

EUROPEAN UNIVERSITY INSTITUTE
Department of Political and Social Sciences

**THE PROGRESS AND THE PARALYSIS
OF EUROPEAN FOREIGN POLICY**

**A Learning Model for the Common Foreign and Security Policy (CFSP)
of the European Union in International Relations**

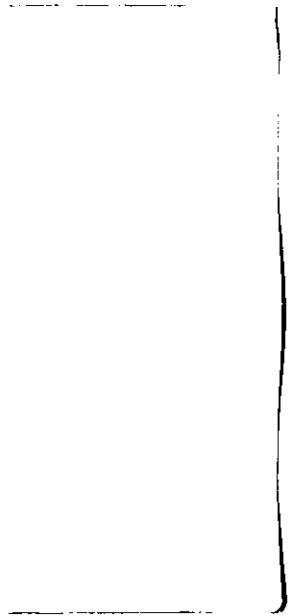
by

Martin Dahl

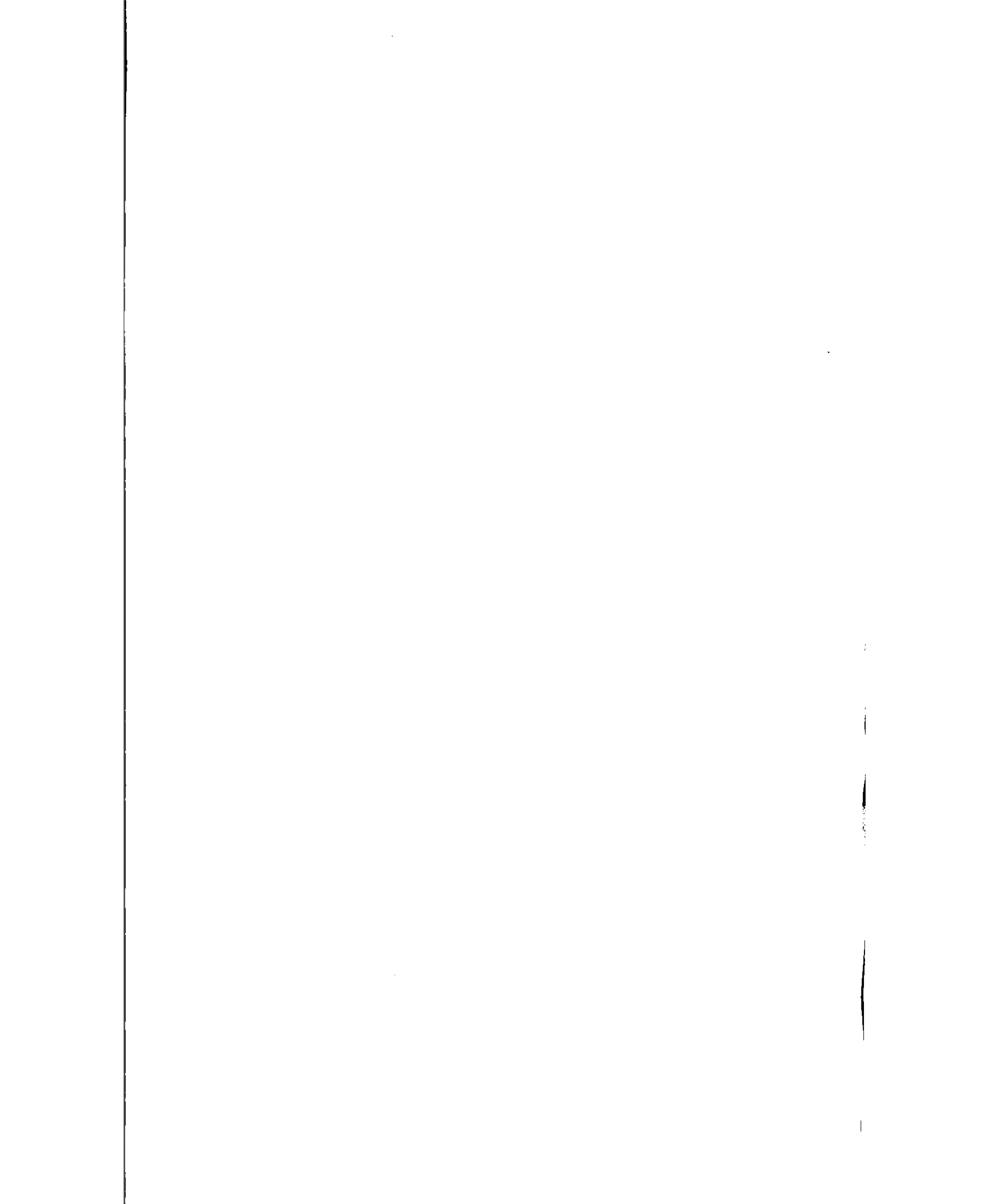
Thesis submitted for assessment with a view to obtaining the Degree of Doctor of
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OCT 2001



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It is often said that when diplomats express gratitude towards others, their words should not always be taken literally; not because they lie, but simply because they are diplomats. The job of a Ph.D.-candidate is different to that of the diplomat even though the topic of candidate's project regards the world of the diplomats. This page is an attempt to express my thanks as a Ph.D.-candidate in a non-diplomatic way to those people and institutions that have facilitated this project in a significant way.

At the top of the list, I should like to put the generous grant from Denmark and the Danish Rector's Conference which provided me with the opportunity to go to the European University Institute in Florence in Italy, and thus changing my life. The willingness of Professor Richard Breen to become my supervisor during the summer of 1998 was neither a mandatory, nor an obvious choice. Given this, I am particularly grateful for his pedagogical and virtually ideal supervision. The hospitality and academic guidance of the University of Konstanz and Professor Gerald Schneider gave me the feeling of belonging to a team; one of the few things that Florence for understandable reasons cannot supply as most people undertake separate projects. A similar feeling of close association with researchers in my field emerged during my visiting scholarship at the Department of International Relations of the London School of Economics and Political Science, an Elysium for scholars of European foreign policy, not the least thanks to Professor Christopher Hill. As one proceeds with the reading of this thesis, one will also recognise the near presence of Professor Jan Zielonka to this project, *in persona* and *in scriptoria*. Finally, I should like to mention my fiancée Eva Efsen. A thesis each day for four years certainly does not keep the doctor away. However, in my particular case this has never been a problem as my personal doctor Eva has always been there for me with preventive and some times surgical cures to all my various Ph.D.-diseases. I should also like to thank all the *persons* and *institutions* which have provided financial, intellectual, empirical or moral support. The *institutions* include the Danish Institute of Foreign Affairs, The Anglo-Danish Society, the EU Council Secretariat, The Nigerian Ministry of Foreign Affairs, The Iranian Institute of International Studies, the EU Commission, the American Salzburg Seminars, including the fellows of Session 365, the University of Limerick, Europe House Zagreb and the ECPR. The *persons* are Peter Schmidt, Berno Kjeldsen, Uffe Ellemann-Jensen, Hugo Østergård-Andersen, Frank Cogan, Anders Nilsson, Fred Halliday, Lorenzo Lotti and his family, Adrienne Héritier, Zanardi Landi, Philip A. Schrodt, Hans-Henrik Holm, Nicola Hargreaves, Sune Westrup, Arne Niemann, Fabio Petito and his family, Giampiero Giacomello, my two sisters Eva and Maria and their families, my mother and my father.

TABLE OF CONTENTS

| | |
|-----------------------------------------------------------------------------------------|----|
| ACKNOWLEDGEMENTS..... | i |
| TABLE OF CONTENTS..... | ii |
| PREFACE..... | v |
| ABBREVIATIONS..... | vi |
| | |
| CHAPTER 1 INTRODUCTION..... | 1 |
| 1.1 The puzzle..... | 2 |
| 1.2 The question (s)..... | 4 |
| 1.3 Two decades of progress & paralysis..... | 5 |
| 1.4 Progress and paralysis as a learning process?..... | 10 |
| 1.5 The main hypothesis..... | 14 |
| 1.6 Empirical analysis..... | 16 |
| 1.7 Limitations..... | 18 |
| 1.8 Project conclusions..... | 20 |
| 1.9 Contents..... | 23 |
| | |
| CHAPTER 2 THE ANALYSIS OF EUROPEAN FOREIGN POLICY..... | 25 |
| 2.1 Conceptualisation and measurement of EFP outcomes..... | 26 |
| (a) The state of the art..... | 26 |
| (b) IR & EFPA..... | 27 |
| (c) The unsuccessful measurement of outcomes in EFPA..... | 28 |
| (d) Towards a more realistic benchmark?..... | 30 |
| 2.2 Interests..... | 32 |
| (a) Who's interests?..... | 32 |
| (b) Which interests matter?..... | 35 |
| (c) Taking the first step towards a theory on European Security Economy?..... | 36 |
| 2.3 Institutions..... | 39 |
| (a) The neo-institutional EFPA..... | 40 |
| (b) The outcome measurement problem of institutionalism..... | 42 |
| 2.4 Ideas..... | 43 |
| (a) Constructivism..... | 43 |
| (b) Cognitivism..... | 45 |
| (c) Learning & Ideas..... | 48 |
| 2.5 Conclusion..... | 50 |
| | |
| CHAPTER 3 A LEARNING MODEL OF EUROPEAN FOREIGN POLICY..... | 53 |
| 3.1 Assumptions..... | 54 |
| (a) The actors..... | 54 |
| (b) The objectives..... | 54 |
| (c) Allocation of effort..... | 55 |
| (d) The costs..... | 56 |
| (e) The domestics..... | 57 |
| 3.2 Interest-driven allocation of effort..... | 58 |
| 3.3 Learning..... | 59 |
| 3.4 Implications of the learning model..... | 65 |
| (a) The learning dynamics of European foreign policy..... | 65 |
| (b) The inability to learn..... | 68 |
| (c) Multilateralism versus unilateralism..... | 68 |
| (d) Hubris..... | 70 |
| (e) Shifts in the government's ability to learn..... | 71 |
| 3.5 Economic and institutional factors determining the Union's capability-presence..... | 73 |
| (a) Economic preferences..... | 74 |
| (b) Institutional competence..... | 76 |
| (c) From external economic competence change to European foreign policy?..... | 77 |
| 3.6 Measurement and estimation..... | 82 |
| 3.7 Limitations of the learning model..... | 84 |
| 3.8 Conclusion..... | 86 |
| | |
| CHAPTER 4 EUROPEAN FOREIGN POLICY TOWARDS THE GULF STATES: A TIME SERIES ANALYSIS..... | 89 |
| 4.1 The data set..... | 90 |
| (a) Gathering events data..... | 91 |
| (b) Arguments in favour of machine coded event data analysis..... | 94 |
| (c) Arguments against machine coded event data analysis..... | 95 |
| 4.2 Specification: variables..... | 97 |
| (a) European foreign policy (EFGU)..... | 97 |
| (b) The learning hypothesis..... | 99 |

| | | |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-----|
| (c) | Inability to learn | 100 |
| (d) | Economic interests..... | 101 |
| (e) | Institutional change..... | 101 |
| (f) | Other variables | 102 |
| 4.3 | <i>Specification: statistical model</i> | 103 |
| (a) | <i>Unit root test – test for stationarity</i> | 104 |
| (b) | Test for auto-correlation..... | 105 |
| (c) | Multicollinearity..... | 106 |
| 4.4 | <i>Results</i> | 107 |
| 4.5 | <i>Discussion</i> | 111 |
| 4.6 | <i>Conclusion</i> | 117 |
| CHAPTER 5 EUROPEAN FOREIGN POLICY TOWARDS IRAN: LEARNING A DIALOGUE? | | 121 |
| 5.1 | <i>Developments in Iran, 1979-2001</i> | 122 |
| (a) | The revolutionary period..... | 122 |
| (b) | Reconstruction..... | 124 |
| (c) | Reforms..... | 126 |
| 5.2 | <i>EFP towards Iran, 1979-2001</i> | 129 |
| (a) | <i>EFP in the 80s: not much ado about either hostages or wars</i> | 130 |
| (b) | The legacy of Rushdie..... | 132 |
| (c) | <i>The Mykonos verdict and its repercussions</i> | 135 |
| (d) | Comprehensive dialogue..... | 140 |
| 5.3 | <i>How much learning took place in and between the dialogues?</i> | 144 |
| (a) | <i>The rise and fall of Critical Dialogue</i> | 144 |
| (b) | After Mykonos..... | 148 |
| 5.4 | <i>Inability to learn</i> | 151 |
| (a) | Relationship with the US..... | 151 |
| (b) | Unclear strategies..... | 155 |
| (c) | <i>The impact of the external economic relations: institutional competence</i> | 156 |
| (d) | <i>The impact of trade and investment</i> | 157 |
| 5.5 | <i>A time series analysis of EFP towards Iran</i> | 161 |
| (a) | Variables..... | 161 |
| (b) | Test for stationarity | 162 |
| (c) | Autocorrelation..... | 163 |
| (d) | Multicollinearity | 164 |
| (e) | Results..... | 165 |
| (f) | Discussion | 167 |
| 5.6 | <i>Conclusion</i> | 169 |
| CHAPTER 6 EUROPEAN FOREIGN POLICY TOWARDS NIGERIA | | 173 |
| 6.1 | <i>Major events in Nigeria, 1979 - 2001</i> | 174 |
| (a) | <i>1979-1993: the Shagari, Buhari and Babangida military rules</i> | 174 |
| (b) | <i>The Abacha military rule, 1993-1998</i> | 175 |
| (c) | Democratisation, 1998-2000..... | 175 |
| 6.2 | <i>European foreign policy towards Nigeria, 1979-2000</i> | 178 |
| (a) | Silence..... | 178 |
| (b) | EU sanctions against Nigeria..... | 179 |
| (c) | Inter-Pillarisation | 182 |
| 6.3 | <i>Learning</i> | 186 |
| 6.4 | <i>Inability to learn</i> | 189 |
| (a) | <i>The role of the US: the devil's advocate again?</i> | 189 |
| (b) | The strategies..... | 190 |
| (c) | <i>The impact of EU's external economic competence</i> | 192 |
| (d) | Economic preferences | 195 |
| 6.5 | <i>Conclusion</i> | 200 |
| CHAPTER 7 CONCLUSION | | 203 |
| 7.1 | <i>The model</i> | 203 |
| 7.2 | <i>Empirical results</i> | 207 |
| 7.3 | <i>Conclusions</i> | 212 |
| 7.4 | <i>Relevance of the results and methods for the study of EFP</i> | 214 |
| 7.5 | <i>Lessons for policy-makers</i> | 216 |
| 7.6 | <i>Future studies</i> | 219 |
| ANNEX | | 223 |
| Appendix 3.1 | <i>Formalisation of the learning model</i> | 223 |
| Appendix 3.2 | <i>Comparative statics</i> | 226 |
| Appendix 4.1 | <i>Goldstein's version (1992) of the WEIS coding scheme</i> | 229 |
| Appendix 4.2 | <i>Stationarity/Unit root tests Phillips-Perron test for unit root</i> | 231 |

Appendix 4.3 Correlation (Covariance) Matrixes: All Variables.....

Appendix 4.4 Extended version of the results shown in Table 4.2-4.3.....

Appendix 4.5 Test for impact of exclusion of either USWO or GUWO.....

Appendix 4.6 Test for alternative Gulf model specification 1990q1-1997q1.....

Appendix 4.7 OLS tests for various lags of EFP in period 1990-1997.....

Appendix 5.1 Phillips-Perron test for unit root/Interpolated Dickey-Fuller (63 obs).....

Appendix 5.2 Correlograms.....

Appendix 5.3 Autocorrelation, selected explanatory variables.....

Appendix 5.4 Correlation (Covariance) Matrixes: All Variables.....

Appendix 5.5 Extended Version of Results of Table 5.2-5.3.....

Appendix 5.6 Test for specification of periods between structural breakpoints.....

BIBLIOGRAPHY.....

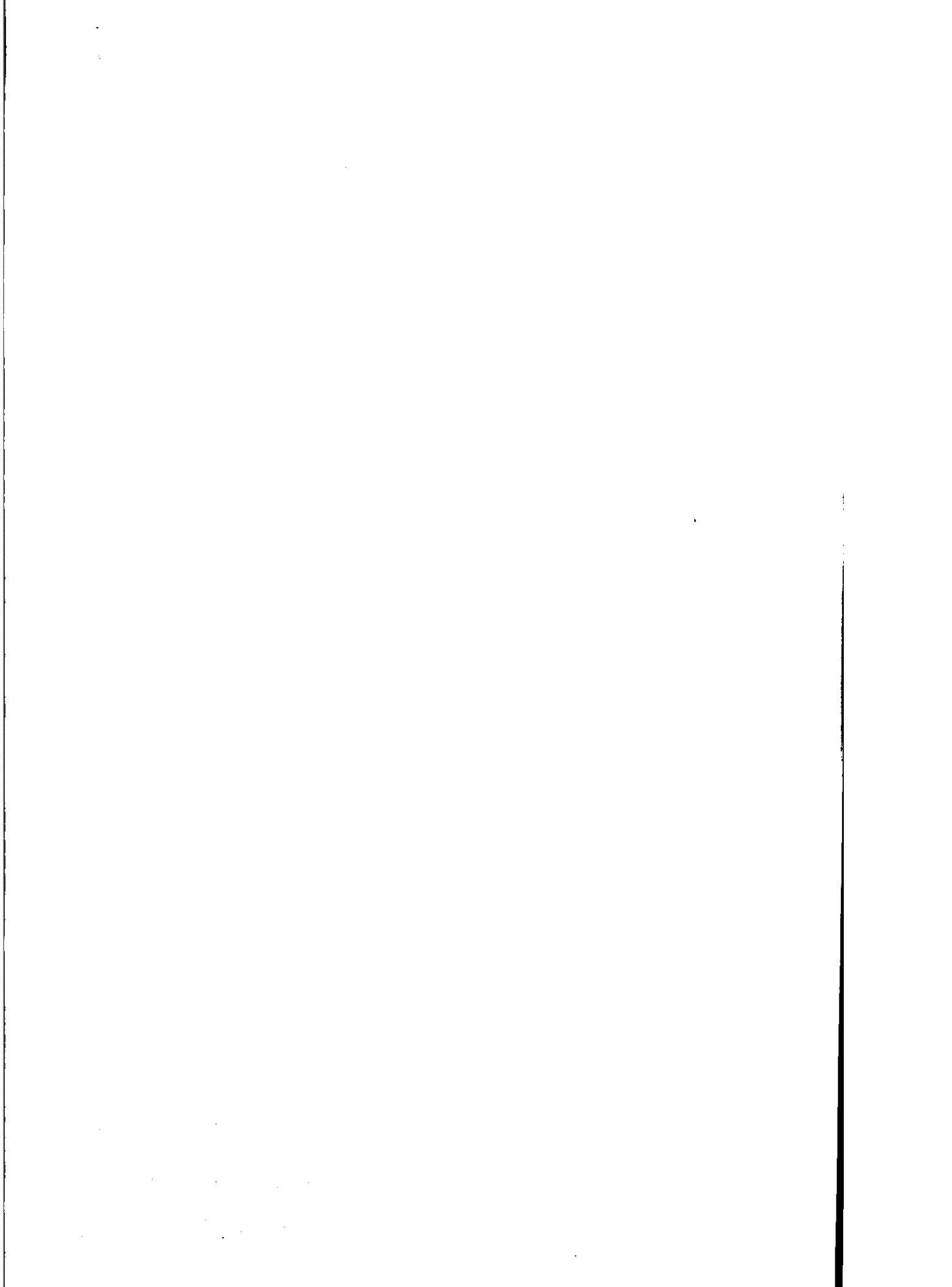
ABBREVIATIONS

| | |
|-----------|---------------------------------------------------------|
| ACDA | Arms Control and Disarmament Agency |
| ACP | African, Caribbean, and Pacific Group of States |
| BaE | British Aerospace |
| CAP | Common Agricultural Policy |
| CD | Critical Dialogue |
| CEG | Capability-Expectations Gap |
| CESDP | Common European Security and Defence Policy |
| CFSP | Common Foreign and Security Policy |
| COPDAB | Conflict and Peace Data Bank |
| COREPER | Committee of Permanent Representatives |
| Council | European Union Council of Ministers |
| DG | Directorate General |
| EC | European Community (first pillar of the European Union) |
| ECMM | European Community Monitoring Mission |
| ECOFIN | The Council of Economics and Finance Ministers |
| ECOSOC | United Nations' Economic and Social Council |
| ECOWAS | Economic Community of Western African States |
| ECPR | European Consortium of Political Research |
| EER | External Economic Relations of the European Union |
| EFPA | European Foreign Policy Analysis |
| EFPB | European Foreign Policy Bulletin |
| EIB | European Investment Bank |
| EP | European Parliament |
| EPC | European Political Co-operation |
| ERM | Exchange Rate Mechanism |
| ESDP/ESDI | European Security and Defence Policy/Identity |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GAC | General Affairs Council |
| GATS | General Agreement of Trade in Services |
| GATT | General Agreement of Tariffs and Trade |
| GSP | General System of Preferences |
| G8 | Group of 8 |
| IAEA | The International Atomic Energy Agency |
| IGC | Intergovernmental Conference (of the EU) |
| ILSA | Iran and Libya Sanctions Act |
| IMB | EU's Interim Military Body |
| IMC | EU's Interim Military Committee |
| IPSC | EU's Interim Political and Security Committee |
| IR | International Relations |
| KEDS | Kansas Event Data System |
| KDPI | The Kurdistan Democratic Party of Iran |
| LCD | Lowest Common Denominator |
| LDC | Least Developed Countries |
| LSE | London School of Economics |
| MB | EU's Military Body |
| MEP | Member of the European Parliament |
| MFN | Most Favoured Nations |
| MLG | Multilevel Governance |
| MKO | Mujahedin-e-Khalq Organisation |

| | |
|--------|--------------------------------------------------------|
| MOSOP | Nigeria's Movement for the Support of the Ogoni People |
| MSF | French Médecins sans Frontières |
| NADECO | Nigeria's National Democratic Coalition |
| NATO | North Atlantic Treaty Organisation |
| NGO | Non Governmental Organisation |
| NPT | Non Proliferation Treaty |
| OECD | Organisation for Economic Co-operation and Development |
| OJ | Official Journal of the European Communities |
| OSCE | Organisation for Security and Co-operation in Europe |
| PANDA | The Protocol for the Assessment of Non Violent Action |
| PDP | People's Democratic Party |
| PESC | French for CFSP |
| PoCo | Political Committee |
| PSC | EU's Political and Security Committee |
| QMV | Qualified Majority Voting |
| R & D | Research and Development |
| SEA | Single European Act |
| TEC | Treaty of the European Communities |
| TEU | Treaty on European Union |
| UN | United Nations |
| UNHCR | United Nations High Commissioner for Refugees |
| Union | European Union |
| UNITA | União Nacional para a Independência Total de Angola |
| USSR | Union of Soviet Socialist Republics |
| WEIS | World Events Interaction Survey |
| WEU | Western European Union |
| WG | Working Group |
| WMD | Weapons of Mass Destruction |
| WPE | World political economy |
| WTO | World Trade Organisation |

PREFACE

This project was formally initiated in September 1997, two and a half months after the Treaty of Amsterdam had been agreed by the EU Heads of State and Government. The Treaty marked a turning point of the institutional basis of European foreign policy. Title V of the Treaty on European Union was amended, introducing Common Strategies, a new post as High Representative for the CFSP, a Policy Planning and Early Warning Unit, incorporating the Petersberg tasks into the Treaty, opening up for a common defence, the integration of the Western European Union into the EU, constructive abstention and on some issues also qualified majority voting. Crucial political progress has also taken place in the course of the last decade or two regarding the creation of the Common European Security and Defence Policy, the EU's unity of voice in most international organisations, the increasing use of economic sanctions, and the rapprochement of Member State positions in the question of the Middle East Peace Process. The gradual progress of European foreign policy however stands in sharp contrast with the general perception of the actual capabilities of European foreign policy since the beginning of the European Political Cooperation in 1970. The disaster evolving for the European Union's foreign policy ambitions in the Western Balkans throughout the 1990s and the institutional unanimity voting system are only two of many more illustrations of this contrasting paralysis. The image of European foreign policy viewed by this project was thus initially one reflecting the paradox of simultaneous presence of progress and paralysis of European foreign policy, cutting across variables and time. Following this image was always the audio of voices discussing the degree to which EU, Europeans, the West, and the leaders of our time have been able to learn any lessons from their past failures (or in theory also successes). Not many events were allowed to pass, without hearing the choir of voices claiming what we have or should have learned from Bosnia, Kosovo, Chechnya, or any other crisis or conflict intervention. Characteristically, these learning claims were formulated in an implicit way and against a seemingly dubious background, assuming everyone to be perfectly aware of the theoretical or practical justifications for the ability of actors to learn in international relations. As the concept of learning continued to re-emerge in this relatively vaguely defined manner, the idea thus came to dedicate this project to examine whether learning may explain the image of the dichotomy of progress and paralysis of European foreign policy, what the conditions are for learning to take place, and which lessons may be learned from the past regarding European foreign policy in international relations in theory and in practice.



CHAPTER 1

INTRODUCTION

One often hears about the lessons that actors in the European Union have learned or should have learned from outcomes in international relations. The former European Union High Representative for Civilian Peace Implementation in Bosnia and Herzegovina, Carl Bildt, for instance, asked “*Hat Europa Aus Bosnien gelernt?*” (1997).¹ Jean-Marie Guéhenno finds that “*the inability of the European Union to deal effectively with the Yugoslav crisis has had a lasting impact on the image of Europe and on the confidence of Europeans in European institutions*” (Zielonka 1998a:25, 1-3). The German minister of defence, Rudolf Scharping, has elaborated on the lessons from Kosovo, which he sees as a catalysing factor for the development of the Common European Security and Defence Policy (CESDP).² Lord Roper echoes this, when he suggests that the development of the European defence capabilities is the “*realisation of the inadequacy of producing forces in Bosnia and Kosovo*”.³ Finally, Elfriede Regelsberger and Wolfgang Wessels go as far as to include “*the lessons from the EPC (European Political Cooperation) for the creation of the CFSP*” (1996:32-34).

Such references to *learning*, as frequently made by scholars, think tank directors, or government representatives, suggest that learning makes a difference in international relations. However, if learning is important, where is then the theory that explicitly accounts for the impact of learning on international relations? Ernst B. Haas examines learning in a typological approach, seeking to explain the change in the definition of the problem to be solved by a given (international) organisation (1990). Johan P. Olsen and Guy Peters further explore the role that lessons from experience play in administrative reforms in eight democratic polities (1996). However, compared to theories and application of various learning approaches found elsewhere, for instance, in sociology, in economics, in (business) organisational theory, and in history, learning only rarely occurs in the international relations literature (IR).⁴ Learning is even less frequently introduced to the emerging sub-discipline of either IR or European politics examining the development of European foreign policy, the topic of this thesis. Overall, the learning

¹ Mr. Bildt was also EU special representative to the former Yugoslavia in 1995.

² Speech at the London School of Economics (LSE), March 2000.

³ Comment in guest lecture, LSE, February 13, 2001. Lord Roper was formerly the Head of Western European Union Institute for Security Studies.

⁴ The abbreviation “IR” refers to the academic discipline analysing international relations.

concept is not very precisely defined; so far no “*agreed-upon concept*” of (“*organizational*”) learning has been produced (Olsen & Peters 1996:4), and its empirical justification in IR has not yet been convincingly demonstrated.

Learning, as a concept and a variable, thus needs further clarification. The objective here is, first, to find out how learning could be better defined and elaborated, and second, to see how *learning* matches the problems of international relations and, in particular, those of European foreign policy. To achieve these two aims, learning is attempted conceptualised, operationalised and empirically applied to instances of crises and conflicts in international affairs where the European Union either has been engaged, potentially could have been engaged or in some people’s opinion should have been engaged. Basically, the question is, how important has learning been in determining European foreign policy over time. In practice, this question is analysed with respect to a time frame of approximately 25 years, i.e. from the late 1970s to the early 2000s (see Section 1.6).

1.1

The puzzle

The development of European foreign policy (EFP, used interchangeably) is thus what learning alongside other relevant variables of this project should be able to explain. Explaining EFP is not an easy task given that it has been characterised by a number of puzzling dynamics. One of these puzzles concerns the particular performance of the EPC/CFSP being, on the one hand, the “*paralysed*” entity that has been “*unable to act in international politics*” (Zielonka 1998b), and, on the other hand, a unit in constant *progress*, gradually enhancing its capabilities, its presence and its goals over time.

As regards the progress, at the Hague Summit in December 1969, European foreign policy was an “*instruction to Ministers of Foreign Affairs to study the best way of achieving progress in the nature of political unification*”.⁵ Thirty years later in the “*Helsinki Millennium Declaration*” of December 1999, this instruction had become an institutionalised and unique framework in the world for multilateral foreign policy co-operation. Recently, the Union has been able to formulate what it is now in the midst of preparing to implement, namely “*the objective.. to have an autonomous capacity to take decisions*

⁵ Communiqué of the Conference of the Heads of State and Government of the Member States of the European Community, The Hague, 2 December 1969. In Hill and Smith (2000. Document 2/1.72).

*and, where NATO as a whole is not engaged, to launch and then to conduct EU-led military operations in response to international crises”.*⁶

The extent of the Union's progress and its relevance for the outcomes in international relations is indeed a matter of dispute. However, the scope of the European foreign policies, the instruments attached to them, the decision-making mode of the institutions and the overall presence of the Union in international affairs have been characterised by significant progress during the last ten, twenty or thirty years.

The first assumption above, i.e. that the Union has been paralysed in international affairs, is less contentious, despite the fact that paralysis is hardly the most appropriate word to use when describing an entity which has produced more than 6,000 statements in 15 years. Instead, *paralysis* captures some of the instantaneous reaction patterns of the CFSP to international crises and conflicts. For example, the Union largely failed to deliver timely, adequate and sufficient responses to major international conflicts such as in the Middle East, in the African Great Lakes Region (Rwanda/Burundi 1994) and on the Western Balkans. In addition, those reactions that were produced suffered from a strongly rhetorical bias. Also, the Member States have tended to avoid using the CFSP on issues where there was a danger that the policy would involve restrictions towards third countries that could harm the Member States' economic and political bilateral interests. Further, they have often disagreed on those rare occasions when policies towards solving a crisis and conflict were actually put forward. In addition, they have later defected in the implementation of some of the measures agreed to by their Joint Actions. The Member States of the Union have simultaneously failed to create an operational decision-making capacity with the potential to respond automatically and comprehensively towards crises and conflicts in international affairs. In this respect, the eye-catching factor is not the sluggish development of the security dimension. After all, it would have been thorny, and in fact proved impossible, to base the initial development of EFP on strong military capabilities only (and not economics as it turned out), in particular due to Europe's traumatic experiences of wars (Ahmann, Birke & Howard 1993). Instead, the *paralysis* of the Union is mainly a foreign policy *trait*. Despite gradual progress and some improved opportunities for action, the foreign policy sphere has proved to be a highly protected *bastion* of the Member States.

⁶ European Foreign Policy Bulletin (EFPB) 99/253 of 11.12.99: Conclusions of the European Council meeting in Helsinki, 10 and 11 December 1999 (extracts only).

It may be worth noting that this thesis is not introducing any novel puzzle to the study of European foreign policy in international relations. For example, three years ago, Jan Zielonka's edited volume, "*Paradoxes of European Foreign Policy*" scanned this puzzle, asking whether the Union is a superpower in the making or a foreign policy failure. Only a subset of Zielonka's puzzle is debated below. First, the thesis only looks at the small, albeit growing part of European foreign policies which is represented by policies of the CFSP. Second, the project does not scrutinise why the Union, on the one hand, is a gargantuan economic superpower, yet, a foreign policy midget, on the other. Most importantly, the real puzzle is not why the Union has either been paralysed, or has made progress, since academics already have accounted (more or less convincingly) for the two factors separated from each other. The real puzzle is, instead, why the Union has been paralysed, while continuing to make significant progress in its foreign policy, and vice versa?

1.2

The question (s)

It is this dichotomy that forms the background for introducing learning to EFP. The main question asked is how the progress and the paralysis link to those *lessons* that one so often hears the Union should or should not have learned from the outcomes in international relations. Learning is here defined as *the updating of actors' beliefs about the workings of a particular strategy or policy based on actors' previous effort attached to this strategy and the observed success or failure of this strategy*. The project aims at addressing questions like: To what extent does the progress and the paralysis of the Union reflect that actors have been able to learn lessons from past European foreign policies? To what extent may the paralysis and the progress imply that actors have been impeded from learning the lessons about, for instance, the need to act as a unity in international politics? To what extent does it reflect that actors have learned the lesson – which may be true or not – that CFSP and joint EU decision-making are efficient modes of foreign policy behaviour? Similarly, to what extent are EU decision-makers – given the complexity of international affairs, not to mention the limited experience decision-makers must have in implementing European foreign policy – able to construe proper causalities from outcomes in international relations? Finally, assuming that EU decision-makers – at least in some instances – are able to learn, what is then the impact of their lessons on European foreign policy, and thus on international relations?

One of the major working tools of this project will be to provide a specification of this progress and paralysis of EFP. The purpose is in particular to pinpoint changes in the policies of the CFSP (EPC) from the end of the '70s until the turn of the Millennium.⁷ The unit of observation is European foreign policy, which is "*the formulation and execution of diplomatic, foreign and security policy actions of the EC (European Community) and the EPC, now CFSP*" (Ginsberg 1999:430, 3).⁸ The aim of *pinpointing policy changes* is to investigate how the presence of the Union in its external affairs has changed over time. Following Allen & Smith, this presence may be tangible or intangible, and include capabilities to act and mobilise resources, credentials and legitimacy, and expectations (1990). For reasons delineated in Chapter 2, the project will concentrate on assessing the Union's *capability-presence* in international relations, defined as the Union's capability to act and mobilise resources in its international relations with third countries.

It may be worthwhile to draw up the expected contours of progress and paralysis before proceeding with *smart* suggestions as to how to explain them. Here, it should be relatively uncontested that the Union's foreign policy capability-presence has encountered a weak, but gradual progress during the last two decades. The Union has reacted to an immense amount of crises and conflicts all over the world in a process initiated by the creation of the EPC in 1970, and has been able to attach an increasing (although still limited) amount of resources to these actions (see for instance, Schneider & Seybold 1997, Allen & Smith 1998, Nuttall 1992, 2000, Hill, 1993, 1998b, Zielonka 1998a, b). Viewed in terms of the decisions taken by the General Affairs Council of the European Union (the Council meetings of foreign ministers), the gradual progress may be illustrated as in Table 1.1 below.

In Table 1.1, the *institutional output* is the amount of documents registered in the European Foreign Policy Bulletin that represents an EPC/CFSP decision or action. The total amount of documents is an aggregate measure for all documents regarding the EPC/CFSP for a given year, including, for instance, press statements, questions in the European Parliament, and conclusions of the European Council. As can be seen, the total number of documents has been relatively constant in the range of 2-500

⁷ The CFSP replaced the former EPC in 1993. The two names are used interchangeably throughout the text.

⁸ More generally, EFP is both Member States' traditional foreign policies pursued at the EU level and EU institutions' external affairs. This follows Brian White's terminology whereby EFP holds three dimensions. First, there is "*Union (EU) foreign policy as the more overtly political dimensions of European foreign policy*". Second, Community (EC) foreign policy is included as part of EFP. Community foreign policy is foreign policy as trade and

documents per year for the period as a whole. This also applies to the Union's statements in international forum, for instance, speeches by the Presidency of the Union to the UN General Assembly, etc. The number of statements issued by the Union has however increased remarkably since the end of the Cold War. Before 1989, the annual number of press statements from the EPC/CFSP was between 30-80 statements. After 1989, the Union issued between 104 and 195 statements each year.

Table 1.1 Institutional output of EPC/CFSP 1985-2000

| Year | Documents Total | Press statements | Statements International forum | Common Positions | Joint Actions | Common Strategies |
|--------------|--------------------|---------------------|--------------------------------------|------------------|---------------|-------------------|
| 1985 | 345 | 33 | 78 | - | - | - |
| 1986 | 417 | 46 | 80 | - | - | - |
| 1987 | 543 | 34 | 99 | - | - | - |
| 1988 | 529 | 61 | 113 | - | - | - |
| 1989 | 345 | 74 | 67 | - | - | - |
| 1990 | 477 | 80 | 31 | - | - | - |
| 1991 | 491 | 137 | 95 | - | - | - |
| 1992 | 483 | 122 | 12 | - | - | - |
| 1993 | 534 | 129 | 22 | 1 | 5 | - |
| 1994 | 345 | 127 | 53 | 8 | 9 | - |
| 1995 | 429 | 128 | 77 | 13 | 9 | - |
| 1996 | 398 | 148 | 28 | 11 | 19 | - |
| 1997 | 360 | 135 | 25 | 12 | 15 | - |
| 1998 | 483 | 195 | 97 | 24 | 18 | - |
| 1999 | 288 | 140 | 72 | 35 | 26 | 1 |
| 2000 | 164 | 104 | 5 | 16 | 10 | 2 |
| 2001 | - | - | - | - | - | - |
| Total | 6633 | 1694 | 949 | 120 | 101 | 3 |

Source: The European Foreign Policy Bulletin (URL: <http://www.fepb.it/EFPB/>). Common Positions under the Single European Act (1987) are not included. The Joint Actions and Common Positions thus refer to those instruments available from the TEU came into force November 1, 1993. Common Strategies was introduced as an instrument by the Amsterdam Treaty that came into force May 1, 1999. "-" means that the number is not available. The EFPB are not available electronically before 1985. 1999 and 2000 were not fully updated by the EFPB-service.

development co-operation with third parties (1999: 46-47). Importantly, one should also add environment policy to the Community dimension (Bretherton and Vogler 1999) Third, there is national foreign policy, i.e. "separate foreign policy of Member States".

Apart from this, the Union's policies from 1993 to 1999 have included more than 1160 CFSP decisions, of which 120 have been Common Positions and 101 were Joint Actions. The number of Common Positions and Joint Actions has gradually increased from its lowest level in 1994 (in the first full year of the existence of instruments) where 17 Joint Actions or Common Positions were issued. This figure rose to 61 in 1999.

The Joint Actions and Common Positions have covered issues such as:

- defending Member States against US extraterritorial sanctions,
- export restrictions on dual-use technology;
- support for the continued democratisation (e.g. South Africa)
- support for a viable police force (e.g. in Albania)
- financial support for the Middle East Peace Process
- programmes for non-proliferation and disarmament (e.g. in the Russian Federation)
- joint restrictions on the use of landmines, and support for mine clearance.
- contribution to combating the destabilising accumulation and spread of small arms and light weapons (e.g. in Mozambique and Cambodia)
- pressure towards countries from Central and Eastern Europe to resolve border and minority issues (the Stability Pact),
- participation of the Union in the implementing structures of the peace plan for Bosnia and Herzegovina,
- *unilateral* visa bans against certain government and military personnel, such as in Belarus 1998, and
- restrictive measures against countries such as the Federal Republic of Yugoslavia, Libya, Nigeria, Burma/Myanmar, Indonesia, etc.

It may be added that the Union since the Treaty of Amsterdam came into force in May 1999 has taken a number of decisions with qualified majority voting as their legal basis.⁹ Furthermore, the Union has established its capability-presence in a range of international organisations, e.g., in the UN where the EU Member States (plus the associated countries) vote unanimously in a vast majority of the cases put

⁹ To have qualified majority voting as their legal basis means to have earlier Common Positions or Joint Actions as legal basis. From 1 May to 31 October 99 those were: 99/612/PESC; L242 (14.09.1999), 99/424/PESC; L163 (29.06.1999), 99/357/PESC; L140 (03.06.1999), 99/319/PESC; L123 (13.05.1999), 99/694/PESC; L275 (26.10.1999), 99/730/PESC; L294 (16.11.1999), 99/729/PESC; L294 (16.11.1999). Another two decisions were taken due to the threat of qualified majority voting according to Council officials. First, the decision on visa restrictions on Serbia was initially opposed by Greece (EFPB 99/079, 10 May 1999 in OJ L123, 13.5.1999, 1-2). When Greece saw she was to be outvoted, she abstained. Similarly, Sweden and Austria were against an implication of the Common Strategy towards Russia concerning the dismantlement of WMD in Russia (EFPB 99/266, 17 December 1999

forward at the UN General Assembly.¹⁰ That being said, the recent developments of the CESDP highlight the significant progress of European foreign policy. In June 2000, the European Council in Feira (Portugal) reaffirmed its commitment from Helsinki to building a CESDP capable of reinforcing the Union's external action through the development of a military crisis management capability as well as a civilian one.¹¹ The setting-up and first meeting of the committee for civilian aspects of crisis management is now a reality. It should lead to the undertaking by Member States, co-operating voluntarily, to provide by 2003 up to 5,000 police officers for international missions across the range of conflict prevention and crisis management operations, including the identification and deployment of up to 1,000 police officers within 30 days. As regards the military crisis management capabilities which are formulated through the Headline and the collective capabilities goals (Headline Goals), the Helsinki Summit concluded that Member States should be able to deploy up to 60,000 troops by 2003 undertaking crisis management operations.¹² On March 1, 2000 interim structures of a Military Committee (IMC), a Military Body (IMB), and a Political and Security Committee (IPSC) were established.¹³ The Nice European Council from December 7 to 11, 2000 made these committees permanent ("*standing committees*"). The Union further established a situation and crisis centre within the General Secretariat of the Council of Ministers aimed at early warning and monitoring of crises and conflicts. The centre, among other things, provides the Union with a 24-hour telephone service, answering Mr. Kissinger's famous question about whom to call to "*speak to Europe*".¹⁴ Another sign of the progress of European foreign policy is the success that EU negotiators achieved in Macedonia during Summer 2001. Notably, EU Special Representative to the former Yugoslav Republic of Macedonia, Mr. Leotard, his team of negotiators from the EU Policy Unit, the High Representative Javier Solana and the US envoy Mr. Pardew obtained after difficult negotiations an agreement (The Framework Agreement) between the Macedonian (FYROM) government and the representatives of the ethnic Albanian minority in August 2001, which was later ratified by the Macedonian Parliament.¹⁵ Finally, the EU reactions to the terrorist attacks on the United States 11 September 2001 were also relatively swift. Extraordinary General Affairs Council of the foreign ministers, extraordinary Summits

in OJ L331, 23.12.1999, 11-16). Sweden and Austria followed the other Member States when they saw they would otherwise be isolated. Interview Council Secretariat, May 2000.

¹⁰ According to the Italian representative at the UN, Ambassador H.E. Francesco Fulci (President of ECOSOC), the Member States vote unanimously in 97% of all cases (Lecture given at the EUI, April 7, 1999).

¹¹ Presidency conclusion from the Santa Maria da Feira European Council, 19 and 20 June 2000 (Council Press Release (19-06-2000) - No: 200/1/00).

¹² A headline catalogue has now been developed specifying the attempted contributions of each Member State to the Rapid Reaction force. See for instance the Council's information on this issue: <http://ue.eu.int/pesc/default.asp?lang=en>

¹³ EU defence ministers started to meet regularly in 1998-1999. The agenda of these meetings included the implementation of Article J.V of the Amsterdam Treaty allowing for military action performed under the CFSP for the first time (Article J.V), and the development of the CESDP.

¹⁴ The famous Kissinger question was never asked according to a recent account. Instead, Kissinger should have said to the Danish Presidency of the EPC, foreign minister K.B. Andersen that he did not have the powers to speak for the other Member States (Rodman 1999).

¹⁵ Reuters, AFP and other news agencies 15 May-15 October.

were held in the weeks following the attacks, the EU Troika went on a trip to Asia and the Middle East to gain support for the coalition with the US against the terror (going to Pakistan, Iran, Saudi Arabia, Syria and Egypt) and the EU quickly linked its political aims in the CFSP with concrete measures in the first pillar on humanitarian aid to refugees from Afghanistan and aspect of home- and justice affairs cooperation within the third pillar.¹⁶

Those who follow these recent European security policy developments may find it obvious that some progress has taken place in European foreign (and security) policy.¹⁷ Yet, one should not forget that for many years it was even a contested issue whether the Union produced a policy, or not.¹⁸ Ginsberg argues that while there is not one European foreign policy, there are a number of “*European foreign policies*” which the term “*European foreign policy*” stands as a synonym for.¹⁹ An official in the Council Secretariat similarly suggests that the problem with the CFSP is not whether there is a policy, or not, but what the nature of the policy is.²⁰ Judging from these views, one may conclude that whether or not the Union produces *policy* or *policies* is no longer at the core of the contested issues anymore. A common denominator for the failures, or the paralysis, is, instead, the Union’s inability in many international crises and conflicts to attach the necessary economic, military or diplomatic resources to carrying out its objectives.

In the literature focusing on the limitations of EFP, attention has centred on the failures of the Union to support its declaratory and economic influence in areas such as the Balkans, the Middle East and the African Great Lakes region by more rigorous CFSP actions reflecting financially or militarily 1) the many words, 2) the unilateral foreign policies of the larger Member States, 3) the Union’s economic power or 4) even US foreign policies. Chris Hill and Karen E. Smith note that “*by 1996 expectations of the CFSP had clearly been lowered, by the general factors .. but also by the CFSP’s apparent failures in its first three years of life. The track record with the difficult problems of Iraq, Bosnia, Algeria and the Middle East, seemed to many disastrous, although reactions then differed as to whether success was inherently impossible or dependent on extending integration to the sphere of foreign policy* (2000, 169, 6-13, see also 287, 295-6, 297-316). Part of the problem could not be seen from Table 1.1 above. Since 1993, for instance, 141 CFSP decisions - equivalent to less than 8% of the total number of

¹⁶ See for instance the web site of the Belgian Presidency <http://www.eu2001.be>

¹⁷ The terms European foreign policy and European foreign and security policy are used interchangeably.

¹⁸ See Karen Smith’s clarification of this issue (1996:11).

¹⁹ At the ECPR Rotating Summer School: EU’s capability and influence in international affairs at the University of Geneva. September 2000.

²⁰ Interview Council Secretariat, May 2000.

decisions - involved more than solely administrative resources of the Union in their implementation. Moreover, roughly 75% of these 141 decisions were extensions, modifications, or suspensions of earlier CFSP decisions.²¹ In less than 2½ % of the CFSP decisions, the Union thus managed to find more than administrative resources for its purposes. This is also echoed by Hill & Smith. They point at the inability of the Union to raise resources to all its political goals. In a comment on the extensive list from the Lisbon Report 1992 including areas such as the Middle East into EU's regional priorities they note, "*the list was a paradigm of the diplomatic and political overload to which the CFSP was soon to be subjected*" (2000:162). Needless to say, part of the perception of the failure of the Union was also related to how the US performed. In this specific case, a rough comparison with the statements of the US in its foreign policy showed that the US actions included more than administrative resources in approximately 12% of its actions towards other (non-EU) countries. Against some countries, such as Nigeria, the US figure was as high as 17%.²²

Further, while the plans for the CESDP indeed have unprecedented potential, there has never yet been any credible threat of the use of military force by the EU. Moreover, France and Britain have refused to give up their UN Security Council seats to a joint EU seat and there are still large variations between regions and countries in the depth and scope of the Union's action, e.g., as in Myanmar and in Indonesia. Finally, the Union has supported the Middle East Peace Process as the largest financial contributor, and had a seat in the important Sharm El Sheikh fact-finding commission (the Mitchell Commission), but has in general had little say in the actual negotiations, surpassed by the US.

1.4 Progress and paralysis as a learning process?

Based on the assessment of the Union's capability-presence, the project tests a model for international co-operation focusing on learning.²³ Learning is seen as a variable, representing a way of introducing ideas to the study of international relations and foreign policy of the Union in particular. Going back to the more general question of IR theories regarding why countries may wish to co-operate (or even integrate) their foreign policies in international affairs, the relevant question here is which role ideas may play in facilitating co-operation in international relations.

²¹ Include those decisions that concerned the budget of the European Communities (first pillar).

²² This contradicts the comment made by a senior official in the Council Secretariat, who noted that the US foreign policies were as rhetorically biased as the Union's policies. The comparison is performed from the US government's official URL: <http://www.state.gov/index.cfm>.

²³ In so far as a model is an attempt to provide a miniature or theoretical representation of something this thesis presents a model.

Max Weber discussed the impact of ideas extensively, which illustrates that the study of ideas is far from novel to IR. What is new, however, is that several authors more recently have voiced the inclusion of ideas into studies on the development of European foreign policy (Larsen 1999; White 1999, 2000; Ginsberg 1999; Zielonka 1998b). These authors find, firstly, that ideas should shed more light on how a particular structure emerges, such as the CFSP. Secondly, ideas may provide information about the constraints and opportunities of the agency. Finally, ideas enter the discussion where Bretherton & Vogler ask for “*an approach that emphasises neither structure, nor agency, but the relationship between them*” (1999:28, 16-19).

There are several types of ideas that are relevant to the discussion, and these will be examined in Chapter 2. In particular, Alexander Wendt (1999) suggests a division of labour between the “*rationalist*” (cognitivist) concept of common knowledge (i.e. shared beliefs), which according to Wendt provides a useful model of how culture is structured at the microlevel, and social constructivism, which at the macro level emphasises cultures’ constitutive aspects (158-159, 12). The focus in this thesis remains on describing the impact of learning and the conditions for learning understood as actors’ updating of ideas/or beliefs about the workings of EFP and the CFSP. Put differently, the thesis discusses neither the impact of norms, nor the impact of normative beliefs about how EFP should work. It aims at discussing the impact of learning as the change in actors’ perceptions about the workings of a particular strategy or policy based on the experience that this actor obtains from observing the outcome of previous effort attached to a given policy.

Two groups of explanations are considered. Under a first scenario, the development of the CFSP/EPC is a process of learning, i.e. a process where actors (here governments, see Chapters 2 and 3) are constantly engaged in finding out how the CFSP actually works or how effective it is in solving problems in international relations. Within this design, governments may, despite not knowing the actual effectiveness of the CFSP, under certain conditions be able to learn about it by comparing their previous actions and beliefs about their workings with the results of the actions, i.e. the outcomes in international relations.

Under a second scenario, in contrast, EFP cannot be understood in terms of learning. This may either stem from the fact that learning simply does not take place in international relations or within the

decision-making framework of the CFSP, or because learning is impeded from taking place due to various factors influencing the process.

If learning does not take place or is impeded from taking place, a range of alternative explanations for EFP must be explored instead. For instance, the literature has explained EFP as a product of national interests, it has seen EFP as driven or constrained by institutional rules and procedures, bureaucratic conflicts, as catalysed and partly a product of socialisation/political discourse, or as a component moving in accordance with the structures of the international system. An implicit but common denominator of earlier literature is, however, that EFP develops with a process-like nature, for instance, influenced by various ideas similar to those suggested in the learning scenario and constrained by or in interaction with various interests and institutional factors.²⁴

This project favours such a *triangular* approach to explaining outcomes in international relations based on ideas, interests, and institutions. The role of economic links, preferences, interests, or stakes, as Christopher Hill calls them, is neither trivial, nor irrelevant. Yet, for some time it has been one of the explanations for European foreign policy, and international relations, which needed better specification. Traditionally, it has been assumed that the economic and political spheres of foreign policy were *safely* divided, if not by definition, then at least in the European Union because of the dual structure, i.e. the division between external economic relations (first pillar, the European Community, EC) and the CFSP (second pillar) that effectively hindered any *spill-over* or *spill-around* from one field to the other, or any day-to-day issue-linkage.²⁵ With globalisation and increasingly blurred relations between the economic and political sphere, and between low politics and high politics,²⁶ the autonomy of the two areas appears now to be increasingly illusory. If this is true, it would echo among others Rummel, who noted that the EPC “*has been complementing the EC’s economic foreign policy*” (1994:115, 2nd column, 20-25). The task would seem to be to establish that the Union’s external economic policy one way or the other feeds into the EPC/CFSP and the capability-presence of the Union.

²⁴ This holds, for instance, for Hill’s capability-expectations gap, where expectations under certain conditions are updated according to the experience actors’ gain regarding their capabilities. Here, the institutional capacity forms part of the capabilities and the interests form part of the expectations, i.e. the perceptions or ideas (1993, 1998b).

²⁵ Spill-over and spill-around are neo-functional concepts (see Schmitter 1969, 1970). Spill-over increases the scope and level of commitment to integration and spill-around increases the scope while holding the level of authority constant or within a zone of indifference (Ginsberg 1989:38, 1-4). It is Schmitter (1996b) who admit the limited relevance of the neo-functional approach in explaining the CFSP/EPC. See Chapter 2.

²⁶ Jan Zielonka talks about high politics today being more like low politics used to be and *vice versa* as illustrated by the importance and the interests the Member States takes in the EMU, the structural funds, tax harmonisation proposals etc. Various seminars, 1999-2001.

On the institutional side, EFP-literature has tacitly accepted traditional neo-institutional arguments regarding institutions as facilitators or constraints on international co-operation. The predominant view, however, turns the classical institutional argument 180° around, by arguing that the institutional structures created in the foreign policy sphere through the Treaty on European Union (TEU, 1993) are obstacles to co-operation, despite the range of new instruments to act in international affairs resulting from this treaty. As Holland notes, “*radical innovations were proposed... but ultimately an intergovernmental approach remained ascendant* (Holland 1997:5).. *In most aspects CFSP .. face ‘the traditional ills’ that typified EPC* (3). This part of the literature is relatively well documented, for instance, by accounts on the impact of the various bureaucratic struggles and institutional frictions that exist in EFP. The focus here will instead be on the more macro-oriented judgements regarding the impact of the treaties and specific agreements between the Union and third countries, which may represent a change in the competence of the Union in dealing with issues related to these countries. Because of the *pillar* division between external economic relations and the CFSP, issues such as the impact of the Union’s external economic relations and its competence on the CFSP have barely been discussed anywhere. This project will seek to fill this gap by developing a framework, compatible with the idea that learning may play a role that suggests a linkage between the competences of the Union in its external economic relations and the CFSP.

Many would agree with Simon Nuttall that EFP has been particularly structured by at least three systemic factors, the Cold War, the Gulf War (UN-Iraq-Kuwait), and the War in the former Yugoslavia (2000). The problem facing researchers seeking to test this assumption is, how to differentiate among the effects of the Gulf War, the impact of the end of the Cold War, the wars in Bosnia, or more recently, in Kosovo, since all occurred within the same period. Put differently, it is likely that the perception of failure in the former Yugoslavia, or the structural changes caused by the acceleration of economic globalisation after the end of the Cold War influenced EFP. Equally likely is the role played by the fall of the Berlin Wall, the German unification and the immense pressure from Central and Eastern European countries for the unprecedented speeding up of history triggering the CFSP and the pressure to build a CESDP (after Bosnia and Kosovo). More important than being able to establish one systemic effect’s superiority over the other will be to establish their intervening influence on the main variable, learning, and on the external economic preferences and institutional competence.

The main hypothesis is that EFP has developed as a process of learning. The null-hypothesis is that EFP dynamics cannot be expressed as a process of learning. The hypothesis on learning implies that those actors that take decisions about EFP within the CFSP, for instance, governments, under certain conditions may learn about the CFSP. Learning means that they gain knowledge about its workings from observing the results of their actions and the outcomes in international relations. This presupposes that the actors are able to act in accordance with this gained knowledge, since actors learn from experiencing the success or failure of their effort (for instance, the resources involved in an action) attached to the CFSP in solving a given crisis or conflict. Furthermore, this only makes sense if actors do *not* have perfect information about the workings of international relations.

The theoretical logic of the framework is that actors hold ideas or beliefs about the workings of the CFSP. They also hold beliefs about the workings of their unilateral foreign policies and could similarly hold beliefs about the workings of different other multilateral policies, such as those pursued through the UN, the OSCE, etc. These beliefs then act as a constraint on decision-makers or provide them with opportunities that direct them in their choice; a choice between acting and not acting, as well as a choice whether or not to use the CFSP when acting. Referring to the discussion of the beginning of this chapter, learning here implies, for instance, that the way the Union dealt with the conflict in the former Yugoslavia and the observed results of these actions taught decision-makers some lessons about how the CFSP works. The European foreign policy implication of the learning hypothesis is that changes in actors' beliefs about the workings of the CFSP under certain conditions may lead to changes in the degree of effort attached to the CFSP, and thus increase or decrease the capability-presence of the CFSP.

Under the null-hypothesis, in contrast, the mechanism of learning is for some reason either irrelevant, non-existent or prevented from playing any significant role. As indicated in the discussion above, the project in particular examines the impact of changes in actors' interests and in the institutional competence constraining actors in their actions. The proposition is that the constellation of economic preferences from the EU Member States towards third countries (through the external economic relations of the Union) and the competence of the Union in dealing with these issues, may influence the capability-presence of the Union (as expressed through the CFSP). Hereby, the framework takes into

consideration that economic interests may have different probabilities of determining the EFP under various institutional settings. Specifically, an alternative hypothesis is formulated, paying due consideration both to the intensity and diversity of economic preferences among Member States, and the degree to which competence has been transferred to the Union's external economic relation over time.²⁷

Learning may also be impeded by constraints in the ability to gather information about the outcomes in international relations. Those include, for instance, the inability of actors to learn properly due to an overwhelming number of facts or the presence of too many actors seeking to affect the outcomes in various directions. The project looks specifically at the impact of external strategies that may have competed with (i.e. been different from) the Union's strategy. This relates to questions such as whether the Union could have learned anything from Kosovo about the workings of the future CESDP. This is important, since frequently the assumption is made that Kosovo played a role in the forming of the CESDP. The proposition deriving from this part of the framework may for instance imply that the Union could not have learned much from Kosovo about the CESDP. First, the Union had no experience in security policies at the time the decision was taken to proceed with the CESDP. Second, the Union may have been too focused in their evaluation of the actions in Kosovo on the power of the US in determining the strategies in NATO to be able to judge objectively whether the strategies of NATO and the influence of Europe on events were reasonable or not. Clearly, this part of the framework represents an effect that under some conditions may contrast with the dynamics of learning. In this case, one simultaneously may have capability-presence enhancing and reducing forces at place. These are however exactly the types of contravening effects that may explain the dichotomy between progress and paralysis in European foreign policy.

Another variant of the inability to learn is the role of *sticky* or *fixed* beliefs. The project refers to these beliefs as "*hubris-beliefs*" and they comprise both *overconfident* beliefs about own policies and beliefs similarly characterised by *lack of confidence*. One example, touched upon in the empirical analysis, is the case of Britain who from time to time has been described as "*punching beyond its own weight*". Another example may be Greece, which for "*normative reasons*" for a long time believed that it would

²⁷ The Union's external economic relations (or the Union's Common external economic policy) is the "Common Commercial Policy" (Title IX, Treaty of Amsterdam) dealing with 1) trade issues such as export policy, tariff and trade agreements, trade protection, anti-dumping measures, export credits and credit insurance and 2) economic and commercial measures such as services, capital, intellectual property rights, investments, establishment and competition. The external economic relations does not explicitly include Title XX development co-operation, but this will nevertheless be included here.

not be in their “*national interest*” to concede in any way towards Turkey in the EFP sphere, notably, regarding the suggestions of unfreezing aid to Turkey in 1999.

As regards the impact of systemic factors, the project aims at discussing the extent to which, for instance, the end of the Cold War may have altered the opportunities for learning to take place. Put differently, the focus is on the intervening influence of systemic changes such as the one in 1989 in Europe on actors’ ability to see the workings of their policies more clearly, or decision-makers’ beliefs in the workings of EFP *per se*.

1.6

Empirical analysis

The purpose of the empirical analysis is to provide a small sample of test cases of the learning framework. The idea is to establish the utility of discussing EFP as influenced by actors’ ability to learn about the workings of the CFSP, as well as assessing the impact of the suggested complementary variables.

The sample comprises three case studies. First, an initial quantitative case study is performed on EFP towards the Gulf States (i.e. Qatar, Bahrain, United Arab Emirates, Iran, Iraq, Saudi Arabia, Kuwait, Oman, and Yemen). It aims at capturing systematic signs of learning and/or relevant complements to learning on a large-scale data set. Second, in order to confirm, reject and discuss the results of the quantitative exercise, a case study of EFP towards the Islamic Republic of Iran is carried out. The case study contains both a qualitative and a quantitative assessment. The latter should complement the preceding analysis, and clarify eventual differences between a regional and a country specific perspective. Finally, to correct for eventual regional or country specific bias, as Iran is a central player in the Gulf region, a qualitative case study concludes the empirical analysis, looking at the capability-presence of EFP towards one of the African regional powers, Nigeria.

Why were exactly these countries and regions chosen? Clearly, almost any case choice of EFP appears at this moment justifiable due to the need for more “*gardening*” (Zielonka 1998b). The three studies chosen also represent areas deemed to be of geo-strategic importance to the EU, politically as well as economically. The Lisbon Summit in 1992 identified Central and Eastern Europe, the Mediterranean and the Middle East as areas open to joint actions in accordance with the recognition that “*global*

power was beyond its reach".²⁸ As regards the Gulf or the Middle East, a lot of studies have been done on US foreign policy, but only a small number of studies include the European dimension (Greilsammer & Weiler 1988; Robertson 1989).

EFP towards Iran seemed particularly unexplored. Here, only three studies come to mind. These are Matthias Struwe's analysis of "*the Policy of Critical Dialogue*" from 1998, Mohammad Reza Saidabadi's account on "*Progress and Regress in EU-Iran relations since 1989*" and Fred Halliday's description of (Western) EFP towards Iran 1979-1995 (1998). The stimulus for another study on EFP towards Iran also lies in Ali Massoud Ansari's comment from 1996 contending that any civilian government in Iran is a "*dream*" or an "*obscure obsession of a few*". The European Union has namely been among those few believing that some sort of *civilian government* could be installed in Iran.

Africa was together with Latin America, the Caribbean and Asia included in the conclusions of the Lisbon summit, but not as areas directly open to joint action. They were areas that were supposed to be monitored specifically. Still, Africa was subject to one of the most successful Joint Actions, namely the Joint Action in December 1993.²⁹ A range of crisis and conflicts such as those in West Africa (Sierra Leone), in the Horn of Africa (Eritrea/Ethiopia), in the African Great Lakes Region (Rwanda & Burundi), including the Congolese conflict (Democratic Republic of Congo, Rwanda, Burundi, Tanzania, Angola, Zambia, Namibia and Uganda) also point to Africa as a key region for the Union's capability-presence. Moreover, studies regarding EFP towards Africa have been rare with the exception of Martin Holland's South Africa studies (1994, 1995a,b). No case studies have until now focused on EFP in Nigeria. For practical reasons, it was not possible to perform a quantitative study of EFP towards Nigeria as well. This would otherwise have provided consistency between the empirical analysis of EFP towards Iran and Nigeria. The data set available only covered the period 1989-1999 which was considered too short a time period to generate robust results from quantitative (time series) analysis (see also Chapter 4-5).

Some effort was made to obtain at least some similarity between the units of observation used in the two cases. It was judged important that Iran and Nigeria both 1) are large oil producing countries, 2) are major exporters to the EU, 3) have a skewed income distribution creating widespread poverty, 4) were

²⁸ "Report to the European Council on the Likely Development of the Common Foreign and Security Policy (CFSP) with a View to Identifying Areas Open to Joint Action vis-à-vis Particular Countries or Groups of Countries" 1992: 26-27 June; Document 2/21 in Hill and Smith 2000: 166.

²⁹ EFPB 93/532 6 December 1993 implementing a co-ordinated programme of assistance in preparing for the elections in South Africa on 27 April 1994.

international pariahs during large parts of the last two decades, and finally 5) are regional powers that have a proven track record of influencing their neighbours.

As regards the time frame of the analysis, it was previously noted that the time frame “*in practice*” was approximately 25 years. Despite the fact that a long period of a quarter of a century is difficult to cover consistently, the aim of this thesis, to analysis learning, necessitated as long intervals of observations as possible. This also follows from the important methodological aim of introducing more systematic research methods to European foreign policy analysis. The full period of 25 years was difficult to cover empirically however. For example, the data available (see Chapter 4) did not provide sufficient observations for the period before 1979. Yet, using the last two decades as point of reference for the tests were relatively convenient in terms of ability to collect information from interviews and electronically, such as through the European Foreign Policy Bulletin, covering the period from 1980.

A variety of sources were used to collect the empirical data. Besides downloading data sets from quantitative data set sources on the Internet, five qualitative interview rounds were carried out at the EU institutions in Brussels: in May 1999, November 1999, May 2000, September 2000 and in April 2001. The interviewees were key officials or representatives EU Council Secretariat and the Member States’ national representations. Approximately 45 interviews were carried out, some were with representatives of Member States and Iranian and Nigerian diplomats, a majority were with Council officials, and a few interviews were with officials of the Commission. The interviews were use to provide factual information on the dependent and explanatory variables regarding a specific development, and appear in a number of cases (but not all) with actual citations. Most interviewees expressed the wish to remain anonymous. Finally, one may add that data from an experiment (a simulation of General Affairs Councils) that had been carried out at the European University Institute in February 1999, March 2000, and March 2001 were used as background information during the creation of the theoretical and empirical framework (See Dahl & Giacomello 2000).

1.7

Limitations

Ambitions and results seldom reach the same heights. This project is no exception to this rule. One may highlight three major limitations of the study. First, the framework does not diverge as much as intended from the start from the tradition of eclecticism (White 1999; Holland 1995a), the “*borrowing*”

of ideas and approaches from other subject areas and applying them to the foreign policy arena; one of the Achilles Heels of the European foreign policy literature (see Chapter 2). For instance, the learning model derives from a sociological model on education and gender segregation on the labour market. Moreover, the conceptualisation of ideas seeks to echo the cognitivist approach to ideas thus taking a stance in the constructivist – cognitivist IR-debate. The mix of sociological models and IR-literature put into the literature on EFP was deemed necessary to explain the dichotomy between progress and paralysis of EFP, but the author is aware that some may prefer *cleaner* approaches.

Second, the project has a narrow focus. For instance, it disregards the group of explanations focusing on the impact of norms, identity, Europeanisation (i.e. socialisation, see Chapter 2 and 7) or discourses. These explanations need to be investigated further, as implicitly pointed out by Roy Ginsberg in his vision of seeing the research community on EFP moving along the so-called input-output continuum, a multidimensional line of explanations of various aspects and stages of EFP development (see Chapter 2). The fact of having ignored the impact of norms, identity and socialisation is a simple illustration of the resource constraints of the project. Also left out is the impact of power politics in its traditional sense. However, one of the propositions is that power politics today needs to be understood in a novel fashion, for instance, as highly integrated with economic interests and institutional competence.

Third, the study fails to include a study on European foreign policy towards one of the conflicts or crises in South Eastern Europe in the 1990s. EFP towards South Eastern Europe is important as:

- i) a test case for EFP,
- ii) an area with intensive (however, not necessarily successful) EFP capability-presence,
- iii) an area belonging to the Union's natural sphere of external operation (e.g., according to the Lisbon Summit), and
- iv) an important test case for a framework on learning in EFP.

Why was such a study then not included? The reason paradoxically has to do with how crucial the former Yugoslavia has been for the CFSP. Put differently, it is proposed that the way the Union acted in South Eastern Europe in the '90s has influenced not only future policies towards the South Eastern European region, but the development of the CFSP as a whole. The influence, in other words, went beyond South Eastern Europe to the Union's policies towards the rest of the world; and it also penetrated into its internal affairs. Under this assumption, the suggestion was that either the former

Yugoslavia had to be analysed separately as an in-depth study moving meticulously through all the events and reactions of the Union, or it had to be included as a structural component, i.e. as possibly influencing EFP towards other third countries as well. Given the resources available, it was decided to include the former Yugoslavia only as a possible structural component for the policies of the Union towards other third countries.

1.8

Project conclusions

The Union's capability-presence expresses duality between paralysis and progress. In perspective, the empirical analysis confirms that EFP has indeed been a *dwarf* the last two decades compared to the foreign policies of the larger Member States, such as France, Germany and Britain and compared to the US. This traditional mode of comparison however was complemented with a more separate evaluation of the development of EFP over time.

This analysis revealed that EFP towards the Gulf States, Iran and Nigeria experienced growth, but no impressive growth of EFP in the '90s. Even viewed at isolated, the policies suffer from many severe weaknesses, such as inconsistency over time, lack of action in severe crises and conflicts, and detachment of EFP from the behaviour of the target.

However, the Union demonstrates that it manages to raise its capability-presence more towards "cooperative" events, than "hostile" ones. Importantly, the negative elements of EFP were not paralytic in the traditional sense, but form part of the progress of the CFSP. For instance, one characteristic has been the increase in defection dramas among the Member States, which despite being harmful for the CFSP illustrates that actions are now taken that actually matter for the domestic affairs of the Member States.

The progress, despite not being impressive, is expressed in a number of ways. First, compared to practically all the smaller Member States' foreign policies, the Union as a whole has been *acting* more towards problems in the Middle East/Iran/Nigeria than any of these Member States did unilaterally.

Second, a period of silence characterised EFP until 1992-1993, but as part of a development starting with the SEA in 1987, an increased depth of EFP came to the surface in the beginning of the '90s. For

instance, the Union managed to use existing instruments extensively initiating dialogues and sanctions which previously were either only unilateral, UN-based, or simply non-existing. In this period, the governments began to regard the Union as mode of collective response towards sensitive political problems, including violations of human rights and breaches of democratic principles.

Third, for the Member States the use of the Union's foreign policy apparatus, including the CFSP, in several cases became a better alternative to unilateral or other multilateral policies. This stemmed from the institutional deepening of the EU through the TEU, but it was also related to the end of the Cold War combined with various windows of opportunity created by developments in third countries and the specific configuration of the EU Member States' external economic interests in some of these third countries at the time. After 1996, EFP widened its scope, by embedding first and third pillar issues into the actions of the CFSP. Especially with respect to development aid from the first pillar and visa restrictions from the third pillar, there is a tendency to include these as operational instruments for the CFSP despite the fact they belong to other pillars.

The question remains, whether the increased effort of the governments to the CFSP really proves that EFP is a more effective forum for the solving of collective problems of international relations, or not. The study seems to confirm that the increased use of the CFSP also results from an enhanced ability of the Member States to abide with the negative externalities of any collective action of the Union that might involve political and economic redistribution problems in the Member States.

The learning framework appears to be a valid tool of understanding some parts of the EFP dynamics. It appears that the Union not only has increased its capability-presence in international affairs but has begun to act more and more as an actor capable of learning. In 1987, the first indications of this are present, in 1991 all the quantitative results suggest the presence of learning, and from 1993 all the data, qualitative and quantitative, points to the existence of this ability to learn from failures and successes in EFP. Notably, the enhanced ability to learn does not imply that the Union *did more things in a consistent* way. It only suggests that the Union did things *more consistent with its own past actions* and the perceptions of the workings of the CFSP than before. In addition, the learning framework only fitted the larger Member State governments of the Union.

The ability to learn about EFP was - also after it became more elaborated in the 1990s - highly dependent on the US stance in international affairs. The findings suggest the existence of large ambiguities in the Union's attitude towards the US. The more ambiguous and weak the US strategy was, the easier it was for the Union to increase its capability-presence. The reason that the Union sometimes goes against the US does not have much to do with whether this is the most effective strategy or not towards the problems facing the Union in third countries. The results regarding the impact of the US also runs counter to the impression given by the literature on European foreign policy, for instance, Nuttall (1997), about how autonomous from the US the EPC/CFSP has been. What is different from a traditional "*hegemonic power*" interpretation of the US influence, is the complementary role the US is suggested to play in international relations as a focal point of EU governments' perception of whether outcomes have been successful or not.

The empirical data only vaguely supports an isolated impact of the external economic relations on the CFSP, but this may also relate to some limitations in the quantitative measurement. Support is stronger in the qualitative analysis of the impact of external economic relations. First it seems that economic preferences may account for the bias of the Union's capability-presence towards more cooperative events. Hereby, this effect runs in the opposite direction of the effect of the increased institutional competence of the external economic relations. Second, the institutional competence hypothesis seems in particular promising. The higher the competence of the Union in its external economic relations, the more able the Union apparently becomes to introduce measures towards given third countries, which implementation are sustainable towards particularistic economic interests in the Member States. Put differently, the *acquis communautaire*, the existing body of EU legal acts, and the *acquis politique*, the political positions adopted by the Union, determines a degree of competence of the Union in dealing with a given third country, and this degree of competence is then positively proportional to the Union's ability to act through the CFSP towards this country.

This result raises an important question regarding finding the right mix between economics and politics in foreign policy. According to the analysis, the Union cannot keep economics and politics apart. Each time this is tried, the Union increases the risk of initiating measures that are not sustainable in the end. The more the Union becomes capable of acting, the higher is the risk of decreasing the belief in the CFSP as the policies of the Union run into problems. Politics such as human rights policies may seem problematic from a particularistic economic interest point of view, and economic interests are among

the most important ones in the European Union. Yet, with government's increased ability to learn from its failures and successes in international relations, the importance of making the complicated link between political aims and economic policies in third countries seems to be the way the Union can enter not only a virtuous circle of learning, but also a virtuous circle of capability-presence.

Finally, if Haas' approach to learning according to himself differs sharply from the *more direct ideas of causation embedded in behavioural and in rational-choice approaches*, then learning as developed here differs sharply from learning *a-la* Haas. However, just because the focus here was on individually held beliefs about the workings of policies, in contrast to group-based ideas, as suggested by the constructivist school, or normative beliefs about how strategies should be, the framework seems to be more complementary to than actually competing with other approaches.

1.9

Contents

The thesis is divided into a theoretical and an empirical part. The following two chapters, Chapters 2-3 deduce and outline the theoretical framework. This is tested empirically on the aforementioned three cases in Chapters 4-6. Finally, the results of the theoretical and empirical parts are summed up in Chapter 7.

In chapter 2, the aim is to provide a sustainable theoretical location for the project through a critical assessment of the analysis of European foreign policy. Different explanations on progress and paralysis are discussed and suggestions are presented as to how the literature could address these developments. The triangular proposition of the existence of a relationship between interests, ideas and institutions is used as a tool to open the discussion with the aim of seeking to dispose the advantages and disadvantages of previous work on these dimensions. This leads to a range of suggestions regarding how progress and paralysis may be addressed in terms of learning and which alternative explanations should be considered. In Chapter 3, these are implemented specifying a theoretical framework focusing on actors' ability to learn from successes and failures in international relations. The framework is a broad model on learning and actors' ability to update their beliefs about the workings of the CFSP based on previous beliefs, effort attached to a strategy and the outcomes in international relations. Further, the model is deliberately constructed to allow for the investigation of a number of alternative

explanations on EFP, such as those mentioned above regarding changes in interests, institutional competence, and the impact of competing strategies.

In Chapter 4, the learning model is tested on the policies of the Union towards the (Persian) Gulf States from 1983 to 1999. This first empirical chapter mobilises quantitative methods to analyse time series on international events of conflict and co-operation. The data set is based on the work of Professor Philip A. Schrodt and his collaborators using the Kansas Events Data System (KEDS, 1998). The aim of the chapter is to provide a statistical indication from an already existing data set on the relevance of the learning framework and to highlight areas in need of further investigation in the qualitative empirical model.

In Chapter 5, this is followed up by a case study on one of the major policies of the Union towards the Persian Gulf, the policies towards Iran. The study examines the applicability of the learning framework using qualitative case study tools. Learning is in general indicated as the joint significance of, 1) past European foreign policies, 2) past outcomes in international relations, and 3) the expectations that centrally placed decision-makers of the Union held about the workings of the EPC/CFSP towards a given third country. A quantitative study of EFP towards Iran extracted from the general study in Chapter 4 is furthermore discussed. The competing hypotheses, in particular the one regarding the impact of the external economic relations and the impact of various factors that could have prevented actors from observing outcomes sufficiently clearly in international relations are further assessed.

In chapter 6, the policies of the Union towards the Federal Republic of Nigeria are examined. The analysis resembles Chapter 5. It aims at following the fluctuations in the developments in Nigeria over the last two decades, the Union's reactions to these events, and the beliefs held by centrally placed EU decision-makers regarding the workings of EFP towards these events. Apart from complementing the previous assessment of the learning framework, the Chapter evaluates some of the alternative explanations to EFP than learning; in the Nigerian case emphasising the importance of changes in the institutional competence of the external economic relations due to Nigeria's membership of the ACP group, and thus the EU-ACP cooperation agreements, notably Lomé I-IV.

Chapter 7 contains the conclusion, including some policy implications and ideas that future research on this topic may incorporate.

CHAPTER 2

THE ANALYSIS OF EUROPEAN FOREIGN POLICY

This chapter provides a critical assessment of the literature on EFP, European Foreign Policy Analysis (EFPA). The first section is a *tour d'horizon* of different ways EFP has been conceptualised and measured in the past. The fundamental problem is how to conceptualise and measure EFP outcomes, the dependent variable of the thesis. As noted in Chapter 1, attention remains on three potential channels of influence on EFP, the three *is*, *interests*, *institutions and ideas*. The aim is not to provide a quantitatively complete literature search on the analysis of European foreign policy. Instead, the literature assessment aims at forming a notion of how the three *is* might be combined (theoretically and in operational terms) to explain the paradoxical dual face of European foreign policy, the *paralysis* and the *progress*.¹

According to this, the second section addresses how EFP has been explained as essentially deriving from actors' interests, what the units of analysis have been for these approaches and where their main strengths and weaknesses lie in explaining the simultaneous presence of progress and paralysis of EFP. The third section contains a similar discussion on institutions, though mainly dealing with classical (and more or less rationally) inspired institutional perspectives to EFP. One may note that other institutional approaches - that attach more independent explanatory power to *institutions* - are discussed under the third and final *i*, the ideas, in the fourth section. The fourth section hereby compares the constructivist (reflectivist) approach to ideas with the cognitivist (rationalist) approach. Towards the end of the chapter, the different inputs from the various assessments are gathered, delineating a starting point for developing the theoretical framework in Chapter 3.

¹ No such thing as complete literature review of European foreign policy literature exists. However, one may find comprehensive summaries in, for instance, Smith (1999), Peterson and Sjursen (eds. 1998), Bretherton & Vogler (1999), Picning (1997) or Knud Erik Joergensen (1997).

2.1

Conceptualisation and measurement of EFP outcomes

(a)

The state of the art

The major part of EFPA over the last 30 years represents an impressive undertaking in describing the phenomenon of European foreign policy considering its novelty, complexity and frequently shifting institutional basis. This descriptive strength has been characterised by close links to contemporary policy-making questions and for some part *common sense* theoretical frameworks avoiding abstract epistemological discussions or *modelling for the sake of modelling* adventures. These descriptive studies include, for example, Allen & Smith (1990) Bourlanges (1997), Broek (1995), Cameron (1999), Carlsnaes (1994), Edwards (1997), Ginsberg (1992), Hill & Wallace (1996), Holland (1995 a; b) Joergensen (1993b), Nuttall (1992, 2000), Regelsberger & Wessels (1996), Sjoestedt (1977), Smith, K.E. (1996), Smith, Michael (1998), Stavridis (1993), Wallace (1978).

The weaknesses of EFPA have not remained few, however. Martin Holland finds the literature “*eclectical*” and “*atheoretical*” (1995),² while Roy Ginsberg points to the lack of any middle range or larger theory of EFPA (1999). Brian White observes, “*in reviewing the strengths of the field, foreign policy analysis has a long tradition of eclecticism, the ‘borrowing’ of ideas and approaches from other subject areas and applying them to the foreign policy arena*” (1999: 39, 7-22). Knud Erik Joergensen summarises the criticism of the literature noting that EFPA:

- mainly deals with policy-studies,
- has remarkably low interest in theoretical issues,
- suffers from an almost complete absence of cumulative research,
- lacks any considerable interest in synthesis of case-studies, and
- largely fails to engage other than Europeans (1993a).

After Joergensen wrote these remarks, the literature has slowly begun to comply with most of these points. This was further catalysed by the boost to field in the mid-1990s following the enhanced

² Holland’s contributions (1994; 1995a; b) are eclectic as well. For example, by using Hill’s Capability Expectations Gap theory (CEG) on the Joint Action of the EU against South Africa in December 1993, he shows that any CEG can be minimised and even closed. External expectations were in the South Africa case matched by rising capabilities. This occurred despite the fact that the capabilities per definition were not exclusively controlled by the Union. Moreover, Hill focused on changes in the expectations as one of the main sources of narrowing the CEG, and less on changes in capabilities. Hill assumed these to gradually increase over time (Hill 1998b and comments at the EUI Council of Ministers’ Simulation 1999).

involvement of the EU regarding the implementation of the peace in Bosnia, the Union's relations with the Mediterranean countries, not to mention the creation of the CESDP after Kosovo. The field however remains fragile to criticism as the quality of its frameworks largely depends on the goodness of fit that can be obtained between originally imported frameworks and the specific nature of the problems in the European foreign policy sphere.

