committees made up of members.²¹⁶

Outside of the social policy initiatives, the CBI has viewed European integration as central to the prosperity of the UK since the 1960’s. Before joining the EC in 1973,

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²¹⁵ Confederation of British Industry, “What is the CBI?”. Accessible via internet.
the group established an office in Brussels in the UNICE building in 1971. The association is a member of UNICE but maintains an office in Brussels so that it can exert its influence directly with European institutions on matters of European policy, where the need is perceived.\textsuperscript{217} The CBI has traditionally been an active policy actor in the domestic policy-making apparatus of the UK but in recent years, the CBI operates more commonly through the European apparatus than the domestic. In 1988, the CBI held twice as many meetings with EU officials than with UK ministries.\textsuperscript{218} In recent years, the association has sought to manage the UK government’s participation in Europe for purposes of “damage limitation” to business interests (particularly during the Thatcher regime) and to moderate its often isolationist stance.\textsuperscript{219}

**The Institute of Directors (IoD)**

The Institute of Directors is the chief rival of the CBI and has 20,000 members. Unlike the CBI, the IoD takes a more conditional stance to European integration; while strongly supporting the Single Market initiative, it was equally strongly opposed to the “related baggage” of excessive regulation, Social Europe, and the Single Currency that some proposed.\textsuperscript{220} IoD policies are funnelled through a variety of working groups to an Executive Committee made up of IoD members as well as the association’s staff. The IoD also has a permanent presence in Brussels, but this mostly operates as a listening post for information gathering rather than to lobby the Commission and other EC institutions. Indeed, unlike the CBI the IoD does not seek to influence policy on a European-level, but mainly to influence the UK government with respect to deregulation stances in European policy. It thus prefers the “national channel” of interest representation in European public affairs.\textsuperscript{221}

\textsuperscript{217} The main role of the Brussels office is to keep channels open with UKREP and the other European institutions, but it also represents the interests of the CBI’s members at UNICE meetings, liaises with other member federations, provides support for and facilitates CBI activities, and assists and advises members on European questions. Correspondence with Susan Pointer, CBI-Brussels Office.

\textsuperscript{218} Greenwood and Stancich, 1998: 151-152.

\textsuperscript{219} Greenwood and Stancich, 1998: 161 and especially 163. Lord Marshall, the President of the CBI, launched the “Yes to Europe” campaign in London in June 1999 to much fanfare in the press.

\textsuperscript{220} Greenwood and Stancich, 1998: 152.

\textsuperscript{221} Greenwood and Stancich, 1998: 152.
The Association of British Chambers of Commerce (BCC)
Membership in this British BIA is dominated by small business as the organization represents small and medium-sized local chambers across the country. Historically, these groups have been deeply concerned with export, trade and commerce and they played a moderately activist role in the SEA. Policy formation is highly institutionalized: a series of consultations with members is conducted annually, and these opinions are forwarded to a number of Standing Committees (for European issues, these go before the EU Committee). The opinions of the Standing Committees are put before the Council which is made up of 50 members. The BCC has little contact with the UK government on European issues and instead deals with Brussels directly, partly through the BCC’s membership in Eurochambres, and also through initiatives undertaken by the EU Committee which has had an independent status from the BCC since 1995.\textsuperscript{222}

The Forum of Private Business (FPB)
The FPB views the CBI and IoD as “large firm clubs” and are less representative of small business. Most of the FPB’s membership were largely unaffected by the “high politics” of the SEA, but the single market does provide some vital trading opportunities for its members. The organization places a greater reliance on the “Brussels route” for interest representation than the national route but is consulted regularly by the UK government on European affairs which affect the interests of the organizations’ members. The FPB functions by conducting quarterly surveys of its membership to determine policy direction.\textsuperscript{223}

Globalization, Firm Preference Change and the Development of the Single European Act
Changes in the global economy transformed the production structure and the degree of openness of national markets to external forces, altered the relationship between finance capital and productive capital, transformed the comprehensive concept of control, and gradually weakened the ability of European states to create autonomous macroeconomic and industrial-trade policies. The initial response to globalization, non-tariff barriers, special programs for R&D, etc., failed to change the weakening position of the UK and

\textsuperscript{222} Greenwood and Stancich, 1998: 152-153.
\textsuperscript{223} Greenwood and Stancich, 1998: 153.
EC in the global economy. International economic crises such as the oil shocks, high inflation, high interest, low employment, low productivity, and low growth, contributed to the weakening ability of the UK and EC to exercise power and create industrial-trade policy. The concatenation of these forces caused big business to reexamine its interests in Europe, form new coalitions, and lobby Brussels for the creation of a Single Market.

For many years, the fragmented nature of the European economy, consisting of twelve small and highly distinctive national economies, has been accepted as the major cause of poor competitiveness of European firms. The barriers that prevented firms from operating on a European-wide scale which restricted firms to domestic operations limited the development of large firms and the realization of economies of scale. The decision to proceed with the common market plan was a response to these growing concerns that the EC was falling behind its international competitors, namely the United States and Japan, and were paying heavy costs in what was already supposed to be an internal market according to the Treaty of Rome.224

UK/European Big Business: Setting the Agenda for the Single European Market
As mentioned, the CBI along with other British BIAs have long supported liberalization of trade in Europe. In the 1970’s, the CBI had already begun promoting EC standardization, the removal of non-tariff barriers, and the reform of public procurement.225 In March 1980, in conjunction with the Department of Trade and Industry (a historic policy network in the UK) the CBI along with the IoD adopted an official public position on the need to create a “genuine common market”, that included the liberalization of goods, services, and transport, simplification of the Common Market, and elimination of NTBs.226 The IoD in early 1983 called for completion of the single market within five years (1988) while at the same time, the CBI demanded that “unification of the internal market...must be the major policy objective.”227 Support was even stronger among British industrialists for the liberalization of services, particularly in the financial services sector: “London had long been the preeminent European centre of

international financial and transport services, and bankers and insurance firms based in the City continued to wield strong influence on British foreign economic policy."^228

Because of unilateral liberalization early on and because sectoral competitiveness was strong, British business supported the Single Market solution. But while the Thatcher government shared these views, the creation of the SEA was dependent on the other member states of the EC to agree.

The changes in the global economy altered the preferences of European firms which in turn altered the preferences of the member states; whereas non-tariff barriers and other mechanisms had been the fashion in the 1970's, their failure to eradicate economic weakness, poor competitiveness, and unemployment led to a convergence of policy choices among the EC countries.^229 It was business, organized domestically and transnationally, that helped transform the views of member-state governments that the Single Market was the only solution to getting Europe back on its economic track. This was especially the case in France where President François Mitterand embraced a more market-oriented approach, becoming a fierce advocate of increased European integration as a solution to Europe's (and France's) economic woes. Threatened with a run on the French Franc, changing attitudes of French big business interests, and the lobbying efforts of European big business, Mitterand accepted the single market option along with the other member states.

Through the European Commission which provided the policy guidance to member states, European business was able to get the Single Market not only on the EC agenda, but to move it to resolution. Like the Community's high-technology programs of the early 1980's which replaced failing and discredited national policies, the Commission (led by European business) advanced concrete proposals to move the single market question. The ERT and UNICE were among the first to promote the creation for a unified European Market as it would enable European firms to exploit economies of scale and to compete more effectively with Japanese and American companies.^230 At the same time as the Albert-Ball Report was making headway, the EC business community began

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^228 Moravcsik, 1998: 323.
^229 Sandholtz and Zysman (1989) touch on this briefly but this is well developed by Moravcsik – almost to the detriment of weakening European businesses' role in the creation of the SEA. See Moravcsik, 1998: 318.
to raise their own voices. The most prominent of them was the President of Philips, Wisse Dekker, who sounded the alarm that the EC’s inability to move toward completion of the internal market was the cause of the Community’s deteriorating competitive position. Dekker, a member of the ERT, argued that Euro-pessimism needed to make way for Euro-realism that recognized the revolutionary changes that were taking place in the global economy. In an effort to deal with these forces affecting the EC, Dekker’s proposal was to establish a series of measures that would create a real single market by 1990. These proposals were drafted in a report published by Philips under the title *Europe 1990 – An Agenda for Action*, which was released in January 1985 to member states and Community officials. Dekker’s view was that Europe failed its obligations under the Treaty of Rome in 1957, where article 2 called for the establishment of a common market and the harmonization of the economic policies of the member states. The report played a very important role in setting the agenda for the single market program, outlining the precise steps needed to create a unified European market in four key areas by 1990. Specifically, Dekker called for trade facilitation through the elimination of border formalities among member states, open public procurement markets, harmonized technical standards (which was of special concern for Philips), and fiscal harmonization.

Dekker believed that a unified market would turnaround the European economy and end the “Eurosclerosis” that had plagued the Community since the 1970’s. In a speech in 1985, Dekker stated that:

An internal market of continental scale based on the free movement of goods and services within Europe will have a number of vital effects on Europe’s competitive position.

1. In the first place, economies of scale are needed to cover the gigantic rise in research and development costs which are characteristic of modern technology and which exceed the scope of national markets.

2. In the second place, increases in scale are necessary in order to arrive at competitive costs prices in Europe, because economies of scale and speed of growth are also the strategic elements used by our competitors world-wide to exploit the learning curve effect.

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230 Interview with Caroline Walcott, ERT. See also Cowles, 1995: 226 and Collie, 1993: 213.
231 Interview with Caroline Walcott, ERT. See also Calingaert, 1990: 8.
232 Dekker in fact had given the report to Delors in November 1984 as the future President was planning the agenda of the Commission with Lord Cockfield, who would steer the single market program. The report was also circulated to all the member-state governments and was followed up with meetings with ERT members in the Member-State capitals. Interview with Caroline Walcott, ERT. See also Overkleef and Grossman, 1988: 173 and Cowles, 1995: 226.
3. In addition, a homogeneous infrastructure based on uniform European standards will be an important stimulus to the rapid application of innovative products and systems and of new technologies in Europe.

