

นโยบายเกษตรร่วมของสหภาพยุโรปทำให้ความเหลื่อมล้ำระหว่างเหนือและใต้กว้างขึ้นอย่างไร
พร้อมกับอ้างอิงถึงประเทศไทยเป็นพิเศษ



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HOW THE EU'S CAP WIDENS THE DISPARITY BETWEEN
THE NORTH AND THE SOUTH WITH A SPECIAL REFERENCE TO THAILAND



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เพ็ญสุภาวงศ์ วิทยานุกรณ์ : นโยบายเกษตรร่วมของสหภาพยุโรปทำให้ความเหลื่อมล้ำระหว่างเหนือและใต้กว้างขึ้นอย่างไร พร้อมกับอ้างอิงถึงประเทศไทยเป็นพิเศษ. (HOW THE EU'S CAP WIDENS THE DISPARITY BETWEEN THE NORTH AND THE SOUTH WITH A SPECIAL REFERENCE TO THAILAND) อ. ที่ปรึกษาวิทยานิพนธ์หลัก : ผู้ช่วยศาสตราจารย์ สุรัตน์ โหระชัยกุล, 89 หน้า.

นโยบายเกษตรร่วมของสหภาพยุโรปถูกมองว่าเป็นสิ่งที่กีดขวางการเปิดเสรีทางการค้าในภาคการเกษตรระดับโลก ยิ่งไปกว่านั้น คำกล่าวอ้างที่ว่า สหภาพยุโรปจะเป็นมหาอำนาจผู้มีความเมตตาต่อประเทศต่างๆ ในซีกโลกใต้ในการให้ความช่วยเหลือต่อผู้ที่มีความยากจนนั้น มีความบกพร่อง เมื่อภาคการเกษตรของสหภาพยุโรปยังคงได้รับการปกป้องในระดับสูง สิ่งนี้ได้กีดกันประเทศกำลังพัฒนาจากการได้รับรายได้จากการค้าภาคการเกษตร อันเป็นแหล่งรายได้หลัก หรือ เป็นแหล่งรายได้เดียวของพวกเขา ซึ่งสร้างความเสียหายต่อเศรษฐกิจของพวกเขาอีกด้วย สิ่งนี้จึงเป็นเหตุทำให้ความเหลื่อมล้ำระหว่างสหภาพยุโรป กับประเทศกำลังพัฒนาเพิ่มมากขึ้น นโยบายเกษตรร่วมที่สะท้อนภาพของ 'Fortress Europe' จึงยังคงอยู่ในสายตาของประเทศโลกใต้

งานวิจัยนี้มุ่งที่จะทำให้ความซับซ้อนของนโยบายเกษตรร่วมเข้าใจได้ง่ายขึ้น เช่นเดียวกับการแสดงผลกระทบที่มีต่อระดับภูมิภาคและระดับโลก โดยเฉพาะประเทศไทย โดยอ้างอิงถึงการค้าทางภาคการเกษตรของประเทศไทยเป็นพิเศษ และวิจารณ์ถึงคำกล่าวอ้างของสหภาพยุโรปที่ว่า จะเป็นมหาอำนาจผู้เมตตาในการสร้างโลกที่มั่งคั่งและดีกว่านี้ ทั้งที่นโยบายที่สร้างความเหลื่อมล้ำที่รู้จักกันในนาม นโยบายเกษตรร่วม ยังคงเด่นชัด ร่วมกับการวิเคราะห์ว่า สิ่งนี้จะนำไปสู่ความตึงเครียดระหว่างประเทศที่พัฒนาแล้วกับประเทศกำลังพัฒนาได้อย่างไร นอกจากนี้ มีความตั้งใจที่จะจัดหากลยุทธ์บางประการเพื่อนำมาเสนอต่อรัฐบาลไทยในการรับมือกับมาตรการกีดกันของนโยบายเกษตรร่วมของสหภาพยุโรปดังกล่าวด้วย

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The European Union's Common Agricultural Policy is seen as an obstacle for world agricultural trade liberalisation. Furthermore, the claim of the EU to be a benevolent superpower in helping the countries in the Global South fight against poverty is flawed when the EU's highly protected agricultural sector still exists. It hinders developing countries from gaining their income from agricultural trade—their major or only source of income—which damages their economies. This therefore widens the disparity between the EU and the developing countries. The eminence of the CAP still reflects an image of 'Fortress Europe' in the eyes of the Global South.

This research aims at simplifying the complexities of CAP as well as illustrating its effects on a regional and global scale, especially on the Global South with a special reference to Thailand's agricultural trade, and to criticise the EU's claims of being a benevolent world superpower in building a better prosperous world despite its inequality-enhancing policy, namely the CAP is still eminent, along with the analysis of how this leads to a tension between developed and developing countries. In addition, there is an intention to provide some strategies to suggest to the Thai Government in reacting to the EU's CAP protectionist measures.

