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When trade liberalization turns into regulatory reform: The impact on business–government relations in international trade politics

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Abstract

Business–government relations on trade issues are generally characterized as protectionist lobbying or – less often – lobbying for the liberalization of markets. However, with the evolution of the trading system, negotiations today concern not just market opening, but also the regulatory frameworks that structure international trade. This transformation has important consequences for the ways in which private interests can contribute to trade negotiations. Instead of simply trying to exert pressure, businesses and other private actors now form working relationships with governments based on expertise, learning, and information exchange. This article illustrates these new forms of public–private interactions with examples from the USA, the European Union, and Brazil.

Keywords: Brazil, European Union, lobbying, trade, United States.

Introduction

International trade negotiations have changed profoundly in the last 50 years. Since the first rounds of talks under the General Agreement on Tariffs and Trade (GATT), trade negotiations have moved from the reciprocal reduction of tariff barriers to include a wealth of non-tariff barriers, focusing increasingly on domestic issues with an impact on trade. The Uruguay Round led to the creation of the World Trade Organization (WTO) in 1995 and expanded the coverage of the multilateral trading system to services and intellectual property rights. Trade-related domains, such as environment or labor standards, competition, or investment policies are also affected by the rules negotiated under the WTO (see Hoekman & Kostecki 2001; Barton *et al.* 2006). With the expansion of trade issues, new non-governmental groups have tried to take part in trade negotiations to offset the influence of big business (Bayne & Woolcock 2003). Indeed, activists and the anti-globalization movements have argued that the WTO is captured by big business, which maintains apparently privileged relationships with trade negotiators (e.g. Wallach & Sforza 1999; Wesselius 2002).

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Business–government relations have been central to academic writing on trade policy for a long time. According to the school of economic regulation, which still dominates trade policy studies today, trade decisions are the result of industry lobbying (Stigler 1971; Posner 1974; Buchanan *et al.* 1980; Krueger 1995). In most trade policy accounts, business is assumed to determine first where its material interests lie: in the protection of home markets or in the access to new markets (Frieden & Martin 2002, p. 126). It then tries to influence political decision-makers, offering votes or financial incentives in exchange for the desired outcome. Within this framework, studying the making of trade policy requires understanding when firms will lobby for protectionism and when for liberalization, and sophisticated models have been developed to predicting industry behavior according to factor distribution, sectors, or firm strategies (Alt & Gilligan 1994; Milner 1999; Hiscox 2002).[1]

An empirical study of current business–government interactions, however, reveals a more complex reality. First of all, firms maintain a great variety of relations with governments that go far beyond making general demands for open or closed markets. Depending on the sectors, governments may solicit firm input and even delegate tasks to business actors (Cutler *et al.* 1999). Second, business–government relations often take the form of close working relationships, characterized by the mutually beneficial exchange of information and reciprocal learning (Shaffer 2003; Woll 2005). Although firms sometimes know exactly what they want and then pressure their governments to comply with these interests, business–government relations go further beyond simple pressure lobbying than previously assumed in the international political economy literature on trade.

The central argument of this paper is that traditional business–government models fail to capture an increasingly complex empirical reality, because they are based on an outdated and sometimes inaccurate conception the nature of trade negotiations. Pressure lobbying for protectionism or liberalization, as appropriate as it may be for tariff negotiations (e.g. Kingstone 2000), does not account for strategies related to the new dynamics and complex issues negotiated under the WTO. The liberalization of trade in products has moved the target of business lobbyists from tariffs to process and production methods – and therefore to environment and labor standards – although subsidies, and lately safeguards, remain an important issue (Hoekman & Kostecki 2001, p. 453; Read 2005).[2] Recent trading issues increasingly imply the construction or harmonization of specific regulatory regimes, especially in new areas such as intellectual property or service trade (Sauvé & Stern 2000; Mattoo & Sauvé 2003). This not only applies to multilateral agreements, such as the WTO's Sanitary and Phytosanitary Measures Agreement, the Technical Barriers to Trade Agreement, or elements of the General Agreement on Trade in Services, it has also been particularly true in the case of bilateral agreements since the early 2000s.[3] In this context, business–government relations resemble the interactions of firms and governments on domestic regulatory issues and not the pressure lobbying on tariff negotiations or safeguards (see Willman *et al.* 2003; Coglianese *et al.* 2004; Coen 2005). In addition, the judicialization or legalization of trade issues through the dispute settlement system of the WTO increases the role of expertise as a primary resource of business lobbying (Shaffer 2006).