4. Advantages of scale and rapid application in the market are equally important for the small and medium sized companies, since it fosters the development of a good subcontracting and supplier’s climate in which high-level specialization can thrive.

5. Economies of scale and European uniformity would remove many of the uncertainties and doubts which exist among financiers, constructors and those who exploit high-technology development strategies.

6. The combination of free goods traffic and homogeneous standards on a European scale would result in a great reduction of stocks, bring down cost prices and improve the competitive position. (By way of illustration: 30% of the capital in a company such as Philips is tied up in stocks.)

7. Consensus between economic partners is increasingly developing into an additional production factor. A really homogeneous Common Market would constitute the basis for such a European consensus.

Dekker’s proposal was strongly supported by the rest of the ERT members, and the Report is widely viewed as the precursor to Lord Cockfield’s White Paper that served as the blueprint for the 1992 program.

The debate over “Fortress Europe” and Free Market Europe
The vision of what the Single Market seemed clear in this sense, but whether the EC would be open to competition from the rest of the world or protectionist deeply divided the member states. Holland and the UK staunchly favoured an open and free market as their economies were tied to the emerging global economy, whereas France preferred the protectionist “Fortress Europe” option. As for the Commission and many large firms, policies that restricted the competition from outside the EU were favoured during the early discussions on the internal market. The European big business community was deeply divided on the issue, particularly the ERT. As Bastiaan van Apeldoorn has found in his analysis of the political economy of “capitalism versus capitalism”, a number of firms in two of the three strains of “capitalisms” advocated this form of regionalization which “constituted a defensive response to globalization, intended to insulate [these firms] from its harmful effects.”

235 Interview with Caroline Walcott, Deputy Secretary-General of the European Roundtable of Industrialists. See also Ludlow, 1989: 30, Sandholtz and Zysman, 1989 and O’Brien, 1995: 703.
236 van Apeldoorn, 1996: 19. Indeed, some of the Dutch and UK members threatened to leave the ERT if the group did not back away from the Fortress Europe idea. Three members ultimately did leave. Interview with Caroline Walcott, ERT and van Apeldoorn, 1996: 25.
The Commission initially proposed that, at least in the short term, the creation of the internal market would also be complemented with an external competition policy that limited the forces of foreign competition so as to allow Euro-firms to strengthen their position within Europe. This policy was not at all unanimous, and was vehemently opposed by the Thatcher government in the UK as well as the Lubbers government in Holland. In her infamous speech at the College of Bruges, Thatcher stated plainly:

Europe should not be protectionist. It would be a betrayal if, while breaking down constraints on trade to create the Single Market, the Community were to erect greater external protection. We must make sure our approach to world trade is consistent with the liberalization we preach at home.

The Commission was persuaded that shielding Europe from the rest of the world would be damaging for European competitiveness abroad, and changed the EU’s external competition policy.

**Lord Cockfield’s White Paper and the Negotiation of the SEA**
The newly-appointed Commission of Jacques Delors set out to create a program that would provide the catalyst to re-invent Europe and create a genuine Single Market. The key figure in the Commission, along with Delors the Commission President, was Lord Cockfield, a former cabinet minister, government official, and businessman. In the 1950’s and 1960’s, Cockfield had a connection with the European issues: he was a member of the British industry elite, a member of the Grand Council of the CBI, and was the founder of the National Economic Development Council (“The Neddy”). In September 1984, Cockfield was invited to go to Brussels as UK Senior Commissioner and Vice-President with responsibility for Directorate Generals III and XV (the Customs Union, indirect taxation, etc.) and was responsible for a number of key industrial sectors that would be important for the Internal Market, specifically the food industry, chemicals, pharmaceuticals, wholesale-retail, textiles, and construction.

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237 Interview with Ruud Lubbers, former Prime Minister of the Kingdom of the Netherlands and Director of the Globus Institute. KUB, Tilburg, Netherlands, July 12, 1999.
Cockfield, following the decisions of previous Council meetings, set out to provide the legislative program that the European Single market would be based. The White Paper – *Completing the Internal Market*, outlined 300 measures that were needed to remove the NTBs that were significantly limiting inter-Community trade by December 31, 1992. Lord Cockfield’s Report on the freeing of the internal market “was music to British ears” as it accepted the idea of a deregulated, free-market Europe which had been the British goal for the EC since the election of the Thatcher government in 1979. Cockfield’s White Paper drew upon the considerable work already undertaken by the Commission and other groups (including the ERT) listing 300 measures that can be divided into six categories: border controls, restrictions on the recognition of professional qualifications granted by other member states, differences in the VAT and Excise taxes, differences in legal regimes among members, restrictions on the free movement of capital, and restrictions on public procurement.

Cockfield’s White Paper was prepared a few months after Dekker had released *Europe 1990*. Although Cockfield’s proposal had a different terminal date (1992), and was organized slightly differently, Ludlow has suggested that it was “related to the previous efforts at drafting a comprehensive strategy by Dr. Dekker and his colleagues.” After the adoption of the White Paper, ERT members played an active role in promoting the single market program by appearing with EC officials in public fora to lend support for “1992” which contributed to the success of the SEA.

The White Paper’s 300 proposals were presented as purely technical matters that were needed in order to create the single market that successive Council meetings had debated but were unable to create. At the Milan Summit in June 1985, six months after Cockfield produced his report, the heads of the twelve member states endorsed the plan and launched an Intergovernmental Conference (IGC) from which the SEA emerged in February, 1986. The IGC met six times in Luxembourg between September 9, 1985 and January 27, 1986 to debate and negotiate the SEA until it was finally ratified by nine

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244 George, 1993: 178.
of the 12 EC states. Even in this area of "high politics" the ERT exercised its muscle. According to Cowles:

When member states wavered in implementing the single market programme, the ERT lobbied European heads of state and government directly with a simple message: support the single market programme or European industry will move its investments out of Europe... [The ERT] played a driving role in conceiving the solution in the form of project 1992, in elite socialization, and, where governments looked like they were faltering, in binding their commitment if necessary by threatening the removal of investments, sometimes directly through their ability to use a prime ministerial hotline.

The Thatcher government consulted frequently with business and several Whitehall offices reviewed all proposals in the White Paper as well as the draft texts of the SEA while consulting with business groups. The SEA was a significant achievement in five respects: (1) it provided the legal framework for the completion of the Internal Market within a fixed time-frame; (2) it enhanced the treaty provisions for qualified majority voting (QMV), overturning the Luxembourg Compromise which had stalled integration attempts for decades; (3) it expressed a commitment to further economic and social cohesion within the Community (through the policy guidance of the Commission); (4) it expressed a commitment to concerted action among Member States in foreign affairs policy; and (5), it granted the European Parliament additional powers. The removal of physical barriers to trade to the movement of persons and goods through the abolition of customs formalities, was a key element of the SEA, as was the removal of technical standards that served as barriers to the free circulation of goods. The procurement policies that had favoured national champions were also abolished providing a level playing field for different "European" companies to compete across what had been "domestic" markets. The problem of professional qualifications across member states was solved by adopting the principle of mutual recognition to promote the free movement of labour within the EU. The SEA also provided for the removal of barriers for trade in services, particularly financial services as well as the removal of controls on the flow of capital between member states. Finally, the SEA took steps to harmonize rates of indirect taxation so that fiscal barriers would no

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longer be a significant barrier to trade. In all, the goal of the SEA created an "area without internal frontiers in which the free movement of goals, persons, services, and capital is ensured." All of these measures strongly appealed to the liberal-free trading spirit in Britain, particularly to the business community.

**UK/European Big Business and the Implementation of the SEA**

In the EU, it is the Commission that is the centre of the "Eurocracy" as it has the power to create directives and regulations for the European marketplace, a power which is shared to a degree with the member states. With the passage of the SEA, European BIA activity rapidly increased in Brussels as directives and regulations were drafted to meet the closing date of 1992. The resources that business groups possessed played a significant role in influencing the shape and content of European public policy because of the relatively small and overloaded EU bureaucracy which has become dependent on the input of expert advice provided by business groups. In fact, the European Commission is so small that there is only one person that has responsibility for the motor insurance business, a multi-billion dollar industry. The close association that developed between the ERT and senior Commission officials (an emerging epistemic community) became solidified following the SEA when the Commission consulted the ERT and its members to improve its policy-making in the establishing regulations and directives for the Single Market.

In turning the SEA into regulation, the normal process which the Commission follows is that it proposes draft directives or regulations, normally drawn up after consultations with interested parties, which are then submitted to the Council of Permanent Representatives, Parliament, and the Economic and Social Committee (ESC). The Commission followed this process following the SEA negotiations but as Alan Butt Philip and others have suggested, it has been easier to legislate an internal

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255 The Single European Act, Article XIII.
259 Cockfield, 1994: 78.
market than to create one. Since the SEA, the EC has had a problem with non-implementation of EC directives by member states: between 1982-1986, the Commission issued 2097 letters of formal notice to governments indicating that they were breaching EC directives. Of these, 785 were reasoned opinions (second stage), whereas 325 were references to the European Court of Justice (final stage). Technically, the EU missed the 1992 deadline as not all of the 282 measures in the SEA had been adopted by the Council. In September 1993, 95 per cent of the program had been adopted, 219 of these requiring transposition (in the form of legislation at the member state level) Of these 219 measures, only 106 had actually been transposed by all twelve member states. In short, by September 1993, five per cent of the SEA had not been adopted by the Council, and a full third that was agreed to had not yet been implemented.