Field of Study : European Studies

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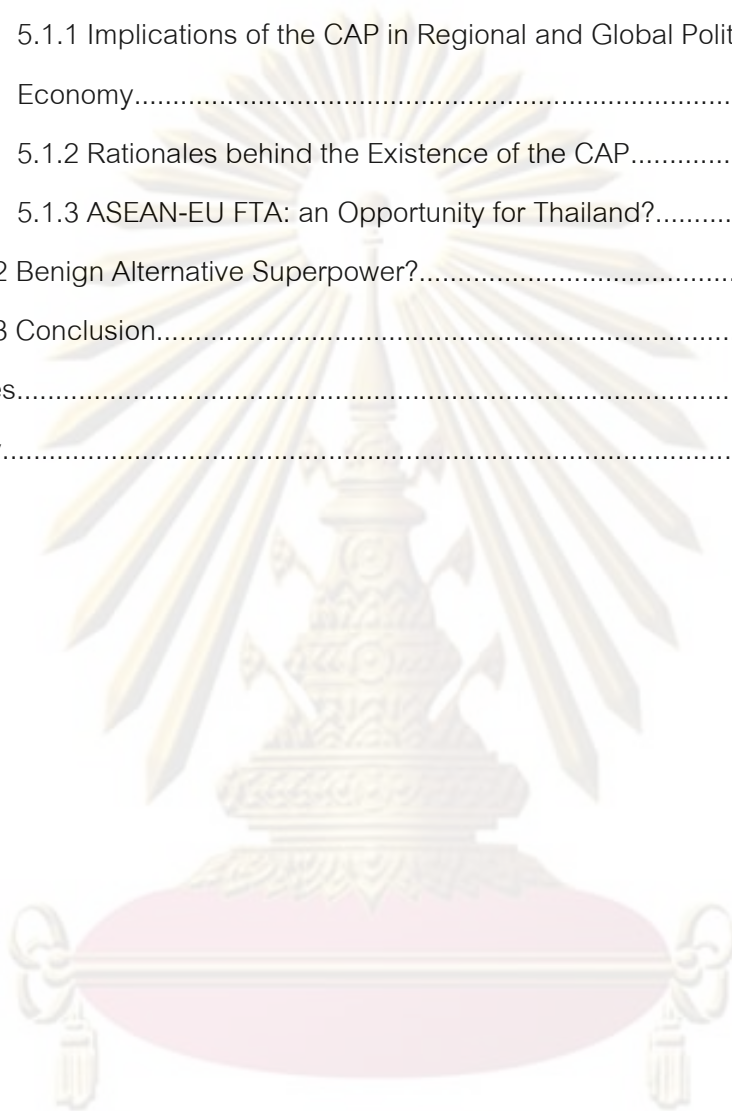
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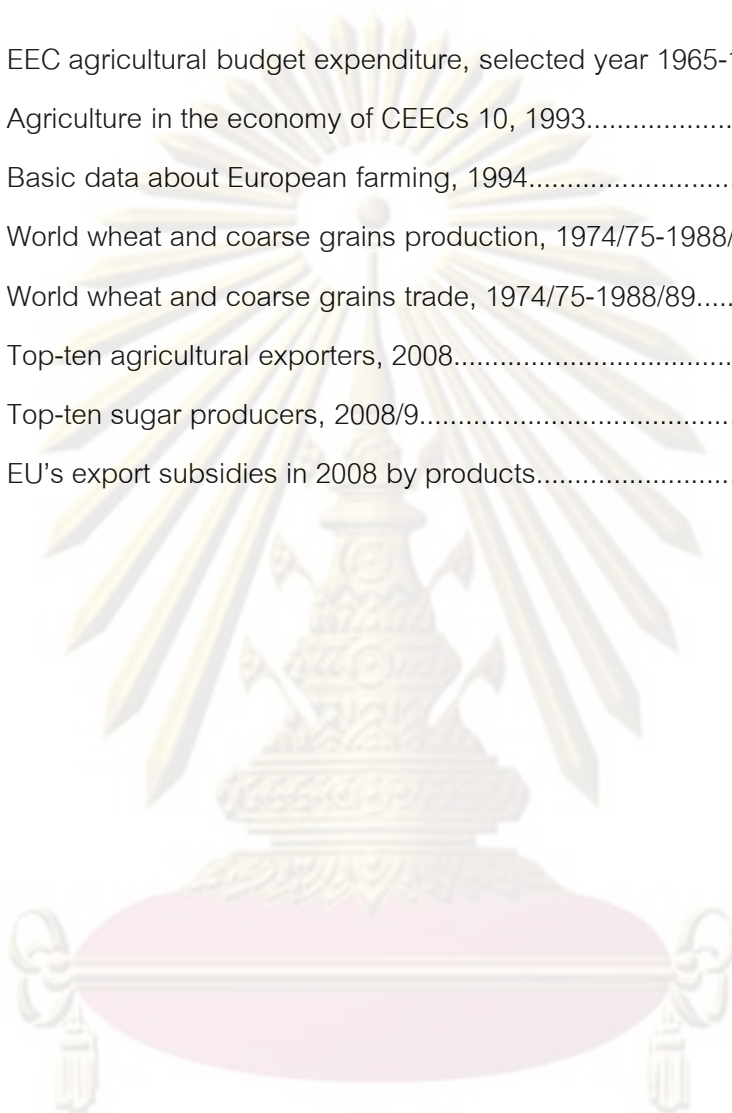
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CHAPTER I

INTRODUCTION

1.1 Background and Issues

Since the aftermath of the Second World War, the world has experienced a number of changes in the global economy. The huge expansion of global trade was a consequence of growing trade liberalisation due to successive rounds of trade negotiations carried out by the General Agreement on Tariffs and Trade (GATT) and the United States as an active leader in promoting free trade.¹ Simultaneously, an emergence of regional grouping was a response to the integrated world economy which affects all countries in the world economic system, and to contend with outer pressures under the context of Cold War, as Robert Gilpin describes:

“Economic regionalism is an important response by nation-states to shared political problems and to a highly interdependent, competitive global economy. As the international economy has become more closely integrated, regional groupings of states have increased their cooperation in order to strengthen their autonomy, improve their bargaining positions, and promote other political/economic objectives.”²

Many scholars, such as Shaun Breslin, Richard Higgott, Ben Rosamond, and Theodore Cohn, inferred that there were two major waves of regionalism that occurred in the post-World War II period: the first began in the 1950s and 1960s; and the second wave of regionalism—known as the ‘New Regionalism’—since the mid-1980s.^{3,4} The first wave of

¹ Robert Gilpin with the assistance of Jean M. Gilpin, Global political economy: Understanding the international economic order (Princeton: Princeton University Press, 2001), p. 197.