(b)

IR & EFPA

Matching imported literature from, for instance, foreign policy analysis (FPA) of IR-theory has been a Sisyphus task for EFPA.³ Christopher Hill and William Wallace note that "*it is, in principle, relatively easy to describe the assumptions and mechanisms through which established sovereign nation-states conduct foreign policy. The evolution of European Political Cooperation (EPC), however, presents a challenge of a different order*" (1996: 1). This statement probably contains the *raison d'être* of the discipline's reluctance to follow any particular strand of IR-theory dogmatically.⁴

The mismatch between imported theories and the European foreign policy sphere often starts already at the level of the research question. For the IR-theory on liberal peace, the question is how liberal (member) states may avoid violent conflicts with each other.⁵ This is however not what European foreign policy is about since here the question is rather how and why Member States may co-operate among each other in order to address conflicts and crises *outside* the Union. Similarly, (commercial) liberalism assumes that states bound together in a perfect liberal economy, with free trade, will have a moderating influence on international politics promoting peace between peoples (Risse-Kappen 1995; Moravcsik 1991). The question in EFPA is different, as it regards why Member States bound closely together in a liberal economy (although not perfectly so) may facilitate resources to be undertaken in actions towards a third country. EFPA has also suffered from the inability to attach the word "*integration*" to its dependent variable due to the unanimous decision-making mode of the CFSP. The result has been that the field *de facto* was marginalized from the overall European integration debate and some authors in European integration theory hardly dared to include the CFSP in their analysis

³ I am grateful for inputs on this subject from participants in Jan Zielonka's seminar "*Foreign Policy Analysis*" (Session 3 March 2000).

⁴ Exceptions include Pijpers (1990), Struwe's constructivist account (1998), and Bretherton & Vogler (1999) using constructivism. See below.

⁵ For an overview of the literature on liberal peace one may consult Oneal (2000).

until just recently.⁶ Also vis-à-vis FPA, the literature has had conceptual problems. In particular, a proper definition of foreign policy has been problematic to establish considering that the policies of the CFSP are pursued by 15 and not by one government. This has not been facilitated by the fact that FPA itself has been ambiguous on crucial questions such as what *foreign policy* is (Wallace 1990:1; Holsti 1995; Gustavsson 1999:84, 1-6).

(c) *The unsuccessful measurement of outcomes in EFPA*

These problems have led to confusion about how European foreign policy should be conceptualised and measured in a reproducible and operational fashion (Joergensen 1998; Larsen 1999:588). Five to ten years ago this was less important than now. At that time, almost any definition of success and failure of European foreign policy could impossibly disguise the serious problems EFP had had in breaking through as a viable crisis solution forum. For example, one could hardly arrive at different conclusions than Regelsberger & Wessels noting that, "*the balance sheet of the CFSP... remains on the whole unsatisfactory*", whatever success-criteria used to arrive at such conclusion (1996:42). Now, EFP has expanded its operations and part of the literature is trying to move beyond the mere descriptive and narrative approach used so far. Providing a consistent and operational measurement of the outcomes of EFP therefore now seems more due than ever before.

In general, the outcome or the degree of success of EFP has been measured using highly different criteria. Those have ranged from looking at 1) the treaty aims, 2) the rhetorical aims formulated by decision-makers, to 3) the normative opinions held by various analysts or politicians about what EFP should be able to achieve. The strength of using treaty-based aims are that one hereby can reproduce ones results more easily given the aims are clearly understood and operational. Using treaty-based aims criteria, for example, Zielonka notes, "*the Union is paralysed, because it has been unable to live up to its Treaty binding obligations*" (1998b). Rummel & Wiedemann suggest that the Common foreign and security policy should be "*common*", "*foreign*", be about "*security*" and produce a "*policy*" as those are the characteristics promised by its treaty-based name.⁷ Yet, despite the fact that the language of the TEU in fact is both "*plain and clear*" (Zielonka 1998b:2) and that the major aims of the CFSP as

⁶ Moravcsik (1993:494, 3-12, see also Section 2.2 (c)) and Philippe Schmitter (1996b: Chapter 6) coming from two different poles of European integration theory, liberal intergovernmentalism and neo-functionalism, have both denied the relevance of their theories in the area of the CFSP. Moravcsik has more recently started to contribute to the debate on European foreign policy and the CFSP, notably, in Moravcsik (2001).

⁷ Chapter IV in Zielonka 1998a. Bourlanges uses the draft of the TEU as his benchmark and concludes that the CFSP is sick (1997)

formulated in Article J.1 of the Treaty of Amsterdam have remained stable since the TEU, using treaty-based aims may for some purposes seem too institutional to have any practical relevance (Bretherton & Vogler 1999). As Ole Wæver points out "*loyalties, images, and identities are often vague, fluid, and irrational; as such they can hardly be dealt with by legal treaties, institutional measures and military commands*" (1996).

The use of rhetorical aims formulated by politicians, EU decision-makers, or academics in order to assess EFP may be valuable to determine EFP performance on specific issues. For instance, it seems valid to judge politicians and EFP on their promises and threats regarding solving the crisis in the former Yugoslavia in 1991. Diplomacy is also traditionally a linguistic undertaking and thus rhetorically biased so rhetorical aims do have an important function.⁸ Assessing EFP solely on statements is however a problematic undertaking since many foreign policies are symbolic.

Max Weber has warned against normative research that confuses scientists' own values and ideas with those of the actors they are studying.⁹ Weber's warning is worth remembering in the context of trying to assess EFP. Employing normative opinions about how EFP should perform is, as Hill notes, to set the "*sauf qualitatif hoped for many*" (1991), but it is hardly the way EFPA may generate scientific results (Grunert in Cafruny 1998:96). A federalist approach is therefore per definition problematic, because it contains references to European integration as the ultimate goal and salvation of the nation states given their inability to deal alone with the problems and competition confronting them in the international system (Moens 1997; Norgaard *et al* 1993). Also, the use of personal normative criteria may be difficult for other researchers to adhere to and the carefully derived results run a higher risk of being wasted. When Grunert, for instance, states that EFP is the reason for "*the tragedy*" in the former Yugoslavia (in Cafruny 1998:96), one must ask whether his conclusion more was based on his and many other Europeans' high expectations about EFP capabilities at that time, than it reflected a deeper analysis of the Union's impact on the Balkans. That being said, a normative discussion in the public debate is justified and needed in order to evaluate whether the Union is progressing in a way that we can adhere to, or not. It may also serve as an input in the scientific debate regarding, for example, the legitimacy of EFP, which will be touched upon in the following section (Stavridis 2000; Hill and K.E. Smith 2000).

⁸ Interviews, Council Secretariat, June 1999 and May 2000.

(d)

Towards a more realistic benchmark?

Obviously, no *true* or *false* way of measuring the performance of EFP exists. This author however disagrees with arguments such as the one presented by Larsen suggesting that “*it is better to be interested in the different perceptions of success and their political strength than trying to make an aggregate measure*” (1999a:588).

Trying to form a measure that captures the essence of the variable that a research question regards seems essential in answering a given question also in the complex environment of EFP.¹⁰ More important than the actual contents of the measure is however the benchmarking of the outcomes in a way that facilitates the study of variations in these outcomes. Different options emerge from the literature. Notably, several authors use the US, the EC, or Member States’ foreign policies as benchmarks of comparison with the policies of the CFSP. In fact, the Council secretariat notes in one of the information brochures that the CFSP is needed because “*the EU is a major economic player and should play a commensurate political role on the international system*”.¹¹ Such an approach is less suitable for attempts as this trying to explain the dynamics of EFP through various explanatory variables. This reason is that the CFSP lacks unity of analysis with the US, the EC and even larger Member State policies, the latter representing giants compared to the midget of the CFSP. The strategy in this project is therefore instead to analyse variations in European foreign policy per se. The conclusions derived from choosing such a benchmark subsequently regards the dynamics of European foreign policy rather than the impact and overall presence of EU in international affairs.

How should a benchmark for EFP then look like? Well, Hill’s Capability Expectations Gap (CEG) - which Larsen refers to as a dangerous aggregate measure - is conceptually a safe starting point exactly because it is a very accurate and an operational aggregate measure. Departing from the capabilities, Hill operationalises capabilities as the resources, instruments and cohesiveness of action of the Union whereas expectations are divided into internal and external expectations. In order to direct the capability measure towards policies such as those analysed in this project, it may be useful to incorporate into capabilities the notion of “*presence*” developed by Allen & Smith (1990), or

⁹ From Reinhard Bendix’ description of Max Weber on the Methodology of Social Sciences. Translated and edited by Edward Shils and H.A. Finch. 1949. Glencoe Ill. Free Press. In the International Encyclopaedia of the Social Sciences. Oxford U.P.

¹⁰ In this respect, it is important to note that Joergensen whom Larsen legitimised his statement from mainly criticised the inconsistency by which success-criteria were implemented, not the use of success-criteria per se.

¹¹ The Council of the European Union & the CFSP. General Secretariat of the Council. 1999

“actorness” in Gunnar Sjoestedt (1977) and revised in Bretherton & Vogler (1999).¹² The difference between Hill and Allen & Smith/Sjoestedt/Bretherton & Vogler represents taste rather than substance. Presence measures the role the Union plays in international politics. It is a multidimensional concept intended to capture three *assets* of EFP: capabilities, expectations and legitimacy. As mentioned in Chapter 1, presence includes capabilities from “*the capacity to act and mobilise resources*”, and expectations from “*the place it occupies in the perceptions and expectations of policy makers*”. Expectations and capabilities may however be assumed to have different dynamics and presumably they also correlate extensively. At least, the suggestion is that one of the reasons for the Union’s duality of progress and paralysis may come from the extent to which capabilities and expectations interact. Capabilities, following the previous discussion, represent a major and natural dependent variable in EFPA. Section 2.4 and Chapter 3 will then return to the issue of how the interaction between capabilities and expectations may take place.

The capability-presence or the Union’s capacity to act and mobilise resources here relates to the Union’s policies and may be specified further by looking at individual policies’ depth, scope and decision-making mode. Depth is the degree of commitment and the character of the policy output. Scope reflects the limitations and opportunities of the common policy provided by the *linkages* among various policy areas. Decision-making mode is the formal and informal decision-making rules of decision-making (Schmitter 1969; Lindberg *et al* 1970; Petersen in Noergaard 1993).

The third dimension of Allen & Smith’s presence is the legitimacy of decision-processes, a concept that also appears in Bretherton & Vogler’s “*requirements for the Union’s actorness in international affairs*”. Legitimacy is closely related to Stavridis’ notion of “*the democratic deficit of the EPC/CFSP*”, which suggests a gap between norms or principles and actions of European foreign policy (2000:450). In the EPC/CFSP, the democratic deficit is about the lack of democratic accountability in the EPC/CFSP stemming at least partially from national democratic deficits in the way of performing foreign policy (Stavridis 1993:173). Including the democratic deficit seems important in EFPA, but the credentials of the Union or the capability of the Union to act and mobilise resources does not necessarily have the same dynamics as the legitimacy. Importantly, a policy may be highly efficient, yet completely illegitimate – while another policy may have the reverse properties (Regelsberger & Wessels 1996:42, 11-12). The legitimacy of decision-processes does therefore not form part of the

¹² Stavridis (2000) provides different ways of measurement of EFP success and applies them to the EFP towards the Mediterranean region.

capability-presence measured in the remainder of this project, but should be included in future research taking into account the potentially different dynamics of capabilities and legitimacy.

Clearly, one should not theorise to much on the measurement *ex ante* as the data set and the type of analysis to a certain extent will determine the final operationalisation of EFP outcomes. Here, one could expect that the operationalisation may have to vary depending on whether the data is single observations, cumulative cases or large-scale data sets. In this project, the operationalisation of capability-presence in the quantitative study follows more or less directly from the choice of data set providing less degrees of freedom for specific EFP-related research needs, but on the other hand ensuring consistency with IR-literature (See Chapters 4 and 6). The qualitative analysis, on the contrary, uses a measurement of capability-presence as the one suggested above, dividing the EFP outcome into different degrees of scope, depth and decision-making mode.

One should also note that the concept of capabilities and presence, as measured in the proceeding empirical analysis, include European foreign policy outputs, for instance, a Joint Action on South Africa. This use of "*capabilities*" follows, for instance, Hill (1993) where one of the dimensions of capabilities is the actual policy action of the CFSP in a particular situation, for instance, economic sanctions against a pariah state. Analytically, capabilities and presence do not include the outcomes/effects of European foreign policy as analysed by, for instance, Ginsberg (2001).¹³ In this project, outcomes and effects are still dealt with however. Outcomes and effects of EFP are seen as important inputs, and thus explanatory factors in determining the capability-presence of EFP. This will be elaborated in Chapter 3 and illustrated in the proceeding empirical chapters.

2.2

Interests

(a)

Who's interests?

Interests play a key role in most explanations for EFP. The realist assumption that states follow the course of action that preserve their national interests in the best way¹⁴ is repeatedly introduced as an

¹³ Due to the submission of this thesis before the publishing of Ginsberg's book, the author has only seen a draft to one of Ginsberg's chapters at a seminar of Ginsberg at the ECPR Rotating Summer School: EU's capability and influence in international affairs at the European Institute of the University of Geneva, September 2000.

¹⁴ See Waltz 1979, 1997; Risse-Kappen 1995a; Keohane 1986; and Stein 1990.

explanatory factor for outcomes in the CFSP, in particular those emphasising the limitations of EFP. Pijpers concludes that the nation states and their governments have been the major actors in the EPC (1990; 1992). In fact, nation states are becoming increasingly important according to him. In intergovernmentalism the focus remains on the nation state, but more on aggregated domestic interests and less on security and power. Intergovernmentalism assumes that when cooperation points to mutual benefits and the utility of joint approaches, members will support joint foreign policy actions.

The problem with intergovernmental approaches to EFP relates to the aim of solving the puzzle regarding the simultaneous existence of progress and paralysis. Intergovernmental approaches seem generally less able to account for both these phenomena. They have been criticised for, 1) failing to take the international community sufficiently into account, and 2) being reductionist if not tautological by assuming integration when common interests exist, and lack of integration when interests are not common (Schneider 1998b). This is of course partly different in international bargaining approaches, for instance, those inspired by Putnam (1993; Ewans *et al* 1993). Hereby, Peter Schmidt's intergovernmental bargaining approach explains the development of West European Security and Defence Cooperation holding that the intent to strengthen Member States' bargaining power in international relations by enlisting multinational support for national perspectives and programs is one of the driving forces of a common security and defence policy.¹⁵

EFPA here has sought to regard any explanation within a broader multilevel decision-making framework. For example, in Hill's multilevel governance (MLG) framework, the EPC/CFSP decision-making is regarded as a sub-system of the international system that receives inputs from multiple levels of mixed actors. Those involve, primarily, 1) other actors in the international system, 2) national governmental actors, 3) sub- and transnational governmental and non-governmental actors and 4) other European Union institutions such as the European Parliament and the European Commission (1998a: 44-46, in particular Figure 1).¹⁶ In this tradition, seeing institutions through some sort of MLG approach to "*a mixed actor system*", Alasdair Young conceptualises the Union's actions *as being part of a multi-level process engaging national, European and international levels of governance*" (2000:94, 12-17; Larsen 1999:593).

¹⁵ Schmidt stresses political volition, spillover from other policies and perceived necessity for cooperation in a rapidly changing or even chaotic environment and the demand to avoid re-nationalisation of security and defence policies in Europe (1992:236, 1-8).

Ginsberg suggests a methodological “*theory*” conceptually building on Hill’s three-layered MLG model (international, European, domestic). Hereby, Ginsberg includes both “*structures*” and “*agency*” depicting the relationship between the “*international context*”, “*the external relations system of the EC*”, and “*National Foreign Policies*” (1999:433-447). The methodological conclusion of Ginsberg is that as long as one follows point by point the “*input-output making continuum*”, one may “*go a long way framing the policy problems facing EFP*” (435). As described in Chapter 1, the input-output continuum is a multidimensional line linking different explanations in EFPA (such as intergovernmentalism, neo-functionalism, domestic politics, etc.) to specific phenomena or sub-groups of interaction (such as the CFSP). To follow all the points and explanations on the line in order to determine the EU’s presence is not a task for the individual scholar. This should rather be understood as a cumulative task for the whole EFP research community. As Ginsberg has specified, instead of seeking to include all points on the continuum, one should focus on particular points, however, being aware of the broader system by which EFP fits in.¹⁷ For instance, one may build frameworks around a specific explanation for the Union’s capability-presence, such as Nuttall’s “*socialization and informal rules hypotheses*” (1992, 1997 in Regelsberger *et al* 2000), which sees socialization within the CFSP as one of the determining factors of the emerging European foreign policy from 1970 to the TEU, Hill’s Capability-Expectations Gap, or by testing one of the neo-functional hypotheses.

One should always be aware of the problem of incompatibility between different theoretical approaches. An individualistic model, for instance, has a different interpretation than a model that is collectivistic. For instance, liberalists claim that agents in international politics are members of the domestic society as individuals, consumers, voters, or privately constituted groups such as firms, households, and interest groups (Stein 1990:7). States are still relevant, and may even be the major actors, but they possess a declining ability to control their own destinies (Holsti 1995:43). Hocking & Smith argue, “*key goals of national economic policies now lie outside those factors determined by a given nation state*”, for instance, caused by tendencies of globalisation (1994).¹⁸ In this project, as suggested by Manners & Whitman, the EU is not regarded as 15 unitary states, but rather as 15 governments (2000). As a benchmark, the government is “*all political institutions of the executive, the legislative, and the judiciary and the associated decisions, activities and outputs* (Kaase & Newton

¹⁶ See also Hazel Smith (1995).

¹⁷ This was specified to the author during a seminar of Ginsberg at the ECPR Rotating Summer School: EU’s capability and influence in international affairs at the European Institute of the University of Geneva, September 2000.

¹⁸ Globalisation may, for instance, be defined as the increase in cross national border transactions of physical, financial, or human capital.

1995:8). Even with such a broadened definition, one must recognise that the 15 governments of the Union contain many different élites whose importance vary considerably from Member State to Member State and indeed may also interact on a transnational basis (Risse-Kappen 1995b).

(b)

Which interests matter?

Academics used to distinguish sharply between foreign policy and foreign economic policy. This distinction reflected, on the one hand, foreign policy that dealt with military, defence and security issues. On these high-politics issues, a clear agenda existed leading to distinctive policy processes where trade was a collective material interest that would preserve security as the hierarchically most important area. On the other hand, foreign economic policy was concerned with low politics issues, such as trade tariffs, subsidies, economic reforms, and development aid. These were neatly separated from foreign policy by the bounded hierarchical subordination to high politics. This distinction made some sense in the IR-literature through the '70s and '80s. Yet, it was maintained in EFPA after the end of the Cold War because of the dual pillar structure dividing external affairs of the Union into the community-based external economic relations of the first pillar and the foreign and security policy of the CFSP of the second pillar.

Power politics did not just die out after the Cold War, however convenient that would have been. Zielonka, for example, describes the "*the return of geo-political strategies in European capitals*" (1992). Examples include the dispute among EU Member States about the payments for EU's special envoy in Mostar, which Winn calls a "*blatant attempt of France to gain leadership in the unfolding crisis in Bosnia*"(1997:28). Moreover, the French President Jacques Chirac has urged Europe to cope with the dangers of the increasingly unipolar (US driven) international system.¹⁹ Hill elaborates over what he calls "*historical realism*", whereby the European foreign policy system is dominated by this logic of diversity of interests (1998a; 1993:324). According to Hill, the logic of diversity of interests is the way common pressures are exerted on differing national situations (1998a:36, 16-19). This inhibits integration and makes cooperation intermittent (Debié 1997).

¹⁹ See also Joffe (1993). Moreover, Greece unilaterally vetoed any decisions against its own national interest regarding Cyprus, Macedonia and Turkey. Germany recognised Slovenia and Croatia in winter 1991 despite a common EU path towards recognition planned for February 1992 (Crawford 1996).

The distinction between high politics and low politics is however becoming increasingly obsolete (Rosenau 1990; Hocking & Smith 1997; Bretherton and Vogler 1999:169-170; Joergensen 1993b). Hocking & Smith reason that power politics after the end of the Cold War took place as competition more “*in terms of economics rather than in terms of territorial acquisition or military assertiveness*” (See also Holsti 1995:37; Zielonka 1998b:18). In fact, the whole creation and development of foreign policy co-operation between fifteen sovereign states “*sui generis*” over a period of both Cold War and post Cold War suggests the opposite. This *outcome* seems to be neither given, nor in principle predictable or derived from the distribution of power in the international system as the realists assume (Waltz 1979). In an empirical study, Zielonka notes that power politics today is performed within the auspices of “*the pressure of practical consideration*” and not à la “*Bismarck and Metternich*”. He reports that instead of finding hegemonic politics, he has found only traces of “*hegemonic atavism*”. There may be a range of reasons for this that are unrelated to interests in the traditional sense. The German sociologist Niklas Luhman, for instance, spoke about the “*Gesetz des Wiedersehns*” in order to indicate that within an organisation you never meet only once. If you play power politics, others might harm you on a different occasion.²⁰ Whatever, reasons for the vanishing demarcation lines, EFPA urgently needs to build an analytical bridge between economics and politics.

(c) *Taking the first step towards a theory on European Security Economy?*

In order to explain the Union’s paralysis and progress as a global foreign policy actor, one would for instance need to be aware of the role played by economic credentials, force of attraction, economic power, and legitimacy in the foreign policy field, and consideration should be given to the impact of the institutional structures on the CFSP (Allen & Smith 1990; Piening 1997; Grunert in Cafruny & Peters 1998; Carlsnaes & Smith 1994; Wallace & Wallace 2000). As regards the impact of economics, in the day-to-day European foreign policy making, the external economic relations of the EC are becoming cumulatively present, for instance, through the use of political conditionality (Karen Smith 1998).²¹ This development overlaps with the more frequent use of economic sanctions as a tool of the Union. Notably, economic sanctions involve both external economic relations and the CFSP as economic sanctions are decided in the CFSP (e.g. as Common Positions or Joint Actions) and implemented within the external economic relations (TEU, Article 228a).

²⁰ Peter Schmidt (see bibliography) pointed this out to me.

Knowledge from liberal inspired approaches with institutional or power-politics related ideas may well be what it takes to investigate the relation between economics and politics in European foreign policy. One of the ideas inspired by liberalism is neo-functionalism (Haas 1964), which predicts that “externalization” will take place within the logic of spillover.²¹ Alternatively, the relationship between economics and politics is analysed by interdependence theories. Interdependence is defined as a state, mutually shared by two or more parties, of being determined or significantly affected by external forces (Keohane & Nye 1977). Within this logic, the CFSP is a regime, that is, a governmental arrangement of procedures, rules, or institutions whereby governments regulate and control transnational and interstate relations (Ginsberg 1989:8, 34-36).²² Like neo-functionalism, however, interdependence theory, also fails to consider some important issues. First, the impact of interdependence on the political management functions regarding foreign policy at the EU level is unclear. Are the foreign policy institutions such as the CFSP immune to developments towards more interdependence or globalisation?

Second, what about the problems of distribution? As Moravcsik notes, “*there are important distributional conflicts not just within (EC) states but among them*” (1998:3, 33-38). In particular, a distinctive feature of foreign policy is that it often involves high costs from the very beginning of the implementation of an action. Paradoxically, Moravcsik’s approach argues that his liberal intergovernmentalism has nothing to say in the area of the CFSP; since the CFSP produces “*a non-socio economic collective good*” (1993:494, 3-12). However, the Union’s handling of the administration of the town Mostar may suggest that a large part of the paralysis of the Union lies within traditional problems of distribution of economic costs for non-material foreign policy goals among fifteen different Member State economies (Regelsberger 1997). The aims of the CFSP may be non-economic in nature, but the means to reach them most certainly are not. Third, even though functional or interdependence arguments may have some validity for European integration, those economic interests that are referred to need to be specified better in the CFSP than they have been until now.

More recently, studies such as Michael Smith, Bretherton & Vogler and Nuttall approach this issue in a more ambitious way than earlier (1998; 1999; 2000). Michael Smith’s neo-institutional essay captures

²¹ Political conditionality entails “*the linking by a state or international organisation of perceived benefits to another state (such as aid) to the fulfilment of conditions relating to the protection of human rights and the advancement of democratic principles*” (9-12). See also Allen & Smith (1990).

²² Two factors are determinant for the process of spill-over: i) “*the underlying interdependence of functional tasks and issue arenas capable of being mobilised by pressure groups, parties, or government agencies who’s interests are affected*”; and ii) “*creative talents of political élites*”

the fundamental linkage between the world political economy and EFP (Larsen 1999a:592, 6; M. Smith 1998). What Smith understands as *economic interests* is a four dimensional entity. According to Smith, “a sector logic” causes different sectors of activity in the World Political Economy to participate. Hereby, institutions play the role of activator engaging in “*institutional entrepreneurship*” or “*institutional co-operation*”. Member States demand certain actions, preferably with the use of EC instruments to avoid drawing on national resources. Finally, the World Political Economy pressures the EU by external demand. Smith’s first and third logic thus mostly refers to the agency of the dynamics between the external economic relations and the CFSP, either with specific sectors or Member States as the agents. The second and the fourth logic primarily relate to the structure of either the EU system or the world system. In many ways, this approach addresses some of the gaps mentioned above. Yet, one of the dimensions that would need to be added to Smith’s approach in order to address the external economic relations – CFSP question is the impact of the world political economy on the CFSP itself. This relates to the fact that if the relationship between economic and political variables is becoming as blurred as Hocking & Smith and Peter Schmidt argue, it is unlikely that the CFSP has remained untouched.

By studying the relationship between economic “*presence*” and different degrees of external “*actorness*”, Bretherton and Vogler divide the impact of economic interests according to the supranational competence underlying this interest (1999:99, 46). Similar to Michael Smith, Bretherton and Vogler however fail to include the impact on the CFSP of having different competence in various parts of external economic relations, such as trade and FDI (46). The question regarding different competence of the Union in, for instance, trade, foreign direct investment, services, and intellectual property rights indeed brings to mind that economic interests diverge considerably from issue to issue. If the interests do not diverge because of the intensity and diversity of transactions, they diverge because of the different institutional competence involved regarding these transactions, etc. The link between institutional competence and interests may be very close and some institutional competence may even derive from the economic interests. One of the results of Fritz Scharpf’s research on federalism is, for instance, that the Länder (and the Bund) preferred the passing over of competencies to a negotiating system in order to bypass democratic control (1988).²⁴ In sum, it seems commendable to include institutions (or institutional competence) as one of the constraints and opportunities imposed on

²³ Ginsberg uses a revised neo-functionalist interdependence approach to explain the emergence of the Common Agricultural Policy (CAP).

²⁴ Peter Schmidt pointed this out to me.

economic preferences that in the end determine (economic) interests. This should form part of any attempt to analytically link economics and politics of EFP.

2.3

Institutions

The importance of institutions is recognised by the majority of approaches in EFPA. Much of the literature would probably subscribe to Keohane's definition of institutions as a "*persistent and connected set of rules, formal and informal, that prescribe behavioural roles, constrain activity and shape expectations*"(1987). Some strands of institutional EFPA would consider institutions as more than the aggregate of rules (and norms), as major independent variables for human actions and a cultural constraint (Aspinwall & Schneider 2000). Norms refer to an idea in the minds of members of a group specifying what the members or other people should do, ought to do, and are expected to do under given circumstances.²⁵ Institutions are dealt with as a place within which ideas or norms are embedded. These sociological institutionalist approaches will be examined separately in Section 2.4 analysing ideational approaches to EFP.

In the remainder of this section, the focus will be on those approaches that interpret institutions more narrowly in line with North, where institutions are the humanly devised formal and informal framework within which human interaction takes place and that shapes this interaction (1990). The formal framework consists of constraints and opportunities of an explicit character, such as rules devised by human beings. The informal framework comprises those constraints and opportunities of more implicit nature, such as conventions, codes of behaviour or procedures (3). Similarly, Scharpf considers institutions as organisational capabilities (i.e. assemblies of personal, material, and informational resources that can be used for collective action) and the formal and informal rules governing their employment (1989). In other words, this literature would agree that rules of the CFSP are set by the institutional framework, however, the organisational capabilities of the CFSP may influence the overall institutional framework just as well as the institutional framework structures the organisational capabilities.

(a)

The neo-institutional EFPA

A substantial amount of EFP-literature implicitly uses typical assumptions of neo-liberal institutionalism in their respective frameworks. Institutions thus help states work together in the international system (Keohane 1986; Lisa Martin 1992). Cooperation occurs when actors adjust their behaviour to the actual or anticipated preferences of others. The environment in which cooperation occurs is not necessarily one of harmony of interests as in a purely liberalist framework. Instead, actors have mixed interests (Axelrod 1984; Axelrod & Keohane 1993; Baldwin 1993:91).²⁶ By increasing the ability to communicate and cooperate, institutions may change the pay-off structure of the actors (redefine interests). Institutions are thus facilitators of cooperation. For example, by introducing principles and rules, international institutions make governments more concerned about precedents (the shadow of the future), thus, affect leaders' expectations about the future (Axelrod 1984). Institutions may further provide a standard against which actions can be measured, providing information about actors' compliance, and assigning responsibility for applying sanctions (Axelrod & Keohane 1993:97). Finally, issue-linkages "*may be attempted to gain additional bargaining leverage by making ones own behaviour on a given issue contingent on others actions toward other issues*". To the extent these issue-linkages are beneficial to both sides in a negotiation they may facilitate agreements that might not otherwise have been possible.

These characteristics should be able to account for the progress of EFP if one can demonstrate growing institutional capacity and converging interests in EFP. Characteristically for EFPA, institutions seldom play the role of the facilitator and interests seldom converge among the Member States, thus the paralysis. A vast majority of EFPA holds that unfortunately there is a considerable gap between how institutions should become *facilitating* and the way the CFSP institutions are actually structured. Notably, institutional EFPA is preoccupied with identifying institutional flaws and deficiencies that have caused EFP to fail and subsequently need to be removed (Grunert in Cafruny 1998). For instance, Regelsberger marks out that "*the unanimity ruling leads to paralysis and to a less constructive positioning of the member states*"(1997:67-83). Regelsberger adds that 1) the political committee of the CFSP that was "*unable to fulfil its function since the political directors feel more responsibility for Member States' own foreign policies*", and 2) the Joint Actions and Common Positions that created

²⁵ After G.C. Homan's definition from 1950.

²⁶ Often this is described by the Prisoners Dilemma game, but Stag Hunt, Chicken or Deadlock games may also account for it.

“natural occasional overlap of the agenda of the different pillars, sometimes leading to bogging down of proposals in institutional quarrels.”

This leads Regelsberger to suggest reforms of the EU's foreign policy institutions, including, 1) introducing (qualified) majority voting with the possibility of opting out under special criteria or positive abstention, 2) clarifying the pillar structure on the IGC, 3) reserving Joint Actions for very special and detailed issues, and 4) letting Common Positions cover the broad range of everyday issues expressing in a more formal way the Union's *acquis politique* on international issues.

The strength of these institutionalist methods is that they are policy relevant and often useful in discussion of institutional reforms at the IGC.²⁷ The primary drawback is the underestimation of factors other than institutional flaws, such as the impact of ideas and the failure to incorporate interests with more nuance than just as either converging or diverging preferences.²⁸ The institutional literature seems to suggest that diverging national interests ultimately would have been suppressed and more cooperation would have resulted had the Union had more efficient institutions in the first place. This leads to wrong conclusions such as Monar's argument that an important general effect of the Union's dual system is that it *“is an in-built tilt towards the economic domain”* (1998). The reason is that one could just as well argue that had it not been for the CFSP and the dual structure that secured the integrity of European foreign policy at a time the foreign policy dimension of EFP was very limited compared to economic and external economic relations policies, the economic bias might have been much higher today than it actually is.

Similarly, institutional EFPA does not reflect on how the external economic relations and the CFSP will develop over time if the dual structure really is an *artificial barrier*. Regelsberger & Wessels note, *“the link with instruments outside of CFSP is not developed to the degree that it would be available whenever needed”* (1996:53, 24-31). The question is what will happen over time and how did it reach this point. It must at least imply that either the dual structure becomes increasingly unsustainable over

²⁷ The work of authors such as Cameron, Regelsberger, Wessels, or Krenzler has indeed formed the basis of on-going reform discussion of the CFSP. One example is the Reflection Group on Enlargement chaired by Horst Jürgen Krenzler and financed by the European Commission DG.

²⁸ Among others Diez (1998); Wendt (1999); Risse-Kappen (1996); Keohane & Goldstein (1993); Waever (1996).

time, or alternatively, the external economic relations and the CFSP might be pulled apart reinforced by the artificial division between them.²⁹

Related to the problem of treating interests and ideas superficially, is literature's treatment of the feasibility and the conditions for institutional reforms. Proposals for institutional reforms such as the introduction of qualified majority voting may be unlikely to gain support despite the fact that a carefully performed institutional analysis concludes that it would lead to more EFP cooperation. It has, for example, been argued that EFP would have been better off continuing with a revised form of the foreign ministerial EPC (Nuttall 2000:109). When a continuation of the informal EPC is suggested to provide more momentum to EFP, one must ask, "*how the Union's lack of ability to project power leading now to far reaching plans for a Common European Security and Defence Policy could have been dealt with in a better way ..through ..informal EPC meetings or a community based foreign policy* (Dahl 2000)?

(b) *The outcome measurement problem of institutionalism*

What creates problems for institutional EFPA is, ironically enough, not so much its explanatory emphasis on institutions; it is the assumption and measurement of the development of the dependent variable, European foreign policy. In particular, this holds for the 1990s where European foreign policy has not just been paralysed, but has also shown progress compared to the 1980s. From being a facilitating factor behind EFP development inducing "*socialisation*" and the "*feeling of belonging to a club*" in the '70s and '80s (Nuttall 2000:272), the changes in informal rules at the beginning of the 1990s is interpreted as leading to "*presidential overload*", "*institutional turbulence at the expert level*", and "*confusion over the instruments*". Authors now blame the failures of the CFSP on the formality of the TEU (Nuttall 1997; Wessels 1999). Wessels finds that the formal rules of the CFSP are too rigid to be operational. However, if the assumption is that EFP has not shown progress in the '90s compared to the '80s, it is no wonder that institutional literature gets it wrong. What needs to be settled is thus the measurement of the dependent variable, European foreign policy outcomes (see Section 2.1).

If the measurement of the dependent variable problem can be solved, the analytical framework behind the institutional literature seems perfectly valid to analyse EFP, in particular, when ideas and interests

²⁹ Some may see the division as a mode by which it becomes easier to secure that the "*trade ministers do their job*"-philosophy of the EER can remain unaffected of political demands for action in the name of human rights norms and democratic principles (Interview Council Secretariat, November 1999).

are specified more explicitly. In fact, the formalised framework of the General Affairs Council meetings (see Chapter 3) may even allow for formal theorising on specific issues as seen in Schneider & Seybold's analysis of the decision-making of the EPC (1997).

2.4

Ideas

Ideas are by no means a novel construct. Max Weber, for example, emphasised them (or introduced them) in his work on meaning (Sinn) that individuals attribute to their action. As EFPA is a relatively new area of inquiry, there are however some opportunities for re-emphasising ideas due to either 1) the relative absence of ideas in specific EFP approaches, and 2) the analytical problems that exist in the IR-literature, particularly regarding which ideas matter.

(a)

Constructivism

Despite this, ideas have begun in recent years to enter EFPA more explicitly through various constructivist approaches.³⁰ In constructivism, identities and interests are endogenous to social interaction (Wendt 1994; 1999; Joergensen 1997). The major question posed is how state interests may be transformed through this interaction. Norms shape the foreign policy of states (see definition of norms in Section 2.3). Norms are developed from the interaction among different groups in the domestic as well as in the international society. The set of rules and norms underlying a society determines the identity of a state or a certain political group, and this shapes its international behaviour.

What does constructivism then have to offer the literature? Constructivism explains the paralysis of EFP by the diversity of national identities (Larsen 1993; 1997; Risse-Kappen 1995a; Struwe 1998; Joergensen 1993a; 1997; Smith, K.E. 1993). The progress of EFP is explained in terms of élite socialization (Tonra 1996; 1997), the emergence of human rights norms into EFP (Struwe 1998) or the evolution of meanings and practices that constitute inter-subjective international structures (Bretherton & Vogler 1999:30, 1-2).³¹ Constructivism's main contribution to EFPA is its attention to ideas, which

³⁰ Constructivists disagree internally as to what a constructivist approach is, for instance, on the issue whether constructivists may make truth claims and generalisations in social sciences (Risse 2000:3, 5-7). To avoid this internal discussion, constructivists are here declared constructivists. The thesis mainly looks at what has been defined a social or ideational constructivism. This strand of thought highlights that ideational factors have causative force in world affairs. See an overview on different constructivist approaches in Pettman (2000:Chapter 1).

³¹ Bretherton and Vogler see the Union developing as a foreign policy actor through "*dynamic interaction between innovative political actors and the opportunities and constraints afforded by changing international and domestic structures*" (1999:29, 32-35).

has filled an important theoretical and empirical gap. Karen Smith notes "*constructivism ...appears to be useful, particularly in understanding how the 'supranational' style of decision-making could develop, even in the foreign policy sphere*" (1996:79, 16-19).³² Moreover, constructivism is in fact one of the most systematic IR research frameworks applied to EFPA since Pijpers' attempt to apply realism in 1990.³³ Constructivism has taken the measurement and conceptualisation problems of the outcomes in EFP seriously, although the number of rigorous empirical applications still remain few. Another strength of constructivist studies is the huge amount of information that is loaded into empirical applications, as constructivist approaches often rely on qualitative case studies and deals with ideational variables that cannot be measured directly but needs several indicators to be assessed.

A disadvantage though is that constructivist studies are seldom individually comparable and are thus unsuitable for cumulative research. Moreover, constructivism 1) has problems in approaching the intergovernmental nature of the CFSP, 2) has limited *new* information to provide about the paralysis of EFP, and 3) has systematically underestimated the importance of beliefs and ideas about the *workings* of a policy. First, constructivism, has had difficulties in gaining legitimacy in the field with its arguments about the importance of non-state actors while the CFSP has held and still holds highly intergovernmental features. Second, in explaining the paralysis of the CFSP in the 1990s, constructivism comes relatively close to the traditional state-centric approach saying that the lack of cooperative progress in the CFSP might result from lack of opportunities for discursive policy deliberation in EFP (Risse-Kappen 1996:71; Larsen 1997).

Third, constructivism fails to take into account that ideas may as well as being general policy-paradigms or norms also be specifically related to the workings of a policy. Crawford maintains that the "*lack of European norms ...made Europe unprepared to act decisively...in the first part of the Bosnia War, 1991-1993*" (1997:4, 3-5). Moreover, Crawford argues that in the second phase of the Bosnia War, 1993-1995, the "*procedural norm of preserving multilateralism...this time avoided domestic forces being more important than procedural norms in accounting for the final outcome*". The question is how could the norm of multilateralism gain in force in the course of only two years?³⁴ Crawford

³² Moreover, analysing the influence of Western Europe on American foreign policy during the Cold War, Thomas Risse-Kappen (1993) argues that "*the interaction processes in the transatlantic relationship can be better understood on the basis of liberal theories of International relations*" ... "*complemented by institutionalist arguments emphasising the role of norms and communicative action*".

³³ See the rather critical remarks on this attempt in Riemersma (1991).

³⁴ Ruggie (1993) defines multilateralism as "*an institutional form that coordinates relations among three or more states on the basis of generalised principles of conduct: that is principles which specify appropriate conduct for a class of actions, without regard to the particularistic interests of the parties or the strategic exigencies that may exist in any specific occurrence*".

maintains that the impact of the failures of unilateralism and EU foreign policy to provide a solution to the war made Member States swing towards multilateralism. Such an explanation relates to changes in the idea about how *unilateralism* works compared to how *multilateralism* works as a solution to the conflict in the Balkans. Strictly speaking, it does not regard a norm but more an idea about the workings of a particular policy.

A similar problem appears in Struwe's account of why the Critical Dialogue (CD) towards Iran emerged at the beginning of the 1990s (1998). Struwe's main argument is that CD was facilitated by the emergence of human rights norms. That human rights norms have changed the agenda of IR over the last decade is uncontroversial (Hoffman 1994). However, the emergence of human rights norms cannot explain why the CFSP became the instrument by which Member States such as Germany, France, and Britain sought to make Iran comply with these norms. In theory, the appropriate question to ask is instead why CD was not formulated within OSCE, the UN, the Contact Group, or G8, instead of the EU, thus emphasising the importance of other ideas than norms.³⁵

(b)

Cognitivism

The question is whether, there are any alternatives to constructivism, or not. Rational approaches have in line with a general neglect of ideas in IR largely ignored the impact of ideas in EFPA (Schneider 2000a:3, 9-28). In theory, however, approaches exist that address ideas in a way that may fill the gap of the constructivist literature. Wendt suggests a division of labour between the "*rationalist*" (cognitivist) concept of common knowledge (i.e. shared beliefs), which, according to Wendt, provides a useful model of how culture is structured at the microlevel, and constructivism that at the macro level emphasises cultures' constitutive aspects (158-159, 12).

Hereby, Wendt indirectly refers to the common distinction in IR between the cognitivist (rationalist) and the reflectivist (interpretivist or constructivist) notion of ideas (Maier 1998). To these two dimensions, one may add discourse analysis.³⁶ In the cognitivist school, ideas are held by the individuals, "*beliefs in heads*" (Wendt 1999), analysed by a literature often known as the "*ideas as beliefs*" literature. "*Cognition are those mental activities associated with acquiring, organising and*

³⁵ The Group of 8 (G8) consists of Canada, France, Germany, Italy, Japan, United Kingdom, USA and Russia.

³⁶ See Diez 1998.

using knowledge” (Diez 1998). The important difference between the cognitivist and constructivist tradition is that the cognitivist tradition allows for beliefs about how the world *is* to play a role in addition to the role played by normative beliefs about how the world should be. Cognitivism would accept that should-beliefs play an important role as ideological (philosophical or normative) beliefs referring to “*an image of the world, or a set of such images which reduces the disquieting and often painful cognitive dissonance in the minds of the people who hold it*” (Deutsch 1988; Jervis 1970). One example is Jonathan Story’s “*The Idea of the Core: The dialectics of history*”, referring to how EFP developments in the 1990s may be explained by the change in dialectic after the Cold War (1997).³⁷

Yet, beliefs about how the world is, or how the world works, may also be important. Such beliefs occur in the literature as instrumental, practical, cause-effect (Goldstein & Keohane 1993)³⁸ or positive beliefs (Breen 1999:464, 6-8), and one may also call them *functional beliefs*. These beliefs regard the actors’ (subjective) assessment of the necessity (or effectiveness) of a given action in terms of securing a given outcome.³⁹ Actors thus hold a “*private*” meaning of the world. As Wendt suggests, actors hold “*beliefs about each other’s rationality, strategies, preferences, and beliefs*” or other features of the workings of the world. Crucially, however, these beliefs are attached to a strategy or an idea, they are “*contingent upon an agent’s information on the state of the world*” (4, 11-13). This implies that the expression “*ideas as beliefs*” is only halfway true concerning *functional beliefs*.⁴⁰

The crucial dividing line between the cognitivist notion of ideas and the reflectivist notion is ownership. In cognitivism, beliefs are held by individual agents and explained in intentional fashion. Yet, in the cognitivist tradition beliefs may be shared (Weingast 1995), common, group-based (Verbeek 1994), élite based (Converse 1964:450; Welch Larson 1994:23), socio-economic élite based (Deutsch 1988), or aggregated (M. Condorcet 1989).⁴¹ In contrast, in reflectivism ideas are “*something more*” such as collective representations, knowledge structures held by groups which generate macro level

³⁷ Before the end of the Cold War the dialectic was one of two Germanys, two Europes, two alliances, and two superpowers. After the end of the Cold War the dialectic changed with a new structure becoming visible where there was no military threat and the US was the only remaining superpower.

³⁸ In their view ideas have “*causal weight in explanations of human action*” Goldstein and Keohane distance themselves from cognitivist approaches, but Diez (1998) finds many similarities.

³⁹ Regarding the cognitivist school, see Boudon 1996.

⁴⁰ How exactly beliefs influence the outcome differs, however. As a *constraint*, “*actors may believe that ineffective means of achieving goals (actually) are effective*” (Morrow 1994: 21). As an *opportunity*, beliefs are “*.. road maps (or “switchmen”) showing actors how to maximise interests, whether those interests are material or ideational (Max Weber cited from Goldstein & Keohane 1993). Beliefs may also be focal points that catalyze convergence in expectations to emerge (Garrett & Weingast 1993, Goldstein & Keohane 1993) by helping to reduce ambiguity (Weingast 1995: 450). “Values and ideas of general public” may also exist as “hooks” of politicians by distracting the attention of the public from material interests to pursue own material (or other) self-interest*” (Deutsch 1988, Bonoli 1999).

⁴¹ Converse (1964) hypothesised that élites have a more “*articulated, elaborate, richer and better connected set of beliefs*” than the public. “*Elite*” is here defined as a very small minority of people who have very much more of at least one of the basic values underlying the society, for instance, power, than have the rest of the population (Deutsch 1988).

patterns in individual behaviour over time (Wendt 1999:8, 12-13). In Wendt's view, the cognitivist notion of common knowledge (i.e. shared beliefs) is something that changes each time beliefs change because beliefs are exclusively held by the individuals. Hereby, common knowledge or culture becomes nothing more than a metaphor in Wendt's opinion.

Another advantage of the cognitivist notion of ideas is that it recognises that not only do ideas play a role, but also that they play a role in combination with other factors such as economic interests, power, institutional rules, etc. A crucial determinant of an action in the cognitivist tradition is also the degree of information about the opportunities that exist among actors. Put differently, the more uncertainty, perception of risks and the more "bounded" the rationality becomes the more relevant becomes the cognitivist approach to beliefs. Since international politics is full of imperfect information, EFP seems to be an area of relevance for a study of *functional* beliefs.

Starting with the cognitivists approach, addressing the impact of beliefs comprehensively should also include an analysis of the impact of normative beliefs, ideologies, or "grand strategies" on EFP.⁴² In the *élite political belief systems* approach,⁴³ "beliefs systems" hold both "instrumental" beliefs and "ideological" beliefs.⁴⁴ Belief systems are thus as Larsson notes, "the total universe of a person's beliefs about the physical world, the social world, and the self" (Welch Larsson 1994:18). Ole Holsti also refers to the belief system and national images where the latter may be interpreted as specific beliefs about the world (1962).⁴⁵

It should be added that in discourse analysis, the meaning and value of the world is structured not by one's immediate consciousness but by the way the various reality-making scripts one inherits or acquires from one's surroundings by cultural / linguistic tradition (Diez 1998). "Analysis of discourse thus takes into account the dynamics of the language rather than studying views as mental states in individuals" (Larsen 1999b:454). The question one must ask is whether the discourse is not already embedded into an analysis including outcomes, interests, institutions and ideas. At best discourse

⁴² An analysis of US grand strategies may be found in Amr. Sabet (1999). Wallace 1991.

⁴³ George 1969; Weingast 1995; Jervis 1976. Welch Larson (1994) suggests the inclusion of schemas which "mold a person's general knowledge of concepts and situations". The schema concept is more elaborate than the belief system approach by not only focusing on belief-behaviour linkages but also on the intervening processes. The two approaches, the belief system approach and the schema approach do not seem to be contradictory.

⁴⁴ Welch Larson 1994 (17/18); Foyle 1997). Finally, in discourse analysis the term *belief* is generally avoided. Instead, ideas are used and are defined as "discourse". Following Littin (1994), *discourse* is "sets of linguistic practices and rhetorical strategies embedded in a network of social relations".

⁴⁵ Using this terminology, Kenneth Boulding, for instance, distinguishes between images of fact and images of value (1969 in *National priorities: military, economic and social*. Cited from Diez 1998:4). Jervis bases his notion of perception and misperception in international politics on the importance of history and the past.

analysis is therefore another – but superfluous way - of expressing various inferences governing EFP development. At worst, discourse analysis will - by sharing Habermas' "*attempt to eliminate all traces of instrumental or strategic rationality from the concept of communicative action*" – completely miss the point made earlier that (ideational) instrumentality may actually play an important role in the development of EFP leading to highly distorted conclusions (Schiemann 2000:3, 23-27). Until now the few discourse analytical attempts made in analysing EFP have, however, been rather harmless and offered interesting descriptive narratives of a policy or action (Larsen 1999b).

(c)

Learning & Ideas

In order to simplify, the project would prefer to separate *is* beliefs from *should* beliefs, but recognises that in reality this is virtually impossible (Schneider 2000a; Stocchetti 2000). In support of an analytical separation is however that the dynamics of normative and *functional* beliefs must be different. Whereas normative and *functional* beliefs may both change over time, normative beliefs are less likely to be linked to the outcome of a certain action. In this sense, normative beliefs may even sometimes seem almost constitutive. This is because normative beliefs are more context-dependent and less issue dependent than *functional* beliefs. Apart from adhering to Wendt's suggestion of a division of labour between cognitivism and constructivism when studying the impact of learning on EFP, this project sees an advantage in trying to isolate the effect of *functional* beliefs.

How could this be done? Slightly surprising, this project found that Hill's CEG in fact illustrated how *functional* beliefs may be accounted for in EFPA in general and in this project specifically. Whereas Hill's work on EFP is "*a reference point for all subsequent discussion*",⁴⁶ it has seldom acted as reference in the debate of the inclusion of ideas into EFPA, Larsen being one of the exceptions (1999b). Recalling Hill's model, expectations, i.e. ambitions or demands of the EU's international behaviour deriving from both inside and outside the Union have overestimated the true capacity of the Union to supply the demanded foreign policy. Ideas and learning enter the model in two ways. First, discouraged beliefs (expectations) may under certain conditions be reduced, leading to a narrowing of the CEG. As Hill once noted, "*the belief system of the practitioner is a deep rooted legacy of experience and political culture, but it is also an organic set of attitudes which is capable, within limits, of self-*

⁴⁶ Numerous authors stress Hill's importance. See for instance the bibliography of this thesis of White, Holland, Larsen, Knud-Erik Joergensen, Stavridis or Cafruny (1998: 148, 29-37).

transformation" (1988:30, 38-41). Second, the conditions for these dynamics to work are that structural forces do not run counter to the CEG. In Hill's *logic of diversity of interests*, it becomes clear that ideas form part of these structural forces as expressed in the identities of the actors involved.

The link between beliefs or ideas and history has further been made in work on lessons from the past. Regelsberger *et al* indirectly address learning in their account on the *vicious* and *virtuous* circle of the ECP/CFSP (1997). In the vicious circle, ineffective and inefficient institutions made EFP decision-makers run into failures. This, in turn, lowered the belief in the effectiveness of the CFSP ("*credibility*" is the word used). As a result, the willingness to use the CFSP was lowered and even less effective institutions evolved. Unavoidably, more failures arose. In contrast, the virtuous circle is the future ideal described by the converse mechanics. Member States realise the ineffective institutional structures, improve them and experience success followed by success. Ernest May and Richard Neustadt more directly link ideas to learning (Steve Smith 1988:24-25). In their account, foreign policy-makers are influenced by the beliefs about the lessons of history, either in terms of analogies between the current situation and events in the past, or by seeing a clear pattern in the development of an issue. The point made is that there was a tendency for decision-makers to remember history badly, thus being unable to learn the appropriate lessons. This relates to the question on the Union's paralysis and progress arguing that "*learning*" is not necessarily an automatic feature of foreign policy. There is an optimal way in which learning may take place, influenced by the beliefs decision-makers hold and under the right conditions. If these conditions are not fulfilled, learning may be impeded, or alternatively, if they improve, learning may be enhanced. The latter also seems to be the point made by Goldstein & Keohane, or any perception of ideas that favours the notion of ideas as either *constraints* or *opportunities*, whether these are embedded into the decision-making, or not.

Finally, both Ernst B. Haas and the Olsen & Peters conceptualisation of learning are among the few focal points in the IR discipline. Ernst B. Haas defines learning as "*the process by which consensual knowledge is used to specify causal relationships in new ways so that the result affects the content of public policy*". Olsen & Peters in contrast see learning as either 1) "*a positive outcome and an accomplishment in terms of improved knowledge, skills, performance, and preparedness for the future*", or 2) "*the processes through which experience is consulted and acted upon*" (1996: 6). The

conclusion of the discussion above comes closest to Olsen & Peters' suggestion, yet, the aim will be to build a learning framework around the beliefs actors hold about the workings of strategies in particular.

There are, in fact, several "*learning*" models available in various parts of the social sciences that may capture such dynamics. There is the Bush-Mosteller model of stochastic learning from 1955 and Michael Macy's "*Walking out of social traps*" from 1989. There is also the individualistic, decision-theoretic model used by Breen (1999), which explicitly deals with beliefs actors hold about the workings of various strategies. The latter will be applied to EFP in the following Chapter, as it appeared most up to date and had a structure that seemed applicable to the choices facing governments in EFP.

2.5

Conclusion

How should interests, ideas and institutions be incorporated and/or combined in an operational way to explain the paradoxical progress/paralysis dichotomy of EFP-dynamics over the last two to three decades? The primary conclusion of the literature review concerning this question is that more work needs to be done on how to conceptualise the dependent variable, European foreign policy, in an operational way. This holds either the term used for EFP is presence, capabilities, actorness, cooperation or maybe even - some day in the future - integration. The conceptualisation and measurement ultimately depends on the research question that a particular scholar seeks to address. Yet, this project argues that definitional reasons should never exclude neither single case studies nor cumulative research in being performed.

It was suggested to conceptualise European foreign policy as *capability-presence*, i.e. the Union's capabilities to act and mobilise resources in international affairs. One sometimes forgets that capabilities to act and mobilise resources are after all the most important part of how EFP is assessed by decision-makers and by the public. Capability-presence could be operationalised by following European integration literature's notion of depth, scope and decision-making mode. A narrowing of the dependent variable like this (excluding, for instance expectations and legitimacy) is seen as another way of following Ginsberg's input-output continuum more efficiently. Moreover, it seems operational for the wish to explore some of the growing quantitative material on EFP using statistical tools. Finally, it

emphasises the dynamic nature of this study, trying to explore reasons for fluctuations in EFP over time and not compared to the US, to the first pillar, or to the Member States.

The impact of learning is the core question of this project departing from the learning rhetoric among politicians and others about the Union's actions in Bosnia, Kosovo, etc., to the sporadic literature on learning in IR by authors such as Haas and Olsen & Peters. This chapter specified learning as a social scientific concept relating it to the dynamics of ideas. Ideas are basically a Weberian construct and needs to be demystified whenever possible. However, the use of ideas in EFPA has been sparse and not very explicit apart from the constructivist input. Constructivism naturally deserves credit for taking ideas seriously, but can hardly account for the impact of ideas about the workings of policies, i.e. functional beliefs. It also dismisses its own relevance as regards the impact of individually held beliefs. Wendt is thus completely right in suggesting the division of labour between micro level research on these *functional* beliefs by the cognitivist/rationalist tradition and the macro level research on ideas held by a group of individuals.

Choosing Wendt's "*micro-level*" as the focus of this project was not difficult. Constructivism has been weak in explaining both the paralysis and progress of the EFP, as have other approaches such as intergovernmentalism. The question, which justifies this approach, is why decision-makers prefer certain solutions, unilateral or multilateral, the UN or the EU, or a combination of these to other solutions in a given situation. Why do EU governments distribute their effort the way they do, and why has this distribution of effort, or what we may term as the governments' focus, changed over time, producing paralysis as well as progress?

Finally, the thesis adheres to finding areas where a changing composition of interests, or changing institutional competence backing certain interests up, have influenced the development of the EFP. Due to the erosion of borders between foreign policy and foreign economic policy, integrated frameworks are needed that include a hybrid notion of power involving both military and economic interests. Hocking & Smith suggest an integrative approach to foreign policy decision-making that gives "*due weight to the influence of conflicts in domestic constituencies and that recognises the role of the policy-maker as being able to operate at the interface between the domestic and international arena and influencing both*". As the study of external economic relations and its impact on the CFSP has been

largely ignored, the suspicion was that the key to at least some of the EFP paralysis and progress could be found between the external economic relations and the CFSP. The task became to express the impact of the external economic relations on the CFSP, and thus the impact of institutional change and economic interests on the CFSP, taking duly into account the importance of ideas and learning on EFP.

CHAPTER 3

A LEARNING MODEL OF EUROPEAN FOREIGN POLICY

The purpose of this chapter is to develop a *learning model of European foreign policy*. As noted in Chapter 2, the aim of this model is to express how learning may affect a government's decision to "subscribe" to the particular "idea" (Boudon 1996) or strategy of using the CFSP when acting in international affairs. Conventional wisdom says that learning cannot account for everything in the development of European foreign policy. The framework should therefore also look at the conditions under which learning will take place in order possibly to highlight the impact of some other factors than learning. Some of the conditions for learning may relate to the dynamics of beliefs about the workings of the CFSP, and thus to the learning mechanism as such. Others, relate to factors such as the impact of economic interests and institutional change, as described in the preceding chapters. The intuition is that some of these factors either have hindered learning or determined the Union's actions in international affairs regardless of actors' ability to learn.

The first section of the chapter lists some assumptions underlying the learning model. Those include, a) the main actors, b) the main objectives of EFP, c) the allocation of effort, d) the cost function, and finally, e) the domestic constraints facing EFP decision-makers. The second section uses these properties to deduce how a purely interest driven allocation of effort in international affairs may look like. The third section develops the actual learning model by assuming that information is far from perfect in international affairs and that a government subsequently needs to decide which action to take based on *beliefs about the workings* of the various possible actions. The choice of allocation of effort between unilateral and multilateral (European) foreign policy will be given particular attention throughout the chapter. The fourth section discusses the learning model with respect to the specific European foreign policy context and deduces some hypotheses regarding learning and the impediments that may exist to learning. This section thus develops the core hypothesis on learning, and some of the reasons for the null-hypothesis (on no learning) being true instead. The section further looks at how shifts may occur to the *learning dynamics* such that the distance changes between the beliefs held about European foreign policy capabilities and their actual workings. The fifth section looks at the impact of external economic relations on the CFSP. This is an attempt to describe in more detail one of the alternative explanations of European foreign policy developments. As mentioned in previous chapters,

the focus will be on arriving at a better notion of the combinatory influence of economic interests and institutional competence of the external economic relations and the impact of their change on EFP.

3.1

Assumptions

(a)

The actors

The framework deals with the institutional negotiating environment of the General Affairs Council (GAC), i.e., the meetings of the ministers of foreign affairs. In the GAC, governments are represented by foreign ministries through their foreign ministers, political directors, ambassadors to the Political and Security Committee, (PSC), permanent representatives (in COREPER), military representatives (in the Military Committee and Military Body) and by other officials working for these people in the committees in the Council Secretariat. It is in this group of largely government-related decision-makers that the main actors of the CFSP are found, as "*the CFSP seems to remain a policy area where intergovernmental bargaining dominates the decision-making process*" (Welle 1995, cited in Risse-Kappen 1995:67, 2-4).

Other actors play a considerable role in the policy-making process. As long as the objectives delineated below are fulfilled, other actors such as non-governmental organisations (NGOs), or individuals is assumed to care less about the choice between, for instance, a unilateral or European solution to a problem as long as the goals are fulfilled. Due to this, a government needs to be concerned about where its objectives are carried out most effectively, mainly because it is held responsible for the implementation of the objectives. A government may *ex ante* hold preferences about where to carry out foreign policy that do not regard whether a given institution is the most effective or not. For instance, a government almost per definition must be more inclined to use unilateral foreign policy-making to solve a particular crisis since this will make the government remain at least as independent, or powerful, as before.

(b)

The objectives

Any negotiation whether to act or not in this sphere of GAC is based on policy objectives that are primarily political in nature. Often these proposals are initially raised at the EU level through one of the Council working groups. That the proposals are political stems from the political aims of the CFSP.

Those involve, 1) "to safeguard the common values, fundamental interests, independence and integrity of the Union...", 2) "to strengthen the security of the Union", 3) "to preserve peace and strengthen international security..", 4) "to promote international cooperation...", and 5) "to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms (Treaty of Amsterdam, Title V, J.1 (1)). In practical foreign policy-making, issues raised within the CFSP thus must have a non-economic (political) component since if they were purely economic they had not become an issue of the CFSP in the first place. For instance, those who maintained that human rights violations should be brought to an end in the African Great Lakes Region during the atrocities committed in Rwanda 1994-1995 - advocating among others that the Union should react through the CFSP - were hardly sincerely preoccupied with European economic market shares in the region or in the world, neither were their primary concern the distribution of costs and benefits.¹

(c) *Allocation of effort*

One may now assume that the government continuously has two choices during a foreign policy crisis or conflict.² First, the government may decide either to act or not to act. Second, the government will in case it decides to act decide on the allocation of effort between unilateral and multilateral action.³ When the government acts unilaterally, it simply means that the government concentrates its effort on national foreign policy institutions while pursuing its objectives. Alternatively, the government may attach its effort to multilateral action by involving international institutions. For the EU Member States those, for instance, could be NATO, OSCE, UN, WEU (now being phased out), CFSP, G8, or the Contact Group. In the following "*multilateral* (European) refers to the EU's CFSP unless otherwise noticed. If the government decides to act, it thus furthermore has to decide how much effort it wishes to attach to European foreign policy. The government thus allocate its total effort when they act between unilateral and European foreign policy.

There is necessarily a continuity of outcomes (of a crisis or conflict) possible either the government acts or not.⁴ In the following, the focus is on two possible outcomes of acting namely success (S) and failure (F). The government thus faces three different expected returns confronted with a foreign policy

¹ That objectives on some issues, such as the Stability Pact for southeastern Europe, must be viewed recognising the impact of peace and stability on economic development for the region as whole does not violate the assumption. Analytically, stability and security can only be considered economic objectives insofar as it is the structure of the system that indirectly influences economic transactions. EFPB 99/087, 17/5-1999, OJ L 133, 28.5.1999, 1-2.

² One may think of the crisis or conflict as consisting of events that are single action items. Chapter 4 will elaborate on this.

³ For instance, Chittick *et al* (1995) use a unilateral - multilateral perspective to governments' belief systems.

⁴ Cases where governments cannot act due other governments' unwillingness to act are treated as though the government had decided not to act.

event: 1) the government acts, experiences a success, and receives the utility $U(S)$, 2) the government acts, experiences a failure, and receives the utility $U(F)$, and 3) the government does not act, and receives the utility $U(N)$. The costs involved are assumed the same, either the government experiences a failure or success. There are no costs involved when the government does not act. This implies that $U(S) > U(N) > U(F)$.

(d)

The costs

According to assumption (b) above, the CFSP aims at producing a non-economic collective good. However, the costs of producing this good are mainly economic. The costs derive from the efforts involved in mobilising resources towards a given third party, whether this party represents a region, a country or a sub-national unit.⁵ This effort may be tangible or intangible, present or future, involve human, physical, financial or environmental resources and may be followed by benefits⁶ or additional costs.⁷ The costs may comprise financing of an action, e.g., for sending and maintaining staff of a special envoy,⁸ sending election observers or a special fact finding mission.⁹ The costs may also include measures to introduce dialogue or facilitate co-operation such as holding a peace conference¹⁰ or conveying humanitarian aid,¹¹ etc.¹² There may also be political costs, as an action, for instance, may lead to loss of power of the government. Similarly, costs include economic losses stemming from restrictions on economic transactions such as the freezing of assets, trade embargoes, boycotts, withdrawals of the GATT principle of the MFN preferential trade treatments, or the halt of privileged treatment given by EC to imports (from e.g. Mediterranean countries), interruption of GSP,¹³ etc. When the costs are tangible, resources have to be found through budgetary financing. Mobilising of these resources are therefore usually discussed at the EU working group level itself.¹⁴ At the GAC, the

⁵ Some actions of the CSFP have been aimed at sub-national units, e.g., the sanctions regime against UNITA (EFPB 97/019, "Council decision on Angola and aimed at inducing the *União Nacional para a Independência Total de Angola* (UNITA) to fulfil its obligations in the peace process" (30 Oct 1997, OJ L 309, 12. 11. 1997: 8).

⁶ E.g. a "peace dividend": a possibility described in the Arab-Israeli Conflict by Leifer (1994) or a "democracy dividend" as discussed in Nigeria (Africa Research Bulletin: Oct. 16th – Nov. 15th 2000, 37(10), 14335: "Nigeria: Dividends of Peace?")

⁷ Issues such as environmental standards, quality of life or other qualitative costs should in theory be included despite their apt measurement problems.

⁸ The four special envoys sent by the Union after the TEU have been: Mostar (e.g. EFPB 96/215, 15/7-1996; OJL 185 24.07.1996, 2-4), African Great Lakes Region (EFPB 96/080, 25/3-1996, OJL87, 4.4.1996, 1-2), Kosovo (EFPB 99/047, 30/3-1999; OJL 89, 1.4.1999, 1-2) and the Middle East (EFPB 96/348, OJL 315, 4.12.1996, 1-2). The Kosovo envoy was withdrawn in July 1999 after the United Nations Mission had been established (EFPB 99/134 29 July 1999).

⁹ The Union has issued joint actions to send electoral observer units to the Russian Federation (EFPB 9.11.93; OJL90, 20.11.1993.3), South Africa (EFPB 93/532 6/12-1993; OJL 316, 17.12.1993, 45-47), Middle East (EFPB 95/265, 25.9.1995; OJL 238 6.10.1995, 4-7), Zaire (EFPB 96/326 11/11-96, OJL 300, 25.11.1996, 1), Congo (EFPB 97/026 19.12.1997; OJL357, 31.12-1997, 1-3), and Nigeria (EFPB 98/383 22.12.98, OJL 354, 30.12.98, 1-2).

¹⁰ Considering of support of a regional conference on security and cooperation in the Great Lakes Region, 99/224, 15/11-1999, OJ L294, 16.11-1999, 2-3

¹¹ Support for the conveying of humanitarian aid in Bosnia and Herzegovina (OJL 286, 20.11.1993, 1-2).

¹² EP notes in a communiqué that "it endorses the stress that is now being placed by the EU on "positive measures" and dialogue - and on supplementary programs, good governance, and democratic principles which may eventually replace conditionality (Report A 409/98; 6 November 1998 of EP Committee on Foreign and Security Affairs).

¹³ GSP means general system of preferences and is granted unilaterally by the EEC to 129 LDCs from 1/1-1971-1994 (Sauvé & Stern 1995).

¹⁴ Interview Council Secretariat, May 2000.

financial issues are often settled before the meetings.¹⁵ However, disagreement at the GAC level may reflect indirect costs that have not been dealt with at the working group level or other political disagreements.

(e)

The domestics

Despite being main actors, governments still represent some segment of their domestic society and indeed domestic individuals. This representation will subsequently be reflected in the choice of the degree of effort attached to a given European foreign policy action. The government has a certain degree of freedom – in theory - in choosing which sort of solution, unilateral or European, it wishes to endorse, in particular with which institution they will carry out their foreign policy objectives. They may prefer bilateral solutions between their government and a third country or may endorse various multilateral institutions to pursue their aims. What governments initially are inclined to do clearly play a decisive role as well, which will be developed further in Section 3.6. However, more important in terms of learning is whether governments over time may change any previous inclination to a certain strategy or policy, or not.

The above is in line with the conventional wisdom that foreign policy-making is largely an élite-issue. Importantly, however, the financing of the actions and the moral issues that may be attached to a particular case will eventually reflect a participation of interested parties similar to other issues.¹⁶ The costs thus ultimately link back to specific agents whether they are individuals, private or public firms, sectors of firms, or other organisations. Costs are distributed to these agents through the budget of the EC,¹⁷ national foreign policy budgets, or the European Investment Bank. Shareholders may experience reduced shareholder values, falling yields, lack of dividends and firms may as a result have to cut their working force or the wages.

The fact that costs of any CFSP action per definition needs to be distributed (sooner or later) to 15 Member States makes the reallocation of resources of CFSP actions more complicated than if a government had acted unilaterally. Costs for European foreign policy actions may moreover necessitate politically complex reallocation of resources within sub-national, national, or European Union budgets. To the extent that individuals are able to calculate (personal) gains and losses as accurate as the

¹⁵ Such issues thus mostly enter as "A" issues: issues that are not discussed since they in principle have been agreed to already at lower levels.

¹⁶ Interview Council Secretariat, May 2000.

available information permits them to perform such calculations, individuals will form preferences over different modes of actions according to the resource consumption involved in a given action. We may assume that the more transparently costs are allocated to specific individuals or to groups of individuals, the more individuals would recognise this allocation and act accordingly. Moreover, the more costs are being imposed extraordinarily or involves complex reallocation across sectors, individuals, or interests groups, the more complex the exchange of utility losses and benefits of an action will become, and thus reducing the likelihood of agreeing on a financing scheme for a particular action.

3.2 Interest-driven allocation of effort

The way the total effort is allocated between unilateral and European action depends on the returns in utility the governments receive from engaging in unilateral action, the returns from acting through a European foreign policy framework and the costs. As shown in Appendix 3.1, the government will act by attaching the degree of effort that maximises its utility. Under perfect information, the government would allocate its effort in accordance with 1) the returns to unilateral effort, 2) the (completely foreseen) amount of unilateral effort, 3) the returns to multilateral effort, and 4) the (completely foreseen) multilateral effort.¹⁸

The effort attached to European foreign policy increases proportionally with the returns to effort of European foreign policy. Moreover, the lower the stakes are in case of failure of European foreign policy for the governments, the higher will the effort attached to European foreign policy inevitably be. Finally, conventional wisdom says that the more governments may gain from acting together, the higher the effort to EFP will be. Note, that until now, this illustrated a situation where European foreign policy making was represented by a purely interest-based or structural approach. It could easily be interpreted as being a realist/ intergovernmentalist approach, but the mechanism also mirrors arguments of the politics of scale as described by Ginsberg (1992). As Ginsberg points out, and as concluded in Chapter 2, such an argument cannot stand alone when trying to explain EFP (1992:34-36), but needs to be combined with ideational and institutional factors. However, the impact of interests will be

¹⁷ The budgets for CFSP actions have increased considerably after SEA, From 1987-1995 the increase was 350%.

¹⁸ The model of Section 3.2-3.3 derives from Breen (1999) and discussions between Professor Breen and this author. Any errors, misinterpretations or problems in it can naturally only be the responsibility of the author of this thesis. During the work the author also used papers by Breen and Penalosa (1997) and Piketty (1995). Piketty develops a "*rational-learning theory of redistributive politics seeking to explain important stylised facts concerning the effect of social mobility on both individual political attitudes and aggregate political outcomes*" (551).

elaborated on in Section 3.5 where the learning model is extended to include those factors that play a role under the null-hypothesis.

3.3

Learning

This section will discuss how the government allocates its effort given the fact that it no longer as in the previous section knows its opportunities by certainty. Put differently, the government now only has a belief or an idea about the returns to effort despite that it still is deemed to decide how to deal with emerging foreign policy crises and conflicts. The belief the government holds may be more or less "correct" implying that it is more or less in accordance with what the returns to effort actually are. As information in international politics generally is incomplete, this situation should come closer to reality than the scenario depicted in the previous Section 3.2 (Peffley & Hurwitz 1992:433; Jervis 1976).

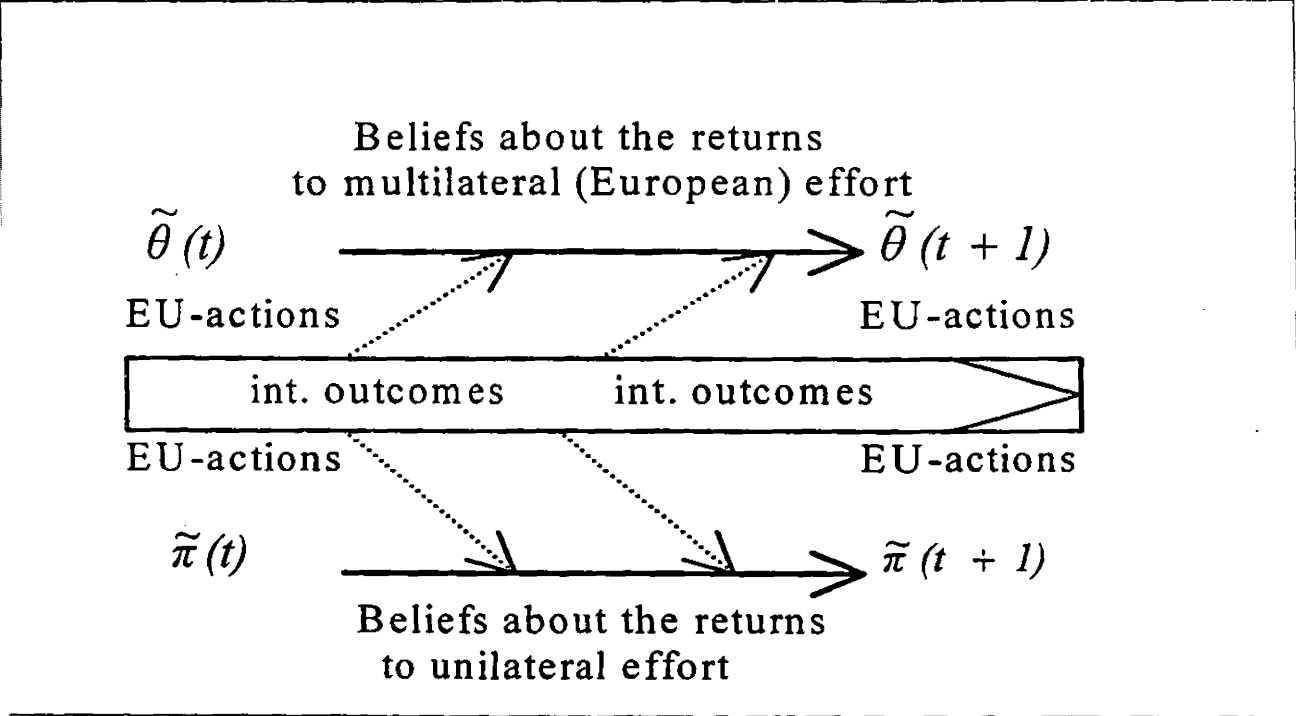
The government is now uncertain about the relationship between the returns to unilateral and multilateral (European) foreign policy. In deciding what to do, the government must now stick to the beliefs it holds about the certainty of the values of the returns to effort being *correct*, or *wrong*. These beliefs reflect the relative likelihood of success (or failure) to occur - conditioned on the actions taken. Two sorts of beliefs enter this model. First, the government holds beliefs about the effectiveness of its own efforts, i.e. beliefs about its *unilateral* capabilities to act and mobilise resources. Second, the government holds beliefs about the effectiveness of the *multilateral* (European) strategy of the CFSP. Under this uncertainty, the government allocates its total effort between unilateral and multilateral foreign policy in such a way as to maximise its utility. The utility is a function of the *beliefs* about the returns to unilateral and multilateral effort and the amount of effort attached to these two modes of action.

Similarly to the world of perfect information where interests and outcomes in the international system were the main determinants of effort, one may compute the *optimal* level of effort attached to European foreign policy given a government's constrained ability to recognise causalities. Following the same procedure as if the government had perfect information, under uncertainty the government will maximise its *expected* utility, instead of merely its utility. As its decision now depends crucially on the formation of *expectations* about the causal impact of a certain distribution of effort on the outcome, this world can no longer be compared to the interest-based world, as the realist/intergovernmentalist setting. Clearly, preferences still matter, but the government also acts in accordance with 1) its beliefs about the

effectiveness of European foreign policy vis-à-vis unilateral foreign policy, 2) its amount of effort and 3) the costs. To maintain the focus on beliefs and learning in this part of the framework, preferences are now assumed constant until Section 3.6.

It is namely by regarding this imperfect information structure of action over time that the framework becomes a learning framework. The basic idea of the learning model is general and follows from Figure 3.1 below.

Figure 3.1 The updating of beliefs



The logic is that as learning is a dynamic concept, the government may change their beliefs over time. The government changes its belief when it receives new information. As shown in Figure 3.1, the government holds a prior belief of a certain value ($\tilde{\pi}(t), \tilde{\theta}(t)$) at time t . $\tilde{\pi}(t)$ is the government's prior belief about the workings of its unilateral strategy, basically corresponding to the belief the government holds about its unilateral capacity in solving a given foreign policy dilemma. $\tilde{\theta}(t)$ is the prior belief a member State government holds about the workings of its multilateral (European) strategy, reflecting the belief the government holds about the returns to effort attached to the CFSP. Based on these beliefs,

the government will decide its multilateral (European) effort to be attached to solving a given foreign policy conflict. As indicated in Figure 3.1, the beliefs may be such that the government supports an EU action. Supposing that the other governments also support this EU action, the action will take place. However, regardless of whether any EU action actually takes place, or not, international affairs will continue to produce international outcomes. Moreover, information about these outcomes will continue to stream to the governments. However, the government will only receive new information about the workings of the CFSP if it allocates effort to the CFSP and the Union can agree to act. Put differently, doing is a necessary (but not sufficient, see below) condition for learning.

Based on the new information about the workings of the CFSP from the international outcomes and in the light of the prior beliefs that the government held about the workings of the CFSP, the government will at time $t+1$ determine a posterior belief $(\tilde{\pi}_{t+1}, \tilde{\theta}_{t+1})$. As at time t , the government's allocation of effort will at time $t+1$ take place according to the posterior beliefs about the workings of the CFSP given the interests and the costs involved in a given action. The process of updating of beliefs from international outcomes, EU-actions and previously held beliefs should optimally continue this way generating more and more information about the workings of the CFSP.

When a government, for instance, experiences a successful outcome, which corresponds to the prior beliefs, the posterior beliefs are positively proportional to the prior beliefs. A similar dynamic equation represents the updating of the government's belief in case it experiences a failure. In this case, the government will generate a posterior belief proportional to the prior beliefs again. The government's new posterior beliefs, thus, were determined by two factors. First, they follow how much the successful or unsuccessful outcomes are in line with the prior beliefs. Second, they depend explicitly on the prior beliefs, whatever the prior beliefs are. It may be noted that if the government does not act at all, these beliefs remain unchanged *ceteris paribus*.

In Section 3.5, some of the conditions for changing the beliefs outside this learning framework will be discussed, for instance, the impact of changed normative beliefs about multilateralism after the end of the Cold War.

As mentioned, the government holds beliefs about the effectiveness of unilateral and multilateral (European) foreign policy. The *correct* state of the world or the actual effectiveness of unilateral and

European foreign policy is consequently not known. In order to understand the dynamics of learning better, one may define two states of the world. Following Breen (1999) these two set of beliefs are (π', θ') and (π, θ) . The one set of beliefs (π', θ') resembles the situation where the “correct” returns to unilateral or multilateral effort favour multilateralism. In other words, this state of the world represents the situation where European foreign policy is the most successful foreign policy option. The other set of beliefs (π, θ) represents the situation where unilateral foreign policy is the most effective and successful option. One of these states is the “correct” state of the world, but the government does not know which one it is. The government thus is constantly trying to learn which one is the more *correct* state in order to ensure the highest return on its allocation of efforts.

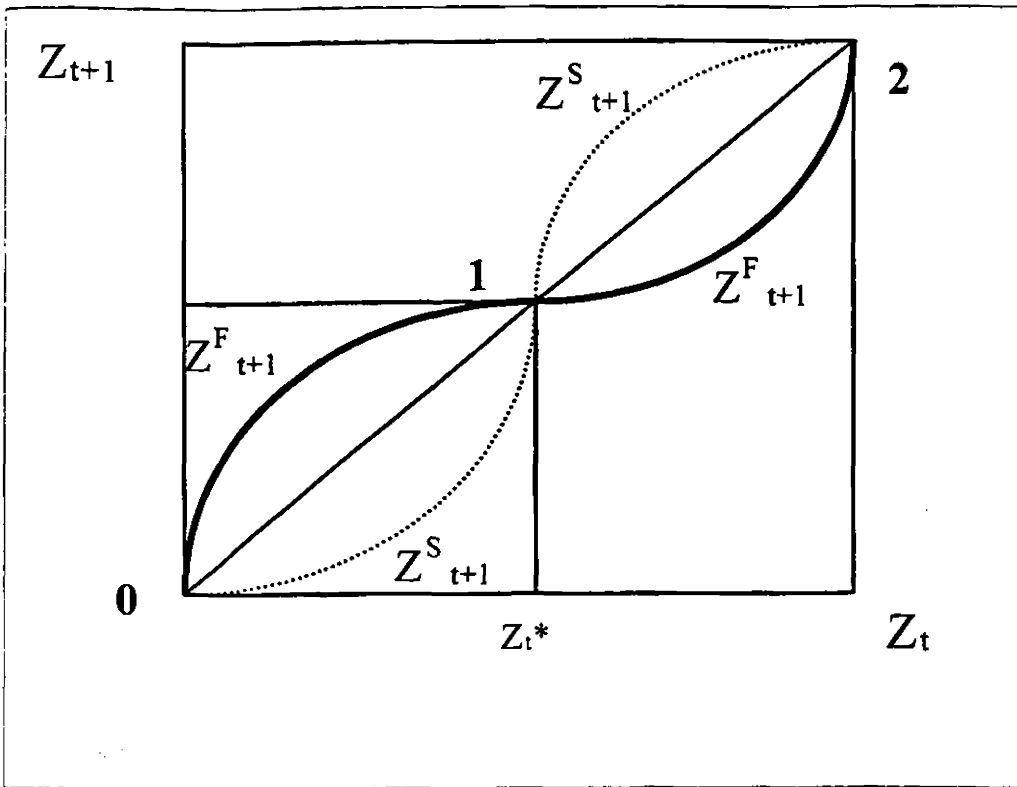
In the one dimensional space between these two states of the world one may imagine a continuum of values of the government’s beliefs about the effectiveness of unilateral and European foreign policy reflecting the government’s current conviction and cumulated learning on this issue. The beliefs that the government holds at time t are subsequently a mixture of the two states of the world.