Concluding Remarks
In the words of one Delors official, "[t]here is no doubt that the ERT influences the views of the Commission. These men are very powerful and dynamic...when necessary they can ring up their own prime ministers and make their case." Delors himself has publicly stated that the ERT members were critical to the success of the single market program. The ERT's report, *Beating the Crisis*, was so persuasive that Michael Heseltine, the Minister of the Department of Trade and Industry, ordered his officials to adopt the report in their own internal review. Indeed, the ERT is promoting a "culture" within the EU regarding the importance of Europe as a supranational institution and its place within the global economy. The ERT and the European Commission, as well as other business groups and individuals in the member states, constitute an emerging epistemic community that helped create the SEA and bring free trade to the EC. Whether organized domestically in the UK or supranationally in the EU, big business groups played a significant part in the creation of the Agreement. UK business groups played a

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260 Interview with Dr. Alan Butt Philip, Director, European Research Institute, University of Bath, UK. See also Butt Philip, 1988: 1.
vital role as well during the early stages as they attempted to get the Single Market issue on the agenda of the Thatcher government and within UNICE.

The Single Market was not the brainchild of business alone, but “business advocacy was...a central factor in propelling it to the top of the Community’s agenda, and in clarifying the range of measures involved and the need for a comprehensive, time-tabled strategy.” Wisse Dekker’s speech in Brussels in January, 1985 was perhaps “the clearest statement prior to the White Paper itself, of the new consensus between European industry and the Commission.”266 The several attempts to relaunch Europe between the 1960’s and early 1980’s are indicative of the weak power that the Commission had over states as a supranational institution. These failed attempts also illustrate the divergent views of the member states that were parochially concerned with combatting the economic crisis plaguing their economies through domestic measures and initiatives. It was only by the 1980’s that governments of all political stripes began to accept the neoliberal “logic” that trade liberalization was the solution to European woes.

The development of a global economy and the pressures of globalization weakened the effective power of EC states in the 1970’s while increasing the influencing power of business domestically as well as transnationally in Europe. As Wolfgang Streeck has found:

The nation-states participating in the deal ... had become too small not only to be successful players in the global economy, but also to govern their own externalities-ridden national economies. With national sovereignty having lost its capacity to control the national fate, the logical answer seemed to be a pooling of sovereignties... 267

The evolution of Europe from “economic feudalism” into the world’s largest marketplace was part of a larger trend affecting developed and developing states alike.

Chapter IV: Canadian Big Business - An Active Role in North American Continental Integration

The forces of economic internationalization exerted pressures on the Canadian State in North America that were similar to the burdens faced by the United Kingdom in the 1970's and early 1980's. While de jure integration united the old warring continent of Europe thirty years in advance of the North American continental project, the close association and regional integration of Canada and the United States has been a powerful – if not always formal – dynamic for well over a century. The creation of the FTA and NAFTA formally recognized this growing interdependence between both countries that had developed off and on since the 1850's. Today, Canada and the United States represent the world’s largest trading relationship between two nations, while NAFTA is the world’s largest geographical free trade area with over 360 million people.\(^{268}\)

Clearly, North American integration did not happen overnight, but a number of short-term forces in the 1980's led to the germination of an agreement. The 1980 recession was devastating for the Canadian economy, an economic collapse not seen since the great depression of the “dirty” thirties. U.S. protectionism became rampant and terribly unfair to Canadian firms because of American economic troubles and an increasingly protectionist U.S. Congress.\(^ {269}\) Uncertainty in the GATT-Uruguay Round caused uneasiness as Canada sought a way out of what was becoming a worsening economic mess.\(^ {270}\) In the second phase of North American integration initiated by Mexico, concerns were raised that the Canada-U.S. relationship would become akin to a “hub and spoke.” To ensure that Canada would keep its advantages negotiated in the FTA and to correct some of the deficiencies in the agreement, Canada participated in the NAFTA discussions.

Canada’s trade policy has been driven by a concern over its weak economic and trade performance. During the 1970's and 1980's, Canada’s trade performance was poor

\(^ {268}\) Winham and Grant, 1995: 15.
compared to other industrialized countries which benefitted more from the rapid expansion in global trading. Since 1970, the ratio of exports for goods and services to GDP hardly changed, increasing only by one per cent in 1991 (to 24 per cent). By contrast, the ratio of exports to GDP for the OECD countries over the same period has expanded on average between 13 to 21 percent. Moreover, during the late 1980's (a period of high growth in the international economy) the country's export performance did not keep pace with the growth of its expanding export markets.²⁷¹

Along with these short-term causes that inspired the Canadian government to negotiate the FTA and NAFTA, longer-term causes account for the development of these agreements. As mentioned in chapter two, a series of economic forces transformed the state-society-capital relationship that over time, weakened the power of states to enact industrial-trade and economic policies and has altered the preferences and relative influence of capital in the policy-making process. Transferring my central theoretical arguments to the Canadian context, globalization has affected the Canadian State and economy by:

1) altering the preferences of many Canadian firms on the benefits of liberalized trade, particularly with the United States;

2) weakening the power of the Canadian State to enact trade-economic-industrial policies as Canada became increasingly exposed to the workings of the international economy;

3) freeing Canadian firms from the "shackles" imposed by the Trudeau government, allowing business to move capital to states that would ensure a competitive return on investments, due to the deregulation of international capital markets which increased capital mobility and successive GATT Rounds which lowered tariffs among states;

4) increasing the policy-influencing power of Canadian firms vis-à-vis government, reflected in Canadian capital's increased agency and structural power;

5) weakening and fragmenting Canadian organized labour;

6) creating a "neoliberal" policy network, a fragment of an emerging international epistemic community which was led by big business interests and includes senior bureaucrats, political leaders and academics; and,

²⁷⁰ York, 1993: 159.
causing Canadian business to form strong business interest associations that were non-sectoral and multinational in membership and took an active role within the emerging policy network at the level of ideas and agenda-setting, but also in the negotiation and ratification phases of the FTA and NAFTA.

This chapter examines how economic globalization has transformed the power relationship in the capital-labour-society matrix of policy-making for the Canadian State and will illustrate the role exercised by Canadian big business groups in both continental pacts. I begin by reviewing Canada’s historical and evolving trade relationship with the United States, followed by an examination of the changing trade preferences of Canadian big business and the associations that represent them, namely the Business Council on National Issues and the Canadian Manufacturers’ Association. The effect globalization has had on Canadian organized labour is then examined, followed by an analysis of the Canadian trade bureaucracy and its linkages with both groups which coordinated the work of this developing trade-industrial policy network. The emphasis will then shift to discuss the agenda setting, negotiation, and implementation/ratification phases for both agreements and the heavy involvement of Canadian big business interests.

**Evolving Continental Integration: Canada’s Trade History with the United States**

While formal continental integration came late, successive Canadian governments have wrestled over the issue of Canada’s close economic relationship with its continental neighbour, both as a benefit to the country and one of its greatest threats to its independence. Thus, the history of Canada’s trade relations with the United States is very much the history of Canada. Following the repeal of the Corn Laws in 1847, Britain moved decisively away from mercantilism towards a policy of free and open trade. While this shift in policy led to unprecedented wealth over the next several decades, the effects on Britain’s colonies on the northern half of the American continent were disastrous. The United States raised its tariffs, Montreal’s leading merchants signed a call for annexation by the United States as the Canadian economy went into a tail-spin, the Parliament buildings in Montreal were burned in a riot, all which led Lord Elgin to communicate to London about the urgency of reaching a reciprocal trade arrangement on
behalf of the colonies with the United States. In 1854, steps were taken to create a “reciprocity region” and an agreement was reached between the US and the UK in right of British North America. The Elgin-Marcy Reciprocity Treaty of 1854 provided for the free admission of natural products, which included grain, livestock, meat and fish, and was a boom for British North America as trade doubled in the first year the agreement was in force.

Had the agreement been renewed after the 10-year period, Canadian history might have developed very differently. However, the economic prosperity that was generated by the Treaty came to an abrupt halt in 1866 when the United States unilaterally abrogated from the agreement in reaction to the UK's indirect support for the Confederacy. The aftermath of the American Civil War, the raids upon Canada by the Fenian Brotherhood, and especially the abrogation of the pact by President Lincoln, all contributed to the unification of British North America in 1867. One of the first acts of Prime Minister John A. Macdonald was to renegotiate a similar agreement with the United States which he attempted to do in 1869, 1871 and 1874. Macdonald's inability to reach a covenant with the new country's southern neighbour, led to the creation of the National Policy in 1879. The National Policy created a system of high tariffs, mostly directed against the United States, to encourage the development of an industrial and manufacturing class in Canada and hopefully increase Canada's bargaining position in a future negotiation.

Since those days, the reciprocity question has dominated Canadian politics reappearing in many forms throughout this century. In 1911, Prime Minister Laurier took to the polls an agreement he had negotiated with the United States which President Taft succeeded in getting approved by the Congress. By that time however, Canadian business had grown accustomed to the high tariffs which preserved the Canadian market for their goods. Financial and manufacturing interests united behind the Conservatives

274 Francis, Jones, Smith, 1992: 405-6, 416-421.
under Robert Borden who soundly defeated the Liberals and the free trade issue, but did not slam the door on closer economic cooperation with the United States.278

Indeed, Prime Minister King negotiated in 1935 a trade agreement with President Roosevelt that lowered tariffs for products on both sides of the border, followed by a trilateral arrangement that included the United Kingdom in 1938.279 During the war, the U.S. and Canada signed the Ogdensburg Agreement in 1940 that created a Joint-Defence Board, and later in 1941, a defence production sharing agreement (the Hyde Park Declaration).280 The first real attempt to create harmonized rules between both nations occurred with the Canada-US Autopact of 1965. For Canada, the benefits of the Autopact were substantial: massive rises in employment in the Canadian auto industry and 80 per cent of the country’s output exported to the US.281

In the 1970’s, Canada began to reexamine itself and its close relations with the United States. In 1972, the Gray Report (named after Herb Gray, its author) concluded that Canada’s high tariffs “provides sufficient protection to a wide range of industries to enable them to compete in the domestic market even when they are less efficient than foreign producers.”282 At about the same time, the Nixon administration imposed “draconian” tariffs in an effort to gain control of the domestic U.S. economy. Canada responded in 1972 by releasing Canada-U.S. Relations: Options for the Future that reexamined the country’s relationship and close dependence on the U.S. The policy document listed three courses for action: retaining the status quo, seeking closer continental integration with the U.S., and a “third option.” Prime Minister Trudeau’s Third Option rejected the idea of closer association with the United States and aimed to divert Canada’s world trade away from its southern neighbour to other markets in an effort to diversify the country’s economy and limit its dependence on one market for so much of its exports.283 In 1973, the Canadian government established the Foreign Investment Review Agency (FIRA) to monitor foreign direct investment in the country to

282 Francis, Jones and Smith, 1992: 476).
ensure that it was helping the Canadian economy and not simply exploiting Canada’s resources. Later in the decade, the Trudeau government made efforts to “Canadianize” a number of U.S. magazines (e.g. Reader’s Digest and Time) while the CRTC advocated for greater Canadian content on the country’s television and radio stations. Finally in 1981, the federal government introduced the National Energy Program (NEP) and strengthened FIRA which further deteriorated the Canadian-American relationship.