Although published work acknowledges the changing nature of trade, few authors have fully acknowledged the profound effect of these transformations for business–government interactions (but see Shaffer 2003; Young & Peterson 2006). This article seeks to fill this void. It distinguishes two ideal types of business lobbying – pressure lobbying and interactive business–government relations, the latter of which we will refer to as regulatory trade lobbying. It discusses why pressure lobbying is an ill fit for regulatory issues and the increasing legalization of trade. We then illustrate the new business–government relations with case examples from the USA, the European Union (EU), and the emerging trade power Brazil. In particular, we emphasize that interactive lobbying happens in a context of uncertainty, that governments actively solicit firm participation, and that they depend quite heavily on the expertise firms can provide.

Our case examples were chosen to show that business–government relations have been surprisingly similar across different domains: in a country with a long lobbying tradition (the USA), an unusual political system that has turned into the second most important trading power and lobbying forum (the EU), and an emerging economy with a growing importance in multilateral trade negotiations (Brazil). Despite the institutional and historical differences in public–private partnerships, trade policy lobbying in these three cases systematically diverges from the pressure lobbying assumed in the mainstream trade policy literature.[4]

Our empirical discussion draws on over 120 qualitative interviews carried out with representatives from firms, business associations, or governments between September 2002 and December 2004.[5] We have mainly spoken to firms and business associations that have been particularly active on international trade and that have invested considerable resources to affect negotiations. The uncertainty, constraints, and difficulties mentioned by these business actors can thus be assumed to apply even more decisively to smaller and less active firms.

We proceed in three steps. A first section reviews recent analyses of the multilateral trading system and explains that international trade policy-making increasingly includes intense consideration of regulatory issues. A second section analyzes how these changes in trade policy affect business–government relations. In particular it distinguishes pressure lobbying from the interactive business–government relations common in regulatory contexts. A third section illustrates these business–government relations with example from trade policy lobbying in the USA, the EU, and Brazil, focusing on the role of uncertainty, government solicitation, and mutual dependence. As a research agenda, the final section uses the empirical discussion to articulate hypotheses about the conditions that determine which business–government interactions we should expect and in what context. The conclusion clarifies the implications of our distinctions for the study of trade policy-making.

1. Trade negotiations as regulatory reform

As early as 1989, Milner and Yoffie (1989, pp. 239–240) remarked that the study of business lobbying is trapped in a dichotomy between liberalization and protectionism. Following David Ricardo (1817 [1992]), trade was imagined as the exchange of goods between two countries with competitive markets where production follows from a country's comparative advantage. Under protectionism, a country raises the barriers to entry for foreign goods; under free trade, it abandons these barriers and exposes its firms to foreign competition. Multilateral tariff negotiations, the reason for which the GATT was created, ensure nothing more than the reciprocal reduction of external barriers and consequentially the stakes for the affected firms are quite clear.

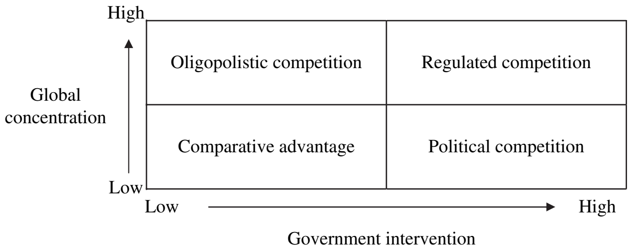

Figure 1 Drivers of international trade.

This assumption, however, holds true only if all countries have perfectly competitive markets on the inside and if their only decisions are whether to open or close these markets to foreign competition. This is not necessarily the case. In his book, "Beyond Free Trade," David Yoffie (1993) argues that the nature of competition is very different if (i) there is a high or a low degree of industry concentration in a particular market; and (ii) government intervention in a sector is intensive or low. Yoffie (1993, p. 19) summarizes the diverse nature of the international trading system in Figure 1.

The classic international trade model, according to Yoffie, corresponds to the lower left-hand box. National markets have few imperfections and government has a small role, so that a large number of firms compete based on their comparative advantages once trade barriers are reduced. However, Yoffie also identifies three other forms of international competition: (i) oligopolitistic competition between large firms in liberalized national markets; (ii) political competition between two different systems of government intervention; and (iii) regulated competition, where both firm concentration and government intervention is high.

Yoffie's characterization corresponds with Cowhey and Aronson's (1993) analysis of global trade. To these authors, trade negotiations previously aimed at obtaining a "free trade regime" based on the free movement of goods and national comparative advantage. Today, this logic has eroded. Investment has become coequal with trade, particularly in emerging countries (Sauvé 2006), the boundary between services and goods is vanishing and consequentially the modes of trading have become more complex. Firms often maintain business operations in foreign countries, but are unable to compete on equal footing with national producers because of product or process restrictions. The central question is no longer whether to allow free trade with a foreign country, but how to ensure market access to a foreign market. Instead of following universally applicable rules, these "market access regimes" have to be negotiated sector by sector as they often involve the internationalization or harmonization of domestic policies applying to a particular product or service market. Quite often, this is a North–South issue as well: Firms in advanced economies can only access the markets in emerging economies if they can institute a specific regulatory framework for investment, intellectual property rights, or state procurement. Whereas the classic literature has tried to include such restrictions in the concept of "non-tariff barriers" to trade, these barriers are often embedded in different domestic regulatory approaches or competition policy. Empirical analysis shows that domestic regulatory policies and international economic policies are no longer independent of each other, as previous models generally assumed.[6]