In the following, these beliefs will be captured in the parameter z . Let us assume that z expresses the weight the government attaches to multilateral (European) foreign policy being successful; to the truth of the state (π', θ') . Then $(1-z)$ expresses the weight the government attaches to unilateral foreign policy being successful, to the truth of the state (π, θ) .

The dynamics of learning may now be expressed in terms of the development of the beliefs z to various international outcomes either confirming or disconfirming the previously held value of z . In general, the dynamics of the learning process may be illustrated as in Figure 3.2 below following Breen (1999: 468, Figure 1).

Figure 3.2 illustrates the dynamics of learning in a (z_t, z_{t+1}) diagram. There are two trajectories shown. Both regard the situation where the *correct* beliefs about the world is (the hypothetical situation) where European foreign policy is successful and unilateral foreign policy is unsuccessful. The first is dotted and marked by the sign z_{t+1}^s . This trajectory shows the dynamics of the learning beliefs given that the *correct* belief is that European foreign policy is successful, and that the government experiences a success. The second is fully drawn and marked by the sign z_{t+1}^f . Similarly, this trajectory shows the dynamics of the learning beliefs given that European foreign policy is successful, but that the

Figure 3.2 The learning dynamics



government experiences a failure.

The above trajectories will arise from a range of non-Bayesian learning schemes, among others the Bush-Mosteller model mentioned in Chapter 2. In Appendix 3.1, an example of the application of a Bayesian learning model is, however, reproduced where the two beliefs z_t and z_{t+1} follows a specific rule, Bayes rule. The learning related to this rule is expressed in (3.1) and (3.2) in Appendix 3.1. Appendix 3.2 further lists some of the comparative static effect of such a narrowly defined learning process.

Going back to Figure 3.2, let us now assume that the amount of effort allocated to European and unilateral foreign policy represents that a prior belief z_t is higher than z^* . In that case, the government who exerts a high degree of effort to European foreign policy in accordance with these beliefs and experiences a success will as shown in Figure 3.2 be confirmed in this belief and increase its belief and allocation of effort to European foreign policy even further. This process will repeat it self in the area from "1" towards "2" in Figure 3.2 until the beliefs converge towards the *correct* beliefs that European

foreign policy indeed is successful. In contrast, the government who under these conditions experiences a failure will reduce its belief in the importance of European foreign policy compared to unilateral foreign policy in the area from "2" towards "1" in Figure 3.2 until the belief converges to the belief z^* . Thus if European foreign policy really is a successful strategy, but the government in this way reduces its effort allocated to European foreign policy every time it experiences a failure, the government will also reduce its chances of succeeding in the future.

Assume now instead that the effort attached to European foreign policy starts at the lower range corresponding to prior beliefs between "0" and z^* in Figure 3.2. A government who experiences a success in this unilaterally dominated strategy will tend to believe that this allocation of effort was the more *correct* one, and will exert even less degree of effort to European foreign policy in the future. Alternatively, a government who experiences a failure given lower prior beliefs in European foreign policy than those held in unilateral foreign policy will raise its belief in European foreign policy. The government's belief will here converge towards z^* .

In more practical terms, this means that the learning model allows for the possibility of either a *vicious* or *virtuous* circle of European foreign policy development. The vicious circle is the situation where the government exerting a high effort to European foreign policy experiences failure after failure and thus is not able to arrive at a *correct* belief about European foreign policy. As the government however did initially hold high beliefs about European foreign policy, its beliefs will converge towards the point z^* . Moreover, the vicious circle occurs when a government exerting a low effort to European foreign policy experiences a success and thus fails to move towards the *correct* belief about European foreign policy as a success. In this situation, the government will continue to diminish its belief about European foreign policy towards "0" if the successes continue to arrive.

The virtuous circle takes place for a government initially exerting either a high effort or low effort to European foreign policy, and facing success and failure respectively. The virtuous circle is straightforward if the starting point is a higher level of effort to European foreign policy than unilateral foreign policy. However, when departing from a lower level of effort to European foreign policy, the virtuous circle will in case the government continues to experience failures converge towards the point z^* .

From Figure 3.2 and following the results of Breen, the government cannot learn (more) if its beliefs are entirely *correct* or *wrong*. This is the case in either point "0" and "2" in Figure 3.2. Figure 3.2 also

shows that the government may even be incapable of learning at an interior fixed point "1". This interior fixed point matches a situation where the government holds beliefs, z^* that result in a level of effort that makes the expected probability of success the same whatever the parameters of beliefs are. This interior point is the *confounded learning belief* (Breen 1999 after Smith & Sørensen 2000). The higher the unilateral capacity is, the higher will the European foreign policy effort have to be at the same time to reach the situation where learning is impossible. Moreover, the more effective the CFSP actually is, the higher the effort attached to the CFSP will have to be for not being able to learn. Finally, the more effective unilateral foreign policy actually is, the lower will the degree of effort attached to the CFSP be that results in a no learning situation. Put differently, the higher the stakes are, and the lower the added value of a success is, the higher the degree of belief in the CFSP would need to be in order to bump into a situation where governments are incapable of learning. On the other hand, the higher the utility of success may be, and the lower the stakes, the confounded learning belief may be similar to holding a very low belief about the effectiveness of the CFSP. The logic behind this is that it may be difficult to learn when the cost of failure is low.

3.4 Implications of the learning model

(a) *The learning dynamics of European foreign policy*

The learning model suggests the existence of a *virtuous* and *vicious* circle of European foreign policy. The dynamics of these are different from those traditionally proposed in the literature and discussed in Chapter 2. Notably, the new model does not speak about the vicious and virtuous circle of European foreign policy's capability presence *per se*. The vicious and virtuous circles regard the learning about European foreign policy. Entering a virtuous circle in this Chapter means that the development and the actual workings of European foreign policy become more and more important as outcomes arrive in international relations that are in accordance with previously held beliefs and previous allocation of effort to European foreign policy. *Ceteris paribus*, this should result in more allocation of effort to EFP.

The relevance of the model for the Union's engagements in the Western Balkans in the '90s is crucial for the relevance of the model at all. As mentioned in Chapter 1, EFP towards the Western Balkans needs to be analysed in a separate study in order fully to grasp the complexity of the conflict. However, looking roughly at how events were perceived, it seems likely that the model in this chapter could

capture some elements of the Union's responses to the wars in Kosovo and Bosnia. At the time the conflict in Bosnia arose in 1991-1992, the expectations to European foreign policy being able to solve the conflict were relatively high (Hill 1993). This resulted in a rather high allocation of effort to European foreign policy diplomacy in the initial phases of the conflict (at least compared to what individual Member States contributed and to the allocation to other international institutions). "*The Community, EPC and later the Union have produced an enormous number of declarations, common positions and joint actions dealing with the conflict in Yugoslavia. Particularly in 1991, the Twelve discussed the war almost continuously*" (Hill & Smith 2000:358, 18-24). Experiencing a failure as the individual governments most likely felt EU did in Bosnia until 1995, a government would in accordance with the model have lowered its belief in European foreign policy and similarly reduced its allocation of effort to European foreign policy. The engagement of NATO later in the Bosnia conflict as well as many other international institutions (G8, Contact Group, OSCE etc.) seems to illustrate that a given government generally must have lowered its belief about the European foreign policy workings in those particular types of conflicts (Crawford 1996). Thereby, it should also have lowered its allocation of effort to European foreign policy. As Hill & Smith also note, "*increasingly, the Community/EPC was playing less of a role in the international search for a solution*" (2000:360, 31-34).

Kosovo occurs after Bosnia. The lessons learned from Bosnia accordingly provided the introductory beliefs and allocation of efforts for the Kosovo conflict. Soon Kosovo also turned into a failure for EU's international diplomatic capacity, as did other international efforts, when the Rambouillet conference to resolve the crisis in January 1989 broke down. The resulting Kosovo War showed the lack of leverage the Union had in deciding on the strategies of NATO towards Kosovo. As Hill & Smith note, "*in practice, of course, the EU had to sit back and watch NATO take the military lead... Collectively, ..., they were reduced to relatively minor matters like the appointment of a Special Envoy to Kosovo*" (2000:385, 31-40). Kosovo became a *failure* for EU's *military* capability presence in a situation where the effort attached to EU diplomacy from individual governments was lower than the effort attached to other solutions.¹⁹ The Kosovo *failure* would therefore normally have increased a given EU government's belief in the importance of European foreign policy, similar to the movements on the trajectory z_{t+1}^f for z_t between 0 and z^* . This was also what happened, as for instance, the British Prime Minister "*Tony Blair in Bucharest dropped broad hints about an accelerated path to EU entry for states which cooperated in the war*" (Hill & Smith 2000:385). As Hill & Smith note, "*almost without noticing it, the EU has been drawn in to a new role as the protector and stabilizer of South East Europe, a burden which it may struggle to live up to, economically and politically*". From the

learning model, the hypothesis regarding the Balkans would be that Kosovo and Bosnia in total may have learned EFP decision-makers of a government that it needed to allocate effort to the development of European foreign and security policy hereby catalysing the development of the CESDP.²⁰ The impact of the two conflicts on a given government's beliefs about the workings of European policies is however different as the allocation of effort *ex ante* (to the conflicts) was different.

Another important result of the learning model is that learning has a cumulative effect. Learning is more likely to play a decisive role in the allocation of effort the more experienced a government is or the closer the government is to knowing the *correct* values of the returns to unilateral and European foreign policy. If the government is far from knowing the *correct* beliefs, the government, according to the model, will never reach the upper right hand corner of Figure 3.2 unless some exogenous shock pushes the beliefs in that direction. In the latter case one cannot speak about learning in the traditional sense.

This initiates a discussion of when a government of the EU will start learning – and thus when an EU government – if the correct belief is that European foreign policy is successful – will increase its stakes in the European foreign policy institutions. Regelsberger & Wessels have claimed that the difficulties of the CFSP are more serious than just the usual *child diseases* (“*kinderkrankheit*”) that will disappear after a while (1996). Many have argued that particular Member State interests belong to the main reasons why these child diseases may be so persistent. If a government holds prior beliefs in the range of z^* and the level of z_t corresponding to “2” in Figure 3.2, and it is correct that the CFSP is successful, there may indeed be a case for talking about child-diseases instead of permanent diseases. What characterises such child-disease symptoms in the world of learning would be that a government's ability to see how brilliant EFP actually is will be improved the more success it encounters. Even though failure should arrive, the belief in EFP will not fall below z^* . However, it also follows that *the childhood* (or infancy) of a belief such as the belief about the malfunctioning of the CFSP may be very long. Indeed, this is the case if failures are the only experience decision-makers encounter in the beginning of a more European-oriented foreign policy strategy. Then the beliefs are stabilised at z^* instead of entering a virtuous circle moving towards point “2”. In sum, when early failures arrive, governments may be guided by this *bad* experience for a long time. The memories become the tyranny of the past as Jervis notes (1975).

¹⁹ Clearly, Kosovo could be seen as a sign of progress of the Union's civilian foreign policy dimension, in particular, as the prospects of peace approached.

²⁰ Many have argued this. One of them was Lord Roper at the LSE 13 February 2001 cited in Chapter 1.

(b)

The inability to learn

Learning assumes the truth of Pascal's words that "*progress only can be achieved if one recognises ones nature ones misery together with ones sublime possibility.*"²¹ Not being able to recognise ones *correct* capabilities or the consequences of a particular strategy may therefore have disastrous impact on the intentions to develop the CFSP.

Many factors may impede learning from taking place, internal as well as external factors. Internal factors are internal to the dynamics of beliefs in the learning model. External reasons are exogenous factors outside the updating of beliefs in the learning model, for instance, changes in interests, norms or institutional changes. The most important internal reason for lack of learning that will be discussed here are those related to not being able to see the relationship between the outcomes and the effort clearly. This may result from 1) the lack of clear strategies, 2) the presence of too confident beliefs (hubris beliefs) and 3) the presence of highly competing strategies. The external reasons this framework explicitly looks at are the impact of economic interests and institutional competence. In accordance with Chapter 2, those will be merged to a discussion in Section 3.5 of the impact of the external economic relations on learning and EFP.

As mentioned, in Figure 3.2 the belief z^* illustrates a situation of European foreign policy where the government holds almost equally high (or low) beliefs about the effectiveness of its unilateral capacity and European foreign policy. In other words, the government is largely confused as to whether any of the two - *unilateralism* or *Europeanism* - is more effective than the other in achieving a successful outcome. The government is unable to judge whether the resulting success or failures of a particular effort is caused by unilateral or by European foreign policy. The updating of beliefs in such a situation will only by chance take place according to the outcome. Most likely, the beliefs will remain constant while interests, norms or other factors determine the distribution of effort.

(c)

Multilateralism versus unilateralism

One illustration of this is when a government seeks solutions on different levels, national and European at the same time without being focused. In the end, it becomes impossible to find out what impact which action had for the outcome. Only when the outcome can clearly be attributed to failure or

²¹ Pfaff, 1993, 15

success for either unilateral foreign policy or European foreign policy, the government will change its distribution of effort among the two. It thus illustrates one of the predominant themes of the critique of the CFSP after TEU. Zielonka explicitly talks about the "*policies without strategies*" (1997). As Nuttall notes, "*it suffered unlike the EMU parts of the Treaty, from never having had a clear objective generally agreed, and a single draftsman to interpret that objective*" (2000).

Extending the learning model to include other multilateral entities such as NATO, UN, OSCE, G8, WEU, and the Contact Group would primarily make the choice more complicated for the government than before. This extension would recognise that a government in reality is confronted with the presence of a multitude of institutions to choose among at the multilateral level, not just the EU. As a comment to the formation of the Contact Group for Yugoslavia, Nuttall notes, "*In the circumstances it was scarcely surprising that Member States, confronted with an apparent lack of effectiveness of the CFSP, should seek to advance their national policy aims in other fora*" (2000:267-268).²² After the Cold War, most of the institutions just mentioned overlap in authority and in expertise (Jopp *et al* 1991).²³ Imagine, for instance, the choice facing EU decision-making trying to mediate a developing large-scale conflict in the Azerbaijani enclave Nachicevan, hypothetically involving among others Turkey, Iran, Israel and Russia. Faced with such a conflict, the government should eagerly be searching for information regarding the most effective international organisation to mediate this particular conflict. The Union would probably be considered rather inexperienced in this region besides generally not being perceived as much more than an economic actor until now. The OSCE would have the advantage of including all the main actors of the conflict, but would also suffer from limited capabilities, for instance, focusing more on sending election observers and lighter conflict intervention measures. The UN Security Council would depend on the consent of Russia in its decisions, and with Russia's close interests in the conflict, any intervention that would diverge from the Russian view would be difficult to obtain. The G8 would probably only be adequate to give eventual negotiations or peace talks a final boost at a critical stage or coordinating views among the main actors, but would need the other institutions to implement their decisions. NATO would have the means at its disposal, but would be unlikely to become engaged in a former Soviet Republic. In conclusion, despite the advantages of having a broader spectrum of conflict resolution institutions available, the government faces a more complicated choice than if there were only the EU and the Member States' foreign policy

²² The same argument may probably be used on why NATO became a major player in the former Yugoslavia in April 1993 when it established the No-fly zone in Bosnia-Herzegovina (Rummel 1994: 110, footnote 10).

²³ Illustrative, during the development of the crises in Kosovo, September 1998-March 1999 and the actual war from March-June 1999, i.e. within less than a year, all of the following institutions were involved as major parties in the negotiations between Serbs, Kosovars, and the International community at one

to choose between.²⁴ Intuitively, the learning model does seem relevant to the choice of governments among various international institutions. However, it is relevant to discuss how the learning model more precisely may be extended to reflect other institutions than the CFSP.

Another matter deriving from the framework is the possibility of multilateralism being an idea itself. Put differently, beliefs about the returns to effort among various international institutions would now be intrinsically linked together within one single idea of multilateralism. This implies that if the belief in a particular institution decreases, the degree of effort attached to another institution hereby also diminishes and *vice versa*. This comparative statics would be in line with one of Javier Solana's statements, "*I am convinced that every EU action broadly speaking could be strengthened and that this could contribute to a strengthening of the workings of NATO*".²⁵ Such a dynamic would also emphasise the importance for governments of dividing tasks thoroughly and transparently when pursuing different aims as to diminish the confusing element about which institution caused which effect.²⁶

(d)

Hubris

The other extreme of not having clear objectives is to be so certain about a particular strategy that one does not really take notice of the outcome in determining ones future strategies. Evidently, the government may still change its beliefs, but in this situation, the change of beliefs does not take place in accordance with the workings of the CFSP. For instance, the government may either attach full weight to its beliefs about the effectiveness of unilateral action, or alternatively fully believe in the superiority of European foreign policy to other policies. Put differently, the government is totally convinced that the degree of effort it attaches to European foreign policy vis-à-vis its unilateral capacity is as optimal as it could be despite that the premises for assuming so are lacking. This is a situation similar to hubris.²⁷

The hubris situation may, for instance, be that the government is fully convinced that unilateral reigned policy action serves its purposes better than EFP. It would rather go alone than engaging in any EFP

time or the other: NATO, G8, WEU, US, EU, OSCE, and the Contact Group.

²⁴ Governments may also be faced by stress, and overload of information, see Holsti (1962); Diez (1998).

²⁵ "*Ich bin aber überzeugt, dass jeder EU geführte Einsatz durch eine breitere Beteiligung nur gestärkt werden kann und dass dies wiederum auch dazu beitrage wird, die Wirksamkeit der NATO zu erhöhen*" (1999:2, 2nd cl. 56-59). See also Ruggie (1997).

²⁶ The logic is as formulated by Washington Post, "*plentiful of statements from England's Tony Blair, Germany's Gerhard Schroeder and France's Lionel Jospin and others indicate ...their belief that a stronger, more effective Europe in foreign policy and security will strengthen NATO ...*" (August 15, 1999).

²⁷ In ancient Greek religion, hubris expressed the arrogant Sinn of going beyond the bounds of the Gods that had been set to oneself. Deutsch mentions "*in politics, national and international, many people have preferred losing power, wealth, or life to losing their illusions*" (1988, 55).

actions. The *go alone* attitude may also be caused by political sovereignty concerns.²⁸ Strictly speaking, this will often be a different matter since caring about sovereignty need not have to do with being too certain about one's own belief and mode of distributing effort. In European foreign policy, the notion of UK "punching" beyond its own weight captures the same phenomenon.²⁹ Darby remarks, "*it is part of the habit and furniture of our minds that Britain should be a great power*".³⁰ Indeed, believing in own capabilities is not always a bad. However, under these circumstances (practically without any learning going on) there is a high risk that the government is wrong.

(e) *Shifts in the government's ability to learn*

In the logic of Jervis, *the tyranny of the past* could only be overcome if an oppositely directed (and at least as important) event occurs to the one that once caused the tyranny of the past. Jervis' intuition is useful but a too simplified version of how the learning model of this Chapter works. First, learning is not impossible when the beliefs correspond to *low* values between "0" and z^* . Clearly, learning becomes more difficult the greater the gap between the actual beliefs and the correct values are. This stems from the fact that the informational requirements for learning the *correct* values are greater under these conditions.

Second, one could imagine that actors' ability to learn were indirectly affected by various external factors and some times might shift from one level to another subject to extreme pressure from these factors. The effects of such external pressures to the learning should be relatively straightforward to compute. Appendix 3.2 lists some of the comparative static effects, which in essence are commented here.

First, changes in the prior beliefs affect the posterior beliefs positively. The only exception to this is when prior beliefs are similar to the confounded learning belief or in either of the two extremes corresponding to holding completely *wrong* or *correct* beliefs. One could also imagine a shift in the prior beliefs caused by an identity change making decision-makers more European in their approach

²⁸ Alternatively to the model of different ideas of multilateral institutions as depicted above, one may think of multilateralism as an idea and a concept in itself such as Ruggie, Crawford, Mortensen and others do. Ruggie defines multilateralism as "*the co-ordinating relations among three or more states in accordance with generalised principles of conduct for a class of actions, without regard to the particularistic interests of the parties or the strategic exigencies that may exist in any specific occurrence*" (Ruggie 1992:571, 1-6).

²⁹ Rifkind, Chatham House, 21/9-95, Hill, 2000, President's address at the 4th Annual Conference of the European Association of Sociology, Amsterdam, 18-21 August, 1999 (*the reference is not completed yet*). It is Hill that attaches the expression *hubris* to British foreign policy in his 2001: *The Blair/Cook Effect*. Hill already in 1988 noted that sometimes this tendency to *hubris* (without using the expression) is caused by a kind of "*nostalgia*", characterised by reluctance to abandon anachronistic ways of thinking" (1988).

³⁰ Martin & Garnett 1997.

regardless of their specific experience of the workings of the CFSP. Such a shift in the prior beliefs would be reflected in an equivalent shift in the posterior beliefs. Shifting prior beliefs go beyond the discussion of this model, but the discussion illustrates that the model also keeps a window open for approaches analysing the impact of normative ideas, identity etc.

The returns to unilateral or European effort may also shift. In the case of an increase in those returns that correspond to higher returns of multilateral (European) effort than unilateral effort, i.e. an increase in θ' , it may be shown that the posterior belief z_{t+1}^S will always be positively affected. Section 3.6 (b) will discuss an instance of observed increased returns to effort namely the case of institutional competence increase. In addition, one could imagine that some institutional changes made the information aggregation process run smoother thus directly limiting the *ex ante* distance between the correct values and the beliefs about the returns to effort. Finally, those returns corresponding to higher returns of unilateral than multilateral (European) foreign policy may also increase. Here, the model predicts that as long as the returns to multilateral (European) effort are high enough ($\theta' > \theta/2$) the posterior beliefs under success will also be positively affected by a positive shift in the returns to unilateral effort.

One may shortly return to the hubris situation discussed above. Hubris reflects a situation where the government is not able to aggregate information about the workings of EFP for the use in its allocation of effort. Hubris can thus not be avoided within the dynamics of the learning model itself. Yet, hubris may be avoided or exited from after pressure from external factors, which were discussed above. In this specific case, for instance, certain economic or political fundamentals may reveal unexpected vulnerability causing governments marginally to distrust their own belief. If such shocks succeed in changing the beliefs of governments – which cannot be assumed however – they will change the government's distribution of effort among unilateral action and European foreign policy action. Here, European institutions may provide a forum through which such *external shocks* may operate, since in the EU there should be more possibilities of drawing issue-linkages than elsewhere. After a shock, governments might thus start to invest small resources in European foreign policy action. If governments were wrong in their conviction, the external shock has now at least given them the opportunity to discover their fatal mistake. The use and impact of EU institutions will be returned to in Section 3.5 (b).

Immediately after such a revelation, one could expect the hubris-belief to recuperate. For instance, if it was revealed that Britain needed multilateral solutions in its foreign policy, and EFP right after this revelation experiences a vast failure such as the one in the former Yugoslavia, the danger is that beliefs are pushed back towards attaching full weight to unilateral action. In a sense, this is part of what Kavanagh captures in his article "*attempting to run before learning to walk*" as this does not limit itself to countries such as Britain with a high belief in the unilateral policies. It may as well describe countries such as Belgium that could be seen as having too high beliefs in multilateral or European policies. However, as long as the failure cannot be 100 % related to a deficient European foreign policy, the governments should generally be able to avoid returning to the hubris condition.

3.5 Economic and institutional factors determining the Union's capability-presence

It should be clear from the preceding section that learning is not theorised as a major determinant of the Union's capability-presence, but as an intervening variable, a facilitator and a constraint. Inability to learn does not necessarily imply less EU presence in international affairs, as the actual level of EU presence depends directly on a range of other factors, notably, interests and institutions.

It was mentioned that the decision to allocate effort to the CFSP was determined by actors' *interests* (among other things). Until now, these interests have been held constant. This section allows interests to change, as they are likely to do in reality. The idea is to see how these changes may affect the learning mechanism and the capability-presence of the Union. A starting point for the discussion is to clarify how economic interests directly may influence the level of EFP action.³¹ What will follow is thus an account of how the external economic relations, which roughly speaking comprise economic preferences and institutional competence, may affect European foreign policy.

Economic interests determine what an actor, subject to a specific institutional structure, would prefer to do given certain beliefs (assumed constant in order to simplify). Below, the impact of the actors' economic preferences regarding external economic trade and investments are discussed. This is followed by a discussion of the intervening influence of the institutional structures under which the interests are allowed to work, in particular, the impact of the institutional competence of the external economic relations and the CFSP are examined. The purpose is to delineate some hypotheses for how

³¹ As Javier Solana recently noted. "In dieser neuen situation brauchen wir nicht notwendigerweise mehr Ressourcen, sondern muessen unsere bestehenden anpassen" (1999, 2-3).

preferences and institutions may influence EFP-making hereby shifting the effort attached to EFP.

(a)

Economic preferences

Deriving from assumption (c) in Section 3.1, different strata of support and opposition towards European foreign policy actions exist. These are, for instance, formed through the type of domestic sector engaged in external economic relations and thus affected by the mobilising of external economic relations' resources for a given CFSP action. The use of economic sanctions is a good example. Empirical studies on economic sanctions have shown a general tendency of countries to act through export sector restrictions rather than through import sector restrictions (Hufbauer & Schott 1985, 1990 and 2000). Hufbauer & Schott explain this by two factors (1985: 28-29). First, target countries (those being imposed to an economic sanctions by a sender country or a group of sender countries) can often find alternative markets for their lost export. Second, some sender countries, notably the US, do not have the legal authority to impose import controls. Fundamentally, however, there is no legal difference between import and export sanctions.

Judged from Hufbauer & Schott, the effects should in theory be the same for an EU sender country whether it imposes an import or and export restriction. In Kaempfer & Lowenberg's public choice model of the sanctions' effects in sender and target countries of the Western sanctions against South Africa (1988; 1990; 1992), it is however the sender's export sectors that primarily will suffer from sanctions through a loss in producer surplus. Import sectors will suffer from the general price increase that an import restriction causes. Compared to the export case, this will hurt the consumers mostly. Home producers of substitutable import goods may instead benefit from a restriction in the short run due to the price increase and the temporary loss of a competitor. In line with this, one should expect that for the Union, it would be more difficult to find resources for European foreign cooperation on measures that hurt export intensive areas than those that hurt import intensive areas.

A third sector to be included is the monetary or financial sector. Whereas imports and exports basically are the same type of transaction, the time-horizon differs between an investment and trade transaction. In other words, the transactions have different structures of annuities of benefits and costs. Trade in goods usually have a shorter pay-off structure than investments have. A trade pay-off also continues to arrive until the trade virtually is interrupted unless a moratorium on debts occurs. This contrasts with

the benefits of FDI that cannot *be cashed* in the shorter term.³² Further, it involves a highly complex and costly investigation before the FDI even becomes physically represented with a sunk cost value above zero.³³ Notably, at any time until the investment starts paying off, investors risk losing everything. From the moment the FDI starts paying off, investors similarly lose the difference between the invested amount and the benefits that could be gained in the period until the investment was cut-off. The impact of this feature is that EFP co-operation (e.g. sanctions) probably would be less likely to hit FDI intensive areas than trade intensive areas. If FDI eventually is targeted one should further expect it to be extremely difficult to target already existing FDI as compared to already existing trade. Restrictions regarding *future* FDI should however not be particularly more difficult to agree on than restrictions on *future* trade. Thus, when FDI are already in place, one should expect a high degree of opposition to be mobilised towards any restrictions against these investments.

This latter feature had not been relevant in the overall *economic interest picture* had it not been for recent years' explosion in FDI flows in and out of the EU. In 1992, FDI flows in fact superseded trade flows.³⁴ External economic interests are thus to an increasing degree other than trade interests. The feature had neither been important had FDI still been developed countries' interactions only. The reason is that CFSP mainly holds purposes legitimising actions in developing countries. Recent years have, however, witnessed a shift in FDI flows into developing countries (Single Market Review 1998). What is emerging may thus be an increasing conflict between FDI interests and the eagerness to initiate, for instance, political conditionality or positive measures. Finally, this difference between trade and investment becomes relevant looking at the institutional competence of the EU in FDI and trade respectively.

Another major component is how different intensities and diversities of trade and FDI over time influence EFP.³⁵ Higher diversity of trade and investment flows will eventually result in a more complicated reallocation process of resources provided that the flows are due to be changed as a result of a European foreign policy action. This necessarily may impede the momentum and scale of European foreign policies. Diversity, as viewed isolated from the institutional structure, will thus not facilitate CFSP actions.³⁶

³² FDI outflows basically reflect the willingness and ability of a country's firms to undertake international production.

³³ For a discussion on what determines the level of FDI, see the Single Market Review (1998:31, table 3.3).

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

³⁵ Lisa Martin refers to this as heterogeneity of interests remarking that heterogeneity increases the probability of creation of institutions to provide relevant issue linkages to overcome problems of collaboration (1994; 1995). Chris Hill uses the term diversity of interest, however, pointing to a broader interpretation of common pressures exerted on different national situations.

³⁶ Heterogeneous interests indeed exist across transactions and within a specific type of transaction. For example, the UK has large FDI interests amounting to 17.5 % of total world FDI, while France and Germany have shares of 5.3 % and 11.5 % respectively (Dunning 1998). Former colonial powers tend to

The intensity of economic preferences has an ambiguous effect on EFP depending on which intensity one looks at. Firstly, the higher intensity of transactions are internally in the Union towards the rest of the world, the less one should expect EFP to be impeded by particularistic interests in the external economic relations. Secondly, however, the higher intensity of a given transaction towards a particular third country where the Union acts, the less likely EFP-actions become. This effect is intensified by the links between groups in both the sender and the target country of a potential restriction that may induce opposition towards an economic restraint.³⁷

(b) *Institutional competence*

Competence is the degree of institutional authority that the Union has over the Member States on a given issue. For instance, Woolcock notes, (external) competence is the “assignment of policy powers between the EU and the Member States [in] any given issue area in international trade negotiations” (2000). The relevance of analysing competence stems from the fact that competence first, varies among issues and second, varies over time thus providing changes in the constraints and opportunities given to economic preferences.

It is “misleading to provide a listing by subject of matters for which the EC is competent” according to McGoldrick (1997).³⁸ Conventional wisdom however suggests that the areas of trade in goods and agriculture are exclusive competence of the Union in international negotiations. Notably, this exclusive competence on trade in goods is maintained under Article 113 [133] of the Treaty of Rome. As regards services, the competence in general lies by the Member States, except for matters concerning cross border supply or when labour associated with the provision of a service crossed the border (2000).³⁹ Since most services are “establishment”,⁴⁰ this exception only gives the Union limited competence in services. However, as regards foreign policy actions such as economic sanctions that include transport,

trade more extensively than other Member States do with their respective former colonies, etc. Gowa’s net cost condition implies that the higher the divergence in trade interests are among Member States towards a particular third country the more difficult it becomes to obtain a trade – flag convergence.

³⁷ E.g. Gambari (1989:146).

³⁸ Fundamentally, the areas of competence such as trade, FDI, intellectual property rights and services overlap with each other, for instance, “... because trade in goods and trade in services are hard to disentangle, and must therefore be negotiated together” (Woolcock 2000: 2). Moreover, the actual delegation of competence from the Member States to the EU institutions is blurred. As Meunier and Nicolaidis notes, exclusive competence does not guarantee a single voice while one voice may be obtained in areas of mixed competence of common foreign policy (1999).

³⁹ The TEU amended Article 113 and the European Courts of Justice rule Opinion 1/94 establishes that the international trade agreements in services (GATS), Intellectual Property Rights (TRIPS) and Investments (TRIMS) are not to be considered part of Article 113. Opinion 1/94 was de facto a shift away from supranational competence (Meunier 1998). The opinion notes that services belongs to Title IV of the Treaty and thus not to Article 113. In the treaties the so-called “Kompetenz-Kompetenz” or enabling clause, article 133.5. establishes that regarding these areas “the Council, acting unanimously, may decide to extend the application of Article 113 [133] international agreements on services and intellectual property rights (TEC Article 133 (5) (See also Woolcock 2000).

⁴⁰ This is Mode 3 in GATS that regards “Commercial Presence”, i.e., the supply of a service by a service supplier of one Member through commercial presence of another Member. It involves e.g. corporations, joint ventures, partnerships, representative offices and branches. Often representative offices are

the Union still has the competence to decide despite its lack of exclusive competence to finalise agreements. The Community in general has the same limited competence as regards FDI as in services. However, as a result of the TEU, investments are also included in the authority of Article 228a based on Article 73.1 (Article 60.1 EC) and thus subject to an ECOFIN Council decision on which measures to apply (Nuttall 2000:192).⁴¹

Over time, the Single European Act authorised the EU to enter international negotiations on environmental issues. In the TEU, monetary policy, research & development and development cooperation became Community competence. The settlement of the 1997 Treaty of Amsterdam further enshrines the partial competence of the Member States over key items of the global trade agenda, such as services and intellectual property rights which Meunier and Nicolaïdis interpret as a “*temporary setback for the integrationist project*” (Bretherton & Vogler 1999:478, 19-22). There is a discussion whether competence of the Union has actually been extended despite very limited treaty revisions as, e.g., Young holds (2000), and the opposite argument that the Union in fact has lost competence over time (Meunier & Nicolaïdes 1999).

When discussing the impact of competence of the external economic relations on the CFSP it is however not enough to analyse these broad competence changes. One further needs to take into account the contents of the specific trade and cooperation agreements of the Union towards specific third countries. This holds, for instance, regarding the ACP group of countries where the external economic relations through the Lomé Conventions has had extensive institutional competence that furthermore has changed over time. This will be discussed in Chapter 6.

(c) *From external economic competence change to European foreign policy?*

How does the external economic relations' competence then relate to the CFSP decision-making? Clearly, the Union's high competence in an issue area such as trade negotiations does not necessarily facilitate co-operation in the CFSP, and *vice versa*. Meunier points to the importance of negotiating competence (and voting rules) in determining the probability that negotiating parties conclude an international agreement and the substantive outcome of the negotiations (2000). Importantly however, Meunier also claims that her approach may be useful for explaining the effectiveness of EU in other international settings such as foreign affairs. The question is whether the delegation of authority to the

represented through foreign affiliate established as a result of FDI (Sauvé & Stern 1995).

⁴¹ It says, “If, in the cases envisaged in Article 228a, action by the Community is deemed necessary the [ECOFIN] Council may, in accordance with the

Community also structures Member State choices about how to participate in European foreign policy?

One of the conditions for this is that the authority of the Union in one economic issue area would have an impact of the Union's ability to mobilise resources from this issue-area to CFSP actions. This assumption may appear strong. However, it could be justified arguing firstly that the information involved in representing a specific issue area is exclusive and costly. Secondly, the Union probably implicitly has the legitimacy to suggest restrictions or changes in the allocation of certain economic flows in areas where they *usually* act with exclusive competence.⁴² Thirdly, as one permanent representative expresses it, "*one always goes to the first pillar to find instruments*" for ones objected policy.⁴³ This means that the competence of the Union on first pillar issues, e.g. in the external economic relations, becomes a determinant factor when deciding on the measures to be adopted by the CFSP and the resources mobilised in order to implement and enforce this measure. Finally, by representing external economic relations' interests iteratively economic agents will be aware of the possibility of policy deliberations and exchanges over time and will thus be more likely to accept a *give* in the short term for an expected *take* in the longer term. As one legal advisor of the Council notes, the increased competence of the Union has not paralysed decision-making. Instead, by using the instruments, decision-makers have "*learned how to circumvent*" the rules.

One example of the importance of competence of the Union is the financing disagreement between Britain and the Commission regarding the South Africa Joint Action of 1993. According to Winn, the action only came about after a dispute about its proper financing (1997). This dispute emerged between Britain and the European Commission since Britain found that resources of the budget of the European Commission should finance the action. The European Commission argued that the financing should be 50/50 between the Community and the Member States. The Commission's view actually prevailed. Winn calls this a clear "*intergovernmentalisation of a supranational policy*". More generally, an area of competence that may influence the CFSP is the competence of the Union on development aid. In 1993, the development policy was explicitly included under the treaties, as set out in Article 130w. Article 130w furthermore allows for multi-annual programmes carried out following the legislative procedures of Article 189c. Empirically, one may thus look after changes in EFP that could be linked to the competence increase regarding development aid around 1993.

procedure given by Article 228, take the necessary urgent measures on the investment of capital and payments as regards the third countries concerned.
⁴² Both trust and mistrust to the Community may here be important in shaping the foreign policy room of manoeuvring (Young 2000:101, 13-24).

In the linkage between external economic relations' competence and the CFSP, the European Parliament also plays an increasing role through its budgetary powers. The EP's increasing powers should strengthen the effects delineated above. First, one may note that the parliament has the power to reject the budget of the EC/EU, and thus also EPC/CFSP expenditure. Immediately after the creation of the CFSP, a budgetary struggle took place among the Commission, the Parliament and the Member States (1993-1994) regarding whether CFSP operational expenditures should be allocated from the Commission's account or charged the CFSP directly. This mattered since the EP traditionally only exercises control over the operational expenditures of the Commission, but not on the Council, the so-called "*Gentleman's Agreement*" (Krenzler & Schneider 1997:141).⁴⁴ Because of the dispute, the Member States from 1994 broadly accepted to allocate CFSP operational expenditure within the operational expenditures of the Commission. In return, the Parliament promised to apply its Gentleman's Agreement. The more competence exercised by the Commission, the more power will the Parliament thus have on decision-making of the CFSP. Since the EP in general is more susceptible to suggest active intervention by the Union towards violations of human rights or democratic principles increased powers of the Parliament should also influence the EFP positively.

Changes in this institutional authority of the CFSP over implementation of first pillar actions would matter in facilitating agreement on CFSP actions (Nuttall 1997). Regelsberger & Wessels indicate that the powers of implementation vary extensively (1996:38-39). Innovations since the start of the EPC in 1970 include:

- a) reforms of the decision-making mode towards more communautarization (e.g. Article 228a on economic sanctions,
- b) abstention voting,
- c) qualified majority voting on implementing joint actions/common positions etc),
- d) changed procedures (inclusion of working parties, COREU network, recommendation procedures vis-à-vis the Parliament) and
- e) regular inclusion of new measures (such as Common Positions and Joint Actions that often involves the use of economic resources).⁴⁵

As regards economic sanctions, Article 228a delineates qualified majority voting for the

⁴³ Interview EU government permanent representative, May 2000.

⁴⁴ In general, the EP is becoming a more visible "underdog" in EFP (Thomas Grunert in Regelsberger *et al* 1997). The adding of the Commission to the list of those regularly informing the Parliament strengthened the stream of information to the EP. This increased the possibility of the Parliament to execute control. Moreover, the "*recommendation*" procedure (Article J.7) was implemented by the Parliament's rule of June 1994 and an annual debate on CFSP is now held. See, however, the EP is still the least important actor in EFP – an issue that is illustrated in the two case studies of Chapter 4 and 6.

implementation of sanctions and the responsibility for the implementation is given to the Commission. On other issues, the powers of implementation are often *de facto* given to the Commission since the Member States themselves have had difficulties in administering actions on *ad hoc* basis. On defence issues, such as the implementation of the Petersberg Tasks (Article J.7 (2) of the Treaty of Amsterdam), the Member States have the exclusive power to implement actions. In most diplomatic actions, the Union vests its competence to either the Presidency, the Troika,⁴⁶ the High Representative, or a special envoy (*representative*) that subsequently carry out the objectives of the Union. It must be expected that the CFSP will be more frequently engaged in areas where its competence is high.

Finally, institutional changes might lead to adverse effects, such as harmful competition between various bureaucratic units. One example is the recent conflict between the Council Secretariat's General Directorate E led by Brian Crowe and the Policy Planning and Early Warning Unit ("*Policy Unit*") established in 1999 led by Christoph Heusgen,⁴⁷ the strained relationship between the Commission's External Relations Commissioner Chris Patten and Solana and the Deputy Secretary General Pierre de Boissieu's ambitions to get the job as High Representative reportedly causing problems in the workings of the Council.⁴⁸

To sum up this section, one way of expressing the impact of the external economic relations is to combine economic preferences and institutional competence in a joint index. As an example, below one may find a table that indicates different values of European foreign policy for various levels of institutional competence, intensities of preferences and diversity of preferences.

Table 3.1 The impact of the external economic relations on the CFSP

| Institutional Competence | Preference Intensity | Preference Diversity | European Foreign Policy "Score" |
|---------------------------------|-----------------------------|-----------------------------|----------------------------------------|
| Low | High | High | 0 |
| High | High | High | 1 |
| Low | High | Low | 2 |
| Low | Low | High | 2 |
| High | High | Low | 3 |
| High | Low | High | 3 |
| Low | Low | Low | 4 |
| High | Low | Low | 5 |

⁴⁵ The informal rule on issues that legally are no longer decided by unanimity is still consensus.

⁴⁶ Before the Amsterdam Treaty the Troika was past, present and future presidencies. After Amsterdam it consists of the General Secretary of the Council (and High Representative of the CFSP), the President of the Commission (or a senior substitute for him), and the President of the Council.

⁴⁷ Interview Council Secretariat, May 2000.

⁴⁸ Interview, Member State Embassy, October 2000

As may be seen from Table 3.1, the impact of external economic relations on EFP is suggested to hold three dimensions: i) the degree of competence (from high competence to low competence, ii) the degree of trade/investment diversity (from high to low diversity), and iii) the degree of trade/investment intensity (from high to low intensity). The numbers 0-5 mark increased degree of EFP capability-presence. "0" is the lowest degree of EFP possible and "5" subsequently represents the highest obtainable degree of EFP. The values are strictly ordinal thus only ordering the different combinations of preferences and competence to each other without suggesting the specific function of the relationship.

As competence is the institutional constraint on the preferences, it may be assumed that a low (high) degree of competence initially determines a low (high) degree of EFP capability-presence. As shown in the table, the higher the intensity of economic preferences, the lower EFP capability-presence. This holds for constant levels of competence and constant diversity of interests. Finally, the table also indicates that the more diverse interests are, the more difficult EFP becomes for a given level of competence and intensity of preferences. For example, low competence and high intensity yield the score "0" for high diversity of economic preferences, while resulting in the score "4" for low diversity. One may note, that in order to simplify, Table 3.1 does not suggest any difference between the potential impact of the diversity and intensity of economic preferences on EFP. Hereby, low competence yields the score "2" regardless of whether it is the intensity or the diversity of the two economic variables that is high.

Table 3.1 could in principle be extended, for instance, according to the discussion in Section 3.5 (a), by making a distinction between intensity and diversity of trade *in general* and towards a *specific* target country. In other words, the model would now include not only the economic relations with a specific third country, but the relations with a group of countries, or the rest of the world. The effects of "*the intensity of economic relations*" are in this case expected to differ from the ones delineated in Table 3.1. As mentioned in Chapter 2, it is widely disputed among IR-scholars which signs such general effects may have. This framework suggests that, that the higher the intensity of economic preferences among EU Member States towards the world, the more EFP will be generated, and *vice versa*, however, this effect might be difficult to separate from the competence effect in practice.

However plausible the learning model may (or may not) seem, its success depends on its applicability, i.e. how empirical data may be attached to the model, and whether it can be tested. There are here several problems related to this. First, how should beliefs be measured? Breen notes there is a direct and an indirect approach to estimation of the model (1999). The direct approach is to measure the beliefs of individuals directly. This strategy is, however, only feasible with panel data or other forms of data that follows individuals over a long period. As Breen notes, one would need some "*testable implications which were not built in as part of what the model set out to explain, and which are not entailed by rival explanatory models*". With the indirect approach, one could e.g. find out whether the same learning mechanism would be traceable in each Member State, cross-nationally, or different patterns of relationship between outcomes appeared for different countries. The latter would suggest a role for factors such as beliefs, if it seemed plausible that interests were relatively constant in those particular cases.

Welch Larson also advocates for indirect procedures (1994). Welch Larson notes that, "*beliefs, attitudes, and schemas are all constructs which cannot be observed but must be inferred from data*" (Conover & Feldman 1991 cited in Welch Larson 1994:28, 31-33). Welch Larson continues saying that one of the options for measuring beliefs is George's congruence procedure, where the idea is to determine whether political decisions are consistent with the subject's beliefs (1976, in Welch Larson 1994). George delineates another method too, the process-tracing method. The process-tracing method requires the reconstruction - step by step - of the decision-making process in order to trace the extent to which cognitive beliefs and other relevant variables influence decision-making (Verbeek 1994:312-313). As Welch Larson however notes, "*IR scholars do not have available such indicators of schemas as reaction time or recognition or recall tests*". She then suggests using public or private statements of decision-makers in order to develop proxies for indicators on beliefs.

It is vital not to simplify the demands to how learning is operationalised too much. For instance, a too simplified operationalisation would be to suggest that learning takes place whenever the lagged variable representing European foreign policy is significant. In statistical analyses learning has in fact previously been operationalised using such naïve measurement of the lagged term only. This is not regarded as an appropriate profile to aim for with this learning model. First, as in the above example, many other reasons than learning could be attributed to a change where variables of two periods

apparently hang together. Similarly, lagged terms have previously been used to express other effects than learning. In the early budgeting literature, Aaron Wildavsky makes an argument that the lagged term of an action stands for the incremental nature of bureaucratic decision-making (1975). Similarly, strategic game-theorists have pointed out that the lagged dependent variable of cooperation captures *the inertia* of a given action (Goldstein & Freeman 1990:67-68).

Second, this learning framework is not a model of adaptive learning. Learning is thus more than just *inertia* in the sense expressed above. In fact, there is a constant information accumulation taking place, where actors compare previously held beliefs with their effort and the outcomes in international affairs. This does not mean that the significance of the lagged term or "*autoregression*" (see Chapter 4) should lead us to conclude that learning is absent. No doubt, the lagged dependent variable is an important ingredient of the learning mechanism. It can never be the only ingredient however.

As a result, the solution suggested is to define learning (in cumulative studies) comprising two parts: 1) autoregression or significance of the lagged dependent variable representing European foreign policy and 2) significance of the lagged explanatory variable reflecting the outcome in international affairs. If a successful operationalisation can be found, the learning model also suggests to include the significance of actors' lagged beliefs. In practice, this third dimension is probably the most difficult one to measure, for example, it has not been included in the proceeding empirical analysis.

The significance of outcomes would by strategic game theorists better be known as the significance of the response, for instance, the bilateral response. The interpretation given to the significance of both the lagged dependent variable of European foreign policy and the "*bilateral response*" variable reflecting the outcome in international affairs is that this follows a learning pattern compatible with the learning framework developed in this Chapter. The interpretation that should be given to the significance of only one of these variables such as the lagged dependent variable is that learning in the sense described in this learning model is not an appropriate description of the developments.

As regards, qualitative case studies, the approach should be to follow developments in actions and outcomes over time as precisely as possible and combine them with an analysis – despite the aforementioned difficulties – of the perceptions and change in perceptions/beliefs among decision-makers over time. Learning is thus also in qualitative case studies neither the lagged dependent variable, the lagged outcome variable or the lagged belief only, but a combinatory significance of the

three. Hereby, this project adheres to an indirect testing of the framework based on recognising “*learning-patterns*” in “*actions*”. Put differently, the project seeks to observe changes in the patterns of the output to see if this could be related to learning. For instance, if two outcomes, e.g., the policies of the Union in 1985 and in 1986 towards the persecution of the Bahà’i community in Iran (see Chapter 5) are non-correlated judged from the available empirical data, but similar events in 1995 and 1996 now suddenly appear to correlate, it is plausible that some sort of learning mechanism has begun to play a role in the absence of other explanations for the change. If the development of actor’s beliefs confirms this change, this is another reason to believe that learning has taken place in the sense defined in this project.

Testing the learning model successfully thus necessitates both case study and cumulative research analysis. Cumulative analysis barely seems capable of capturing “*beliefs*” adequately – despite that, it may be possible having sufficient resources available. Qualitative case study analysis captures all ingredients of learning in the sense of this learning model, but *per definition* fails to provide any systematic assessment.

3.7 Limitations of the learning model

As mentioned, EU institutions enter the learning models through θ , the returns to effort at the European level and through the *no learning cases* where the role of institutional competence was underlined. A particular weak point of the learning model is the lack of attention to “*institutional choice*” and “*interaction*”. For instance, not all adhere to the view taken here that institutions cannot “*learn*” because they do not “*act*”. One could imagine that the failures of the CFSP in the Balkans created a desire for reforms not only within the Member States but also internally in the CFSP and its related institutions (the Commission, the Parliament). Such desires actually seem to have operated in reality at the constitutional level of the CFSP. The proposals and to some extent the outcome of the Amsterdam intergovernmental conference show an internal institutional dynamic of the CFSP, where the WEU is slowly being phased out, the Petersberg tasks are introduced and the High Representative and the Policy Unit are created. It may be that most of these proposals may be traced back to the Member States. However, the institutional degree of “*actorness*” or ability to selftransformation in the light of events should be looked at when extending the model in the future. One could, for instance, imagine a formal decision-theoretic approach looking at this by capturing the interaction between governments, between governments and institutions, or between different EU institutions.

The learning model indicated that there are several points where learning cannot take place. Institutions, if they were able to learn, would thus sometimes have a hard time finding out what the governments' strategies actually are. The harder it is for the government to learn, the more complicated will it become for the institutions to develop. In other words, if the government's own learning does not exist, it affects the internal dynamics of the CFSP as well. As an example, this is what Nuttall (2000) argues was the major reason, why there was such limited internal institutional dynamics of the CFSP after the TEU. This issue also needs further attention in future models.

Another limitation of the model is that the application of the learning model necessitates knowledge about how successful an action was. As discussed in Chapter 2, EFPA has yet not been able to measure success in a coherent way. There is therefore no reason to assume that this framework can be applied with more accuracy than earlier frameworks, which of course reduces the strength of this model. However, one of the declared aims is to obtain a more systematic approach to the registration of successes and failures in EFP.

The model does not cast light on why decision-makers hold particular prior or initial beliefs. Yet, the model accounts for why decision-makers hold posterior beliefs as the outcome of learning. It therefore claims to be able to tell the story of how the beliefs about a particular idea, the idea about the CFSP may have developed from some initial beliefs (which we know only little about) to where it stands today. The perspective remains on individual Member States' belief about the CFSP and the internal dynamics of these beliefs. Needless to say, the framework does only say little about the development of factors outside the control of Member States. The framework offers many opportunities to incorporate such factors in the framework at a later stage. Moreover, by analysing the conditions for learning in terms of strategic visibility and coherence of economic interests with institutional competence, the real strength of the framework is that it has the ingredients to capture the dynamics of EFP.

Another problem with the learning model is that it seemingly asserts independence of governments' beliefs of each other. However, one may imagine that beliefs of some smaller countries in the effectiveness of the CFSP depend on the beliefs of certain larger countries in the CFSP. Henrik Larsen suggests that the British shift in San Malo 1998 is at least one of the factors behind the recent shift in Danish attitude towards a European defence policy (1999). What the learning model however does suggest is a contagion effect that goes from the change in expectations, to the outcome, to the CFSP,

and further to the beliefs about the effectiveness of the CFSP. This phenomenon seems to echo Hill's theory about the Capability-Expectations Gap.

Finally, the model is an individualistic decision-theoretic model at this stage. This is appropriate to simplify and because the decision-making rule is unanimity in the CFSP, thus not posing any aggregation problems. However, a transformation of the model to a collectivist one, including all 15 Member State governments, would be possible. This could for example be done by regarding the literature on the Condorcet Jury Theorem extending the model with two parameters – n standing for the number of Member States and k for the number of states holding a particular belief (see Schneider 2000a,b).

3.8

Conclusion

The Chapter presented a learning model of European foreign policy-making. The model in essence captures the dynamics of capabilities and expectations (about the workings of EFP), which is the main topic of the literature over the past decade.

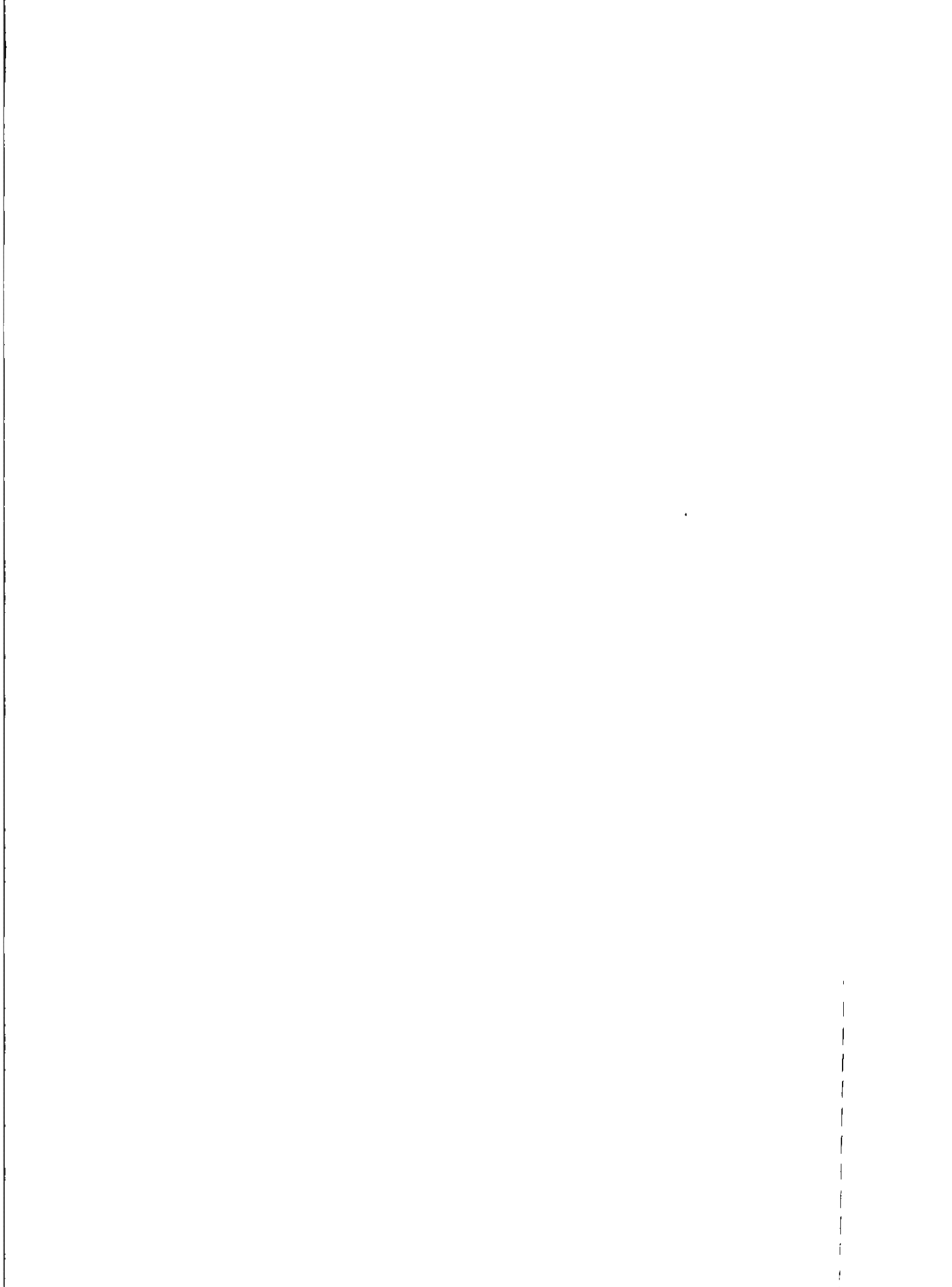
Learning is actors' ability to update their beliefs about the returns to effort of a multilateral (European) foreign policy strategy. Learning relies on information aggregation of the outcomes in international affairs, previously held beliefs about the workings of a unilateral versus multilateral (European) strategy and the hereto-attached efforts to unilateral and multilateral foreign policy. Learning is not possible when either no effort is attached to European foreign policy, or when beliefs are hubris like beliefs (representing a wrong expression of ones own capabilities), or when beliefs are already in accordance with the correct values (perfect information).

Learning may take place as either a virtuous or a vicious circle. In the terminology of learning, this means that the ability of actors' to learn the right lessons from the past may be either improved or weakened. It does not mean that (the capability-presence of) European foreign policy automatically enters a similar virtuous or vicious circle. Whether there will be any absolute effect on the Union's capability-presence crucially depends on the actual workings of European foreign policy which one can only have a more or less correct belief about. Another characteristic of the learning model is that the level of entrance (i.e. the initial weighing of unilateral and multilateral effectiveness of action) into the learning dynamics plays an important role. It determines, notably, how far one is able to aggregate

information about the correct values of the workings of EFP as there may be some initial beliefs about the workings of the CFSP that for example never will lead to the devotion of all resources to European foreign policies. In other words, without external pressures that could shift beliefs from one level of learning to another, and assuming that interests are held constant, beliefs may converge towards an internal point where actors are indifferent between the utility stemming from the correct assignment of values to EFP and the current (beliefs related) assignment.

The main alternative hypothesis to learning – that no learning takes place – covers a huge area of unknown variables and parameters. An integrated approach to determining which variables should be included or not was suggested allowing some of the parameters that had been held constant in the learning model to vary, such as interests and institutional competence. A link has now been made between ideas, interests, and institutions in order to assess their relative impact on European foreign policy. The impact of interests and institutions hereby becomes complementary to the explanation focusing on the impact of ideas.

No modelling for the sake of modelling only, a horror scenario warned against in Chapter 2. Many difficulties will have to be overcome to avoid this with the current framework. Notably, a successful application of the learning model will involve, 1) the combining of qualitative and quantitative research, in 2) searching for the joint significance of a) past values of European foreign policy, b) variables representing the outcomes in international affairs, and c) proxies for the development of actor's beliefs about the workings of the CFSP. Chapters 4-6 have the high aim of seeking to provide such a successful application of the learning model.



CHAPTER 4

EUROPEAN FOREIGN POLICY TOWARDS THE GULF STATES: A TIME SERIES ANALYSIS

This chapter applies the learning model from Chapter 3 to European foreign policy towards the (Persian) Gulf States. The evaluation will be based on a statistical time series analysis. The aim is, firstly, to measure the Union's capability to act and mobilise resources towards the Gulf States over the last two decades. Using this estimate of the Union's *capability-presence* as a benchmark, the purpose, secondly, is to assess the importance of learning for European foreign policy. This includes tests regarding a government's ability to learn about successes and failures in European foreign policy and the conditions under which learning may take place. In accordance with the framework of Chapter 3, thirdly, a selected group of other explanations than learning will be examined. In particular, the chapter will assess the relevance of the impact of the external economic relations, the influence of strategies from other actors, such as those from the US or the larger Member States, and the relevance of systemic factors, such as the end of the Cold War.

The first section introduces the data set of the statistical tests. It mainly derives from the KEDS Gulf data set of foreign policy events in the Persian Gulf States from 1979. The section includes a description of how the data set was created as well as an assessment of the advantages and drawbacks involved in its use. This includes a general discussion on the use of events data set analysis for studies of European foreign policy. The second section contains the specification of the statistical model focusing on the variables and the choice of indicators for these variables. Basically, there are five sets of variables and indicators discussed. These are 1) the learning variables, 2) factors causing inability to learn, 3) economic interests, 4) institutional change, and 5) some control variables. The third section determines the statistical time series to test given these indicators and the data representing them. It also provides an analysis of the various time series in terms of their stationarity, autoregressivity and collinearity in order to specify the appropriate model. The fourth section presents the results of the statistical model. Those are subsequently discussed in the fifth section.

The statistical tests will be based on time series observations from an existing data set of international foreign policy events, namely the Kansas Event Data System (KEDS).¹ According to KEDS' terminology, international event data is "*nominal or ordinal codes recording the interactions between state and non-state global actors* (Schrodt 2000:1). In essence, the data set contains a set of values of the degree of international cooperation (both *hostile* and *cooperative* actions) between different international actors in thousands of such interactions. The raw material of events data may derive from various news sources such as Keesings Contemporary Archives, the New York Times, Agence France, or as in KEDS, Reuters News Agency's news leads.² The data set used includes 57,000 international events³ in the Persian Gulf States covering the period 1979-1999.

Those events that are used in KEDS may, for instance, have the following outline:

"Copyright 1987 Reuters Ltd Reuters

July 20, 1987, Monday AM cycle

Headline: Iran tells EC countries their diplomats can help French

Body: Iran agreed today to allow embassies of European Community (EC) countries to help French personnel in Tehran following its diplomatic break with Paris, Danish foreign minister Uffe Ellemann-Jensen said."

KEDS is a Macintosh program for the machine coding of such international event data, and bases its coding on pattern recognition on word structures. In the above body sentence KEDS would particularly recognise patterns such as "*agreed to allow*", "*help*", and "*said*".⁴ More precisely, if a news lead contains the following sentence, "*in February 1995 the French Presidency of the European Union warned Nigeria about the continued setbacks for the human rights situation in the country*", KEDS would read this as if one actor, *A*, had warned another actor, *B*. KEDS would here – using an imported coding scheme from McClelland - provide a nominal code measuring the degree of *cooperation* or *hostility* from actor *A* towards actor *B*, which in this particular case is *160*. Had the EU instead of just warning Nigeria, threatened Nigeria, KEDS would take this as an increase in the degree of hostility from Nigeria towards the Union. Compared to the previous case this would resemble a decrease in the degree of cooperation from the EU towards Nigeria which

¹ Currently KEDS offers the following data sets: 1) the Levant data set (Gulf States and the Arabian Peninsula), 2) the Balkans, 3) Central Asia, 4) Bosnia, and 5) the Middle East. Last year a data set for West Africa was added (URL: <http://www.ukans.edu/~keds/data.html>).

² McClelland's World Event Interaction System (WEIS, see below) was coded from the New York Times. COPDAB was created from multiple sources, but primarily from the New York Times. See Azar 1980: 152 and communication with Philip A. Schrodt.

³ See the detailed conceptualisation of events in later in this section.

⁴ See the KEDS URL: <http://www.ukans.edu/~keds/data.html>.

will be provided with the nominal code 170. Had the EU finally engaged militarily with Nigeria, KEDS would give this type of increased hostility the nominal code 223, *etc.* The key to KEDS ability to code Reuters news leads is the following of a sparse parsing technique focusing on the subject - verb - object structure of each sentence. That being said, KEDS is optimised for events coding of leading sentences with relatively simple declarative sentences (Schrodt & Gerner 1994; Schrodt 1998).

The nominal values of cooperation that enter the statistical model are arrived at by applying Goldstein's weighted version of Charles McClelland's World Event Interaction Survey (WEIS) on the KEDS data set (Goldstein 1992). Originally WEIS was created in a realist milieu which placed emphasis on diplomatic and military behaviour. This bias was intentionally reduced somewhat in Goldstein's version of WEIS. As Section 4.1 (c) will discuss, Goldstein's version still has problems, for instance, by operating with a conflict - cooperation continuum that fails to take into account the depth of a foreign policy action.⁵

(a) *Gathering events data*

Compared to ordinary data collection through downloading from Eurostat or OECD sources, events data set creation involves several additional steps: 1) the search for and downloading of events, 2) the reformatting and filtering of data to fit KEDS, 3) the updating and revision of dictionaries, and 4) the autocoding of the entire data set including the aggregation of data into timeseries suitable for statistical testing.

The first step is the search for and downloading of events. The choice of source of the events has, according to Schrodt, been one of the "*perennial problems of events data set creation, however, during the 1990s, most event data projects (whether human or machine coded) shifted to the Reuters newswire source*" (2000:35). Schrodt justifies the use of Reuters on the basis of its superior world coverage and its global reach. His Gulf events were initially obtained from the NEXIS "REUNA" file (Reuters North American news service).⁶ According to Schrodt, the searches involved looking for words covering the states of the Gulf region and the Arabian peninsula for the

⁵ The PANDA project (the Protocol for the Assessment of Non Violent Direct Action) in comparison uses an even more elaborated system of categories from WEIS. It basically uses KEDS to generate its data and only varies in terms of a much broader spectrum of actors and actions than KEDS. Large-scale data-set project at Harvard University covering approximately 500,000 different events. Many different event data and events data generation methods and programs exist. Finally, Azar's Conflict and Peace Data Bank (COPDAB) is a data set that codes a general "issue area"—whether an action is primarily military, economic, diplomatic or one of five other types of relationship (1980). WEIS, in contrast, codes for specific "issue arenas" such as the Vietnam War, Arab- Israeli conflict, and SALT negotiations.

⁶ Reuters News Leads are now only available directly on the Reuters News Service (in the Archives), although they were previously available through the LEXIS/NEXIS data service as well.

period from 15 April 1979 to 31 March 1999. The source texts prior to 10 June 97 were located by using the NEXIS search command:

"(SAUDI! OR SAUDI ARABIA! OR IRAN! OR IRAQ! OR KUWAIT! OR GCC OR OMAN! OR YEMEN! OR QATAR! OR BAHRAIN! OR UAE OR EMIRATE! OR DUBAI! OR ABU DHABI!) AND NOT (SOCCER! OR SPORT! OR OLYMPIC! OR TENNIS OR BASKETBALL OR NBA OR T.STRM OR HEADLINE(HIGHLIGHTS OR (WORLD W/2 OUTLOOK) OR (KEY W/I FACTS) OR (EVENTS W/I SCHEDULED) OR (HISTORICAL W/I CALENDAR)))"

Texts after June, 10, 1997 were downloaded from the Reuters Business Briefing service. The data set that this project uses is a version of the data coded from the *lead* sentences containing 47,882 events.⁷ The lead sentence is "*the first*" sentence of a newswire report. One example of a lead sentence is the following from the 1990 Iraq-Kuwait Crisis:

July 25, 1990: IRAQ WARNS IT WON'T BACK DOWN IN TALKS WITH KUWAIT

Iraq made clear Friday it would take an uncompromising stand at conciliation talks with Kuwait, saying its Persian Gulf neighbour must respond to Baghdad's "legitimate rights" and repair the economic damage it caused (Schrodt 2000, citing Reuters).

The idea is that lead sentences as this "*following standard journalistic practice usually summarises the story that follows and has a relatively simple declarative structure*" (Schrodt 2000:37).⁸ This makes it suitable for further processing through the second step, which is the filtering and reformatting of these leading segments of the Reuters news wires into readable data for the so-called Kansas Events Data System (KEDS) software. This is more a technical step, involving the conversion of the source text, the Reuters news leads, to a standard form using a simple filter program "*Nexis Filter*".⁹

The third step involves the modifying of dictionaries on actors and verbs according to the specific characteristics of the filtered data set in hand. In general, KEDS uses three types of information to pattern recognise and code the interaction of an event, the actors, the verbs and the phrases. The modification of dictionaries is done by manually coding a sample of events according to these patterns. The actors are proper nouns that identify the political actors. New actors are detected through the KEDS utility program "*Actor_Filter*" and incorporated into the so-called "*actors*'

⁷ Schrodt remarks that the full version comprising 304,000 events (in full stories) is better suited for smaller actors. Since this thesis mostly aggregated cooperation at a national level the lead sentence data set of a smaller number of events was selected (2000).

⁸ Schrodt defends this narrow coverage of the event by assessing that in most situations "*full-story coding of newswire text will not result in a dramatic increase in the number of events because of the high level of redundancy found in the texts*".

⁹ The program basically changes all letters to capitals, commas are delimited with spaces, irrelevant information such as page headings are removed and the date is formatted in KEDS readable text. In this process another utility program Nexis Verify is also used to check the dates for missing intervals, bad date formats and the like.

dictionary” to be recognised by KEDS when reading the events.¹⁰ In the Iraq-Kuwait event above, KEDS would identify Iraq as the source and Kuwait as the target of the action. As previously mentioned, event data primarily distinguishes the actions that one actor takes towards another one. This means that the verbs are the most important part of the sentence in determining the event code. KEDS operates using verbs dictionaries that specifically contain information about the verbs and the phrases within which the verbs (plus associated words) are found. The phrases distinguish different meanings of a verb. For instance, the verb “*to accept*” has a different coding if it is combined with the words “*refused to accept*” than if the combination of words is “*proposal was accepted*”. The pattern recognition typically distinguishes between direct objects such as in the distinction between “*Promised Military Aid*” and “*Promised to Veto*”.

In the fourth step, each data set is finally autocoded on the computer with the revised dictionaries and all remaining events. The autocoded events are then usually transformed into time-series for each given actor dyad using the event aggregation program “*KEDS COUNT*”. This program indicates for a given period how “*co-operative*” a given actor has been towards another actor. Goldstein in particular defines net-cooperation, which is the weighted sum of all co-operative acts in the time period minus the weighed sum of all hostile acts (Goldstein & Freeman 1991). In the Iraq-Kuwait 1990 event mentioned above, the event would, for example, receive the WEIS coding 160 WARN, equal to -0.7 on the Goldstein revised WEIS scheme. If another event in the same period was coded to +2, and there were only two events in this period, the net-cooperation would subsequently have been 1.3. As will be shown below, the case of European foreign policy necessitates some minor revisions of these measures to enable them to address the questions of this thesis. Notably, European foreign policy will here be measured in terms of the gross cooperation towards a specific target, and not as net cooperation. This is a measure that aggregates the various values for cooperation irrespective of their positive or negative values and thus provides a measure for the intensity of cooperation, as will be further elaborated in Section 4.2 (b).

For this project, a quarterly aggregation has been chosen. This is mostly due to methodological reasons: to reach a suitably high number of periods in order to perform statistical time series analysis based on a data set from 1979-99. Smaller aggregation periods, such as two weeks or one month, have been seen in KEDS studies before. This study however included the variable trade, which does not exist in smaller aggregations from 79-99. A relatively long aggregation period of three months is compatible with a perception that events are probably less discrete in nature than,

¹⁰ In principle the program should automatically compare the old actor dictionary with the actors deriving from the events in question and list all new actors. In practice, one must manually check whether each actor already has been placed in the dictionary or not.

for instance, King have indicated (1989, see below). Analysing groups of events and finding relationships which continue from one quarter to the other thus rather indicate that the groups of events hung together, not because they were discrete, but for some other reason, such as, for instance, the impact of learning.

(b) *Arguments in favour of machine coded event data analysis*

Events represent according to Laurance the preferred level of analysis of the policy community since events describe “*conflicts and co-operation*” which is the “*essence of foreign policy analysis*” (1990).¹¹ KEDS is here particularly relevant. It offers a unique possibility to build an extensive and relatively consistent data set on one of the most important variables in international affairs, namely co-operation.

There are several other reasons behind the decision to use the KEDS Gulf data set in this project. Firstly, availability played a significant role and the fact that the KEDS Gulf data set had a suitable long time horizon. Secondly, the KEDS Gulf data set had been positively assessed and was generally considered reliable (Schrodt 2000:3, from Schrodt & Gerner 1994). Thirdly, it was an updated data set extended to cover a period until the second quarter of 1999 (1999q2). In total and measured in quarters, this yielded 64 quarters. 40 time periods are usually the minimum requirement for using statistical time series analysis, such as ARIMA models. Fourthly, the advantage of KEDS compared to other data sets, is that KEDS is stronger in its precision towards international cooperation with a specific region or country having focused extensively on, for example, the Gulf (Huxtable & Pevehouse 1996). The Conflict and Peace Data Bank (COPDAB) and the World Events Interaction Survey (WEIS) are on the contrary global data sets attempting to code “*all interactions by all states and some non-state actors for a period of time*” (Schrodt 2000 from Azar 1980). These data sets may therefore be more suitable for testing more global hypotheses. This also applies to the Protocol for the Assessment of Non Violent Direct Action (PANDA), which may be regarded as an ambitious attempt to provide a new generation of KEDS extending the dictionaries and being more sophisticated than KEDS in terms of the number and types of actors included (Bond, Bennets and Vogeles 1994).¹² In the choice of data set, particularly between PANDA and KEDS, it was important that KEDS provided a superior service by being more transparent, updated and cooperative towards external use of the system than PANDA.

¹¹ For a discussion on the use of large scale data sets, see e.g. Ayres and Andriole (1980: 216-218); or Andriole and Hopple (1984).

¹² URL: <http://data.fas.harvard.edu/cfia/pnscs/DOCS/cbcontent.htm>.

As regards the instrumentality of using event data, one of the arguments is that it “*reduces journalistic descriptions of international interactions to categorical data that can be analysed statistically*” (Schrodt, Davis and Weddle 1994:2, 1-2). Event data analysis thus represents a systematic approach to describing large empirical data sets that may give a hint about the existence or non-existence of correlation among different variables. With the help of “*machine coding*” of the events, large machine-readable data can now be categorised and coded by a single researcher. In addition, similar occurrences of a particular pattern are not subject to inter-coder disparities.

One should not forget that KEDS deals with qualitative variables and an extensive degree of judgement lies behind the creation of the dictionaries that are used for the machine coding. Schrodt estimates that one must expect that up till 15-20 % of all events are erroneously coded whether they are humanly or machine coded (1998, Manual:18). As Schrodt mentions, “*if you can't cope with the fact that probably 15 % of your data are erroneously coded, you shouldn't be doing event data analysis. End of sermon.*”

Despite the fact that creating a machine coded events data set involves a few more steps than for instance downloading an already existing data set from the internet, e.g., using the Behavioural Correlates of War data set (BCOW), KEDS remains highly user-friendly.¹³ In many ways, one may see KEDS, related programs such as PANDA and the newly developed TABARI programs as responses to Laurance's quest for more transparency, suggesting, for instance, to produce manuals covering each single step of their analytical process.¹⁴ Illustratively, this author was able to develop a preliminary data set within two months mainly based on the detailed 215-page long “*KEDS MANUAL*”.

(c) *Arguments against machine coded event data analysis*

A major disadvantage of machine-coded events data analysis stems from the far from similar definitions scholars give of “*events*”. Events used to be defined as in Schneider & Seybold as “*single action items of a non-routine, extraordinary, or newsworthy character that in some sense are directed across a national boundary; and have, in most instances a specific foreign target*” (1997). Laurance is more concrete arguing that an event involves “(1) an actor, (2) a target, (3) a time period, (4) an activity, and (5) an issue which the activity revolves” (1990). In this view, an event is some activity undertaken by an international actor (a nation state, a major sub-unit of a

¹³ Different converting programs exist though or are being developed.

¹⁴ Schrodt, Davis and Weddle 1994; Goldstein & Pevehouse 1997 or the Philip A. Schrodt: “KEDS Manual”, Version 0.9B7 Draft, February 1998.

nation-state, an international organisation)... *“undertaken at a specific time and which is directed toward another actor for the purpose of conveying interest (even non-interest) in some issue”*.

Similarly, Schrodt provide a *practical* definition of events related to the actual discipline of machine coding events (2000). He notes that an event *“is an interaction associated with a specific point in time, that can be described in a natural language sentence that has as its subject and object an element of a set of actors and as its verb an element of a set of actions, the contents of which are transitive verbs.”* This definition is, according to Schrodt, not an attempt to justify machine coding *a priori*, but is a result of *“years of experiments with ...the gradual realisation that interactions that do not meet this criteria are likely to be ambiguous to humans as well as machines.”* The question one ought to ask before proceeding with event data analysis is, however, whether real actors share Schrodt, Laurance’ and other scholars’ conceptualisation of an event? If this question is not addressed, it can lead to adverse effects.

The KEDS project in general addresses this question but some recent work has had a tendency to underestimate the implication of the gap between events data analysis and real world phenomenon. For instance, Pevehouse & Goldstein used KEDS generated events data to predict, *“that Milosevic would never give in to the NATO bombings in the Kosovo”*(1999). The article had been sent for review 27 April in the midst of the NATO bombing campaign. By the time it was published, the last Serbian soldier had left Kosovo and NATO’s KFOR force had been controlling Kosovo for about two months.

That a model can lead to a wrong prediction in one case like this is not really the problematic issue here, as the purpose of systematic research is to generalise. However, it seems to be a dubious exercise to use KEDS to measure the influence of a bombing campaign on a dictator since KEDS cannot capture the length and the depth of a bombing campaign. For instance, the coding for an air strike (coded as 196 or -6.0 in Goldstein’s updated version of the WEIS coding scheme, where the coding ranges from -10 to 10) does not consider either the number of fighter planes engaged, the number and type of bombs used in the strike, the duration of the strike or the damages caused by the strikes. This criticism does not imply that KEDS is useless. On the contrary, KEDS’ strength is its ability to distinguish between various types of action, thus capturing the scope of an action. This is crucial in the analysis of EFP. Moreover, as this project is less preoccupied with influence, i.e. whether the Union may actually force Milosevic, Nigeria’s Abacha or Iran’s Khamenei to give in, but rather addresses the capability and presence of EFP compared to its potential, previous

capability-presence and compared to other foreign policy actors, the features of KEDS are relevant to the analysis.

In the past, events data analysis has also received criticism for allegedly advocating a reductionist worldview focusing on action – reaction and not on, for example, the impact of ideas or identity. Keohane mentions, (using events data analysis) “*instances of cooperation and discord could all too easily be isolated from the context of beliefs and behaviour within which they are embedded*” (1984:56, 1-21). However, as this thesis uses events data analysis to test a theoretical framework regarding exactly the impact of beliefs, Keohane’s worry for the exclusion of ideas is in this context not really relevant.¹⁵

4.2 Specification: variables

The starting point for constructing a relevant statistical model is the specification of the variables needed (and available) to test Chapter 3’s learning model. Table 4.1 below lists the different variables that were chosen. The first row of Table 4.1 lists the dependent variable of this thesis indicating its (data set) description and notation. In those cases where the KEDS Gulf data set was used to observe the variable (all except the economic variables), the column “EVENTS” lists how many events that in total were observed of the specific variable in the KEDS data set.

(a) *European foreign policy (EFGU)*

On the dependent side, the Union’s capability-presence or European foreign policy is measured using an indicator from the IR-literature on cooperation and conflict. The indicator measures the intensity of action (or cooperation) from the European Union towards the Gulf States. The cooperation among Member States is measured in absolute (or gross) terms. In other words, cooperative and hostile acts towards a given third country are added up to provide the value of the variable in a given period.

The measure for EFP is calculated on a quarterly basis from the Gulf data set using Goldstein’s revised WEIS coding scheme (1992). The Goldstein scheme has been reproduced in Appendix 4.1.

¹⁵ A similar note may be attached to King’s observation “*that scholars in this field often think in terms of the continuous but unobserved processes of international conflict and co-operation*”, hereby, [wrongly] “*attach[ing] statistical techniques that are designed for continuous time-series*” to discrete events. This really does not concern this project since the data set of the project consists of continuous time series where the aim precisely is to find out to which extent the different events actually are discrete or may be related to each other (King 1989:125; Schneider *et al* 1993:329).

Table 4.1

List of variables

| HYPOTHESIS | DESCRIPTION OF VARIABLE | NOTATION | EVENTS |
|-------------------------------|-------------------------------------------------------------------|-------------------------------------|---------------------|
| EUROPEAN FOREIGN POLICY (EFP) | Gross EFP versus (vs.) the GULF | EFPGU | 235 |
| LEARNING | Lagged EFP variable | EFPGU _{t-1, t-2, ..., t-n} | As above |
| | Gulf net cooperation vs. EU | GUEU | 318 |
| | Gulf net cooperation vs. World | GUWO | 22283 ¹⁶ |
| INABILITY TO LEARN | Gross Member States cooperation vs. Gulf | GMSGU | 7782 |
| | US Foreign Policy vs. the Gulf | USGU | 9420 |
| | UK/France/Germany Gross Foreign Policy vs. the Gulf ¹⁷ | GUKFRGEGU | 3214 |
| | Import Diversity vs. the Gulf | IDEUGU | - |
| | Export Diversity vs. the Gulf | EDEUGU | - |
| | Import Average vs. the Gulf | IAVEUGU | - |
| | Export Average vs. the Gulf | EAVEUGU | - |
| | Import Average vs. the world | IAVEUWO | |
| | Export Average vs. the world | EAVEUWO | |
| | Import Diversity vs. the world | IDEUWO | |
| | Export Diversity vs. the world | EDEUWO | |
| OTHER | Balkan cooperation vs. the World | YUWO | |

Goldstein's revised WEIS' coding scheme classifies events into 109 specific categories organised into 22 general categories such as "Consult", "Reward", "Protest" and "Force". These form "a very rough cooperation-conflict continuum" (Laurance 1990 on the WEIS scheme). The numerical scale of Goldstein goes along a continuum from -10, which indicates the most hostile act that an actor may pursue towards another actor (military engagement), to +10, which is the most cooperative act in the scheme (merger/integration). In-between, the value of 0 is given to neutral declaratory acts, such as a comment. If in a given period, the aggregated values of the hostile acts (all in minus) equals the aggregated values of the cooperative acts (all in plus) the results would thus be that the degree of (net)-cooperation had been 0 or neutral in this period of time. Using the *gross* measure instead, the degree of (gross)-cooperation would amount to 20.