NEP was the child of the nationalist-interventionist faction of the Liberal party of Canada and rose out of the belief that the Canadian energy sector needed to be Canadianized. In 1975, Petro-Canada had been created and the goal of NEP was for Canada to be self-sufficient in oil by 1990, gain greater oil revenues for Ottawa, and especially to reduce the role of U.S. oil companies in Canada to less than 50 per cent. FIRA was responsible from 1973-1984 for screening foreign investment (mostly from the U.S.) using criteria on a cost-benefit scheme to assess whether the investment would be beneficial to Canada (i.e. provision of jobs, enhanced technological development, increased exports, etc.) The rejection rate remained moderate at 10 per cent, but doubled in the 1980-81 period.

Of all the industrial-trade policies that the Trudeau government enacted, NEP and FIRA caused the most controversy with the U.S. The United States Trade Representative (USTR) warned Canada of retaliation: “We have a quiver full of arrows and we are prepared to shoot them in self-defence if we must.” Canadian business interests in western Canada shared this hostile reaction with the U.S. government and American big business groups. These policies were designed to control the Canadian economy, and divert growth in certain sectors as well as “keep out” American influence in others. However, despite the Trudeau government’s best efforts to divert trade to the East and West (i.e. Japan and the EC), the policy was failing and by 1980, so too was the Canadian economy as it spiralled downward in a fashion that had not been seen since the 1930’s. Despite the “last gasp” of liberal interventionist policy through the creation of NEP, the Trudeau cabinet in 1980 changed to reflect the pressures that the global economy was exerting upon Canada. The 1980 budget statement, Economic Development for Canada

Francis, Jones and Smith, 1992: 478-9.
Francis, Jones and Smith, 1992: 479.
in the 1980's was a 180-degree turn from the nationalist industrial strategy and reaffirmed the long-term policy goal of continental rationalization. As Senator Olson the Minister of Economic Development stated:

From here on, the national Government will invest its capital in areas of prospective growth, in the future....We're going to stop propping up mature industries that will never be competitive in this generation, like textiles, clothing, footwear and a number of others. 287

Those like Herb Grey who were members of the nationalist faction of the Liberal Party were “pushed into the policy basement.” Grey moved to the post of Treasury Board President and discussions of interventionist industrial-trade policy evolved rapidly into discussions of sectoral trade arrangements with the United States.288 As Canada considered its trade options, south of the border the new American President Ronald Reagan in 1980 suggested the creation of a North American trade pact between the U.S. and its two continental neighbours.289 With the Third Option getting the country nowhere, Canada considered Ronald Reagan’s challenge. Gerald Regan, Canada’s Minister of International Trade, announced in 1983 that the Third Option was dead and that the government would pursue a limited free trade agreement with the United States.290 The pressures of the global economy on Canada signalled to the country’s decision-makers that its industrial-trade policies were no longer working. While the Trudeau government began to reexamine its policies, by 1984 the Canadian populace put their lot behind Brian Mulroney and his Progressive Conservative Party.

Canadian big business: globalization and evolving preferences for free trade
As mentioned above, Canadian business including U.S. branch plants have historically been in favour of high tariff barriers, particularly the manufacturing sector in Canada.291 Indeed, on the eve of the general election in 1878, it was the CMA that convinced Prime Minister Macdonald that Canada would benefit from a high import duty. High tariffs would keep cheaper U.S. products out and promote Canadian manufacturing from within. Macdonald became convinced that import duties were highly effective in the UK and

U.S. which allowed those countries to industrialize. For Canada to gain the economic clout as the senior Dominion in the Empire, industrialization and development had to occur, and tariffs were the tool to get there.\textsuperscript{292}

For the next hundred years, Canadian manufacturing did not shift from this central belief in the religion of protectionism. What caused some Canadian firms to convert from a position of fierce opposition to trade liberalization to favouring free trade with the United States? In the 1960's and 1970's, a number of Canadian businesses began to outgrow the Canadian market and sought foreign markets for their goods. To compete abroad, efficiency at home was necessary as well as R&D and investment in the production structure. The exposure to international markets had the effect of transforming these firms into trade liberalizing advocates which had the effect of splitting business organizations like the CMA from those firms and sectors which continued to advocate protectionist policies.\textsuperscript{293}

As Canadian MNEs had the experience of operating in the global marketplace, they were exposed to international “disruptions” in the form of state protectionism and rapid price changes in the global economy. This exposure forced firms to adjust their production structure to be as competitive as possible so that they could compete abroad.\textsuperscript{294} Canadian MNEs such as Nortel, Alcan, Nova, Ivaco, and Abitibi-Price, were all major exporters and had organized their production structure to take full advantage of a growing continental market place and the benefits that different regulatory regimes provided. These firms would benefit from freer trade with the United States because of the aggregate benefits of their firm-specific-advantages (FSAs) and country-specific-advantages (CSAs), some of which would be preserved or unaffected by a free trade agreement or would increase as a result.\textsuperscript{295}

Rugman and Verbeke (Rugman and Verbeke, 1990) recognized that Canadian corporations which were US subsidiaries would likely face mixed outcomes under a free trade arrangement. The largest US MNEs operating in Canada (General Motors, Ford and Chrysler) would all continue to benefit under the 1965 Canada-US Auto Pact which

\textsuperscript{292} Francis, Jones and Smith, 1992: 53.
\textsuperscript{294} Rugman and Verbeke, 1990: 54.
\textsuperscript{295} Rugman and Verbeke, 1990: 56-7.
preserved privileged market access, but these companies also possessed FSAs and CSAs, partly due to their relationship with their parent organization but also because of efficiencies at the plant level.296 Other companies which operated in Canada solely because of the tariff barrier that was in place were expected to suffer because of the agreement and many of them were thus opposed (particularly Goodyear, Firestone and Gillette).297

Thus, the unity of Canadian big business behind protectionism began to break as some firms changed their preferences to accept open trade, whereas others relied on protectionism to remain in business. Resource extraction firms, financial corporations, manufacturers that were tied to the “staples fraction,” and US branch plant sectors that produced consumer goods, were all in favour of an agreement and lobbied actively to reach one. Firms that were export-oriented in the “nationalist coalition” were ambivalent about free trade because while they were encouraged by an agreement with the United States, they wanted the federal government to retain policy instruments such as procurement, research and design credits, and export financing. Firms that had serious misgivings were those businesses that were oriented to serving the domestic market only, particularly Canadian-owned cultural industries and parts of the agri-food sector, along with furniture and shoes.298

Clearly then, a division among Canadian businesses developed during the 1970’s between firms that were export-oriented and those which produced solely for the domestic market. Over time, this led to a proliferation of business associations catering to narrow sectoral interests, compared to the EU where “peak” associations299 have been more operative.300 As a result, despite the sectoral divisions of Canadian business, associations developed to unite business across sectors that were proponents of trade liberalization and excluded those firms which were opponents of trade liberalization from membership. The Business Council on National Issues, the Canadian Manufacturers’ Association, the Canadian Chamber of Commerce (CCC), the Canadian

299 Peak associations are national and supranational associations that are non-sectoral representing a wide interest of groups from a variety of sectors.
Federation of Independent Business (CFIB), the Canadian Exporters’ Association (CEA) and others represent these kinds of organizations. The next section examines two key business organizations that played a significant role in the development of the FTA and NAFTA and examines their evolution on the free trade question.

The Business Council on National Issues
The Business Council on National Issues (BCNI) was founded in 1976 and represents 150 chief executives of some of Canada’s largest corporations, many of which are foreign-owned multinationals. Among all the business organizations in the country, the BCNI is regarded as the most respected and the most powerful because it has the ability to act more decisively and quickly than other groups, as well as the economic clout that its membership represents in the Canadian economy.

The BCNI is led by Tom d’Aquino, regarded as “one of the most accomplished lobbyists around” as well as one of the most connected. One of the motivating factors that led to the development of the BCNI was the view by senior business leaders of the need for a “calmer voice” for business (compared to the harsh and anti-labour CMA and CFIB) and to correct the shift in government that had distanced business away from the decision-making process. According to d’Aquino, the BCNI’s main aim is to be “the most influential voice of Canadian business in the national public policy arena, to try to change some of the values, as well as the policies, of our society while respecting the fundamental aspects of the market economy.”

David Langille’s study of the BCNI views the organization as the instrument through which the “hegemonic fraction” of business in Canada (i.e. finance capital) has made an agency alliance with resource capital to defend their mutual interests. The BCNI is essentially founded on an coalition between American subsidiaries in Canada and the “staples fraction” of Canadian business, but it includes four sectoral groupings: the resource-staples sector, the financial sector (all six chartered banks are members, as

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305 Coleman, 88: 83.
are eight of the ten leading life insurance companies), the manufacturing sector which has linkages to staples production (like steel, construction, pulp and paper), five of the ten leading energy companies (Imperial, Shell, Texaco, Gulf), and US-owned manufacturing sectors that produce consumer goods (particularly the Auto sector). Noticeable exclusions from the BCNI include Petro-Canada and all publicly-owned corporations (as per the BCNI constitution), but informal exclusion of corporations also exists such as cooperatives from the agri-food sector along with other prominent organizations, many of which are opponents to free trade. Approximately 66 per cent of the BCNI's membership is Ontario-based, 56 per cent of which is headquartered in Toronto.