² Ibid., p. 11.

³ Shaun Breslin, Richard Higgott and Ben Rosamond, “Regions in comparative perspective,” in New regionalism in the global political economy: Theories and cases, eds. Shaun Breslin, Christopher W. Hughes, Nicola Phillips and Ben Rosamond (London: Routledge, 2002), p. 1.

⁴ Theodore H. Cohn, Global political economy: Theory and practice, 2nd ed. (New York: Longman, 2003), p. 273.

regionalism had its centre in Europe, thus according to most writers, it began when the EC (European Community) was formed in 1957 and the European Free Trade Association in 1960.⁵ These European agreements were considered as “stimulus for the spread of regionalism throughout Latin America and Africa in the early 1960s.”⁶ However, regionalist projects in this first period faced many difficulties, and through the decline, only the one in Europe survived. After that, in the changing environment of the international political economy of 1980s, the resurgence of regionalism, especially since the launch of the European Single Market Act in 1986, was accelerated elsewhere. The EC moved towards widening and deepening processes,⁷ and also the global economy became more regionalised. Aside from the diminishing of Cold War tensions, the most important change in the new regionalism was the turnaround in the US position from a key defender of the multilateral trade order to an active participant in RTAs (Regional Trade Agreements).⁸ The rise of the ‘Triad’⁹ i.e. the North America, Western Europe and East Asia (especially Japan) as major economic superpowers, raised a concern that economic regionalism would incline to be more protectionist and become a threat to the multilateral liberalised trading system.¹⁰

Accordingly, tension between free trade and trade protectionism has persisted. As a matter of fact that regionalism is, by nature, prone to be discriminative, regionalised economies have become obstacles to further global trade liberalisation. Since the eighth multilateral trade negotiation round of the GATT, known as the Uruguay Round (1986-1993), the fight between developed countries, led by the US and the EC, and developing countries over agricultural issues formally began. It was the first time that agriculture was brought to the agenda and, as expected, it has presented “the most

⁵ Ibid., p. 277.

⁶ Ibid.

⁷ Ibid., p. 278.

⁸ Ibid.

⁹ Christopher M. Dent, *The European economy: The global context* (London: Routledge, 1997), p. 133.

¹⁰ Robert Gilpin with the assistance of Jean M. Gilpin, *Global political economy: Understanding the international economic order*, p. 221.

complex challenges to negotiators.”¹¹ As agriculture has historically been considered significant for all nations politically, economically, and socially; therefore, in both developed countries and developing countries’ perception, it is preferable for the agricultural sector to be controlled by the government rather than being based on free market principle.¹² For the European countries, as well as other industrialised world, agriculture is special and merits special treatment to “encourage, to assist and to protect it.”¹³ Its powerful agricultural policies have created great impacts on both domestic and international political economy for a long time.

For the case of agricultural policy in Europe, an inability to provide enough food for their own people during and after the war was the very primary reason among the Western European countries for the Common Agricultural Policy (CAP) initiative. Food import dependency made the European countries become more vulnerable to outside pressures. Therefore in order to increase food production and stabilise food supply, Western European countries, led by France, agreed to constitute the CAP as a part of the 1957 Treaty of Rome. The CAP’s basic objectives were to encourage and increase food production with an aim to reach self-sufficiency; raise farm incomes to ensure the standard of living of farmers; stabilise markets in order to protect its agricultural products from fluctuation of food prices; and supply consumers at reasonable prices.^{14,15} In addition, it is more than a common market policy; the CAP has also functioned as a social policy as its aim is to ensure the living standard of farmers. For this reason, the farmers and also those who engage in agribusinesses enjoy political

¹¹ Bruce E. Moon, “From Seattle and Doha to Cancún: The trade agenda in the new millennium,” in Trade politics, eds. Brian Hocking and Steven McGuire, 2nd ed. (London: Routledge, 2004), p. 28.

¹² T. Hitiris, European community economics, 2nd ed. (New York: Harvester Wheatsheaf, 1991), p. 158.

¹³ Neill Nugent, The government and politics of the European Union, 3rd ed. (London: Macmillan, 1994), p. 363.

¹⁴ Richard Howarth, “The Common Agricultural Policy,” in The cost of Europe, ed. Patrick Minford (Manchester: Manchester University Press, 1992), p. 51.

¹⁵ Charlotte Bretherton and John Vogler, The European Union as a global actor, 2nd ed. (London: Routledge, 2006), p. 69.

advantages and become significant political forces that influence decision-makers of the EC.¹⁶

Over the years, the CAP seems to have been successful in achieving its objectives; however, what has been happening concurrently with its success is large numbers of problems which ruin its reputation both at domestic and international level. The CAP has made consumers pay much more for farm products than those on the world market which causes it to fail one of its objectives in providing the consumers agricultural products at reasonable prices.¹⁷ It has continually absorbed a large proportion of the Community budget—as Charlotte Bretherton and John Vogler put it: “The CAP soon became a budgetary nightmare”¹⁸ for the EC/EU—because it has to buy and store up the over-supply agricultural products, and for export subsidies,¹⁹ making the Community the largest subsidiser of agriculture amongst members of the Organisation for Economic Co-operation and Development (OECD).²⁰ Inefficient mechanisms in transferring income support to the farmers have made the farmers receive only 40 per cent while other 60 per cent is being wasted in storing up the surpluses, export subsidies, administration costs and partly also being defrauded by the ‘middle men’²¹ and, moreover, this fund has often been channelled to farmers who do not really need it.²²

Thanks to the CAP, the Community has changed its status from being a huge food importer to a major exporter in the 1970s. It has plenty of agricultural products which are more than the domestic market can absorb. This leads to attempts to dispose of its surpluses in the world market. It has been criticised by other agricultural exporters

¹⁶ Neill Nugent, The government and politics of the European Union, p. 364.