It may be noted that KEDS analysts have normally used the degree of net-cooperation as a measure of cooperation and not the absolute (gross) value as is preferred in this study. This stems from the

Bahrain (131); Djibouti (5); Iran (5058); Arab World (1063); Iraq (7122); Israel (2296); Kuwait (1132); Libya (412); Lebanon (1096); Palestine (253); Qatar (106); Saudi Arabia (1379); Syria (825); and Yemen (405).

The number of events from the three countries was: UK 1667, France 1042 and Germany 505.

study's emphasis on the Union's capabilities to act and mobilise resources, which is something that includes both cooperative and hostile actions. As mentioned in Section 4.1, measuring EFP as net cooperation (i.e. cooperative minus hostile acts) is indeed problematic, in that it is not possible to detect the depth of EFP. Had the Union, for example, managed to establish a military force to intervene between the Serbs and the Croats in support of the European Community Monitoring Mission (ECMM, now EUMM) as proposed by France in autumn 1991, the perception of EFP as paralysed and incapable of acting would probably have reversed. The proposed use of force would have counted as a hostile (negative) act according to the WEIS scheme. On the other hand, the conveying of humanitarian assistance in Bosnia later during the conflict in the former Yugoslavia would have been counted as a cooperative (positive) act. Using a net-measure thus would have a neutralising effect on the value of the two EU actions, while a gross measure adds the two together.

(b) *The learning hypothesis*

To reiterate from Chapter 3, learning is the ability of actors to form beliefs about the workings of EFP based on previously held beliefs and the observed outcomes. The previously held beliefs determine the allocation of effort between unilateral and multilateral (European) foreign policy – everything else held constant. The demand on the learning hypothesis for the quantitative analysis was according to Section 3.6 the joint significance of 1) the lagged values of the dependent variable, reflecting the allocation of effort to EFP, and 2) the observed outcome, in this case the degree of cooperation (or hostility) of the target. Only with both these indicators turning out significant, may the patterns of this analysis be identified as compatible with what learning is about.

On the explanatory side, the statistical model therefore includes, i) a measure of the target's degree of cooperation/hostility vis-à-vis the Union/the rest of the world and ii) a measure of the lagged dependent variable, i.e. past quarters' values of EFP. Apart from demanding significance of both these two indicators, the joint significance of more than one lag of the above variables should strengthen the justification for the learning hypothesis.

The measurement of the lagged dependent variable follows directly from the description of the dependent variable above. The other indicator for learning, the lagged value of cooperation from the target, is expressed as the net value of cooperation/hostility from the target towards the rest of the world/the Union. The reason for not using the *gross* value here as well is that the cooperation of the target is supposed to be a proxy for the *observed outcome*. The perception of the degree of success or failure of the observed outcome is believed to relate to the degree of compliance of the target

versus the Union/the rest of the world. One thus needs to differentiate between cooperative and hostile acts, as the net value (unlike the gross value) does.

(c) *Inability to learn*

If the null-hypothesis that learning does not take place is confirmed, Chapter 3 discussed several factors that could account for this inability to learn or simply could have suppressed any ability to learn that the government might have had. Among these factors were those directly related to the government's ability to observe the outcome. These *internal* factors included notably the impact on EFP from competing strategies either from other international actors such as the US, single Member State governments or international institutions. The less integrated the competing strategies had been into the government's own perception of the workings of EFP, the higher was the risk that the outcome would change without the government being able to observe the causality behind its own action and the change and thereby being able to learn from the outcome.¹⁸

The impact of competing strategies on EFP is, as suggested in Chapter 3 approximated, by focusing on the possible influence on EFP of US foreign policies versus the Gulf. US foreign policies towards the Gulf are measured as the degree of net-cooperation from the US towards the Gulf. Related to the discussion above of when to use net and gross values, the net-value is chosen to capture the impact of the directions set by the US regarding a crisis and/or conflict. Had the present framework rather emphasised investigating power politics oriented hypotheses, for example, hypotheses on hegemonic power, the use of the gross value might have been more suitable as that would better have captured the intensity of US pressure.¹⁹

A proxy representing the actions of the three big Member States, France, Germany and Britain on EFP measures the impact of individual Member States' foreign policies on EFP. The proxy represents the summed values of cooperation/hostility of these three countries towards the Gulf. Contrary to the US variable, the *gross* or *absolute* values of cooperation is used to arrive at this proxy since the issue is whether an increase in the intensity of unilateral action from one or more Member State could act as a locomotive for more depth and scope of EFP, or the relationship instead is a trade off between Member State foreign policy and EFP.

¹⁸ Clearly, outside actors/strategies might also be able to alter the government's interests regarding a particular strategy. This could happen within more traditional power political options using, for instance, blackmailing or coercing the Member States to comply with a certain mode of behaviour.

¹⁹ In fact, both measures were included at an early stage of the statistical specification of the model and no correlation could be found between gross US foreign policy towards the Gulf and EFP. Omitting Gross US foreign policy thus did not bias the results.

(d)

Economic interests

As described in Chapter 3, the impact of economic interests and institutional competence within the external economic relations of the Union are regarded as complementary explanations to learning. Firstly, the impact of external economic relations on EFP is tested for by using a measure of Member States' trade preferences: the intensity and diversity of trade among Member States towards a given third country as well as towards the rest of the world. Trade figures were derived from OECD's Monthly Trade Statistics in its quarterly form. Figures were available only from 1983q2 – 1999q3 regarding EU trade towards the world, and from 1984q1-1999q3 towards the Gulf.²⁰ There were no quarterly foreign direct investment figures available.²¹ Both import and export figures were included in the model. The diversity of EU trade was calculated by using a formula for "variance" among observations in a sample equal to the total population.²² The interpretation of the variance is the deviation of each Member State's trade from the mean. The intensity of trade was estimated by the average degree of imports or exports measured as absolute values of imports or exports.

According to Chapter 3, increased diversity of trade should lead to less EFP. The effect of an increase in the intensity of trade, on the other hand, should differ according to whether the trading partner in question was the target country or included all trade of the Union towards the rest of the world. In the former case, Chapter 3 predicted a negative correlation between trade and EFP; in the latter case, the relationship ought to be positive instead.

(e)

Institutional change

Nuttall takes the view that institutional changes are an integral part of European foreign policy (1997; 2000). Chapter 3 suggested that the more institutional competence is transferred to both the external economic relations and the CFSP, the higher is the capability-presence of the Union in international affairs. Qualitative case studies offer the opportunity to go into detail regarding the country specific competence of the Union. Informal institutional changes are also more adequately dealt with in single or comparative case studies. By being able to detect structural breakpoints in the

²⁰ Available at the EUI, the University of Konstanz and the LSE.

²¹ Yearly figures are available and may be used as an estimator for FDI, which could be converted using various conversion programs, e.g. SAS.

²² The formula for variance, i.e. the average squared deviation of each Member State's trade from the mean, can, using simple algebra, be expressed as:

$$\frac{n \left(\sum_{i=1}^n x_i \right)^2 - \left(\sum_{i=1}^n x_i^2 \right)}{n^2} \quad \text{where } x_i \text{ stands for the } i\text{'th Member State's trade, and } n \text{ is either 15 (1995-1999), 12 (1987-1994), or 10 (1983-1986)}$$

Member States. This takes into consideration the successive entry of Spain, Portugal, Sweden, Austria and Finland to the Union.

data set a systematic quantitative analysis like this should, however, in principle be able to see whether larger formal institutional changes have played a significant role.

This thesis accordingly looks at the impact of the intergovernmental conferences' treaty changes hypothesising that these have been able to provide new constraints and opportunities for EFP. This means that one should be able to observe changes in EFP according to the institutional changes in the period since the treaty came into force. Controlling for the impact of institutions is thus here a control regarding the impact of the SEA, the TEU and the Amsterdam Treaty. Despite the many problems of the CFSP one should expect all three treaties, the SEA, TEU and the Amsterdam Treaty to induce more depth and scope into EFP. Structural breakpoints should thus appear in the second-third quarter of 1987 and around the fourth quarter 1993-first quarter of 1994 for a *direct* institutional effect.

(f)

Other variables

The model also included a number of other variables, notably, the impact of the three wars, the end of the Cold War, the Gulf War and the war in the former Yugoslavia. As regards the end of the Cold War, a structural breakpoint in the events data set nevertheless should occur around 1990 if one could speak about a *direct* Cold War effect. It might occur in the first quarter after the fall of the Berlin Wall had started with the initial opening of the wall in Bornholmer Strasse on November 9, 1989, i.e. in 1990q1. Until that point "*the Western Europeans and the Americans still remained cautious in their attitude to the events*" (Nuttall 2000). If the structural breakpoint appeared later, one cannot exclude a Cold War effect either, but it would then be more difficult to link the effect directly to the end of the Cold War, in particular, due to the institutional changes of the Union at the beginning of the '90s.

The literature described in Chapter 2 suggested that the end of the Cold War, i.e. the end of the balance of power, increased the external pressure on the EU to react externally which thus should have led to more EFP cooperation. The literature, however, does not give any direction as to what the impact of the Gulf War would have been. Nuttall notes that one should not underestimate the impact of the Gulf War 1990-91 on the formation of the TEU (2000). From that we may expect a positive impact of the Gulf War on EFP, i.e. a jump upward in EFP cooperation from 1990-1991.

The most traumatic of all EFP experiences was the experience with the break-up and wars in the former Yugoslavia, 1991-1995. Winn (1997) notes that the crisis in the former Yugoslavia

highlighted the "*paucity of political will regarding the operation of joint actions*". To control for the impact on the conflict in the former Yugoslavia on EFP, the data set thus comprises the conflict in the Balkans using the KEDS-team's coverage of that conflict from April 1989 to May 1999. Despite including 52,729 events the Balkan data set however only contains 40 quarters, which as mentioned is a critical low number for time-series analysis. The project instead uses the Balkans data set to provide a rough statistical indication on the relationship between the Balkan conflict and the Gulf events from 1989-1999. To the model is thus added a variable measuring the degree of cooperation from the former Yugoslavia towards the rest of the world to see how the Union's results in the Balkans might have affected EFP elsewhere. The net value is used for the same reasons as it is used to measure GUWO and USGU.

The geographical proximity is often included in studies on cooperation and conflict. In the democratic peace literature, for instance, geographical proximity is significant in most major studies, such as in Bruce Russett & John Oneal's analysis based on the Correlates of War data set (Oneal 2000). This project, however, will not control for the impact of geographical proximity due to the focus in the quantitative study on the Gulf region only.

Colonial ties are also often tested for in studies on cooperation, war and conflict (see e.g. Schneider & Seybold 1997). Special relations indeed exist between certain Member States such as France and Britain and third countries in the Persian Gulf deriving from colonial ties. However, the quantitative study does not explicitly test for such impact. However, colonial ties implicitly enter among the explanatory variables as information and knowledge about the region that certain larger Member States are supposed to have due to their size and historic engagement in third countries. This is tested for by looking at the impact of the three big Member States, Germany, France and Britain, on EFP as described above.

In conclusion, the data set will be tested separately for structural breakpoints due to various wars and institutional changes in the following periods: 1) 1983q2-1997q1 (whole period); 2) 1983q2-1993q4 (test for TEU-effect); 3) 1987q3-1997q1 (SEA-effect) and 1990q1-1997q1 (Cold War-effect).

4.3 Specification: statistical model

Based on the above list of variables, the following specification procedure is applied to determine the adequate statistical model. First, all time-series of the variables are tested for stationarity and

unit-roots. Second, all variables are tested for autocorrelation in order to establish the autoregressive model to be applied. Third, multicollinearity tests are performed to avoid bias from correlation between the various explanatory and supposedly independent variables. A narrow criterion is applied in this process implying that all variables that do not fulfil the specification tests are excluded in order to propose a suitable statistical model.

The attempt was to analyse the time series within the auspices of ARIMA models, i.e. autoregressive integrated moving average models. However, it should be noted, that the fact that the number of observations are at the lower level of what is regarded as required for a time series analysis, efficiency and consistency, the question of which are large sample properties, almost becomes irrelevant. For example, a temporary (but possibly random) change in the direction of a relationship will appear to be a trend and therefore has a non-stationary component. But if that same series were embedded inside a longer series the trend would disappear. There is thus logic behind complementing the time series analysis using ARIMA methods below with a test that clearly did not originate from time series, but on the other hand appears robust in particular in small samples, the property of Ordinary Least Squares (OLS). The strategy is therefore to develop a time series model using ARIMA models as the primary tool but to complement the results of these tests with an OLS test.²³

(a) *Unit root test – test for stationarity*

The most important restriction on the use of time-series is the stationarity condition.²⁴ Tests for stationarity is a test for a root *less than* 1.0. One of the approaches to test for stationarity departs from the unit root test. Unit root tests test for the root equal to 1.0. Cromwell *et al* have argued that tests for stationarity are “*really just tests for non-unit roots*” (1994). This is probably a debatable statement, especially since any root greater than 1.0 will induce a trend. Unit roots are however not compatible with stationarity and therefore needs to be tested for to establish non-stationarity. In the specification process, unit roots were tested for using the Phillips-Perron Tests for unit roots.²⁵ In some doubtful cases the Phillips-Perron tests were supplemented with the augmented Dickey Fuller tests (Hamilton 1994:528-529; STATA 6.0, 298-299).²⁶ The augmented Dickey Fuller tests control for serial correlation by including higher-order auto-regressive terms in the regression (Hamilton

²³ I am particularly grateful to Professor Schrodt for explaining the advantages and disadvantages of different statistical methods using KEDS.

²⁴ A time series is weakly or covariance stationary if neither its mean nor its autocovariances depend on the date t . A process is strictly stationary if the joint distribution of the variable depends only on the intervals separating the dates. The relevant type of stationarity for this data analysis is the weak stationarity (here just stationarity). Autocovariance is the covariance of a variable with its own lagged value (Hamilton 1994: 45-46).

²⁵ Hamilton 1994. Respectively DF: 516, 528; PP: 506-515. The Phillips-Perron tests are based on simple OLS regressions of the dependent variable on its own lagged value and a constant with corrections for serial correlation made to the standard OLS coefficients and t-statistics.

²⁶ The Augmented Dickey Fuller Tests controls for serial correlation by including higher-order auto-regressive terms in the regression.

1994:516). Appendix 4.2 lists the results of the unit root tests using the Phillips-Perron tests for unit root and the augmented Dickey Fuller tests for all the variables of Table 4.1.

As shown in Appendix 4.2, all variables from Table 4.1 except YUWO, EDEUWO and EAVEUWO, were statistically rejected to have a unit root composition. After differencing YUWO once (hereby becoming YUWO1 it obtained a non unit root composition.²⁷ EAVEUWO and EDEUWO could not become stationary either by including a trend term or by differencing (both for Phillips-Perron and Augmented Dickey Fuller) and were subsequently dropped from the analysis. The Phillips-Perron tests for IAVEUWO could not reject the unit root hypothesis ($p=0.12$), but the Augmented Dickey Fuller test could ($p=0.004$). IAVEUWO was thus allowed to remain in the model without differencing or including a trend term.

(b) *Test for auto-correlation*

Proceeding with the developing of the ARIMA model, the remaining time series were now tested for auto-correlation. The purpose was to see whether and to what degree the variables were autoregressive in their disturbance terms. This information is crucial to determine the correct number of lags included hereby correcting inferences, given both cross correlation between different time-series (especially to avoid over aggregation) and the autocorrelation of each series through time.

The correlograms of the variables were drawn including the autocorrelation (AC), partial autocorrelation (PAC), Q-statistics and a character based plot of the AC and PAC (Stata 6.0 1999:261; Box and Jenkins 1994; Hamilton 1994). All variables could approximately be interpreted in terms of zero or one lag of autocorrelation in the error terms and no moving average terms.²⁸ Based on this information it was decided to test the Gulf model on an AR(1), i.e. ARIMA (1,0,0) as follows:

²⁷ The methodological validity of expressing non-stationarity time-series in differenced or time-trend form thereby generating stationarity is contentious (Cromwell *et al* 1994:11; Hamilton 1994:Chapter 15). Hamilton describes it as the traditional trade-off between efficiency and consistency (447) and suggests not suppressing a unit-root expression if the assumption is true in order to achieve the most efficient estimates. However, if a unit root assumption is false, Hamilton maintains that the estimates will be wrong no matter how large the sample. He thus suggests testing the model both with and without the unit root imposed. His advice will be followed here in the sense that all variables that were not both rejected by the Phillips-Perron and the Augmented Dickey Fuller test were included in the models that were carried on to statistical testing.

²⁸ From the correlograms of the autocorrelation (AC) and partial autocorrelation (PAC), a picture appeared of EFGU, GUEU, IDEUGU and IAVEUGU being autoregressive. EFGU, IDEUGU, and IAVEUGU all showed autocorrelation and partial autocorrelation correspondent with an AR(1) process. GUEU's correlogram showed a mixed picture with both AC and PAC seemingly making a sharp cut after the first lag. A closer inspection of the actual values of AC and PAC from the 1-3 lag however more likely pictured PAC making a sharp cut after the first lag while AC rather decayed exponentially thus suggesting an AR (1) process for this variable as well.

$$(4.1) \quad \text{MODEL GULF} \quad y_t = x_t \beta + \mu_t, \text{ where} \\ \mu_t = \rho \mu_{t-1} + \varepsilon_t$$

In 4.1 the upper equation is the structural equation where y is the dependent variable, and x illustrates a vector of explanatory variables. The lower equation is the disturbance equation. ε_t is white noise, i.e. $\varepsilon_t \sim \text{i.i.d. } N(0, \sigma)$. A special case of (4.1) is where the model is solely auto-regressive of 1st order in the dependent variable, thus reducing (4.1) to (4.2) below.

$$(4.2) \quad y_t = \rho y_{t-1} + \varepsilon_t$$

If structural components were necessary as suggested by the hypotheses of this chapter, combining the upper and lower equation of (4.1) would thus lead to the following vector auto-regressive model for the GULF data to be tested:

$$(4.3) \quad \text{MODEL GULF} \quad y_t = x_t \beta + \rho (y_{t-1} - x_{t-1} \beta) + \varepsilon_t$$

Clearly, (4.3) only makes sense for structural components that are not individually auto-regressive. Due to individual autoregressivity as described above, GUEU, IDEUGU and IAVEUGU could thus be excluded from the further testing based on (4.3).

(c) *Multicollinearity*

As mentioned above, before estimating the model we further looked at the correlation (covariance) matrixes and the pair-wise correlation coefficients among all variables. This was done to establish possible multicollinearity of the model. The correlation and partial correlation matrixes are shown in Appendix 4.4. In the Gulf model, the relatively high pair-wise correlated variables seemed to exist between IDEUGU and IAVEUGU, and, between EDEUGU and EAVEUGU (approximately 0.6). The correlation between the import and export variables stems from the fact that both diversity and average intensity of trade uses the intensities of trade as their raw material of calculation.²⁹ Since our aim was to show the impact of external economic relations per se rather than determining whether specifically diversity or intensity of economic relations explains EFP towards the Gulf, both variables were included in the model. Higher pair-wise correlation was found between USGU and GUWO (~.88). The collinearity between USGU and GUWO was suggested to stem from a true causal relationship between the two variables where US policies towards the Gulf were reactive to

how the Gulf States acted towards the rest of the world. It could not be excluded that a large part of the Gulf States' actions towards the world were also highly determined by US actions. In the testing, both variables were included in the aggregate model. As will be shown, after the initial tests the exclusion of each of the two variables was attempted in order to see whether this improved the significance of the model or not.

4.4

Results

The model (4.3) could now be tested including – according to Section 4.3 - the following dependent and explanatory variables: $EFPGU_{t-1}$, $GMSGU_{t-1}$, $GUKGRFRGU_{t-1}$, $GUWO_{t-1}$, $USGU_{t-1}$, $EDEGU_{t-1}$, $EAVEUGU_{t-1}$, $YUWO_{t-1}$, $IAVEUWO_{t-1}$, and $IDEUWO_{t-1}$.³⁰ The tests were performed in four steps. First, all the explanatory variables were tested separately. The results of these ARIMA tests are shown in Table 4.2 below. Table 4.2 should be read as follows. The left column divides the results into 10 different double rows, 1-10, showing the results for each variable tested against the dependent variable according to equation (4.3). For instance, in 4, both the explanatory variable $GUWO$ and the lagged dependent variable $EFPGU_{t-1}$ are significant at the 1% level. σ is the estimated variance of the white noise disturbance and also appears significant (as it should in this setting).

Table 4.2 shows that 5 of the 9 explanatory variables are significant, namely, $GMSGU$ (at 5% significance level), $GUKFRGEGU$ (10%), $GUWO$ (1%), $USWO$ (1%), $EAVEUGU$ (5%) and $IDEUWO$ (1%). The AR(1) term, i.e. the lagged dependent variable, is also significant separately (as in “1”) and combined with the significant explanatory variables. The coefficients to the lagged European foreign policy variable are positive in all separate models and lie in the range of 0.3502 and 0.5526, implying that a one unit increase in the Union's capability-presence in the previous period will contribute between approximately 0.35 and 0.55 to the next period's capability presence. Among the significant explanatory variables, $GMSGU$ and $GUKFRGEGU$ and the two trade variables $EAVEUGU$ and $IDEUWO$ have positive signs. The positive signs indicate according to (4.3) that an increase in the variable in period t influences EFP positively in period t . However in period $t+1$ the initial increase would be counteracted, albeit not fully outweighed by a paralysing effect.

The coefficients of the two remaining significant explanatory variables, $USGU$ and $GUWO$, were negative. This implies that these variables affect EFP negatively in the present period t . but that in

³⁰ Using OLS generally showed positive correlation with adjusted R^2 at around 67% for a model containing only these two variables.

Table 4.2 Results of the Gulf Model: Robust Estimators of Explanatory Variables

| | GULF-VARIABLES | Coefficients | P> z | MODEL I (GULF) | Coefficients | P> z |
|----|----------------|-------------------------|----------|----------------------|--------------|----------|
| 1 | EFPGU | | | EFPGU _{t-1} | 0.483017 | 0.027** |
| | | | | σ | 19.75043 | 0.000*** |
| 2 | EFPGU | | | EFPGU _{t-1} | 0.3831 | 0.004*** |
| | GMSGU | 0.0828 | 0.042** | σ | 17.00788 | 0.000*** |
| 3 | EFPGU | | | EFPGU _{t-1} | 0.3786 | 0.005*** |
| | GUKFRGEGU | 0.0841 | 0.079* | σ | 17.5663 | 0.000*** |
| 4 | EFPGU | | | EFPGU _{t-1} | 0.4109 | 0.007*** |
| | GUWO | -0.01907 | 0.000*** | σ | 14.9548 | 0.000*** |
| 5 | EFPGU | | | EFPGU _{t-1} | 0.5118 | 0.000*** |
| | USGU | -0.0386 | 0.000*** | σ | 14.9487 | 0.000*** |
| 6 | EFPGU | | | EFPGU _{t-1} | 0.4836 | 0.028** |
| | EDEUGU | -2.8 x 10 ⁻³ | 0.969 | σ | 20.229 | 0.000*** |
| 7 | EFPGU | | | EFPGU _{t-1} | 0.3502 | 0.113 |
| | EAVEUGU | 0.237 | 0.035** | σ | 19.7057 | 0.000*** |
| 8 | EFPGU | | | EFPGU _{t-1} | 0.4726 | 0.033** |
| | YUWOI | -0.0118 | 0.663 | σ | 24.686 | 0.000*** |
| 9 | EFPGU | | | EFPGU _{t-1} | 0.5166 | 0.103 |
| | IAVEUWO | 12.1124 | 0.126 | σ | 16.7771 | 0.000*** |
| 10 | EFPGU | | | EFPGU _{t-1} | 0.5526 | 0.057* |
| | IDEUWO | 3.195 | 0.000*** | σ | 17.814 | 0.000*** |

Note: σ is estimated variance of the white noise disturbance ε. **, *** and **** indicate that the variable is significance at 10%, 5% and 1% significance level respectively. All estimates from STATA 6.0. In order to neutralise symmetric non-normality in the disturbances including as a special case heteroscedasticity a robust (quasi maximum likelihood) estimator (the Huber/White/sandwich estimator, see STATA 6.0, 113 or Hamilton 1994, 389) was introduced in the model. All non-trade variables were tested in the interval 1983q2-1999q2. All models including trade variables were only tested in the interval 1984q2-1997q1.

the period t+1, this initial decrease would be counteracted albeit not fully outweighed by an increased capability-presence of the Union. One should recall that both of these two variables were measured as a net-value. As both variables primarily take on negative values, increasing values of these variables imply that either the US is acting less harshly than before towards the Gulf or that the Gulf States are generally less hostile towards the rest of the world than they were before. If the US is acting less harshly towards the Gulf States, EFP will, according to the results, increase its capability-presence (counteracted but not fully outweighed by a decrease in the next period). If the Gulf States are acting less hostile, towards the rest of the world, EFP will similarly increase its capability-presence (counteracted but not fully outweighed by a decrease in the following period). Appendix 4.4 contains an extended version of the results summarised in Table 4.2.

Second, those variables that proved significant in the separate models were integrated as structural components to an aggregated ARIMA model. The results of these tests are shown in Table 4.3 in

³⁰ Note that the lagged variables strictly speaking enter through the autocorrelated disturbances according to the derivation of (4.3) from (4.1).

the left column (1984q1-1997q1). In this aggregate model, only the lagged explanatory variables, USGU and GUWO, are significant; the former variable being significant at the 1% level and the latter at the 10% level. The coefficients of both these two variables remain negative and fairly similar to the coefficients obtained in the separate testing above.

Table 4.3 Results of the aggregated Gulf Model : ARIMA MODEL

| GULF-VARIABLES | 1984q1-1997q1 | | 1983q2-1993q4 | | 1987q3-1997q1 | | 1990q1-1997q1 | |
|----------------------------|---------------|----------|---------------|----------|---------------|----------|---------------|----------|
| | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z |
| EFPGU | | | | | | | | |
| EFPGU_{t-1} | 0.587 | 0.001*** | 0.67421 | 0.000*** | 0.6299 | 0.001*** | 0.4819 | 0.219 |
| GMSGU | 0.0393 | 0.695 | 0.0033 | 0.944 | 0.0511 | 0.366 | 0.0368 | 0.608 |
| GUKFRGEGU | -0.0304 | 0.607 | 0.01340 | 0.794 | -0.0507 | 0.425 | -0.035 | 0.663 |
| GUWO | -0.009 | 0.058* | -0.01216 | 0.019** | -0.0099 | 0.114 | -0.0159 | 0.202 |
| USGU | -0.0266 | 0.003*** | -0.0180 | 0.020* | -0.026 | 0.019** | -0.0197 | 0.306 |
| EAVEUGU | -0.0019 | 0.784 | -0.0107 | 0.317 | -0.0020 | 0.775 | -0.0027 | 0.825 |
| σ | 9.4139 | 0.000*** | 8.1362 | 0.000*** | 10.3641 | 0.000*** | 10.707 | 0.000*** |
| Log likelihood | -194.2529 | | -140.8919 | | -146.7897 | | -110.0361 | |

Note: As Table 4.2. The variable IDEUWO was dropped due to multicollinearity.

Third, the results were controlled for any structural breakpoints according to the control variable hypotheses described previously. As one may recall, there were three periods that needed specific control, namely 1983q2-1993q4 (Treaty on European Union), 1987q3-1999q1 (Single European Act), 1990q1-1999q1 (Cold War). The tests of the models for these periods are shown in Table 4.3 in the remaining three columns to the right. As seen, the value of EFP remains significant in all three periods except the last, 1990q1-1999q1. Apart from that, GUWO and USGU are significant from 1983 to 1992 and USGU is significant from 1987 to 1999 as well. The signs of the coefficients remained unchanged from the separate models. Appendix 4.4 provides an extended version of the results shown in Table 4.3.

Fourth, the model including the explanatory variables was tested in an OLS-setting. As this should serve as a complementary analysis to the ARIMA tests, the strategy was to limit the analysis to the explanatory variables used in the ARIMA model. Following the auto-correlation analysis in Section 4.3 (b), EFPGU entered on the explanatory side with one lagged term only.

Table 4.4 Results of the Gulf Model : OLS³¹

| Gulf Variables | 1984q1-1997q1 | | 1983q2-1993q4 | | 1987q3-1997q1 | | 1990q1-1997q1 | |
|--------------------------------|-----------------------|----------|---------------|----------|------------------------|----------|----------------------|----------|
| | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z |
| EFPGU | | | | | | | | |
| EFPGU _{t-1} | 0.148 | 0.073* | 0.12 | 0.165 | 0.149 | 0.073* | 0.137 | 0.104 |
| GMSGU | 0.283 | 0.812 | -0.110 | 0.232 | 0.028 | 0.812 | -0.041 | 0.746 |
| GUKFRGEGU | -0.248 | -0.19 | 0.123 | 0.212 | -0.025 | 0.851 | 0.039 | 0.779 |
| GUWO | -0.210 | 0.008*** | -0.021 | 0.003*** | -0.021 | 0.008*** | -0.028 | 0.000*** |
| USGU | -0.129 | 0.388 | -0.010 | 0.274 | -0.013 | 0.388 | -0.004 | 0.768 |
| EAVEUGU | -0.0574 | 0.472 | -0.301 | 0.021** | -0.057 | 0.472 | -0.089 | 0.229 |
| EDEUGU | 5.24x10 ⁻⁶ | 0.508 | 0.0003 | 0.068* | 5.2 x 10 ⁻⁶ | 0.508 | 7.9x10 ⁻⁶ | 0.275 |
| IAVEUGU | 0.056 | 0.54 | 0.289 | 0.03** | 0.056 | 0.591 | 0.099 | 0.319 |
| YUWOD1 | -0.0339 | 0.107 | -0.020 | 0.143 | -0.034 | 0.107 | -0.052 | 0.044** |
| σ | 0.2405 | | 0.755 | | 0.241 | | 0.072 | |
| Number of obs. | 52 | | 19 | | 32 | | 29 | |
| F-Test; P>F | 0.0000*** | | 0.0000*** | | 0.0000*** | | 0.0000*** | |
| Root MSE | 11.378 | | 7.861 | | 11.378 | | 11.396 | |
| R ² | 0.849 | | 0.95 | | 0.85 | | 0.888 | |
| Durbin-Watson (Transformed) | 1.9536 | | 1.326 | | 1.954 | | 1.959 | |

Note: The estimates were computed in STATA 6.0 using the Prais-Winsten regression.

The results of the linear regression shown in Table 4.4 comprise tests for the period as a whole (the left column), and the three separate periods (the remaining three columns to the right). The lagged value of EFP is significant (10% level) for the whole period. However tested across the separate periods it is only significant in the period 1987q3-1997q1 (10%). The sign of the coefficient is positive and about 1/3 of the value obtained in the ARIMA model. The whole period and the period after the SEA in 1987 have similar coefficients. Among the other explanatory variables only GUWO is significant (1%) for the whole period, a property that GUWO keeps when tested in the three separate periods.

The sign of GUWO is negative as in the ARIMA model and should be interpreted similarly. Whereas none of the economic variables are significant tested in the period as a whole, all three economic variables are significant in the first separate period from 1983 until the TEU. EAVEUGU and IAVEUGU are significant at the 5% level and EDEUGU at the 10% level. The Durbin Watson statistics (DW) is close to 2, as it should. This holds for all periods except for the first period from 1983q2-1993q4 where DW is 1.3. Unlike the ARIMA models, the control variable for the influence of the conflict in the former Yugoslavia, YUWOD1 is significant in the period 1990-1999. The sign of YUWOD1 is negative and since YUWO1 is measured as net value, as GUWO and USWO, the interpretation of YUWO1 should be the same as those. This, however, requires that the lagged value

³¹ The Prais estimator used is a generalised least square estimator (GLS). Since it preserves the first observation, it can be of significant advantage in small samples like this. Prais estimates a linear regression of the dependent variable on the explanatory variables that is corrected for first-order

of EFP be significant and thus enter the model (with a positive sign). However, exactly in the period 1990-1997 the lagged value of EFP is not significant and this case will therefore have to be investigated further (in the discussion below) in order to establish the most probable sign of an eventual Balkan effect in the data.

4.5

Discussion

To show the existence of a learning pattern in the data, there were two requirements, 1) the significance of past EFP and 2) the significance of the outcomes in international affairs. The results in Table 4.2 illustrate the significance of the Gulf Model as specified by (4.1) and (4.3). EFP towards the Gulf from 1983-1999 may thus be depicted as an AR (1) model. Even in the case where all significant structural terms are included simultaneously, the AR(1) model proves its validity. The other component of learning, the outcomes or here the degree of cooperation/hostility from the target (GUWO), was, as mentioned, significant both in the separate and the aggregate model. A framework, as defined in Chapter 3 and operationalised in this chapter, is thus compatible with European foreign policy towards the Gulf States using Schrodt *et al*'s Gulf data set. The complementary linear regression analysis confirms the results of the ARIMA model that the data contains patterns of learning.

The signs of the coefficients do not provide input as to whether learning has taken place or not, but are useful to understand the dynamics of European foreign policy under learning. In general, it was reinforcing for the results that the signs remained stable in the different tests and the coefficients only varied slightly in absolute values. According to the signs of the coefficients, past European foreign policy has an unambiguously self-reinforcing effect on future European foreign policy – as predicted. The reinforcing effect from the other component of learning, GUWO, shows that the better the target behaves, the easier it is for EU to cooperate towards the target.³² Likewise, the worse the Gulf States behave the more difficult it is for the Member States to produce European foreign policy. In terms of the learning framework it is what happens in the following period that is important. Here, increased hostility of the Gulf towards the rest of the world leads to an increase (but not fully compensating increase) in European foreign policy compared to previously.

Based on this result, one may try to speculate as to the whereabouts on the learning curve depicted in Figure 3.2 of a representative Member State government. The results resemble a situation where

serially-correlated residuals using the Prais-Winsten (1954) transformed regression estimator and a version of the search method suggested by Hildreth-Lu (1960) (STATA 6.0 1999).

³² The negative coefficients of GUWO.

a given government is moving along a trajectory like z_{t+1}^F in the area from "0" to "z*" in Figure 3.2. Here, the effort to EFP is less than to unilateral policies and if the government experiences a failure in this area it will move along the trajectory z_{t+1}^F towards "z*". The experience of increased hostility of the target will increase the Member States' belief in the need to incorporate multilateral (European) strategies into the crisis and conflict. This is confirmed by the significance of the lagged European foreign policy variable.

That the government initially dedicated less effort to EFP than to unilateral strategies only holds true, however, if one regards the Union as a whole or the larger Member States individually. Some smaller governments such as Portugal and Denmark reacted practically only to the conflicts through European foreign policies. Their beliefs are thus more likely to initially have been in the upper right hand corner of Figure 3.2. Increased non-compliance from the target should, according to the learning model, thus have led to less effort attached to EFP from these smaller countries. As the Union acts unanimously and the sign of the lagged dependent variable is positive, one must conclude that the results are less compatible with the learning framework for smaller Member States. Of course, these countries may also learn about the workings of different foreign policies, but their influence on EFP is not confirmed by the model. It should be mentioned though that if one regards the degree of effort that a government attaches to EFP as something that is determined *ex ante* to the GAC negotiations based on the learning mechanism, one could argue that if some governments were discouraged about EFP and reduced their proposed effort to EFP, this might have resulted in a more realistic departure point for reaching an agreement with governments that were in the midst of raising their stakes in EFP.

One would, however, probably have to go outside the learning model to find explanations for this feature. Larger Member States may have the ability to influence smaller Member States towards a particular outcome. Here, the separate model indeed established the significance of the foreign policies of the three large Member States, France, Germany and Britain, in influencing EFP. In the aggregate setting this effect could however not be established.

Following Table 4.3 and the results presented above, EFP apparently experiences a structural break point situated around the beginning of the 1990s at the end of the Cold War. The structural breakpoint implies that the EFP, which over the period as a whole could be explained as an AR(1) process with one lagged term, will have another representation from the end of the Cold War on. Several other representations of the data from 1990 were tried, for instance, a model without lags, an AR(2), AR(3) and an AR(4) model. The results of these attempts (shown in Appendix 4.6)

suggest that the best performing model from 1990 is an AR(3) model thus with three lagged terms of the dependent and structural terms included. Two structural variables were here significant: GUWO and EAVEUGU.

The result on the enhanced learning was confirmed by the linear regression. As in the ARIMA model, the period 1990-1997 was tested for by including different lags of EFP in an OLS-setting. The results of these tests are shown in Appendix 4.7. They indicate that unlike the period as a whole, the period 1990-1997 would be better expressed using two lagged terms of EFP. In other words, the linear regression analysis confirms the ARIMA model's result on the intensified patterns of learning towards the end of the last two decades.

With EFP now included with (two) or three lags in the decision-making of the governments and the other learning variable GUWO outperforming the impact of the US (see below), the structural breakpoint in 1990 seems to suggest that the decision-making of EFP after the end of the Cold War enters a process of learning beyond the capacity of a very short-termed *reactive memory*. The increased number of lags after the end of the Cold War tells us that while EFP may continuously have been weak in the whole period, the weak actions hang more strongly together after the end of the Cold War than before. Importantly, this is not a test showing that EFP has become more efficient or cohesive; it is rather a result indicating that the government's decisions about EFP have become more linked to the past performance of EFP and thus more capable of incorporating past performance into their present performance since the end of the Cold War.

When the actual change occurred and why it occurred is difficult to determine. The change in the impact on EFP seems to have taken place gradually in the period 1987-1993 with a clear structural breakpoint visible by the end of the Cold War and the Gulf War. It is not possible to point to any exact impact of either the SEA or the TEU on the EFP. On the other hand, there are no signs of increased learning or structural breakpoints before the SEA. None of the war- or institutional factors can therefore be excluded from playing a role. In fact, it is likely that all three events, the SEA, the end of the Cold War/start of Gulf War and the TEU influenced governments towards more learning about EFP in the period 1987-1993.

In the case of a Gulf War effect, this effect might have been partly linked to learning as described in Chapter 3 regarding Bosnia/Kosovo and the development of the CESDP. In other words, the Gulf War may have visualised the limitations of pursuing foreign policies towards the Gulf at a unilateral level at a time where the effort attached to European foreign policy was very low compared to the

unilateral efforts. The assumption in Chapter 3's example was that the correct (or *true*) value of pursuing a multilateral (European) solution was higher than the unilateral option. Under this assumption, Iraq's invasion of Kuwait would have been the *failure* of the initial unilateral response that according to Chapter 3 should have forced the Member States to pursue a multilateral (European) option. This did not happen in the Gulf. The multilateral option pursued in the Gulf War was not primarily a *European* foreign policy. The multilateral force was led by the US, authorised by the UN and so were the economic sanctions against Iraq. What is missing in the interpretation is in other words, the impact of other multilateral institutions on EFP. One could imagine that the relative success of the actions in the Gulf War, in terms of decreasing the degree of hostility from Iraq towards the rest of the world, would have led to a strengthening of the effort attached to UN policies at the expense of EU policies. This allows for a different interpretation of the Gulf War than the one presented by, for instance, Nuttall (2000). According to the results in this chapter, EFP may have gained in strength from the Gulf War not because governments learned about their limitations vis-à-vis the UN. The reason is that for a given level of effort attached to EFP, the only thing a given government would have learned at that time was not to use EFP as much as previously. Instead, any positive effect on EFP from the Gulf War must – according to the framework presented here – simply stem from the immediate effects of decreased hostility from the Gulf States, a sort of peace dividend for EFP.

The bottom line of the significance of USWO is that EFP cannot be regarded independently of US policies. In fact, the US is the strongest alternative explanation to the fluctuations in EFP apart from learning. If in this context one limits the discussion on the US influence to the notion of competing strategies from Chapter 3, the Union indeed seems distracted in its learning every time the US makes a move. For instance, imagine what would happen if the Gulf States became more hostile and the US accordingly reacted with a harsher policy towards the Gulf States than before. In this case, the hostility of the Gulf States would initially paralyse the Member States. Then due to the presence of learning, the governments may slowly start to see the gains of cooperation towards the hostility and regain some of the lost capability-presence. Due to the harsher policy of the US, a given EU government would however prefer to cooperate even less at the European level now than before. In sum, despite the fact that the existence of learning might counter weigh some of the paralysis of the governments, the effect of the US is to make it much more difficult for the Union to agree on anything that would emphasise the European level. What would induce EFP cooperation is thus also clear from these results. The weaker or more cooperative the US becomes towards a specific target, the easier it is for the governments to agree on joint policies at the European level.

Due to the correlation between US policies and the policies of the Gulf States, tests were carried out to see the impact of the exclusion of either USWO or GUWO from the model. These tests shown in Appendix 4.5 indicate that if one were to exclude any of the two variables from the model, the best performance for the period 1983-1999 as a whole would be achieved for a model excluding GUWO and thus including the variable USWO. Contrary to what one might have thought, this result does not make the learning framework irrelevant. Rather it emphasises that learning co-exists with other explanations and that learning is one factor among others explaining EFP. Moreover, the influence of the US on EFP seems to diminish in the 1990s compared to the 1980s as learning becomes more important.

Only sporadic evidence was found for the importance of economic interests in determining EFP from the data. This evidence indicates that the higher the average intensity of exports from the Union towards the Gulf, the higher EFP were to be expected (net effect). Similarly, the greater the diversity of imports from EU Member States towards the world, the more likely it is that EFP will be strengthened. Both these results contrast with the political economic framework presented in Chapter 3 if isolated from the institutional structures. The inability of the data to confirm the political economic framework is further confirmed by the aggregate model where none of the economic variables were significant in the ARIMA setting. The reason for this lack of consistency between the results and the theoretical framework may be that 1) the operationalisation of the external economic relations only includes economic trade preferences, and thus fails to include FDI preferences and external economic competence of the Union, 2) the dependent variable largely overlaps with the external economic relations, so that it is rather obvious that when exports increase the Union's capability presence also increases as exports are under the competence of the Union, or 3) that the theoretical framework is wrong. Rather than jumping to the third conclusion at this moment, the case studies should be used to gain detailed insight into how economic factors may have become more or less important for EFP over the last two decades and seek as much as possible to integrate this into a discussion on the impact of competence in the external economic relations.

It may be added that the fact that the economic variables in the linear regression are all significant before the TEU cannot be taken as a confirmation of the impact of economic preferences on EFP. The DW value is insignificantly low.³³ The signs of the significant economic variables, however, point to a problem regarding Chapter 3's hypothesis on the impact of an increase in the intensity of EU trade. The question is which sign should be expected of the effect when the increase in trade among EU countries is neither defined as being towards one specific target country or towards the

³³ The Durbin-Watson d-statistics (9,19)=0.5598.

rest of the world as a whole, but towards a region or group of target countries? Future theoretical models would have to develop this more explicitly.

The results of the separate models suggested that multilateralism (European foreign policy) has been a complement rather than a substitute to unilateral foreign policy. In other words, enhanced Member State action towards the Gulf generally led to more EFP. Notably, this is a non-learning effect. The impact from learning has been (in the following period) to lower any initial strengthening of EFP from unilateral policies. Such a trade off follows directly from the learning framework of Chapter 3. In the empirical tests, multilateralism depends negatively on the latter. This implies that if a government decided to pursue the multilateral (European) option, less resources (effort) were dedicated to the unilateral option. Another interpretation of the trade-off result would be that European foreign policy towards the Gulf was more likely in situations where no strong Member State foreign policy existed beforehand and where a *European* strategy thus received less competition from individual foreign policies/strategies. Despite the fact that the aggregate learning model does not confirm the existence of such a complementary impact from unilateral foreign policy on European policy, the issue seems to have enough potential for further investigation. Notably, such studies would include the reverse causality as well, the impact of a Europeanization on national foreign policies.

Finally, there was no indication that the conflict in the former Yugoslavia had a significant impact in determining European foreign policy towards the Gulf in the ARIMA model. This contrasted with the linear regression indicating a role for a Balkan effect on EFP towards the Gulf. The fact that after the Cold War, EFP towards the Gulf may be expressed as patterns of learning that not only include experiences from the Gulf but also the experiences gained in a completely different area such as the Balkans is not directly compatible with the learning model of Chapter 3. However, it would echo the empirical literature well if the tragedy in the Balkans had an overall (destructive) effect on EFP. Moreover, the example given on the effects of Bosnia and Kosovo on the subsequent development of the CESDP also indicated that the former Yugoslavia probably played a specific role for the formal and informal institution building of EFP in the 1990s. This would then explain the positive impact of the former Yugoslavia on EFP towards the Gulf later in the 1990s. The fact that the ARIMA tests did not find the same correlation naturally limits the weight one should attach to the possible existence of a regular Balkan effect on EFP towards the Gulf-based data used in this analysis.

Concerning statistical uncertainty, the number of observations were generally too small with only 63 observations for the period as a whole and in the testing for structural breakpoints down to only 29 observations for the post Cold War period (1990q1-1997q1). The fact that both linear regressions and ARIMA tests were performed should, however, have increased the robustness of the results presented above. Future studies will have to extend the number of periods used to provide more robust results. Since trade data generally are not found on less than a quarterly basis back to 1983, the only way to increase the number of observations seems to be to await future periods, or to look only at the learning variables, excluding factors such as economic preferences to be investigated. The latter is not a preferable solution. First, one has to see learning as a facilitating or intervening element in the process of generating EFP, and not as a major explanatory factor for the policy outcomes. Removing other variables from the learning model would thus lead to failure in capturing the relations with and the importance of other explanatory variables. Second, testing on shorter time spans would probably always show a higher correlation between outcomes than longer time spans. Reducing the time interval is thus likely to increase the probability of specifying the model wrongly.

4.6

Conclusion

This empirical chapter served as a *statistical evaluation* of EFP and the learning framework suggested in Chapter 3. It provided one of the first empirical studies of the capability-presence of EFP using statistical tools on time series. The study was also the first explicitly to apply the KEDS Gulf data set to hypotheses on European foreign policy.

The chapter is only one input among others in the assessment of the learning framework. The results cannot stand alone, but should be perceived of as complementary to the remainder of the empirical analysis. Patterns of learning were convincingly found in the data using the convention that learning could be expressed as the combinatory significance of the lagged values of European foreign policy and the international compliance of the target, proxies for the effort attached to EFP and the outcomes in international relations respectively.

Evidence was found that learning intensified from the late 1980s. In other words, when deciding whether to act, unilaterally or by European foreign policy, governments in the last ten years were more inclined to base this decision on previous efforts at the European level and the degree of compliance of the Gulf States towards the Union than they had been in the previous decade. The increase in learning does not necessarily say anything about whether the capability-presence of the

Union increased from the 1980s to the 1990s. However, one of the reasons that learning at all had the possibility of intensifying in the '90s was that it was not before then that there were actions enough of the Union to be able to build any experience on. Learning is thus less apt to explain either progress or paralysis of EFP in the '80s than it is in the '90s.

The intensification of learning was difficult to attach to one single factor. It could either have resulted from the SEA, the end of the Cold War or some other structural factor with the end of the Cold War as the most likely main source of the effect. The effect cannot be seen at all before the institutional upgrading of the foreign policy area by the SEA. It is thus likely that the change was triggered by the institutional reforms of the SEA, after which it gradually accentuated. Windows of opportunity for this may have been the end of the Cold War, the Gulf War and the TEU, which followed the SEA as in a row.

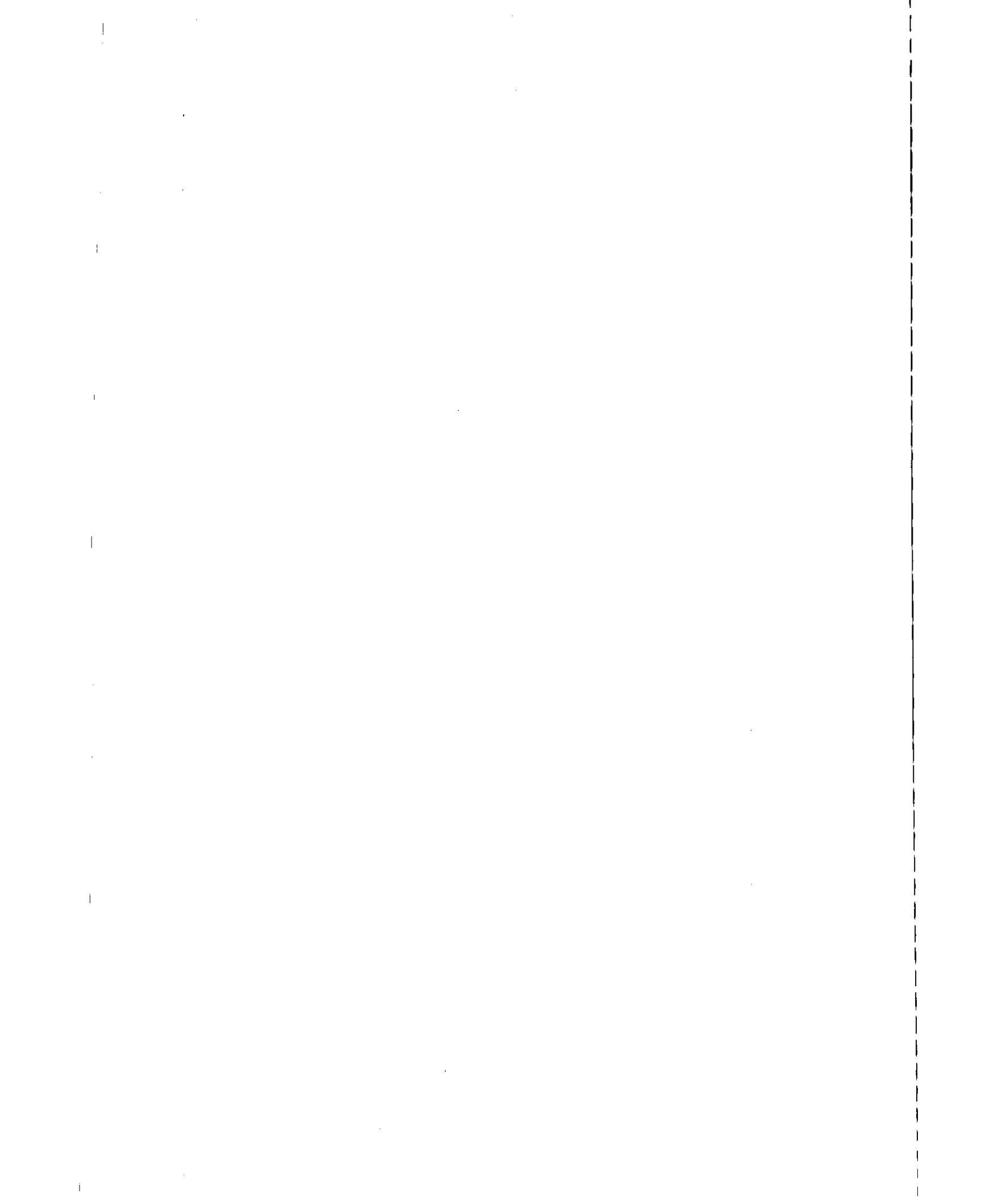
A distinction is necessary between the effects of some of these wars, such as the end of the Cold War and the Gulf War that appear to be different. The Gulf War forms part of the observations of the Union of the outcomes in the Gulf States, and the Gulf War is thus likely to have been part of the lessons that the Union learned throughout the '90s. The effect of the end of the Cold War in intensifying learning is more related to a general shift of the expected utility of multilateral (European) action for the governments.

The empirical data reflect the relevance of the learning framework for larger and previously relatively active foreign policy actors in the Union. One could imagine countries, such as France, Britain and Germany, belonging to this group. This is also supported by this particular data set. The learning framework seemed less applicable for smaller countries such as Belgium, Denmark and Portugal because their initial level of action at the unilateral level was not sufficiently high to be able to conclude anything. In other words, the learning dynamics resemble the case where EFP is more effective than unilateral policies, but where the initial effort attached to European foreign policies is less than the effort attached to unilateral policies.

Only sporadic evidence was found for the impact on EFP by the external economic relations. The little evidence found confirms Schneider & Seybold (1997), who demonstrate the significance of economic salience in the decision-making of the EPC. However, in the light of the limited results of the quantitative study, the qualitative studies of the following chapters should seek to examine in depth the impact of external economic preferences and external competence on EFP. As the failure to conclude that external economic relations mattered also stemmed from data constraints, future

studies should include a proxy for quarterly FDI as well as an indicator for the increase in the economic resources attached to the CFSP, which would mirror the learning framework of Chapter 3 more precisely. In general, the sporadic significance of external economic relations raises more questions about the impact of the political economy on European foreign policy than it answers. To the extent these questions cannot be answered by the proceeding chapters they become important tasks of future research to address in order to understand European foreign policy and international relations better.

Finally, the data suggests a crucial role for the US in determining EFP. There are many reasons, why the US has been able to influence the Union. One has to do with power. This thesis, however, suggests that some of the US's influence on EFP within the notion of competing or distracting strategies to the learning mechanism, be regarded as factors that hinder Member State governments in updating their belief in accordance with previously held beliefs, their effort and the outcomes in international affairs. As the learning dynamics accentuated towards the end of the period, the impact of the US (on EFP) apparently diminished.



CHAPTER 5

EUROPEAN FOREIGN POLICY TOWARDS IRAN: LEARNING A DIALOGUE?

This chapter examines European foreign policy towards the Islamic Republic of Iran. The purpose is to complement Chapter 4's quantitative study on EFP towards the Gulf States by zooming in on one of the most important of these policies. The goal remains similar to the previous chapter to gain more understanding on how European foreign policy may be enhanced and/or sometimes reduced by changes in explanatory factors such as learning, external economic preferences, and the institutional competence of the Union in foreign and/or external economic affairs. As introduced empirically in Chapter 4, attention will initially stay on the factual assessment of the Union's capability-presence towards Iran during the last two decades. This is seen as a necessary condition for the further explanatory exercise. Then, with a thorough description of the EFP towards Iran in hand, the aim is to estimate key actors' in the EU's ability to observe the outcomes of their actions and adjust their beliefs about the workings of their policies will be provided, i.e. to verify the learning hypothesis. Finally, an investigation will be performed regarding the influence of the various preferences for trade and FDI that CFSP actors may have, which is sought combined with an analysis of the institutional competence of the Union. In total, the chapter should provide additional items of evidence regarding how important learning is, what may hinder learning from taking place, and to which extent the external economic relations of the Union interacts with the CFSP in determining European foreign policy.

The first and second sections describe the developments in Iran under the Islamic Republic from 1979-2001 and EFP towards these developments. As Chapter 4 explained, information on developments in the target country, here Iran, is used as a proxy for the outcome in combination with the description of EFP, which is a proxy for the effort attached to EFP. The intention is to evaluate qualitatively whether EFP follows a pattern compatible with learning. The third section confronts this pattern and the developments in Iran with the null-hypothesis and some of the proposed internal and external factors, notably, strategic uncertainty, external economic preferences and institutional competence. The fourth section complements the qualitative assessment with a quantitative analysis of EFP towards Iran similar

to Chapter 4. The idea is to assess the validity of the qualitative results and possibly to confirm or reject results obtained in Chapter 4's *regional* quantitative analysis.

5.1

Developments in Iran, 1979-2001

Only a few foreigners have been able to “*penetrate the Iranian mind and judge the events*” in Iran since the revolution in 1979 (Hoveyda 1990:185). The following is therefore a very rough estimate of the Iranian context. It goes beyond the aims of this thesis to discuss developments in Iran *per se*.¹ The aim of this section is rather to provide a simplified benchmark of the developments in Iran from 1979 to 2001.

Three separate eras of regimes come to mind. The first era is under Ayatollah Khomeini's “*First Republic*” (Hoveyda 1990:185) from 1979–1989, which Mozzaffari simply refers to as the revolutionary period (1999). The second era is roughly contained in the Ayatollah Khamenei/Akbar Hashemi Rafsanjani government from 1989 to 1997. Although others have referred to it as either the Second Republic (Hoveyda & Ehteshami, cited in Struwe 1998:21) or the Thermidorian era (Mozzaffari 1999), this era is here simply referred to as the period of reconstruction using the name and agenda of Rafsanjani's own party (Wright 1996:166-168). The third era is the Khamenei/Sayed Muhammad Khatami regime from 1997 which may be called an era of progressing *reforms*.

(a)

The revolutionary period

The revolution in 1979 was carried out with an “*enormous political base*” (Ghoreishi & Zahedi 1997) vesting Iran's supreme religious authority (“*Wali Faqih*”)² in the Shiiti leader Ayatollah Ruhollah Khomeini and with Bani-Sadr as President.³ The new Islamic Republic immediately entered into a fierce fight for survival. Traditionalist clerical elements as the President from 1980 Hojatoleslam Ayatollah Sayed Ali Khamenei soon gained in force and suppressed more moderate forces.⁴

¹ Developments in Iran are discussed in, for instance, the special issue, *Iran since the Revolution*. Social Research, 2000, 67 (2), Summer. The Khomeini years are, for example, covered in Halliday 2000.

² It is the Council of Experts (Majlis-e Khobregan) consisting of 83 elected experts that appoints the Wali Faqih.

³ The President is the chief executive and has to be approved by the Council of Guardians (Shura-e-Nigahban) consisting of 12 appointed lawyers.

⁴ A distinction is generally made in Iranian politics – at least from a Western perspective - between moderates (modern, reformers, essentialists) and conservatives (hard-liners, fundamentalists). There is no clear dividing line between any of these concepts. Yet, one may roughly say that the concepts relate to which extent one supports the revolution of 1979. According to Mozzaffari, fundamentalism refers to a strict and dogmatic interpretation of religion. Essentialism contains a less dogmatic and more “*liberal*” reading of religion. Khomeini was thus a fundamentalist (usūli) who believed not only in the holistic character of Islam, but also in its holy nature which must be respected in every detail. Khatami may be called an essentialist (jawhari) because he makes a distinction between what in religion is essential and not (Mozzaffari 1999: 17) and emphasizes ethics instead of dogma. One could be

The most critical moment for the Iranian revolution was the Iraq-Iran War 1980-1988. Iran was attacked by Iraq at a vulnerable point in time, not least because Iran's army remained partially destroyed and weak because of "*numerous executions, purges and desertions*" (Cann & Danopoulos 1997). Iran was isolated internationally in most of the conflict with Iraq. Iraq was supported by the Arab world, and initially also by the US⁵ with the Europeans being neutral. The relationship with the US was particularly strained after the Hostages Crisis broke out on November 4, 1979, when Iranian students took 63 American diplomats (and initially several other nationals) as hostages in the US embassy in Tehran demanding in exchange for their release the return of the Shah to stand trial. Fifty-two of the American hostages were kept hostage until January 21, 1981, when the Accord in Algiers finally led to their release. In early 1982, the first Iranian counteroffensive took place in the Iran-Iraq war and Iran effectively stopped Iraq from any further armed expeditions into Iran until May 1986.

Internally, the revolution became less democratic, i.e. with an almost total elimination of political representation of opposition groups and political freedoms during the 1980s (Halliday 1998:139, 14-18). The public base of the revolution continued to shrink, and was in one place reported to be below 5% (Wright 1990, cited in Hoveyda 1990). It became necessary to ensure turnouts at elections, by forcing students, often without advance notice or subsequent choice, to polling places. Iran hereby reinforced its role as an international pariah. The UN, Amnesty International and the Human Rights Watch all reported restrictions in the freedom of speech, massive executions of opposition, disappearances and deaths of writers, and social injustice "*that grew wider than in the years of Shah Reza Pahlavi*" (Wright 1990, cited in Hoveyda 1990).⁶

Despite its fight for survival on both internal and external frontiers, Iran was soon settled enough to start implementing its constitutional aim of exporting its Islamic revolution, "*ensuring the continuation*

reformist in a particular case, a conservative in another, radical in a third, and moderate in a fourth depending on the issue. For instance, Rafsanjani was once considered reformist but later became labeled radical/conservative (Dr. Amr. Sabet 2000, Email correspondence). Khamenei replaced Bani Sadr who fled to France.

⁵ An exception was the Iran Contra Deal of the Reagan administration. In October and November 1986, two secret U.S. Government operations were publicly exposed, potentially implicating Reagan Administration officials in illegal activities. These operations were the provision of assistance to the military activities of the Nicaraguan contra rebels during the October 1984 to October 1986 prohibition on such aid, and the sale of US arms to Iran in contravention of stated US policy and in possible violation of arms-export controls (<http://www.webcom.com/pinknoiz/cover/icsummary.html>).

⁶ The UN Human Rights Commission claims in their report of February 1987 that at least 7,000 opponents of the Islamic Republic were executed between 1979-1985. Comparing reports from Amnesty International under and after the Shah shows only small differences in the violations addressed in Iran.

of the Revolution at home and abroad” by transferring ideas, men and money from Iran to other countries in support of Islamization (Piscatori 1990:785).⁷

(b)

Reconstruction

The Islamic Republic and the ideals set out during the revolution continued to hold after Khomeini’s death on June 3, 1989. However, under the Supreme leadership of Ayatollah Sayed Ali Khamenei and President Rafsanjani for two presidential terms, the post Khomeini era was different from the revolutionary era.⁸ A policy emerged of *preservation* of the revolution based on reconstruction (“*Sâzan degi*”) and pragmatism.⁹ Already in early 1989, Khomeini had declared some rather extensive reforms of the theocratic regime, most notably, that “*effectively the national interest*” should take “*precedence over the Islamic law*” (Ansari 1996:210).¹⁰ Khamenei clarified Khomeini’s intentions saying that important trade interests should not be abandoned just because Islamic law would suggest Iran to be hostile to the country where these trade interests were located. Amendments were thus adopted to the Constitution on July 28, 1989, following Khomeini’s initiative earlier in 1989. Here, the limited powers of the president were slightly increased, for instance, by abandoning the prime minister post and instead letting the president have the responsibilities related to this post. The most important implication of the change was Iran’s announcement on July 18, 1988, of her unconditional acceptance of the UN Security Council Resolution 598 adopted in 1987. This resulted in a cease-fire in the Iran – Iraq War. Later, Iran approached Western views with its “*condemnation*” of the Iraqi invasion of Kuwait, by observing the UN economic sanctions against Iraq, and by generally keeping a neutral position during the Gulf War (UN-Iraq-Kuwait) and its aftermath.¹¹ Notably, Iran did this despite the provocation of the ruthless suppression by Iraq’s Saddam Hussein of the uprising in Southern Iraq in 1991-1992 and a simultaneous influx of over 1 million Kurdish refugees in the Northwest of the country.¹² Iran also “*helped*” France and other Western countries to free their hostages taken by the Lebanese Hezbollah (Party of God).¹³ Iran also finally withdrew its troops from certain disputed border areas (Halliday 1998:142).

⁷ In particular, in the development of international relations, the Constitution will strive with other Islamic and popular movements to prepare the way for the formation of a single world community (in accordance with the Koran verse “*This your community is a single community, and I am your Lord, so worship Me*” [21:92]), and to assure the continuation of the struggle for the liberation of all deprived and oppressed peoples in the world (Constitution adopted on 24 Oct 1979, effective since 3 December 1979, Amended on 28 July 1988) (http://www.uni.wuerzburg.de/law/ir_indx.html).

⁸ Ibid.

⁹ In Iran after Khomeini see also Shireen T. Hunter (1992).

¹⁰ See URL: http://www.uni.wuerzburg.de/law/ir_indx.html.

¹¹ Interviews, EU Member State diplomats, various, May, November 1999.

¹² Email correspondence senior EU Member State diplomat, June 6, 2001.

Optimism both internally and externally soon diminished. Internally, clientelism increased in the huge developing technocracy, and Rafsanjani was not able to reverse the downward trend of an economy desperately in need of reforms (Kanovsky 1997). Iran is dependent on oil for nearly 90% of its foreign exchange revenue. The gradual slide of oil prices during the 1980s had therefore hit the Iranian economy hard. This continued during the '90s, only interrupted by a short peak of oil prices during the Gulf War, the so-called oil boom. Struwe noted that towards the end of 1990 "*Iranian policies were still not as pragmatic as perceived*" (1999). From 1991, several riots were reported including an attempt on Rafsanjani's life in 1994, and reports on Iranian human rights violations continued to arrive (Halliday 1998:141-142).¹⁴ In the 1996 elections, the Council of Guardians disqualified 40% of the candidates.

In external affairs, Iran more than ever before performed a two-faced diplomacy. Western concerns centred on a seemingly more intense Iranian aspiration to regional power (Piscatori 1990).¹⁵ Iran controversially declared sovereignty over the disputed Abu Musa and Tunbs Islands in the Gulf in 1992 and the relationship with Iraq continued to be strained not the least because of border disputes as these.¹⁶ In the Middle East peace process, Iran in October 1992 opened its doors to Hamas, a group in violent opposition to the Arab-Israeli Peace Process. There were various accounts – most of them from US sources - of Iran sponsoring international terrorism by, 1) providing training in camps in Northern Iran, and 2) helping to create, finance, arm, and train the radical Shiite Hezbollah movement in Lebanon and the Hamas and Islamic Jihad on the West Bank and the Gaza Strip (Waxman 1998; Phillips 1994). In September 1992, four high-ranking dissidents, members of the KDPI (the Kurdistan Democratic Party of Iran) were murdered, based on what later proved to be Iranian senior level officials' "*official liquidation order*" at the Mykonos Restaurant in Berlin (Waxman 1998:5).

Towards Western Europe, the most important issue became the Fatwa against the Muslim author and British citizen Salman Rushdie. Already since February 14, 1989, when Ayatollah Khomeini issued the Fatwa against Rushdie, Iran had placed a natural upper limit on its credibility externally (towards the

¹³ Ibid.

¹⁴ In December 1995, a UN panel agreed on a UN resolution condemning the human rights violations in Iran and in 1996, the annual report of Human Rights Watch contained intensive accusations of violations of human rights in Iran.

¹⁵ Iran and Saudi Arabia has long been locked in fierce competition of leadership of the Muslim world and influence in the Gulf region. Disputes involved, for instance, the annual pilgrimage to Mecca.

¹⁶ Iraq, on their part, continued to support the terrorist movement Mujahaddin-e-khalq (MIK).

non Muslim world). From the time of the issuing of this “*shocking death sentence*” a certain amount of flexibility in its implementation was noticed, in particular after the spokesman of the Council of Experts, Ali Akbar Mechkinin, on June 17, 1994 declared Khamenei’s right to lift the Fatwa in the interests of Iran (Bedford 1995).¹⁷

In the aftermath of the Fatwa, several people linked to Rushdie were, however, attempted killed, assassinated, or died mysterious deaths.¹⁸ Since June 1994, Iran also continued to send ambiguous messages to the outside world regarding whether it would carry out the Fatwa, or not. Illustrative were the messages sent from Iran at the beginning of 1995, when Iranian deputy foreign minister Vaezi, on February 7, in a meeting with the Danish foreign minister Niels Helveg Petersen, promised not to send any murder squads against Salman Rushdie.¹⁹ Next day, Vaezi stopped in Paris on his way back to Tehran. There, he underlined, in sharp contrast with this statement the day before, the necessity of carrying out the Fatwa. On February 10, two days later, the Danish government – upset after Vaezi’s Paris statement - received a note from the Republic of Iran signed by the Iranian ambassador in Copenhagen saying that “*the Iranian government has never sent, is not sending, and will in the future not be sending anyone to kill Salman Rushdie*” (Bedford 1995:3, 15-21). As the pressure intensified, a letter from Iran’s foreign minister Ali Akbar Velayati was offered to the EU delegation at the Critical Dialogue session in Paris on June 22 as part of the negotiations trying to bring a halt to the Fatwa, noting that Iran “*is not going to dispatch anybody, any commandos, to kill anybody in Europe... and .. it is our determination to expand our relations with Europe*” (Saidabadi 1998:2).

(c)

Reforms

The declared reformist²⁰ cleric Sayed Muhammad Khatami won the presidential elections on May 23, 1997 as the “*people’s choice*”.²¹ After the election of Khatami, one began to observe a difference in Iran’s internal as well as her external relations.²² Significant was President Khatami’s public plea for dialogue among civilizations arguing for the need for a discourse in international relations based on

¹⁷ Fatwa is the “*advice*” given to a question in Islamic law, theology or ethic made by a mufti, i.e. a specialist in Islamic law. According to the rules, the one asking the question decides himself whether he should follow the Fatwa or not.

¹⁸ A Japanese translator was killed, the Norwegian publisher of the Satanic Verses translated into Norwegian William Nygaard and an Italian translator were seriously injured. Penguin, who had published the Satanic Verses, received 25 bomb threats and 5.000 abusive threat letters (CNN September 1998).

¹⁹ <http://www.dagbladet.no/kronikker/960426-kro-1.html>

²⁰ Whereas Khatami was elected among three pre-selected candidates, he was considered as a reformist, not the least after his dismissal as Minister of Culture and Islamic Guidance in 1992 failing to carry out some proposed censorship laws. See also Khatami’s collection of essays (1997).

²¹ Former President Rafsanjani’s words, after Khatami was elected.

²² This was not obvious from the start with Amuzegar noting, “*the president must first seek God’s blessing, then solicit the Rakbar’s guidance, and only then begin to hear the peoples wishes.*”

pluralism (Lynch 2000). In an interview with CNN's Christiane Amanpour in January 1998, Khatami mentioned, "*all doors should now open for such a dialogue and understanding and the possibility for contact between Iranian and American citizens*". In Europe, President Khatami visited Italy 9-11 March 1999 and France 27-29 October 1999.²³ The visit to Italy was the first visit by an Iranian leader to an EU country since the revolution. In Florence, Khatami pledged dialogue to build the relationship with the West on,²⁴ and in Paris, he called for a world of "*peaceful coexistence where all nations respect each other*". An official in the Council Secretariat noted that the gradual opening up of Iran had been "*tremendous*" since 1997.²⁵

In September 1998, the Fatwa was implicitly removed at the meeting between Foreign Minister Robin Cook and Foreign Minister Kamal Kharrazi in New York.²⁶ At the meeting, Kharrazi declared that "*The Government of the Islamic Republic of Iran has no intention, nor is it going to take any action whatsoever to threaten the life of the author of The Satanic Verses or anybody associated with his work, nor will it encourage or assist anybody to do so*". Other signs of opening up towards the West were seen in the Middle East peace process. Here, Iran took sides against Israel but refrained from interfering (Ansari 1999).²⁷ The elections for the Islamic Consultative Assembly on 18 February 2000, (Majlis-e-Shura e Islami), which gave reformers a significant victory, confirmed this view of Iran as becoming gradually more open and pluralist. The reformist party 2nd of Khordad here gained 148 seats in the first round out of a total of 290 seats, and reformists in total gained more than 2/3 of the seats despite that the elections had been seriously flawed by a massive disqualification of registered candidates.²⁸

Iran as a potential developer of WMD continued to be subject to Western debate in the end of the '90s (Struwe 1998; Eisenstadt 1999:124; Philips 1994:6, 21-28).²⁹ In 1991, Iran's Ataollah Mohajerani said, "*since the enemy has atomic capabilities, Islamic countries must be armed with the same capacity*",³⁰ and several CIA reports as well as papers from other institutes have confirmed Iran as a potential near-

²³ CNN from URL: <http://cnn.com/WORLD/europe/9910/27/france.khatami.02/index.html>

²⁴ <http://www.iue.it/General/Ks.html> or contact the EUI to receive a hard copy of the speech Khatami gave at the EUI.

²⁵ Interview, official, Council Secretariat, November 1999.

²⁶ <http://www.fco.gov.uk/news/newstext.asp?1544>. Already February 16, 1998, Robin Cook met with Rushdie after Rushdie had discussed the possibilities of solving the problem at a private dinner with Prime Minister Tony Blair the week before (BBC News at URL: <http://www.bbc.co.uk>).

²⁷ See also Hooglund (1995:94).

²⁸ In an editorial leader in International Herald Tribune ("Washington Times"). "*Iran's Flawed Elections*", 12-13 February 2000.

²⁹ See extensive literature on this issue. For instance, Richard M. Perry; Matthew R. Schwonek (1997); Albright, David (1995) or selected overviews of literature at URL: <http://www.fas.org/nuke/guide/iran/nuke/index.html> or <http://www.cnn.com/2000/WORLD/mcast/02/03/iran.weapons/index.html>

³⁰ <http://www.fas.org/nuke/guide/iran/nuke/index.html>

future nuclear threat.³¹ Not all support this view, however. The independent US institute ACDA notes that Iran is, probably, not seriously considering developing a bomb at this moment. Not only did Iran ratify the nuclear and non-proliferation treaty in 1990, but since February 1992 it has also allowed IAEA to inspect any of its nuclear facilities, with the result that *"No IAEA inspections have revealed Tehran's violations of the NPT"*.³²

Khatami at the turn of the Millennium has increasingly and strongly urged Iran and the conservatives to concede towards reforms. However, Iran has not stopped speaking *"with several voices"*. In what presumably was a result of domestic pressure, Khatami in the aforementioned Italy speech, for instance, restricted the dialogue to *"be conducted with the true representatives of the Islamic culture and thought"* only. *"Otherwise, this would not be a dialogue; it would not even amount to a monologue."*³⁴ Moreover, although the Iranian government had distanced itself from any attempt to fulfil the mandate of the Fatwa, it allowed a powerful revolutionary foundation, *"15 Khordad"*, to continue announcing a high price on the head of Rushdie, without condemnation or contradiction.³⁵

The split between reformist and non-reformist movements now seems to have entered a very critical stage. The legitimacy of the clerical regime appears to have almost completely vanished (Bramming 2000:12, 22-28). Yet, a number of trials³⁶ and violations of the freedom of speech, disappearances, and executions in recent years give no clear indication of where the Iranian *"ship"* is moving.³⁷ According to Human Rights Watch *"Human rights progress (in 1999) continued to be held hostage to increasingly polarized conflict within the leadership of the Islamic Republic."*³⁸ This spring, the organization *Journalists Without Frontiers* moreover accused Iran of holding the largest number of journalists in the world imprisoned.³⁹ At the Intifada conference in Tehran 24 April 2001 Khamenei left no doubt about the kind of resistance that reformist movements in Iran are confronted with. Khamenei noted, for instance, *"there are documents showing close collaboration of the Zionists with the Nazi Germany, and*

³¹ <http://www.nixoncenter.org/publications/monographs/Iran's%20Nuclear%20Weapons%20Options%20-%20Issues%20and%20Analysis2.pdf>

³² <http://www.fas.org/nuke/guide/iran/nuke/index.html>

³³ *ibid.*

³⁴ Khatami's planned trip to France was for a long time postponed since France intended to serve wine at the official dinner, which was rejected by Iran.

³⁵ In June 1992, the movement *"15 Khordad"* had declared that apart from the \$2 Million bounty on Rushdie they would now also pay *"any additional expenses connected with the assassination"* (Mehrdad 1996:13).

³⁶ For instance, the trial against 17 reformists for participation in a conference in Berlin and the preparations of a trial against Mohammad-Reza Khatami.

³⁷ For instance, in December 1998, three Iranian writers, Mohammad Moukthari, Majid Sharif and Mohammed-Jafar Pouyandeh, all disappeared and died. Moreover, another writer Pirouz Davan disappeared and the leader of the unauthorized (but officially tolerated) Iranian people's Party Darioush Forouhar and his wife Parvaneh Eskandari were murdered. The metaphor of Iran as a ship was used by Ambassador Cogan, former Irish ambassador to Iran in his intervention at the EU-IRAN Relations Round Table, Centre for European Studies, University of Limerick. March 15, 2001.

³⁸ <http://www.hrw.org/wr2k/mena-04.html>

³⁹ Politiken. 15 February. 2000. *Iran: verdensrekord i fængslede journalister*. The article informs that since April 2000 Iranian authorities have imprisoned 15 journalists and closed down 25 newspapers. At URL: <http://www.Politiken.dk/>

*exaggerated numbers relating to the Jewish holocaust were fabricated to solicit sympathy of the world public opinion, lay the ground for the occupation of Palestine and to justify the atrocities of the Zionists.*⁴⁰ As a senior EU Member State official commented, *“the statements by the leaders are hardly the result of any responsible system. Rather, the statements illustrate how far away the leader and his aides are from reality. The statements indicate that reforms, in the long run are conditioned upon the liberation from the religious supreme authority.”*⁴¹

The conditions for the liberation from the religious supreme authority are however difficult. As a high-ranking Iranian diplomat summarized it, *“people may be following you, although you are paranoid”*.⁴² President Khatami’s landslide victory in the elections 8 June 2001, winning 74% of the public votes, should certainly increase the probability of reforms gaining supremacy over reactionary elements in the Iranian society in the longer term. In the short to medium term, continued clashes between conservatives and reformists may however seem inevitably, as the power base of the former increasingly will be sought overtaken by the latter based on the public mandate. This was confirmed at the constitutional crisis that emerged over the investiture of Khatami in August 2001 where the Council of Guardians threatened to block the investiture if two conservative elements were not accepted by the Parliament to the Council of Experts.

In sum, developments in Iran have been intensive and complex since 1979. The changes from period to period have been extensive, for instance, in openness and public support for reforms, even though the Islamic Republic and the core ideas behind it has remained the most powerful expression of thought during the period as a whole. All these fluctuations in Iran have of course increased the complexity of timely, cohesive and successful Western reactions towards Iran. It is therefore no wonder that EFP towards Iran never became a high profiled flagship of the CFSP, as will be discussed below.

5.2 EFP towards Iran, 1979-2001

This section will assess EFP towards Iran. The aim is as earlier mentioned to determine the Union’s *capability-presence* as defined in Chapter 2, i.e. in terms of primarily the depth, scope and decision-making mode of the Union’s foreign policy towards Iran. EU-Iran relations in the last two decades have

⁴⁰ Arabic News.com/IRNA.

⁴¹ Email correspondence May 2001.

⁴² Comment on conference the author took part in. The connection to the Iranian context did not appear in the high-ranking Iranian diplomats’ comment.

either been bilateral relations between Member States and Iran or multilateral activities using second pillar instruments only (earlier the EPC) vis-à-vis Iran. Both the bilateral and multilateral activities deserve attention, but the focus here is as mentioned in Chapter 1 on the policies agreed to at the EU level. As the analysis proceeds, however, it is useful to remember that most EU Member States have had their own contacts and their own agendas in their relations with Iran in the last two decades and that what is covered in this chapter necessarily only remains a fraction of the total EU-Iran relations.

(a)

EFP in the 80s: not much ado about either hostages or wars

The EC kept a low profile during Iran's revolution and the events of the first years of the revolutionary regime. It was however forced to react to Iran on the hostage crisis, when it became clear that it would not be brought to an end immediately. The Union's response was considered rather "bungled" (Nuttall 2000:16). Five months after the hostages were taken, the EU foreign ministers agreed to (Hufbauer & Schott 1990):

- reduce diplomatic representation in Iran
- suspend arms sales
- require visas for Iranian travel in Europe
- discourage purchase of Iranian oil at prices above OPEC standard of \$32.5/bbl⁴³
- threaten Iran with an export embargo if decisive progress were not made by May 17, 1980.

Although one commentator reported about "*one of the most important foreign policy actions in EEC's history*", Hill & Mayall describe the Union's response as "*too little, too late* (1983).⁴⁴ None of the two views is completely wrong, illustrating the paradoxical dual faced nature of European foreign policy. On the one hand, the Union's action was one of the more cohesive actions of the EPC, and the most cohesive yet seen towards Iran. On the other hand, the scope of the Union's action was rather narrow and the implementation of the sanctions occurred in an *ad hoc* fashion in the respective Member States without any sincere coordination.

⁴³ Iran was demanding \$35.5/bbl.

⁴⁴ Quoting John Wyles in the *Financial Times*, May 19th, 1980 and pages 15-17.

In the course of the 80s, the EC performed so-called “*regular reviews of the situation*” in Iran but actions of the EPC were limited to demarches and representations to the Iranian authorities.⁴⁵ These were not insignificant foreign policy measures since according to EU officials “*the Iranian authorities particularly hated demarches*”.⁴⁶ A proposal for a trade agreement between the EU and Iran was exchanged in 1982, but was never carried out due to opposition from the EU Member States.⁴⁷ Characteristically for EU’s policy towards Iran, the existing institutional instruments were only used to a limited extent. For example, there were only five statements of the Council on Iran from 1979-1988.⁴⁸

Another feature of EFP towards Iran is the contrast between the low profile of the Council and the EP’s high engagement towards developments in Iran. In this period, the EP virtually bombarded the EPC with questions concerning human rights (41 in total) and in addition issued 14 resolutions. The Council often gave very short replies to the various questions that often avoided the core problems and thus could be interpreted to be almost arrogant. MEP, Mr. John Iversen, in September 1987, for instance, asked whether the export credit guarantees of Danish Feta cheese exports to Iran worth 500 million DKr (~€ 80 million) were compatible with the Union’s human rights policies in the light of the many reported Iranian human rights violations. The Presidency, represented by Danish foreign minister, Mr. Uffe Ellemann-Jensen, replied by referring the issue to the Common Agricultural Policy (CAP). Ellemann-Jensen furthermore asserted, “*besides, Mr. Iversen is getting things mixed up: the export refunds which are paid out are not paid to the country receiving products*”.⁴⁹ Technically, Mr. Ellemann-Jensen was correct. There is no discrimination in relation to the operation of the export refund system between “*recipient*” countries, nor can there be under CAP rules. However, Iversen’s point was probably that there existed the possibility of banning EU exports to certain countries, a step that apparently was considered too far for most EU Member States.