During the 1980 recession, d'Aquino became convinced that closer integration with the US was in Canada's best interests. Having studied in the UK shortly after it had joined the Common Market, d'Aquino was exposed to the arguments in favour of closer continental integration for Europe. When it looked like the EC would move towards a full-fledged Single Market in the early 1980's, d'Aquino was convinced that Canada had to seek a closer arrangement with the United States to preserve its economic position. d'Aquino observed that the movement for a Single Market in Europe was being led by the big business community in the form of the European Round Table of Industrialists (ERT), an organization modelled on the BCNI and the American Business Roundtable (BRT) in the U.S. and that Canadian business needed to take a leadership role if an agreement with the U.S. were to be reached.

In the fall of 1981, d'Aquino called a meeting of the BCNI to discuss the ongoing recession but also to share his revelation about a trend he saw in the North American economy. He suggested that the recession was not ordinary, but was symptomatic that North America was entering a period of competitive decline. With significant competitive pressure from the emerging east (led by Japan) as well as from Europe, the United States would increasingly become more isolationist and Canada was going to get caught in the protectionist cross-fire. To ensure economic prosperity for the country, the turn in the global economy required that Canada secure its access to the American market.

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308 Atkinson and Coleman, 1989: 48-49, Chambers, 1985: 121, Coleman, 1988: 84. These rules were relaxed as Petro-Canada recently joined the BCNI.
309 Coleman, 1988: 86.
310 Martin, 1993: 94.
under a free trade agreement, especially in the event that the newest round of GATT talks failed which seemed likely. While there was no agreement at that meeting in 1981, the idea had been planted and d’Aquino “started conceptually pushing the idea.”

The BCNI created a trade policy committee in 1981 under the helm of Alton Cartwright, CEO of Canadian General-Electric (CGE). As the committee reviewed Canada’s trade policy and the changes in the international economy that were affecting Canadian business opportunities, the BCNI membership began to accept the idea of a comprehensive agreement with the U.S. At the same time, the idea of a comprehensive agreement was being discussed in the senior federal bureaucracy especially by Gordon Osbaldeston, the head of the Ministry of State for Economic Development. The BCNI’s trade policy committee report advocating a comprehensive agreement was circulated among senior officials who were then engaged in the federal government’s own trade policy review.

The Canadian Manufacturers’ Association
The CMA had historically been the leading advocate for high tariffs in Canada which were of direct benefit to its members – manufacturing firms mostly located in Ontario that were non-competitive and relied on protectionism to preserve the Canadian domestic market for their goods. Indeed, since the 1911 election when the CMA supported Robert Borden’s Conservatives, the CMA has been staunchly opposed to freer trade with the United States. The organization is made up of manufacturers who mostly operate in the domestic market but a large proportion of members are subsidiaries of US MNEs.

The Tokyo Round negotiations in the 1970’s multilaterally reduced tariffs among GATT members which resulted in the increased involvement of CMA members in the international economy. Over the 1970’s, the proportion of members that exported goods rose from 15 to 40 per cent, figures which were also reflected in the percentage of firms involved in importing activity. The exposure to international competition and the pressures of the global economy exacted a toll on the membership of the CMA, dividing

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312 Martin, 1993: 95.
the organization into three camps. In the late 1970’s, the CMA polled its membership and found that one third of members favoured an agreement with the U.S., while a third remained undecided and a third opposed. With the creation of the BCNI in 1976, an ideological fracture developed in the Canadian big business community as the CMA lost some of its membership to the more progressive (and prestigious) association. The 1982 recession altered the views of CMA members decisively: the manufacturing sector in Canada felt the full brunt of the economic downturn over a 14-month period as more than 300,000 employees of CMA members were laid off. Moreover, Canadian manufacturing exporters felt the brunt of U.S. countervail, anti-dumping and “escape clause” actions. As Rugman and Anderson note in their in-depth study on U.S. administered protection, the “taste” of U.S. protectionism against Canada “led many industries either to reduce their opposition to free trade or to extend their support for sectoral free trade to support for a comprehensive bilateral trade arrangement.”

By 1982, the CMA reversed its influential and long-standing opposition to free trade with the U.S.

**Canadian Big Business: Uniting Behind Free Trade**

The chief motivating force that united many Canadian firms and BIAs in common cause were the problems Canadian businesses faced with the United States. Canadian firms were exposed to the protectionist whims of the U.S. Commerce Department and the increasingly powerful Congress. The 1980’s saw a sharp rise in the number of investigations against foreign firms. While in 1973 there was one investigation, there were 5 in 1974, 10 in 1980, 27 in 1981, 146 in 1982, 30 in 1983, 55 in 1984 and 43 in 1985. Between 1980 and 1986, the United States brought 50 trade actions against Canadian firms in the form of anti-dumping and countervailing duties. The costs of fighting unfair American protection proved to be very expensive for Canadian business. Legal costs for the Canadian softwood lumber industry amounted to $5 million CDN, while the Atlantic fresh ground fish industry paid over $1 million CDN to defend the

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industry from American protectionism. Canadian steel producers paid over $1 million CDN in the 1983-1984 period alone.\textsuperscript{320}

Canadian business suffered the brunt of American hostile action against Canada and the statist policies of the Trudeau government such as FIRA, Petro-Canada, the Canadian Development Corporation (CDC), and the NEP among others.\textsuperscript{321} These public policies "set Canada and the Reagan government on a collision course where the loser was the Canadian private sector."\textsuperscript{322} By the early 1980's, Canadian big business became united in the cause of creating a free trade arrangement with the United States.\textsuperscript{323} The BCNI and CMA were joined by the Canadian Federation of Independent Business (CFIB), the Canadian Chamber of Commerce (CCC), the Quebec Chamber of Commerce, the Canadian Export Association (CEA), and the Canadian Federation of Small Business.\textsuperscript{324}

\textbf{The Fragmentation of the Canadian Labour Movement}

Over the past four decades, organized labour and leftist groups in Canada have greatly influenced public policy. With respect to trade policy, labour and business (particularly the manufacturing sector concentrated in Ontario) supported high tariffs because they limited competition by foreign companies in the Canadian market and preserved jobs.\textsuperscript{325} By the 1970's however, union solidarity began to dissolve: a number of sectors in the Canadian economy became very exposed to international competition, particularly on wage policy issues. Many unions that worked with firms that were dependent on external markets for their goods, or on imports that were required for the production process, changed their preference on the free trade question. However, unions in some sectors were dependent on high tariffs to preserve jobs, and free trade with the United States would likely mean plant closures and relocation to the U.S. Thus, Canadian organized Labour became divided on the issue as some relied on freer trade to preserve jobs, whereas others were opposed as they depended on tariffs to preserve employment. The Canadian Labour Congress, the main umbrella group representing labour interests,

\textsuperscript{320} Rugman and Anderson, 1987: 47.
\textsuperscript{322} del Castillo V., 1995: 33.
became weakened because of this division among its affiliate unions. Finally, labour was weakened politically because of its traditional support for the NDP, which had not been a strong force in the federal Parliament since 1979. The changes in the global economy had weakened Canadian Labour's participation within the domestic policy-making process, but it did not prevent those labour groups which were opposed to free trade from voicing their concerns.

The Canadian Industrial-Trade Bureaucracy: Historical Linkages with Business and the Neoliberal Views of Senior Bureaucrats

The Canadian industry-trade bureaucracy has historically been more receptive to business than labour, but with the emergence of neoliberalism and the views of senior bureaucrats and politicians on the issue of free trade, labour became effectively ignored. The Canadian industry-trade bureaucracy represents an important coordinating element in the policy community on trade issues, along with business groups, politicians and academics. Traditionally, trade and industrial policies in Canada have been treated as separate policy areas, but in recent decades, they have become closely integrated through the creation of the FTA, the NAFTA, and most recently the WTO. Industry Canada and its predecessor departments have traditionally viewed business groups as being its central constituency, while similarly DFAIT (on the international trade-side) has had a close association with Canada's business interests with limited linkages to Canadian labour organizations. As for organized labour in Canada, Doern and Tomlin note that unions have allied themselves with other federal departments which accounts for this disassociation with Industry Canada and DFAIT.

As Strange noted, bureaucrats that are most exposed to the dictates of the international economy (trade and industry departments, ministries of finance, central banks, etc.) would advocate neoliberal measures. Indeed, many in the trade bureaucracy accepted the free trade initiative as rational, reflecting the changing hegemonic concept of control, and were thus opposed to the views of most labour groups. The participation

325 Chambers, 1985: 122-123.
328 This is examined later in the chapter.
of certain key bureaucrats that shared these neoliberal views helps to account for the industry-trade bureaucracy's openness to business interests and their free trade agenda. Wendy Dobson, former chair of the C. D. Howe Institute and member of the ITAC (representing the Institute) served as an ADM in Finance during the FTA negotiations. Another figure was Derek Burney, arguably the most important and powerful of the senior bureaucrats involved with the FTA. Burney helped organize the "Shamrock Summit" declaration in his role as ADM for U.S. Relations in External Affairs. He later served as Mulroney's chief of staff during the FTA negotiations. Michael Hart, also a strong free-trade advocate, organized a series of consultations with the business community and the provinces, but with little labour participation in 1981-82. In addition to bureaucrats, a number of key politicians can also be added whose positions on free trade made them less receptive to the interests of labour groups, particularly James Kelleher, Pat Carney, Michael Wilson and especially John Crosbie. Thus, the historical linkages of these departments with business as well as the pro-free trade bureaucrats involved in the process, accounts partly for the weak presence and limited role of labour and the formidable presence of business in this policy network that made decisions on trade policy, reflected in the emergence of the FTA and NAFTA.