Many of these domestic regulations cannot simply be undone by multilateral negotiations. In sectors where regulatory issues are salient, trade negotiations therefore attempt to harmonize or to internationalize regulatory standards. Prominent examples are service trade negotiations (where market access hinges on qualification and licensing requirements), pro-competitive regulation, or universal access requirements for health services or transport (Mattoo & Sauvé 2003). But even trade in goods poses the question of internationally applicable production and process regulations, such as environmental or labor standards. Intellectual property rights and the recent pharmaceutical debates also revolve around what goods can be traded, and when. The question is no longer whether to liberalize trade, but *how* to liberalize trade in a given sector. In sectors where industry concentration and government intervention is high, multilateral trade negotiations have become coequal to international regulatory reform.

The transformation of the institutional setting is crucial to understanding this evolution. Changes in the international governance of trade have sensibly modified the setting, which also affects the lobbying of economic actors. The "new trade themes" and the refinement of trade policy instruments, such as the WTO dispute settlement system and its application on national soil, call for an expertise that was less relevant in previous GATT rounds. Whereas the negotiation of regulatory issues requires technical knowledge, the judicialization of trade implies a greater demand legal expertise. Both cases increase the need for detailed knowledge about market barriers (Goldstein & Martin 2000; De Bièvre 2004; Shaffer 2006).

2. Business–government relations: between pressure and cooperation

How then should we understand business–government relations over multilateral trade? In the context of tariff negotiations, lobbying previously had been presented as largely dichotomized between protectionism and support for reciprocal trade liberalization. Firms or industry representatives had been understood to exert pressure on politicians to capture the outcome of negotiations. Lobbying over trade policy became equated with "rent-seeking" and gave a bad reputation to business involvement in politics and trade policy in general (Buchanan *et al.* 1980; Magee *et al.* 1989).

In contrast, research on lobbying strategies in the field of business administration and international business has tended moved away from this dichotomy (e.g. Rugman & Verbeke 1990; Dunning 1997). According to business-centered studies, the stakes in international trade negotiations are foreign investment and market access relevant to the strategic positioning of firms. This corresponds with the propositions of Cowhey and Aronson (1993) and Yoffie (1993). When multilateral trade negotiations are about the formulation of specific targeted rules that define market access and operation, business lobbying changes.

On the one hand, firms have to affect the details of the rules in question, which requires closer cooperation than just pressuring for a general outcome of talks. The transmission of information, and not just the provision of electoral or financial incentives, becomes an important part of trade policy lobbying (see Potters & Van Winden 1990; Barney 1991; Austen-Smith 1993; see also Bauer *et al.* 1963). However, governments need to negotiate the internationalization of domestic regulations, which requires knowledge about the constraints weighing on a particular market. As trade negotiations aim at facilitating the operation of business, firms become privileged sources of information for government delegations (Coglianese *et al.* 2004). Expertise thus proves to be an important resource for lobbyists trying to gain access to international trade talks

(Radaelli 1995). By offering this expertise, firms become part of the epistemic communities that thus structure global business regulation (Braithwaite & Drahos 2000).

The transformation of multilateral trade negotiations has important consequences for the political activities of business actors, because it affects their political opportunity structure.[7] The growing importance of regulatory affairs in international trade has profoundly changed the informal procedures and interactions between stakeholders. For simple decisions like tariff reductions, economic interest groups can offer their financial or electoral support in exchange for decisions in their favor. This is no longer the case when regulation becomes a means for governments to tie their hands, as in the case of emerging countries like Brazil or South Africa. Many current and widely used trade policy instruments rely on highly formalized procedures of the WTO; this evolution is a sharp contrast to previous negotiations on tariffs, where demands could be easily formulated and did not require such elaborate procedures. Anti-dumping investigations can lead to highly codified retaliations, and the providing the expertise necessary for launching such proceedings is therefore increasingly costly for business lobbyists.[8]

Faced with regulatory stakes and increasing legalization, the exchange between business and government is therefore based on the exchange of technical expertise and legitimacy *inter pares*. Governments gain information and political support whereas firms gain access to the elaboration of a policy issue. This shift in resources is accompanied by a shift in constraints on lobbying success. Pressure lobbying is constrained political competition: many groups try to influence policy-makers and seek to prevail against each other to be heard (Becker 1983). Regulatory trade lobbying rests on government solicitation of expertise, so the criteria for success or failure are different. Firms have to prove to the government that they are valuable partners, which requires credibility, reputation, and constructive cooperation (Broscheid & Coen 2003; Coen 2005, p. 377). As government delegations can shop around for business partners, they can privilege those that are perceived to facilitate the consultation process (Willman *et al.* 2003).