In the Iran-Iraq war, the Member States took a neutral stance. They maintained their diplomatic relations with both Iran and Iraq but froze all high level visits to and from Iran. As an exception, Germany kept diplomatic activity with Iran at a relatively high level. In 1984, a *de facto* arms embargo was “*initiated by the US and widely followed by its European partners*” on a unilateral basis, and

⁴⁵ EFPB 85/206 9 October 1985 and 87/116 4 March 1997. In 1987, the Union expressed “*serious concern*” of the human rights violations.

⁴⁶ Interview, Council Secretariat, May 2000.

⁴⁷ Mr. Kachouieian, Head of Bureau of West Europe in the Ministry of Foreign Affairs in Tehran, Round Table, March 16th 2001, Limerick.

⁴⁸ EFPB: 86/087 25.02.1986, 86/105 08.04.86, 86/246 06.08.1986, 87/077 26.01.1987, 87/189 25 May 1987, 87/261 13 July 1987, 88/241 21.07.88, 88/229 15.07.88, 88/244 10.08.88, 89/068 20.02.89.

⁴⁹ EFPB 87/318 and 384/87 16 September 1987.

without any official EPC action being initiated.⁵⁰ The Union's primary activity was the engagement of other international organizations and countries against the human rights situation in Iran, e.g., in the Commission of Human Rights⁵¹ and in the UN, twice presenting a draft resolution in the UN General Assembly.⁵²

(b) *The legacy of Rushdie*

From 1989-1997, the EFP started playing a more distinctive role in the relationship between Member States and Iran. The eye-opener for the Union was the outbreak of the Rushdie affair. The Union condemned the Iranian behaviour, suspended exchanges of high-level official visits and recalled their ambassadors for consultation. The Union demonstrated unity and rigor but the action was implemented in a clumsy way. Only one month later, the ambassadors could return to their former duties, a development which Bulletin Quotidien Européen (Europe) evaluated by saying "*in reality Ayatollah is laughing in his beard at the ambassadors' returning with heads down as their faces were covered by a 'chador'. Was this farce really necessary?*"⁵³ Despite this ambiguity, the Rushdie affair in practice excluded any ordinary relations such as trade agreements between the EU and Iran from developing, "*the Fatwa came in between*".⁵⁴ Even today, the legacy of Rushdie roots deeply in the EU-Iran relations.

After the end of the Iran-Iraq War, the Union lifted all remaining sanctions towards Iran in 1990. Despite the Fatwa, the EU noted the encouraging attitude of Iran towards the Western world and for the second time since the interruption of the trade agreement, there was revival of the idea of a trade/association agreement, however, no more than as an informal approach.⁵⁵ When Iran's attitude changed after 1990, the Union sharpened its tone marginally.⁵⁶ Three months after the Mykonos murders, which were quickly linked to Iran (Struwe 1998), the Council on 11-12 December 1992, defined a new policy of Critical Dialogue (CD) towards Iran. Critical dialogue was,

"concern about Iranian behaviour and calls for improvement in a number of areas, particularly human rights, the death sentence pronounced by a Fatwa of Ayatollah Khomeini against the author Salman Rushdie, which is contrary to international law, and terrorism. Improvement in these areas will be important in determining the extent to which closer relations and confidence can be developed. The European Council accepts the right of countries to acquire the means to defend themselves, but is concerned that

⁵⁰ World Fact Book 1998.

⁵¹ EFPB 85/223 Question H-143/85, 23 October 1985.

⁵² See EFPB 95/424 22 December 1995 (Res. L.35) and 98/332 17 November 1998 (Res. L. 38), EFPB 85/068 24-25 April 1985, 85/069 29 April 1985, 85/217 17 October 1985, 85/241 5 November 1985, 86/246 6 August 1986; 86/376, 87/119 11 March 1987; 87/189 25 May 1987; 87/261 13 July 1987

⁵³ Issue, Late March 1989.

⁵⁴ Interview Council Official May 1999.

⁵⁵ Struwe 1998: 19. Interview Council Secretariat May 2000: Mr. Kachouieian, Head of Bureau of West Europe in Iran's Ministry of Foreign Affairs.

⁵⁶ EFPB 92/356 19 October 1992. Email correspondence EU Member State senior diplomat, June 6, 2001.

Iran's arms procurement should not pose a threat to regional stability. In view of the fundamental importance of the Middle East peace process, the European Council also expresses the wish that Iran will take a constructive approach here".⁵⁷

We do not know much about what went on in CD since all information on this topic from the Council is classified and thus not available to the public. CD, however, was remarkably different from the Union's previous policy, first, by being a bilateral series of discussions that both Iran and the Union had agreed to.⁵⁸ These discussions took place at biannual meetings between Iranian authorities and the Union, between a delegation of up to six persons from the Foreign Ministry of Iran and an equivalent amount of persons representing the Troika. The meetings were held in the capital of the Presidency country.⁵⁹ The PoCo prepared the meetings in conjunction with COREPER. PoCo normally would agree on a "steering brief" to be given to the Troika that included all issues that the Union wished to raise with the Iranian authorities.⁶⁰ The agenda of the meetings were said to derive from the discussion points and results of previous CD sessions with due consideration given to developments in Iran since the last meeting. The first issue on the agenda was "Areas (or Issues) of Concern" including mainly those areas pinpointed at the Edinburgh Council.⁶¹ An important issue was the attempt to start a written correspondence with Iran on the Fatwa. The aim was to encourage the Iranians to maintain their promise given in Copenhagen not to execute the Fatwa.⁶² The second issue on the agenda was "Regional Questions", for example, the Middle East Peace Process. Moreover, attention had always to be paid to protocol questions such as whether alcohol could be served, or not.⁶³ In addition, Iran originally opposed the participation of women not wearing a headscarf and coat.⁶⁴ Whereas alcohol remained banned from being served in the presence of the Iranians, the Union eventually managed to have women included in the meetings. In the beginning, the negotiations were characterized by caution on both sides, with the Europeans acknowledging the complex constituency of Iran, and the Iranians still needing to learn the rules and opportunities of CD. Soon, the "regular critical dialogue sessions" became very "tough",⁶⁵ and "strong" statements were issued towards Iran.⁶⁶ One official even described

⁵⁷ Extracts from the Conclusion of the European Council meeting in Edinburgh, 11-12/12-92 (EFPB, 92/449). See also EFPB 95/342 14 November 1995.

⁵⁸ Interview, Council Secretariat, May 2000.

⁵⁹ In the following order: the Danish and British presidency in 1993; Athens, June 1994; Madrid, November 1994; Paris, June 1995; Bonn, November 1995; Rome, June 1996 and finally in Dublin in December 1996.

⁶⁰ Interview, Council Secretariat, November 1999.

⁶¹ Ibid.

⁶² Email correspondence, senior diplomat, EU Member State, Spring 2001.

⁶³ In June 1995, CD was supposed to have a meeting followed by lunch in Paris, but a discussion emerged on the issue of serving French wine for the lunch, which the French insisted on. The Iranian delegation categorically refused to participate in the CD under these conditions and a working breakfast was held instead at Quay d'Orsay (Interview, Official Council Secretariat, November 1999).

⁶⁴ For instance, this was reportedly discussed concerning the participation of the first Council official formally in charge of preparing Council Secretariat policies on Iran, the British diplomat Mrs. Ann Pringle.

⁶⁵ Answer to the question from MEP Mr. Ephremidis 95/342 14 November 1995.

⁶⁶ Interview, Council Secretariat, November 1999.

the sessions in the mid-90s as a professional diplomatic “*exchange of nasty remarks*”.⁶⁷

CD also increased the scope of EFP by explicitly including human rights concerns. CD became the basis of the Union’s actions regarding Iran in international organizations.⁶⁸ Several UN resolutions were drafted, e.g., the resolution of 1995 on the lack of improvement of the human rights situation in Iran addressing, in particular, 1) the high number of executions, 2) incidents of torture, 3) absence of guarantees of due process of law, and 4) discriminatory treatment of religious minorities, notably the Bahá’ís and widespread discrimination against women.⁶⁹ CD in this sense became an “*umbrella*” for the Union’s ambassadors in their discussions with Iranian authorities.⁷⁰ The effect was according to Council officials to raise the threshold of criticism of Iran beyond the bilaterally possible level.⁷¹ In defence of CD, Ansari also stated that “*neither (the American containment policy or critical dialogue) policy is a perfect solution, but ..even limited and critical communication at an official level is a more subtle, flexible and constructive strategy than no communication at all*” (1996:209).

The decision to use the Troika to perform CD was a compromise but it reflected a firmer commitment to the EFP than previously. Despite the Troika being formed by these governments, it had been an issue whether to let the Union be represented by all 12 Member States or by a smaller representation of Member States such as the Troika or, even the Presidency alone, as was once suggested.⁷²

An important limitation of the CD was that new instruments given to the CFSP by the TEU, such as Common Positions and Joint Actions, never were used against Iran. Despite this, one official in the Council Secretariat said that, “*Common Positions and Joint Actions exist towards Iran; they are just not written down*” and added that formal declarations might have worsened the atmosphere of deliberation of the meetings with the Iranians.⁷³ This is contentious, as Common Positions and Joint

⁶⁷ Sometimes metaphors were used as just before lunch at the Dublin 1996 CD meeting under the Irish Presidency. As one may know, in line with Iranian demands lunch was to be served cold and without alcohol for the European delegation. The Irish Presidency remarked – inspired by the poor performance of the Iranian reforms of the economy at that time - that it now was important for Iran to provide some more Iranian spices into the Iranian kitchen and added that Iran should turn up for the heat. The interlocutor of the Iranian delegation Vaezi, a tough and sophisticated negotiator replied. “*as the European Union is well aware of, we Iranians prefer the soup to be served cold*”.

⁶⁸ For instance, in a statement in 1996, the Council distinguished between CD on the one hand, and the resolutions and statements at the UN General Assembly or by the UN Commission of Human Rights, on the other hand.

⁶⁹ EFPB 95/424 22 December 1995. For an extensive analysis of the interaction between the UN human rights system and the Bahá’i community, see Ghanea-Hercock (1999).

⁷⁰ The expression “umbrella” was used, for instance, by an EU Member State diplomat, interview November 1999.

⁷¹ Interview, Council Secretariat, May 2000.

⁷² Interview, former Council Official (currently Member State diplomat), September 2000.

⁷³ Interview, May 1999.

Actions could also function as measures to “constrain” and remind Member States of their obligations as a Council legal advisor pointed out.⁷⁴

Apart from CD, the EP from 1992-97 continued its active engagement concerning Iran and issued 19 resolutions.⁷⁵ The Council remained highly critical towards the views of the EP. At least one Council official has admitted the strained relationship towards the EP noting that it is difficult to say “*if MEP are illiterates, stupid or just playing stupid*”.⁷⁶ The positive change in the Council’s attitude was its increasing eagerness to persuade the EP that it had taken on board the EP’s preoccupations on human rights issues.⁷⁷ According to Struwe, “*EU has [with its CD] shown a clear commitment to address its concerns about human rights abuses, terrorism...*” (1999). Under the Italian presidency, in spring 1996, Ms Jackson asked about the destinies of the members of the Iranian Bahá’is sentenced to death for “*apostasy from Islam*”.⁷⁸ In a very polite and explicative answer, the Italian foreign minister Mr. Ferraris replied, “*I hardly need reassure Mrs. Jackson that human rights are a key concern of the EU in its relations with Iran, especially now that the matter has moved up the international political agenda*”.⁷⁹

(c) *The Mykonos verdict and its repercussions*

CD was interrupted after the Mykonos verdict on 10 April 1997. Due to disagreement among the Member States the Presidency of the Union issued a statement on behalf of the Union (and not a Council declaration) on the day of the verdict saying that, “*The Presidency invites Member States to recall their ambassadors for coordinated consultation on the future relationship of the European Union with Iran*”, noting that under the “*present circumstances there is no basis for the continuation of*

⁷⁴ Chris Hill made a similar point at the ECPR Summer School in Geneva 2000.

⁷⁵ OJ C323, 21/11/1994 p. 0166 (depopulation and ruin of Kurdish settlement areas in Iran and violation of human rights); C 020 24/01/1994 (human rights abuses); OJ C255, 20.09.1993 p.0156 (denial of human rights to the Bahá’i Community); C150, 31.05.1993 p. 0263 (continuing persecution of Bahá’i community); C115, 26.04.93 p. 0247 (militarisation); C284 02.11.1992 p.0107 (human rights); C176 13.07.1992 p. 0127 (human rights violations); C176, 13.07.1992 p.0126 (persecution of Bahá’is and other human rights violations); C094, 13.04.1992 p. 0267 (violation of human rights); C328 26.10.1998 p.0192 (capital punishment); C098, 09.04.1999 p. 0296 (human rights); C080, 16.03.1998 p. 0248 (human rights); C167, 02.06.1997 p.0151 (Iran); C115, 14.04.1997 p. 0176 (earthquake and need for humanitarian aid); C085, 17.03.1997 p. 0145 (Iran); C096, 01.04.1996 p. 0295 (Political and human rights violations); C166, 03.07.1995 p. 0127 (continued human rights violations); C109, 01.05.1995 p. 0162 (human rights); C128, 09.05.1994 p. 0312 (human rights).

⁷⁶ Interview, November 1999.

⁷⁷ The procedure of formulating the answers is the following. The Council Secretariat provides a first and second draft of the answer, sends it to the Presidency who offers it to hearing by the Member States. In this process, the Presidency is free to correct anything, but it seldom does so.

⁷⁸ Ms. Jackson also asked questions regarding Nigeria which will be discussed in Chapter 6. Apparently, she linked the two cases saying, “*I remember last time I asked a similar question of a president-in-office, sadly it was in relation to Mr. Ken Saro-Wiwa in Nigeria*”. See Section 6.2 (b).

⁷⁹ EFPB 96/073 13 March 1996 [extracts].

the critical dialogue".⁸⁰ A package of measures was introduced at the next Council meeting on April 29, including,⁸¹

- the suspension of the official bilateral Ministerial visits to or from Iran under the present circumstances,
- confirmation of established policy of the Member States not to supply arms to Iran, and
- co-operation to ensure that visas are not granted to Iranians with intelligence and security functions.

According to some authors, the Mykonos case expressed a high degree of European "*collective action*" (Allen & Smith 1998:70, 14-15). Similarly, one official has noted that Mykonos was "*one of the isolated examples where the system worked*".⁸² He referred to the way the verdict had been anticipated with reactions prepared for various scenarios by an efficient Dutch Presidency. According to Council officials, a predecessor to the current Policy Unit in the Council Secretariat played a key role in the formulation of these scenarios. This unit, which was informally organised, prepared an "*options paper*" to the Presidency delineating different strategies to be pursued under the various scenarios of the verdict.⁸³ These scenarios were that 1) the Iranian government be acquitted, 2) the Iranian government be implied to have been involved "*somehow*", and 3) the Iranian government's involvement be "*openly asserted*".⁸⁴ On the day of the official verdict, April 10, 1997, the PoCo met extraordinarily all day long in Brussels where reports from the High Court in Berlin were distributed and discussed.

The relatively strong and swift reaction of the Union made, according to Council officials, an impression on the Iranians. The same sources also point to a certain surprise effect springing from the Union's measures of 29 April. Already the following day, Iran's spiritual leader reacted by suspending permission for the return of the German ambassador Horst Baechmann "*for the time being*".⁸⁶ One official notes that "*the Iranians felt pressured and reacted desperately*".⁸⁷ Under these circumstances, the Dutch Presidency called for, and largely achieved, solidarity towards Germany.⁸⁸ This solidarity may in fact have impressed the Iranians who preferred a policy of "*duality of voices*" with the EU. As Reza Saidabadi notes, EU solidarity is "*likely to be at the centre of any calculation in Iran's foreign policy*" since "*it will be difficult for Iran to deal with the EU as a bloc rather than as individual*

⁸⁰ EFPB 97/058 10 April 1997. The document underwent several revisions before it was agreed to (Interview, Council Secretariat, May 2000).

⁸¹ http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action=gettxt=gt&doc=PESC/97/4101AGED&lg=EN.

⁸² Interview, Council Secretariat, May 2000.

⁸³ Interview, former Council Official, currently EU Member State diplomat, May 2000.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ <http://www.neda.net/iran-wpd/vol1018/f1018-04.htm>.

⁸⁷ Interview, Council Secretariat, May 2000. Some references mention that the return of the Danish ambassador also was declared undesirable for the moment. This seems to be a misunderstanding based on a misinterpretation by a Chinese journalist of some Iranian statements. Email correspondence Senior diplomat. EU Member State. Spring 2001.

countries” (1998:3). In the diplomatic deadlock that emerged, a deal was only established after long negotiations. The deal instructed the ambassadors to arrive in two groups to Tehran. The first group of ambassadors from 12 Member States arrived on November 14, 1997, and the second group, consisting of the French and German ambassadors arrived one week later.⁸⁹

Mykonos also demonstrated some behavioural features in the CFSP of the new Member States (Sweden, Austria, and Finland). Sweden initially opposed the withdrawal of the ambassadors. Sweden argued that 1) a continued political dialogue was preferred in line with traditional Swedish neutrality policies and 2) that it would be difficult to return the ambassadors once having withdrawn them, since there were no really obvious “*exit*” strategies, or “*re-entry*” strategies.⁹⁰ Sweden nevertheless decided to be loyal to the other Member States and took part in the action.

Sweden’s reservation pointed to the weakness of the Union’s policies, the lack of clear and logical strategies. A diplomat from another EU country than Sweden commented on the Swedish reservations, “*Sweden here thought what many more Member States should have thought about*”.⁹¹ The suspension of CD was as admitted by an official in the Council Secretariat, “*the most inconsistent of all things that could have been done*”.⁹² CD had been initiated because of and three months after the Mykonos murders, which the verdict concerned. On April 11, 1997, CD should thus have been “*intensified – not suspended*”.⁹³ The problem with the suspension of CD was that the EFP towards Iran hereby ceased to exist for about half a year.⁹⁴ When questions regarding violations of human rights or democratic principles were raised in the EP in the months following the Mykonos verdict, the Union had to admit to having “*raised the question with Iranian authorities until the discontinuation of the critical dialogue*”.⁹⁵

⁸⁸ See <http://www.neda.net/iran-wpd/vol1018/f1018-06.htm>.

⁸⁹ <http://www.neda.net/iran-wpd/vol1046/f1046-3.htm>. The Portuguese ambassador was reportedly not among the first group as planned, so there were only 12. A joke in the Council may illustrate the problematic dilemma of the EU Member States. The German ambassador thought of two options for his return to Tehran. There are two flights Friday afternoon/evening from Frankfurt to Tehran, an Iranian Air and a Lufthansa flight. The solution for the German ambassador would accordingly be to board the Iranian Airlines flight since it departed earlier. The German ambassador would – besides not using Lufthansa – hereby signal to his German constituents that Germany had not complied with obscure Iranian demands about having him arrive last among the EU ambassadors. The other ambassadors would either board his plane or board the Lufthansa plane that departed later. The German ambassador could then be sure that the Iranian Airlines flight would be delayed in arrival in Tehran and arrive later than the Lufthansa flight. Hereby, he had satisfied both German and Iranian demands (Interview Council Secretariat, May 2000).

⁹⁰ Interview Swedish Permanent Representation to the EU, Brussels, May 2000.

⁹¹ Email correspondence, senior diplomat, Spring 2001.

⁹² Interview, Council Secretariat, May 2000.

⁹³ *ibid.*

⁹⁴ EFPB 97/058 10 April 1997.

⁹⁵ EFPB 97/255 26 November 1997. the order of words has been slightly changed

Moreover, the importance of the informal development of scenarios for the Mykonos verdict that was emphasized by former officials in the Council Secretariat has been partly rejected by senior diplomats of the Member States. According to one of these, confusion about the Union's strategy options on the Mykonos verdict was widespread. Notably, "*no Member State really wanted either to take any clear position beforehand nor enter any 'reality' discussion regarding the options*".⁹⁶

Some EU officials suggested that the Union's policy of interrupting bilateral ministerial visits at Mykonos had a negative effect on the bilateral trade relations between Iran and EU.⁹⁷ The specific fluctuations in trade between the Union and Iran will be discussed in Section 5.4 (c). Speaking against any direct effect from the visa restrictions to trade was, though, that EU Member States participated as usual in the yearly Tehran International Trade Fair in 1997.⁹⁸

Less important, but still illustrative for the immaturity of EFP, were a couple of classical defection dramas in connection to the withdrawal of ambassadors. Greece and Italy were the moderates among EU Member States that had favoured a compromising stance towards the Iranian regime. In particular, Greece tried to defect from the Union's Mykonos verdict reactions. In fact, two (or three) days after the rest of the ambassadors had left Tehran, the Greek ambassador still reportedly was in Tehran continuing his duties, including a reception on the Greek national day.⁹⁹

The other moderate, Italy, generally seemed to comply with the Union's reactions except, maybe, for one incident. The Union, two weeks after the withdrawal of the ambassadors, decided to return the ambassadors on April 29, 1997. Within two days, on May 1, this decision was changed to "*a wait and see attitude*", after the Iranians, as mentioned above, had declared the German ambassador's return "*not desirable for the moment*".¹⁰⁰ The Council asked the Member States not to return their ambassadors awaiting a response from Iran before taking the final decision.¹⁰¹ At that time, however, the Italian ambassador was already in Tehran having left Rome on the day of the Council declaration on

⁹⁶ Email correspondence, senior diplomat, EU Member State, Spring 2001.

⁹⁷ Interview, Council Secretariat, May 2000.

⁹⁸ Email correspondence, senior diplomat, EU Member State, Spring 2001.

⁹⁹ European Report, No. 2222, May 8th: 11; No. 2220 April 30th 1997; No. 2221 May 3rd 1997. E-mail correspondence, Senior Diplomat, EU Member State, Spring 2001.

¹⁰⁰ One official even noted that the ambassador had been declared *Persona Non Grata* which was a breach of the Vienna Convention (Article 9 (1), 1961). In the Vienna Convention it is stated that "*the receiving state may at any time and without having to explain its decision notify the sending state that the ambassador is Persona Non Grata. A person may be declared non grata or not acceptable before arriving*". According to interviews with one of the ambassadors of the Member States, Iran did not directly declare any ambassador *Persona Non Grata*, but simply used the expression that the German ambassador's presence was undesirable for the moment as referred above.

¹⁰¹ European Report, May 8, 1997, No. 2222, V.11.

April 29. Instead of returning from Tehran to his home country as the French ambassador did in a similar situation,¹⁰² the Italian ambassador remained in Tehran for another three weeks reportedly to seek to find a solution to the conflict.¹⁰³ Council officials referred to this incident as a “*misunderstanding*”, and sticking to this diplomatic language, one may say that the incidents, though part of an expression of increased capability-presence of the Union, also showed how clumsy and inexperienced the CFSP apparatus still was when it came to even small diplomatic operations such as this.¹⁰⁴

Within the problem of the Greek ambassador referred to above, one actually finds a neat illustration of the arbitrary manifestations of this progress of EFP. Greece actually ended up complying with the Council decision albeit in a rather awkward way. As the defection of Greece became clear for the Council Secretariat and the Presidency, the Council Secretariat decided to invite all ambassadors with their spokesmen to Brussels for a meeting of the Gulf Working Group. It was argued that this would provide “*a qualitative improvement of the debate*” in the Council Working Group and since all ambassadors had officially been taken off duty it should not have been a problem had the Greek ambassador simply complied with the decision.¹⁰⁵ This creative initiative of the Secretariat subsequently pushed the Greek ambassador to leave Tehran so he in fact turned up at the Working Group. Although the Greek ambassador did not go back to Tehran before the return of the first group of the rest of the ambassadors, he apparently – unlike the other ambassadors – forgot to give the agreed upon notice to the Iranian authorities saying that he had been called home for consultations.¹⁰⁶

In sum, Mykonos illustrated gradual progress of the capability-presence of the CFSP, but also contained many elements of paralysis. Neither the progress nor the paralysis followed any streamlined straightforward movement but rather an *ad hoc* reactionary path of development emphasising the intergovernmental decision-making nature of the CFSP plus a gradual, but weak, strengthening of the Union’s organisational capabilities.

¹⁰² The French ambassador returned from Dubai after a stop on its way to Tehran after receiving the new orders from the Council.

¹⁰³ <http://www.neda.net/iran-wpd/vol11019/f1019-05.htm>. E-mail correspondence. Senior Diplomat. EU Member State. Spring 2001.

¹⁰⁴ Interview, Council Secretariat, November 1999.

¹⁰⁵ Interview, Council Secretariat, May 2000.

¹⁰⁶ Interview, Council Secretariat, May 2000. Instead, the Iranian authorities were informed that he had left on vacation for the Greek Orthodox Easter.

(d)

Comprehensive dialogue

After the ambassadors' return to Tehran in November 1997, a new dialogue emerged between Iran and the EU. It was too sensitive for both parties to refer to the new dialogue as critical or even mention the word dialogue, but unofficially the new dialogue was referred to as a "*constructive*"¹⁰⁷, "*global*"¹⁰⁸ or "*comprehensive*"¹⁰⁹ dialogue. The relations under the new dialogue quickly improved. In 1998, the dialogue for instance was told to take place in an atmosphere described as "*neither friendly nor hostile*", but one year later the dialogue was now pursued in a "*friendly atmosphere*".¹¹⁰

One of the novelties of this dialogue was that the biannual meetings now took place in Tehran as well as in Member State capitals. The (ministerial) Troika represented the Union and the "*highest level representatives*" represented Iran. Those were the Iranian Deputy Minister of Europe and the Americas, Morteza Sarmadi, and later Ali Ahani, accompanied by senior officials. The meetings were held in Tehran under the Austrian Presidency in June 1998, Vienna (Austrian Presidency in December 1998), Tehran (German Presidency, May 20, 1999), Helsinki (Finnish Presidency, December 1999), Tehran (Portuguese Presidency, June 23, 2000) and in Stockholm (Swedish Presidency, February 13, 2001). The meeting under the German presidency was reportedly the most successful one discussing a comprehensive list of issues,¹¹¹ whereas the meeting in Helsinki was reported as the least successful meeting in terms of achieving Iranian compliance with the EU demands after Mykonos.¹¹² In addition, the planned comprehensive dialogue meeting in Paris in December 2000 was cancelled after Iran could not accept the French *level* of the dialogue. France was according to a spokesman of the Iranian government, sending "*only a senior civil servant*" to the gathering, the deputy secretary general of the foreign ministry, which was unacceptable to the Iranians.¹¹³

The scope of comprehensive dialogue was greater than previous dialogues by expressing the attempt to find "*practical ways of co-operation*" between the Union and Iran.¹¹⁴ Moreover, by trying to signal

¹⁰⁷ Defined at the European Council in Brussels 30/31 March 1998 (See Struwe 1998).

¹⁰⁸ European Report No. 2334, July 23, 1998, V.6, according to the Austrian Presidency on a Trojka visit to Tehran 18-19 July 1998

¹⁰⁹ Called so by the German representatives and twice under the Finnish Presidency. See EFPB 99/167 21/9-1999 and 99/222 9/11-1999.

¹¹⁰ Interview, Commission, May 2000.

¹¹¹ The issues included co-operation of Organization of the Islamic Conference, Economic Cooperation Organization (ECO), Iran-EU co-operation, Afghanistan, Kosovo, Persian Gulf, Iraq, Central Asia, Caucasus, Caspian Sea, Middle East, Dialogue among Civilizations, human rights, International terrorism (MKO) and disarmament.

¹¹² Interview, Council Secretariat, May 2000.

¹¹³ Tehran, for its part, had named its deputy minister with responsibility for European affairs.

http://www.listbot.com/cgi-bin/subscriber?Act=view_message&list_id=daneshjoo_news&msg_num=624&start_num=624

¹¹⁴ Mr. Kachouieian, Head of Bureau of West Europe in the Ministry of Foreign Affairs in Tehran, Round Table, March 16, 2001.

different things to reformist and non-reformist groups in Iran, the new dialogue necessitated more sophisticated analytical and operational co-operation in the CFSP and the external relations of the Community. A novelty on the agenda was that *Areas of concern* no longer comprised the Rushdie case after the agreement between Britain and Iran in September 1998. Human rights issues were still addressed despite that Iran maintained their opposition towards including this point on the agenda. Only once does this *de facto* seem to have taken place, namely under the Austrian Presidency.¹¹⁵ The proliferation of Weapons of Mass Destruction remained an agenda-point and drug trafficking was increasingly discussed. Terrorism was gradually removed from the points the Union wished to raise in line with the apparent reduction in Iranian supported terrorist activities after 1997.¹¹⁶ Instead, the Iranians raised the issue of terrorism, finding that the Union should officially condemn the Mujahedin-e-Khalq Organization (MKO). The Union had never specifically addressed the MKO, but had *only* condemned – typically through a statement by the Presidency and not by the Union – “*all forms of terrorism and regardless of motive*”.¹¹⁷ The British declaration in July 2000 of all MKO activities as illegal,¹¹⁸ however, seems to put some pressure on the Union to specify its stance on MKO in their future dialogues with Iran.

The second agenda point was “*Extension of co-operation*”¹¹⁹ or “*issues of common interests*” which further illustrated the increased scope of EFP in this period.¹²⁰ This included first pillar issues such as trade and technical co-operation, notably within the energy sector and on environment issues, and specifically regarding projects in the Caucasus region. Working groups were established to discuss “*possible EU-Iran co-operation in certain areas*”, with the Working Group on Energy of 1999 being the first Working Group to be established. It met for the first time in Tehran in May 1999 and had its second meeting in Brussels in March 2001. Its purpose was to discuss the possibilities of technical co-operation between the EU and the Iranian energy sector regarding projects in Iran. In 1999, working groups on trade and investment were also established, with the first meeting being held on 28-29 November 2000. Apart from this, so-called “*Experts meetings*” were held on Drugs and on Refugees (European Commission 2001:6).

¹¹⁵ Iran Review, Jan 1999, No. 26. At URL: <http://www.mfa.gov.ir>.

¹¹⁶ Interview, Council Secretariat, May 2000.

¹¹⁷ Interview, EU Member State diplomat, May 2000.

¹¹⁸ July 12, 2000. URL: <http://www.fco.gov.uk/news/newstext.asp?3946>.

¹¹⁹ Interview, Council Secretariat, May 2000.

¹²⁰ EFPB 99/167 21/9-99

When assessing the value of the increased scope of the CFSP that this reflected, one may notice that the initiative to the Working Group on trade was Iranian and not European. Moreover, the Iranians wished to have what they called a “*trade and investment agreement*” with the Union.¹²¹ Neither the Commission nor the Council took any initiatives from 1991 to spring 2001 in this regard. Then the Commission, on request of the Council’s decision during the French Presidency, delivered a report to the Council that included the proposal of initiating negotiations for a “*trade and co-operation agreement*” with the Union in accordance with Article 300(1) of the TEU (European Commission 2001:9). The Union’s policy contrasted somewhat with the Member States’ gradual opening up in their trade and investment relations with Iran, notably with the various deals struck between private EU companies and Iran as well as several bilateral investment protection deals between EU Member States and Iran involving countries such as Italy, France, Germany, United Kingdom and Finland.¹²²

The Amsterdam Treaty opened up for introducing Common Strategies in which the broad range relations, political, economic, social and cultural will be taken into account. In this respect, it was according to an EU Member State senior diplomat “*perhaps a weakness of the critical dialogue that it concentrated solely on political issues, such as human rights and the Middle East, which in themselves were not conducive to receiving warmer relations between the EU and Iran*”.¹²³

The bottom line of the Union’s approach towards Iran at the turn of the Millennium was thus a still highly cautious policy lacking a real momentum in increasing the Union’s capability presence significantly. Under the label “*European Silence*”, a report by the European Parliament’s Foreign Affairs Committee “*considers that EU should respond more actively to the recent successes scored by more moderate forces within the political establishment in Iran*”.¹²⁴ Incentives such as the targeting of aid to Iranian moderate forces in the late 1990s were simply “*not politically possible*”, as noted by an official in the Council Secretariat.¹²⁵ Aid was only given as refugee aid through the UNHCR and through non-governmental organisations. In the beginning of 2001, a sanitary and maintenance project was furthermore launched, implemented by the French Médecins sans Frontières (MSF). Together with a humanitarian (hospital) project which was initiated after the earthquakes in Iran some years ago, these

¹²¹ Iranian government official, informal talks with the author, April 2000.

¹²² The Commission was also included in the September 1998 ban of all EU imports of Iranian pistachios, which is Iran’s second largest export item. Iranian free trade violations were reported as the reason for the ban, but the international society, including the US, largely perceived it as strengthening of the European stance towards Iran. Yet, the ban was already removed in late 1998. The information on bilateral deals stems from e-mail correspondence with a senior diplomat of an EU Member State.

¹²³ Email correspondence, June 6 2001.

¹²⁴ EP, 23.4 99 A4 0242/99 39.

are however “*the only activities of the Union in Iran for the moment*”.¹²⁶ As such, no significant inter-pillarization of the Union’s policy towards Iran has taken place so far, i.e. other pillars have not been sufficiently integrated into those European foreign policies that are formulated in the CFSP (See also Chapter 6). Illustratively, until Spring 2001, the Commission never explicitly proposed any policy towards Iran, either under critical dialogue, or under comprehensive dialogue despite being “*fully associated*” in the tasks of the CFSP (Treaty of Amsterdam: Article J.8 (4)).

In response to the disappearances and executions of various Iranian writers in 1999 and the attempts to organize an uprising commencing with the student demonstrations on 8 July 1999, the Union took a neutral stance calling it a “*a situation that primarily is for the Iranian people to resolve within Iran*”.¹²⁷ Similarly, the restrictions in the freedom of speech through the closing of more than 30 newspapers from 1999-2001 and the persecution and verdict involving thirteen members of the Jewish community in Iran and eight Muslims accused of spying did not lead to any visible change in the Union’s declarative policies towards Iran.¹²⁸ Instead, the Union’s “*quiet*” diplomacy continued to approach the Iranian authorities with their various concerns through demarches, discussions on the dialogue meetings and various messages.¹²⁹

The Union’s reactions were under comprehensive dialogue thus much more proactive and wide-ranging than before but the real movements in active co-operation at the EU level were however still so limited that an outsider could easily see the Union as being paralysed as usual. Indeed, the Union did suffer from a sort of strategic *laissez-faire* in that its policy from 1997 seemed to be a *widened wait and see policy*. Symptomatically, for the Union’s approach the Commission’s proposal to the Council of opening negotiations with Iran regarding a trade and co-operation agreement was in May 2001 reported to have “*deadlocked*”.¹³⁰ In this sense, EFP towards Iran thus neatly mirrors the puzzle of this thesis regarding the co-existence and interchange between paralysis and progress in the EFP. The remainder of the chapter will subsequently explore the extent to which this pattern reflect decision-makers ability to learn or not from their actions and the outcomes in EU-Iran relations.

¹²⁵ Interview, Council Secretariat, November 1999.

¹²⁶ C89 E/148 OJ Da 20.3.2001.

¹²⁷ EFPB 99/119 15 July 1999.

¹²⁸ Brussels. July 1 2000. 9883/00 (Presse 237); Brussels. September 25 2000. 11565/00 (Presse 335); Brussels. 16 January 2001, P 11/01. Press Release.

¹²⁹ C89 E/148 OJ. 20.3.2001 and Email communication. EU Member State diplomat, Spring 2001.

¹³⁰ Interview Iranian senior diplomat. May 2001.

5.3 How much learning took place in and between the dialogues?

(a) *The rise and fall of Critical Dialogue*

This section will look at how much of what the Member States agreed to regarding CD including the abandonment of CD and the instalment of comprehensive dialogue in 1998, may be attributed to the dynamics of learning, as suggested in Chapter 3. According to one Council official, the aim of the CD was to “*unite the Union on a delicate matter, to defend European interests hoping Iran would listen and more channels would open*”.¹³¹ The belief in the advantage of the Union to “*speak with one voice*” was a lesson the Union had learned from the years of the EPC and other EC relations.¹³² It may even be a belief that originated in the reasons the European Community and the EPC were founded in the first place. As the game went on between EU and Iran, the belief in “*speaking with one voice*” was however both reinforced and reduced on several occasions.¹³³

As different as the positions of the Member States were in the '80s, uniting the Union on Critical Dialogue was a diplomatic accomplishment. The contours of the divisions in the Union continued even after the initiation of the Critical Dialogue. Generally, the Union was divided into a *hard-line* and a *moderate* group of Member States. Britain became a hard-liner after the Rushdie case, because of the evident violation of elementary human rights principles towards a British citizen and because of their sensitivity to the uproar from the large Muslim society in Britain after Salman Rushdie's book, “*The Satanic Verses*”, which “*precipitated a sense of political crisis in Britain*” (Asad 1990:455 & 457, 17-20). The Fatwa further spoke to the low British sensitiveness of appeasement towards other actors.¹³⁴ However, the fact that Rushdie's novel caused outrage throughout the Islamic world, not only in Iran, complicated the message of condemnation of the obvious breach of human rights that Ayatollah Khomeini's “*shocking death sentence*” over Rushdie had implied.

It has been stated that the British change was based on the increased importance of human rights norms in international politics per se, but here it seems that the British change of course was mainly a result of the Fatwa and other tensions in the relations with Iran. Among the latter was the kidnapping in 1989 of a British diplomat. In terms of the learning framework, all these incidents made Britain realize its

¹³¹ Interview, May 1999.

¹³² Ibid

¹³³ Ibid

limitations as a unilateral foreign policy actor. Clearly, as a former Council official noted, “*human rights issues were the focus of EP’s attention*”.¹³⁵ Human rights norms per se probably – as Struwe contends – played a major role in establishing an “*action-sphere*” of the Member States, where they believed some action was necessary. The choice of the Union and multilateral policies to voice these human rights worries, in contrast, relates to Britain on the one hand, beginning to react pragmatically to the changes of the end of the Cold War and, on the other hand, starting to see the EFP in this new context as a better instrument to pursue her objectives than many other international institutions (Hill 2001). Britain simply needed a buffer for her dealing with this matter, a buffer that became the EU’s foreign policy because of her increased belief in comparative advantages of the CFSP.

This change was initiated in 1989, when Britain used the EC as a forum of her protests against Iran, thereby providing a buffer towards domestic escalation of the divide between the Muslim and the Christian society in Britain. Even protesting at the EU level was at that time not easy, as illustrated by the swift British counter initiative to return all the ambassadors to Tehran. During the following two-three years, the external structural environment caused by the end of the Cold War also changed the beliefs of British decision-making, so Britons had fewer problems in participating in a multilateral European framework when it was proposed in 1992, than they had had in 1989. This issue will be further discussed in Chapter 6.

The *ad hoc* institutionalised CD framework towards Iran at the end of 1992 was in no way a British invention. Germany was a key player in the emergence of CD reportedly pushing the issue forward at the Council level (Struwe 1999:20-25).¹³⁶ Historically, Germany was a moderate compared to Britain. In the mid-80s, Germany kept special bilateral relations with Iran. Notably, from 1984-1988 at the time when no other Western country wished to do so, Germany held the belief and acted upon that belief that a more moderate “*political dialogue*” was the best way to address issues towards the Iranians.¹³⁷ In some cases, Germany actually decided to halt earlier cooperation with Iran, such as regarding the civil nuclear power project at Bushehr in Southern Iran that had been initiated before the fall of the Shah by the German multinational corporation Siemens.¹³⁸ Generally however, Germany had preferred bilateral

¹³⁴ Comment by Hill in the LSE Foreign Policy Workshop, June 9, 2000.

¹³⁵ Interview, former Council official, September 2000. Sentence reconstructed from author’s notes.

¹³⁶ Interview, former Council Official, now Member State diplomat, September 2000.

¹³⁷ For example, it has been argued that “*political dialogue*” had been instrumental in causing major changes in the Iranian willingness to compromise in the Iran – Iraq where Germany had been the first Western country criticizing Iraq’s attack on Iran as a major cause of the war. (Struwe: 20). Rahnema and Nomanani not even mention Germany among the combination of factors causing the end of the Iran-Iraq war (1996 354-356; Kanovsky 1999).

¹³⁸ Iran has more recently tried to have this project taken over by Russian nuclear experts.

political dialogue with the Iranians to protect the extensive German commercial interests in Iran, a matter that will be returned to in Section 5.4.

With such an initial position, the German move towards a multilateral critical dialogue seems compatible with learning dynamics, as those in Chapter 3. Germany learned in particular from the Fatwa that political dialogue, as a unilateral policy, did not work against Iran. The German foreign minister Hans Dietrich Genscher therefore decided to propose stronger measures against Iran than even Britain could agree to. This was induced by the fear in Germany of a possible spillover of the Iranian extraterritoriality policy regarding a British citizen. This fear seemed valid, taking into consideration the 1.7 million Muslim Kurds living in Germany at that time. The Mykonos murders in September 1992 only reinforced this belief about the non-sustainability of a unilateral political dialogue. Consequently, Germany grew in favour of a more critical and multilateral attitude towards Iran. The German foreign minister, Klaus Kinkel, from spring 1992 reinforced this introducing a (unilateral) German CD.¹³⁹ Watching the Mykonos murders a few months later taught Germany the lesson that a unilateral CD was not enough towards Iran. It also played a role that multilateral (EU) critical dialogue was in line with Germany's post World War II emphasis on multilateral frameworks and Germany's particular support for the European integration project. Finally, like Britain, Germany could also use the Union as a buffer, to comply with the strong demands for a reaction, while continuing trading with Iran almost as it did under political dialogue. Germany's attitude was symptomatic for the Member States. They were aware that they needed a policy to substitute for the lack of normal EU relations with Iran.¹⁴⁰

The Member States took a risk installing the Critical Dialogue. Any dialogue with Iran could be seen not only as a harsher course towards Iran, but as an indirect recognition of the policies of Iran. The fear of failure was, however, helped overcome by the relative improvement of the Iranian government's position on a number of issues in the late '80s and the early '90s; as mentioned in Section 5.1, notably, by the example Iran was for the rest of the world in its treatment of Kurdish refugees from Iraq.¹⁴¹ As one senior diplomat notes "*awareness of this was the positive factor in the critical dialogue*".¹⁴²

¹³⁹ Kinkel became foreign minister after Genscher voluntarily left his post 18 May 1992.

¹⁴⁰ Opinion expressed by official in the Council Secretariat, May 2000.

¹⁴¹ Comment by the Irish ambassador, Mr. Cogan, former ambassador to Iran, 1990-1993. Round Table. EU-Iran Relations. Limerick. March 15th 2001.

¹⁴² Email correspondence, June 6th, 2001.

Whereas a hard learning process thus initially induced CD, the '90s sustainability of CD, in contrast, was less compatible with the optimal learning dynamics. The decisive factor in sustaining CD, however, was that the alternatives to CD were worse. Unofficially Member States had sincere doubts about the effectiveness of CD, but for instance, Britain was convinced that CD automatically assured a harder European line towards Iran than if it was abandoned. Moderates such as Italy and Greece also knew they would not get far by going against both US dual containment (described below) and major European countries such as Germany, Britain and France.¹⁴³ As CD became *de facto* institutionalized with the credibility of any EU Presidency being at stake if it refrained from holding it, some of the most moderate presidencies such as Greece sought to get the best out of the situation and used the CD session to boost bilateral trade relations with Iran.¹⁴⁴ Eisenstadt has noted, "*the EU believed that the dialogue was itself the major incentive for 'good behavior' by Tehran*" (1999:139, 16-19). This was also part of the reason, why it was sustained for such a long time. Yet, as a former official noted, the governments knew that CD was no "*pretended quick fix*".¹⁴⁵ What kept CD together until Mykonos was the sincere lack of the belief in appropriate alternatives to CD. Believing in the superiority of one solution over another is *a priori* compatible with the learning dynamics of Chapter 3. Yet, it is questionable how much the Union actually took the workings of the alternatives to CD properly into consideration in this period. Therefore, it remains doubtful how much learning actually took place during CD among EU decision makers.

In line with this, it is hard to say why it took such a long time to dismiss CD. Five years' experience and learning about the workings of CD may account for the inevitable end of CD, but not the time it took to reach this end. When CD *died* at Mykonos, it was sick and had been dying for a long time. As one official noted, "*consensus began to break down... had it not been for Mykonos, the CD would have ended in the course of 1997-98 anyway*". A majority of Member States were discouraged by the lack of "*real movement*" in Iran despite the fact that ambassadors to the Member States reported that "*Iranians are sensitive to external pressure*", and "*engagement*" towards Iran.¹⁴⁶ Britain, for instance, found CD "*non-conclusive*".¹⁴⁷ Already in spring 1996, Denmark was the first country to decide to bring a halt to its bilateral CD claiming that it "*made no sense*".¹⁴⁸ If CD really had been effective in terms of trying to achieve goals of human rights and democracy, Denmark who advocated these issues despite its

¹⁴³ Interview. Council Secretariat, May 2000.

¹⁴⁴ Interview, former Council official, May 2000.

¹⁴⁵ Interview, May 2000.

¹⁴⁶ Interview. Council Secretariat, May 2000.

¹⁴⁷ Interview, former Council officials, May 2000.

extensive economic interests in Iran might not have abandoned their CD.¹⁴⁹ On the opposite side were a minority of countries such as Italy and Greece that interpreted the mere holding of each dialogue session with Iranians as a “*stepping stone*” or “*evidence*” of the need to abandon CD and quickly enter into normal (trade) relations with Iran. Iranians were well aware of the division among the Member States and preferred that EU-Iran relations developed within the framework of “*duality of voices*” with both bilateral and multilateral ties.¹⁵⁰ A positive effect of CD was, however, that such Iranian attempts to divide the Union became more visible and on several occasions, the Union managed to remain loyal to the EU policy despite sincere differences and attempts to divide the Union. The general feeling resulting from the experiences of CD was that “*Critical Dialogue could barely deliver as promised*”.¹⁵¹

In conclusion, learning seems to be significant in explaining the discouragement regarding CD among Member States and thus one of the more fundamental reasons why CD ultimately had to be abandoned. Still, it seems incompatible with what one may call a *normal* learning path that it took almost five years for the Union to realize that its policies needed major adjustments. Moreover, the vacuum that was created after Mykonos also reflects that the Union was still rather short-sighted in terms of which policy options were effective and which were not towards Iran.

(b)

After Mykonos

The replacement of the CD initially with a vacuum did however constitute a lesson for the Union. The respect that the actions gave vis-à-vis the Iranians were more than offset with the inability for almost a year of not moving either back or forth towards developments in Iran. This combined with the experience gained from CD and the fortunate coincidence that brought the reformist Khatami into power laid the foundations for the Union’s improved comprehensive dialogue. Economic interests also played a role in the eagerness of the governments to reinstall relations with Iran as will be discussed in Section 5.4. The simple argument about learning is that comprehensive dialogue was more in line with learning dynamics since comprehensive dialogue was both in line with developments in Iran and can logically be traced back to a series of reactions to failures in the past, CD, the vacuum after CD etc.

¹⁴⁸ K.R. Timmerman: “*Denmark Takes the Lead on Iran*”, Wall Street Journal Europe, 27/11-1996 cited in Struwe (1998:34).

¹⁴⁹ Denmark however maintained its participation in EU’s CD until Mykonos and thus took a rather ambiguous stance on Iran from spring 1996-1997.

¹⁵⁰ As expressed by Mr. Molaei, Head of European Studies, Iranian Institute of Political and International Studies, Round Table, March 15, 2001.

¹⁵¹ Interview, Council Secretariat, May 2000.

The Union was, however, more than satisfied with the new dialogue. It reported that the dialogue is “*progressing well*”,¹⁵² which probably reinforced the Union in its belief about its policy towards Iran. The Union’s decision-makers started to believe in Khatami and in the reforms, and this reinforced the belief in comprehensive dialogue that was implicitly seen as a fruitful environment for the reforms. As will be discussed below, however, there are plenty of reasons to question the Union’s interpretation of the policy as a success.

In accordance with Chapter 3, the crucial issue is whether the Member States had a decent possibility of drawing an inference between Khatami’s reforms and the workings of the comprehensive dialogue. Put differently, did learning take place, or not? One of the cases where one would have expected learning to take place, but where apparently it did not work, was with respect to the two withdrawals of ambassadors from Iran in 1989 and in 1997. According to one Council official, the Union had learned from the first withdrawal of ambassadors in 1989 when the Rushdie case peaked, that it was important to remain united.¹⁵³ However, the Union’s initial response to Mykonos carefully followed the Dutch Presidency’s “*Options-paper*” and the official who wrote this paper reported that the Union in its later decision largely followed the suggestions delineated to the different scenarios in the options paper, which were not at all based on previous EFP experiences. In fact, the official said he had no knowledge about the 1989 ambassadors’ withdrawal at the time he drafted the paper.

The belief about the workings of CD was further influenced by how the Iranian political dynamics was perceived. For EU governments, the confusion (or illusion) about Iran was most widespread in the 1980s (Hoveyda 1990:136, 34). From a Western perspective, the revolution in a horrifying way visualized Islamic fundamentalism for the Western world (Waxman 1998:1). Clearly, Iran’s number one enemy was the Great Satan (the US) or the twin Satans (the US and the USSR), Iraq’s Saddam Hussein (Apostate/Kafir), closely followed by Israel (Hoveyda 1990:131, 4). The EU was thus not immediately included among Iran’s fiercest enemies, and there was a widespread lack of interest at the EU level in the added value of using more resources on learning about Iranian dynamics.

During the 90s, Europeans learned several lessons about Iranians Reza Saidabadi notes that a “*fundamental and necessary step in the development of the EU’s policy of ‘critical dialogue’ with*

¹⁵² EFPB 99/167 21/9-1999 Memorandum at the 54th session of the United Nations General Assembly. In this period there was indeed “*more agreement on Iran than imagined*”. Interview. Council Secretariat. November 1999.

¹⁵³ Interview. Council Secretariat. May 2000.

Iran” was the change in Iranian behaviour that “*diluted Western European perceptions of Iran as a source of regional instability*” (Saidabadi 1998; see also Eisenstadt 1999:135, 26-27 and Waxman 1998:24, 6-14). Initially, Europeans had the impression that “*Iranians have not really learned the tricks of the (negotiating) game and the Iranian response was not regarded as very sophisticated*”.¹⁵⁴ Officials in the Council Secretariat recognized that gradually the meetings held less and less “*tension*” the more Iran learned that “*Rushdie and other human rights issues would have to be mentioned every time*”.¹⁵⁵ European negotiators report that the Iranians were very “*sophisticated*”, “*able*”, “*skilled*” and “*very well aware of the rules of the diplomatic game*”.¹⁵⁶

This was illustrated by the criticism from Iranians on the Union’s policies regarding human rights and non-proliferation. The Union was harshly criticized for being selective, for instance, by not addressing the violations of human rights in Saudi Arabia or the Israeli nuclear proliferation. Diplomats also report that Iranians despite being increasingly friendly and willing to engage in discussions could seldom be engaged in real negotiations. As one diplomat noted, “*they were never willing to move one single inch*”.¹⁵⁷

This still held towards the end of the period with diplomats reporting that the dialogue is largely a “*talking past*” each other.¹⁵⁸ In fact, this may be one of the lessons learned by EU decision makers from their dialogues, that the efforts only make a small contribution if any to changes in the Iranian environment. The belief in the dialogue has thus decreased in the sense that the ambitions and expectations have been lowered. The question that will be dealt with in the next section is the extent to which this decrease in beliefs about the capability of the Union’s policy towards Iran at all have been able to reflect the actual workings of EU policies, or whether other factors were more important or disabled decision makers in their learning.

As mentioned in Section 5.2, the Union’s increased capability-presence under comprehensive dialogue was not matched by any renewed eagerness from the Member States to use the CFSP to respond to the reported deterioration of the human rights situation in Iran from 1999-2001. The sporadic responses of the Union seem to reflect the decreased belief in the ability of any EU foreign policy reaction not to

¹⁵⁴ Interview, Council Secretariat, November 1999.

¹⁵⁵ Interview, Council Secretariat, May 2000.

¹⁵⁶ Ibid.

¹⁵⁷ Email correspondence EU Member State senior diplomat, Spring 2001.

¹⁵⁸ Interview, EU Member State diplomat, September 2000.

upset the Iranians and thus deteriorate the prospects of reforms even further. The question is, however, whether this analysis from decision-makers of the workings of the CFSP was correct. In particular, the analysis missed the importance of the Union for Iran and the impact that a *reliable* partner such as the EU could have vis-à-vis Iran. The conclusion is thus that learning indeed has taken place at several stages of the development of the dialogues, but that learning also have been impeded from taking place or simply been superseded by more important factors at other several other stages.

5.4 Inability to learn

The null-hypothesis is an umbrella covering a range of factors that may prevent learning or may be more important than learning. One of the parameters that may have led decision-makers to trust the new policies towards Iran was that the Member States did not only look at how Iran in general performed but were more interested in how Iran behaved towards the Member States. Hereby, a certain bias developed whereby the Member States became confident that everything was reasonably on track whereas the US would arrive at a completely different conclusion from their perspective.

(a) *Relationship with the US*

There are many reasons to believe that the US implicitly caused *trouble* for the Union's learning mechanism to function optimally. The US has according to Halliday and others influenced EU's policies more than anything else. Despite this fact the EU and the US have approached Iran in completely different ways in the last two decades, especially since 1992-1999. Illustratively, one US official remarked that CD was "*the Europeans and the Iranians getting together to criticize the Americans*" (Ansari 1996:209). The US was convinced about the attributes of active engagement in the eventual reforming of Iran. The fall of the Shah led to a reversal of US policy towards Iran. In the following years, the Hostages crisis "*created a major crisis in U.S.-Iranian relations that has yet to heal*" (Zunes 1997; see also Khan 1996). Until the end of the Cold War, the US policy was a policy of using Iraq as the instrument to contain Iran. From 1993-1999, US policy towards Iran became a policy of "*dual containment*" attempting to contain both Iran and Iraq at the same time (Sabet 1999; Tarock 1994:267, 8-11 & 270-271). In 1996, the US strengthened its containment policy further by the Iran and Libya Sanctions Act (ILSA). ILSA made any company eligible for US trial that invested more than \$40

million in Iran or Libya during 12 months that directly or significantly would contribute to the enhancement of the Iranian or Libyan ability to develop their petroleum resources.

From 1999, US policies changed slightly again to what policy observers have called “*Containment Lite*”. The idea of *Containment Lite* was to contain Iran and Iraq by seeking to play one actor against the other, for instance, by easing the relationship with one party. This policy was a more ambiguous US policy than before.¹⁵⁹ That is, there were both strong forces pointing to a US engagement in Iran and worry about loosening up towards Iran, thereby increasing the risk of another humiliation of the US (Chubin, Shahrani and Green 1998). This resulted in the lack of a specific US strategy towards Iran. The advantage of this was that the policy has lately contrasted less with EU’s policy. The announcement of the easing of economic sanctions of the US towards Iran on 17 March 2000 marked an interesting change in US coercive and containment policy towards Iran but the US continued to be highly cautious about giving in to Iran.¹⁶⁰

Halliday notes that the Union’s policy towards Iran in the 1980s “*reflected the need for the Europeans to avoid conflict with the US*”, which basically is an argument about the impact of power politics on EFP (1998). In the ’90s, the Union’s policies were more a reaction to US policies than to the actual situation in Iran. This reaction often seemed to contrast vividly with US policies. Below the surface, the contrasting elements were however rather murky. One Council official mentions that there was an extensive degree of “*nannyng*” from the US behind the decision to engage in CD. This nannyng was the constant pressure from the US among others on the US-EU Troika meetings to pursue a harsher course towards Iran, a pressure that only intensified after the US had installed their dual containment policies in 1993.

Government representatives of the Member States hardly ever admit that they in fact were influenced by the US. In their perspective, “*the EU listens and has a dialogue with the US [regarding Iran] while it sets its aims itself*”.¹⁶¹ Yet, Britain in particular found US arguments on Iran reasonable. R.J. Dalton notes in 1992, “*I do not believe that Iran is simply after self-defence... I see no reason to doubt US*

¹⁵⁹ The ambiguity of US policies could not be better illustrated than by the story one EU official told about the reports US officials made at one Gulf Cooperation Council about the limited progress of Iran in its co-operation with neighboring countries. Later at the meeting, another US ambassador arrived starting to describe the large human traffic from Saudi Arabia to Iran due to the more democratic conditions and the greater cultural freedom in Iran (Interview, Council official, May 2000).

¹⁶⁰ The easing of sanctions included 1) steps toward the return of those assets frozen in Iran since 1979 pending resolution of legal claims through a global settlement, and 2) lifting a ban on imports of Iranian luxury goods involving a) carpets, b) caviar, c) pistachios, and d) dried fruit. In 1985, this amounted to \$85 million in earnings (International Herald Tribune, March 18-19, 2000)

sources that they are at least 5 and maybe 10 years away from a bomb."¹⁶² As a more general comment, Danish representatives have said that while Danish policies remain flexible within EFP development (trying not to follow only one alliance), the purpose of Danish foreign policy is to "*seek to maximize own interests while being close to the US position*".¹⁶³

Another example on EU-US contacts regarding Iran is the German presidency's attempt towards the end of 1995 to introduce so-called "*benchmarks*" which conditioned concessions to the Iranians in CD on progress in Iran.¹⁶⁴ The benchmark proposal was reportedly received very negatively by some of the other Member States allegedly because the proposal had initially come from the US. The Union's movement vis-à-vis the US illustrated a highly ambiguous "*get away from me closer, you are near me to far*"-approach as Peterson (2000) has formulated it. In other words, the Union clearly held the belief that its policies were better than the US policies. At the same time, the US was always able to play a sort of *devil's advocate* when the Union's policy became a little bit too loose or, as in the case of ILSA, too tight.

On the one hand, the Union's decision-makers continued to believe that CD was superior to dual containment.¹⁶⁵ As one official commented on Khatami's election in 1997, "*if dual containment may account for let us imagine 0.01% of the outcome, critical dialogue accounts for 0.1%*".¹⁶⁶ On the other hand, the decision-makers' beliefs about their policies were vulnerable to outside pressure since they were well aware that the policy of the Union only reflected "*a hope*". This hope was that Iran could "*undergo peaceful transformation to more democratic conditions, for instance, by withdrawing some constitutional restrictions in democratic activity and in the power of the clergymen*".¹⁶⁷ As any other hope, this strengthened the Union's legitimacy when events in Iran were favourable to the hope, but had the unfortunate tendency to weaken the basis of the Union's policy when events did not meet the hope.

¹⁶¹ Interview, Council Secretariat, May 2000.

¹⁶² Chatham House speech 30 April 1992. Dalton is a British diplomat that has held several posts in the Middle East region.

¹⁶³ Interview Permanent Representative of Danish Delegation, May 2000. In fact, Denmark also had the strongest reservations about the EU's counter sanctions in November 1996 against the US Helms Burton Act and ILSA. Denmark was hesitant of using Article 235 of the Treaty of Rome as the legal basis of the actions (European Report 2170 October 30th 1996. External Relations: 7, Europe, No. 6842, 28/29 October 1996). It was indicated that the Danish reservation might have been linked to the on-going Danish High Court trial against the Danish Prime Minister, Mr. Poul Nyrup Rasmussen whose acceptance of the TEU was considered against the Danish Constitution. See European Report 2170, October 30, 1996.

¹⁶⁴ Interview, EU Member State diplomat, September 2000.

¹⁶⁵ Interview, Council Secretariat, November 1999.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

The most ambivalent EU-US clash over Iran resulted from the Helms Burton Act¹⁶⁸ and ILSA, as briefly touched upon in the previous paragraphs. EU considered both these acts extraterritorial and initially reacted to them with the Joint Action of 22 November 1996 (agreed 31 October) and subsequent acts. The reactions, which EU Trade Commissioner Sir Leon Brittan described as historical, included:¹⁶⁹

- i) the lodging of a complaint in the WTO;
- ii) a strong objection to the US rules of conduct;
- iii) a European Council regulation in order to “*protect the interests of the Community (the Union's external relations) and of natural and legal persons exercising rights under the Treaty establishing the European Community*”;
- iv) a Joint Action allowing “*Each Member State [to] (shall) take the measures it deemed necessary to protect the interests of any person referred to and affected by the extra-territorial application of laws and actions based thereon or resulting there from, insofar as these interests are not protected under that Regulation.*”

On the whole, this reaction was indeed of unprecedented scope. The action was namely based on a combination of the three pillars, using as a legal basis for the Joint Action J.3 (of the CFSP) and K.3 (of Home and Justice Affairs) apart from involving a Council regulation under the first pillar. Moreover, it was swiftly installed targeting a close ally, the most important trading partner and the world's only remaining superpower.¹⁷⁰

Soon negotiations started between the US and the Union to resolve the issues, and the Union slowly started to break ranks (e.g. Spain) as to how much the principles matter that go against a major trading partner and that collide with human rights violations.¹⁷¹ There were no major defections though, but the issues did not become less contentious within the Union when the Iranians applauded the Union's actions towards the US at the Dublin CD in December 1996 and took them as a concession to the Iranian regime. The following exit of CD was as a Council official noted, “*extremely convenient*”, not least because it happened “*in a time with strained relations to the US*”.¹⁷²

¹⁶⁸ Under Helms Burton the US set rules of conduct for “any person in the world” who is unauthorized to “*traffic*”; i.e. trades, invests in, or expands, in properties, belonging to Americans (or Cubans who later became Americans) but expropriated in 1959-1960 by Cuba.

¹⁶⁹ Europe, No. 6843, 30 Oct. 1996, 6.

¹⁷⁰ Council Regulation No. 2271/96 and Joint Action 96/668/CFSP (EFPB 96/343) of 22 November 1996, OJ 1996 L 309/1 29.11.1996, 7.

¹⁷¹ Spain's reluctance was more related to the Helms Burton Act than it actually concerned Iran and ILSA, but the two issues were at that time closely related to each other due to the extraterritoriality question.

¹⁷² Interview, November 1999.

After the tough EU reaction towards Iran upon the Mykonos verdict, the US delegation now instead praised the Union's "*compliance with the US course of action towards Iran*" at the next EU-US Summit. In fact, the day after the Mykonos reactions on April 11, 1997, the Union dropped its complaint at the WTO,¹⁷³ and the EU and the US issued a Memorandum of Understanding that said, "*taking into account the measures taken by the EU in particular those recently announced with respect to Iran, the US will continue to work with the EU...*".¹⁷⁴

Struwe implicitly suggests a connection between the Mykonos trial at its height in autumn 1996 and the EU issuing "*its strongest statement so far condemning the Fatwa*" (1998). This analysis would suggest that the end of CD after Mykonos was also influenced by the damages made to US-EU relations by the extraterritorial dispute which otherwise has been considered more or less an EU win. It is of course a mistake to conclude as some authors have done that "*critical dialogue..was interrupted upon US request*" or was orchestrated by the US.¹⁷⁵ However, it seems beyond doubt that the US and the EU actions towards Iran correlated from December 1996 to mid 1997.¹⁷⁶ If any factor is important for this, it is not learning. Instead, the US policies created an obstacle for the learning in addition to the general impact that US policies and its superior capabilities is believed to have had on the EU considerations. More recently, the US Containment Lite policy has caused fewer problems for the Union's ability to learn due to its ambiguity making it less controversial. Biannual summits were held discussing issues in the Gulf where both sides reported about EU-US rapprochement regarding Iran.

(b) *Unclear strategies*

"*When goals are unclear, it creates a big problem for the ability to learn*" as a government official put it commenting on European foreign policy towards Iran.¹⁷⁷ In the 1980s, the EFP towards Iran was both impeded by the lack of clear strategies and by the lack of EFP per se. After the initiation of CD, some learning started to take place, but the strategies were still too unclear to provide any learning process. For instance, the CD under the Greek presidency was reportedly "*chaotic*" and no one had a "*clue what*

¹⁷³ Press Release Brussels 18-4-1997 Press 110, No. 7362/97.

¹⁷⁴ Memorandum of Understanding concerning the U.S. Helm-Burton Act and the U.S. Iran and Libya Sanctions Act, April 11, 1997. Cited as 36 I.L.M. 529 (1997).

¹⁷⁵ Skuhra said "ein sogenannter 'Kritischer Dialog' wie einige Zeit mit dem Iran. bis er auf Wunsch der USA suspendiert wurde" (1996:445).

¹⁷⁶ From mid-1996 to mid-1997, the US witnessed the election of Khatami on 23 May only 5 days after the settlement based on the existing Memorandum of understanding came into force after a meeting in London (Krenzler & Wiegand 1999). In 1999, the Union noted in the UN General Assembly, "*the EU continued their intensified dialogue on Iran*" (EFPB 99/167 Memorandum at the 54th Session of the UN General Assembly 21/9-1999).

CD meant".¹⁷⁸ The guidelines attached to CD throughout 1992-1997 were also limited. The Union "calls for improvement in a number of areas... linking them to further development of co-operation and relations."¹⁷⁹ Specifically what was meant by further development of co-operation and relations remains unknown.

This changed after 1997 in the sense that now the strategy behind the Union's policy was, as a Council official described the dialogue, implicit "*support of everything that Khatami and reform-minded forces do*".¹⁸⁰ However, the Union still failed to define criteria for the enforcement of policies, for instance, what a fair trial meant, as in the trial 1999-2000 against the 10 Iranian Jews accused of spying for Israel. Moreover, one EU Member State senior diplomat points to the lack of consensus in the EU on which degree of responsibility that should be attached to Khatami for actions committed by his predecessors.

(c) *The impact of the external economic relations: institutional competence*

Intuition would suggest that the external economic relations have played a significant role in determining EFP towards Iran. This idea is reinforced by the low EU competence on Iranian issues, and a high intensity of trade (in particular oil imports) for almost all EU Member States.

Since the Union has had no trade agreement with Iran since 1977, the competence of the external economic relations has been low, a fact that should have influenced EFP negatively over the period as a whole. The '90s institutional reforms and general competence increase of the Union should, in contrast, have affected EFP positively also on Iranian issues. Perhaps this is the effect seen in the historical Joint Action of 22 November 1996 responding to the US ILSA and Helms Burton Acts. This EU response appears as the perfect example that a link between the external economic relations and the CFSP grew in the '90s despite the dual pillar structure. The objective of the various parts of the Joint Action was that they "*would constitute together an integrated system involving the Union's External Relations and the Member States each in accordance with its own powers*".¹⁸¹ The Iran case is thus interesting for our competence hypothesis. The specific policies appears to be in line with the proposition that low

¹⁷⁷ Interview, EU Member State representative, Brussels, May 2000.

¹⁷⁸ Interview, EU Member State diplomat, September 2000.

¹⁷⁹ Edinburgh Conclusions, December 1992.

¹⁸⁰ Interview, Council Secretariat, November 1999.

¹⁸¹ Sir Leon Brittan, EU Commissioner for Trade, November 1996

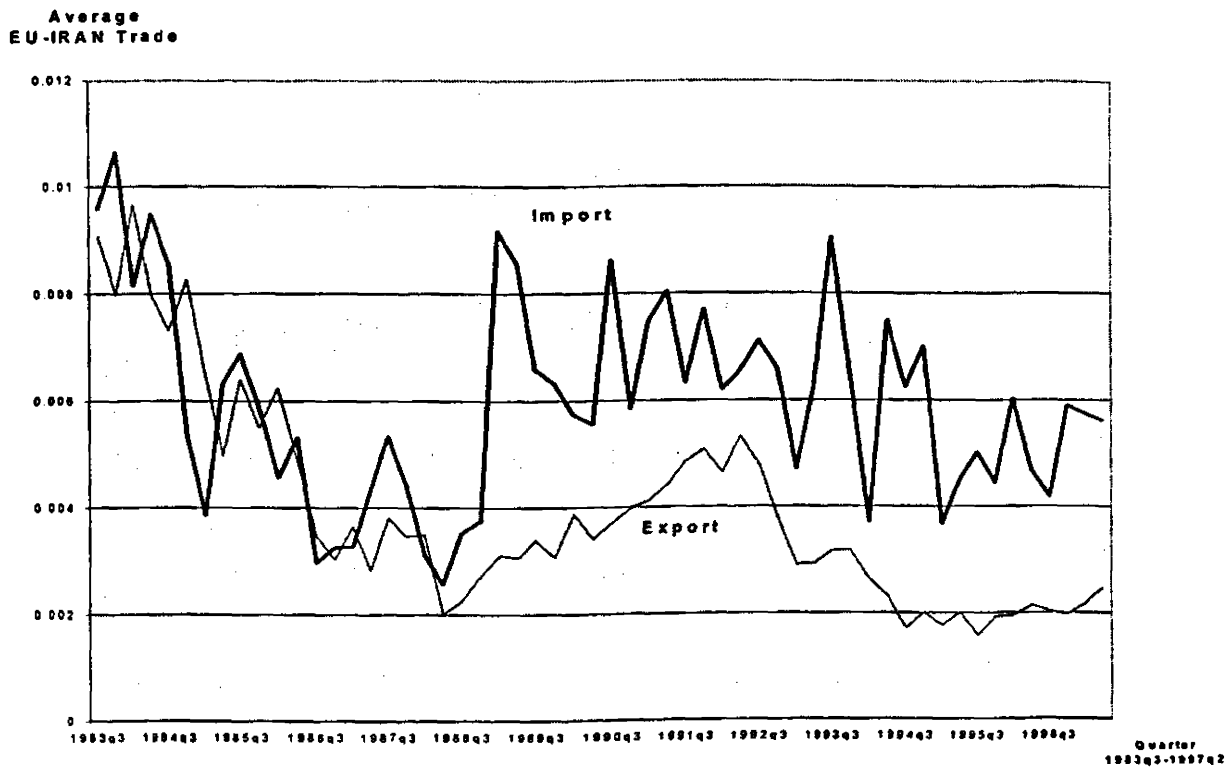
institutional competence will lead to low EU capability-presence. At the same time, the study suggests that if the general competence of the Union increases, as was the case, this will not lead to specific increases in the Union's capability-presence vis-à-vis a certain third country, unless a specific competence increase backs it up. The general competence increase is however in line with the general trend of EU-Iran relations, that is the small increase in the Union's capability-presence.

(d) *The impact of trade and investment*

Practically all the Council officials interviewed have emphasized the importance of trade and investment interests in determining EFP towards Iran. As one official bluntly noted, "*probably, I have a rather cynical perspective, but my task basically is to keep pressure regarding human rights and democratic development in awe while enabling Member States and their trade ministers to do their job.*"¹⁸² The development of the intensity of trade with Iran is shown in Figure 5.1 below. The thick line illustrates the quarterly average share of imports of total imports among Member States vis-à-vis Iran. The thin line in contrast measures the quarterly average share of exports of total exports among Member States to Iran.

As may be seen from Figure 5.1, during the Iran – Iraq War imports and exports to/from Iran continuously decreased until mid 1988. From late 1988, the Union became a net importer of goods, in particular, from 1988-1990 and from 1993-1998. This was mainly due to the trade deficit on petroleum. From 1988, the Union steadily decreased its total share of oil imports from Iran from 11 % in 1989 to 8% in 1997. The large decrease in exports to Iran from 1991 to autumn 1996 may be seen in connection with the way the Iranian government again "*sharply curtailed imports which dropped to about half their 1991 level*" (Kanovsky 1997:15, 6-9; Karbassian 2000). In particular, the trade curves peaked around the "*business boom*" 1992-3 when CD was initiated. Iran's business boom was caused by the increase in oil prices caused by the Gulf War. During this period, Iran became the second largest oil exporter in the world, and simultaneously the exchange rate crisis of ERM broke out in summer 1992, lasting until 1994. The Union's exports 1992-94 were thus affected negatively (Sapir & Sekkat 1993). Trade with Iran – even though it was in deficit – thus became even more important than before. In fact,

Figure 5.1 Intensity of Trade EU-Iran



Source: OECD

imports from Iran suffered a double tax. The first tax came from the ERM crisis and the second tax was a consequence of the Gulf War. The Union hereby became aware of the strategic advantages of “*Iran’s huge market*” (Reza Saidabadi 1998:2, 1. cl., 31-38). At the same time intervention in the political environment caused by Iran became inevitable for the Member States. As this pressure amounted when “*very lucrative trade interests*” were present, the CD became an instrument to secure that these could be maintained while having to comply with human rights concerns.¹⁸³

In the years that followed, average trade decreased and the diversity of trade among Member States increased as shown below. FDI was not allowed during the first and second Republic and therefore do not explicitly play a role before in the late 1990s (Mehrdad 1996). One of Struwe’s main arguments is that since the average EU-Iran trade has steadily decreased since 1992, the Union could not have pursued a policy based on serving either Iranian or European economic interests. Several factors contradict this argument however. First, Figure 5.1 shows that from the second quarter of 1994 – which

¹⁸² Interview, May 1999.

¹⁸³ Interview, Council Secretariat, May 1999.

is when CD started becoming more effective following the chaotic start – trade with Iran was relatively stable. In the same period, Iran's GDP fell 50% measured pro capita and 1/3 measured as total GDP. Although the Union's trade decreased, the decrease could have been much larger.

One of the main individual economic interests of an actor in the EU were French Total SA's \$600 million deal with Iran to build two oil and gas fields together with Malaysian Petronas and Russian Gazprom (Saidabadi 1998:2, 2nd cl., 24-30). Elf Aquitaines also had investment plans in Iranian oil industries. Council officials note that France did not express any points of view on Iran that were particularly distinct from other countries. Yet, they admitted that France was particularly "*anti-ILSA, it was there the French problem was*".¹⁸⁴ In fact, in the negotiations that followed the ILSA deadlock with the US authorities, Total SA, after intensive EU-US negotiations, got a specific waiver under the ILSA Act declared in a "*US Non-Paper*".¹⁸⁵

Britain's Anglo Dutch Shell had since 1995 become a key foreign direct investor in various drilling fields and the UK in 1995 was the primary foreign investor in Iran, investing \$613 million or nearly half of the total FDI flows. Among the smaller Member States, Denmark had highly conflicting interests regarding ILSA where particularly the trade links with the US played a crucial role. In a discussion paper from the Danish Ministry of Foreign Affairs it is noted, "*Danish business in general has expressed scepticism towards the Commission's anti-ILSA proposal*". In the proceeding sentence, the briefing says: "*from a political assessment it is in the current situation crucial to avoid a further deterioration of the conflict between EU and the US about the sanction acts...*".¹⁸⁶ In sum, from an economic perspective it made sense for the Union to react harshly against the US in this case and as mentioned above, the Union's exclusive competence on trade facilitated this reaction.

Apart from the petroleum imports, the Union had considerable counter trading with Iran. In 1992, for instance, the Union among others exported chemicals for around 618.5 Million ECU in exchange of mainly oil (United Nations 1995). The largest net exporters of chemicals to Iran from the Union were Germany, Italy, the Netherlands, and Sweden. The Union also held extensive economic interests in the armaments industries. Germany, Belgium, Spain and the UK were the main suppliers of military

¹⁸⁴ Interview, Council Secretariat, May 2000.

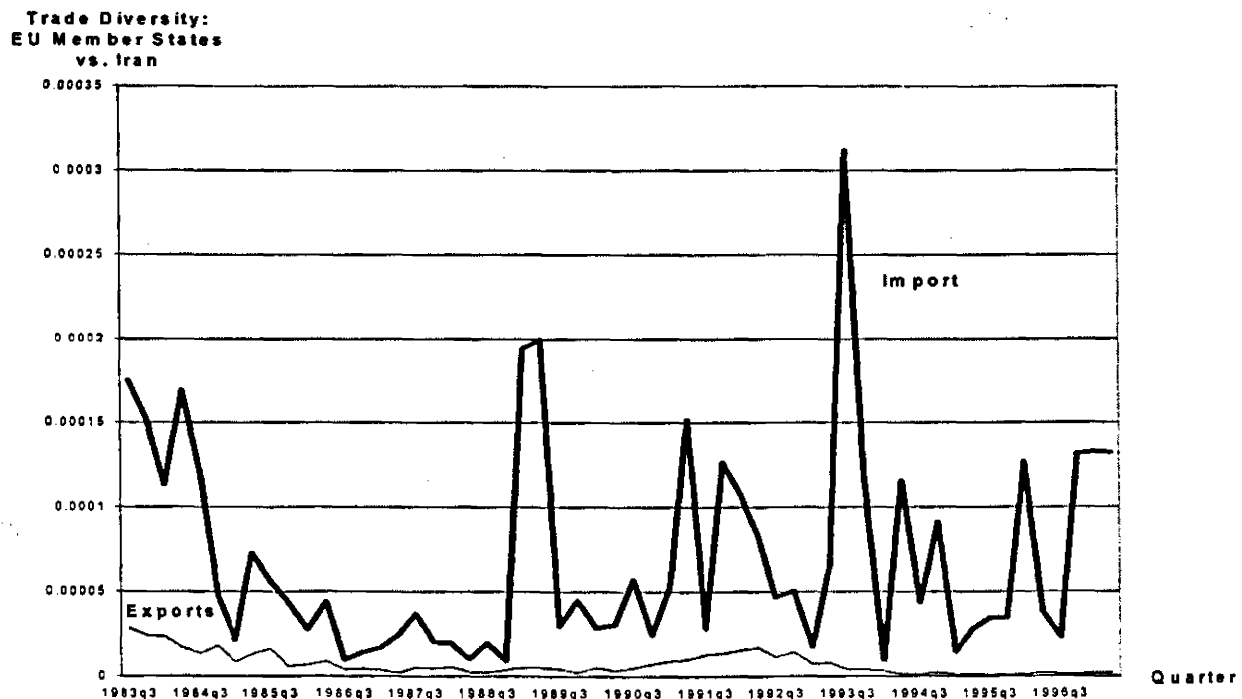
¹⁸⁵ Due to settlement of 18 May 1997 as described in Krenzler & Wiegand (1999).

¹⁸⁶ Udenrigsministeriet, Nordgruppen, N.1 j.nr. 400.A.5-0-0. September 23 1996. Rådsmøde (udenrigsministre) den 1.-2. oktober 1996.

equipment to Iran.¹⁸⁷ The armaments export was disputed in the EP, but the Member States were divided as regards a possible arms boycott towards Iran. Illustrative of this was the answer by Dutch foreign minister, Mr. Van den Broek, to a question in the EP about why there was no arms embargo on arms sales to Iran. Van den Broek noted that, *"In the capacity as a Dutch Minister ... the Dutch government believes all supplies of arms should be suspended."* The result of the Union's division was as Eisenstadt indicates, that "EU" Member States *"were involved"* in the increase in Iranian military spending in recent years (1999).

Figure 5.2 below depicts the diversity among Member States in their export and import shares towards Iran from 1987-1997 measured as shown in Chapter 4.

Figure 5.2 Trade Diversity: EU Member States versus IRAN



Note: Source OECD; calculated as shown in Section 4.2 (c)

As one may see from Figure 5.2, imports in general vary more extensively than exports. This is probably linked to the fact that some countries in particular depend on Iranian petroleum imports, the prices of which fluctuate more than other consumer prices. As for exports, the period 1989 to the third

¹⁸⁷ EFPB 89/003 16 January 1989.

quarter of 1993 saw an increase in export diversity among Member States. Then since mid 1994, export diversity has been practically non-existent. If the diversity of interests would have had any influence on CD it would thus have been, first, to decrease the capability-presence of the Union at the time of the initiation of CD, and second, to increase the capability-presence from the mid 1990s. Following this logic, the initiation of CD does not seem to have much to do with diversity of economic interests, but have slightly reduced the substance of it. On the other hand, the diversity of economic interests seems to be yet another factor that have been in such a state as to facilitate the increased capability-presence of the Union from the mid 1990s. In comparison with the other factors discussed, such as learning, the US, lack of clarity of strategies, general competence increase, and intensity of economic preferences, the diversity of economic preferences do in this particular case not seem to be of any major importance.

5.5 A time series analysis of EFP towards Iran

This section will look at EFP towards Iran from a quantitative perspective. The aim is to complement the qualitative analysis in trying to assess the validity of the framework presented in Chapter 3 with respect to the EFP towards Iran. Chapter 4 is recommendable as background reading for this analysis.