**Stage I: Setting the Agenda for Continental Integration**

As mentioned, the BCNI's trade policy committee proved influential on the BCNI membership on the need for a comprehensive free trade agreement with the United States. The BCNI report was circulated to senior trade officials who were engaged in the government's own trade policy review. The CMA, having changed its historical position on high tariffs, also actively engaged the Canadian industrial-trade bureaucracy during the 1982-3 review of trade policy with CMA position papers that raised the concern of "competitiveness" and the need for preferred access to the American market. The association also arranged with the Macdonald Commission to be the first to present a brief during its public hearings as it wanted to set the tone of the deliberations and convey

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the message that it was open to a new policy direction. Lawrence Martin suggests that many of the ideas in Michael Wilson’s economic agenda echoed the positions of the BCNI. The BCNI approached both the Liberals and Conservatives during the 1984 federal election, and after the swearing-in of the Mulroney government, their trade ideas were front and centre of a blueprint agenda that the organization put forward to Michael Wilson, the new Minister of Finance.

Aside from the success of Canada’s pro-trade BIAs in influencing the Canadian industry, finance and trade bureaucracies to pursue a broad agreement with the United States, it was the motivation of senior political figures that got the free trade issue moving. What (or who) changed the Prime Minister Mulroney’s position against free trade when he dismissed it as an option during the 1984 federal election? Certainly, bureaucrats played a role especially figures such as Derek Burney in External Affairs (responsible for the United States) who organized the Shamrock Summit declaration. John Crosbie has suggested in his autobiography that it was probably the Macdonald Commission report (presented by a well-respected former Liberal Cabinet minister) that persuaded Mulroney. Doern and Tomlin note the importance of Peter Lougheed, the Conservative Premier of Alberta, as a major influence on Mulroney’s decision to pursue free trade. During the Trudeau years, the interests of Western Canada had largely been ignored if not compromised: the National Energy Program had hurt Alberta deeply and Alberta’s position was not well represented during the Tokyo Round negotiations with respect to agriculture and petro-chemicals. Moreover, the Mulroney political base was a union between Alberta and Quebec Conservatives so appeasement of Alberta’s needs was important electorally for the Conservatives giving credence to Lougheed’s role in motivating Mulroney.

All these figures played a role, but it was the Canadian big business class that had the most effect on Mulroney’s decision to seek free trade with the United States. Lawrence Martin suggests that Mulroney’s acceptance of free trade with the United

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337 Martin, 1993: 96.
States developed when he became President of the Iron Ore Company of Canada, a subsidiary of a U.S. firm. While there, Mulroney became exposed to the idea of closer association with Canada’s southern neighbour with his big business contacts and colleagues. Gordon Ritchie suggests that it was probably Alfred Powis of Noranda who “may have been the single most important influence on Brian Mulroney.”

Aside from the Prime Minister, James Kelleher, the Minister for International Trade, was also an important figure that changed views on the free trade option. Kelleher undertook extensive consultations across the country and determined that a strong federal-provincial consensus supported free trade (except for Ontario), and that the business community was largely in favour of an agreement. This was despite bureaucratic opposition from certain quarters, particularly from some officials in External Affairs and the Department of Regional Industrial Expansion (DRIE). Hart, Dymond and Robertson note that Kelleher was impressed by the views of Canadian business regarding the rising tide of US protectionism, the skeptical view of the new round of GATT negotiations which seemed destined for failure, and the lack of a dispute resolution system to take the politics out of the US Commerce department. Indeed, Kelleher was more impressed by the views of business than he was by the views expressed by DRIE and External Affairs. Kelleher, conceded that his knowledge of international trade “was about nil,” which meant he relied heavily upon the advice of his Deputy Minister, Derek Burney, which guided his decisions.

If Donald Macdonald had an influence on Mulroney’s decision to pursue bilateral negotiations with the US, it is worth examining what led Macdonald to reach the conclusion that Canada should take a “leap of faith” and pursue free trade with the US. Some have suggested that what determined the principal finding of the Macdonald Commission had less to do with the scholarly research that was conducted by the committee, or the hundreds of submissions made to it by various Canadians, than the policy advice of a series of pro-free trade experts who presented the option as the

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341 Martin, 1993: 18-20, 86.
universal remedy to heal Canada's economic ailments.\textsuperscript{347} Much of the research produced by the Commission was strongly in favour of a wide free trade arrangement with the United States (particularly John Whalley, Gil Winham and Jack Quinn). Doern and Tomlin also suggest that Macdonald's views on free trade were influenced by meetings with economists such as Paul and Ron Wonnacott and the C. D. Howe's Richard Lipsey and Wendy Dobson among others.\textsuperscript{348}

Writing on the early years of the Mulroney government, Lawrence Martin suggests that with Derek Burney steering the bureaucracy, Tom d'Aquino managing Canada's big business interests, Michael Wilson in finance and Mulroney who took the lead, the four constituted a "formidable continentalist quartet."\textsuperscript{349} Indeed, this group became solidified as a policy community through institutional structures that were developed that gave business an overwhelming voice on Canada's trade policy during the negotiation process. Following the Shamrock declaration, the Canadian government actively pursued the free trade initiative and set down the groundwork to prepare for negotiations. As the government began to prepare, d'Aquino provided senior officials with several black binders outlining what the BCNI wanted.\textsuperscript{350} The BCNI binders became a major reference tool for Simon Reisman and his negotiating team.\textsuperscript{351}

\textbf{Canadian Big Business BIAs: Transnational Action}

While Canadian BIAs were successful in lobbying key politicians as well as getting "free trade" on the domestic agenda, they also launched a campaign to persuade their counterparts in the US to do the same in the early 1980's. The extensive and proactive outreach began with the BCNI in January 1983, when several BCNI members met with U.S. Trade Representative (USTR) William Brock in Washington. Brock was receptive to the BCNI proposal for a trade enhancement agreement and stated that if the BCNI could persuade Gerald Regan (the Canadian Minister of International Trade) to accept the proposal, he assured them that he would be able to put together a U.S. coalition that would pass the deal. Later in March of that year, the BCNI met for 90 minutes with

\textsuperscript{349} Martin, 1993: 87.
\textsuperscript{350} Martin, 1993: 96.
\textsuperscript{351} Doern and Tomlin, 1991: 104.
Vice-President George Bush while he was in Toronto during a NATO summit to convince him of the merits of reaching a comprehensive agreement.\(^{352}\)

Although the BCNI was relatively successful in getting U.S. government officials at least interested in listening to their proposal, American business was less enthusiastic to the BCNI’s overtures initially.\(^{353}\) Not discouraged, the BCNI in 1985 led a delegation of senior business executives to meet with the US central administration, including George Schultz (Secretary of State), Caspar Weinberger (Secretary of Defence), Bob Dole (Senate Majority Leader) and John Danforth (Chair of the Senate’s International Trade Subcommittee).\(^{354}\) These initiatives ultimately had the effect of mobilizing US firms and the US Administration to pursue an agreement with Canada.

**Canadian Big Business and NAFTA**

While Canadian big business was proactive in pursuing the FTA, it was American big business which pushed for NAFTA.\(^{355}\) In 1990, 69 percent of all Mexican exports went to the United States, while a paltry 1.2 percent went to Canada.\(^{356}\) Given this Mexican dependence on access to the US market, the Mexican government approached the US to secure a free trade pact, accepting Reagan’s 1980 challenge albeit almost a decade after the President had made it. Because of the fear that the US would be the only country to have free access to both markets giving it greater bargaining power, Canadian business (particularly the BCNI, CMA, CCC and CEA) quickly jumped on board and prodded the Canadian government into negotiations to create a pluralist agreement giving equal access to all participants.\(^{357}\)

The chief motivation for Canadian BIAs in accepting the NAFTA proposal was to protect their gains made under the FTA and avoid a “hub and spoke” form of continentalism.\(^{358}\) Moreover, Canadian big business believed that free trade with Mexico would be advantageous to Canadian firms. According to L. Thibault, President of the CMA:

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if we are going to have to rationalize our production with highly labour-intensive kinds of activities that cannot be sustained in our high cost environment, it makes a lot more sense for these activities to go in Mexico than Taiwan or South Korea, because... 75 per cent of their imports are from North America. So to the extent that they prosper and grow, the feedback to the American and Canadian industrial economies is much, much greater, and so the system starts to benefit from that integration. 359

Finally, and most importantly, Canadian business leaders hoped that the negotiation of a NAFTA would fix the problems left behind in the FTA, namely removing the U.S. ability to apply its anti-dumping and countervailing duties and other NTBs against Canadian imports. 360 For some sectors, Canadian big business lobbied hard to keep the gains made during the FTA. In the case of the auto sector, the Big Three (General Motors, Ford and Chrysler) along with North American auto-parts manufacturers, lobbied hard to exclude “outsiders” – “foreign” auto exporters and trans-plants mostly from Asia – from the benefits that the FTA provided. 361

The concerns of big business were incorporated by the Canadian government as they entered the negotiations in 1991. The major goal for Canada was securing its preferential access and protecting its interests obtained in the FTA. By joining the NAFTA negotiations, Canada ensured itself a competitive position vis-a-vis the United States and Mexico, particularly if the agreement were extended to other parts of Latin America in the future. NAFTA also would provide the opportunity for Canadian firms to get access to the low-cost of Mexican inputs that US producers selling products in Canada would have. As well, it ensured that Canada would be as attractive as the United States for investment by external firms serving the North American market: an avoidance of the “hub and spoke” problem. 362 Finally, NAFTA allowed Canada to get improvements to the FTA in a number of areas that did not serve Canada’s interests, including the vague rules of origin, the uncertain nature of obligations relating to subnational governments, and the weak ability to curb US protectionism and the use of unilateral measures aimed at Canada. 363

363 York, 1993: 161-162. Improvements were made in the rules of origin with the affect of making them discriminatory relative to the FTA especially in the case of foreign auto makers. This is examined later in the next section.
Stage II: Canadian Big Business and the Negotiation of Free Trade for North America

Both Canadian MNEs and the Canadian branches of US MNEs were strongly in favour of trade liberalization and the pursuit of a free trade agreement. On their own, and through the structure of BIAs, the Canadian corporate community was able to work closely with the federal government in an effort to enhance its long-term goals under the FTA, NAFTA, and in subsequent trade negotiations. del Castillo has observed that participation in policy advisory groups provides business with at least two guarantees: first, that they will receive government-generated intelligence on the state of their industry and the progress of negotiations; and second, that sectoral specific needs are understood by the government.