¹⁷ Richard Howarth, “The Common Agricultural Policy,” in The cost of Europe, p. 61.

¹⁸ Charlotte Bretherton and John Vogler, The European Union as a global actor, p. 69.

¹⁹ Richard Howarth, “The Common Agricultural Policy,” in The cost of Europe, p. 58.

²⁰ Charlotte Bretherton and John Vogler, The European Union as a global actor, p. 70.

²¹ Richard Howarth, “The Common Agricultural Policy,” in The cost of Europe, pp. 62-63.

²² European Union, From farm to fork: Safe food for Europe's consumers (Luxembourg: Office for Official Publications of the European Communities, 2004), p. 17.

because of its 'dumping'²³ which absolutely contrast with its position as a promoter of anti-dumping principles and a supporter of free and fair trade under the World Trade Organisation (WTO) rules.^{24,25} Aside from these problems, there has been widespread criticism about the distortive and discriminative effects of the CAP's mechanisms by the Global South. Its import levies and export subsidies—parts of the main instruments of the CAP—which are used to bridge the gap between higher Community's prices and lower international prices has distorted agricultural price in the world market, and also made developing countries' products less competitive with the Community products. This, as a result, harms other agricultural exporters' economies, especially those of less developed countries (LDCs) or developing countries that are most dependent upon agricultural exports. Despite a strong drive to reduce agricultural trade barriers in the multilateral GATT Uruguay Round, the result came out to be disappointing for those in the South. The launch of an Agreement on Agriculture (AoA), with a major aim in cutting export subsidies within an arranged time schedule, was not as effective as much as supporters of free trade had expected.²⁶ Difficulties remain on the surface of the current Doha Round and once again, they fail to reach an agreement on agricultural issues and this also potentially harms agreements in other trade area. The failure has meant that today's agricultural support levels are still high; "agricultural tariffs average 60 per cent of the price of imports while industrial tariffs rarely average above 10 per cent."²⁷

While agricultural trade battle between the US and the EU are at the centre of attention, other Third World countries that are directly suffering from the developed countries' protectionist policies have been marginalised in the negotiations.²⁸ Moreover,

²³ Ibid., p. 16.

²⁴ European Union, The EU in the world: The foreign policy of the European Union (Luxembourg: Office for Official Publications of the European Communities, 2007), p. 9.

²⁵ Pascal Fontaine, Europe in 12 lessons (Luxembourg: Office for Official Publications of the European Communities, 2006), p. 51.

²⁶ David N. Balaam, "Agricultural trade policy," in Trade politics, eds. Brian Hocking and Steven McGuire, 2nd ed. (London: Routledge, 2004), p. 171.

²⁷ Ibid.

²⁸ Jennifer Clapp, "WTO agricultural trade battles and food aid," Third World Quarterly 25, 8 (2004), p. 1445.

any change or reform of the EU agricultural protectionist policies have not been mainly as a result of LDCs' pressures; the major forces that influence reformation of the CAP come from farmers and stakeholders who are involved in agribusinesses. The EU's ignorance and the CAP's detrimental effects on their economies make the South doubt whether the EU really wants to help. In the meantime, the US has become more aggressive in its unilateral acts, and simultaneously it seems that the US is on its downturn due to its struggle to maintain its supremacy as the world hegemonic power. Having used its soft power in international affairs, the EU is seen as an alternative superpower in this post-Cold War era. It has promoted itself as a 'benign' major power along with its propaganda that to make the world a better place for all lives with a perception that to prevent conflicts and create peace and stability, greater prosperity needs to be created worldwide.²⁹ It declares its intention to help the poor in fighting poverty through trade and aid. For example, the EU and its members are the major providers of technical and financial assistance, and official development aid (ODA) more than anyone else.³⁰ The EU acts as a leader in pushing for further trade liberalisation at world level and ensures that everyone, both rich and poor will benefit equally.^{31,32}

However, the doubt upon its intention of being a benign superpower has been spread once the CAP is examined. Although it is one of major supporters of global trade liberalisation, the EU is flawed when its CAP causes detrimental effects on developing countries' economies especially of the 'non-associates,' categorised by the EU's Generalised System of Preferences (GSPs), namely Asian and Latin American developing countries who "were never extended trade preferences in excess of those

²⁹ European Union, Panorama of the European Union, Brochure (Luxembourg: Office for Official Publications of the European Communities, 2009).

³⁰ Ibid.

³¹ European Union, The EU in the world: The foreign policy of the European Union, p. 8.

³² European Union, Key facts and figures about Europe and the Europeans (Luxembourg: Office for Official Publications of the European Communities, 2007), p. 53.

included in the GSPs.”³³ Therefore, not only have the non-associated LDCs been excluded from receiving preferential trade concessions from the EU, but they have also suffered from the CAP mechanisms which keep them out of the EU’s market and also undermine their abilities to compete with the EU’s agricultural products on the world market. That is to say the CAP is seen as a mean to compete with developing countries’ agricultural products. According to Surat Horachaikul and Jittipat Poonkham, they argue that: “rather than a social policy, the CAP is used as a means of competitiveness which undermines exploitative agricultural products in developing countries.”³⁴ The Third World feels like they are hindered from gaining their prosperity. This exacerbates the North-South relations and becomes an impediment in further agricultural tariff reduction and further continues the trade liberalisation. ‘Fortress Europe’ provokes, once again, a doubt among those euro-sceptics and the South whether the EU has a true, benign will to build a better world, or whether it is just a claim.