Table 1 summarizes the two different types of business–government relations on international trade. Like most classifications, this one emphasizes two ideal types of business–government relations on trade issues. In many contexts, we will find hybrid forms. This seems to be particularly true in the case of emerging countries, where both types of relations coexist, partly because of higher stakes in tariffs in not so widely liberalized economies. Some firms and economic actors might even use both means simultaneously, although a reliance on pressure can harm working relations in the long run. The central point we would like to make is simply that the transformation of multilateral trade negotiations that has been observed by many authors also has important consequences for business–government relations. The insights about regulatory lobbying in the political science and management literature thus need to be connected systematically with the changing nature of trade.

3. Business lobbying on multilateral trade negotiations

For business actors, the new stakes are first and foremost a challenge, because the distributive effects of regulatory reform are not as easily predictable as the effects of opening or closing markets. Both government negotiators and firm representatives need to determine how to transnationalize or harmonize domestic regulation, preferably with the greatest possible benefit to the national economy (for government representatives) or

Table 1 Two types of business–government relations

	Pressure lobbying on trade	Regulatory trade lobbying
Goal of multilateral negotiations	Opening/closing of domestic markets to foreign goods	Internationalization of regulatory regimes to facilitate trade and trans-border operations
Typical means for achieving goal	Tariffs or non-tariff barriers	Regulatory reform or creation of international regulatory standards
Stake for economic actors	Demands for or against market opening	Participating in the elaboration of targeted rules specifying how to liberalize
Lobbying mode	Exerting pressure, consultation	Consultation, cooperation
Principal resource	Political support (financial or electoral)	Technical expertise
Principal constraint	Competition between groups	Dependence on government solicitation; complexity and uncertainty

particular firms (for business representatives). Quite often, multiple alternatives and a series of intricate details need to be evaluated, so governments solicit industry input and assistance. Firms, in turn, often need a considerable amount of time to learn and evaluate the effect of a given set of negotiations.

Three aspects of regulatory business–government relations are particularly important: (i) the greater degree of uncertainty about the stakes for both business and government and the learning process that this uncertainty prompts; (ii) the active solicitation of private actor participation; and (iii) the mutual dependence that forms as a result of the interaction. These aspects correspond to the changing mode, constraints, and resources shown in Table 1. We illustrate each of these aspects through accounts of business lobbyists and government representatives in the USA, the EU, and Brazil.

3.1. Uncertainty

The effects of trade policies are often difficult to evaluate due, in part, to the evolution of corporate strategies of individual firms.[9] Increasing vertical integration and the internationalization of corporate strategies interact with growing complexity of trade negotiations and regulation. Many firms find it difficult to catch up with the WTO's agenda, which explains why lobbying during the early years of a trading issue is rarely effective. This is particularly true in countries that are newcomers to trade liberalization like Brazil. The internationalization of their economies combined traditional and new regulatory issues that demanded extensive learning on the part of economic actors. Government officials recall how long it took part of the agricultural industry to "professionalize" their demands during the 1990s. As one government official from Brazil noted:

> The first thing [the producers] did when confronted with the opening of the economy was to ask for subsidies. Later they launched a badly-knitten anti-dumping

procedure, followed by a serious study on tariffs to finally achieve a decent anti-dumping procedure. It clearly was a learning process but they are now aware of each one of trade defense instruments.[10]

In many way, calling for simple trade protection was a matter of habit, sometimes even detrimental to the interests of given sectors, who only learned slowly that they could also demand anti-dumping procedures against third countries. The same Brazilian official recalled:

During the 1990s, the textile sector was confronted [with] strong pressure from Chinese imports. [The Brazilian textile branch] demanded subsidies, but they are now demanding an agreement with the EU. This change did not come overnight; the evolution of this position took two years to emerge.[11]

Yet, although there has been a learning process, the existence of traditional trade issues hinders the effective participation of business interests on new regulatory issues, which depends in turn both on a critical mass of multinational firms operating on national soil and on efficient branch associations.