In the lead up to the discussions on the FTA, Trade Minister Kelleher established the International Trade Advisory Committee (ITAC) a forty-member committee of industry advisors, along with fifteen Sectoral Advisory Groups on International Trade (SAGITs). The ITAC was responsible for “broad national issues relating to international trade access and market matters”, and during the FTA negotiations, it was chaired by Walter Light of Nortel, a powerful Canadian MNE in the telecommunications sector with heavy investments in the United States. The membership of the ITAC was a “who’s-who of Canadian business”, including David Culver of Alcan (which was experiencing difficulty with US protectionism), Alfred Powis of Noranda, and Philippe de Gaspe Beaubien of Telemedia. The ITAC was intended to have labour participation, although the Canadian Labour Congress, led by Dennis McDermott and Shirley Carr, refused to participate on policy grounds resulting in the committee being dominated by business interests. Arguably, the decision by the Canadian Labour Congress (CLC) to not participate in the ITAC during the FTA and later under NAFTA can be viewed as a strategic mistake as they were left outside the policy-making

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368 Ritchie, 1997: 141. A full listing of the ITAC membership can be found in Rugman and Anderson, 1987: 126-127, Appendix Table 5C).
framework. However, Hargrove and others have suggested that participation would mean that labour would be co-opted by a system that was dominated by business.\textsuperscript{370} Even with the participation of the CFL (representing approximately 220,000 members), a single seat for labour against thirty-nine for business suggests that the sway of influence was with Canadian business interests.\textsuperscript{371} This differentiated the Canadian trade consultation structure from the American Committee on Trade Negotiations (ACTN) which had a greater involvement from labour groups. Business also dominated the SAGIT structure holding almost 70 per cent of the membership, whereas Labour had only 4 per cent and was excluded from 6 of the 15 SAGITs.\textsuperscript{372} This clearly suggests that while it may be debatable that labour was formally "shut out" of the negotiations, input by it was severely limited from the outset.

The ITAC was supported by a series of Sectoral Advisory Groups that were based on similar structures in the United States, and on the former Canadian Trade and Tariffs Committee (CTTC) that was established during the Tokyo Round of the GATT negotiations.\textsuperscript{373} The SAGITs were much more formalized than similar committees operating in the US and Mexico as they followed set schedules, were financed completely by the government, were sworn to secrecy and met more frequently than their counterparts.\textsuperscript{374} These committees were to provide the Trade Negotiations Office (TNO) with industry advice on specific trade-offs that were being negotiated.\textsuperscript{375} Both the ITAC and SAGITs allowed the Canadian federal negotiators to manage domestic interests, gain valuable advice on the sectoral impacts of various trade-offs, and manage the flow of information dissemination, although participation was limited to those firms and groups which have been supportive of the government’s macro-strategy.\textsuperscript{376} As well, the ITAC and SAGITs reported directly to the Minister of International Trade and were assisted by the Deputy Minister for the department.\textsuperscript{377}

\textsuperscript{370} Interview with Buzz Hargrove, President of the CAW.
\textsuperscript{372} Rugman and Anderson, 1987: 114-117.
\textsuperscript{373} Doern and Tomlin, 1996: 179 and Winham, 1986: 335.
\textsuperscript{374} del Castillo V., 1995: 32, 36.
\textsuperscript{377} Rugman and Anderson, 1987: 114-5.
Some have suggested that the role of business in the ITAC/SAGIT structure was less to do with "policy" and more to do with appeasing business - in other words, a political action that gave no real role for business to influence the trade negotiations. The evidence strongly suggests the contrary: according to Gordon Ritchie, the SAGITs proved to be an "invaluable resource" and the quality of advice "was very high on such broad issues as the handling of the unfair [US] trade laws." Ritchie goes further, stating:

I strongly encouraged successive trade ministers to put in an appearance at these meetings [of the ITAC]. I also attended every ITAC meeting personally, from beginning to end. This was the most effective way of ensuring that we were getting the full benefit of the experience of the leaders most directly affected, whose decisions would make or break the implementation of the agreement.378

During the first year of operations under Walter Light (the chairman of the committee), the ITAC established twelve task forces to produce specialized reports on subjects such as the scope of bilateral negotiations, services, and adjustment. After discussions and amendments, these reports were submitted to the Minister and thereby to the government's trade negotiators.379 The ITAC and SAGITs ensured that critical sectors of the Canadian economy would "vigorously" participate in the negotiating process, so that an agreement reflecting their concerns would sustain and guarantee economic growth.380 This view is echoed by Alan Rugman, who has stated that the shape of the final deal reflected the suggestions and advice of those companies which participated in the process: "the private sector basically got what it wanted in the final text of the Canada-United States Free-Trade Agreement."381

In one sector, the strength of business interests and their agency power was noted: the Canadian brewers and distillers were strongly opposed to the FTA for their sector as they relied on high tariffs to preserve their privileged access to the Canadian market. These firms launched a successful and extensive lobbying campaign (particularly by Labatt) and succeeded in exempting the beer industry from the free trade agreement.382 Other examples that illustrated the power of business in "getting what it wanted" includes the concessions and exemptions for agricultural marketing boards, cultural industries, and

378 Ritchie, 1997: 141.
380 del Castillo V., 1995: 35.
the continuation of the Auto Pact, and exemptions for certain products. In addition, corporations and associations that participated determined the phase-in period for the tariff reductions for products and services.

Rules of origin are an essential component in any free trade agreement as they prevent trade and investment diversion when there are differentiated external trade barriers among the partner states. In the case of NAFTA, these rules have proven to be very restrictive, frustrating the benefits of the agreement as they have become a significant non-tariff barrier to trade. The rules of origin in NAFTA differ from FTA in the area of textiles and apparel as well as automotive products. The U.S. initially proposed very restrictive rules of origin in these sectors at the behest of U.S. protectionist groups, although the final agreement did not contain some of the more extremist proposals. In the case of computers, US multinationals appeared to have belatedly realized that the proposed restrictive and cumbersome rules would be damaging to their US-based operations, especially in a globalizing and technically dynamic industry. Thus, the solution was an agreement to adopt a low common MFN tariff in the computer sector.

In the automotive sector, the US pressed for restrictive rules of origin for trade in automotive products. The Big Three auto makers and North American suppliers sought to protect their “insider” status in the FTA and later in NAFTA and were able to lobby all three governments successfully achieving most of what they requested in the NAFTA Auto chapter. Smith (Smith, 1993) has argued that the U.S. position during the latter negotiations was puzzling considering that the U.S. had a 2.5 per cent tariff on automotive products and an MFN tariff that may have been lower following the conclusion of the Uruguay Round making the potential incentives for trade diversion/deflection extremely limited because of these low tariffs. The position reflects the economic impact and political power of the automotive sector in the U.S. (especially in Congress) spurred on by the trade disputes with Canada in the sector. These disputes

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385 Smith, 1993: 89-90.
386 Smith, 1993: 89-90.
387 Eden and Molot, 1993: 189.
have had important implications for the companies involved but also for fourth country investors.\textsuperscript{388}

The greatest concern for Canadian big business was to limit the American use of administered protection through escape-clause actions, anti-dumping and countervailing duties, and general restrictions on imports. Indeed, the U.S. filed fifty actions against Canada during the 1980-1986 period.\textsuperscript{389} The ITAC and SAGITs insisted that Reisman find a solution to this problem that was hurting Canadian business with excessive legal costs. Measures dealing with anti-dumping and countervailing duties were incorporated into Chapter 19, although business wanted a stronger dispute resolution mechanism that would prevent the use of these measures altogether.\textsuperscript{390} U.S. businesses also achieved successes of their own as Canada accepted the U.S. position on intellectual property, which was designed primarily to promote the profits of U.S. MNEs,\textsuperscript{391} although certainly some notable Canadian exceptions benefited, including the CEO of Northern Telecom who chaired the ITAC. Clarkson also suggests that business on both sides of the border succeeded where European MNEs failed by allowing for the continental integration of the North American economy to develop, while keeping the continentalism among governments to a minimum.\textsuperscript{392}

The Canadian government “institutionalized” the policy network that developed during the pre-negotiation period of the FTA between the Trade Negotiations Office and the Canadian business community. The associational politics that developed during the FTA negotiations remained for NAFTA as well as successive trade negotiation agreements that have occurred over the past decade, such as the WTO, MAI, and the

\textsuperscript{388} Smith, 1993: 90-91.


\textsuperscript{390} Doern and Tomlin, 1996: 251.

\textsuperscript{391} Wilkinson, 1993: 37.

\textsuperscript{392} Clarkson, 1998: 24-26, 33. This is referred to as “negative integration” which is the removal of discrimination in national economic rules and policies under joint and authoritative surveillance. “Positive integration” refers to the transfer of public market rules and policies from the member states to common supranational institutions. (Pelkmans, 1986: 8) The FTA and SEA represent mostly examples of negative integration. For the SEA, Wolfgang Streeck noted that the SEA’s language of “mutual recognition” was really deregulation, the language of business disguised in sheep’s clothing. (Streeck, 1989: 7-11) NAFTA had some positive integration but this remained relatively weak and limited only in the areas of labour and the environment, as well as the trilateral dispute resolution mechanism. See Jacek, 1999b: 43-53 where this is developed in some detail.
Although the ITAC was disbanded in 1993 after the conclusion of the NAFTA and following the CLC's participation on the committee for the first time, it has been replaced by a new organization called Team Canada Inc, launched by Ministers Marchi (International Trade), Manley (Industry Canada) and Vanclief (Agriculture and Agri-Food). Team Canada Inc is led by an "Advisory Board" of senior Canadian business that consult with over twenty federal departments and agencies as well as the provinces on issues of trade, investment, and trade promotion and "provide strategic trade policy and trade/investment development advice to ministers". Thirteen SAGITs, reformulated from the original fifteen established under the FTA, support this group.