1.2 Research Questions

- 1) If the European Union desires to make the world a better place for all humanity through the ‘Western values’ promotion, why does a discriminatory policy such as the CAP still exist?
- 2) What are the impacts of the EU’s CAP on the global economies, especially its impacts on the South and Thailand?
- 3) What is the current situation of Thai agricultural exports which are directly affected by the CAP’s measures, and how should the Thai Government react?

³³ Enzo R. Grilli, *The European Community and the developing countries* (New York: Cambridge University Press, 1993), p. 340. See more detail about the GSPs in Arvind Panagariya, *EU Preferential Trade Policies and Developing Countries* [Online PDF file], 25 October 2008. Available from: <http://www.columbia.edu/~ap2231/Policy%20Papers/Mathew-WE.pdf>, and James Mayall, “The shadow of empire: The EU and the former colonial world,” in *International relations and the European Union*, eds. Christopher Hill and Michael Smith (Oxford: Oxford University Press, 2005), pp. 292-316.

³⁴ Surat Horachaikul and Jittipat Poonkham, “Kantian Europe or Neoliberal Europe?,” in *Asia and Europe: Dynamics of inter- and intra-regional dialogues*, eds. José Luis de Sales Marques, Reimund Seidelmann and Andreas Vasilache (Baden-Baden, Germany: Nomos, 2009), p. 153.

1.3 Hypothesis

The EU goes against its image of being the 'Fortress Europe' by helping the Third World fight against poverty. Yet, its protectionist policy via the CAP widens the disparity between the North and the South. In consequence, the EU's desire to build a better world is flawed when its CAP is examined.

1.4 Objectives

1) To simplify the explanation of the complexities of CAP and to illustrate its effects on a regional and global scale, and to indicate how the CAP has been considered as a barrier to trade liberalisation as it explicitly caused the difficulties in the concluding process of the previous trade negotiation—the Uruguay Round—and the current trade negotiations—the Doha Round.

2) To criticise the EU's claims of being a benevolent world superpower in building a better prosperous world despite its inequality-enhancing policy, namely the CAP is still eminent, along with an analysis of how this leads to a tension between developed and developing countries.

3) To suggest strategies to the Thai Government in reacting to the EU's CAP protectionist measures.

1.5 Benefits

1) This finding provides an easier explanation for students and practitioners who are engaged in dealing with the CAP.

2) One can perceive the problems that occurred in North-South relations, and also understand the EU's intention in helping the Global South achieve their prosperity.

3) This might be useful for Thai authorities in dealing with the CAP's mechanisms in protecting its own national interests.

1.6 Scope and Methods

The main focuses are the impacts of the CAP's mechanisms upon the Third World: centred on import levies and export subsidies which create distortive effects on world agricultural product prices. The study emphasises the CAP since its creation in 1950s till the current Doha Round negotiation and also its effects upon Thai agricultural exports in the recent years. There is also a further analysis of the EU's intention in helping the LDCs countries meet their prosperity.

This study is a qualitative documentary research with data description which mostly depends on secondary and tertiary sources. They were collected from books, articles, Ph.D. thesis, and websites. In addition, interview with Thai officials also provides useful insights into Thailand's current situation of agricultural exports and more up-to-date information for the findings.

1.7 Thesis Outline

CHAPTER I: Introduction contains background and issues, research questions, hypothesis, objectives, benefits, scope and methods, and the whole thesis outline.

CHAPTER II: This chapter of literature review has drawn related arguments within the context of the North-South relations into our examination as it is vital in understanding the EU's response towards developing countries which mostly were colonised by the European states. The CAP, considered as a product of European regionalism, will be analysed by using 'regionalism' as a theoretical framework. This is to indicate how the CAP's political and economic consequences become harmful to world trade system and so forth.

CHAPTER III: Purposes of this chapter are to explain the CAP's development and to simplify its complicated mechanisms. In order to understand how it works, analysis of the CAP's two main tools, aiming at supporting the agricultural sector that are *income support measure* and *price support*

measures, have also been provided. In this finding, however, more emphasis is given to the latter as it greatly distorts world agricultural price which is considered detrimental to agricultural trade especially those of developing countries. Furthermore, after several attempts to reform with little changes, many scholars come up with more possible reform options which might, at least, create more changes for the CAP. Some possible reform options are also included in this chapter as to anticipate changes in the CAP.

CHAPTER IV: This chapter intends to analyse the CAP's effects caused mainly by its price support measures at the global level, particularly the impacts on the Global South with a special reference to Thailand.

CHAPTER V: Concluding part of the thesis contains the answers for our research questions. There are also some analyses of the CAP via regionalism in a pursuit of what does the most deepened and widened regional bloc i.e. the EU means for international system. This chapter also provides an analysis of the EU's role and intention of becoming a benevolent alternative superpower in building a better prosperous world.



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CHAPTER II

LITERATURE REVIEW

The rhetoric of the North and the South is indispensable in understanding the relationships between developed countries (such as the Europeans) and developing countries. In the past, disparity between these two has always been widened. The root of this North-South gap, then, could not be ignored for further analysis. 'Regionalism' has been used in this finding as a theoretical framework in explaining and analysing the natures of the EU's Common Agricultural Policy (or the CAP), and how it harms the world agricultural trade as well as to the Global South's economies, and results in widening the disparity between the North and the South.