Moreover, WTO procedures often remain obscure for firms that do not work on trade issues continuously. This not only applies to firms from newcomer countries. As a representative from a European telecommunications company remembered,

I have to admit, I only discovered the WTO at the margin. Initially, people considered the WTO to be something quite abstract. In most countries, you did not have a realization that there was a new reality, that you couldn't do anything without paying attention to the WTO.[12]

Following trade negotiations was just as difficult, as a leading telecom expert from the USA explained:

Nobody knew how to read a schedule of commitments. We even had people think that '- none, -none, -none' meant that none had market access.[13]

To resolve these difficulties, business representatives had to get creative. As one US business representative described:

We developed a sort of code to talk to one another while government representatives were in the room. We made sure we would start our phrases by saying 'Just to review a little bit what has been said…' so that everybody understood what was going on.[14]

Uncertainty on issues and possible outcomes translated into concrete apprehensions in the early period. From Brazil's textile industry to European telecommunication firms or American airlines, all business representatives, who at one point started following WTO affairs, felt that there was a high risk of being traded-off "against bananas."[15] This fear applied not only to firms affected by the negotiations on new trade issues; it was also a consequence of increasingly complex negotiations on traditional industrial sectors like textile or steel.

Information on all aspects of negotiations is sometimes difficult to obtain, even for government representatives. This is particularly true for emerging countries like Brazil. Previous GATT rounds had been conceived as relatively vague and non-constraining. For a long time, only a few government officials were in charge of these negotiations and they had little sense of what the real situation was in each sector once they started negotiating under the WTO framework: "We handled little information, and we arrived to the negotiation table with rather impressionistic data."[16] Consequentially, it was not unusual for business sector representatives to travel all the way to Geneva to engage in last-minute lobbying activities, to make up for the government's lack of information, and to make their demands visible.

3.2. Solicitation

Firms have not always been the ones who have taken the initiative to follow and enter into contact with government negotiators. Quite often, the government made a concerted effort to reach out to business, inform them of the stakes of particular negotiations, and solicit their help.

Brazil has undergone a significant change in this matter, in part, as a result of existing negotiations between the Latin American common market (MERCOSUR) and the USA and the EU that required specific negotiating groups to be established. In recent years, the Brazilian government has developed an extensive information network on trade matters, associated with an increased level of interaction with business representatives. In addition to ad hoc committees that existed during the former Cardoso government, new formal institutions like the National Council for Industrial Development (CNDI) were created to meet on regular basis and encourage the widespread participation of regional and sectoral industrial associations. Non-tariff restrictions, higher technological standards, and expertise have all compelled government officials to learn more about production processes, which in turn required closer cooperation with business. In the textile sector, for example, the Brazilian government turned to business representatives to understand production processes relevant for trade negotiations.[17]

Moreover, governments in many emerging countries have set up information channels to allow at least a minimalist understanding of the functioning of the WTO. Increased transparency and a reliable commitment to a long-term trade policy have been crucial factors in countries with unstable state structures to convince business representatives to invest time and resources in the negotiation process and to engage in formally accepted lobby practices (Maxfield & Schneider 1997; Diniz 2000).

The asymmetries of world trade have led the governments of emerging economies to search for more detailed knowledge. Although government officials working on trade matters became more numerous and were better trained (through the creation of a new career path as a specialist in foreign trade), countries consistently needed to integrate business input to strengthen the national position in the increasingly complex negotiations. Indeed, during the negotiation of the Free Trade Agreement of the Americas (FTAA) and the MERCOSUR–EU association, the Brazilian government's limited number of ill-prepared representatives confronted solid teams ("an army") of US and EU representatives. To make up for this asymmetry, Brazilian business representatives were henceforth included on Brazil's negotiation teams, a novelty if we take into account the peculiar isolationist culture of foreign trade decisions in this country during the time of MERCOSUR's launching. Last but not least, the transparency associated with these negotiation processes (FTAA official forums between government and entrepreneurs) transposed a new culture of interaction between government and business on trade matters.

The active solicitation of business input is not only common in emerging economies. Shaffer (2003) has shown this in great detail for the USA and the EU. In particular, he underlines that the European Commission undertakes "reverse lobbying:" it constantly has to contact firms to contact it. Government representatives on both sides of the Atlantic engage in extensive outreach programs. In the USA, the government used much of its early contacts with business to "try and inform them about why we thought [a particular negotiation] was a good idea."[18] The US government had to make an effort to get companies interested:

> If you want a meeting, you call the companies. We didn't even know who they were, so we started casting the net and bringing them in.[19]

For government representatives everywhere, consulting with companies was considered crucial: "All trade negotiations are done on behalf of our companies, so it is important that there is a continuous back and forth between them and the government."[20]

Governments therefore solicit consultation with business experts, although there can be differences between countries. The US administration has for a long time asked private sector representatives to join them. According to a European observer, sometimes "the US private sector delegation would be as large as the government delegation."[21] A US business representative confirmed that, "if you are a significant American company, a lot of times the government might ask you to be part of the delegation."[22]