Stage III: Ratification and the Role of Canadian Big Business Groups
Canadian business was actively involved in the implementation/ratification process during both the FTA and NAFTA elections of 1988 and 1993. Aside from the direct input Canadian businesses provided, Ritchie argues that the ITAC’s identification of the pressing need for business to support the FTA once it was negotiated was very important. Business participants in the ITAC and SAGITs helped to "sell" the FTA to other businesses that did not participate in the consultations. Moreover, in the lead up to the 1988 federal election Canadian business took a proactive role by creating the Canadian Alliance for Trade and Job Opportunities under the co-chairmanship of Peter Lougheed and Donald Macdonald. The creation of this group was Walter Light’s idea as he saw the need for a more broadly based coalition than what the ITAC provided, and because the Conservatives seemed to be losing the public relations battle. This group, funded by significant contributions by Canadian business through the BCNI, CMA, CCC, CEA, and CFIB, as well as the Consumer’s Association of Canada, and more narrow sectoral

394 Correspondence from Carol Morrey, SAGIT Secretariat. See also: DFAIT, 1998: 1.
395 Correspondence from Carol Morrey, SAGIT Secretariat. See also: Team Canada Inc, 1998: Section 1.5: 5.
396 Interview with Carol Morrey, SAGIT Secretariat. See also: Team Canada Inc, 1998: Section 1.5: 5.
397 Ritchie, 1997: 141.
groups like the Canadian Cattlemen’s Association and the Canadian Bankers’ Association (CBA), played a very important role in the 1988 federal “free trade” election against labour, social and community-based groups organized under Mel Hurtig’s Pro-Canada Network (PCN). The Alliance funded speakers’ tours, press articles, a large national newspaper ad campaign, as well as funded anti-statist research conducted by both publicly-funded and private research institutions, such as the Institute for the Research of Public Policy, the Economic Council of Canada, the C. D. Howe Institute and the Fraser Institute.

Opposition to free trade was organized around the Pro-Canada Network which was made up of organizations like the Council of Canadians, the United Church, the National Action Committee on the Status of Women, the Canadian Confederation for the Arts, the Canadian Labour Congress, the Canadian Auto Workers, and a host of other organizations. One of the essential arguments raised by opponents of the FTA was the loss of Canadian sovereignty by the new institutional framework that would be created. Ironically, when this “campaign of campaigns” was revisited in the 1993 federal election during the NAFTA ratification process, these issues would be raised again by Canadian business which was then pushing the sovereignty argument and argued that the side deals on labour and the environment had no place in the agreement.

Some have suggested that the FTA and NAFTA were programs for business and the technocratic right and enjoyed little public support, unlike the EU which received the endorsement of citizens and societal groups. Strong opposition existed to the FTA and remained for the NAFTA from groups such as the CLC (with two million members), the Canadian Autoworkers Union (the largest private sector union in the country, with 170,000 members), the Canadian Federation of Labour, the grass-roots Pro-Canada Network and the Council for Canadians. Unlike the FTA, during the NAFTA debate Canadian labour was able to make a strong coalition with unions in the US, particularly

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402 Interview with Buzz Hargrove, President of the CAW. See also: Campbell and Pal, 1991: 200-201, 204 and Kreklewich, 1993: 265.
the UAW and the AFL-CIO, but linkages with Mexican labour proved difficult because of its close association with the PRI.\footnote{407} Despite its success in defeating the Conservatives in the 1993 federal election, the poll was not a plebiscite on NAFTA as the 1988 election was on the FTA. Indeed, voters elected the Liberals not so much to defeat the agreement, but because the Conservative Party had become so unpopular to the Canadian electorate. Ironically, the Liberal Party’s promise to renegotiate NAFTA was half-hearted\footnote{408} and they ratified the agreement shortly after coming to power.

**Rebuttal: Questions about the involvement of Canadian Big Business**

Gordon Ritchie has suggested recently that while the BCNI, CMA, CFIB and other business organizations have all put in competing claims on having fathered the FTA, the view of these organizations was limited to only sectoral negotiations and did not envision the breadth and depth of a full-fledged agreement that bureaucrats had in mind. Indeed, Ritchie had suggested that the BCNI in particular put forward a very cautious proposal for a “trade enhancement agreement.”\footnote{409} This view is a retraction from nine years before when Ritchie commented that “the initiative had, indeed, originally been urged on the government by the leadership of big and small business alike…”\footnote{410} Many have argued that there was no question that the BCNI favoured a comprehensive agreement rather than a sectoral one, but d’Aquino felt that “free trade” was a politically dangerous term. Mulroney had promised during the election that he was not interested in pursuing an agreement with the U.S.: “[i]t affects Canadian sovereignty, and we’ll have none of it, not during leadership campaigns, nor at any other times.”\footnote{411} For that reason, d’Aquino opted for the interim step of a “trade enhancement agreement,” but following the success of the Shamrock Summit, the BCNI pushed for a full-fledged agreement.\footnote{412} Indeed, the BCNI first broached the subject in early 1982, and d’Aquino began publicly espousing the idea in 1983 as did the Canadian Chamber of Commerce which passed a resolution calling

upon the government to join with industry and the provinces to explore “the benefits and adjustments required to facilitate a free-trade agreement with the U.S. to be effective by 1987”, a similar approach to the ERT’s goal of 1990 for a Single European Market. Moreover, Michael Hart in 1982 organized a task force that consulted heavily with business groups and the provinces. According to Hart:

The External Affairs task force began its trade policy review in the late summer of 1982 with a series of consultations with the Canadian business community and with the provincial governments. In these consultations, the task force was repeatedly told that the government must “get the Canada-United States relationship right.”

Clearly, Canadian business was involved early on and advocated a broad agreement, and was even successful in convincing the Trudeau government to engage (at least) in sectoral negotiations with the United States.

**Concluding Remarks**

If business interest associations possess a privileged position in the policy process, globalization of the international economy has certainly increased this “prominent” position making it almost hegemonic in many states. Unquestionably, Canadian big business played a great role in the creation of the FTA and NAFTA in all three phases of the process. The prominent role that Canadian business played was a result of a series of long-term changes in the international political economy that affected a variety of states which transformed the balance between state and market, granting firms greater power in the domestic policy-framing nexus as well as in international diplomacy generally.

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416 Coleman and Skogstad, 1990: 11-12.
Conclusion

On the eve of a new round of trade liberalization discussions, we can reflect on how various regions of the globe and states in general have come to cope with the pressures of globalization. Regional trade agreements seem to have been the fashionable policy response in the 1980's and 1990's, specially when the Uruguay GATT Round of discussions seemed destined for failure. However, since the coming into force of the World Trade Organization (WTO), the pressure to find friends in nearby places seems to have diminished, although not completely.

Clearly, big business groups played a role in the development of the regional trade agreements I have examined but they have remained conspicuously absent in multilateral fora. One reason why European big business did not get involved in the Uruguay Round of GATT was because member states had a veto on the Commission's mandate during the negotiations. Razeen Sally has suggested that in the realm of trade policy, firm preferences penetrate public policy channels mainly at the national level and in the core EU institutions, but rarely at the multilateral level "as was shown by the conspicuous absence of effective corporate lobbying to advance market-opening arrangements in many of the negotiating arenas of the Uruguay Round of the GATT." Indeed, Sally suggests that MNEs do not take the relevant international organizations all that seriously and prefer to concentrate political action in relations with home and host governments as well as other national actors. Cowles suggests that European companies generally do not play an important role at the national level in shaping international economic negotiations and that this role is exercised by trade associations.

It was only with the creation of the Transatlantic Business Dialogue (TABD) that European firms organized themselves in a meaningful way internationally at the European level to influence the EU’s international economic agenda. The Transatlantic Business Dialogue is made up of large companies from the EU as well as the United States and have helped to shape a transatlantic trade and investment policy agenda, most

417 Sally, 1996: 76.
418 Sally, 1996: 76.
recently in the area of mutual recognition of technical standards. The TABD was an initiative of the US Commerce Department which created the body in an effort to mobilize European companies on transatlantic issues with the ultimate goal of advancing trade talks further if business was involved.\textsuperscript{420} A large number of European firms joined the TABD for political reasons, specifically to ensure that the US government and American companies continued to promote strong transatlantic ties during a time when the US was becoming increasingly protectionist and more interested in the Far East. While the Commission and the US Commerce department helped organize the first meetings, the TABD is now driven by its members (from Europe, particularly Philips, ICI, Daimler-Chrysler, and BASF).\textsuperscript{421}

Labour and civil society groups are shut out of the TABD, largely because of its very nature (i.e. a forum for Transatlantic business). The discussion on the Multilateral Agreement on Investment (MAI) tended to do this as well, but during the discussions transnational civil-society linkages developed across the globe which helped to defeat the constitutional goals of big business. In this newest round of trade negotiations at the WTO, organized civil-society groups and labour have organized themselves in Seattle and will likely capture the media's attention although not likely its' agenda. As the "Battle in Seattle" rages between business on one side, states in the middle, and social groups on the other flank, one may wonder if the future of world governance has any hope of materializing into something more than global trade pacts. The Seattle discussions provide a clear picture of the power that globalization has had on the balance between governments, business, societies, and markets.

\textsuperscript{420} Nicolaides and Schmitz, 1998: 493.  
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