2.1 The Rhetoric of the North and the South

2.1.1 Definition and the Origins of the North and the South

The North represents the advanced nations of the world in technology and economy. Most of them are actually located in the northern hemisphere (except Australia and New Zealand). In fact, regardless of geographical location, countries of the North are mostly the West. On the other hand, the South refers to the rest of the countries of the world which are classified as lesser developed when compared with those in the North—"the non-industrialised, largely, agricultural, poorer nations."¹ Almost all countries in the South were colonised by the nations of the North. Through the transition from Cold War era, post-Cold War world to the twenty-first century, many countries in the Global South have become more economically developed; some have become a part of the North. However, the majority of the Global South has been still lagging behind.

The word 'Global South' has been used interchangeably with other various words i.e. Third World countries, less-developed countries (LDCs), underdeveloped

¹ Barbara P. Thomas-Slayter, Southern exposure: International development and the global South in the twenty-first century (Bloomfield, CT.: Kumarian Press, 2003), p. 3.

countries (UDCs), or developing countries.² Barbara P. Thomas-Slayter distinguishes the meaning of the 'Global South' and the 'Third World' that:

“The “Global South,” however, is a term that is somewhat more meaningful than the “Third World,” a catch-all phrase used to refer to the less developed countries. “Third World” suggests that these countries are neither part of the “first world” of the industrialized market economies of Western Europe, North America, and the Pacific, nor part of the centrally planned economies of the Soviet Union and Eastern Europe which constituted the “second world” until 1989 and the fall of the Berlin Wall.”³

The term 'Third World' originated during a period of the Cold War led by countries that denied pursuing either capitalist or socialist courses. The concept was declared at the Bandung Conference in Indonesia in 1955, under the leadership of Jawaharlal Nehru of India and Achmad Sukarno of Indonesia. The nonaligned, newly independent countries of the South saw this as “a third alternative to the ideologies and lifestyles of the ‘first world’ or the ‘second world’.”⁴ Despite their diversity in ideologies and in economic and political orientations, Thomas-Slayter adds, their common experience of being colonised and exploited by the North were the main force that united them together.⁵

As well as Thomas-Slayter, John Isbister also shares this common point of view in his book, *Promises Not Kept*. He mentions that the meaning of 'Third World'—originally, carried with “a sense of opposition, tension, and struggle; the term itself called for change, and for an extension of liberty and equality; it drew attention to colonialism and imperialism and to their modern-day counterparts in a world of oppression and unequal power”⁶—has softened and taken on the connotation of nonalignment.⁷

² Joshua S. Goldstein, *International relations*, Brief 2nd ed. (New York: Pearson Longman, 2005), p. 290.

³ Barbara P. Thomas-Slayter, *Southern exposure: International development and the global South in the twenty-first century*, p. 3.

⁴ *Ibid.*, p. 4.

⁵ *Ibid.*

⁶ John Isbister, *Promises not kept: Poverty and the betrayal of third world development*, 7th ed. (Bloomfield, CT.: Kumarian Press, 2006), p. 15.

⁷ *Ibid.*

According to Isbister, it became a more neutral term as they detached themselves from the blocs of post-war superpowers. Yet, the term 'Third World' still implies a conflict between the poor and the rich.⁸ The classification, thus, illustrates an inequality in the global economic structure. The North-South divide has been a result of an asymmetry of wealth accumulation and also reflects their bargaining power in international politics. As explicitly shown in the GATT/WTO negotiations or in the Committee on Agriculture, developing countries have largely been sidelined, as Jennifer Clapp argues that: "Decisions tend to be made based on deals brokered at the last minute between the EU and the US, with little input from the developing countries."⁹

For the developing countries, the GATT/WTO has often been referred to as a 'Rich Man's Club'.¹⁰ Amrita Narlikar makes her point that in spite of forming the overwhelming majority in the organisation, developing countries have remained aloof members of the organisation resulting in an inability to utilise their collective power to set the GATT agenda.¹¹ "The distrust of GATT rules by developing countries," says Narlikar, "derived partly from the free trade ethos that underlay them, which often contradicted the policies of greater protectionism and interventionism in the developing world, especially in the late 1950s and 1960s."¹² Additionally, the GATT's mechanisms that favour developed countries also became a problem. Although the GATT was formally a one-member-one-vote organisation, practically, decisions were taken by consensus when small-group meetings or 'Green Room' meetings—where most developing countries were excluded—were used to reach the consensus.¹³ Dissatisfaction continued and even worsened because "developed countries often packed the negotiating agenda with issues of interest to themselves, disregarding or excluding issues where the comparative advantage of developing countries lay (e.g. classically,

⁸ Ibid.

⁹ Jennifer Clapp, "WTO agricultural trade battles and food aid," *Third World Quarterly*, 25, 8 (2004): 1445.

¹⁰ Amrita Narlikar, "Developing countries and the WTO," in *Trade politics*, eds. Brian Hocking and Steven McGuire, 2nd ed. (London: Routledge, 2004), p. 134.

¹¹ Ibid.

¹² Ibid., p. 135.