(a)

Variables

The time series model used for the statistical analysis is built from the same data set as in Chapter 4. The specification of the model uses exactly the same terminology and methods for specification as those of Chapter 4. The dependent variable now regards (gross) European foreign policy co-operation towards Iran (GEFPIR) as indicated in Table 5.1 below. This variable represents the total intensity of cooperative action among EU Member States towards Iran. The suggested explanatory variables are in a similar way expressed with Iran as the target or the sender where Chapter 4 used the Gulf States. The variable IREU thus represents Iran's degree of co-operation or hostility towards the EU. Similar to the variable GUEU in Chapter 4 and for the same reasons, the net value is used. This also holds for the variable IRWO that has a similar interpretation as IREU above, being the degree of co-operation (or hostility) from Iran, here towards the rest of the world. The explanatory variables are arrived at in a similar fashion. First, GMSIR is the total degree of cooperative (or hostile) action undertaken by the individual Member States towards Iran. This also holds for the economic variables except for those economic variables that express intensity and diversity of trade among Member States towards the rest

of the world (i.e. IAVEUWO, EAVEUWO, IDEUWO, EDEUWO) as well as the control variable of European foreign policy towards the Balkans. Table 5.1 shows the notations and description of the variables in the Iran model. It resembles Table 4.1 apart from the points mentioned above.

Table 5.1 **List of Variables**

| | VARIABLE | NOTATION | EVENTS |
|--------------------------------|--------------------------------------------------------------------------|----------------------------------|---------------------|
| EUROPEAN FOREIGN POLICY | Gross European Foreign Policy towards the Iran | GEFPIR | 38 |
| LEARNING | Lagged dependent variable | GEFPIR _{t-1, t-2, etc.} | as above |
| | Iran's net co-operation towards EU | IREU | 42 |
| | Iran's net co-operation towards World | IRWO | 5059 ¹⁸⁸ |
| INABILITY TO LEARN | Gross Member States FP towards Iran | GMSIR | 482 |
| | US Foreign Policy versus Iran | USIR | 1094 |
| | UK/France/Germany Gross Foreign Policy towards the target ¹⁸⁹ | GUKFRGEGU | 3214 |
| | Import Diversity towards Iran | IDEUIR | |
| | Export Diversity towards Iran | EDEUIR | - |
| | Import Average towards Iran | IAVEUIR | - |
| | Export Average towards Iran | EAVEUIR | - |
| | Import Average towards the world | IAVEUWO | |
| | Export Average towards the world | EAVEUWO | |
| | Import Diversity towards the world | IDEUWO | |
| | Export Diversity towards the world | EDEUWO | |
| CONTROL | Balkan co-operation with the World | YUWO | |

(b)

Test for stationarity

Appendix 5.2 lists the results of the unit root tests using the Phillips-Perron tests for unit root for all the variables in Table 5.1. In the IRAN model the following variables failed to reject a hypothesis of unit root: IRWO, IDEUIR, IAVEUIR, EDEUIR and EAVEUIR. It was however decided to include IAVEUIR expressed by the natural logarithm, i.e. $\ln(IAVEUIR)$ (i.e. IAVEUIR2) as a proxy for a trend that could be found. IDEUIR and EAVEUIR were kept in the model without having to take the difference or to add a trend term. As in the GULF model it was further not possible to reject the unit

¹⁸⁸ Bahrain (131); Djibouti (5); Iran (5058); Arab World (1063); Iraq (7122); Israel (2296); Kuwait (1132); Libya (412); Lebanon (1096); Palestine (1253); Qatar (106); Saudi Arabia (1379); Syria (825) and Yemen (405).

¹⁸⁹ The number of events from the three were: UK 141, France 157 and Germany 106.

root hypothesis for the variables YUWO, EDEUWO and EAVEUWO. These three variables were then not included in the further specification.

(c) *Autocorrelation*

In the next step of the specification procedure, the remaining variables were tested for autocorrelation. Here, the Iran time series held several auto correlated variables and generally expressed a more complicated picture than Chapter 4's Gulf model. Based on the analysis of correlograms and testing of various alternatives of AR- and moving average (MA) terms, the best statistical expression of GEFPIR in an ARIMA setting was the ARIMA (1,0,1), i.e. ARMA(1,1) process. This implied that a model on European foreign policy towards Iran could be suggested to be an extension of (4.3), with the extension being the MA-term $\theta_1\varepsilon_{t-1}+\varepsilon_t$ as shown below in (5.1).

| |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(5.1) <i>MODEL IRAN</i></p> $y_t = \mathbf{x}_t\boldsymbol{\beta} + \rho_1(y_{t-1} - \mathbf{x}_{t-1}\boldsymbol{\beta}) + \theta_1\varepsilon_{t-1} + \varepsilon_t$ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

The left-hand side of (5.1), the dependent variable y_t or in this case GEFPIR, is thus suggested to depend on its lagged value $\rho_1 y_{t-1}$ or in this case $\rho_1 GEFPIR_{t-1}$ appearing on the right hand side of (5.1). Moreover, several structural terms or explanatory variables are hypothesized to influence y_t . These enter as the term $\mathbf{x}_t\boldsymbol{\beta} - \rho_1\mathbf{x}_{t-1}\boldsymbol{\beta}$ where the bold indicates a vector of different explanatory variables with their respective coefficients. A positive sign of ρ_1 for $0 < \rho_1 < 1$ thus illustrates that the structural influence of the explanatory variable on European foreign policy in period t , for instance, the influence of MSIR on European foreign policy, is lower than it would be in a linear setting since y_t in the ARIMA setting depends on its lagged term. The MA term $\theta_1\varepsilon_{t-1}+\varepsilon_t$ concludes (5.1).

Not all hypothesized explanatory variables still left in the specification were able to fit (5.1) due to autocorrelation of these variables. The analysis of the correlograms indicated that the variables USIR, GMSIR, GUKFRGEIR, EDEUIRD, and EAVEUIRD were auto correlated to a different degree. This is shown in Appendix 5.4.¹⁹⁰ Including these terms would necessitate an even more sophisticated co-integration expression than (5.1). As STATA 6.0 does not allow such further complication of its time series analysis and the gains of such undertaking may be disputed, the following strategy was chosen.

¹⁹⁰ APPENDIX 5.4 presents ARIMA regressions for these variables showing significance in accordance with the ARIMA processes: EDUIRND as AR(1), EAVEUIRND as ARMA (1,1), GMSIR as MA(1), GUKFRGEIRN as AR(1) and finally NUSIR as either AR(1) or MA(1), and certainly not ARMA (1,1).

As a primary analysis, a narrow interpretation of the results of the specification above was preferred implying that all the variables USIR, GMSIR, GUKFRGEIR, EDEUIRD and EAVEUIRD were excluded from any further testing. As a secondary analysis, the OLS estimation used to complement the ARIMA modelling in Chapter 4 should be given particular attention in this very small sample situation when conclusions are derived.

Of the aforementioned five variables excluded from the primary analysis, the empirical loss of the exclusion of GMSIR was less problematic due to the fact that 1) it was neither part of the learning hypothesis, nor the major inability to learn variable, 2) high multicollinearity was found between IRWO1 and GMSIR and 3) IRWO1 remained in the model. The latter meant that the impact of GMSIR was still at least partly captured. As for the two export variables EDEUIR and EAVEUIR, both were rather crucial for the aims of testing the *inability to learn* hypothesis although the model still contains a few remaining economic variables. The excluded export variables were mutually correlated so inclusion of both might have disturbed the statistical power of the model, yet inclusion of neither might lead to the same result. Finally, the impact of the US was measured in the Gulf model and was found significant. This implied that the US was not unlikely to be significant in the Iran model as well (since the Iran data set derives from the Gulf data set). Moreover, the qualitative study of Section 5.1-5.4 also suggested a significant influence of US policies on the EU policies, in particular, during the end of CD, 1995-1997, emphasizing the need to complement the primary analysis by a secondary analysis that could somehow indicate the impact of the US on EFP towards Iran.

(d) *Multicollinearity*

The correlation matrixes for the Iran data set are shown in Appendix 5.5. Similar to the Gulf model, relatively high correlation was found between the trade variables in the Iran model (import 0.68; export 0.5). As mentioned above, multicollinearity was moreover found between IRWO1 and GMSIR with the pair-wise correlation coefficients being -0.42. This illustrates the correlation and attachment of individual Member States' foreign policies to the actions and developments of Iran. One may recall that IRWO1 represents the 1st difference of Iran's net co-operation towards the world and that GMSIR is the total gross co-operation of the Member States towards Iran, the negative pair-wise correlation coefficient indicate that the more *hostile* Iran has become, the more intensively have the Member States individually reacted towards this hostility. This pair-wise correlation coefficient may be compared to the pair-wise correlation coefficient between IRWO1 and GEFPIR, which is only -0.14, and thus only

one third of the pair-wise correlation found between the individual Member States and Iran. USIR and GUWO again show an even higher degree of collinearity than the economic variables, thus emphasizing the importance of checking the impact of USIR on EFP in a complementary OLS setting.

(e)

Results

The tested ARIMA model thus contained the variables $GEFPIR_{t-1}$, $NIRWO1_{t-1}$, $IAVEUWO_{t-1}$, $IDEUWO_{t-1}$, $IAVEUIR2_{t-1}$, $IDEUIR_{t-1}$. It was tested similar to the tests described in Chapter 4. The results may be seen from Table 5.2 and 5.3 below. As in Chapter 4, Table 5.2 thus shows the results of the ARIMA model consisting of each explanatory variable tested individually towards the dependent variable.

Table 5.2 Result of the Iran Model (1983q2-1999q1)

| | IRAN -VARIABLES | Coefficient | P> z | MODEL 1 (IRAN) continued | coefficient | P> z |
|---|-----------------|-------------|----------|--------------------------|-------------|----------|
| 1 | | | | $GEFPIR_{t-1}$ | 0.8636 | 0.000*** |
| | MA(1) | -0.633 | 0.002*** | σ | 3.5295 | 0.010*** |
| 2 | GMSIR | 0.01897 | 0.155 | $GEFPIR_{t-1}$ | 0.8358 | 0.000*** |
| | MA(1) | -0.6074 | 0.006*** | σ | 3.4838 | 0.009*** |
| 3 | IRWO1 | -0.0055 | 0.002*** | $GEFPIR_{t-1}$ | 0.8657 | 0.000** |
| | MA(1) | -0.6291 | 0.001*** | σ | 3.478 | 0.013*** |
| 4 | IAVEUWO | 0.4837 | 0.047** | $GEFPIR_{t-1}$ | 0.5652 | 0.024 |
| | MA(1) | -0.4189 | 0.002*** | σ | 1.2882 | 0.000*** |
| 5 | IDEUWO | -0.2127 | 0.367 | $GEFPIR_{t-1}$ | 0.9787 | 0.000*** |
| | MA(1) | -0.8928 | 0.001*** | σ | 1.3244 | 0.000*** |
| 6 | IAVEUIR2 | -0.3465 | 0.186 | $GEFPIR_{t-1}$ | 0.9285 | 0.000*** |
| | MA(1) | -0.7307 | 0.000*** | σ | 3.4854 | 0.018*** |
| 7 | IDEUIR | 11940.27 | 0.281 | $GEFPIR_{t-1}$ | -0.4683 | 0.279 |
| | MA(1) | 0.9069 | 0.000*** | σ | 2.9756 | 0.000*** |

Note: As table 4.2. The first double row (marked "1") thus indicates that AR (1) term, the lagged dependent variable, as well as the MA(1) terms are significant at the 1% significance level, that .

The results of Table 5.2 ("1" row) confirm that EFP may be described in terms of an ARMA (1,1) model as (5.1). This result is consistent for all suggested explanatory variables "2-7" in Table 5.2 at the 1% significance level. The signs of the coefficient for the AR (1) process, or the coefficient of $GEFPIR_{t-1}$ are generally positive. In the ARIMA model ("7" in Table 5.2) with the suggested structural terms, IDEUIR is negative but IDEUIR is insignificant. The coefficients of the MA (1)-term have the same generally consistent properties, however, being negative for all ARIMA models except "7" with

the structural term IDEUIR which as mentioned is insignificant. The structural variables IRWO1 and IAVEUWO are significant (1% and 5% level respectively); IRWO1's coefficient with a negative sign and IAVEU's coefficient being positive.

Similar to Table 4.3 of Chapter 4, Table 5.3 below on the contrary is an aggregate ARIMA model of GEFPIR tested against the two structural terms IAVEUWO and IRWO1 that were found significant in the individual models above. In accordance with the hypotheses on institutional change and controlling for the impact of the end of the cold war, Table 5.3 moreover lists the results of the ARMA (1,1) model in three separate periods, 1983q2-1993q4, 1987q3-1999q1, and 1990q1-1999q1.

Table 5.3 Results of the Iran Model All Periods

| IRAN- VARIABLES | 1983q2-1997q1 | | 1983q2-1993q4 | | 1987q3-1999q1 | | 1990q1-1999q1 | |
|-----------------------|---------------|----------|---------------|----------|---------------|----------|---------------|---------|
| | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z |
| GEFPIR _{t-1} | 0.5558 | 0.034** | -0.6174 | 0.224 | 0.4677 | 0.108 | 0.4327 | 0.211 |
| IAVEUWO | 0.4933 | 0.046** | 0.2980 | 0.008*** | 0.6533 | 0.026** | 0.7795 | 0.044 |
| IRWO1 | -0.0033 | 0.004*** | -0.0019 | 0.006 | -0.0043 | 0.012*** | -0.0128 | 0.023** |
| MA(1) | -0.3774 | 0.015*** | 0.4992 | 0.315 | -0.3158 | 0.069* | -0.2315 | 0.413 |
| σ | 1.2425 | 0.000*** | 0.753 | 0.000*** | 1.4260 | 0.000*** | 1.5459 | 0.000* |
| Log Likelihood | -91.6454 | | -48.8287 | | -69.1957 | | -53.808 | |

Note: see Table 4.2.

For the period 1983-1997 as a whole, it may be seen that the aggregate model performs well. All variables are significant and only one variable is “only” significant at the 5% level namely IAVEUWO. Furthermore, there is no change of the signs compared to the results obtained in the individual models shown in Table 5.2. The testing of the ARIMA model for the three separate periods indicates that the ARMA (1,1) setting in this environment becomes invalid for all three periods separately. Of these three periods, the period 1987-1997 seems to express the whole period better than the others do with only the AR (1) term being insignificant here. IAVEUWO is furthermore significant from 1983-1993 and IRWO1 is significant from 1990-1997.

The results of the OLS tests are shown in Table 5.4 below. There are only few significant variables. This was to a certain extent expected given the fact that the model had been specified as more complicated than a linear regression could capture, e.g. with MA-terms. The lagged EFP variable remains significant in all periods (1% level), but IRWO1 is now only significant in the period as a

whole (10% level). Of the economic variables, only IAVEUWO is significant in one of the periods (1983q2-1993q4, 10% level). The Durbin Watson statistics are generally in the lower but acceptable range. The coefficients remain stable with unchanged signs compared to the ARMA (1,1) model.

Table 5.4 Results of the Iran Model: OLS¹⁹¹

| Gulf Variables | 1984q1-1997q1 | | 1983q2-1993q4 | | 1987q3-1997q1 | | 1990q1-1997q1 | |
|--------------------------------|---------------|----------|---------------|----------|---------------|----------|---------------|---------|
| | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z | Coeff. | P> z |
| GEFPIR | | | | | | | | |
| GEFPIR _{t-1} | 0.632 | 0.004*** | 0.3868 | 0.002*** | 0.612 | 0.003*** | 0.5538 | 0.028** |
| GMSIR | -0.0036 | 0.513 | -0.0025 | 0.631 | -0.0032 | 0.809 | 0.042 | 0.333 |
| IRWO1 | -0.003 | 0.064* | -0.002 | 0.153 | -0.0045 | 0.092* | -0.015 | 0.104 |
| IAVEUWO | 0.408 | 0.158 | 0.408 | 0.095* | 0.4048 | 0.218 | 0.971 | 0.112 |
| IAVEUI2 | -0.0198 | 0.772 | 0.014 | 0.809 | -0.0826 | 0.373 | 0.117 | 0.521 |
| IDEUIR | -3810.84 | 0.129 | -1720.8 | 0.150 | -6269.2 | 0.082 | -7580.8 | 0.128 |
| USIR | -0.0004 | 0.843 | -0.001 | 0.563 | 0.0015 | 0.798 | -0.023 | 0.557 |
| σ | -0.511 | | -0.465 | | -0.508 | | -0.493 | |
| Number of obs. | 52 | | 42 | | 39 | | 29 | |
| F-Test; P>F | 0.0133** | | 0.0033*** | | 0.0114** | | 0.0294** | |
| Root MSE | 1.3034 | | 0.782 | | 1.467 | | 1.6003 | |
| R ² | 0.506 | | 0.362 | | 0.361 | | 0.6214 | |
| Durbin-Watson (Transformed) | 1.824 | | 1.988 | | 1.83 | | 1.921 | |

Note: The estimates were computed in STATA 6.0 using the Prais-Winsten regression.

(f)

Discussion

As in Chapter 4, the two variables that are the minimum condition for learning, i.e. EFP (GEFPIR) and Iran's relations with the rest of the world (IRWO1) are both significant in the separate and aggregate model. The testing of the individual explanatory variables in the Iran model is as seen from Table 5.2 different from the results of the overall Gulf Model. Only one economic interest variable turn out to be significant, namely IAVEUWO. The fact that trade at least on one occasion was shown to be significant in explaining EFP towards Iran, a result similarly found for two of the separate periods, and that the Gulf model also had significant economic variables, further strengthens the argument for economic interests playing a role in European foreign policy despite the dual pillar structure.

The existence of some kind of short time learning (of one time period) seems to be an adequate description of EFP for the period as a whole. Similar to the Gulf model, it was tested whether a longer

¹⁹¹ See Chapter 4, Table 4.4.

time lag would be a more adequate representation of the data in the more recent period. Here, it seems that the learning does not intensify in the '90s as in the Gulf model. Hereby, there is a quantitative justification for the impediments to learning that were demonstrated qualitatively to exist earlier in this chapter, particularly towards Iran. That being said there seems to be a structural breakpoint of EFP around the end of the Cold War.

With the specification of the Iran model as an ARMA (1,1) model the OLS setting in general was expected to prove less compatible with the data than in the simple AR (1) model of Chapter 4. The weak OLS results were therefore expected. The results of the OLS tests support however that the learning hypothesis in general is more weakly expressed in the Iran case than in the general Gulf model.

As with the Gulf model, various alternative models were suggested to express EFP in a better way before and after the structural breakpoint around the end of the Cold War. Attention centred on ARMA models with the AR-term in respectively 0, 2, 3, or four lags including those explanatory variables that had proved significant in the testing of the separate ARMA (1,1) models, i.e. IRWO1 and IAVEUWO. The results are shown in Appendix 5.5 indicating for each of the three time periods (1983q2-1993q4; 1987q3-1997q1; and 1990q1-1997q1) the significance of an ARMA (2,1), an ARMA (3,1) and an ARMA (4,1) specification. The 1980s, the period 1983q2-1993q4, does not support the inclusion of any of the AR-terms. This changes looking at the period from the SEA (or the end of the Iran – Iraq) war until now. Here, an ARMA (3,1) setting is supported seen by the AR (3) term becoming significant at the 5% level and the MA (1) term at the 10% level. Both structural terms IRWO1 and IAVEUWO are also significant here. Finally, looking at the period after the end of the Cold War until now an ARMA (3,1) is no longer sufficient to express the data set. Instead, the testing of an ARMA (4,1) model proves significant as regards the AR (4) term at the 5% level whereas the MA (1) term now is insignificant ($p > |z| = 0.105$). These results suggest the necessity of including more lagged terms of EFP the further one moves away from the Iranian revolution. In fact, until 1987 there is no indication of patterns compatible with learning visible from the data set used in this project. After 1987, learning patterns are increasingly present and seem even to intensify after the turn of the decade coinciding with the end of the Cold War, the Gulf War and the steps taken towards the TEU. There are as in the Gulf model unfortunately too few observations to provide firmer statements regarding the significance of these patterns. Yet, the EFP as expressed with the Gulf data set became increasingly dependent on its past performance and developments in Iran in the 1990s than it had been in the 1980s.

In comparison with Chapter 4's study of the EFP towards the Gulf States, one important difference regards the relative importance of Member State and European foreign policies. Compared to Chapter 4's multicollinearity analysis, where both the pair-wise correlation coefficients of GEFPGU-GUWO and GMSGU-GUWO were at a relatively high level (-0.54 and -0.66), a larger diversity between the EU and Member States' policies appear in the Iran case. The correlation analysis indicates that the Member States individual policies take up relatively more space compared to the strict European Union policies towards Iran than towards the Gulf States in general. The correlation between Member State foreign policies and developments in Iran is an important signal that the EFP towards Iran may have varied equivalent to other European foreign policies over time; however, the levels of capability-presence were generally below the average of the region.

5.6

Conclusion

European foreign policy towards Iran has been formed by the necessity of the Member States to react to events in Iran for domestic reasons, and to a certain extent due to international pressure, mainly from the US. After a period of European *silence* towards Iran from 1979-88, EFP emerged as the only collective diplomatic instrument of the governments to react against political developments in Iran in a convenient low profiled manner without jeopardizing crucial bilateral trade interests. The Rushdie case and the convergence of beliefs among hard-liners and moderates of the governments induced and facilitated this change towards more European policies. Hereby, Rushdie was the eye-opener and window of opportunity, paving the path for the Critical Dialogue at a time where institutional innovations of the Union created expectations (that had yet not been discouraged) of a future effective role to play for the Union in international relations.

The capability-presence of the Union from December 1993 was still limited compared to the instruments and options that had been created in the beginning of the '90s. Despite progress at the cultural and social level in EU-Iran relations, the individual governments became disillusioned in their initially held beliefs and the Critical Dialogue inevitably had to be abandoned. The idea of the Critical Dialogue had been to protect vital economic interests while satisfying critical human rights voices. As this failed and trade continued to fall, Critical Dialogue became a losing game for the governments.

The flaws of the EFP were not so much about capabilities as about willingness, interests and being disabled in learning. For instance, Mykonos illustrated many problems in the EFP and the need for joint planning and operation to take place in actions such as the withdrawal of ambassadors. Less learning took place in a period from mid 1990 to the beginning of 1997 mainly due to the impact of the US. In the Union's policies towards Iran as a whole, the US acts as an important intervening variable. The results in Chapter 4 regarding the US playing a distracting role on the ability of governments to learn have thus been confirmed in this chapter.

Put differently, whereas the Union might think that they learned immensely much about the workings of EFP towards Iran precipitating for instance the end of Critical Dialogue, the actual level of learning achieved seems to have been less. The question is what type of conclusions could be drawn regarding the impact of the Union, or the Union's capability-presence in the world, when it is demonstrated that even the decision-makers would be unlikely to deduce from the outcome any sound conclusions regarding which policies worked, and which failed. Struwe (1998) suggested that Critical Dialogue might have had an impact on the election of Khatami in 1997. This chapter is deeply sceptical towards such proposition, not in principle, but due to facts.

No trade agreement yet exists between EU and Iran. The prediction of the framework would be that if the Commission's recent proposal for a trade and co-operation agreement is accepted by the Council, the Union should become an actor that in fact could also allow itself to engage more actively in areas such as human rights, democratic principles etc. This contradicts the fairly "*open*" fear in the Council Secretariat and among the governments in the early days of CD that if the Commission had become responsible for the policy towards Iran by, e.g., a trade agreement it would have been a "*less critical*" policy than the Member States wanted it to be.¹⁹² Struwe is thus only partly right arguing that "*once business as usual reigns Western Iranian relations there will be little space left to address serious human rights violations*". The former proposition is also supported by the fact that initially it was Iran who wanted the trade agreement.¹⁹³ This would imply that for pure economic reasons, Member States might *take advantage* of the human rights violations in Iran to argue against an EU trade agreement with Iran.

¹⁹² Interview, former Council official, September 2000

¹⁹³ Iran is still considering, whether to pursue the European Union option or to seek bilateral agreements with the Member States individually (First Secretary Vahid Karimi, Embassy of the Islamic Republic of Iran to the United Kingdom, Durham Conference May 1-2, 2001.

A more normative conclusion, is that learning from past EFP towards Iran would imply that the economic relations – at least in the foreseeable future – remain constrained by the political dynamics in Iran. Learning would thus imply that the Union develops the ability to react more instantly and smoothly to changes in the political dynamics in Iran. If this is the lesson to be learned, it should not end up in a complete politicization of every move a trader or investor seeks to make in Iran, as some believe is now the situation for US policies. However, the argument is that the governments have not learned in truth if they do not start spelling out conditions and using the leverage from external relations towards Iran. The reason is that the past has shown that there otherwise is a risk that the relations between Iran and the EU will only blossom for a while until the sensitive public opinion in one of the EU Member States regarding democratic principles and in particular human rights will contradict the Union's policy.

One may of course simply take the position of *waiting and seeing*, which pressure may turn up. This, on the other hand, would hardly reflect those ambitions that exist within the EFP framework at the turn of the Millennium, developed among others by Member States' own initiatives towards the end of the 1990s. The most sustainable EFP is one that is able to link politics and economics, that can change direction swiftly, and that is aware of the lessons that can be learned or not from various outcomes in international relations given different circumstances. This means that if the Union agrees on negotiating a trade and co-operation agreement with Iran after the re-election of President Khatami earlier this year, the linkage to the dialogue on issues such as human rights is in the interest also of oil companies and other potential investors in Iran. As long as the Union does not follow events more directly in its responses towards developments in Iran, the governments might have difficulties in seeing this clearly. This is the lesson to be learned from the past.

Previously, it was noticed that the Union's policies towards Iran were based on a "*hope*" that Iran can "*undergo peaceful transformation to more democratic conditions, for instance, by withdrawing some constitutional restrictions in democratic activity and in the power of the clergymen*". In a recent Round Table in Ireland on EU-Iranian Relations, Dr. Sajjadpour, Director General of the Iranian Institute of Political and International Studies reminded the participants of the saying that "*hope is for the diplomat what water is for the fish*". In order for the EU to fit into this saying, one could say that what the EU still has to learn is to use hope as the fish uses the water. Hope is an asset, but it should be in constant motion with the context in Iran in order for the Union to be successful in its foreign policy.



CHAPTER 6

EUROPEAN FOREIGN POLICY TOWARDS NIGERIA: LEARNING ABOUT MEN WEARING DARK GLASSES?

This final empirical chapter examines EFP towards Nigeria. The Nigerian case is interesting not only because of its usefulness in assessing the validity of the learning framework. It appears also to be a test case for the Union's capability-presence in Africa. Moreover, it may be used as an indicator for the status of the Union's crisis management and conflict prevention abilities *per se*.

The chapter is organised as the first part of Chapter 5 (Section 5.1-5.4). The aim is thus, firstly, to assess the Union's capability-presence towards Nigeria over the last two decades, and, secondly, to test the learning model on this development. The first section describes the major events in Nigeria since the late '70s: the different military regimes, the many unfulfilled promises of democratic transition, and the destiny of the occasional attempts to install democratic governments. The second section aims at measuring the Union's capability-presence towards these events. As this Chapter only uses qualitative methods, the focus is on measuring the change in depth and scope of the Union's policies over time rather than providing an exact number for the degree of net or gross cooperation over time. The third section confronts these patterns with the hypothesis on learning, examining whether governments in the Union have learned about the workings of EFP towards Nigeria from observing the outcomes of their actions and have changed their strategies accordingly. The fourth section deals with the case of no learning or the inability of decision-makers to learn about the workings of EFP towards Nigeria. Among the alternative explanations discussed are the influence of US policies, and the impact of the external economic relations including the changes in economic preferences and institutional competence. The impact of institutional competence on EFP is in the Nigerian case determined by how the EU-ACP co-operation agreements influenced the CFSP and thus the Union's capability-presence in Nigeria.

(a) *1979-1993: the Shagari, Buhari and Babangida military rules*

Nigeria is ethnically, socio-economically and politically one of the world's most complex countries.¹ She is Africa's most populous country (108.5 million inhabitants in 1994) and her ethnic composition is "polyglottal" with more than 250 ethnic and linguistic fractions. Despite enormous oil-revenues from the beginning of the 1970s, she has experienced "underdevelopment", steadily growing "social injustice" and widespread corruption. Internal ethnic and regional rivalry has largely paralysed the country, hindering it from solving any of its many problems effectively. When ethnic and religious rivalries in some periods have appeared to be lower, this has mostly been due to the restraints imposed by the changing but almost continuous military rules. In particular, the conflicts between the three ethnic groups, the Yoruba, (Christian) Igbo and (Muslim) Hausa/Fulani, including the struggle between the politically powerful North and the resource-rich South, are key components of the complexity and the difficulties domestic and external decision-makers are confronted with in Nigeria. The resource-rich Niger Delta has traditionally been among the least stable regions. Here, ethnic groups have claimed ownership of all natural resources found in their territories and frequent and intensive clashes have occurred amongst them (like the Ijaws, Itsekiri and Urhobo in the Warri State in 1997). Western oil and gas multinational corporations are important economic and political players in this area and have been fought against for allegedly promoting an unfair revenue allocation and resource control.

The response to the complexity and instability of Nigeria has been a series of military dictatorships. After Nigeria gained independence in 1960 and her first civilian rule came to a violent end in 1966, Nigeria's military rulers issued numerous unfulfilled assurances of returning to civilian rule (Ohwahwu 1997:9; Nwosu 1996). It was not until 1977 that the military ruler General-Lieutenant Olusegun Obasanjo, now Nigeria's democratically elected President, became the first leader to actually keep a transition promise. Civilian rule under the leadership of Alhaji Shehru Shagari followed in 1979, but it soon came up against insurmountable problems stemming from the dangerous combination of economic downturn and economic and political mismanagement (Lewis *et al* 1998:39-42, 14-20; Kukul 1999). The Nigerian people thus initially welcomed Major-General Muhammadu Buhari's bloodless coup on New Year's Eve 1983. He immediately initiated an

¹ See e.g. NISER 1998; Lewis 1995:19, 5-6, 1999; Lewis *et al* 1998:9; Herbst 1996; Klay Kieh & Agbese:409; Maier 2000. Apart from the sources explicitly mentioned in the footnotes, various encyclopaedias have been used, among which, Uweschue (1996).

internal cleansing process of the corrupted Nigeria,² but for many Nigerians, Buhari's regime became too "draconian" and "stiff" to accommodate the diversities in the country and the interests in the intensified drug trading.³

Consequently, in May 1985 Ibrahim Badamosi Babangida overthrew Buhari. Babangida, who has been described as a populist, successfully exercised the technique of side paying any problematic opposition to gain silence to criticism. He *de facto* institutionalised corruption.⁴ Still, Nigerians in the beginning witnessed a number of visible democratic improvements, but later Babangida's regime grew increasingly authoritarian (Lewis *et al* 1998:43, 19-34; Ingram 1999).⁵ It moved away from its initial commitment to democratic transition and as early as July 1985 made the announcement that there was "no schedule for the restoration of civilian rule planned". Several proclaimed plans for democratic elections were later postponed, for instance, after the allegations of another coup attempt on April 22, 1990 by Major Orkar, which led to his execution together with 69 other prisoners in July.

It was only after considerable internal and external pressure that elections were finally held on June 12, 1993. Confidence in the democratic transition was by that time extremely low with a voter turnout of only 35%. The unofficial results pointed to an overwhelming victory by Moshood K.O. Abiola (Lewis *et al* 1998:45; 1995); a win across the North-South divide of the country.⁶ Since he was a Muslim Southerner, his victory brought back hope among Southerners of finally being able to match Southern resources with federal influence. The hope was soon destroyed, however, since the election results were annulled on 23 June 1993 "... violently robbing the Nigerian people of their nationhood" as literature Nobel Prize laureate of 1986 Wole Soyinka expressed it.⁷

(b) *The Abacha military rule, 1993-1998*

Massive internal and external protests led Babangida to step down on 27 August (Babatope 1995; Lewis 1995:25, 7-9), but from then, things only grew worse. On November 17, 1993, the interim government after Babangida, led by Chief Ernest Shonekan, was impelled to transfer all powers to

² Interview, Nigerian officials. May 2000.

³ Ibid.

⁴ Ibid.

⁵ For instance, the release of a number of political detainees, the creation of a Political Bureau of transition to civilian rule, and participation in structural adjustment programs supported by the IMF and the World Bank.

⁶ Abiola reportedly received 58% of the votes across all regions in elections generally perceived of as fair and free.

⁷ Soyinka referred to Abiola being the first Southerner to gain power (Interview, Nigerian official. Brussels, May 2000).

General Sani Abacha, "*the man with the dark glasses*" (Onadipe 1997).⁸ As during previous transitions, with Nigeria in chaos, the change of military rule was initially widely supported (Babatope 1995:7-12 & 17-18, 1-2). Later any optimism turned into disappointment as "*Abacha's government reflect[ed] the most repressive rule in Nigeria's history*" (Lewis 1999:146, 5-8; Baker & Stremmlau 1999:182, 8-13).

Things deteriorated seriously during summer 1994. Lack of internal economic progress led NADECO (the National Democratic Coalition) to demand that the military government stood down by the end of May (Africa Research Bulletin 1994, 31 (6):11459-11462). The government's failing to comply with this demand led to a national strike which only gave Abacha a further excuse to become even less compromising than he had been before (Africa Research Bulletin, 2000, 31:11575). As part of tightening the regime, Abiola, who in the meantime had declared himself president, was arrested in June. The harshness of the regime grew worse during the year. After reports about a coup attempt in March 1995 – which the opposition claimed were fabricated – around 150 military officials, including Gen. Obasanjo and his former Vice President Gen. Shehu Yar'Adua, were arrested and sentenced to death. After widespread national and international protests, these sentences were commuted to tough terms of imprisonment.⁹ In May 1994, the writer and leader of the Movement for the Support of the Ogoni People (MOSOP) Kenule Beeson Saro-Wiwa, was detained on allegations that he had incited his supporters to commit the murders of four Ogoni "*traditional*" leaders.¹⁰ In January 1995, the Saro-Wiwa trial commenced; on November 8 his conviction was confirmed and two days later, a "*brutal execution*" (hanging) of him took place, as it was widely considered.

The opposition to Abacha was far from united towards these atrocities, but in May 1997, a loose alliance, called the United Action for Democracy, of 22 pro-democracy and human rights organisations (including MOSOP) was formed. One Nigerian official noted that this "*teamed up the message not to contest elections [in 1998 – 1999] - whether the pressure could have solved the problem nobody knows*".¹¹ The increased resistance was further illustrated by a series of bomb attacks in Lagos in 1997. The government reacted harshly by charging Wole Soyinka (who was in exile), and in December 1997 by detaining Lt. Gen. Diya and others, accusing them of coup attempts. As seen earlier, the government further used the resistance to break a promise of returning

⁸ Allegations pointed to a possible deal between Abacha and Babangida paving the way for Abacha's coup d'état. As Minister of Defence under Babangida, Abacha was the only Babangida minister left in the Shonekan government (Interview, Nigerian official, Brussels, May 2000).

⁹ Yar'Adua and Obasanjo got 25 years and 15 years imprisonment respectively. Yar'Adua died in prison in 1997.

¹⁰ Saro-Wiwa received the "*Alternative*" Nobel Prize in literature, i.e. the Right Livelihood Award in 1994.

¹¹ Interview, Nigerian Officials, May 2000.

to civilian rule, as it did with its promise in July 1997 scheduling transition to be completed by April 25, 1998.

Just as tensions at that time seemed to grow again, a turning point occurred with the sudden death of the 54 year old Abacha on June 8, 1998, followed by the almost simultaneous death of Abiola.¹² A Nigerian official called these two deaths for the work of “*faith*” that “*removed the two impediments for survival of the nation*”.¹³ According to him, “*the problem was that Abiola still thought that he was the only true democratic president five years after his elections*”.¹⁴ Hereby, Abacha’s death became the obvious window of opportunity for democratic transition, and this was further facilitated by Abiola’s death, which reduced the number of civilian government alternatives.

(c) *Democratisation, 1998-2000*

Under the new military government of Gen. Abdulsalam Abubakar, Nigeria implemented a fast track plan towards democracy.¹⁵ First, Abubekar became the second military ruler in Nigeria’s history keeping his election promise. Legislative elections were held on February 20, 1999.¹⁶ Second, presidential elections followed on February 27, when Olusegun Obasanjo, now representing the Peoples Democratic Party (PDP), won 62% of the public votes and took office on May 29. Obasanjo internally launched an offensive campaign against members of the old regime, in particular, against human rights violations¹⁷ and corruption.¹⁸ Externally, Nigeria started the restitution of its regional power status, for instance, by the critical role Nigeria played in achieving the peace agreement of July 7, 1999 in Sierra Leone (European Commission 1999b).¹⁹

The transition lost some of its momentum in autumn 1999 (Vick 2000), shaken in particular by the re-emergence of bloody ethnic and religious conflicts. In the fighting between Ijaws and Itsekiris near Warri in the Niger oil production delta at least 200 people died, and many violent clashes occurred from the forced introduction of Sharia on non-Muslims in several districts. The violence was worst in Kaduna, where 1000 people were killed in February 2000, and another 2-300 people in

¹² Abacha was suffering from Cirrhosis Hepatitis. His death was triggered by a collapse during a visit by two oriental looking prostitutes (Interview Nigerian officials May 2000, Baker & Stremiau 1999, footnote 3, 200).

¹³ Abiola had been detained for almost five years and had heart problems caused by diabetes. Reportedly, he was denied health care before he died. Interview. Nigerian officials, May 2000.

¹⁴ *ibid.*

¹⁵ See also EFPB 98/195 18 September 1998.

¹⁶ Abubekar had no vested interest in keeping power and had never held political posts (Baker & Stremiau 1999, footnote 3; and 2).

¹⁷ A Human Rights Violations Investigation Commission (HRVIC) (September 1999) was set up. HRVIC opened up for investigations in the period 1966-May 1999 thus including the civil war period. By March 2000 it had received 10,000 different submissions from the public.

¹⁸ See, for instance, International Herald Tribune, 24 November 1999. In January 2001, Obasanjo, still not content with the progress of his country towards democratisation and anti-corruption, dismissed the whole government.

¹⁹ Nigeria’s commitment to peace enforcement has been extensive in the past, committing in the 90s around \$10 billion to peace missions in West Africa (Africa Research Bulletin, 2000, 37 (8), August 16th – September 15th: 14459).

May (Africa Research Bulletin, May 1-31, 2000:13979). The sporadic, but serious violence continued throughout 2000 and 2001, for instance, in Lagos where hundreds of people have been killed in ethnic fighting between the Yoruba and Hausa group.

In sum, Nigeria has undergone one of the most remarkable democratic transitions in recent years in Africa. Yet, the democratic transition of Nigeria remains extremely fragile. In the last two years, Nigeria has seemed determined to keep its military at arm's length from internal conflicts. As Obasanjo stated in late March 2000 after the violent clashes in Kaduna, "*people want me to act, but what do these people want me to do...should I send in the military which led to such tragic outcomes in the past?*"²⁰ There are growing fears, that the failure of Obasanjo to revive Nigeria's economy, the ethnic tensions and the bitter battles between the President, the Senate, and Nigeria's corruption plagued-national assembly,²¹ may eventually lead to a new military rule.²² The main question seems to be how much patience parties such as the military and major economic beneficiaries of less strict democratic rule of law will have when Obasanjo one day leaves office.²³

6.2 European foreign policy towards Nigeria, 1979-2000

(a) *Silence*

The first observation is that EFP towards Nigeria is a relatively new phenomenon. "*There was no European foreign policy towards Nigeria before the TEU*", except for the external economic policies inherent in the EU-ACP agreements (Section 6.4 (c)).²⁴ This meant that European policies towards Nigeria were detached from the political realm described above. In fact, the EPC only produced one single statement concerning Nigeria from 1980 to 1990, namely the statement addressing Buhari's coup d'état in 1983. As there was no policy, one cannot even speak about a rhetorically biased strategy of EFP as after all existed towards other third countries.

The numerous questions and resolutions from the EP concerning Nigeria gained almost no active attention from the Council.²⁵ A few meetings were held with the Nigerian authorities addressing various human rights concerns of the Union, but the institutional strengthening of the European

²⁰ Interview, Nigerian officials. May 2000.

²¹ Africa Research Bulletin. 2000. June 1st -30th. *Nigeria. Things fall apart*. 14011.

²² The Guardian, 20 October 2000.

²³ In the October violence the military was used in an internal conflict for the first time since the restoration of democratic rule in Nigeria.

²⁴ Interview, Council Secretariat, May 2000.

²⁵ See EFPB 86/014 9 January 1986 and: Resolution on the mass expulsions from Nigeria; Official journal No. C 175. 15/07/1985 P. 0224; Resolution on the expulsion of immigrants from Nigeria; Official journal No. C 175 , 15/07/1985 P. 0223 Resolution on the situation in Nigeria; Official journal No. C 068, 14/03/1983 P. 0059.

foreign policy co-ordination framework by the SEA in 1987 did not at all seem to force EFP out of its silence towards Nigeria (Nuttall 2000:2-3). At the beginning of the 1990s, there were a few signs of increased depth of action as illustrated by a relatively sharply formulated statement in 1990, where the Council “viewed with no sympathy” the coup attempt by Orkar (See Section 6.1 (a)), but regretted “that those accused of involvement led to executions on the scale announced by Nigeria on 27 July 1990”.²⁶ A more general implication of the Union’s increased capability-presence was the building of the Union’s first common chancery in the new capital Abuja (for EU Member States who wished so)²⁷ – a decision that had been delayed for five years before being carried out (Bretherton & Vogler 1999:30).

(b) *EU sanctions against Nigeria*

In 1993, the depth and scope of EFP increased significantly. Here, various economic restrictions were introduced against Nigeria that *de facto* established a light economic sanctions regime. Compared to earlier practice, these sanction policies were rather wide in scope, as they comprised:

- Suspension of military co-operation,
- A ban on visas for members of the military and of the security forces including their families,
- Suspension of visits by members of the military to countries of the EU, and
- Suspension of further development co-operation aid.²⁸

Moreover, the sanctions were installed before the TEU came into force and despite divergent opinions among the Member States. Britain, for example, preferred a harsher course towards Nigeria along the lines of US policies – a course that was tacitly opposed by France and Germany (Lewis *et al* 1998:47, 12-14). Also, during the first period of the sanctions regime (1993-1995), the Union more automatically than previously reacted to developments in Nigeria and in doing so it referred to the 1993 EPC actions, hereby demonstrating a certain continuity of actions over time. The subsequent deterioration of events under Abacha from 1994-1995 similarly induced a series of statements and official communiqués to Nigerian authorities that linked back to the initial reactions.

Clearly, the sanctions regime of 1993 was still a rather rudimentary and non-influential package of measures, which some diplomats would not even define as sanctions.²⁹ The main weaknesses were

²⁶ EFPB 90/295 2 August 1990.

²⁷ The Council based its decision on 1) political desirability of increasing co-operation, and, 2) technical reasons. A temporary building of 1992-1996 had been constructed to house the Member States chanceries (EFPB 91/390 20 November 1991. Question H-967.91 by MEP Mr Bondé)

²⁸ EFPB 93/305 13 July 1993.

²⁹ For instance, the lack of involvement of the UN in the sanctions and the inability to impose petroleum sanctions have left the impression that what EU actually initiated could not be defined as sanctions, but as a range of measures (comment on Chapter from Member State diplomat March 2001) Following Hufbauer *et al* (e.g. 2000), however, the measures were sanctions being economic measures taken to partly or fully interrupt the relationship with Nigeria to fulfil a political aim.

that the sanctions neither targeted the vulnerable Nigerian petroleum sector,³⁰ nor comprised an actual arms embargo. In addition, the sanctions were not legally binding and as a consequence not really taken seriously by decision-makers in the Union.³¹ The 1993 sanctions also lacked any follow-up conditions that could facilitate further measures to be taken in the case of non-compliance (or compliance). This implied that the declaratory nature of EPC continued with the CFSP until 1995. For instance, Abacha's coup led to nothing further than a statement from the twelve, which in its text did not even refer to the existing sanctions regime.³²

This changed during 1995. Here, the CFSP statements became more critical than before and in March 1995, the Union expressed "*serious concern*" about the Obasanjo/Yar'Adua arrests.³³ The ministerial Troika visited Nigeria, and representations were made to the Nigerian foreign minister from the French Ambassador (representing the EU-Presidency),³⁴ all aimed at pressuring Nigeria's regime. Another novelty was that the Council attempted to link the first and the second pillar instruments with each other. For instance, before the mid-term negotiations of the Fourth ACP-EU Lomé Convention, the threat was formulated that "*failure to respect human rights may result in total or partial suspension of the Convention*".³⁵ Another example was the Union's reaction to the decision by Abacha in October 1995 to commute all death-sentences to terms of imprisonment. The Union "*welcomed*" this development and added that it "*will adapt the future of its co-operation with Nigeria in the light of the evolution of this process*".³⁶ Both were examples on the general increase in EU conditionality in the 1990s linking economic restrictions to human rights norms or democratic principles.

Despite this progress, it was not until after the Saro-Wiwa execution that some of the Union's threats³⁷ were finally carried out.³⁸ The Union demonstrated rather substantial (organisational) capability-presence by the efficient way the Spanish presidency, chaired by foreign minister Javier Solana (from October 1999 High Representative of the CFSP), issued a rather rigorous Common Position on 20 November 1995.³⁹ Apart from providing guidelines for the Union's action, the Common Position included a complete arms embargo, visa restrictions, and the annulment of future

³⁰ See Section 6.4 (d).

³¹ One official called the EPC sanctions "*a document that was difficult to track in the internal mess*" (Interview, Council Secretariat, May 2000).

³² Similarly, EU only expressed concern about "*the continued setbacks for the democratic process*" upon Abiola's arrest during the NADECO crisis. EFPB 94/164 30 June 1994. EFPB 96/460 19 November 1993.

³³ EFPB 95/098 22 March 1995 and EFPB 95/301 20 October 1995.

³⁴ Answer to question in EP (EFPB 95/242 7 September 1995).

³⁵ See Section 6.4 (c). EFPB 95/060 14 February 1995: Answer by the French Presidency to a question from Ms. Jackson.

³⁶ EFPB 95/272 2 October 1995.

³⁷ EFPB 95/322 9 November 1995.

³⁸ Chargé d'Affaires ad interim Dada Olisa could sign the Amended Convention on behalf of Abacha in Mauritius on 4 November 1995.

³⁹ The Commission was asked by the Council to make proposals to draft a Common Position on 9 November 1995. COREPER then quickly worked out a draft to the Common Position installed 20 November 1995.

development co-operation.⁴⁰ The measures added on to the 1993 sanctions were few, but included, 1) the visa restrictions on members of the Provisional Ruling Council, the Federal Executive Council and their families, and 2) an embargo on arms, munitions and military equipment. However limited this innovation might appear in hindsight, it marked a crucial change that the sanctions were based on a Common Position. Hereby, they became closer to being treated as though they were “*legally binding*” than before. This did not imply anything like jurisdiction of the European Court of Justice (ECJ) over the implementation and enforcement of the sanctions, but the mere fact that the Common Position was based on EU (CFSP) legislation and published in the Official Journal helped to constrain governments towards compliance with the sanctions. Moreover, judged from trade statistics, the Common Position also more effectively halted co-operation with Nigeria than the 1993 EPC sanctions had done. This effect should be added to the direct effect of the sanctions, namely the freezing of all official development aid programs to Nigeria.⁴¹

Undoubtedly, the Common Position still represented a weak policy of the Union. First, it left considerable confusion about the enforcement with respect to arms export. Enforcement was according to the Council’s answer to an MEP’s question on this issue in 1996, something that it was “*up to Member States, who apply controls on arms exports at national level, to put into practice.*”⁴² However, this answer ignored two important points: first, that according to the 1995 Common Position it was the Council that “*will monitor*” the Common Position, and, second, that the Council, according to Article J.1, was responsible for ensuring that systematic co-operation was established - in accordance, with among others the Common Positions under Article J.2. Indeed, there was suspicion that some Member States continued to deliver military equipment after the instalment of the embargo in 1993.⁴³ Much debated were also the allegations that Shell as late as in 1995 had negotiated for the purchase of weapons for the Nigerian police for protection of their oil fields (Human Rights Watch 1999). Finally, the Council soon forgot to refer to the commitment that a *de facto* arms embargo had already existed since the sanctions of July 13, 1993.⁴⁴

Second, the Union’s reactions suffered from a lack of automaticity that one otherwise could have expected from the guidelines given in the 1995 Common Position.⁴⁵ For instance, whereas the Union seemingly expressed rigour by withdrawing their ambassadors “*for consultations*”

⁴⁰ EFPB 95/350, 20 Nov 1995; OJ L298, 11.12.1995, 1-2.

⁴¹ For instance, Germany from 1993-94 had increased its net aid (i.e. OSA, OOF, Private) to Nigeria (from \$-11.4 million to \$111.5 million) and despite the trade increase from 1995-1996 from 2 to 2.3 billion ECU, trade decreased until 1999.

⁴² Same formulation is found in EFPB 96/091 2 April 1996.

⁴³ EFPB 96/166 11 June 1996.

⁴⁴ The Council instead referred to the press release published on 7 December 1993 announcing inter alia, a case- by-case examination, with a presumption of refusal, of all new export licenses for all kinds of defence equipment.

⁴⁵ EFPB 95/387 11 December 1995. See statement asking for free and fair elections without violence in EFPB 98/051 24.04.98.

immediately after the executions of Saro-Wiwa, at least Sweden did not follow this decision at once.⁴⁶ Similarly, one should not forget that already on January 16, 1996, the Council decided to return their ambassadors to Nigeria.⁴⁷ The British High Commissioner had however already returned to Nigeria on January 15. He had done so reportedly together with the other ambassadors.⁴⁸ The reasons for the ambassadors' early return was that their presence "*would facilitate the Commonwealth mission*" to investigate the human rights situation in Nigeria. The Nigerian foreign minister, Ibrahim Ikimi, later effectively shattered this plan. After the ambassadors had returned, Ikimi simply refused to receive any Commonwealth mission if the Commonwealth did not simultaneously "*investigate human rights abuses elsewhere.*" The failure of the Union was accepted at the next GAC two weeks later, where the Council stated that the "*the mission was floundering*".⁴⁹

(c) *Inter-pillarization*

One of the limitations of the Union's 1995 sanctions regime was the narrow focus on restrictive measures (threats and sticks) without using incentives-related measures (promises and carrots). From 1997, the scope of EFP towards Nigeria began to widen.⁵⁰ In 1997, one may first notice the rhetorical shift when the policy unofficially was defined as "*critical dialogue*" or "*constructive dialogue*".⁵¹ The aim of this policy was reportedly to "*punish Nigeria without breaking the relations*".⁵² At the core of the change was the emphasis put on moving "*from a manifesto of good intentions*" (on human rights progress) "*to a policy that implemented these high objectives*".⁵³ In practical terms, this took place as increased *inter-pillarization*, whereby the instruments of mainly first pillar instruments were more intensively integrated into the implementation of the goals set under the second pillar. In specific, the role of the ACP-EU co-operation in EU's relations with Nigeria increased, hereby amplifying the influence of the Union's first pillar on the second pillar.⁵⁴ Several EU-ACP Joint Assembly resolutions strongly condemned Nigeria's military regime, for example those in March and September 1996. The March 1996 Assembly backed the Union's harsher course of action by proposing the freezing of all bank accounts of Nigerian military leaders,

⁴⁶ Reuters News Service 14.11.95.

⁴⁷ Ihonvbere 1996; Akinrinade 1997; Agence France Presse Internationale 22.03.96; and Financial Times 17.01.1996: 4.

⁴⁸ Keesings' Record of World Events 1996: 40888.

⁴⁹ Interview Council Secretariat May 2000. See also answers of Council to MEP: See, for instance, EFPB 97/197 10 April 1997 and 97/224 2 July 1997. Similarly, a border dispute between Cameroon and Nigeria only led to one official CFSP reaction coinciding with Cameroon's request of French military support in opposing the adding to the Bakassi region of Nigerian military (EFPB 94/080 28 February 1994).

⁵⁰ Illustrative for the use of threat of sticks is EFPB 96/228 14 October 1996.

⁵¹ EFPB 97/224 2 July 1997 and 97/197 10 April 1997. In the answer from the Council to the MEP Mr. Robles Piquer, the Council maintained that "*we shall continue to pursue with the Government of Nigeria what has been referred to as a critical dialogue.*"

⁵² Interview, Council Secretariat, November 1999.

⁵³ Illustrated by the report adapted by the EP's Committee of Foreign Affairs on 28th October 1998 and the Common Position on Africa of 25 May 1998. EP News Report, 30.10.98 from <http://www.europarl.eu.int/dg3/sdp/newsrp/> Cited from EP: 23 April 1999 A4 0242/99. Report by the Foreign Affairs and Defence Committee; OJ L158 2.6.1998. 1-2.

⁵⁴ See Section 6.4 (c).

an action that would have been more comprehensive than any CFSP measure seen before. The March 1997 Assembly became the most critical ACP-EU manifestation against Abacha, and it ended in turmoil and confrontation between the Nigerian delegation and the EU-ACP Parliamentarians. The reason was that it upset the Nigerian delegation that the EU-ACP Assembly had invited members of the opposition in Nigeria such as Wole Soyinka to the session. The assembly was then interrupted after the Nigerian delegation accused Mrs. Glenys Kinnock⁵⁵ of implicitly giving the green light to some of the bombings in Lagos in spring 1997. Mrs. Kinnock had apparently issued a warning at a meeting in Luxembourg three months before the bombings saying that people would hold the Nigerian government responsible for whatever measure was imposed on the Nigerian opposition.⁵⁶ An increasing number of EP resolutions, 11 resolutions from 1994-1998⁵⁷ compared to only 1 from 1979-1993, supported the intensification of EFP towards Nigeria in this period.

As the Union started to act more rigorously, several classical cases of defection in cooperation and lack of implementation occurred, as in the Iranian case. In fact, that the Council did not initiate a harsher tone, besides some relatively strong statements concerning the arrest of Wole Soyinka⁵⁸ and Lt. Gen. Diya⁵⁹ during 1997, suggests that a truly more comprehensive EFP course did not emerge before Abacha's death. The 1995 sanctions in particular were partly undermined by three exemptions given at the end of November 1997.⁶⁰ The first exemption was the "*granting of visas to Nigerian nationals participating in international conferences*" in Member States of the Union. This particular exemption, achieved by the Dutch presidency, was justified, since without the Nigerians around the table, the objectives of using the ACP-EU partnership to obtain concessions from Nigeria when negotiating the exchange of the Lomé IV Convention would have been impossible to carry out.

More problematic, however, was the exemption for Nigeria to play in the 1998 World Championships in Football and the 1998 World Basketball Championship. Some Council officials called these sports exemptions "*embarrassing*", and one official suggested that it was legally

⁵⁵ MEP for the Group of the Party of European Socialists.

⁵⁶ The Assembly was only continued after the Nigerian Chargé d'affaires had apologised by stating "*on the grounds that you have misconstrued my statement I hereby withdraw it*". Interview Council Secretariat and Nigerian officials May 2000.

⁵⁷ Resolution on Nigeria; Official Journal C 292 , 21/09/1998 p. 0154; Resolution on the European Union's attitude towards Nigeria; Official Journal C 080 . 16/03/1998 p. 0233; Resolution on Nigeria; Official Journal C 014 . 19/01/1998 p. 0204; Resolution on Nigeria; Official Journal C 362 , 02/12/1996 p. 0261; Resolution on the murder of Mrs. Kudiratu Abiola in Nigeria; Official Journal C 198 , 08/07/1996 p. 0206; Resolution on Nigeria; Official Journal C 166 . 10/06/1996 p. 0200; Resolution on Nigeria; Official Journal C 323 . 04/12/1995 p. 0091; Resolution on Nigeria; Official Journal C 287 . 30/10/1995 p. 019; Resolution on human rights violations in Nigeria; Official Journal C 056 . 06/03/1995 p. 0108; Resolution on the violent prolongation of dictatorship in Nigeria; Official Journal C 305 . 31/10/1994 p. 0096. A reference to the resolution of

14.12-1995 on human rights: Resolution on the threatened deportation of Nigerians from the UK as reported on the EP official URL was not found.

⁵⁸ EFPB 97/197 10 April 1997 and 97/224 2 July 1997.

⁵⁹ EFPB 97/143 26 December 1997.

dubious to introduce exemptions referring to the 1995 Common Position since “*no exemptions [in the OJ] meant no exemptions*”.⁶¹ Indeed, the whole incidence looked like one of the “*price specimen*” of the Union’s *I want – yet, I do not want* policies of the ’90s (Nuttall 2000:34, 18). Apparently, France had pushed forward for this exemption being herself the host of the World Cup.⁶² Britain was against the exemption and the issue was settled by a compromise, after a “*collective assessment*” had been made to see which areas could be exempted pursuant to the provision of a so-called “*head-quarters*” agreement. In terms of overall efficacy, this exemption was dubitable because according to Nigerian officials, the sports sanctions would have been “*a highly effective measure*” raising “*public anger towards the Abacha regime*”.⁶³ This was also the opinion held by the EP, which commented angrily “*an opportunity to influence human rights policy in Nigeria had been lost*”.⁶⁴

The third exemption lifted parts of the arms embargo. It allowed arms to be sold to supply Nigeria’s participation in the ECOMOG (Economic Community of Western African States Monitoring Group) peacekeeping force in the civil war in Sierra Leone. In practice, “*this ECOWAS thing was a success thing*”⁶⁵ for Nigeria by *de facto* halting the civil war (Commission 2000; Human Rights Watch 2000). Allowing the selling of arms to Nigeria might thus have been a geo-strategically smart move by the Union since the emergence of another undemocratic state in the region would have increased the instability of the region as a whole.⁶⁶

The Union’s action could, however, just as well have resulted in a backlash for the EU had Abacha remained in power. Notably, it was impossible to control whether the arms sold under the exemption really were used for the conflict in Sierra Leone and not for internal repression of the Nigerian opposition. It certainly did not increase the Union’s credibility as a rigorous foreign policy actor either. As a Nigerian official put it (while smiling) - “*this was ridiculous ...can you imagine one of the most undemocratic states at that time - Nigeria – in a fierce crusade to install democracy in another state – fully supported by the international society?*”⁶⁷ In a letter from the Nigerian Embassy in Brussels to the Nigerian authorities in mid-March 1997,⁶⁸ the Nigerian Chargé

⁶⁰ EFPB 97/024 28 November 1997 published in OJ L338, 9.12.1997, 7.

⁶¹ Interviews. Council Secretariat, May 2000.

⁶² France (and Germany) was accused of granting visas for Nigerian officials in violation of the EU sanctions (Human Rights Watch 1999).

⁶³ Interview, Nigerian officials, May 2000.

⁶⁴ Resolution on Nigeria. Situation in Nigeria. 16/7-1998 OJ as mentioned previously.

⁶⁵ Interview, Council Secretariat, May 2000.

⁶⁶ Interview, Council Secretariat, May 2000.

⁶⁷ *ibid.*

⁶⁸ Date unverifiable, but is either 15 or 17 March.

d'affaires reported that the EP is "*deeply split on this issue (Nigeria) and so is the Council and the Commission and the Member States*".⁶⁹

Despite these problems, the capability-presence of the Union augmented towards the end of the '90s. This was already clear when Nigeria failed to meet its new electoral timetable in 1998 and the Council "*expressed its deep concern of the developments in Nigeria*".⁷⁰ After Abacha's death and the democratic initiatives of Abubekar, the Union immediately reacted by "*warmly welcoming*" the positive changes. In October 1998, the Union further repealed part of its 1995 Common position.⁷¹ Compared to the Union's "*welcoming*" strategy in 1995 (to the Yar'Adua and Obasanjo commuted sentences), the Union in 1998 adopted a more balanced approach. Now, it attached equal effort to the progress Nigeria had made and the areas where progress had (yet) not occurred.⁷² There were thus signs of increased scope or "*pillarisation*" of EFP. One illustration of this was the text of the Common Position repealing the 1995 sanctions.⁷³ It said that, "*programs supporting human rights and democracy, ... poverty alleviation and, ..the provision of basic needs for the poorest section of the population*", may "*continue*".⁷⁴ The Council added "*should there be any deterioration in the respect for human rights or the democratic processes in Nigeria, the Council shall immediately review this Common Position with a view to adopting additional measures*".⁷⁵ After the return of the civilian rule in Nigeria in 1999, all remaining sanctions were lifted as of 17 May 1999. The depth of EFP was further increased when the Union issued a Joint Action towards Nigeria in December 1998,⁷⁶ gathering €810.000 in support of the holding of democratic elections in February 1999. In other words, the EU conditionality was beginning to take a more complete form, including 1) threats or conditions, 2) measures implemented in case conditions were not fulfilled, and 3) follow up measures, relief or more active policies depending on the degree of compliance.

Towards recent developments, almost full discretion has been handed over to the Commission regarding Nigeria. The conclusion of the Council May 21, 1999 invited the Commission to present a

⁶⁹ Particularly the "*clever*" Dutch Presidency reportedly "*supported the view not to play harsh towards Nigeria*" (2). The EP criticised the Union's arms export exemption and policy in resolution of 19 January 1998 on the European Union's attitude towards Nigeria, OJ as mentioned previously.

⁷⁰ EFPB 98/077 27 May 1998.

⁷¹ Those were the visa restrictions for members of the military or the security forces, and their families, suspension of visits of members of the military, - restriction of movement of all military personnel of Nigerian diplomatic missions, suspension of all high-level visits that are not indispensable to and from Nigeria; and visa restrictions on members of the Provisional Ruling Council and the Federal Executive Council and their families, cancellation of training courses for all Nigerian military personnel for non-combatative courses to encourage respect for human rights and to prepare the military for the democratic control by a civilian government of the armed forces.

⁷² Similarly balanced were the EP Resolution of the ACP-EU Joint Assembly in 1998 noting "*the joint Assembly's support for a twin-track strategy towards Nigeria, welcoming progress but, at the same time, maintaining pressure and sanctions until human rights violations have ceased and there is real prospect for the establishment of a democratic constitution and a legitimate civilian government*" (9.03.99, A4-0065/99).

⁷³ John Peterson uses this expression about the links between external economic relations, the CFSP, and the Justice and Home Affairs representing the Union's three pillars as created by the TEU (in comments to an earlier version of this paper at the University of Geneva, September 2000).

⁷⁴ EFPB 98/275 30 October 1998.

⁷⁵ Article 4 (2).

⁷⁶ EFPB 98/383 22 December 1998.

National Indicative Program aimed at taking into account good governance, the fight against poverty and support of civil society. The “*inter-pillarization*” of the Union’s policy is further demonstrated by the resumption of a “*Community dialogue*” with Nigeria. In Abuja on May 31, 1999, the Commission and the Nigerian authorities issued a Joint Communiqué outlining future plans for co-operation.⁷⁷ The Communiqué paved the way for the allocation of €330 Million accumulated from the 6-8 European Development Fond (EDF) payments that had been frozen from 1995.⁷⁸

The accomplishments of EFP towards Nigeria the last 5-12 months seem to be less impressive than they were from the spring 1998 to the end of 1999. EFP at that time probably came as close as it could to its own capability-presence potential against a country such as Nigeria under the Union’s contemporary institutional structure. Lately, the Nigeria files in the Council Secretariat have been archived and replaced with files on “*Zimbabwe*”, “*Sierra Leone*”, and “*Burundi*”. What remains to be seen is which role the CFSP will give itself under the still transitory and fragile Nigerian democracy. It is also unclear who will assure that the line taken by the Community on Nigeria is in accordance with overall CFSP objectives. If developments in Nigeria turn worse again, the Union’s strategy could only work under two conditions. It assumes, firstly, a high degree of coherence between aims followed in the first and second pillar, and second, that what the Community deals with in its relations with Nigeria practically are all embracing for the Member States’ relations with Nigeria. Clearly, none of these assumptions seems to be fulfilled.

6.3

Learning

Did these policies of the Union reflect an ability of the EU governments to learn about the workings of EFP? There are in fact several indications that this was the case, at least for some of the main actors or larger Member State governments. The beliefs about Nigeria’s willingness to comply with EU demands clearly underwent their own dynamics from 1979-2001. Unsurprisingly, European governments in the whole period perceived decision-makers in Nigeria as very different from those of the Member States. As an official in the Council Secretariat noted, the Nigerian decision-makers come from a completely different background where for them the opposition is “*a gang of robbers*”, and it is tempting to cheat a little “*bit with the ballot boxes*”.⁷⁹ European decision-makers were also well aware of the dubiousness of Nigeria’s military’s various promises to return to civilian rule. For

⁷⁷ Joint Communiqué by The European Commission and the Federal Republic of Nigeria. Abuja. 31 May 1999.

⁷⁸ Investigating proper development programs to be implemented both as regards the released funds from the 6th – 8th EDF and the subsequent payments of the Post Lomé agreements.

⁷⁹ See also Agyeman (1988). The US Secretary of State, Colin Powell, has also been quoted for having said. “*all Nigerians are crooks and thieves*” (The Economist January 6, 2001:81).

several reasons, Nigeria was however not considered either unpredictable, hopeless or unsusceptible to change (Lewis *et al* 1998:9, 14-20). As the Council expressed it, Nigeria remains “*a long standing friend and partner*”.⁸⁰ Crucial was the belief by many governments that the different regimes of Nigeria were less motivated by any ideological crusade, as the case was, for instance, in Iran. Governments understood that particularistic (often economic) interests and Nigeria’s extreme ethnic and religious complexity were more important in underpinning Nigeria’s problematic and sometimes rather hostile foreign policy.

From 1995, the Union realised that its belief about Nigeria needed revision. The more critical statements the Union issued in the beginning of 1995 stemmed from the fact that the issue under scrutiny regarded human rights and in particular trials against specific individuals that received high public attention in Europe. The eye-opener for the Union was the Saro-Wiwa killings and the appointment in February 1995 of foreign minister Ikimi. He was “*the arrogant, irrational and adamant*”⁸¹ foreign minister that “*hated*” the EU.⁸² Already in July 1995, Ikimi summoned British and American envoys and warned them that cordial relations would be jeopardised by their hostile actions against Nigeria. On 14 November, Ikimi then recalled Nigerian ambassadors in all EU countries as a reaction to EU’s reaction, which Ikimi called a British “*plot*”.⁸³ As a Council official noted, we started to “*dream*” about a possible exchange of Ikimi.⁸⁴ What Ikimi, Abacha and the Saro-Wiwa executions caused were a reduced belief in the effectiveness of a “*wait and see*”⁸⁵ policy towards Nigeria.⁸⁶ The belief emerged that tougher messages had to be sent to Abacha. Illustratively, one Council official confessed having experienced EU policies towards Nigeria, that “*what really makes a difference is embargo or aid, all the rest is bla, bla, bla.*”.

Clearly, the Abacha and Ikimi unpredictability also indicated the *limits of intervention* and thus the limited expected benefit of aid and embargoes. This might have complicated the introduction of restrictive measures and reduced the use of incentives related measures.⁸⁷ However, on the bottom-line the Union in the 1990s preferred a light interventionist policy to a *laissez-faire* policy. One of the reasons for not just letting Nigeria come away with its policy was probably linked to the perception that Nigerian personalities such as Abacha and Ikimi were not truly and adequately

⁸⁰ EFPB 94/217 26 August 1994.

⁸¹ Interview with Minister Oda Olisa, Nigerian representation, Brussels, November 1999.

⁸² Interview, Council Secretariat, May 2000.

⁸³ Keesings Reports of World Events, 1995:40806.

⁸⁴ Interview, Council Secretariat, May 2000. See also Keesings' Record of World Events, 1995, September, 40711. Ikimi also recalled the Nigerian ambassadors for consultation from all EU countries (14806).

⁸⁵ Nuttall (2000:3) uses this expression about the EPC reactions to Glasnost and Perestrojka.

⁸⁶ Interviews, Council Secretariat, November 1999.

⁸⁷ Interview, Council Secretariat, May 2000.

reflecting the *potential in Nigeria to get back on track again - possibly by external influence.*⁸⁸ The Union also knew Nigerians from sitting around the same negotiating table on numerous occasions, e.g. the negotiating of the Lagos (Association) Agreement (1966) and the Lomé Conventions (Sanu & Onwoke 1997). That Nigeria was an active member of the international system, her strife for a permanent seat in the UN Security Council and her contribution to peace-keeping activities, summed up to the perception of Nigeria as an actor that understood the importance of giving and taking in the international system (Nwosu 1996).⁸⁹ The Union realised that the harshness of Abacha's dictatorship was a long-term bluff - out of line with previous military rules and the Union's perceptions of Nigerians. The bluff had to be called. Since it is always dangerous to do so without knowing that it is a bluff for sure, the Member States called it by using the CFSP.

Abacha's presence was living evidence of a strictly speaking *unsuccessful* EFP towards Nigeria. The policy changes of the Union did also reflect that the individual Member States had perceived the previous policies as unsuccessful and the Council in 1998 stated that the transition to civilian rule "*is a failure*".⁹⁰

In sum, a learning dynamics of EFP towards Nigeria started to evolve in the 1990s. First, the policy became truly more sensitive to the success or failure of previous policies. Second, the government started realising that previous unilateral (or non-EU) policies had been unsuccessful bringing the need for a European approach to the Nigerian question to the forefront. Similar to Chapter 5, the updating of beliefs about EFP towards Nigeria mirrors a situation where a given Member State previously attached less belief to European policies than to unilateral policies and therefore had to allocate more effort to other than European foreign policies. This was the situation depicted in Figure 3.1 in the area between "0" and "z*". As Abacha's regime grew increasingly repressive, when EU governments perceived their actions as unsuccessful in changing Nigeria's attitude they reacted to this perception of failure by increasing their stakes in CFSP. It should be noted, that the effort continued to rise towards a certain upper limit. This ceiling was in practical terms, the Common Position of 1995 (including economic sanctions but excluding any petroleum sanctions) and the Joint Action of 1998.

As in Chapter 5, it seems as if the learning framework is most relevant for larger Member States that previously have had a policy towards Nigeria. Moreover, in this specific case the learning model

⁸⁸ *ibid.*

⁸⁹ In Liberia, Nigeria says to have spent \$4 Billion on UN deployment. Other contingencies have been deployed in Lebanon, Angola, Yugoslavia, Somalia, and Rwanda, mostly for the UN but also for OAU and the ECOWAS.

does not really seem to be applicable to the Union's policies towards Nigeria before the mid-1990s where governments did not engage in learning about EFP towards Nigeria, but may have learned immensely much about other things.

6.4

Inability to learn

In the '90s, one of the predominant reasons for the lack of learning was the lack of actions from which one could learn. In general, a range of factors may have impeded the learning as put forward in the preceding chapters. In many ways, these reflect what Lewis once stated as a precondition for successful intervention in Nigeria, "*In short, when outside actors are motivated, united, and focused, and parties to the conflict are vulnerable to outside influence, intervention can be successful*" (1995:18, 23-25).

(a) *The role of the US: the devil's advocate again?*

Nigeria is one of the few exceptions of the CFSP where European and US policies seemingly went hand in hand (Nuttall 1997; Baker & Stremlau 1999:180, 16-18).⁹¹ US policies were comparatively harsher than EU policies in the Nigerian case as US policies had been towards Iran as well. Yet, US policies towards Nigeria were not contradictory to EU policies. In 1994, the US classified Nigeria as "*a leading global drug trafficker*" and assistance to Nigeria through its Export-Import Bank ceased. It further agreed on a compelling veto from US representatives in multinational institutions. Yet, the US expressed general uncertainty about its proper course towards Nigeria as illustrated by the unwillingness to engage in any oil-boycott despite not excluding it (Baker & Stremlau 1999:192, 8-12; Reuters Info Service 6 June 1996).⁹² This might have strengthened the Union's resolve in the light of Chapter 3's description of the destructive impact that intensively competing strategies may have on decision-makers' ability to learn. The Union's capability-presence probably did not benefit directly from the vague US strategies. However, their weakness implied that pressure on Nigeria was not as fruitless an undertaking as towards other *pariah* states in terms of learning the EU governments lessons about the workings of their policies. Put differently, the Union's attention could be focused on Nigerian politics rather than on US policies.

⁹⁰ EFPB 98/058 5 May 1998.

⁹¹ Commenting on one of the half-yearly political dialogues in Brussels between the Troika and the US delegation in Washington in 1996, one EU official noted that the Americans "*were in line with us*" (Interview, Council Secretariat, May 2000).

⁹² The weaker US policy towards Nigeria was related to Nigeria's strategic importance for the US oil interests, now that several other petroleum-producing countries were sanctioned and the fact that Nigeria had shown loyalty towards the US in the past (Hoffman 1996).

(b)

The strategies

The facilitation of learning from the light US position was reversed by the lack of clarity of the Union's strategy. In the '80s, no strategies were formulated at all and in the 90s, the strategies failed to produce clear directions for reactions to developments in Nigeria. For instance, before 1993 the Union had no formal or informal strategy towards Nigeria. As a result, the Union had no experience to learn from other than Member States' unilateral foreign policies (and other external economic relations' policies) when the sanctions were installed in 1993. The emerging capability-presence from 1993 was indeed a strategy of sanctions, including restrictive measures and conditions under which these could be eased. Yet, the Union's ability to learn remained impeded by the still very vague formulation of the sanction strategy until the 1995 Common Position came in place. For example, the Union lacked as in the case of Iran an objective criterion for what was a *successful* policy towards Nigeria. The deterioration of events during 1995 only led the Union to "*continue to keep a careful watch on the situation and assess any further decisions that might be necessary to face up to development,*"⁹³ thus applying an "*ad hoc*" principle as to whether further intervention would be necessary or not. In the Saro-Wiwa and Yar'Adua trials in 1995, the Union repeatedly referred to the importance of the prosecuted to receive "*fair trials*". The problem was that since the Union never defined what the notion of "*fair trial*" meant, it allowed for whatever interpretation of the outcome that suited decision-makers.⁹⁴ One may say that this resulted in a legitimacy problem of EFP affecting negatively the government's ability to learn about the CFSP.

The Common Position of 1995 defined the Union's policy more precisely than the EPC sanctions of 1993, and any other statement previously had done. The strategies were also well attached to the developments in Nigeria towards the end of the 1990s. This implied a high degree of information flow about the causal relationship between EU strategies and outcomes. One of the facilitating elements was the impact from Britain (Regan 2000; Aspen Institute 1996; Dana 1998.).

Britain's colonial ties with Nigeria made her a natural source of information about the workings of Nigerian politics.⁹⁵ Despite periods of strained relations, Nigeria and Britain maintained cordial relations after Nigeria's independence in 1960;⁹⁶ not the least they did so through both countries'

⁹³ EFPB 95/197 30 June 1995.

⁹⁴ It is not before the Öcalan case that the Union said that a fair trial "*means fair and correct treatment and an open trial according to the rule of law before an independent court, with access to legal counsel of his choice and with international observers admitted to the trial.*"

⁹⁵ Chatham House speech by Professor Jibril Aminu, Hon. Minister of Petroleum Resources, 29/10-1991. Britain conquered Nigeria in the 19th and 20th century and remained the colonial power of Nigeria *de facto* until 1954, gave Nigeria a new federal constitution in 1947.

⁹⁶ Interview, Council Secretariat, November 1999.

involvement in the Commonwealth.⁹⁷ Observers characterise Britain's initial policy (in the beginning of the 1990s) as a "*wait and see*" policy (Lewis 1995). This changed, when Saro-Wiwa was executed, where Britain reacted more harshly and was in the frontline of both EU's Common Position and the Commonwealth's suspension of Nigeria.⁹⁸ Britain had been reluctant to use the Commonwealth as a "*network*" that was instrumental of foreign policy in the years after the "*disputatious arguments about sanctions on South Africa*" (Robertson 1990:700). Put differently, Britain probably possessed beliefs resembling the *hubris-beliefs* in Chapter 3.⁹⁹ Nuttall similarly describes Britain's understanding of the workings of multilateral foreign policies saying "*the very concept of multilateral security was foreign to her ideas about how the world looked*".

After 1990, a more participatory and involved Britain had emerged. Britain now wished to use the Commonwealth, being still "*by [our] fingernails at the heart of Commonwealth*", to gain influence in Europe (Nuttall 2000). The Harare Commonwealth Declaration in October 1991 renewed the British interest in the Commonwealth. In 1992 the chairman of the House of Commons Foreign Affairs Committee David Howell noted, that "*meanwhile we have our links with the Commonwealth to strengthen (not dismiss as some have inclined to)*".¹⁰⁰

The idea that EFP would be able to contribute gained in force during the 1990s. Britain never developed any illusions about the effectiveness of EFP, but the New Labour government changed the orientation of British foreign policy to what Robin Cook called "*enlightened self-interest*" (Hill 2001; Human Rights Watch 1999:193). In June 1996, Shadow Foreign Secretary Robin Cook argued for a British "*constructive approach*" towards Europe.¹⁰¹ Similarly, Tony Blair had launched his "*Britain in Europe*" plan declaring that "*to be a significant influence in the world Britain must be a significant influence in Europe*".¹⁰²

Britain thus slowly moved away from its unilateral hubris about its ability to deal with the Nigerian question and took a more multilateral (European) approach. Britain became by no means at the heart

⁹⁷ Educational ties are immense Approximately 20.000 Nigerian students study in Britain and several Nigerian leaders Generals Obasanjo, Buhari, and Abacha attended the same officers school in Britain, the Mons Officer Cadet School in Aldershot

⁹⁸ Interview Council Secretariat, May 2000; Still, the strongest demand for suspension of Nigeria from the Commonwealth may have come from other countries than Britain, e.g. Canada (Akinrinade).

⁹⁹ As Tony Blair said in his Britain in Europe Speech, 5 April 1995. Chatham House: "*It is not that Britain lacks self-confidence*".

¹⁰⁰ Chatham House speech, 28/10-1992. Under the conservative foreign minister Malcolm Rifkind, the African Commonwealth also gained momentum in British foreign policy, not the least due to Rifkind's personal engagement in the area. Upon his taking office in 1995, Rifkind declared that "*a new Commonwealth can benefit Britain and all its members*" – since "*punching above ones weight is not enough – we have to increase our weight*". In 1996, Rifkind noted that "*In Nigeria...the transition to democracy has been repeatedly interrupted. We cannot support this. But we hope that with the encouragement of the Commonwealth Ministerial Action Group and our Commonwealth partners, Nigeria will achieve a lasting transition.*" Rifkind had taught two years at the University of Rhodesia, now University of Zimbabwe. Chatham House speech, 21/9-1995 and 28 November 1996.

¹⁰¹ Chatham House speech 6 June 1995.

¹⁰² Chatham House speech 5 April 1995.

of EU. However, the new foreign policy framework and the TEU allowed for a restructuring of the British-EU relations with the Commonwealth, which provided an incentive for Britain to promote both the Commonwealth and the EU strategy when dealing with Nigeria. This was, e.g., clear from the widely extended Lomé Convention of 1990, where half of the ACP country signatories were former British colonies.¹⁰³ In practice, the result was that important information was channelled to the other Member States from, for example, the Commonwealth Ministerial Action Group that continued meeting with Nigerian authorities during the Union's sanctions regime.¹⁰⁴

Yet, strategies continued to lack clarity. For example, the Union failed to determine the criteria for a "*deterioration in the respect for human rights*" in the October 1998 Common Position that as earlier mentioned was supposed to condition its review.¹⁰⁵ As regards arms trade some of the confusion and the ability of Member States to defect from the common decisions came from the inconsistency found in the treaty between Article J.8 (2) of the CFSP and the Communities' C (Art. 3) (Nuttall 2000).

(c) *The impact of EU's external economic competence*

The Union's external economic competence vis-à-vis Nigeria is primarily expressed in the special agreements between Nigeria (as an ACP Member State) and the EU, notably through the subsequent Lomé Conventions and EU-ACP agreements. This is shown in Table 6.1 below.

Table 6.1 lists the contents of subsequent Lomé Conventions including information about the number of countries participating, the amount of resources and the involved issue areas. One may interpret the table as a rough estimate of the Union's external economic competence vis-à-vis the Member States in dealing with issues regarding Nigeria, which adds to the Union's general treaty based competence on trade, etc., discussed in Chapter 3.

Since "*the Lomé Convention is an international agreement (between the Union, the Member States and 70 ACP states)*", the Union per definition has high competence in those relations with Nigeria that are listed in Table 6.1. However, Table 6.1 shows that the contents of the Lomé Convention have changed over time. The Union's competence in its external economic relations with respect to Nigeria has consequently varied among the various Lomé Conventions. Based on Table 6.1,

¹⁰³ See Section 6.4 (d). The EU Handbook (1996:68) provided the view adopted here.

¹⁰⁴ Interview. Council Secretariat, May 2000.