In Europe, the Commission also tries to work with business representatives, but often find firms surprisingly uninterested. According to one US business representative, "[t]he difference is that governments [in Europe] are not used to working with industry. And industry is not used to working with them … except in the UK."[23] Nonetheless, the Commission tries quite actively to involve business representatives, not the least reason being that it needs to keep up with the wealth of technical information that the US government can provide because of its business consultation. A representative of an EU business association explained: "Quite often, the Commission will approach us to keep them informed about market barriers encountered: 'If you have a problem, please tell us!'"[24]

Indeed, the Commission has made an enormous effort to cooperate more closely with business representatives to obtain technical expertise necessary to keeping up with their American counterparts. This effort has led to the creation of the Transatlantic Business Dialogue in 1995 and smaller associations such as the European Service Forum, where European business leaders were given a chance to enter into contact and consultation with Commission officials (Cowles 2001; Pollack & Shaffer 2001). At the opening of the European Service Forum, former European trade Commissioner Sir Leon Brittan (1999) underlined:

> I am in your hands to listen to what your objectives are…. I count on your support and input…so that we can refine our strategy and set out clear, priority negotiating objectives, which will make a difference in the international expansion of business.

For firms that want to work with the Commission, however, these forums imply a very particular kind of logic. As the Commission can decide to consider or ignore business input, firms need to make constructive suggestions that help increase the Commission's political decisions. For the Association of European Airlines (AEA), this logic was quite noticeable:

> AEA represents very diverse interests. The only agreement they can find is liberalization. In Europe, what is possible is finding the common good. That's the reason why the position papers of AEA are almost "extremist" – I say this without any negative connotation. They are radical; they push the logic to their very end. That's understandable. When you demand very specific things, you cannot always choose what you obtain [in the end]. And they do not want to give birth to Frankenstein.[25]

Moving beyond lobbying for individual benefits is advantageous to business because it ensures a good working relationship with the Commission. In the USA, the logic is similar. Studying service trade lobbying by large US financial companies, Yoffie and Bergenstein (1985) suggest that American Express built "political capital" by developing an issue that had broad political appeal and fit into the agendas of key politicians, although the significance of the issue for American Express' business operations was not certain.

Studying government solicitation is thus important for understanding what is demanded and supplied in a public–private partnership on international trade. Unlike the exchange model assumed in the traditional economic models, firms do not just exchange votes or money to lobby against regulation. Rather, they offer expertise and political support in exchange for access to the elaboration of specific stakes (see Bouwen 2002).

3.3 Mutual dependence

The business–government relationships that have formed over time have turned out to be quite stable, at least on certain issues. As a representative from AT&T explained:

> When I started [in 1992] it was more formal. We scheduled appointments to go see the government. Now we just talk. There has been less face-to-face and more e-mailing.[26]

A government representative from the telecommunications sector confirmed, "it is a quite close knit telecom community in Washington, so we know who handles which issues."[27] In some cases, business representatives will continue to keep up their political contacts, although they are not really interested in the current stakes. A European business representative qualified: "I don't really work on WTO affairs; I only participate in [the European association's] working group. We just try to follow what is going on."[28] Business representatives believe that somehow this political activity can pay off, even if their premier interests lie elsewhere. A representative from Spain's Telefónica explained:

> In a way, the WTO was a very welcome way to seize this opportunity more fully. But the main initiative was investment, not our political representation. In business, you first try to open up new markets and then you start thinking about politics. For us, the WTO was an opportunity to assure that what we have put in place would continue in the adequate political framework.[29]

In other words, political activity of firms in the government-created forums can at times be quite low. A European association representative working on the WTO even described its strategy as "a night train: there was a locomotive, some work cars and many sleeping cars."[30] Still, business–government relations continue to hold because they are mutually beneficial for both sides. Governments have access to technical information needed for multilateral talks and businesses have access to the policy process, which is highly valuable once they find that they need to express their opinion on a topic.

As these close business–government relations have become more common, expectations in emerging countries have risen that equally tight cooperation could emerge. But these expectations were sometimes frustrated. As the costs of continued business–government cooperation sometimes outweighs its benefits to governments in emerging countries, firms could not always count on being consulted and informed, like their counterparts in the USA and the EU. In Brazil, as in other developing countries, the institutional settings and unbalanced relations between a strong state and a weak entrepreneurial class have created a similar lack of information.[31] Firms therefore followed WTO issues independently, resorting sometimes to extensive networks throughout the world where they can obtain information and pass it on to their local branches.

In many countries, however, business and government started cooperating regularly in order to keep up with the often-extensive delegations from such countries as the USA or the EU. As Stopford and Strange (1991) have suggested, international trade negotiation often turns into a competition between countries for world market shares. For governments, obtaining such shares crucially depends on their continuous cooperation with national firms. The dependence of firms on governments is then matched by a dependence of governments on firms for information and technical expertise.