¹³ Ibid.

agriculture and textiles through exceptions).¹⁴ Narlikar, therefore, concludes that developing countries have to risk a high cost of being participated in the GATT with few benefits in return.¹⁵

Although there was an establishment of the WTO, as an outcome of the Uruguay Round in 1995, the problems have continued to persist.¹⁶ The 'Doha *Development Agenda*' (DDA) was launched after the failure to launch a new Millennium Round at Seattle. This failure highlighted the evolving agenda-setting power of developing countries in the WTO.¹⁷ This new set of negotiations has placed development concerns in developing countries at the centre of attention, as the main ministerial declaration shows its intention that, as the majority of WTO members, developing countries' needs and interests should be placed at the heart of the Work Programme.¹⁸ With some differences from the GATT, the DDA encouraged those developing countries to actively participate in the negotiation. It can be said that their significance has been augmented, and they have also gained several achievements in shaping the DDA. However, these have come at a heavy price. The developing countries have been heavily pressured by the limited timeframe as well as being forced to accept the agreement in return for concessions on agriculture, textiles and so forth. Consequently, the outcome of the Doha ministerial, so far presents developing countries with some procedural promises, few substantive gains and several losses.¹⁹ Hence, from this point of view, WTO is flawed by its declared intention, and the DDA is nothing, but merely paying lip-service to issues of development.

Having witnessed the current situation, the South has still been undoubtedly suppressed by the North. Despite their increasing significance in the WTO, developing countries' influences over the WTO outcomes are still weak; clearly they are considered only being agenda-takers. To achieve the top international policy priority such as the

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid., p. 136.

¹⁷ Ibid., p. 137.

¹⁸ Ibid.

¹⁹ Ibid., p. 138.

reduction of poverty, a fair distribution of economic benefits within the global economy is essential. The disparity between the North and the South has its root in the most influential economic approach, namely 'capitalism'.

2.1.2 Theories of Accumulation

The idea that lies behind capitalism as well as mercantilism—economic approaches which have dominated Western society for ages—is the accumulation of wealth. The enormous inequality between the North and the South can be seen as a result of the asymmetrical distribution of wealth, which is mainly concentrated in the North. The theories of accumulation can be viewed mainly via two contrasting approaches i.e. liberal and socialist views.

Joshua S. Goldstein states that: “A view of the problem from the perspective of capitalism is based on liberal economics—stressing overall efficiency in maximizing *economic growth*.”²⁰ This approach explains that wealth creation in both the North and the South is beneficial to all. The only problem is that the developing countries are lagging behind their Northern counterparts. In other words, the accumulation of wealth is a *positive-sum* game where everyone gains, not loses. Goldstein explains that: “Capitalism aims at concentrating wealth, promoting efficient and rapid accumulation; it does not seek an equitable distribution of benefits.”²¹ Likewise, mercantilism—“an economic nationalism for the purpose of building a wealthy and powerful state”²²—also promotes the idea of concentrating wealth. It has been commonly used among the developed countries, especially in Europe. Nevertheless, mercantilist policy, unlike the liberal economic policy, emphasises the role of the government in managing and redistributing wealth instead of relying on market forces; as a result, protectionist mechanisms such as tariffs and subsidies have been used to restrain imports and

²⁰ Joshua S. Goldstein, *International relations*, p. 293.

²¹ *Ibid.*, p. 294.

²² Laura LaHaye, *Mercantilism* [Online], 24 January 2010. Available from: [http://www.econlib.org/library/Enc](http://www.econlib.org/library/Enc/Mercantilism.html)

encourage export.²³ To conclude, the most important dynamics behind the rise of the European colonisation were capitalism and mercantilism.

Socialism, on the contrary, provides different views on economic accumulation. Goldstein states that socialism is in common with mercantilism in some ways (i.e. the state has a role in redistributing wealth and pursues a state-planned economy), but what is different is that mercantilism emphasises concentrating wealth (as a power element), whereas socialism promotes wealth distribution.²⁴ In analysing at international level, “it sees the North-South divide as more of a *zero-sum* game in which the creation of wealth in the North most often comes at the expense of the South.”²⁵

Goldstein also mentions that the concentration of surplus in the world economy—in the North—tends to be self-reinforcing for two reasons:

“First, concentrating wealth allows it to be invested more efficiently, which generates more wealth. Second, the more wealth is concentrated, the more power its owners gain. With 60 percent of the world’s wealth, the North dominates world politics. Because socialists see a conflict of interest between rich and poor, they see the North’s political power as oppressive to the South.”²⁶

From this statement we can perceive a link between wealth and political power which is an element of the mercantilist approach. During the colonial era, the European capitalists, as colonial powers, accumulated wealth in order to expand their territory and influence. They increased their power at the expense of their colonies, as Goldstein explains, by using the revolutionary view that: “...exploitation of third world countries by rich countries takes away the economic surplus of the third world and concentrates the accumulation of wealth toward the rich parts of the world.”²⁷ However, in reality, without such exploitation, economic growth in the Third World might not be fostered. This

²³ Ibid.

²⁴ Joshua S. Goldstein, *International relations*, p. 293.

²⁵ Ibid.

²⁶ Ibid., p. 294.

²⁷ Ibid., pp. 296-297.

apparently displays the importance of the North being interrelated with the South. As a legacy from the colonial era, the pattern of dependency between these two is still perceptible.

2.1.3 North-South Relations

The North-South relations have been an important feature in studying the changing political economy at international level, as mentioned by Goldstein, because for former colonies, “international relations revolve around their asymmetrical power relationship with industrialized states.”²⁸

The relation between these two can be traced back to the colonial era between the fifteenth and twentieth centuries. Europe since the twelfth century had been improved by the rise of capitalism and advancement in science.²⁹ In order to serve this progress, the European states needed to seek more available input resources elsewhere outside Europe; advancement in agriculture, industry, and military power encouraged Europe to explore the world. As they explored many different world regions, they perceived that in their eyes, many places were still uncivilised and underdeveloped; thus, with their more flourishing civilisations and superiority, they had the right to export their cultures and to rule those uncivilised worlds. Therefore, European states began their quests to conquer and colonise many different territories of the world.