¹⁰⁵ EFPB 98/275 30 October 1998.

subsequent Lomé Conventions should have led to more competence of the Union because more issues and resources have been added to the Convention over time. This echoes Sanu & Onwoke noting that, “*the Treaty has grown in capacity for problem-solving*” (1997:25, 29-35).¹⁰⁶

The question is now, whether this increase in external economic competence has influenced EFP

Table 6.1 Contents and competence of EU-ACP agreements

| EU-ACP agreement | Competence of the Union |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lomé I (1975-1980) | 46 ACP countries / 9 EC countries Free trade arrangement Set of joint institutions STABEX ¹⁰⁷ Co-operation to diversify ACP industrial production Strict rules of origin with free entry for products with 50-60% of local content Non-reciprocity: tariff free entry to over 95% of exports of the ACP countries Resources: 3.450 million ECU |
| Lomé II (1980-1985) | 58 ACP countries / 9 EC countries Sugar protocol More products in STABEX SYSMIN created including all mineral products except petroleum and except precious minerals, however, including gold ¹⁰⁸ Resources: 5.700 million ECU |
| Lomé III (1985-1990) | 65 ACP countries / 10 EC countries Fisheries Co-operation Socio-cultural co-operation Investment guarantees Policy dialogue Human rights concern Resources: 8.5 million ECU |
| Lomé IV (First term 1990-1995) | To last 10 years instead of 5 years and including a Mid-term review Centrality of human rights Environmental protection Services included, but overshadowed by GATS Strict rules of origin with free entry assured for local contents of 45% Resources (1. + 2. Term): 12.000 million ECU Nigeria received the highest resources of all (\$440 million) Aid also for macro-economic adjustment programs |
| Lomé IV (Second term 1995-Feb 2000) | 70 ACP countries / 15 EU Member States South Africa included Uruguay results included Reduction of role of state in economic activity Consultation procedure Human rights, good governance and democratic principles Shift to competitiveness of ACP products Commission's green paper proposal of 1996, and suggestions of 29 October 1997 for a sector-based or sub-regional division of the convention Development aid in three dimensions: aid. monitoring. implementation |
| ACP-EU Convention (June 2000 -2007) | € 13.5 billions in aid from 2000-2007 Replacement of STABEX and SYSMIN SYSMIN was replaced by a system to counteract short-term fluctuations in exports which the ACP countries can be attached to through National Indicative Programs and not as previously as a general system. Commission review of May 1999: co-operation involved in armed conflicts should be part of a comprehensive strategy for conflict management and resolution within the CFSP framework”. |

Source: Woodliffe (1996); Commission (1999a); Sanu & Onwaku (1999); Dr. Magatte Coulibaly from the ACP General Secretariat.

¹⁰⁶ Despite this growing capacity, it is important to note that the Conventions have not at any time been all embracing in the Union's external relations with Nigeria. Notably, a large grey area exists as regards FDI that include the important petroleum investments (Interview, Council Secretariat, November 1999).

¹⁰⁷ Stabilisation of export earnings. Protection scheme from falls in ACP countries' export earnings due to fluctuations in primary commodity prices. If export earnings from a particular commodity fall by more than a certain “trigger threshold” and if the commodity account for more than a certain “dependence threshold” EC would provide financial assistance.

¹⁰⁸ System for Safeguarding and Developing Mineral Production. Similar scheme to STABEX covering certain mineral products.

towards Nigeria, or not? Comparing Table 6.1 with the development of EFP does not immediately support a correlation between external economic competence and EFP. For instance, the increased depth of EFP in 1993 did not match any equivalent expansion in competence. Moreover, the amplification of competence between Lomé II and Lomé III took place in the midst of the long era of EFP silence. The only real coincidence between competence change and EFP is the policy change towards Nigeria in 1995 simultaneously with the Mid-term review of the Convention providing the introduction of the consultation procedure (Article 366a (1-3)).

Despite that the consultation procedure never was used against Nigeria, it may have worked as an implicit threat towards her. Under the consultation procedure, the Community/Member States and the ACP states may invite each other to consultations (366a (2)) if they find that principles of “*human rights, democratic principles and the rule of law*” are breached.¹⁰⁹ If no solution is found, partial or full suspension of the Convention may take place.¹¹⁰ After 1997, a genuine approach to the consultation procedure started to develop marked by the first use of the consultation procedure in 1998.¹¹¹ Apart from the consultation procedure, the Commission’s proposals for a new Lomé Convention with higher priority given to regional powers such as Nigeria also became known in 1997 and may have been a carrot for the Nigerians. Clearly, the functioning of this carrot was largely blocked by Abacha’s regime. However, as described previously, it *teamed up a message* to Nigeria which under more appropriate conditions (e.g. Abacha’s death) might have been one of the factors that influenced Nigeria’s return to democracy. In May 1997, the Commission, furthermore, proposed a more comprehensive framework for action in areas of armed conflict in Africa, although some “*dragging*” hindered progress on the matter.¹¹²

As previously mentioned, it was not before 1997-1998 that economic transactions between Nigeria and EU effectively came to a halt despite that the sanctions were in place from November 1995 (and even from 1993). Without suggesting any *one to one* relationship between competence and EFP, the scope of EFP towards Nigeria seemed to widen from 1997-8 exactly at the time when the Mid-term reviewed Lomé Convention came into force. Supporting the hypothesis, the most important general competence change came with the inclusion of economic development policy in separate chapters of

¹⁰⁹ Chapter 1, Article 5 (1).

¹¹⁰ 366a (3).

¹¹¹ <http://www.europarl.eu.int/dg3/sdp/newsrp/en/1997/n970418.html> in article “Sanctions and Human Rights: Development Committee seeks new procedure” Until November 1999 Niger, Togo, Guinea Bissau and Comoros had been called for consultation under Article 366A respectively Com (1999) 204 final; Com (1999) 295 final; Com (1999) 361 final; Com (1999) 491 final

¹¹² The Finnish Presidency intended to take it forward but did not do it.

At the GAC May 2000, the EU however expressed its willingness “*where appropriate to make full use of Lomé instruments, and other relevant budget lines*”. 2264th GAC 22/23 May 2000 8875/00 (Presse 160) Provisional Version, Press Release Africa.

the TEU already in 1993. Since ACP was the most favoured group of developing countries receiving 50% of all development aid, the ACP group evidently had gained a special status in the European Investment Bank in the past. Some of the funds Nigeria had received through the European Development Fund were Lomé aid; others came from trade-aid packages or other agreements. The impact of this transfer of competence could have been to change the focus of the Union's actions. Importantly, the actions of the Union towards Nigeria from 1993 comprised restrictions on development aid. Admittedly, the first sanctions regime from 1993-1995 was installed about six months earlier than the TEU came into force, but the ability to act with authority on this issue could have been established *de facto* from the agreement on TEU 1½ years earlier.

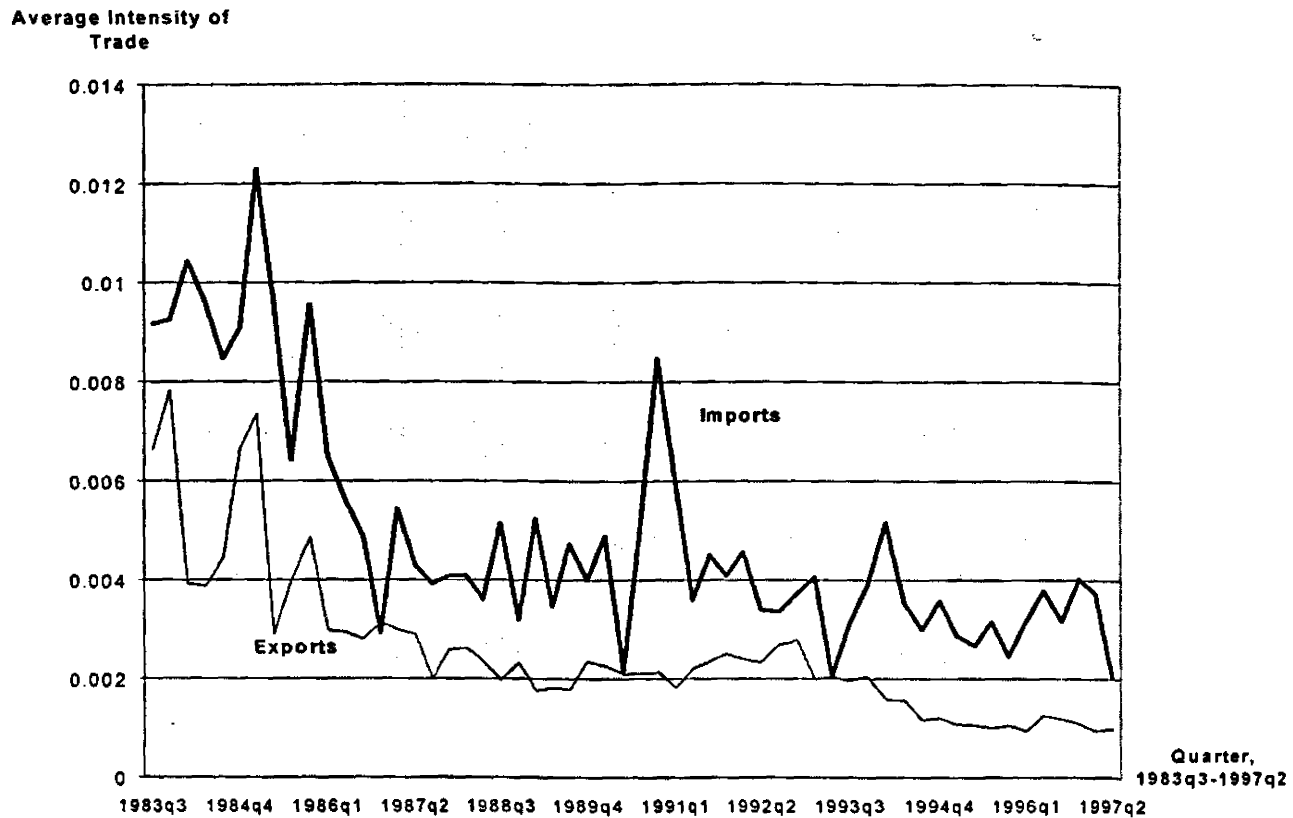
(d) *Economic preferences*

The importance of Nigeria as a trading partner became crucial – and the geo-strategic importance of Nigeria increased - when Nigeria entered as a net oil supplier to European countries from the late 1960s. The economic preferences towards Nigeria have varied over time, across sectors and among Member States. This may, for instance, be seen from Figure 6.1 below, showing the average trade shares among EU Member States towards Nigeria calculated on a quarterly basis as in Chapter 5.

Figure 6.1 shows that the Union on average was a net-importer of Nigerian goods from 1983 to 1997. Due to this, it should have been harder to install import sanctions (boycotts), than to install export sanctions (embargoes). As none of these was installed except for an arms embargo, the data does not exclude that economic preferences have played a role in formulating CFSP policies towards Nigeria. However, it is difficult to be more precise regarding the sector problems of distribution of costs raised in Chapter 3. The changes in trade over time in Figure 6.1 indicate that the conditions for EFP improved after 1987. The Member States' dependence on Nigeria was reduced in this period by almost 50% for both exports and imports. Intensities of economic preferences thus mirror relatively well, the progress of EFP that took place in the '90s.

The degree of diversity in Member States' trade with Nigeria is shown in Figure 6.2 below (second of the two Figures). The diversity of imports among Member States was in the whole period higher than the diversity of exports. It should, thus, have been increasingly difficult for Member States to agree on measures involving restrictions on imports than those similarly involving exports. Figure 6.2 further suggests that including EFP measures with import implications was not facilitated by the

Figure 6.1 Intensity of EU trade towards Nigeria from 1983q2 to 1997q3¹¹³



composition of preferences, either over time or across sectors. Preferences simply worked against EFP expansion in the Nigerian case. This may explain why boycotts and embargoes were difficult to agree to even though the Union's competence and overall capability-presence increased, and learning accelerated. This relates to the geo-strategic significance of petroleum and its total dominance of EU-Nigeria trade. For the Union, oil has been the major import good from Nigeria throughout the whole period. For Nigeria, sanctions on imports on oil to the Union would have had immediate damaging effect on the Nigerian economy since the yearly Nigerian revenue from this sector ranges from 27% to 40% of total GDP (1990) accounting for 97.4% of Nigeria's export revenues (1995/96).

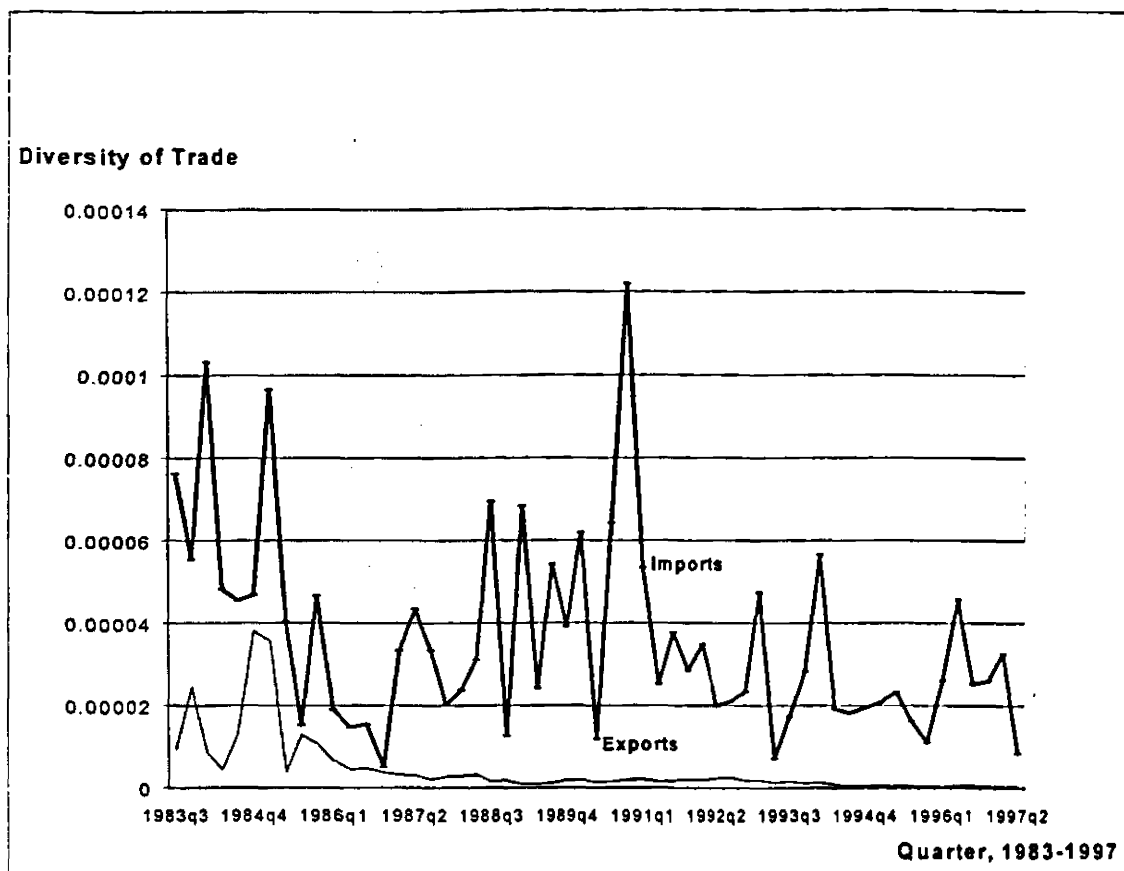
One should also keep in mind that questions and resolutions of the EP alongside debates in national parliaments all indicated "*calls for an oil-boycott*", in particular, after the Saro-Wiwa hangings in 1995.¹¹⁴ Yet, oil sanctions were neither installed, nor was the lack of oil sanctions subject to any particular contention among Member State executives. Whereas the Council was "*fully aware that the European Parliament has called..an oil boycott*",¹¹⁵ it stressed on several occasions that an oil-

¹¹³ The data for imports 1989q4 was set to 0.04 since the real value 0.6 seemed to be unrealistically high. 0.04 is the average of the past two values that is of 1989q3 and 1989q2.

¹¹⁴ See, for instance, EFPB 96/091.

¹¹⁵ EFPB 97/209 27 May 1997.

Figure 6.2 Trade diversity among Member States towards Nigeria from 1983q3 to 1997q2¹¹⁶



boycott was out of the question.¹¹⁷ The official rationale was along the lines “*that if we don’t (continue trading) then somebody else will*”.¹¹⁸ More important was, however, that first, petroleum never became part of the SYSMIN (see Table 6.1) and thus remained outside the Union’s competence towards Nigeria. Second, the petroleum preferences of the Member States clearly spoke against sanctions with the Union being a net-importer, though over time to a decreasing degree.

Apart from the opposition from the largest EU importers of Nigerian petroleum products such as Spain (11% of total Nigerian oil export), Italy (6%), and France (5%, 1997),¹¹⁹ Germany and Britain¹²⁰ were also strongly opposed to sanctions. Germany’s import of Nigerian crude oil, the so-called “*Bonny Light*”, accounted for 45% of the German petroleum imports (Akinrinade 1997:204). In their resistance to the oil-boycott, Germany made it clear that their refineries were not specialised in the use of other crude oils than Bonny Light. Any oil-boycott would thus “*make unacceptable demands on crude oil refining technology in Germany*.” This argument contradicts Akinrinade who notes that British Brent Crude could easily have substituted for Nigerian “*Bonny Light*” (204). That

¹¹⁶ 1989q4 was above 3.0 in value so it was instead estimated as the average of the past two values.

¹¹⁷ EFPB 86/177 16 June 1986.

¹¹⁸ Interview Council Secretariat November 1999.

¹¹⁹ CIA Factbook 1999. Nigeria, Economy. <http://www.cia.gov/cia/publications/factbook/ni.html#econ>.

¹²⁰ Britain’s interests were linked to the Anglo-Dutch Shell Petroleum Development Company (Akinrinade 1997:198).

Germany was so reluctant to boycott Nigerian oil when it could buy the same oil in Britain was more likely related to the linkage between German imports and exports of petroleum by-products. This feature was not an isolated German-Nigerian phenomenon. 15-20% of Nigeria's total imports consisted of various chemical products of which many were by-products of previously exported oil. In the 1980s, so-called "*counter-trading (barter) arrangements*" were commonly initiated between EC countries and Nigeria partly to counterbalance the large trade deficit of the European countries (see Figure 6.1) caused by the extensive oil import.¹²¹

Britain was opposed to such barter arrangements. Britain did not depend on Nigerian oil imports either, as British North Sea oil competed with Nigerian oil from the 1980s (Gambari 1989).¹²² Instead, the FDI stock of the Shell Company played a role in the reluctance of Britain to initiate any petroleum sanctions (Klay, Kieh & Agbese). The Anglo Dutch/Shell Company had the largest non-Nigerian share (30%) in the joint venture Shell Petroleum Development Company of Nigerian Limited (SPDC). This accounted for roughly 50% of Nigeria's total oil production.¹²³ Targeting Nigerian oil exports would thus target British shareholders of Shell. Notably, the other shareholders in SPDC were, besides the Nigerian National Petroleum Corporation, French Elf Aquitaine and Italian Agip. There was a fear in Britain, France and the Netherlands that sanctions would lead to a nationalisation of petroleum investments.¹²⁴ French oil companies such as Total SA and Elf Aquitaine had operated in Nigeria since the independence, only interrupted by the civil war in 1966-1969. Unlike the EU in general (see Figure 6.1) a revival of French - Nigerian economic relations had taken place from the late 1980s. This high intensity of trade combined with the reduced French belief in Nigerians' good intentions under the Abacha regime (See Section 6.3) clarify the French position. In sum, the larger and smaller Member States' oil interests either as consumers, producers or investors were intrinsically bound together in Nigeria.

On the bilateral level, the economic relations between Nigeria and France intensified throughout the '80s.¹²⁵ In 1989, France was the second largest foreign investor in Nigeria with \$500 million in FDI. Still, French investment interests in Nigeria remained moderate compared to their trade interests and compared to British FDI interests. Germany was also intensively represented as investor in Nigeria with more than 250 companies operating in Nigeria in the 1980s, most notably, accounting for

¹²¹ France, for instance, had a barter delivery of goods and machinery for oil.

¹²² See also oil minister Aminu's Chatham House speech earlier referred to.

¹²³ World Investment Directory 1996. Apart from these, there were BP, Statoil, Total, British Gas, Tenneco, Deminex, Sun Oil, Pan Ocean.

¹²⁴ Interview, Council Secretariat, May 2000.

¹²⁵ Political relations had been tense however due to 1) the French Sahara nuclear tests, 2) French attempts to block Nigeria's associated membership with the EEC, and 3) French support for Biafra's independence. With French foreign minister Claude Cheysson's and Nigerian foreign minister Gambari's exchange of official visits the relations started to improve (according to Gambari himself, 1989, 155).

approximately 80% of the civil construction contracts (Gambari 1989:160). Undoubtedly, the costs were thus high for external investors starting to disengage in 1992 (Lewis 1995).¹²⁶ Since much of the disinvestment was voluntarily performed, the general hostility of Nigeria and the few sanctions imposed by the Union, the US and other countries provided an indirect restriction on trade and investment vis-à-vis Nigeria from 1992-1998.

Another area of importance for the Union's external economic relations with Nigeria was the arms trade. In comparison with the petroleum area, an arms embargo was installed towards Nigeria despite that the opposition against petroleum trade with Nigeria was at least as large as against arms trade. The arms embargo was initiated because 1) there were UN and EU precedence for frequent use of arms embargoes, 2) arms embargoes in general only imply a direct loss for the producers of arms and only hurt few consumers indirectly, e.g. through the loss of jobs, and 3) Member States were neither highly dependent on arms trade with Nigeria, nor were there any particular linkages between arms export to Nigeria and imports from Nigeria to the Union.

Arms sales partly continued through the 1990s, though some substitution towards China and India took place. Those Member States with important armaments industry interests such as Italy, France, Germany and Britain¹²⁷ were accused of continuing their arms trade with Nigeria despite the 1993 sanctions. France, Italy and Britain had allegedly delivered respectively armoured vehicles, self-propelled artillery and main battle tanks in 1994 after the sanctions had been initiated in 1993. The British government was accused of playing a double role by supplying the military that assassinated Saro-Wiwa with arms and other military equipment for years, including having supplied the rope that was used to hang Saro-Wiwa.¹²⁸

The impact of the external economic relations on EFP towards Nigeria thus hold four dimensions. First, there is a representation of a growing but still in implementation limited capability-presence of the Union. Second, there is a tendency to stronger EU actions within those issue areas such as development aid where the Union in particular towards Nigeria held high competence. Third, windows of opportunity and precedent use of measures and instruments matter for the Member States to be confident enough about their workings to actually use them. Fourth, the more intensive and the more diverse economic preferences become regarding a particular third country as Nigeria, the more difficult is it for the governments to agree on CFSP measures.

¹²⁶ UN World Investment Directory. Foreign Direct Investment, Legal Framework and Corporate Data. 1996.

¹²⁷ Britain has been called "addicted to arms trade". According to SIPRI (Stockholm International Peace Research Institute) covering the period 1993-1997, Britain ranked as the third largest exporter of conventional weapons in the world. 355,000 jobs are found in British defence industry.

The analysis of EFP towards Nigeria shows a significantly increasing capability-presence of EFP from 1980 to 2001. The trends were as follows. The long period from 1979-1993 was an era of silence. This late start of EFP is interesting since whereas EFP towards Iran was relatively low-profiled in the whole period with various dialogues and reactions, EFP towards Nigeria more clearly changed in the beginning of the '90s. That being said, the increase in capability-presence towards Nigeria does roughly coincide with the pattern seen in the Iran and the Gulf States. From 1993-1996/7, the Union's policy may best be characterised as an era of sanctions, i.e. a period where the depth of the Union's actions sharply increased through the sanctions regime, within the institutional powers of the CFSP. There were however still only limited scope of the actions and a couple of grim examples of incoherence and weakness of EFP are found. Finally from 1998, the Union entered an era of *pillarisation* where EFP besides using its instruments in more depth now seemed to move beyond its given instruments, for instance, involving other pillars in the actions of the CFSP thus widening EFP in a novel, but still low-profiled fashion. This chapter thus suggests that the CFSP in the Nigerian case expresses a growing capability-presence both in terms of depth and scope of actions. Finally, despite the difficulties in any comparison the capability-presence of the Union towards Nigeria seems to have been higher than in the Iran and Gulf States cases.

There are two possible interpretations of the weaknesses that still form a large part of the Union's performance in EFP. Either they reflect reminiscences of the traditional EFP paralysis thus indicating that nothing has changed or at least things will not change unless the Union increases its capability-presence by, for instance, institutional reform. The inconsistencies might also express more permanent, but new features of the CFSP where Member States are increasingly willing to provide effort to the CFSP, but were they also seem capable of avoiding the negative effects of an action on their own political and economics spheres (almost so it looks like non-compliance with the Union's action).

The first interpretation regarding paralysis has been intensively debated in the literature referred to in Chapter 2. As there are many indications that the Union's capability-presence is at a significantly higher level today than, e.g. five years ago, paralysis can probably no longer fully describe EFP. This confirms the assumptions behind this framework regarding the existence of both paralysis and

progress in EFP. The latter scenario is one where the Member States attach resources to EFP as a matter of interests and beliefs about the workings of EFP in line with the assumptions of the learning model. This tendency is not necessarily *good* for the future enhancement of the Union's capability-presence as previously underlined. The key to whether enhanced effort attached to CFSP is good or bad is the question, why governments partly contribute to the increased capability-presence of the Union? Is it because they, for instance, have become better in reallocating negative externalities of any CFSP action on their own economics and politics. For instance, a given government may become experts in reducing the negative effects of a given CFSP action on own constituencies as the positive effects of contributing to EFP simply does not provide enough gains to validate a sustainable capability-presence towards a particular region. The increased willingness and belief of the Member States in contributing to EFP may also be subject to a real pay-off of the government's effort to European solutions.

The empirical analysis further confirms the earlier results of this thesis that EU's capability-presence depends on the level of hostility in the world or from the target, in this case Nigeria. The Union does in other words rather increase its capability-presence based on co-operative actions from external actors, rather than hostile ones. Notably, these results should in this chapter be less biased towards the impact of the external economic relations, as the measure for capability-presence more clearly centres on the CFSP than in the quantitative analysis of Chapter 4.

In terms of learning, foreign ministers may have learned immensely much about each other from participating in EPC from 1970. Yet, the silence of the EPC until 1993 indicates that learning about EFP from experiencing the outcome must have been practically impossible before 1993. There were simply no outcomes to learn from. This changes after 1993. Notably, governments altered their belief about the susceptibility of Nigeria to change the more Abacha's unpredictability came to the surface in his interactions with the Union. The framework seems more appropriate in understanding larger EU governments' decision to subscribe to the CFSP rather than smaller ones, partly because of lacking unilateral capacity to act from the smaller states. By using pre-Abacha experiences with Nigerians as friends and partners and drawing on Britain's increasingly EU-and-Commonwealth-minded leadership on the Nigerian issue, the Union managed to agree on a light interventionist policy towards Nigeria in the 1990s.

There were indeed many impediments to learning in EFP towards Nigeria. Interestingly, the US did not pose as big a problem as the case was towards the Gulf States and Iran. In fact, the US was

almost a facilitating factor. This is rather a confirmation of the general importance of US policies on the CFSP than it should be interpreted as a more autonomous EU policy per se. However, compared to Iran and the Gulf, the Union's capability-presence towards Nigeria did actually perform as though it was more autonomous from the US than in the Iran and Gulf cases.

Particularistic economic interests reigned EFP on issues such as whether petroleum sanctions should be initiated or not. Characteristically, however, also economic interests and their sphere of influence reduced in the '90s through the increase in the institutional competence of the external economic relations. The Nigerian case is the strongest manifestation of the role of competence in the Union's external economic relations on the CFSP in this project. From 1995, EFP started to widen towards the first pillar and external economic relations. This development was initially rhetorically based. From 1997, the presence of the external economic relations in EFP speeded up, notably through the increased competence of the Union in the EU-ACP partnership. Whereas one may have expected a smooth increase in capabilities amplified by the different treaty revisions the analysis quite on the contrary shows that the SEA did not lead to any particular change in EFP. The treaty revisions of Maastricht on the other hand coincided neatly with the emergence of EFP towards Nigeria. For instance, it seems beyond doubt that the use of TEU instruments such as Common Positions make a difference compared with earlier non-binding arrangements. Development aid that was brought under the Community flag was an important new EFP instrument. This instrument could be used in the Union's ambitions to provide the means to function adequately in crisis and conflicts or as in the Nigerian case when faced with a serious of violations of human rights, democratic principles, good governance and the rule of law. Clearly, it did not last long towards a country such as Nigeria where the response to the Union's development aid restrictions, simply was to cut off any ODA funding from the Budget, as oil revenues were plenty.

This chapter basically shares Nuttall's recent conclusion regarding the move towards more Community based foreign policy (2000). Importantly, however, this is no contradiction to those who argue that a more intergovernmental EFP also have emerged. The difference between EFP towards Nigeria now and four-five years ago is instead that governments think they have learned that actions should be more comprehensive to serve their purposes, including e.g. measures from the first, the second, and the third pillar. The willingness of Member States thus has become more dependent on the availability of resources from the different pillars. The heaviest of these is of course the first pillar. Here, the availability seems largely dependent on the extent to which the configuration of economic preferences overlaps with the Union's external competence.

CHAPTER 7

CONCLUSION

7.1

The model

The purpose of this project was to explain European foreign policy (EFP), in particular, its co-existing elements of *progress* and *paralysis*. EFP was operationalised as *capability-presence*, i.e. the Union's capability to act and mobilise resources. The main explanatory variable was *learning*. Learning is the ability of actors to update their beliefs about the workings of policies. Learning is the causal linkage actors draw between their observations of the outcomes in international relations and their previous effort attached to a given policy aimed at influencing this outcome. The effort derives from the previously held beliefs about the workings of the given policy. Learning is thus a steering mechanism for allocating resources between unilateral and multilateral foreign policy making. The learning model in principle fits an environment where the multilateral option is the European Union's Common Foreign and Security Policy, but could be extended to other multilateral forums, such as NATO, OSCE, and the Contact Group.

Learning is indirectly helpful in understanding why the Union's capability-presence both contains elements of progress and paralysis. If particularistic unilateral interests lessen the effort to multilateral (European) foreign policy, this may lead to paralysis. Learning, however, may have taught decision-makers the lesson that such a downgrading of multilateral (European) policies is less likely to lead to a successful outcome. In this case, the learning effect induces progress of EFP that runs counter to the paralysing interest effect, and *vice versa*.

In international relations, the information available about the workings of policies is incomplete. When actors thus do not have perfect information, they are in principle able to enter a process of learning. Learning is about changing the beliefs about the workings of policies leading actors to adjust an otherwise interest-based allocation of effort between unilateral and multilateral (European) foreign policy.

Over time, learning may enter either a *virtuous* or a *vicious* circle. This does not refer to the capability-presence of EFP as otherwise intended, for instance, by Regelsberger. Here, it regards actors' ability to learn. The argument for the virtuous circle is as follows. Assume that multilateral (European) foreign policy is more effective than unilateral foreign policies in solving a certain conflict in international affairs. Assume further that a given government holds beliefs in line with this assumption. The government will - if it experiences a successful outcome under these conditions - reinforce its belief in EFP and thus increase its efforts to the European solution accordingly. Should this become a pattern, implying that the government for a second, third, fourth and maybe fifth time experiences a successful outcome under these conditions, the government's belief may enter a virtuous circle. Despite the fact that this, as mentioned, is unrelated to the capability-presence, the virtuous circle of learning may lead to a virtuous circle of EFP in the traditional usage of the term. The condition for this to take place is that 1) other governments in the Union undergo the same learning process, 2) EFP remains more effective than unilateral policies, and 3) other factors do not change the basic allocation of effort favouring the multilateral (European) foreign policy solution. Similarly, one could imagine a virtuous circle of learning, starting at beliefs such that the government regards unilateral policies as more effective than multilateral (European) foreign policy, and implying a lowering of the effort attached to EFP.

The vicious circle argument departs from the same assumption as above. If a government experiences a failure under this condition, the government will decrease its belief and will in order to maximize its utility (which is a composite of preferences and beliefs) consequently also decrease its effort attached to EFP. However, subsequent failures will now force the government to enter a vicious circle of learning. Due to the unanimity ruling system of the CFSP, one government's entering of a vicious circle of learning is in theory enough for the vicious circle of learning to cause a vicious circle of EFP.

A vicious circle of learning may also lead to the opposite effect, increased capability-presence of the Union. Should the government initially hold such beliefs that unilateral policies were more effective than EFP, repetitions of failures would now increase the government's effort attached to EFP. Should the other governments be in similar position, the capability presence of the Union will increase. One could interpret this as a vicious circle of learning that leads to a virtuous circle of EFP.

One would generally assume that the point of departure for Member States' beliefs about the workings of EFP would be the scenario where they initially believe more in unilateral than European policies and then change their perception according to the outcome. In sum the model allows for enhanced EFP both as a result of a virtuous and a vicious circle of learning.

Further, there is no such thing as automaticity in the learning model. Automaticity is nice, but unlikely. First, in practice one may imagine various beliefs about the workings of EFP in different areas or on different issues, which makes the learning model rather partial in coverage. In other words, a lesson on enhanced multilateral (European) foreign policy in the Western Balkans may not be applicable to the Middle East. Second, several conditions apply for governments to be able to learn at all.

There were three cases to consider of governments being unable to learn. If actors hold such beliefs that they are fully convinced that either the fully unilateral or multilateral (European) strategy is the only correct strategy to pursue, they are not able to learn about the workings of the CFSP (or their unilateral policy) from observing the outcomes. They commit *hubris*.

Learning is also impossible if actors hold the so-called *confounded* learning belief. The problem here is that the actor simply cannot deduce from the outcome whether to pursue a unilateral or multilateral (European) policy, the actor remains indifferent between the two options. In reality, one of the two strategies may be more effective than the other one, but the government is unaware of this causality.

The confounded learning belief acts as an upper and lower restraint on the possible expansion and contraction of EFP deriving from entering virtuous or vicious circles of learning. If EFP is most effective, and the government enters a vicious circle of learning (departing from beliefs attaching more effort to EFP), the government's belief will eventually stabilize around the confounded learning belief even though it experiences failure after failure. On the other hand, a government that enters a virtuous circle of learning from an initial position favouring unilateralism (despite the European strategy being the most effective one), will in case it experiences failure after failure stabilize its belief around the confounded learning belief. The confounded learning belief thus acts as an upper limit to how much the beliefs can increase towards the correct one, i.e. that European foreign policy is the most effective.

If other governments undergo the same dynamics, the capability-presence of the Union will be constrained and *ceteris paribus* not reach a level that reflects the Union's actual effectiveness vis-à-vis unilateral policies. The reason for this is a combination of the initially held beliefs about the workings of unilateral and European foreign policies, unfortunately biased towards unilateralism, and the limitations of the learning mechanism, not being able to overcome the initial bias completely, ending up in the intermediate position of the confounded learning belief instead.

It follows that effectiveness can move EFP a long way along the path towards increased capability-presence. However, it is not enough for governments genuinely to start allocating more resources to EFP. At least this is the case if they start their engagement having more confidence in unilateral strategies. What can initially move EFP and the belief about EFP in this situation will probably have to come as a shift in the beliefs caused by external factors. For instance, a serious disbelief in unilateral strategies caused by a systemic shock, an identity change or maybe an institutional improvement making the lines between the effectiveness of unilateral and multilateral policies less blurred. The learning model thus gives some guidelines for how beliefs operate and intervene with interests and institutions in different zones of focus in the foreign policies of Member States. Learning should be able to explain changes in the relative weight attached to unilateral and multilateral policies within this overall focus-zone.

The model comprises a political-economic part capturing the interaction between the Union's external economic relations and the CFSP. The approach challenges the view of the first and second pillar issues being inadvertently divided. Contrary to previous analyses the causality under investigation here is the impact of the external economic relations on the CFSP. The model of learning belongs analytically to a neo-institutional model where interests, institutional change, and ideas are important variables of change. Notably, they are regarded as complementary explanations rather than substitutes.

The important issue is the dynamics of the interaction between the three variables interests, ideas and institutions. In this dynamic sense, the way ideas enter through learning is as an intervening variable, or as a facilitator. Another facilitator for the capability-presence to evolve in a dynamic perspective is the impact of changes in the institutional influence and eventual changes in the preferences. The thesis introduced the variable institutional competence of the Community's external economic relations as a variable that potentially could change the level of EFP. Community competence has the effect of

pointing to measures or instruments that the Member States in principle have access to and which could be imposed assuring some sort of internal redistribution among the Member States. At least increased competence should raise the expectation that some sort of compensation (whether direct or indirect) may take place for foreign policy actions imposing a cost on one or two Member States in particular. Competence will be important in foreign policy towards third countries where extensive external economic interests are at play, and where a trade and cooperation agreement may be one of the few tools of control that the Union has at its immediate disposition. Viewed together with preferences, the proposition was that the more diverse and intense economic preferences towards a particular third country are and the less competent the Union's external economic relations is in dealing with these preferences, the less capability-presence will be reached by the Union.

7.2

Empirical results

The empirical analysis confirmed that EFP simultaneously contains progress and paralysis. The capability-presence of the Union roughly progressed in three different stages: 1979-1989, 1990-1996, and 1997-2001. In the first period, the capability-presence of the Union was generally low. The Union was seldom used as the basis of Member States' foreign policies and the few actions taken were quietly diplomatic in nature without any binding or costly substance. In fact, one could not even say that the Union was a rhetorically very active actor towards Iran, Nigeria, and the Gulf States. Whereas at least some of the larger Member States were individually pursuing a relatively active foreign policy either unilaterally or by participating in cooperation in other multilateral organizations, primarily in the UN, the Union largely remained demobilised and silent. The scope of European foreign policy was subsequently very limited in this era. For instance, in the Nigerian case, the Lomé Convention was in force involving the external economic relations; but there was no link between this and the EPC.

Progress emerges from 1987, the year the SEA came into force and brought European foreign policy under the Treaty of Rome. The capability-presence deepened, mobilising quiet diplomatic instruments at the Union's disposal such as demarches, statements, Troika visits, communiqués, high level telephone conversations, etc. When the CFSP came into force in 1993, the depth of action further increased, notably, by the frequent use of the new instrument Common Positions. Common Positions were in fact used beyond their original purpose of being *guidelines*, because they frequently served both as mode of defining the Union's strategy towards third countries, and as a way of applying concrete

restrictive measures towards them. The scope of the Union's policies started to widen in the '90s as well. Illustrative were the different forms of conditionality that the Union began to exercise against third countries. Economic resources from the first and the third pillar were mobilised in seeking to obtain political aims through the second pillar, thereby slowly providing a more integrated approach in EFP. A facilitating factor for this was the increased competence that the Union in the meantime had gained over the implementation of economic sanctions. Another significant development was the adding to the treaties (first pillar) of the economic development policy area. This extended the arsenal of applicable foreign policy measures in the Union's relations with third countries. In sum, a weak but real *European foreign policy* emerged towards Nigeria, Iran and the Gulf States one or two years before the TEU which was strongly reinforced by the creation of the CFSP.

The difference between the second and third period is mainly one of scope. From 1996/97, the Union's conditionality and other policies became more holistic. Earlier policies were slowly becoming benchmarks and not forgotten as previously. The actions were still limited and for instance avoided sensitive areas such as the petroleum sector. However, threats and promises became a frequently behaviour of the Council presidency in its relations with third country leaders, and some of these were actually carried out. Moreover, the Union started to make use of almost the whole spectrum of its foreign policy instruments in a more cohesive way: common positions, joint actions, statements, demarches, troikas, communiqués, and joint positions in other international institutions, etc.

As regards the paralysis in the Union's capability-presence, there were, from the end of the 80s and during the first half of the 90s, problems of:

- Lack of legal legitimacy of the EPC and later, although to a lesser extent, of the CFSP,
- Blurred guidelines regarding enforcement,
- Very limited resources attributed to the actions,
- Rudimentary operational capacity to implement even smaller actions,
- Lack of automaticity at all stages of EFP,
- Rhetorical bias of the Union's actions,
- *Ad hoc* use of instruments, for instance, Common Positions or Joint Actions,
- Bias towards reacting to cooperative events rather than hostile ones, and
- Occasional vacuum and silence of EFP towards certain crisis and conflicts.

In the last half of the 1990s, some of these problems were significantly reduced. Specifically, the Union gained more automaticity of action, using its instruments in a less *ad hoc* way, and attaching more resources to its aims. The Union further demonstrated increased operational capacity in the day-to-day EFP-making. The scope of the Union's actions remained low with relatively few resources attributed to core policies, and the bias of reacting mainly to cooperative events remained.

On the explanatory side, learning became part of the dynamics of EFP in the '90s. The analysis reached this conclusion, despite of the strong and non-trivial conditions set up for learning to be significant. Learning was thus operationalised as the joint significance of 1) prior capability-presence of EFP, 2) the degree of success of the policies (or the degree of compliance of the target country) and 3) the beliefs actors hold about the workings of EFP. Despite the obvious difficulties in measuring beliefs, an attempt to view this third indicator was made in the qualitative analysis by looking at changes in beliefs or perceptions among actors over time.

According to the results, from 1987 the first indications of learning are present; in 1991 all the quantitative results suggest the presence of learning; and from 1993 all the data, both qualitative and quantitative, points to the existence of this ability to learn from failures and successes as part of EFP decision-making. Notably, the enhanced ability to learn does not automatically imply that the Union *did things in a more consistent way*, or that the Union should have obtained a higher capability-presence (although the results suggest this). It only indicates that the governments' action through the Union became a better match for *their previous actions* and their perceptions of the workings of the CFSP than before.

Besides learning, there were several other factors influencing EFP, which created this picture of progress and paralysis. First, an important condition for the relevance of the learning model proved to be that the unit of observation was larger Member States rather than smaller ones. This relates to the almost total lack of unilateral foreign policies from most of the smaller Member States towards countries such as Iran and Nigeria. For the latter, judgments about whether to participate or not in the CFSP were probably more related to factors such as sovereignty, neutrality, national interests, including the role of the larger Member States, or major external actors such as the US.

Second, the ability to learn was negatively influenced - also after learning began to progress in the 1990s - by the intensive activity of the US in international affairs. US presence did not always lead to less capability-presence of the Union. Instead, the US action was often followed by the Union, but at a much lower level of intensity. The US however disturbed and disrupted some EU governments' ability to learn about EFP, which indirectly affected the Union's capability-presence. Instead of learning about the effectiveness of EFP, the governments often must have learned more about the US reactions to the outcomes in international affairs. Similarly, the more ambiguous and the weaker the US strategy was (as towards Nigeria), the easier it was for the Union to avoid this distractive effect and instead increase its own capability-presence.

Third, Member States' change of beliefs about the workings of the CFSP played a role in facilitating cooperation. For instance, their increased belief in EFP often resulted in increased willingness to share information with the other Member States. The case studies further recognize the impact of Germany in defining the Critical Dialogue towards Iran as well as the influence of France on the policies of the Union towards Nigeria. The British change in attitude to EFP is likewise seen as a stimulus for the learning mechanism of EFP in the 1990s as it both provided renewed resources and hereby enhanced the belief of other Member States in the CFSP.

Fourth, the impact of external economic relations on the CFSP found some support, in particular in the qualitative analysis. For technical reasons several economic variables were not measured or included in the quantitative analysis. However, in the qualitative analysis, trade preferences neatly followed the same pattern as the Union's capability-presence in general. The only important exception is that trade preferences could not explain why the Union from the beginning of the '90s increased its capability-presence as remarkably as it did. Trade preferences thus are more useful in explaining the paralysis rather than the progress of the Union. Moreover, economic preferences may be a good explanation for the bias of the Union's capability-presence towards more cooperative events, since reactions to cooperative events traditionally involve reestablishment or strengthening of economic ties with a third country. An additional result found in the quantitative analysis indicated an effect on EFP from the overall trade among Member States towards the rest of the world in contrast to the bilateral trade relations between Member States and third countries.

More helpful than economic preferences *per se* in explaining the progress of the 90s, especially the increased scope of the Union's policies, was the institutional competence of the external economic relations. The higher the competence of the Union in its external economic relations, the more able the Union became to propose measures towards given third countries that were robust towards particularistic economic interests of the Member States. The two case studies had the perfect match of respectively low competence as well as low capability presence in the Iran case, and increasing competence as well as capability presence in the Nigerian case. More studies should be performed to verify this pattern.

The analysis also highlights the importance of the treaty changes of the CFSP in 1987, 1993 and in 1997. In the quantitative analysis, the TEU seems to have facilitated the general progress of EFP, as well as the ability of the Union to learn about the workings of EFP. The qualitative analysis is generous towards the hypothesis that particularly the TEU, and probably the Amsterdam treaty (given the sequence of events) created a momentum in the Union's opportunities for increasing its capability-presence. Some of the increase in capability-presence relates directly back to institutional innovations. This regards, for instance, the Common Position towards Nigeria in 1995, the initiation of dialogues and sanctions, and the embedding of first and third pillar issues into the CFSP, such as development aid from the first pillar and visa restrictions from the third pillar.

Finally, the project included some external structural effects such as the impact of the wars in the former Yugoslavia, the end of the Cold War, and the Gulf War. Strongest support found the end of the Cold War effect for the ability of governments to engage in learning. The Cold War effect neither substitutes the learning effect, nor replaces the impact of economic interests and institutional competence. Yet, it is an important intermediary variable that regulates the degree of learning and in this specific case might have shifted some EU governments' belief towards a more multilateral focus. The logic would be that the end of the Cold War may have shifted some Member States' beliefs out of a "*hubris-belief*" condition, which then might have helped the learning mechanism at its very beginning. Finally, the impact of the wars in the former Yugoslavia could not be entirely tested due to an insufficiently short time frame; however, some of the quantitative results indicated a possible Yugoslav effect on the overall capability-presence of EFP, a basis for more investigations in the future.

In a brochure produced by the General Secretariat of the Council for information purposes (1999), it says that "*Member States' foreign policies have not, of course disappeared with the creation of the CFSP.*" This is a euphemism. EFP has in fact been a *dwarf* the last two decades. This follows whether one compares EFP to the foreign policies of the larger Member States, such as France, Germany and Britain, to the US, or to the economic integration of the European Union. Nevertheless, the Union's influence in foreign policy is growing, especially when compared to the smaller Member States, such as Portugal, Sweden, or Belgium. For many of these countries, EFP, in fact, has been their only policy towards a range of third countries. Hereby, the growing capability-presence of the Union allowed these small countries to play a role beyond their unilateral capacities. Even for the larger Member States, EFP in some areas rescued them from certain sensitive political issues. Those now could be addressed in an increasingly authoritative way, albeit without overdoing things and without jeopardizing important economic interests.

Without trying to deny the evident weaknesses, the gradual progress of EFP over time needs to be emphasised since according to this analysis it seems to be the result of an internal logic, or rationale. This logic is one of learning, formation of economic preferences constrained by institutional competence and by various windows of opportunities from structural changes and institutional innovations. Given the complexity of the Union, the Member States' diversity of interests and sometimes excessively strong beliefs in their own capabilities, not to mention the institutional weaknesses of the Union, the signals sent by the CFSP towards various international conflicts have been relatively harsh. For instance, whereas the Union's policies towards Iran from an outsider's point of view might have seemed insignificant compared to the hard-hitting US strategy, one should not underestimate the message the Union sends when it refuses to initiate negotiations for a trade and cooperation agreement with a country like Iran.

Learning appears to be a sound way of explaining progress and paralysis, and linking them with each other, albeit not forgetting that the role of learning is primarily relevant in a dynamic context. Interests and institutions probably play an even more significant role in determining the actual policy output of the CFSP in a given situation. The governments of the larger Member States have entered a process of learning about the workings of EFP since the beginning of the 1990s. The learning was reinforced by

initial beliefs that valued unilateral foreign policy more highly than multilateral (European), and therefore learning led to progress in the capability-presence of the Union. Coming from this low level of belief in European foreign policy, learning could (in line with the theoretical model and the notion of confounded learning beliefs) not perform miracles on the capability-presence. There are several empirical reasons for learning not bringing EFP further than it did. Notably, the initial beliefs governments held about the workings of the CFSP were probably more biased towards unilateral action than “*the expectations*” bubble that Hill and others claim existed at the beginning of the ’90s. Further, and this is more in line with Hill’s conclusions, several real limitations of EFP became evident for the governments during the ’90s engagements in the former Yugoslavia, Iraq and elsewhere.

This thesis recognises the impact of the institutional changes on EFP. It seems as if the creation of the CFSP in 1993 is one of the main reasons for establishing the momentum and the (limited) progress in the Union’s capability-presence in the mid 1990s. With the continued progress of EFP towards the end of the ’90s, there is nothing suggesting that the Treaty of Amsterdam should have impeded this progress. On the contrary, this treaty confirmed the legitimacy of the instruments introduced in the TEU, and added a few more, such as Common Strategies, and the regular high-level diplomatic contacts between the Council Secretariat and major external policy actors through the High Representative. Decision-making mode was not often touched upon in this analysis. However, the simultaneous softening of the decision-making rules, introducing abstention, qualified abstention and the possibility of qualified majority voting under certain criteria (Article J.13) confirm that the institutional changes worked as stabilizers and catalysing factors towards the creation of more deliberation among Member States helping to enhance the operational capacity of the CFSP. The question could be asked: what had EFP been without the current institutional structure of the CFSP originally created by the TEU? The answer to this counterfactual question is that without the institutional changes of the subsequent treaty revisions, the opportunities for the Union’s capability-presence to amplify would have been smaller than they are today.

This conclusion does not imply that the institutional deficiencies, e.g. the dual pillar structure of the CFSP have not had a damaging effect on EFP. This is illustrated by the intensive internal bureaucratic conflicts that take place between, for instance, the Council and the Commission, the Council Secretariat’s DGE and the Policy Planning and Early Warning Unit (“the Policy Unit”), or the High Representative for the CFSP Javier Solana and the External Relations Commissioner Chris Patten.

Illustratively, the word “*enemy*” has frequently been attached to either the Commission or the Council when officials from either side refer to the other.¹ Clearly, such usage is presumably ironical in the context of relatively habitual inter-institutional competition. Yet, as one may find examples in the past where these conflicts prevented the Union from taking firm and cohesive action, they may also in the future establish setbacks for EFP. The results of this project suggest no automaticity of further progress of the Union’s capability-presence, in the case, for instance, that bureaucratic conflicts should make the working environment of EU’s foreign policy institutions even more complicated than today. The best recipe for intensified learning and sustainable increase in the Union’s foreign policy capability-presence remains that the Union proves wrong those people who believe that unilateral foreign policy, or other multilateral solutions, are better alternatives.

The results regarding the impact of the US suggest the following. First, they run counter to the impression one sometimes gets from reading literature on European foreign policy about how autonomous the CFSP has been vis-à-vis the US. There are many examples where US and EU strategies go hand in hand and where the EU has followed up on the US course of action.² Second, the correlation between EU and US policies also indicates that the governments have a tendency to become paralysed by the strong US alternative. The important new result is that the Union’s paralysis is not *in its action* initially, but goes through the impediments to learning. The confusion created by the arrival of an alternative strategy neutralises learning which leads to paralysis in action.

7.4 Relevance of the results and methods for the study of EFP

If Ernst B. Haas’ approach to learning referred to earlier in this thesis according to himself differs sharply from the *more direct ideas of causation embedded in behavioural and in rational-choice approaches*, then learning as developed here sharply differs from learning a-la Haas. However, just because the focus was on individually held beliefs about the workings of policies, in contrast to either group based ideas as suggested by the constructivist school, or normative beliefs about how strategies

¹ Interview, Council Secretariat, May 2000.

² Adding to the examples in the analysis, one could add a recent finding as an illustration of this. An analysis of the voting patterns of the EU and the US in the UN Commission of Human Rights in 2001 shows that in little more than ½ of the cases (18 versus 16 of the 34 resolutions (out of 84) where voting took place), the Union and the US voted the same way. Areas where this pattern was seen included 1) civil and political rights, and 2) most country resolutions, where the US and the Union differed over issues such as, i) the Israeli settlement, ii) Sudan, iii) Rwanda, iv) impunity, v) death penalty and vi) economic, social and cultural rights (Interview, Council Secretariat, April 2001).

should be, this model seems to be complementary to rather than actually competing with other ideas-approaches.

The relevance of constructivism for the study of EFP was implicitly one of the main questions of the theoretical and empirical analysis. As regards previous constructivist work on EFP, for instance, on the importance of national identities in constraining the Union's capability presence, these appear to be compatible with the results. The holding of beliefs strongly dominated by actors' sense of specific historical and national identity instead of the workings of policies indirectly was included under the heading hubris beliefs. In terms of capturing general patterns, this model therefore seems to be inclusive for a constructivist approach if one should wish to proceed with that. Clearly, a constructivist approach would fail to cover the important linkage between EFP developments and the workings of policies that this author believes is crucial in understanding the dynamics of EFP. However, a constructivist approach could seek to capture specifically what the ingredients and the internal dynamics are when learning about the workings of policies does not take place.

The highest degree of complementarity of this project towards other approaches is not towards constructivism. Instead, the inclusion of ideas through a model of learning seems to complement neo-institutional research in its model combining ideas, interests and institutions. Clearly, the institutions are slightly less represented here than would usually be the case, but this was rather a matter of trying to redirect the agenda of neo-institutional research rather than to contradict it. As previously mentioned, the study does not add anything brand new to the debate, as "*ideas*" is by no means a novel phenomenon, but it provides a new way of regarding some well-known characteristics of EFP.

Finally, the project tries to be pioneering in the exercise of using quantitative methods for the study of EFP. Despite the many uncertainties surrounding this, the quantitative methods appeared to be an invaluable input by highlighting issues that would never have been given the same attention had the quantitative analysis not been performed. For instance, the whole idea that learning existed in the 1980s, but intensified in the 1990s should be attributed to the statistical analysis. The result regarding the cooperative bias of EFP also initially derived from this.

Even though the thesis did not aim at formulating policy recommendations per se, it is difficult not to link the results to policy-making and try to suggest ways to improve the performance of EFP. There are four main suggestions deriving from the analysis aimed at enhancing the ability of actors to engage in learning and at increasing the capability-presence of the Union in foreign affairs.

1. The assessment and evaluation of European foreign policy need strengthening. One way of doing this is to use the developments in the third country and previous EU policies as main guidelines when assessing the success and failure of EFP. If this is done instead of, for instance, using the US policies as a point of comparison, or not comparing at all, there is a higher chance that resources will be more effectively allocated in EFP. In those areas where EFP further is truly more effective than unilateral policies, it will also increase the Union's capability-presence.
2. Aims need to be formulated with more clarity and operationality. This could be done by creating certain benchmarks for success and failures that would imply more concrete and detailed formulation of aims than previously. It should be noted, however, that such an exercise necessitates more resources because the ability to formulate operational aims depends on the level of information available. The mere attempt to formulate aims would, however, reduce the future cost of formulating viable foreign policy strategies and thus facilitate increases in the Union's capability-presence. Related to this is the need to invest more effort in understanding the minds of the *opponent* in the third country. This includes enhancing the observation and collection of knowledge about the target country and the efficiency of already existing information about her. This may, for instance, imply a more open-minded approach to European foreign policy making, increasing the number of parliamentary hearings, discussions with NGOs, and the production of more independent reports, including involving academia more intensively in the policy-making process.

In particular, a closer dialogue and coordination with NGOs seems to be an important tool to include in the CFSP. This could indirectly take place through the Commission that already has extensive contacts to NGOs through, for instance, financing of parts of their activities.

However, the CFSP also needs directly to mobilise NGO information at a very early policy formulation stage, in order to be on top of the issue and to get the policies as appropriate as possible given the situation in the third country from the beginning of an engagement.

More priority needs to be given to those intended (by the Treaty of Amsterdam) to work on policy planning and early warning, i.e. the Policy Unit in the General Secretariat of the EU Council of Ministers. The consistency of policies over time also needs to be assured more effectively than today. More priority needs to be given to follow-up policies and to ensure that a consistent leadership in foreign policy is maintained, although the entity responsible for the actual policies may shift between first, second and third pillars depending on the gravity of the situation in the third country. With the current institutional structure of the Union, there seems to be no alternative to having the Presidency and the High Representative for the CFSP in this role of leadership.

3. As a rule of thumb, the number of instruments available to the Union needs to be increased. By hereby widening the scope of the Union's actions as broad a range as possible is created whereby the Union's reactions can more easily be tuned towards the specific developments in the targeted country. There are several options. First, the portfolio of diplomatic instruments available should be increased, for example, the use of Member State representations in official EU tasks could be discussed. Besides trying to find a valid European formula which makes use of the many traditional unilateral foreign policies such as the withdrawal of ambassadors and demarches, one could also imagine more institutional proposals. One could look at the possibility of two or three Member States (e.g. divided between small and large) jointly administering the representation of all Member States in a third country with more resources available than any single Member State representation has today. The representation may have the EC delegation as a subdivision that would feed information into the joint representations and one could think about whether one would wish to make a rotation of the Member States in charge of each representation and across countries. Such a proposal would further rationalise the work of the EFP decision-making process without violating the Member States' wish to remain a major player. Second, the adding of the military dimension through the CESDP may - if successfully carried out broaden the scope of EFP. Its usefulness still depends on its ability to fit smoothly into the foreign policy spectrum, for instance, the achievement of a balance between

military and civilian tasks. Third, it also matters that EFP provides more substance towards solving problems and not only increased visibility. One of the most substantial items under this heading is the availability and readiness of resources in order for the Union, 1) at all to be able to react, and 2) to support or reject developments in the target country. One suggestion would be to form working groups that dealt with the funding of EFP and how costs could be financed in a neutral way. A thought would be to earmark community funds each year for a foreign policy fund from which foreign policy actions could be financed, similar to the idea of having structural funds and the European Investment Bank. Fourth, one instrument that seems to have the potential of becoming an important CFSP tool in the future is fact-finding missions. Fact-finding missions gives the opportunity of collecting information, responding diplomatically in an initial phase of a crisis, being better able to react with the appropriate instruments if the problem persists or escalates and coordinating at an early stage Member States policies under and EU umbrella.

4. Linked to this, information sharing needs further attention as Member States now plan to proceed with their initiative on the CESDP. For instance, this project seems as a minimum to necessitate that all Member States may access intelligence reports at the supranational level produced by the unilateral intelligence services such as the British or French national intelligence service. Incentives should be created for the Member States to increase information sharing among with each other regarding developments in third countries. One way of facilitating this would be to let Heads of Missions of the European Union in third countries receive copies of country reports from national delegations on an automatic and regular basis, just as Heads of Missions of the EU now share with the High Representative for the CFSP (and thus with the Member States) their reports from third country capitals. Moreover, no talk or discourse can change the fact that in the end the Union's degree of success or failure in achieving its aims compared to other international forums or unilateral policies is the most important parameter in determining the future willingness of governments to invest efforts in the CFSP.

Future studies would necessarily need to say more about the general form of EU-US bargaining, describe their regular fora of contacts, the EU-US Troika meetings, the ambassadorial contacts and try to describe more in detail through which Member States the US influence on EFP was strongest. One of the tasks would be to establish a link between the learning model and the extensive transatlantic literature. In addition to the work previously mentioned this could involve the work by Philippart & Winand (2001), Frellesen (1994), Haass (ed., 1999), Peterson (1996), Wiener (1996), Ginsberg (1994 with Frellesen), Gordon (1998) or Blackwill and Stürmer (eds., 1997). In terms of case studies, it seems inevitable to include the reactions of the Union to the terror attacks against the US September 11, 2001, in any future assessment of the learning framework. Here, one would initially imagine September 11 as a structural breakpoint in line with other structural breakpoints of EFP in the past, such as the end of the Cold War. The task would be to establish a development in the degree of learning among EU Member States regarding EFP that indeed have shifted as a result of September 11, but that still follows the logic of learning as it has developed over time, constrained also by various factors such as the impact of the US. However, the attacks on the US and the follow-up to the attacks open a huge but intriguing Pandora's Box for all contemporary studies of international relations.

Moreover, there is a lot about how EU officials, government representatives, and academics saw the EFP, but there are only few accounts or summaries of how individual discussions actually went. Put differently, it would be welcomed if future studies could look deeper into the assumptions of the learning model in Chapter 3, and see how Europeans actually raise difficult issues, and how issues develop in interaction with what the representatives of the third country say.

Researchers aiming at evaluating EFP compared to unilateral policies would also need to assess more thoroughly the impact of bilateral Member State-third country relations, such as bilateral UK-Nigeria, UK-Iran, and Germany-Iran relations. Such an analysis would include a more precise assessment of how important the EU dimension was for these states, in commercial, diplomatic and military domains.

The learning model needs to be applied to more instances of EFP towards third countries in order to see patterns or categories of foreign policy conflicts where learning has been able to develop more strongly than others. Applying the wars in the former Yugoslavia directly to the learning model is another

important task for future research. As a necessary extension of this study, one needs to add a quantitative analysis of EFP towards Nigeria and the group of West African States that could match the methodology used in the study of EFP towards the Gulf States and Iran.

As mentioned in Chapter 3, it would be desirable to extend the model to include interaction among Member States with different beliefs and to include the impact of third parties other than the US. In short, looking at the model from, for instance, a game-theoretic angle, and opening up for a collective decision-theoretic model using for instance the literature on Condorcet's Jury Theorem would be the next logical step of this model.

Socialization would deserve continued analytical attention taking up the work of Nuttall, Tonra and others. A promising approach to this issue is Michael E. Smith's model for how the EU "*Europeanizes the domestic politics of its Member States through elite-socialization, bureaucratic adaptation, constitutional changes and public opinion*" (2000). The location of Europeanization in relation to the learning model is that some of the ingredients in the concept of Europeanization as proposed by Michael E. Smith, such as socialization, may be key facilitating elements of the learning mechanism or impediments to learning in those cases where it is underdeveloped. Yet, the whole concept of Europeanization, if it is to include public opinion, constitutional changes, elite-socialization and bureaucratic adaptation at the same time is probably less operational to be applied to the learning model *per se*, but could function as an important conceptual benchmark in grasping the developments of European foreign policies, recognising the fact those are by and large products/combinations of EU Member States' foreign policies at the EU level.

There is an opportunity and duty to take the analysis of the CFSP into a broader political economic discussion, as globalisation and further blurring of lines between foreign policy and foreign economic policy makes any division between the external economic relations and the CFSP obsolete. One may suggest such a political economic model applied to the CFSP to include some of the topics that were raised like a sector analysis of the impact of the import / export sectors on the CFSP. Such an analysis may also look into the annuities of the opportunity costs of restrictions in various trade, services, and FDI, and may elaborate further on the linkage between economic preferences as regards specific goods or services and the Union's institutional competence.

Finally, it is desirable to increase the number of observations both in the quantitative analysis, but also by providing if possible more detailed survey data on the beliefs key decision-makers hold about the workings of European foreign policy. This project has found a series of proof items forming a clear pattern, pointing to the significance of the learning hypothesis. This includes some important features regarding the restrictions on learning in European foreign policy. The strength of the argument is probably the variety of analyses that have been imposed on the data and the results of these that all broadly point in the same direction. However, future research should try to elaborate on some Member States', or key actors' relatively enhanced or diminished ability to learn. Any such finding is vital in the continued work towards drawing a more complete map of learning in European foreign policy.



ANNEX

Appendix 3.1

Formalisation of the learning model

As mentioned in Chapter 3, the government faces the choice whether to act or not to act towards a crisis or conflict situation in international relations.

The expected utility the government receives for acting, $U(A)$, is given by (3.1) below:

$$(3.1) \quad U(A) = U(S) P(S) + U(F) (1-P(S)) - C(e).$$

In (3.1), S stands for success; F for failure and U for expected utility, and $C(e)$ are the costs of investing an effort, e , to action at the multilateral (European) level. These costs were described under assumption (d) in Section 3.1.

$P(S)$ stands for the probability distribution of success. $P(S)$ follows

$$(3.2) \quad P(S) = \pi \bar{e}_U + \theta e_E,$$

where \bar{e}_U is the unilateral capacity and π is the return to that capacity. θ is the return to multilateralism (Europeanism). In (3.2), it is further assumed that the capacity or effectiveness of unilateral action is fixed.

The expected utility for not acting, $U(N)$, is given by

$$(3.3) \quad U(N) = U(N).$$

Further (as mentioned in the text), the government's utility for acting, given the three possibilities of 1) acting with a failure, 2) acting with a success and 3) not acting, is ordered as follows from (3.4) below:

$$(3.4) \quad U(S) > U(N) > U(F).$$

Given perfect information about the returns to unilateral capacity and multilateral (European) effort, π and θ , the government maximises the utility of acting $U(A)$ given from (3.1) and (3.2). Government's will then act if $U^*(A) > U(N)$. $U^*(A)$ is the maximum expected utility from acting when the government invests the utility maximizing amount of multilateral effort.

Given imperfect information, the returns to the actions based on unilateral capacity and multilateral (European) effort, π and θ , are not known. However, the government holds beliefs about them, as expressed in (3.4) and (3.5) below:

$$(3.4) \quad \tilde{\pi} = z\pi' + (1-z)\pi$$

$$(3.5) \quad \tilde{\theta} = z\theta + (1-z)\pi$$

In (3.4) and (3.5), (π', θ') are the returns to unilateral and multilateral effort if the correct (or true) state of the world corresponds to a situation where the multilateral (European) effort is more effective than unilateral action. Similarly (π, θ) are the returns to unilateral and multilateral effort if the correct state of the world instead represents the situation where unilateral action is more effective than multilateral action. Tilde (\sim) generally expresses that it is a belief.

In order to maximise the government's utility given by (3.1) above, the government thus now maximises (3.1) subject to a probability function based on (3.2), but now expressed in terms of beliefs, as in (3.6) below:

$$(3.6) \quad \tilde{P}(S) = \tilde{\pi} \bar{e}_U + \tilde{\theta} e_E$$

In (3.6), $\tilde{P}(S)$ is the government's belief about the probability of success given the unilateral capacity \bar{e}_U (here assumed constant), and the beliefs about the returns to effort of respectively unilateral and European foreign policy, $\tilde{\pi}, \tilde{\theta}$. The government acts if $U^*(A) > U(N)$ where $U^*(A)$ under imperfect information is derived from (3.1) and (3.6). $U^*(A)$ is the maximum expected utility from acting when the government invests the utility maximizing amount of multilateral effort. Based on the degree of Action, A , which corresponds to the maximum utility, the government is expected to allocate its effort between unilateral and multilateral foreign policy. Hereby, the beliefs held about the workings of either unilateral effort and multilateral action will alongside the interests

and the fixed capacity for unilateral action determine the effort attached to European foreign policy. One may note that the interests have been assumed constant until now. However, the impact of changed preferences for unilateral and multilateral action will be investigated under the derivation of the comparative statics effects below.

A formal way to regard the updating of beliefs over time is to assume that the beliefs z are updated according to Bayes Rule, where the future beliefs depends on the previously held beliefs and the outcomes in international relations, i.e. where $z(t+1) = f(z(t), \text{outcome})$.

In Bayesian learning, beliefs converge either to a belief representing the true state of the world, which could be either (π', θ') or (π, θ) or to z^* which is the confounded learning belief described in the text.

If one in 3.6 lets z enter explicitly as a parameter of beliefs, (3.6) may be rewritten as shown in (3.7) below,

$$(3.7) \quad \tilde{P}(z) = P(\tilde{\pi}, \tilde{\theta}) = \tilde{\pi}e_U + \tilde{\theta}e_E$$

One can now compute the posterior beliefs of governments that experience either a successful or unsuccessful outcome, since these are following (3.7), and Bayes Rule given by (3.8) and (3.9) below.

$$(3.8) \quad z_{i+1}^S(z_i, e_E) = \frac{z_i(\pi'e_U + \theta'e_E)}{z_i(\pi'e_U + \theta'e_E) + (1 - z_i)(\pi e_U + \theta e_E)}$$

$$(3.9) \quad z_{i+1}^F(z_i, e_E) = \frac{z_i(1 - \pi'e_U + \theta'e_E)}{z_i(1 - \pi'e_U + \theta'e_E) + (1 - z_i)(1 - \pi e_U - \theta e_E)}$$

(3.8) and (3.9) are thus simply substitution of the probability functions into the classical Bayesian updating function. (3.8) expresses the posterior beliefs z_{t+1} in case the government experiences a successful outcome. In (3.8), the posterior beliefs z_{t+1} are determined by the prior beliefs, z_t and the distribution of outcomes of success/failures given these prior beliefs. The fraction expresses how much the previously held beliefs and the corresponding allocation of effort corresponded with the actual outcome. It thus determines the new posterior weight that needs to be attached to the true state of the world (π', θ') , namely, that European foreign policy is most effective. In (3.9) the updating of beliefs is shown for a government that experiences a failure given the fact that the true state of the world still is that European foreign policy is more effective than unilateral policies.

As mentioned above the interests are in these equations assumed to be constant. However, interests enter as a parameter in the allocation of effort to unilateral or multilateral action. Interests are thus expressed implicitly in e_U (constant interests) and e_E (constant interests). The comparative statics for the Bayesian updating functions (3.8) and (3.9) are shown below.

Appendix 3.2

Comparative statics

The following partial derivatives are computed using the case of the government experiencing a successful outcome as an example, i.e. equation (3.8) above.

A. Change in previously held beliefs

The first effect to be looked at is the impact of a change in the previously held beliefs, or the initial beliefs, related to the workings of either unilateral or multilateral action. Clearly, changes in z_t may either stem from exogenous changes or may be regarded as the effect linked to all previous updating of beliefs, i.e. the learning that has been accumulated until now. The box below shows the partial derivatives of changes in z .

From (3.8) a change in z_t on z_{t+1} will have the

$$\text{Effect: } \frac{\partial z_{t+1}^S}{\partial z_t} = \frac{1}{z_t^2 (1 - \alpha + 1/z_t)^2}, \text{ where } \alpha = \frac{\pi e_U + \theta e_E}{\pi' e_U + \theta' e_E}$$

$$\frac{\partial z_{t+1}^S}{\partial z_t} > 0 \text{ if } z_t \neq 0 \wedge 1 - \alpha + \frac{1}{z_t} \neq 0.$$

The first condition resembles “0” in Figure 3.2. The second condition defines the confounded learning belief z^* . This may be seen from simply substitution of α into

$$1 - \alpha + \frac{1}{z_t} \neq 0 \Leftrightarrow z_t \neq \frac{1}{\alpha - 1} \Leftrightarrow z_t \neq \frac{1}{\frac{\pi e_U + \theta e_E}{\pi' e_U + \theta' e_E} - 1}$$

B. Change in the returns to multilateral (European) foreign policy effort

The second comparative static effect to be investigated is the effect on the posterior beliefs of a change in the returns to multilateral efforts. Following derivations similar to above this is given by:

Change in θ' , i.e. the returns to multilateral effort increases:

$$\text{Effect: } \frac{\partial z_{t+1}^S}{\partial \theta'} = \frac{(\alpha + \kappa) \beta}{(\kappa + \beta \theta')^2} \text{ where}$$

$$\alpha = z_t \pi e_U; \beta = z_t e_E; \text{ and}$$

$$\kappa = z_t \pi' e_U + \pi e_U + \theta e_E - z_t \pi e_U - z_t \theta e_E$$

It can be shown that as long as e_E is different from 0, the effect $\frac{\partial z_{t+1}^S}{\partial \theta'} > 0$ always.

C. Change in the returns to unilateral foreign policy capacity

The third comparative static effect to be investigated is the effect of a change in the returns to unilateral foreign policy capacity on the posterior beliefs.

Change in π' , i.e. the returns to unilateral capacity increases:

$$\text{Effect: } \frac{\partial z_{t+1}^S}{\partial \pi'} = \frac{(\alpha + \kappa) \beta}{(\kappa + \beta \pi')^2} \quad \text{where}$$

$$\alpha = z_t \theta' e_E; \beta = z_t e_U; \text{ and}$$

$$\kappa = z_t \theta' \pi e_U + \pi e_U + \theta e_E - z_t \pi e_U - z_t \theta e_E$$

It can be shown that if e_E and e_U both are positive (non zero): $\frac{\partial z_{t+1}^S}{\partial \pi'} > 0$ if $\theta' > \theta / 2$.

D. Change in the interests, r.

Finally, the effect on the posterior beliefs of a change in the interests, r , can be computed by assuming that interests, r , enters in the function for multilateral effort, $e_e = e_e(r)$. It can be shown that the posterior beliefs will be positively affected by an increase in r , if $\frac{\partial e_E}{\partial r} > 0$, and the

workings of European foreign policy is truly more effective than the unilateral capacity. Similarly, if $\frac{\partial e_E}{\partial r} < 0$, and the workings of European foreign policy is more effective than unilateral

policies, the posterior beliefs in the workings of European foreign policy will be negatively affected by an increase in the interests, r . This is described in the box below.

From 3.8, it follows that a change in r , interest, on the posterior beliefs, z_{t+1} will be:

$$\frac{\partial z_{t+1}^S}{\partial r} = \frac{\frac{\partial e_E}{\partial r}}{(e_r \beta + \alpha)^2} (\kappa e_E \beta + \alpha \kappa - \beta \kappa e_E - \omega \beta)$$

$$\text{where, } \alpha = e_U (z_t \pi' + \pi - z_t \pi),$$

$$\beta = z_t \theta' + \theta - z_t \theta,$$

$$\kappa = z_t \theta', \text{ and}$$

$$\omega = z_t \pi' e_U$$

It follows that

$$\frac{\partial z_{t+1}}{\partial r} > 0, \text{ if } \frac{\partial e_E}{\partial r} > 0 \wedge \kappa e_E \beta + \alpha \kappa - \beta \kappa e_E - \omega \beta > 0 \Leftrightarrow$$

$$\frac{\partial z_{t+1}}{\partial r} > 0, \text{ if } \frac{\partial e_E}{\partial r} > 0 \wedge e_U (z_t \pi' + \pi - z_t \pi) >$$

$$(z_t \theta' + \theta - z_t \theta) \frac{\omega}{\kappa} \Leftrightarrow$$

$$\frac{\partial z_{t+1}}{\partial r} > 0, \text{ if } \frac{\partial e_E}{\partial r} > 0 \wedge \frac{\pi (1 - z_t)}{\pi' (1 + z_t)} > \frac{\theta}{\theta'} \Leftrightarrow$$

$$\frac{\partial z_{t+1}}{\partial r} > 0, \text{ if } \frac{\partial e_E}{\partial r} > 0 \wedge \pi > \theta \wedge \pi' < \theta' \text{ which resembles the result described in the text above.}$$

Appendix 4.1**Goldstein's version (1992) of the WEIS coding scheme**

10: [1.0] YIELD
11: [0.6] SURRENDER
12: [0.6] RETREAT
13: [2.0] RETRACT
14: [3.0] ACCOMMODATE, CEASEFIRE
15: [5.0] CEDE POWER
20: [0.0] COMMENT
21: [-0.1] DECLINE COMMENT
22: [-0.4] PESSIMIST COMMENT
23: [-0.2] NEUTRAL COMMENT
24: [0.4] OPTIMIST COMMENT
25: [0.0] EXPLAIN POSITION
26: [1.0] APPOINT OR ELECT
27: [-2.0] ALTER RULES
30: [1.0] CONSULT
31: [1.0] MEET
32: [1.9] VISIT
33: [2.8] RECEIVE
34: [1.0] VOTE, ELECT
40: [3.5] APPROVE
41: [3.4] PRAISE
42: [3.6] ENDORSE
43: [3.8] RALLY
50: [4.0] PROMISE
51: [4.5] PROM POLICY SUPPORT
52: [5.2] PROM MATERIAL SUPPORT
53: [4.5] PROM OTHER SUPPORT
54: [2.8] ASSURE
55: [4.5] PROMISE RIGHTS
60: [2.0] GRANT
61: [1.8] APOLOGIZE
62: [2.5] STATE INVITATION
63: [-1.1] GRANT ASYLUM
64: [5.4] GRANT PRIVILEGE
65: [2.9] TRUCE
66: [1.9] RELEASE
67: [3.5] GRANT POSITION
70: [7.0] REWARD
71: [7.4] EXTEND ECON AID
72: [8.3] EXTEND MIL AID
73: [6.5] GIVE OTHER ASSIST
80: [6.0] AGREE
81: [6.5] MAKE AGREEMENT
82: [3.0] AGREE FUTURE ACT
83: [6.0] ALLY
84: [10.0] MERGE, INTEGRATE
90: [3.0] REQUEST
91: [0.1] ASK INFORMATION
92: [3.4] ASK POLICY AID
93: [3.4] ASK MATERIAL AID
94: [-0.1] CALL FOR
95: [1.2] PLEAD
96: [-0.3] REQUEST POLICY CHANGE
97: [-0.3] REQUEST RIGHTS
100: [0.5] PROPOSE
101: [1.5] OFFER PROPOSAL

102:[-0.1]URGE
110:[-4.0]REJECT
111:[-4.0]TURN DOWN
112:[-4.0]REFUSE
113:[-5.0]DEFY LAW
120:[-2.0]ACCUSE
121:[-2.2]CRITICIZE
122:[-3.4]DENIGRATE
123:[-1.0]INVESTIGATE
131:[-1.9]MAKE COMPLAINT
132:[-2.4]FORMAL PROTEST
133:[-1.0]SYMBOLIC ACT
140:[-1.0]DENY
141:[-0.9]DENY ACCUSATION
142:[-1.1]DENY ACTION
150:[-4.9]DEMAND
151:[-4.0]ISSUE COMMAND
152:[-5.0]CLAIM RIGHTS
160:[-3.0]WARN
161:[-3.0]WARN POLICIES
162:[-3.0]WARN OF PROBLEM
170:[-6.0]THREATEN
171:[-4.4]UNSPECIF THREAT
172:[-5.8]NONMIL TRHEAT
173:[-7.0]SPECIF THREAT
174:[-6.9]ULTIMATUM
180:[-6.0]DEMONSTRATE
181:[-5.2]NONMIL DEMO
182:[-7.6]MILITARY DEMO
190:[-4.0]REDUCE RELATIONS
191:[-2.2]CANCEL EVENT
192:[-4.1]CUT ROUTINE ACT
193:[-5.6]CUT AID
194:[-3.8]HALT NEGOTIATION
195:[-7.0]BREAK DIPL RELAT
196:[-6.0]STRIKE
197:[-5.0]CENSOR
198:[-4.0]WITHDRAW FROM
200:[-5.0]EXPEL
201:[-5.0]EXPEL PERSONNEL
202:[-4.9]EXPEL GROUP
203:[-5.0]BAN ORGANIZATION
210:[-5.0]SEIZE
211:[-9.2]SEIZE POSSESSION
212:[-4.4]ARREST PERSON
213:[-9.0]HIJACK KIDNAP
220:[-9.0]FORCE
221:[-8.3]NONINJURY DESTR
222:[-8.7]NONMIL DESTR
223:[-10.0]MIL ENGAGEMENT
224:[-7.0]RIOT
225:[-9.0]ASSASSINATE TORTURE
226:[-8.0]COUP ATTEMPTED

Phillips-Perron test for unit root

| Variable | Test Statistic | | 1% Critical Value | | 5% Critical Value | | 10% Critical Value | | MacKinnon approximate p-value for Z(t) |
|------------------------------|----------------|--------|-------------------|--------|-------------------|--------|--------------------|--------|----------------------------------------|
| | Z(0) | Z(t) | Z(0) | Z(t) | Z(0) | Z(t) | Z(0) | Z(t) | |
| EFPGU | -42.870 | -5.256 | -19.134 | -3.562 | -13.404 | -2.920 | -10.778 | -2.595 | 0.0000 |
| EFPGU 1987q3- 1999q1 | -32.966 | -4.628 | -18.696 | -3.600 | -13.204 | -2.938 | -10.640 | -2.604 | 0.0001 |
| EFPGU 1990q1- 1999q1 | -26.927 | -4.284 | -18.016 | -3.668 | -12.884 | -2.966 | -10.440 | -2.616 | 0.0005 |
| EFPGU 1984q1- 1999q4 | -41.691 | -5.420 | -19.098 | -3.565 | -13.388 | -2.921 | -10.766 | -2.596 | 0.0000 |
| GMSGU | -58.345 | -6.180 | -19.152 | -3.560 | -13.412 | -2.919 | -10.784 | -2.594 | 0.0000 |
| GUKFRGEGU | -58.123 | -6.326 | -19.152 | -3.560 | -13.412 | -2.919 | -10.784 | -2.594 | 0.0000 |
| GUWO | -50.761 | -6.265 | -19.134 | -3.562 | -13.404 | -2.920 | -10.778 | -2.595 | 0.0000 |
| USGU | -56.185 | -7.581 | -19.152 | -3.560 | -13.412 | -2.919 | -10.784 | -2.594 | 0.0000 |
| IDEUGU | -23.221 | -4.567 | -19.098 | -3.565 | -13.388 | -2.921 | -10.766 | -2.596 | 0.0001 |
| IAVEUGU | -20.101 | -4.067 | -19.098 | -3.565 | -13.388 | -2.921 | -10.766 | -2.596 | 0.0011 |
| EDEUGU | -61.257 | -7.892 | -19.098 | -3.565 | -13.388 | -2.921 | -10.766 | -2.596 | 0.0000 |
| EAVEUGU | -60.450 | -6.909 | -19.098 | -3.565 | -13.388 | -2.921 | -10.766 | -2.596 | 0.0000 |
| YUWO | -4.081 | -0.370 | -18.220 | -3.648 | -12.980 | -2.958 | -10.500 | -2.612 | 0.9161 |
| d.YUWO= YUWOD1 | -34.347 | -4.945 | -18.152 | -3.655 | -12.948 | -2.961 | -10.480 | -2.613 | 0.0000 |
| EDEUWO | -22.601 | -27.98 | -18.99 | -3.573 | -13.340 | -2.926 | -10.730 | -2.598 | 0.0000 |
| EAVEUWO | -9.044 | 9.044 | -18.990 | -3.573 | -13.340 | -2.926 | -10.730 | -2.598 | 1.0000 |
| d.EAVEUWO | -55.236 | 87.142 | -18.972 | -3.574 | -13.332 | -2.927 | -10.724 | -2.598 | 1.0000 |
| EAVEUWO, Trend | . | . | -25.870 | -4.139 | -19.890 | -3.495 | -16.870 | -3.177 | 1.0000 |
| EDEUWO | . | . | -18.990 | -3.573 | -13.340 | -2.926 | -10.730 | -2.598 | 1.0000 |
| d.EDEUWO | . | . | -18.972 | -3.574 | -13.332 | -2.927 | -10.724 | -2.598 | 1.0000 |
| IAVEUI2 = log IAVEUIRN | -21.277 | -2.597 | -19.008 | -3.572 | -13.348 | -2.925 | -10.736 | -2.598 | 0.0936 |
| IAVEUWO | -26.534 | -2.473 | -18.990 | -3.573 | -13.340 | -2.926 | -10.730 | -2.598 | 0.1221 |
| IDEUWO | -55.364 | -5.577 | -18.990 | -3.573 | -13.340 | -2.926 | -10.730 | -2.598 | 0.0000 |

Note: The Phillips-Perron test of unit roots is performed as a regression of a variable on its lags.