These examples show, first, that uncertainty is high in business–government relations on trade policy issues that go beyond multilateral tariff negotiations. Uncertainty, in turn, implies that business representatives depend much more on their government counterparts than one would expect from the traditional literature on pressure groups. Second, government representatives are not simply the object of industry pressure; they actively solicit cooperation with business actors to obtain valuable technical expertise needed for the multilateral negotiations. This solicitation, in turn, comes with a new set of selection criteria of business partners. For example, the success of firms might depend on whether they can signal successfully that there are credible and reliable partners for government consultation. Third, the mutual dependence of business and government in the context of trade negotiations can lead to stable working relationships that can resemble a symbiosis or a particular form of national cooperation rather than pressure lobbying.

4. Research agenda

Although we refer to the traditional type of business–government interaction as pressure lobbying, and to the newer type as regulatory trade lobbying or interactive relations, we would like to underline that both types are lobbying. That is, both involve the attempt by private actors to influence the decision of political actors in their favor. In the pursuit of their interests, firms, nonetheless, behave differently under pressure lobbying and regulatory lobbying. In regulatory contexts, firms are highly aware that their access to the decision-makers depends on being selected as a policy partner. They therefore have to signal that they are constructive consultants that can help increase the legitimacy of governmental decisions. This is done most effectively if firms are perceived to be not just self-interested, but if they propose general solutions. As Broscheid and Coen (2003) have argued for the European context, lobbyists therefore have to strike a delicate balance between arguing for their immediate interest and making more general "public interest" arguments that will gain them access to the policy process.

These observations help us to specify several hypotheses about when and what kind of behavior we should expect in the context of multilateral trade negotiations. We have seen that an understanding of the stakes and a capacity to evaluate the pay-offs of negotiations is crucial to trade policy lobbying, which leads us to the first set of hypotheses:

1. When the stakes are clear, firms are more likely to try to exert pressure on their government representatives. Inversely, when the stakes are difficult to evaluate, firms will prefer to engage in consultation procedures.

Government solicitation furthermore plays an important role and varies depending on whether the issue that is negotiated multilaterally. Our second set of hypotheses therefore points to the way in which the degree of solicitation is connected with the resources business actors can use for their lobbying efforts:

> 2. Solicitation is most likely when trade negotiations require technical expertise. When governments do not need to obtain technical expertise from firms, lobbying will rely more heavily on financial and electoral support and possibly public opinion.

The discretion that governments have in selecting private partners depends, in turn, on the institutional setting and the policy process of each country. As it is generally deemed undesirable that government consults exclusively with business, many countries prescribe specific consultation procedures, which can affect the competition between groups for access. Our third hypothesis connects the constraints in different settings with the most likely lobbying behavior:

> 3. When the policy process ensures through formal procedures that all stakeholders can participate, competition between groups will lead to more aggressive lobbying styles. Inversely, when access depends on the informal selection of business representatives by their respective governments, firms are more likely to enter into constructive cooperation.

Finally, we refer to recent studies on lobbying to limit this third hypothesis. As Naurin (2004) has shown, corporate lobbyists choose to exert pressure when they feel that their clients or association members are watching them. In cases where lobbying is delegated from firms to a business association (or even from firms to a relatively autonomous in-house lobbying department), lobbyists will be careful not to make too many concessions to governments if the principals can monitor their entire work efforts. Under highly transparent procedures, lobbyists will continue to promote their immediate self-interests even if this implies less access in order not to anger the members of the business associations or their superiors (see also Coglianese *et al.* 2004).

> 4. Accepting a trade-off between lobbying for one's immediate interest and lobbying for a public solution to gain access is most likely when transparency is low. Inversely, under high transparency, aggressive self-interested lobbying might occur, even when governments have certain discretion over the selection of their business partners.

These four sets of hypotheses remain to be tested and articulated more systematically. They are merely suggested here to clarify our observations and to move beyond a distinction of two fixed types of lobbying behavior. By specifying four hypotheses about the origins and components of our two types, we hope to indicate that the two might evolve or mix when the basis on which they rest changes.

Conclusion

This paper is motivated by a frustration with theoretical models of business–government relations in the context of multilateral trade negotiations. Whereas empirical studies of corporate political activities acknowledge a variety of lobbying methods and motivations, theoretical accounts of trade policy quite often rely on the simplified models that postulate business pressure for open or closed markets only. These models, however, rely on an outdated conception of the stakes of international trade negotiations. We have therefore attempted to bring together recent insights about the nature of multilateral trade talks with an analysis of business–government relations in international political economy.