Augmented Dickey Fuller

| Variable | Test Statistic | | 1% Critical Value | | 5% Critical Value | | 10% Critical Value | | MacKinnon approximate p-value for Z(t) |
|-----------|----------------|--------|-------------------|--------|-------------------|--------|--------------------|--------|----------------------------------------|
| | | Z(t) | | Z(t) | | Z(t) | | Z(t) | |
| IAVEUWO | | -4.309 | | -3.573 | | -2.926 | | -2.598 | 0.0004 |
| EDEUWO | | . | | -3.573 | | -2.926 | | -2.598 | 1.0000 |
| d.EDEUWO | | . | | -3.574 | | -2.927 | | -2.598 | 1.0000 |
| d.EAVEUWO | | . | | -3.574 | | -2.927 | | -2.598 | 1.0000 |
| EDEUWO | | . | | -3.573 | | -2.926 | | -2.598 | 1.0000 |
| d.EDEUWO | | . | | -3.574 | | -2.927 | | -2.598 | 1.0000 |

Note: The augmented Dickey Fuller test of unit roots performs a regression of the differenced variables on its lags and a specified number of lagged differences of the variable. (Supplementary tests to the Phillips Perron tests).

Results: The hypothesis of unit roots could be rejected for most variables above, however not all. In cases where the hypothesis of unit roots failed to be rejected the procedure applied was to difference the time series of the relevant variable attempting to obtain stationarity this way. If this failed, a time trend was included to see whether this could establish stationarity. Only if both differencing and inclusion of time trend failed to reject the unit-root hypothesis the variable was omitted.

CORRELATION MATRIXES: MODEL GULF VARIABLES

| | EFPGU | GMSGU | GUKFRGEGU | GUEU | GUWO | USGU |
|-----------|---------|---------|-----------|---------|---------|---------|
| EFPGU | 1.0000 | | | | | |
| GMSGU | 0.6696 | 1.0000 | | | | |
| GUKFRGEGU | 0.6262 | 0.9865 | 1.0000 | | | |
| GUEU | -0.0848 | -0.1553 | -0.1754 | 1.0000 | | |
| GUWO | -0.8853 | -0.6861 | -0.6429 | 0.2034 | 1.0000 | |
| USGU | -0.8056 | -0.6831 | -0.6632 | 0.1768 | 0.8805 | 1.0000 |
| IDEUGU | 0.4696 | 0.4286 | 0.4006 | 0.1819 | -0.3070 | -0.2654 |
| IAVEUGU | 0.2800 | 0.3695 | 0.3309 | 0.1173 | -0.2029 | -0.2268 |
| EDEUGU | -0.0715 | -0.0937 | -0.0758 | 0.0525 | 0.0092 | 0.0865 |
| EAVEUGU | -0.1040 | -0.1075 | -0.0873 | 0.0816 | 0.0506 | 0.1193 |
| YUWOD1 | -0.1996 | -0.2058 | -0.2161 | -0.2859 | 0.0391 | 0.1145 |
| IDEUWO | . | . | . | . | . | . |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | -0.0077 | -0.2801 | -0.2918 | -0.0626 | -0.1112 | -0.1592 |
| EAVEUWO | . | . | . | . | . | . |
| | IDEUGU | IAVEUGU | EDEUGU | EAVEUGU | YUWOD1 | IDEUWO |
| IDEUGU | 1.0000 | | | | | |
| IAVEUGU | 0.6915 | 1.0000 | | | | |
| EDEUGU | -0.0383 | -0.2117 | 1.0000 | | | |
| EAVEUGU | -0.0021 | -0.1726 | 0.9786 | 1.0000 | | |
| YUWOD1 | -0.1174 | -0.0190 | -0.1019 | -0.0876 | 1.0000 | |
| IDEUWO | . | . | . | . | . | . |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | -0.0400 | -0.1119 | 0.0457 | 0.0461 | 0.2518 | . |
| EAVEUWO | . | . | . | . | . | . |
| | EDEUWO | IAVEUWO | EAVEUWO | | | |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | . | 1.0000 | . | . | . | . |
| EAVEUWO | . | . | . | . | . | . |

PAIRWISE CORRELATION COEFFICIENTS: MODEL GULF VARIABLES

| | EFPGU | GMSGU | GUKFRGEGU | GUEU | GUWO | USGU |
|-----------|---------|---------|-----------|---------|---------|---------|
| EFPGU | 1.0000 | | | | | |
| GMSGU | 0.4493 | 1.0000 | | | | |
| GUKFRGEGU | 0.3960 | 0.9869 | 1.0000 | | | |
| GUEU | -0.0698 | -0.0939 | -0.1150 | 1.0000 | | |
| GUWO | -0.6065 | -0.5415 | -0.4940 | 0.1153 | 1.0000 | |
| USGU | -0.5822 | -0.7101 | -0.6979 | 0.1374 | 0.7356 | 1.0000 |
| IDEUGU | 0.2651 | 0.1194 | 0.0936 | 0.1259 | -0.0235 | -0.0915 |
| IAVEUGU | 0.1698 | 0.1082 | 0.0734 | 0.0459 | 0.0182 | -0.0717 |
| EDEUGU | -0.0403 | -0.0536 | -0.0375 | 0.0327 | 0.0194 | 0.0668 |
| EAVEUGU | -0.0225 | -0.0177 | 0.0069 | 0.0597 | 0.1035 | 0.0497 |
| YUWOD1 | -0.0722 | -0.4171 | -0.4432 | -0.2273 | 0.1198 | 0.3268 |
| IDEUWO | -0.0385 | -0.0510 | -0.0521 | 0.0321 | 0.0354 | 0.0079 |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | -0.0486 | -0.3004 | -0.3151 | -0.0377 | -0.1132 | -0.1298 |
| EAVEUWO | . | . | . | . | . | . |
| | IDEUGU | IAVEUGU | EDEUGU | EAVEUGU | YUWOD1 | IDEUWO |
| IDEUGU | 1.0000 | | | | | |
| IAVEUGU | 0.8212 | 1.0000 | | | | |
| EDEUGU | 0.0027 | -0.1036 | 1.0000 | | | |
| EAVEUGU | 0.1315 | 0.0004 | 0.9471 | 1.0000 | | |
| YUWOD1 | 0.1021 | 0.2268 | -0.0490 | -0.0655 | 1.0000 | |
| IDEUWO | . | . | . | . | . | 1.0000 |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | -0.0572 | -0.1121 | 0.0250 | -0.0010 | 0.2518 | 0.0259 |
| EAVEUWO | . | . | . | . | . | . |
| | EDEUWO | IAVEUWO | EAVEUWO | | | |
| EDEUWO | . | . | . | . | . | . |
| IAVEUWO | . | 1.0000 | . | . | . | . |
| EAVEUWO | . | . | . | . | . | . |

Appendix 4.4. Extended version of the results shown in Table 4.2-4.3

TABLE 4.2

AR(1) TESTS OF GULF DATA FOR EFP ON SEPARATE EXPLANATORY VARIABLES

All estimates uses robust estimators (i.e. the Huber/White/Sandwich estimator of variance was used in place of the traditional calculation).

EFPGU AR(1) robust

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(1) = 2.75$, Pr > $\chi^2 = 0.0970$
 Log likelihood = -278.742

| EFPGU | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|-------|-------------|-----------|-------|-------|----------------------|----------|
| | | Coef. | Std. Err. | | | | |
| EFPGU | _cons | 10.33791 | 3.4852 | 2.966 | 0.003 | 3.507047 | 17.16878 |
| ARMA | ar | | | | | | |
| | L1 | .3453866 | .2081341 | 1.659 | 0.097 | -.0625487 | .7533219 |
| σ | | 18.82936 | 4.250414 | 4.430 | 0.000 | 10.4987 | 27.16002 |

EFPGU GMSGU AR(1) robust

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2) = 12.43$, Pr > $\chi^2 = 0.0020$
 Log likelihood = -272.2339

| EFPGU | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|-------|-------------|-----------|-------|-------|----------------------|----------|
| | | Coef. | Std. Err. | | | | |
| EFPGU | GMSGU | .0827631 | .0407072 | 2.033 | 0.042 | .0029784 | .1625478 |
| ARMA | ar | | | | | | |
| | L1 | .3530549 | .1223909 | 2.885 | 0.004 | .1131732 | .5929366 |
| σ | | 17.00788 | 3.011145 | 5.648 | 0.000 | 11.10615 | 22.90962 |

EFPGU GUKFRGEGU AR(1) robust

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2) = 11.26$, Pr > $\chi^2 = 0.0036$
 Log likelihood = -274.3124

| EFPGU | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-------------|-----------|-------|-------|----------------------|----------|
| | | Coef. | Std. Err. | | | | |
| EFPGU | GUKFRGEGU | .0841228 | .0478254 | 1.759 | 0.079 | -.0096131 | .1778588 |
| ARMA | ar | | | | | | |
| | L1 | .3785518 | .1344475 | 2.816 | 0.005 | .1150395 | .6420641 |
| σ | | 17.56631 | 3.113409 | 5.642 | 0.000 | 11.46414 | 23.66848 |

EFPGU GUWO AR(1) robust

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2) = 16.10$, Pr > $\chi^2 = 0.0003$
 Log likelihood = -264.0265

| EFPGU | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|------|-------------|-----------|--------|-------|----------------------|-----------|
| | | Coef. | Std. Err. | | | | |
| EFPGU | GUWO | -.0190681 | .004753 | -4.012 | 0.000 | -.0283838 | -.0097525 |
| ARMA | ar | | | | | | |
| | L1 | .4109131 | .152825 | 2.689 | 0.007 | .1113816 | .7104446 |
| σ | | 14.95484 | 2.650733 | 5.642 | 0.000 | 9.7595 | 20.15018 |

EFPGU USGU AR(1) robust
 Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2) = 60.12$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -264.0566

| EFPGU | | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | | |
| USGU | | -.0386026 | .0056309 | -6.855 | 0.000 | -.049639 | -.0275661 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .5117544 | .1436582 | 3.562 | 0.000 | .2301895 | .7933192 |
| σ | | 14.94866 | 3.055632 | 4.892 | 0.000 | 8.959727 | 20.93758 |

EFPGU YUWOD1 AR(1) robust
 Sample: 1989q2 to 1999q1
 Number of obs = 40
 Wald $\chi^2(2) = 6.10$, Pr > $\chi^2 = 0.0475$
 Log likelihood = -185.1341

| EFPGU | | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|--------------------------|--------|-------|----------------------|----------|
| EFPGU | | | | | | | |
| YUWOD1 | | -.0118329 | .0271377 | -0.436 | 0.663 | -.0650217 | .0413559 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .4725619 | .2216782 | 2.132 | 0.033 | .0380805 | .9070432 |
| σ | | 24.68581 | 5.409788 | 4.563 | 0.000 | 14.08282 | 35.2888 |

EFPGU EDEUGU AR(1) robust
 Sample: 1984q1 to 1999q1
 Number of obs = 61
 Wald $\chi^2(2) = 5.77$, Pr > $\chi^2 = 0.0559$
 Log likelihood = -270.1093

| EFPGU | | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|--------------------------|--------|-------|----------------------|----------|
| EFPGU | | | | | | | |
| EDEUGU | | -2.80e-08 | 7.13e-07 | -0.039 | 0.969 | -1.42e-06 | 1.37e-06 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .4835794 | .2204522 | 2.194 | 0.028 | .0515011 | .9156578 |
| σ | | 20.22929 | 4.369591 | 4.630 | 0.000 | 11.66505 | 28.79353 |

EFPGU EAVEUGU AR(1) robust
 Sample: 1984q1 to 1999q1
 Number of obs = 61
 Wald $\chi^2(2) = 10.29$, Pr > $\chi^2 = 0.0058$
 Log likelihood = -268.453

| EFPGU | | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|----------|--------------------------|-------|-------|----------------------|----------|
| EFPGU | | | | | | | |
| EAVEUGU | | .0237099 | .0112588 | 2.106 | 0.035 | .001643 | .0457767 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .3502402 | .220888 | 1.586 | 0.113 | -.0826924 | .7831728 |
| σ | | 19.70568 | 4.494505 | 4.384 | 0.000 | 10.89662 | 28.51475 |

EFPGU IAVEUWO AR(1) robust
 Sample: 1983q2 to 1997q1
 Number of obs = 56
 Wald $\chi^2(2) = 2.72$, Pr > $\chi^2 = 0.2567$
 Log likelihood = -237.5368

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----------|--------------------------|-------|-------|----------------------|----------|
| EFPGU | | | | | | |
| IAVEUWO | 12.11237 | 7.914979 | 1.530 | 0.126 | -3.400709 | 27.62544 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .5165819 | .3166486 | 1.631 | 0.103 | -.1040379 | 1.137202 |
| σ | 16.77709 | 4.271799 | 3.927 | 0.000 | 8.404513 | 25.14966 |

EFPGU IDEUWO AR(1) robust
Sample: 1983q2 to 1997q1
Number of obs = 56
Wald $\chi^2(2) = 186.08$, Pr > $\chi^2 = 0.0000$
Log likelihood = -240.9267

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----------|--------------------------|-------|-------|----------------------|----------|
| EFPGU | | | | | | |
| IDEUWO | 3.195061 | .3500935 | 9.126 | 0.000 | 2.50889 | 3.881231 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .5525612 | .2904802 | 1.902 | 0.057 | -.0167695 | 1.121892 |
| σ | 17.81391 | 4.546565 | 3.918 | 0.000 | 8.902807 | 26.72501 |

TABLE 4.3: AR(1) TESTS OF GULF DATA FOR EFP ON ALL SIGNIFICANT EXPLANATORY VARIABLES (AGGREGATE MODEL)

All estimates use robust estimators (i.e. the Huber/White/Sandwich estimator of variance was used in place of the traditional calculation).

EFPGU GUKFRGEGU USGU GUWO GMSGU EAVEUGU IDEUWO AR(1) robust

Note: IDEUWO dropped due to collinearity.

Sample: 1984q1 to 1997q1

Number of obs = 53

Wald $\chi^2(6) = 503.73$, Pr > $\chi^2 = 0.0000$

Log likelihood = -194.2529

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GUKFRGEGU | -.0303784 | .0591286 | -0.514 | 0.607 | -.1462683 | .0855116 |
| USGU | -.0265665 | .0088664 | -2.996 | 0.003 | -.0439443 | -.0091887 |
| GUWO | -.0089979 | .004749 | -1.895 | 0.058 | -.0183057 | .0003099 |
| GMSGU | .0372889 | .0536772 | 0.695 | 0.487 | -.0679164 | .1424942 |
| EAVEUGU | -.0018713 | .0068349 | -0.274 | 0.784 | -.0152675 | .0115248 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .5869094 | .1742662 | 3.368 | 0.001 | .2453539 | .9284648 |
| σ | 9.413932 | 1.419327 | 6.633 | 0.000 | 6.632102 | 12.19576 |

EFPGU GMSGU GUKFRGEGU GUWO USGU EAVEUGU IDEUWO ROBUST TEST IN PERIOD 1984q1-1997q1

Sample: 1984q1 to 1997q1

Number of obs = 53

Wald $\chi^2(6) = 503.73$, Pr > $\chi^2 = 0.0000$

Log likelihood = -194.2529

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0372889 | .0536772 | 0.695 | 0.487 | -.0679164 | .1424942 |
| GUKFRGEGU | -.0303784 | .0591286 | -0.514 | 0.607 | -.1462683 | .0855116 |
| GUWO | -.0089979 | .004749 | -1.895 | 0.058 | -.0183057 | .0003099 |
| USGU | -.0265665 | .0088664 | -2.996 | 0.003 | -.0439443 | -.0091887 |
| EAVEUGU | -.0018713 | .0068349 | -0.274 | 0.784 | -.0152675 | .0115248 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .5869094 | .1742662 | 3.368 | 0.001 | .2453539 | .9284648 |
| σ | 9.413932 | 1.419327 | 6.633 | 0.000 | 6.632102 | 12.19576 |

EFPGU GMSGU GUKFRGEGU GUWO USGU EAVEUGU IDEUWO Robust TEST IN PERIOD 1983q2-1993q4

Note: ideuwo dropped due to collinearity.

Sample: 1984q1 to 1993q4

Number of obs = 40

Wald $\chi^2(6) = 1259.09$, Pr > $\chi^2 = 0.0000$

Log likelihood = -140.8919

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0033033 | .0473799 | 0.070 | 0.944 | -.0895595 | .0961662 |
| GUKFRGEGU | .0134049 | .0512169 | 0.262 | 0.794 | -.0869783 | .1137881 |
| GUWO | -.0121667 | .0051992 | -2.340 | 0.019 | -.022357 | -.0019764 |
| USGU | -.0180149 | .007747 | -2.325 | 0.020 | -.0331988 | -.002831 |
| EAVEUGU | -.0107253 | .010714 | -1.001 | 0.317 | -.0317244 | .0102738 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .674211 | .1172322 | 5.751 | 0.000 | .4444401 | .9039819 |
| σ | 8.131674 | 1.35204 | 6.014 | 0.000 | 5.481724 | 10.78162 |

EFPGU GMSGU GUKFRGEGU GUWO USGU EAVEUGU IDEUWO Robust TEST IN PERIOD 1987q3-1997q1

Note: ideuwo dropped due to collinearity.

Sample: 1987q3 to 1997q1

Number of obs = 39

Wald $\chi^2(6) = 482.59$, Pr > $\chi^2 = 0.0000$

Log likelihood = -146.7897

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0511501 | .0566153 | 0.903 | 0.366 | -.0598138 | .1621139 |
| GUKFRGEGU | -.0507334 | .0636352 | -0.797 | 0.425 | -.1754561 | .0739892 |
| GUWO | -.0099329 | .006282 | -1.581 | 0.114 | -.0222454 | .0023795 |
| USGU | -.0260074 | .0110842 | -2.346 | 0.019 | -.047732 | -.0042828 |
| EAVEUGU | -.0020472 | .0071643 | -0.286 | 0.775 | -.016089 | .0119947 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .629928 | .1888933 | 3.335 | 0.001 | .259704 | 1.000152 |
| σ | 10.36431 | 1.68424 | 6.154 | 0.000 | 7.063264 | 13.66537 |

EFPGU GMSGU GUKFRGEGU GUWO USGU EAVEUGU IDEUWO Robust TEST IN PERIOD 1990q1-1997q1

Note: ideuwo dropped due to collinearity.

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald $\chi^2(6) = 432.16$, Pr > $\chi^2 = 0.0000$

Log likelihood = -110.0361

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|----------|
| EFPGU | | | | | | |
| GMSGU | .0367807 | .071682 | 0.513 | 0.608 | -.1037135 | .1772748 |
| GUKFRGEGU | -.0352752 | .0810669 | -0.435 | 0.663 | -.1941633 | .1236129 |
| GUWO | -.0159209 | .0124689 | -1.277 | 0.202 | -.0403594 | .0085176 |
| USGU | -.0197164 | .0192414 | -1.025 | 0.306 | -.057429 | .0179961 |
| EAVEUGU | -.0027735 | .0125426 | -0.221 | 0.825 | -.0273564 | .0218095 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .481913 | .3920387 | 1.229 | 0.219 | -.2864688 | 1.250295 |
| σ | 10.70713 | 2.097588 | 5.104 | 0.000 | 6.595934 | 14.81833 |

EFPGU GMSGU GUKFRGEGU GUWO USGU EAVEUGU IDEUWO Robust TEST IN PERIOD 1990q1-1997q1

Note: ideuwo dropped due to collinearity.

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald $\chi^2(6) = 447.49$, Pr > $\chi^2 = 0.0000$

Log likelihood = -108.9819

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0286733 | .090464 | 0.317 | 0.751 | -.1486328 | .2059795 |
| GUKFRGEGU | -.0168255 | .1023913 | -0.164 | 0.869 | -.2175088 | .1838578 |
| GUWO | -.032285 | .0061359 | -5.262 | 0.000 | -.0443112 | -.0202588 |
| USGU | .0016247 | .0110929 | 0.146 | 0.884 | -.0201171 | .0233664 |
| EAVEUGU | -.0272242 | .0140356 | -1.940 | 0.052 | -.0547334 | .0002851 |
| ARMA | | | | | | |
| ar | | | | | | |
| L3 | .5228017 | .2577232 | 2.029 | 0.043 | .0176734 | 1.02793 |
| σ | 10.20168 | 1.593439 | 6.402 | 0.000 | 7.078596 | 13.3247 |

Appendix 4.5 Test for impact of exclusion of either USWO or GUWO

EFPGU GMSGU GUKFRGEGU USGU EAVEUGU robust

Sample: 1984q1 to 1999q1

Number of obs = 61

Wald $\chi^2(5) = 65.34$; Pr > $\chi^2 = 0.0000$

Log likelihood = -248.9926

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .247156 | .1261967 | 1.958 | 0.050 | -.0001851 | .494497 |
| GUKFRGEGU | -.2675032 | .1382142 | -1.935 | 0.053 | -.5383981 | .0033917 |
| USGU | -.0351037 | .0074237 | -4.729 | 0.000 | -.0496539 | -.0205535 |
| EAVEUGU | .0070769 | .0061317 | 1.154 | 0.248 | -.0049409 | .0190948 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .4072185 | .1539991 | 2.644 | 0.008 | .1053859 | .7090512 |
| σ | 14.3166 | 2.901081 | 4.935 | 0.000 | 8.630587 | 20.00261 |

EFPGU GMSGU GUKFRGEGU GUWO EAVEUGU robust

Sample: 1984q1 to 1999q1

Number of obs = 61

Wald $\chi^2(5) = 29.73$; Pr > $\chi^2 = 0.0000$

Log likelihood = -250.6275

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .1427639 | .1291548 | 1.105 | 0.269 | -.1103749 | .3959026 |
| GUKFRGEGU | -.130896 | .1399009 | -0.936 | 0.349 | -.4050968 | .1433048 |
| GUWO | -.0167991 | .0048035 | -3.497 | 0.000 | -.0262137 | -.0073845 |
| EAVEUGU | -.0118708 | .0092166 | -1.288 | 0.198 | -.0299349 | .0061934 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .3786966 | .1191403 | 3.179 | 0.001 | .145186 | .6122073 |
| f | 14.70842 | 2.866216 | 5.132 | 0.000 | 9.090738 | 20.3261 |

EFPGU GMSGU GUKFRGEGU USGU EAVEUGU robust in period 1983q2-1993q4

Sample: 1984q1 to 1993q4

Number of obs = 40

Wald $\chi^2(5) = 325.88$; Pr > $\chi^2 = 0.0000$

Log likelihood = -145.3505

| EFPGU | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|-----------|-------------|-----------|--------|-------|----------------------|-----------|
| | Coef. | Std. Err. | | | | |
| EFPGU | | | | | | |
| GMSGU | .0710869 | .0532802 | 1.334 | 0.182 | -.0333403 | .1755141 |
| GUKFRGEGU | -.0524269 | .0588936 | -0.890 | 0.373 | -.1678562 | .0630025 |
| USGU | -.0336026 | .0036641 | -9.171 | 0.000 | -.040784 | -.0264211 |
| EAVEUGU | .0088166 | .0088455 | 0.997 | 0.319 | -.0085203 | .0261534 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .6090642 | .152958 | 3.982 | 0.000 | .3092721 | .9088563 |
| f | 9.107239 | 1.880662 | 4.843 | 0.000 | 5.421208 | 12.79327 |

EFPGU GMSGU GUKFRGEGU USGU EAVEUGU robust in period 1987q3-1997q1

Sample: 1987q3 to 1997q1

Number of obs = 39

Wald chi2(5) = 415.77; Pr > chi2 = 0.0000

Log likelihood = -148.9583

| EFPGU | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|-----------|-------------|-----------|--------|-------|----------------------|----------|
| | Coef. | Std. Err. | | | | |
| EFPGU | | | | | | |
| GMSGU | .1244127 | .0727946 | 1.709 | 0.087 | -.0182621 | .2670875 |
| GUKFRGEGU | -.124528 | .0761027 | -1.636 | 0.102 | -.2736865 | .0246305 |
| USGU | -.0385052 | .0039813 | -9.672 | 0.000 | -.0463085 | -.030702 |
| EAVEUGU | .0042628 | .0050833 | 0.839 | 0.402 | -.0057003 | .0142259 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .617267 | .2047168 | 3.015 | 0.003 | .2160294 | 1.018505 |
| f | 10.96105 | 1.838646 | 5.961 | 0.000 | 7.357372 | 14.56473 |

EFPGU GMSGU GUKFRGEGU USGU EAVEUGU robust in period 1990q1-1997q1

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald |2(5) = 404.93 Pr > |2 = 0.0000

Log likelihood = -112.9035

| EFPGU | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|-----------|-------------|-----------|--------|-------|----------------------|-----------|
| | Coef. | Std. Err. | | | | |
| EFPGU | | | | | | |
| GMSGU | .1391139 | .1028435 | 1.353 | 0.176 | -.0624558 | .3406835 |
| GUKFRGEGU | -.1418489 | .102361 | -1.386 | 0.166 | -.3424728 | .0587749 |
| USGU | -.0398291 | .0045137 | -8.824 | 0.000 | -.0486756 | -.0309825 |
| EAVEUGU | .005875 | .0053007 | 1.108 | 0.268 | -.0045141 | .0162641 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .6114353 | .250323 | 2.443 | 0.015 | .1208114 | 1.102059 |
| f | 11.77835 | 2.213738 | 5.321 | 0.000 | 7.439498 | 16.11719 |

EFPGU GMSGU GUKFRGEGU GUWO robust in period 1983q2-1993q4

Sample: 1983q2 to 1993q4

Number of obs = 43

Wald |2(4) = 112.50, Pr > |2 = 0.0000

Log likelihood = -156.7123

| EFPGU | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|-----------|-------------|-----------|--------|-------|----------------------|-----------|
| | Coef. | Std. Err. | | | | |
| EFPGU | | | | | | |
| GMSGU | -.0188213 | .0562279 | -0.335 | 0.738 | -.1290259 | .0913833 |
| GUKFRGEGU | .0545116 | .0592641 | 0.920 | 0.358 | -.061644 | .1706672 |
| GUWO | -.0188709 | .0034692 | -5.440 | 0.000 | -.0256704 | -.0120715 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .7393312 | .0982341 | 7.526 | 0.000 | .5467959 | .9318665 |
| f | 9.173642 | .8437483 | 10.872 | 0.000 | 7.519926 | 10.82736 |

EFPGU GMSGU GUKFRGEGU GUWO robust in period 1987q3-1997q1

Sample: 1987q3 to 1997q1

Number of obs = 39

Wald |2(4) = 106.07, Pr > |2 = 0.0000

Log likelihood = -152.1988

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0014861 | .0729284 | 0.020 | 0.984 | -.1414509 | .1444231 |
| GUKFRGEGU | .0266677 | .0759542 | 0.351 | 0.726 | -.1221999 | .1755352 |
| GUWO | -.0202914 | .0030725 | -6.604 | 0.000 | -.0263135 | -.0142693 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .6301948 | .1789738 | 3.521 | 0.000 | .2794127 | .980977 |
| f | 11.907 | 1.988726 | 5.987 | 0.000 | 8.009169 | 15.80483 |

EFPGU GMSGU GUKFRGEGU GUWO robust 1990q1-1997q1

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald $\chi^2(4) = 264.78$; Pr > $\chi^2 = 0.0000$

Log likelihood = -112.6195

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | -.0156609 | .0840477 | -0.186 | 0.852 | -.1803913 | .1490696 |
| GUKFRGEGU | .0332241 | .0876821 | 0.379 | 0.705 | -.1386296 | .2050778 |
| GUWO | -.0246839 | .0034364 | -7.183 | 0.000 | -.0314192 | -.0179487 |
| ARMA | | | | | | |
| ar | | | | | | |
| L1 | .4067721 | .1842634 | 2.208 | 0.027 | .0456225 | .7679217 |
| f | 11.72086 | 2.314368 | 5.064 | 0.000 | 7.184781 | 16.25694 |

Appendix 4.6 Test for alternative Gulf model specification 1990q1-1997q1

EFPGU GMSGU GUKFRGEGU USGU GUWO EAVEUGU AR(3) period 1990q1 - 1997q1 robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald $\chi^2(6) = 447.49$; Pr > $\chi^2 = 0.0000$

Log likelihood = -108.9819

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0286733 | .090464 | 0.317 | 0.751 | -.1486328 | .2059795 |
| GUKFRGEGU | -.0168255 | .1023913 | -0.164 | 0.869 | -.2175088 | .1838578 |
| USGU | .0016247 | .0110929 | 0.146 | 0.884 | -.0201171 | .0233664 |
| GUWO | -.032285 | .0061359 | -5.262 | 0.000 | -.0443112 | -.0202588 |
| EAVEUGU | -.0272242 | .0140356 | -1.940 | 0.052 | -.0547334 | .0002851 |
| ARMA | | | | | | |
| ar | | | | | | |
| L3 | .5228017 | .2577232 | 2.029 | 0.043 | .0176734 | 1.02793 |
| f | 10.20168 | 1.593439 | 6.402 | 0.000 | 7.078596 | 13.32476 |

EFPGU GMSGU GUKFRGEGU USGU GUWO EAVEUGU AR(2) period 1990q1 - 1997q1 robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald $\chi^2(6) = 283.70$, Pr > $\chi^2 = 0.0000$

Log likelihood = -111.3972

| EFPGU | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|-----------|--------------------------|--------|-------|----------------------|-----------|
| EFPGU | | | | | | |
| GMSGU | .0197585 | .1274184 | 0.155 | 0.877 | -.229977 | .2694941 |
| GUKFRGEGU | -.0089885 | .1437001 | -0.063 | 0.950 | -.2906356 | .2726585 |
| USGU | -.0062531 | .0112573 | -0.555 | 0.579 | -.0283171 | .0158108 |
| GUWO | -.0268677 | .0065179 | -4.122 | 0.000 | -.0396425 | -.014093 |
| EAVEUGU | -.0166203 | .0083036 | -2.002 | 0.045 | -.032895 | -.0003455 |
| ARMA | | | | | | |
| ar | | | | | | |
| L2 | .0809317 | .1836648 | 0.440 | 0.660 | -.2791447 | .440808 |
| f | 11.26904 | 2.170424 | 5.192 | 0.000 | 7.015089 | 15.52299 |

EFPGU GMSGU GUKFRGEGU USGU GUWO EAVEUGU AR(4) period 1990q1 - 1997q1 robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald chi2(6) = 596.91; Pr > chi2 = 0.0000

Log likelihood = -111.4102

| EFPGU | | Coef. | Semi-robust Std. Err. | z | P> z | [95% Conf. Interval] | |
|-----------|----|-----------|--------------------------|--------|-------|----------------------|----------|
| EFPGU | | | | | | | |
| GMSGU | | .0220837 | .1337223 | 0.165 | 0.869 | -.2400071 | .2841745 |
| GUKFRGEGU | | -.0090371 | .1491397 | -0.061 | 0.952 | -.3013455 | .2832713 |
| USGU | | -.0035522 | .0107999 | -0.329 | 0.742 | -.0247196 | .0176152 |
| GUWO | | -.0279987 | .0063464 | -4.412 | 0.000 | -.0404374 | -.015556 |
| EAVEUGU | | -.0194081 | .0077221 | -2.513 | 0.012 | -.0345432 | -.004273 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L4 | -.1186997 | .3339502 | -0.355 | 0.722 | -.77323 | .5358307 |
| f | | 11.26517 | 2.047587 | 5.502 | 0.000 | 7.251974 | 15.27837 |

Appendix 4.7 OLS tests for various lags of EFP in period 1990-1997

The estimation is based on the Prais-Winsten regression. As mentioned in the text, the Prais-Winsten estimator is a generalised least squares estimator. In all estimations below, the SSE search has been used. SSE search is performed for the value of λ that minimises the sum of squared errors of the transformed equation. The regressions have been performed with robust standard errors.

PRAIS EFPGU EFPGU_{t-1} GMSGU GUKFRGEGU GUWO USGU EAVEUGU EDEUGU IAVEUGU YUWOD1

Number of obs = 29

F(9,20) = 30.03

Pr > F = 0.0000

R² = 0.8884

Root MSE = 11.396

Durbin-Watson statistic (original) 1.929497

Durbin-Watson statistic (transformed) 1.958874

| EFPGU | | Coef. | Semi-robust Std. Err. | t | P> t | [95% Conf. Interval] | |
|-----------|----|-----------|--------------------------|-------|-------|----------------------|-----------|
| EFPGU | | | | | | | |
| | L1 | .1368873 | .08036 | 1.70 | 0.104 | -.0307407 | .3045153 |
| GMSGU | | -.0408384 | .1241676 | -0.33 | 0.746 | -.2998475 | .2181707 |
| GUKFRGEGU | | .0391188 | .1374137 | 0.28 | 0.779 | -.2475211 | .3257587 |
| GUWO | | -.0281535 | .0065523 | -4.30 | 0.000 | -.0418214 | -.0144856 |
| USGU | | -.0039911 | .0133378 | -0.30 | 0.768 | -.0318133 | .0238311 |
| EAVEUGU | | -.0890103 | .0716965 | -1.24 | 0.229 | -.2385665 | .0605459 |
| EDEUGU | | 7.96e-06 | 7.08e-06 | 1.12 | 0.275 | -6.82e-06 | .0000227 |
| IAVEUGU | | .0986663 | .0964952 | 1.02 | 0.319 | -.1026191 | .2999517 |
| YUWOD1 | | -.0517797 | .0241024 | -2.15 | 0.044 | -.1020564 | -.001503 |
| | ρ | .0719845 | | | | | |

PRAIS EFPGU EFPGU_{t-1} EFPGU_{t-2} GMSGU GUKFRGEGU GUWO USGU EAVEUGU EDEUGU IAVEUGU YUWOD1 in period 1990q1-1997q1

Number of obs = 29

F(10,19) = 38.45

Pr > F = 0.0000

R² = 0.9086

Root MSE = 11.475

Durbin-Watson statistic (original) 2.011873

Durbin-Watson statistic (transformed) 1.970799

| EFPGU | | Coef. | Semi-robust Std. Err. | t | P> t | [95% Conf. Interval] | |
|-----------|----|-----------|--------------------------|-------|-------|----------------------|-----------|
| EFPGU | | | | | | | |
| | L1 | .1871382 | .0886695 | 2.11 | 0.048 | .0015507 | .3727257 |
| | L2 | -.1080556 | .0573455 | -1.88 | 0.075 | -.228081 | .0119698 |
| GMSGU | | -.0288597 | .1347885 | -0.21 | 0.833 | -.3109753 | .2532559 |
| GUKFRGEGU | | .0435059 | .1531597 | 0.28 | 0.779 | -.277061 | .3640728 |
| GUWO | | -.0312944 | .0059553 | -5.25 | 0.000 | -.043759 | -.0188298 |
| USGU | | .0039243 | .0118448 | 0.33 | 0.744 | -.0208672 | .0287159 |
| EAVEUGU | | -.0750394 | .0629661 | -1.19 | 0.248 | -.206829 | .0567502 |
| EDEUGU | | 6.36e-06 | 6.32e-06 | 1.01 | 0.327 | -6.87e-06 | .0000196 |
| IAVEUGU | | .0700264 | .0373835 | 0.80 | 0.433 | -.1128694 | .2529221 |
| YUWOD1 | | -.0545304 | .0254039 | -2.15 | 0.045 | -.1077013 | -.0013594 |
| | λ | -.0722432 | | | | | |

PRAS EFPGU EFPGU_{t-1} EFPGU_{t-2} EFPGU_{t-3} GMSGU GUKFRGEGU GUWO USGU EAVEUGU EDEUGU IAVEUGU YUWOD1 in period 1990q1 to 1997q1

note: EFPGU dropped due to collinearity

Number of obs = 29

F(10,19) = 12.44

Pr > F = 0.0000

R² = 0.9091

Root MSE = 17.701

Durbin-Watson statistic (original) 2.564933

Durbin-Watson statistic (transformed) 2.642868

| L.EFPGU | Semi-robust | | t | P> t | [95% Conf. Interval] | |
|-----------|-------------|-----------|-------|-------|----------------------|----------|
| | Coef. | Std. Err. | | | | |
| EFPGU | | | | | | |
| L2 | .7319011 | .1458235 | 5.02 | 0.000 | .426689 | 1.037113 |
| | .654033 | .2758992 | 2.37 | 0.028 | .0765694 | 1.231497 |
| GMSGU | -.1221505 | .1417613 | -0.86 | 0.400 | -.4188604 | .1745594 |
| GUKFRGEGU | .0715401 | .1202094 | 0.60 | 0.559 | -.1800609 | .3231412 |
| GUWO | .0071908 | .0139194 | 0.52 | 0.611 | -.0219429 | .0363244 |
| USGU | -.0241945 | .0154642 | -1.56 | 0.134 | -.0565615 | .0081725 |
| EAVEUGU | .0280299 | .0669986 | 0.42 | 0.680 | -.1121998 | .1682595 |
| EDEUGU | -3.31e-06 | 6.41e-06 | -0.52 | 0.611 | -.0000167 | .0000101 |
| IAVEUGU | -.0206276 | .0944626 | -0.22 | 0.829 | -.21834 | .1770849 |
| YUWOD1 | .0101818 | .0205819 | 0.49 | 0.626 | -.0328966 | .0532603 |
|) | -.8244055 | | | | | |

Appendix 5.1 Phillips-Perron test for unit root/Interpolated Dickey-Fuller (63 obs)

| Variable | Test Statistic | 1% Critical Value | 5% Critical Value | 10% Critical Value | Mackinnon approximate p-value for Z(t) | |
|----------------------|----------------|-------------------|-------------------|--------------------|----------------------------------------|--------|
| GEFFIR | Z(rho) | -46.246 | -19.134 | -13.404 | -10.778 | 0.0000 |
| | Z(t) | -5.585 | -3.562 | -2.920 | -2.595 | |
| GEFFIR 1987q3-1999q1 | Z(rho) | -35.452 | -18.696 | -13.204 | -10.640 | 0.0000 |
| | Z(t) | -4.924 | -3.600 | -2.938 | -2.604 | |
| GEFFIR 1983q2-1993q4 | Z(rho) | -48.440 | -18.356 | -13.044 | -10.540 | 0.0000 |
| | Z(t) | -7.429 | -3.634 | -2.952 | -2.610 | |
| GEFFIR 1990q1-1999q1 | Z(rho) | -28.532 | -18.016 | -12.884 | -10.440 | 0.0002 |
| | Z(t) | -4.459 | -3.668 | -2.966 | -2.616 | |
| GMSIR | Z(rho) | -33.766 | -18.990 | -13.340 | -10.730 | 0.0000 |
| | Z(t) | -4.960 | -3.573 | -2.926 | -2.598 | |
| GUKFRGEIRN | Z(rho) | -38.430 | -19.134 | -13.404 | -10.778 | 0.0000 |
| | Z(t) | -5.215 | -3.562 | -2.920 | -2.595 | |
| NIRNEU | Z(rho) | -63.060 | -19.134 | -13.404 | -10.778 | 0.0000 |
| | Z(t) | -8.452 | -3.562 | -2.920 | -2.595 | |
| IRWO | Z(rho) | -10.216 | -19.134 | -13.404 | -10.778 | 0.1350 |
| | Z(t) | -2.424 | -3.562 | -2.920 | -2.595 | |
| d.IRWO = IRW01 | Z(rho) | -69.737 | -19.116 | -13.396 | -10.772 | 0.0000 |
| | Z(t) | -9.319 | -3.563 | -2.920 | -2.595 | |
| USIR | Z(rho) | -31.006 | -19.098 | -13.388 | -10.766 | 0.0000 |
| | Z(t) | -4.873 | -3.565 | -2.921 | -2.596 | |
| IDEUIR | Z(rho) | -34.798 | -19.008 | -13.348 | -10.736 | 1.0000 |
| | Z(t) | 6912.432 | -3.572 | -2.925 | -2.598 | |
| IAVEURIN | Z(rho) | -21.434 | -19.008 | -13.348 | -10.736 | 1.0000 |
| | Z(t) | 328.184 | -3.572 | -2.925 | -2.598 | |
| d.IDEUIR | Z(rho) | -57.566 | -18.990 | -13.340 | -10.730 | 1.0000 |
| | Z(t) | 54994.581 | -3.573 | -2.926 | -2.598 | |
| EDEUIRN | Z(rho) | -9.307 | -19.008 | -13.348 | -10.736 | 1.0000 |
| | Z(t) | 178548.320 | -3.572 | -2.925 | -2.598 | |
| EAVEUIRN | Z(rho) | -5.418 | -19.008 | -13.348 | -10.736 | 1.0000 |

| | | | | | | |
|-----------------|--------|-------------|---------|---------|---------|--------|
| | Z(t) | 1027.622 | -3.572 | -2.925 | -2.598 | |
| d.EAVEUIRN= | Z(rho) | -68.823 | -18.990 | -13.340 | -10.730 | 1.0000 |
| EAVEUIRD | Z(t) | 241.592 | -3.573 | -2.926 | -2.598 | |
| d.edeuirn | Z(rho) | -79.075 | -18.990 | -13.340 | -10.730 | 0.0000 |
| =EDEUIRND | Z(t) | -241892.736 | -3.573 | -2.926 | -2.598 | |
| IAVEURIN, trend | Z(rho) | -22.141 | -25.904 | -19.908 | -16.884 | 1.0000 |
| | Z(t) | 281.537 | -4.137 | -3.494 | -3.176 | |

Augmented Dickey Fuller (supplementary tests to the Phillips Perron tests)

| | | | | | | |
|-----------------|------|--------|--------|--------|--------|--------|
| IDEUIR | Z(t) | -5.261 | -3.572 | -2.925 | -2.598 | 0.0000 |
| IAVEURIN | Z(t) | -3.947 | -3.572 | -2.925 | -2.598 | 0.0017 |
| IAVEURIN, trend | Z(t) | -3.919 | -4.137 | -3.494 | -3.176 | 0.0114 |
| IDEUIR | Z(t) | -5.261 | -3.572 | -2.925 | -2.598 | 0.0000 |
| IAVEUI2 | Z(t) | -3.863 | -3.572 | -2.925 | -2.598 | 0.0023 |
| EAVEUIRD | Z(t) | -9.619 | -3.573 | -2.926 | -2.598 | 0.0000 |

Note: When differenced one time NIRWO and EDEUIR became stationary (NIRWO1, EDEUIR1). IAVEUIRN clearly seemed to include a trend. Indeed, the Augmented Dickey Fuller Test for the variable including a trend term could reject the hypothesis of a unit root. However, including the trend could still not reject the unit root hypothesis under the Phillips-Perron test. As mentioned in the text IDEUIR and EAVEUIRN were both kept in the mode. While IDEUIR and EAVEUIRN failed to reject the unit root hypothesis with the Phillips-Perron test, it passed the Dickey-Fuller test.

Appendix 5.2

Correlograms

Including AC, PAC, Q-statistics and graphical expression of AC/PAC, shown for 10 lags

GEFPIR

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|--------|---------|--------|--------|-----------------|---|---|------------------|---|---|
| | | | | | Autocorrelation | | | Partial Autocor. | | |
| 1 | 0.3012 | 0.3017 | 6.0816 | 0.0137 | -- | | | -- | | |
| 2 | 0.1405 | 0.0549 | 7.4262 | 0.0244 | | | | | | |
| 3 | 0.2805 | 0.2566 | 12.873 | 0.0049 | -- | | | -- | | |
| 4 | 0.1284 | -0.0306 | 14.034 | 0.0072 | | | | | | |
| 5 | 0.2909 | 0.3039 | 20.094 | 0.0012 | -- | | | -- | | |
| 6 | 0.0071 | -0.3003 | 20.098 | 0.0027 | | | | -- | | |

NIRNEU

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|------------------|---|---|
| | | | | | Autocorrelation | | | Partial Autocor. | | |
| 1 | -0.0466 | -0.0466 | .1454 | 0.7030 | | | | | | |
| 2 | -0.1279 | -0.1305 | 1.2607 | 0.5324 | | | | | | |
| 3 | 0.1012 | 0.0899 | 1.9693 | 0.5788 | | | | | | |
| 4 | -0.0732 | -0.0859 | 2.3464 | 0.6723 | | | | | | |
| 5 | -0.0042 | 0.0119 | 2.3477 | 0.7992 | | | | | | |
| 6 | -0.0809 | -0.1543 | 2.8246 | 0.8305 | | | | | | |

USIR

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|--------|---------|--------|--------|-----------------|---|---|------------------|---|---|
| | | | | | Autocorrelation | | | Partial Autocor. | | |
| 1 | 0.4603 | 0.4617 | 13.992 | 0.0002 | --- | | | --- | | |
| 2 | 0.1196 | -0.1268 | 14.953 | 0.0006 | | | | | | |
| 3 | 0.2207 | 0.2850 | 18.279 | 0.0004 | | | | | | |
| 4 | 0.2578 | 0.0382 | 22.89 | 0.0001 | -- | | | | | |

GMSIR

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|--------|---------|--------|--------|-----------------|---|---|------------------|---|---|
| | | | | | Autocorrelation | | | Partial Autocor. | | |
| 1 | 0.3746 | 0.3781 | 8.8462 | 0.0029 | -- | | | --- | | |
| 2 | 0.0987 | -0.0583 | 9.4716 | 0.0088 | | | | | | |

| | | | | | | |
|---|---------|---------|--------|--------|----|----|
| 3 | 0.2639 | 0.2881 | 14.018 | 0.0029 | -- | -- |
| 4 | 0.1706 | -0.0648 | 15.952 | 0.0031 | - | |
| 5 | 0.0605 | 0.0258 | 16.2 | 0.0063 | | |
| 6 | -0.0644 | -0.2057 | 16.486 | 0.0114 | | - |

GUKFRGEIRN

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | 0.3862 | 0.3872 | 9.9986 | 0.0016 | --- | | | --- | | |
| 2 | 0.1118 | -0.0447 | 10.85 | 0.0044 | | | | | | |
| 3 | 0.2789 | 0.2967 | 16.236 | 0.0010 | -- | | | -- | | |
| 4 | 0.1830 | -0.0406 | 18.595 | 0.0009 | - | | | | | |
| 5 | 0.0676 | 0.0263 | 18.922 | 0.0020 | | | | | | |
| 6 | -0.0496 | -0.1858 | 19.101 | 0.0040 | | | | - | | |

IRW01

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | -0.1560 | -0.1595 | 1.6076 | 0.2048 | - | | | - | | |
| 2 | 0.0514 | 0.0253 | 1.785 | 0.4096 | | | | | | |
| 3 | -0.1683 | -0.1770 | 3.7172 | 0.2937 | - | | | - | | |
| 4 | 0.0792 | 0.0394 | 4.1522 | 0.3858 | | | | | | |
| 5 | -0.1323 | -0.1222 | 5.3877 | 0.3704 | - | | | - | | |
| 6 | 0.1625 | 0.1231 | 7.2857 | 0.2952 | - | | | | | |

EDEUIRND

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | -0.3227 | -0.3230 | 6.1512 | 0.0131 | -- | | | -- | | |
| 2 | 0.0550 | -0.0633 | 6.3334 | 0.0421 | | | | | | |
| 3 | 0.4275 | 0.4783 | 17.536 | 0.0005 | --- | | | --- | | |
| 4 | -0.2241 | 0.1151 | 20.672 | 0.0004 | - | | | - | | |
| 5 | 0.0392 | -0.0743 | 20.77 | 0.0009 | | | | | | |
| 6 | 0.2301 | 0.0598 | 24.208 | 0.0005 | - | | | | | |

EAVEUIRD

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | -0.2724 | -0.2740 | 4.381 | 0.0363 | -- | | | -- | | |
| 2 | -0.0067 | -0.0918 | 4.3837 | 0.1117 | | | | | | |
| 3 | 0.1030 | 0.0910 | 5.0335 | 0.1694 | | | | | | |
| 4 | -0.0455 | -0.0077 | 5.1625 | 0.2710 | | | | | | |
| 5 | -0.0641 | -0.0818 | 5.4241 | 0.3663 | | | | | | |
| 6 | 0.3727 | 0.3856 | 14.446 | 0.0250 | -- | | | -- | | |

IDEUIR

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|---------|---------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | 0.3280 | 0.3331 | 6.4607 | 0.0110 | -- | | | -- | | |
| 2 | 0.0222 | -0.0843 | 6.4908 | 0.0390 | | | | | | |
| 3 | 0.1009 | 0.1488 | 7.1244 | 0.0680 | | | | - | | |
| 4 | 0.0027 | -0.0934 | 7.1249 | 0.1294 | | | | | | |
| 5 | 0.0321 | 0.1061 | 7.1914 | 0.2068 | | | | | | |
| 6 | -0.0599 | -0.1393 | 7.4278 | 0.2831 | | | | - | | |

IAVEURIN

| LAG | AC | PAC | Q | Prob>Q | -1 | 0 | 1 | -1 | 0 | 1 |
|-----|--------|--------|--------|--------|-----------------|---|---|---------|----------|---|
| | | | | | Autocorrelation | | | Partial | Autocor. | |
| 1 | 0.5696 | 0.5701 | 19.483 | 0.0000 | ---- | | | ---- | | |
| 2 | 0.3340 | 0.0394 | 26.302 | 0.0000 | -- | | | | | |
| 3 | 0.2647 | 0.1397 | 30.664 | 0.0000 | -- | | | - | | |
| 4 | 0.1975 | 0.0245 | 33.139 | 0.0000 | - | | | | | |
| 5 | 0.1593 | 0.0879 | 34.781 | 0.0000 | - | | | | | |
| 6 | 0.1182 | 0.0232 | 35.702 | 0.0000 | | | | | | |

Appendix 5.3 Autocorrelation, selected explanatory variables

EDEUIRND TEST FOR AR(1)

Wald $\chi^2(1) = 6.36$, $Pr > \chi^2 = 0.0117$
 Log likelihood = 633.6836
 Sample: 1983q3 to 1997q2
 Number of obs = 56

| EDEUIRND | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|-----------|
| EDEUIRND | | | | | | | |
| _cons | | -5.21e-07 | 3.72e-07 | -1.400 | 0.161 | -1.25e-06 | 2.08e-07 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | -.3213411 | .1274528 | -2.521 | 0.012 | -.5711441 | -.0715381 |
| σ | | 2.94e-06 | 3.00e-07 | 9.830 | 0.000 | 2.36e-06 | 3.53e-06 |

EDEUIRND TEST FOR ARMA (1,1)

Sample: 1983q3 to 1997q2
 Number of obs = 56
 Wald $\chi^2(2) = 6.39$, $Pr > \chi^2 = 0.0410$
 Log likelihood = 633.7118

| edeuirnd | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|----------|
| edeuirnd | | | | | | | |
| _cons | | -5.18e-07 | 3.87e-07 | -1.338 | 0.181 | -1.28e-06 | 2.41e-07 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | -.2762827 | .3254886 | -0.849 | 0.396 | -.9142286 | .3616631 |
| ma | | | | | | | |
| | L1 | -.0529355 | .3225631 | -0.164 | 0.870 | -.6851475 | .5792766 |
| σ | | 2.94e-06 | 3.30e-07 | 8.925 | 0.000 | 2.30e-06 | 3.59e-06 |

EAVEUIRD TEST FOR ARMA(1,1)

Wald $\chi^2(2) = 571.80$, $Pr > \chi^2 = 0.0000$
 Log likelihood = 325.9
 Sample: 1983q3 to 1997q2
 Number of obs = 56

| EAVEUIRD | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|---------|-------|----------------------|-----------|
| EAVEUIRD | | | | | | | |
| _cons | | -.0001274 | .0000952 | -1.338 | 0.181 | -.0003139 | .0000591 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | -.9649258 | .0739951 | -13.040 | 0.000 | -1.109953 | -.8198982 |
| ma | | | | | | | |
| | L1 | .8895668 | .1395857 | 6.373 | 0.000 | .615984 | 1.16315 |
| σ | | .0007162 | .0000681 | 10.512 | 0.000 | .0005826 | .0008497 |

USIR TEST FOR AR(1)

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(1) = 41.56$, $Pr > \chi^2 = 0.0000$
 Log likelihood = -342.9725

| USIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|----------|
| USIR | | | | | | | |
| _cons | | -17.16541 | 20.60425 | -0.833 | 0.405 | -57.54899 | 23.21817 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .4590598 | .0712119 | 6.446 | 0.000 | .319487 | .5986326 |
| σ | | 51.32497 | 2.730461 | 18.797 | 0.000 | 45.97336 | 56.67657 |

USIR TEST FOR MA(1)

Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(1) = 56.80$, $Pr > \chi^2 = 0.0000$
 Log likelihood = -341.7156

| USIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|----------|
| USIR | | | | | | | |
| _cons | | -17.34027 | 14.39284 | -1.205 | 0.228 | -45.54972 | 10.86918 |
| ARMA | | | | | | | |
| ma | | | | | | | |
| | L1 | .5386006 | .071463 | 7.537 | 0.000 | .3985353 | .6786654 |
| σ | | 50.28401 | 2.732107 | 18.405 | 0.000 | 44.92918 | 55.63884 |

USIR TEST FOR ARMA (1,1)
 Sample:1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2)=57.42$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -341.6217

| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|--|-----------|-----------|--------|-------|----------------------|-------------|
| USIR | | | | | | | |
| _cons | | -17.31554 | 15.52694 | -1.115 | 0.265 | -47.74779 | 13.1167ARMA |
| ar | | | | | | | |
| L1 | | .0978548 | .1703386 | 0.574 | 0.566 | -.2360027 | .4317124 |
| ma | | | | | | | |
| L1 | | .4694459 | .1580092 | 2.971 | 0.003 | .1597536 | .7791382 |
| σ | | 50.21067 | 2.66522 | 18.839 | 0.000 | 44.98693 | 55.43441 |

GMSIR TEST FOR ARMA(1,1)
 Sample:1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(2) = 531.59$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -304.8686

| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|--|-----------|-----------|--------|-------|----------------------|----------|
| GMSIR | | | | | | | |
| _cons | | 22.11843 | 8.713202 | 2.538 | 0.011 | 5.040867 | 39.19599 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| L1 | | -.3325421 | .2645685 | -1.257 | 0.209 | -.8510869 | .1860026 |
| ma | | | | | | | |
| L1 | | 1.238436 | .3048933 | 4.062 | 0.000 | .640856 | 1.836016 |
| σ | | 22.79459 | 5.456119 | 4.178 | 0.000 | 12.10079 | 33.48839 |

GMSIR TEST FOR MA(1)
 Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(1) = 90.94$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -305.9454

| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|--|----------|-----------|--------|-------|----------------------|----------|
| GMSIR | | | | | | | |
| _cons | | 22.09354 | 9.674651 | 2.284 | 0.022 | 3.131575 | 41.05551 |
| ARMA | | | | | | | |
| ma | | | | | | | |
| L1 | | .5167653 | .0541886 | 9.536 | 0.000 | .4105575 | .6229731 |
| σ | | 28.76614 | 1.977504 | 14.547 | 0.000 | 24.8903 | 32.64197 |

GUKFRGEIRN TEST FOR AR(1)
 Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(1) = 15.18$, Pr > $\chi^2 = 0.0001$
 Log likelihood = -299.2429

| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|--|----------|-----------|--------|-------|----------------------|----------|
| GUKFRGEI | | | | | | | |
| _cons | | 17.92542 | 9.695663 | 1.849 | 0.064 | -1.077728 | 36.92857 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| L1 | | .3832607 | .0983771 | 3.896 | 0.000 | .1904452 | .5760763 |
| σ | | 25.93233 | 1.614747 | 16.060 | 0.000 | 22.76748 | 29.09717 |

Appendix 5.4 Correlation (Covariance) Matrixes: All Variables

CORRELATION MATRIXES

| | YUWOD1 | NIRNEU | USIR | GEFPIR | GMSIR | IRWO1 | EDEUIRND |
|----------|---------|---------|---------|---------|---------|---------|----------|
| YUWOD1 | 1.0000 | | | | | | |
| NIRNEU | -0.2928 | 1.0000 | | | | | |
| USIR | -0.0153 | -0.1223 | 1.0000 | | | | |
| GEFPIR | -0.1461 | -0.0413 | -0.0971 | 1.0000 | | | |
| GMSIR | -0.1247 | 0.1387 | 0.2428 | 0.1414 | 1.0000 | | |
| IRWO1 | -0.1321 | 0.3204 | 0.0953 | -0.3638 | 0.1402 | 1.0000 | |
| EDEUIRND | 0.3051 | 0.1898 | 0.1639 | 0.0425 | 0.0464 | -0.2099 | 1.0000 |
| EAVEUIRD | 0.2863 | -0.0622 | 0.1321 | 0.0120 | 0.2898 | 0.1109 | 0.4960 |
| IDEUWO | . | . | . | . | . | . | . |
| EDEUWO | . | . | . | . | . | . | . |
| IAVEUWO | 0.2518 | -0.0576 | -0.1199 | 0.1084 | -0.2673 | 0.0177 | -0.2370 |
| EAVEUWO | . | . | . | . | . | . | . |
| IDEUIR | 0.2185 | 0.1726 | -0.0944 | -0.1433 | -0.0091 | 0.0715 | -0.0858 |
| IAVEURIN | 0.1287 | 0.1633 | -0.1712 | -0.2820 | -0.0354 | 0.0006 | 0.0806 |

| | EAVEUIRD | IDEUWO | EDEUWO | IAVEUWO | EAVEUWO | IDEUIR | IAVEURIN |
|----------|----------|--------|--------|---------|---------|--------|----------|
| EAVEUIRD | 1.0000 | | | | | | |
| IDEUWO | . | | | | | | |
| EDEUWO | . | . | | | | | |
| IAVEUWO | -0.2394 | . | . | 1.0000 | | | |
| EAVEUWO | . | . | . | . | | | |
| IDEUIR | 0.1903 | . | . | -0.0618 | . | 1.0000 | |
| IAVEURIN | 0.2251 | . | . | -0.1844 | . | 0.6820 | 1.0000 |

PAIRWISE CORRELATION COEFFICIENTS

| | YUWOD1 | NIRNEU | USIR | GEFFIR | GMSIR | IRWO1 | EDEUIRND |
|----------|---------|---------|---------|---------|---------|---------|----------|
| YUWOD1 | 1.0000 | | | | | | |
| NIRNEU | -0.2146 | 1.0000 | | | | | |
| USIR | -0.0533 | 0.0296 | 1.0000 | | | | |
| GEFFIR | -0.0349 | -0.3054 | 0.0642 | 1.0000 | | | |
| GMSIR | -0.0285 | 0.0790 | -0.5984 | 0.0811 | 1.0000 | | |
| IRWO1 | -0.2683 | -0.0307 | 0.0941 | -0.1498 | -0.4212 | 1.0000 | |
| EDEUIRND | 0.3043 | 0.0883 | -0.0182 | 0.0596 | 0.1305 | -0.1512 | 1.0000 |
| EAVEUIRD | 0.2791 | 0.0227 | -0.0227 | 0.1006 | 0.1401 | -0.2378 | 0.5567 |
| IDEUWO | . | 0.0234 | 0.0421 | -0.0470 | -0.0568 | -0.0251 | -0.1063 |
| EDEUWO | . | . | . | . | . | . | . |
| IAVEUWO | 0.2518 | -0.0334 | -0.0741 | 0.0671 | -0.0046 | 0.0119 | -0.1536 |
| EAVEUWO | . | . | . | . | . | . | . |
| IDEUIR | 0.2106 | -0.0031 | 0.1333 | 0.0982 | -0.1794 | -0.0023 | -0.0795 |
| IAVEURIN | 0.1308 | 0.0497 | 0.1536 | -0.0585 | -0.2148 | -0.0710 | -0.0346 |

| | EAVEUIRD | IDEUWO | EDEUWO | IAVEUWO | EAVEUWO | IDEUIR | IAVEURIN |
|----------|----------|--------|--------|---------|---------|--------|----------|
| EAVEUIRD | 1.0000 | | | | | | |
| IDEUWO | -0.0344 | 1.0000 | | | | | |
| EDEUWO | . | . | | | | | |
| IAVEUWO | -0.1286 | 0.0259 | . | 1.0000 | | | |
| EAVEUWO | . | . | . | . | | | |
| IDEUIR | 0.0735 | 0.2235 | . | -0.0586 | . | 1.0000 | |
| IAVEURIN | 0.0884 | 0.2506 | . | -0.1161 | . | 0.7858 | 1.0000 |

Appendix 5.5 Extended Version of Results of Table 5.2-5.3

Table 5.2

GEFFIR AR(1) MA(1) robust

Sample: 1983q2 to 1999q1

Number of obs = 64

Wald $\chi^2(2) = 77.60$, Pr > $\chi^2 = 0.0000$

Log likelihood = -171.6758

| | | Semi-robust | | | | |
|----------|----|-------------|-----------|--------|-------|----------------------|
| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] |
| GEFFIR | | | | | | |
| ARMA | | | | | | |
| ar | | | | | | |
| | L1 | .863615 | .140146 | 6.162 | 0.000 | .5889339 1.138296 |
| ma | | | | | | |
| | L1 | -.6333167 | .2087381 | -3.034 | 0.002 | -1.042436 -.2241976 |
| σ | | 3.529524 | 1.371191 | 2.574 | 0.010 | .8420395 6.217008 |

GEFFIR GMSIR AR(1) MA(1) robust

Sample: 1983q2 to 1999q1

Number of obs = 64

Wald $\chi^2(3) = 70.58$, Pr > $\chi^2 = 0.0000$

Log likelihood = -170.8133

| | | Semi-robust | | | | |
|----------|----|-------------|-----------|--------|-------|----------------------|
| | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] |
| GEFFIR | | | | | | |
| GEFFIR | | | | | | |
| GMSIR | | .0189783 | .0133469 | 1.422 | 0.155 | -.0071811 .0451376 |
| ARMA | | | | | | |
| ar | | | | | | |
| | L1 | .8358414 | .1507871 | 5.543 | 0.000 | .540324 1.131379 |
| ma | | | | | | |
| | L1 | -.6073774 | .2193433 | -2.769 | 0.006 | -1.037292 -.1774723 |
| σ | | 3.483817 | 1.339832 | 2.600 | 0.009 | .8577939 6.109839 |

GEFPPIR IRW01 AR(1) MA(1) robust
 Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(3) = 108.94$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -170.7428

| | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|----|-------------|-----------|--------|-------|----------------------|-----------|
| | | Coef. | Std. Err. | | | | |
| GEFPPIR | | | | | | | |
| GEFPPIR | | | | | | | |
| IRW01 | | -.0055221 | .0017947 | -3.077 | 0.002 | -.0090396 | -.0020046 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .8656875 | .1250097 | 6.925 | 0.000 | .6206731 | 1.110702 |
| ma | | | | | | | |
| | L1 | -.6290918 | .1844066 | -3.411 | 0.001 | -.9905222 | -.2676614 |
| σ | | 3.477981 | 1.400333 | 2.484 | 0.013 | .7333782 | 6.222584 |

GEFPPIR IDEUWO AR(1) MA(1) robust
 Sample: 1983q2 to 1997q1
 Number of obs = 56
 Wald $\chi^2(3) = 8464.71$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -95.51162

| | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|----|-------------|-----------|--------|-------|----------------------|-----------|
| | | Coef. | Std. Err. | | | | |
| GEFPPIR | | | | | | | |
| GEFPPIR | | | | | | | |
| IDEUWO | | -.2127419 | .2356826 | -0.903 | 0.367 | -.6746712 | .2491875 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .978718 | .0718669 | 13.618 | 0.000 | .8378614 | 1.119575 |
| ma | | | | | | | |
| | L1 | -.892084 | .2724972 | -3.274 | 0.001 | -1.426169 | -.3579994 |
| σ | | 1.324476 | .3419121 | 3.874 | 0.000 | .6543408 | 1.994612 |

GEFPPIR IAVEUWO AR(1) MA(1) robust
 Sample: 1983q2 to 1997q1
 Number of obs = 56
 Wald $\chi^2(3) = 11.64$, Pr > $\chi^2 = 0.0087$
 Log likelihood = -93.65971

| | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|----|-------------|-----------|--------|-------|----------------------|-----------|
| | | Coef. | Std. Err. | | | | |
| GEFPPIR | | | | | | | |
| GEFPPIR | | | | | | | |
| IAVEUWO | | .4837483 | .2438121 | 1.984 | 0.047 | .0058854 | .9616112 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .5651969 | .2506184 | 2.255 | 0.024 | .0739938 | 1.0564 |
| ma | | | | | | | |
| | L1 | -.4188757 | .1329091 | -3.152 | 0.002 | -.6793728 | -.1583785 |
| σ | | 1.288166 | .3147704 | 4.092 | 0.000 | .6712273 | 1.905105 |

GEFPPIR IAVEUI2 AR(1) MA(1) robust
 Sample: 1983q2 to 1997q2
 Number of obs = 57
 Wald $\chi^2(3) = 1848.32$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -152.2885

| | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|----|-------------|-----------|---------|-------|----------------------|----------|
| | | Coef. | Std. Err. | | | | |
| GEFPPIR | | | | | | | |
| GEFPPIR | | | | | | | |
| IAVEUI2 | | -.3465564 | .261865 | -1.323 | 0.186 | -.8598024 | .1666896 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | .9284874 | .0223417 | 41.559 | 0.000 | .8846985 | .9722762 |
| ma | | | | | | | |
| | L1 | -.7307184 | .0544338 | -13.424 | 0.000 | -.8374068 | -.62403 |
| σ | | 3.48543 | 1.478111 | 2.358 | 0.018 | .5883858 | 6.382474 |

GEFPPIR IDEUIR AR(1) MA(1) robust
 Sample: 1983q2 to 1997q2
 Number of obs = 57
 Wald $\chi^2(3) = 1506.69$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -150.7664

| | | Semi-robust | | z | P> z | [95% Conf. Interval] | |
|----------|----|-------------|-----------|--------|-------|----------------------|----------|
| | | Coef. | Std. Err. | | | | |
| GEFPPIR | | | | | | | |
| GEFPPIR | | | | | | | |
| IDEUIR | | 11940.27 | 11079.26 | 1.078 | 0.281 | -9774.672 | 33655.22 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L1 | -.4607785 | .4252008 | -1.084 | 0.279 | -1.294157 | .3725998 |
| ma | | | | | | | |
| | L1 | .9068946 | .0375094 | 24.178 | 0.000 | .8333774 | .9804117 |
| σ | | 3.382012 | 1.187387 | 2.848 | 0.004 | 1.054776 | 5.709248 |

GEFPIR GUKFRGEI AR(1) MA(1)robust
 Sample: 1983q2 to 1999q1
 Number of obs = 64
 Wald $\chi^2(3) = 75.82$, Pr > $\chi^2 = 0.0000$
 Log likelihood = -170.8337

| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| GEFPIR | | | | | | |
| GUKFRGEI | .0210997 | .0160029 | 1.318 | 0.187 | -.0102654 | .0524647 |
| ar | | | | | | |
| L1 | .8412507 | .1431091 | 5.878 | 0.000 | .560762 | 1.121739 |
| ma | | | | | | |
| L1 | -.6157677 | .2077151 | -2.964 | 0.003 | -1.022882 | -.2086535 |
| σ | 3.484798 | 1.332839 | 2.615 | 0.009 | .8724826 | 6.097114 |

Table 5.3

GEFPIR IRW01 IAVEUWO AR(1) MA(1) robust
 Sample: 1983q2 to 1997q1
 Number of obs = 56
 Wald $\chi^2(4) = 13.81$, Pr > $\chi^2 = 0.0079$
 Log likelihood = -91.6454

| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| GEFPIR | | | | | | |
| IRW01 | -.0033166 | .001162 | -2.854 | 0.004 | -.0055941 | -.0010391 |
| IAVEUWO | .4933211 | .2468061 | 1.999 | 0.046 | .0095901 | .9770522 |
| ar | | | | | | |
| L1 | .5558097 | .2628826 | 2.114 | 0.034 | .0405694 | 1.07105 |
| ma | | | | | | |
| L1 | -.3770951 | .15451 | -2.441 | 0.015 | -.6799292 | -.074261 |
| σ | 1.242491 | .299372 | 4.150 | 0.000 | .6557324 | 1.829249 |

GEFPIR IRW01 IAVEUWO from 1983q2 to 1993q4 ARMA(1,1)robust
 Sample: 1983q2 to 1993q4
 Number of obs = 43
 Wald $\chi^2(4) = 14.68$, Pr > $\chi^2 = 0.0054$
 Log likelihood = -48.8287

| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| GEFPIR | | | | | | |
| IRW01 | -.0019265 | .0007034 | -2.739 | 0.006 | -.0033051 | -.0005478 |
| IAVEUWO | .2980115 | .1131151 | 2.635 | 0.008 | .0763099 | .5197131 |
| ar | | | | | | |
| L1 | -.6173778 | .5073887 | -1.217 | 0.224 | -1.611841 | .3770857 |
| ma | | | | | | |
| L1 | .4991701 | .49665 | 1.005 | 0.315 | -.4742461 | 1.472586 |
| σ | .7529692 | .1721666 | 4.373 | 0.000 | .4155289 | 1.090409 |

GEFPIR IRW01 IAVEUWO from 1987q3 to 1999q1 ARMA(1,1) robust
 Sample: 1987q3 to 1997q1
 Number of obs = 39
 Wald $\chi^2(4) = 10.41$, Pr > $\chi^2 = 0.0341$
 Log likelihood = -69.19577

| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| GEFPIR | | | | | | |
| IRW01 | -.0043144 | .0017272 | -2.498 | 0.012 | -.0076996 | -.0009292 |
| IAVEUWO | .6532875 | .2929375 | 2.230 | 0.026 | .0791406 | 1.227434 |
| ar | | | | | | |
| L1 | .467725 | .2911999 | 1.606 | 0.108 | -.1030162 | 1.038466 |
| ma | | | | | | |
| L1 | -.3157796 | .1739419 | -1.815 | 0.069 | -.6566995 | .0251404 |
| σ | 1.426032 | .3566978 | 3.998 | 0.000 | .7269176 | 2.125147 |

GEFPIR IRW01 IAVEUWO from 1990q1 to 1999q1 ARMA (1,1) robust
 Sample: 1990q1 to 1997q1
 Number of obs = 29
 Wald $\chi^2(4) = 6.26$, Pr > $\chi^2 = 0.1804$
 Log likelihood = -53.80799

| | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| GEFPIR | | | | | | |
| IRW01 | -.0128104 | .0056204 | -2.279 | 0.023 | -.0238261 | -.0017947 |
| IAVEUWO | .779448 | .3861442 | 2.019 | 0.044 | .0226193 | 1.536277 |
| ar | | | | | | |
| L1 | .432692 | .3459349 | 1.251 | 0.211 | -.245328 | 1.110712 |
| ma | | | | | | |
| L1 | -.2314784 | .2824723 | -0.819 | 0.413 | -.785114 | .3221572 |
| σ | 1.545932 | .3496108 | 4.422 | 0.000 | .8607076 | 2.231157 |

Appendix 5.6 Test for specification of periods between structural breakpoints

GEFPIR IRW01 iaveuwo in period 1983q2 - 1993q4 AR(2) MA(1) Robust

Sample: 1983q2 to 1993q4

Number of obs = 43

Wald chi2(4) = 9.99 Pr > chi2 = 0.0406

Log likelihood = -48.65094

| GEFPIR | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|---------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| IRW01 | -.001976 | .0006837 | -2.890 | 0.004 | -.0033159 | -.000636 |
| iaveuwo | .3093064 | .1364632 | 2.267 | 0.023 | .0418435 | .5767692 |
| ar | | | | | | |
| L2 | .1459293 | .2188752 | 0.667 | 0.505 | -.2830583 | .5749169 |
| ma | | | | | | |
| L1 | -.0973929 | .0484312 | -2.011 | 0.044 | -.1923163 | -.0024695 |
| σ | .7496858 | .1691064 | 4.433 | 0.000 | .4182433 | 1.081128 |

GEFPIR IRW01 iaveuwo in period 1983q2 - 1993q4 AR(3) MA(1) Robust

Sample: 1983q2 to 1993q4

Number of obs = 43

Wald chi2(4) = 10.06; Pr > chi2 = 0.0394

Log likelihood = -49.06756

| GEFPIR | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|---------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| IRW01 | -.0019164 | .0007126 | -2.689 | 0.007 | -.003313 | -.0005198 |
| iaveuwo | .2946514 | .1107417 | 2.661 | 0.008 | .0776018 | .5117011 |
| ar | | | | | | |
| L3 | -.0250935 | .0499746 | -0.502 | 0.616 | -.123042 | .0728549 |
| ma | | | | | | |
| L1 | -.0847065 | .0382344 | -2.215 | 0.027 | -.1596445 | -.0097685 |
| σ | .7573433 | .1760184 | 4.303 | 0.000 | .4123536 | 1.102333 |

GEFPIR IRW01 iaveuwo in period 1983q2 - 1993q4 AR(4) MA(1) Robust

Sample: 1983q2 to 1993q4

Number of obs = 43

Wald chi2(4) = 19.09; Pr > chi2 = 0.0008

Log likelihood = -48.8917

| GEFPIR | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|---------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| IRW01 | -.0019057 | .0007362 | -2.588 | 0.010 | -.0033488 | -.0004627 |
| iaveuwo | .2881896 | .0962403 | 2.994 | 0.003 | .0995621 | .4768172 |
| ar | | | | | | |
| L4 | -.1183132 | .0958323 | -1.235 | 0.217 | -.3061411 | .0695147 |
| ma | | | | | | |
| L1 | -.0933094 | .0424941 | -2.196 | 0.028 | -.1765963 | -.0100225 |
| σ | .7537604 | .1712993 | 4.400 | 0.000 | .41802 | 1.089501 |

GEFPIR IRW01 iaveuwo in period 1987q3 - 1999q1 AR(2) MA(1) Robust

Sample: 1987q3 to 1997q1

Number of obs = 39

Wald chi2(4) = 8.97; Pr > chi2 = 0.0619

Log likelihood = -68.33617

| GEFPIR | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|---------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| IRW01 | -.0038726 | .001496 | -2.589 | 0.010 | -.0068046 | -.0009406 |
| iaveuwo | .6354812 | .3041544 | 2.089 | 0.037 | .0393495 | 1.231613 |
| ar | | | | | | |
| L2 | .2489606 | .3155313 | 0.789 | 0.430 | -.3694694 | .8673907 |
| ma | | | | | | |
| L1 | .1300429 | .1485324 | 0.876 | 0.381 | -.1610752 | .4211611 |
| σ | 1.393084 | .3099471 | 4.495 | 0.000 | .7855993 | 2.000569 |

GEFPIR IRW01 iaveuwo in period 1987q3 - 1999q1 AR(3) MA(1) Robust

Sample: 1987q3 to 1997q1

Number of obs = 39; Wald chi2(4) = 10.92; Pr > chi2 = 0.0275

Log likelihood = -69.13823

| GEFPIR | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|---------|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | |
| IRW01 | -.0042663 | .0017519 | -2.435 | 0.015 | -.0076999 | -.0008327 |
| iaveuwo | .6452622 | .2368878 | 2.724 | 0.006 | .1809706 | 1.109554 |
| ar | | | | | | |
| L3 | -.1974852 | .0801913 | -2.463 | 0.014 | -.3546572 | -.0403132 |
| ma | | | | | | |
| L1 | .1099641 | .0581177 | 1.892 | 0.058 | -.0039445 | .2238728 |
| σ | 1.422132 | .3763249 | 3.779 | 0.000 | .6845488 | 2.159715 |

GEFPIR IRW01 iaveuwo in period 1987q3 - 1999q1 AR(4) MA(1) Robust

Sample: 1987q3 to 1997q1

Number of obs = 39

Wald chi2(4) = 11.86; Pr > chi2 = 0.0184

Log likelihood = -68.6271

| GEFPIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | | |
| IRW01 | | -.0050123 | .0022936 | -2.185 | 0.029 | -.0095076 | -.0005171 |
| iaveuwo | | .6420136 | .2057059 | 3.121 | 0.002 | .2388374 | 1.04519 |
| ar | | | | | | | |
| | L4 | -.3059935 | .1540609 | -1.986 | 0.047 | -.6079472 | -.0040398 |
| ma | | | | | | | |
| | L1 | .0541481 | .0673219 | 0.804 | 0.421 | -.0778005 | .1860967 |
| σ | | 1.398851 | .3519105 | 3.975 | 0.000 | .7091187 | 2.088583 |

GEFPIR IRW01 iaveuwo in period 1990q1 - 1999q1 AR(2) MA (1) Robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald chi2(4) = 5.58; Pr > chi2 = 0.2330

Log likelihood = -53.6725

| GEFPIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|----------|
| GEFPIR | | | | | | | |
| IRW01 | | -.0117584 | .0064352 | -1.827 | 0.068 | -.0243711 | .0008544 |
| iaveuwo | | .7787296 | .3934692 | 1.979 | 0.048 | .0075442 | 1.549915 |
| ar | | | | | | | |
| | L2 | .1637107 | .2806616 | 0.583 | 0.560 | -.3863759 | .7137972 |
| ma | | | | | | | |
| | L1 | .1758102 | .1428519 | 1.231 | 0.218 | -.1041745 | .4557948 |
| σ | | 1.538066 | .336949 | 4.565 | 0.000 | .8776579 | 2.198473 |

GEFPIR IRW01 iaveuwo in period 1990q1 -1999q1 AR(3) MA (1) Robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald chi2(4) = 11.04; Pr > chi2 = 0.0262

Log likelihood = -54.03759

| GEFPIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|----------|
| GEFPIR | | | | | | | |
| IRW01 | | -.0132147 | .0072843 | -1.814 | 0.070 | -.0274917 | .0010622 |
| iaveuwo | | .7827486 | .3653419 | 2.143 | 0.032 | .0666917 | 1.498806 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L3 | .0101083 | .2102156 | 0.048 | 0.962 | -.4019067 | .4221232 |
| ma | | | | | | | |
| | L1 | .1648527 | .1152762 | 1.430 | 0.153 | -.0610844 | .3907899 |
| σ | | 1.558845 | .3718039 | 4.193 | 0.000 | .8301227 | 2.287567 |

GEFPIR IRW01 iaveuwo in period 1990q1 - 1999q1 AR(4) MA(1) Robust

Sample: 1990q1 to 1997q1

Number of obs = 29

Wald chi2(4) = 10.42; Pr > chi2 = 0.0339

Log likelihood = -52.90398

| GEFPIR | | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------|----|-----------|-----------|--------|-------|----------------------|-----------|
| GEFPIR | | | | | | | |
| IRW01 | | -.0134932 | .0046879 | -2.878 | 0.004 | -.0226814 | -.0043051 |
| iaveuwo | | .6999637 | .2343306 | 2.987 | 0.003 | .2406842 | 1.159243 |
| ARMA | | | | | | | |
| ar | | | | | | | |
| | L4 | -.399642 | .1874713 | -2.132 | 0.033 | -.767079 | -.0322049 |
| ma | | | | | | | |
| | L1 | .1496036 | .0923003 | 1.621 | 0.105 | -.0313017 | .3305089 |
| σ | | 1.481529 | .3259266 | 4.546 | 0.000 | .8427244 | 2.120333 |

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