By pointing out that regulatory stakes and the legalization of trade create different kinds of business–government interactions, we caution against hasty conclusions about the power and influence of firms in international trade. When firms are solicited partners of governmental trade delegations, they do not necessarily wield the same influence as they do under successful pressure lobbying. Observing an increase in business participating on trade issues therefore does not necessarily imply that firms control multilateral trade talks (cf. Wallach & Sforza 1999). On the contrary, the shift towards regulatory negotiations means that businesses have to master greater detail to capture a government's decision, and working on so many details at the same time can even be a risk for them. In some cases, firms are uncertain of the real effects of their actions and prefer to engage only moderately in ongoing talks, so as "not to give rise to Frankenstein."

All in all, by distinguishing between business–government relations on tariff negotiations and on regulatory or legal issues, we do not want to suggest that regulatory lobbying has entirely replaced pressure lobbying. We simply call for a more nuanced treatment of business–government relations in trade policy analyses that considers the effects of different multilateral stakes on business demands and lobbying behavior.

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Notes

1 Others have furthermore studied which institutional conditions allow industry demands to be more or less successful (O'Halloran 1994; Lohmann & O'Halloran 1994; Gilligan 1997). In these account, industry lobbying might not have an influence on trade policy, but only because politicians were sufficiently insulated from industry pressure or because firms were unable to act collectively.

2 Safeguards still remain a popular target of lobbying activities by sectoral groups. Import duties applied by the US government on March 2002 on steel imports or the activity of European textile producers confronted to Chinese imports are among the latest.

3 In the case of Latin America, free trade agreements signed with the USA have progressively included areas beyond WTO standards, inspired by the North Atlantic Free Trade Agreement (NAFTA) (Roffe & Santa Cruz 2006).

4 The reader interested in the differences between the three political systems may turn to Shaffer (2003) and Schneider (2004).

5 Almost all interviews have been conducted in the native language of the interviewees. For simplicity, the quotes used in the following text have been translated into English by the authors.

6 Talking about regulation in the context of trade can sometimes lead to confusion. For certain economists, the term "regulation" refers to all forms of government intervention and is the bipolar opposite of free competition (cf. Jordana & Levi-Faur 2004, p. 5). For others,

regulation refers to economic steering executed by independent administrative agencies. More generally, regulation implies a set of targeted rules. In this article, we view regulation as "the promulgation of an authorative set of rules, accompanied by some mechanism [...] for monitoring and promoting compliance with these rules," (Baldwin *et al.* 1998, p. 3).

7 By political opportunity structure, we mean the configuration of resources, formal and informal institutional arrangements and historical precedents that facilitate or constrain the access of non-governmental actors to the policy process (Kitschelt 1986, p. 58).

8 An interesting counterexample of this trend can be found in the difficulties that certain accessing countries have in implementing the WTO agenda: in the rather obscure lobby opportunity structure of Russia, big rent-seeking industrial groups will resist trade liberalization on grounds of protectionism, but also because they apprehend the costs of an increased transparency of the process (see Peregudov *et al.* 1999).

9 For instance, in Brazil's textile sector foreign firms operating on national soil during the 1990s did not support liberalizing policies because of their global corporate strategy, and this although the sector remained competitive at an international level.

10 Interview with a government official of the Ministry of Foreign Affairs in Brasilia, September 2002.

11 The authors refers here to individual firms and specifically to existing branch associations at the beginning of the 1990 such as ABIT and Sinditextil.

12 Interview with a representative from Deutsche Telekom, July 2003.

13 Interview with a US business representative, Washington, DC, 2 July 2003. "None" answers the question about remaining market access restrictions.

14 Interview with a US business representative, Washington, DC, 2 July 2003.

15 Interviews in Brussels, Washington and São Paulo, November 2002, July 2003 and June 2003, respectively.

16 Interview with a Brazilian government representative, Brasilia, 15 September 2002.

17 Interview with several textile representatives during 2002–2003.

18 Interview with a US government representative, Washington, DC, 20 June 2003.

19 Interview with a US government representative, Washington, DC, 18 June 2003.

20 Interview with a US government representative, Washington, DC, 20 June 2003. Very similar statement were made by representatives from the European Commission and the Council Secretariat.

21 Interview, Brussels, 3 September 2003.

22 Interview with a US business representative, Washington, DC, 25 June 2003.

23 Interview with a US business representative, Washington, DC, 25 June 2003.

24 Interview in Brussels, 14 February 2003.

25 Interview with an official from the European Commission, 21 October 2003.

26 Interview, Washington, DC, 24 June 2003.

27 Interview, Washington, DC, 18 June 2003.

28 Telephone interview on 22 October 2003.

29 Telephone interview, 5 November 2003.

30 Interview in Brussels, 3 September 2003.

31 Business representatives of MTN textile firms in Brazil acknowledged that their branch was not always informed of issues being negotiated and that it was not uncommon for them to activate their MTN networks and to receive expertise from other subsidiary firms.

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