The European’s influences over the territories certainly had devastating effects on the new lands in many ways. According to Goldstein, the colonisers harmed indigenous people and culture by invading a territory and installing their own governments which comprised the country’s indigenous inhabitants, who were forced to speak the rulers’ languages and learn their cultural practices. Moreover, the foreigners treated the inhabitants as inferior to them.³⁰ Colonialism also had certain negative economic implications. Notably, unprotected natural resources were drained by the

²⁸ Ibid., p. 298.

²⁹ Ibid.

³⁰ Ibid., p. 300.

colonisers, and agriculture became more export oriented rather than self-subsistent.³¹ As mentioned at the end of the previous chapter, however, colonialism was an important condition that empowered local economic accumulation (even though it was under the colonialists' control). Economic activities, such as mining, farming and trading, had much been developed, and resulted in economic growth in many cities.³²

Decolonisation created many changes in the newly independent states. However, the problems became correspondingly greater, which caused many countries to even retrograde. While some former colonial countries, Singapore, for example, became successful in capital accumulating; others, mostly African countries, did not.³³ Most former colonies made a slow progress in further economic accumulation because of two main reasons. First, training and experience in managing the economy mostly were limited only to the white Europeans which resulted in a huge gap in technical and administrative skills after they became independent; and secondly, the economies of the former colonies depended on only one or two export products (mainly agricultural products). This was a result of the colonisers' strategy in using those countries' comparative advantages to be specialised in certain kinds of goods. However, such narrow export economies made them more vulnerable to price fluctuations on the world markets resulting in a low price level of the raw material exported from the Third World.³⁴ For Third World countries, agricultural markets are vital due to the fact that most of them are still relying on agricultural exports as their main national income. This is the reason why, when the GATT/WTO has not been able to reduce the high tariffs and subsidies of the developed countries, especially of the European countries (the former colonial masters), the developing countries have been the ones which most suffered from the negative effects of such protectionist policies. This difficulty does not only harm the economies of developing countries, it also keeps them away from accessing the large markets in Europe.

³¹ Ibid.

³² Ibid.

³³ Ibid., p. 301.

³⁴ Ibid.

In terms of political structure, governments of many post-colonial states did not function effectively in order to continue the accumulation. In some cases, particularly in Africa, the situation had worsened due to ethnic conflicts which often developed into civil wars and eventually halted the whole capital accumulation.³⁵

The environment of the post-colonial period had still been much the same as Goldstein asserts that:

“In sum, liberation from colonial control did not transform underlying economic realities. The main trading partners of newly independent countries were usually their former colonial masters. The main products were usually those developed under colonialism... The state continued to occupy the same peripheral position in the world-system after independence as it had before. And in some cases it continued to rely on its former colonizer for security.”³⁶

As well as Goldstein, James Mayall also makes a point that: “Indeed, in the aftermath of empire, Europe continued to hold its former colonies—or at least their rulers—in thrall.”³⁷ Consequently, a state of dependency is still prominent in relationships between the former colonisers and their former colonies. Dependency theory has been developed by Marxist international relations scholars as to explain the lack of accumulation in the Third World. They define dependency as a form of international interdependence with an extreme power imbalance. It is a “situation where accumulation of capital cannot sustain itself internally.”³⁸ The most obvious pattern of dependency—a legacy from colonial era—is the European states and the African, Caribbean, and Pacific countries (ACP countries), a group of their former colonies. The relations between the ACP countries and the European colonisers had become concrete when colonial preferences were

³⁵ Ibid.

³⁶ Ibid., p. 302.

³⁷ James Mayall, “The shadow of empire: The EU and the former colonial world,” in *International and the EU*, eds. Christopher Hill and Michael Smith (Oxford: Oxford University Press, 2005), p. 293.

³⁸ Joshua S. Goldstein, *International relations*, p. 302.

constituted in Part IV of the Treaty of Rome 1957,^{**} as the French condition in establishing the European Economic Community (EEC) as a customs union.

From the colonial era until today, even though the ACP countries are all now independent, the European states still maintain their connections with them through series of preferential trade agreements i.e. the two Yaoundé Agreements, the series of Lomé Conventions, and the most recently, the Cotonou Agreement. This is seen as neo-colonialism, “the continuation of colonial exploitation without formal political control.”³⁹

The perception of the South being pressured and exploited by the North is still infiltrated in the minds of those in the Global South. Up until recently, resentment among the Third World countries has even been exacerbated when the most important source of income, that is agricultural trade, has been suppressed by the North.

2.2 Regionalism

2.2.1 Definition and Characteristics of Regionalism

Regionalism emerged as a significant force in the post-World War II period and increasing its eminence in international affairs.

Definitions of the regionalism are numerous, and no particular definition is accepted. One of the simplest definitions of regionalism comes from *Political Science Dictionary*, states that: “(regionalism are) limited systems of international organization that enable groupings of states to deal cooperatively with political economic, social, and military problems...Geographical proximity of states typifies most regional organizations... Regional organizations include the military alliance systems..., political systems..., and economic groupings.”⁴⁰ For Andrew Wyatt-Walter, economic regionalism definition is: “the design and implementation of a set of preferential policies within a regional grouping of countries aimed at the encouragement of the exchange of goods

^{**} Part IV of the Treaty of Rome allows “privileged access to metropolitan markets for former colonies and extends preferential access for these associated territories to other EEC member states markets” in James Mayall, “The shadow of empire: The EU and the former colonial world,” in *International and the EU*, p. 297.

³⁹ Joshua S. Goldstein, *International relations*, p. 302.

⁴⁰ Jack C. Plano et al., *Political science dictionary* (Illinois: The Dryden Press, 1973), p. 323.

and/or factors between members of the group.”⁴¹ Much alike to the previous definition, Alfred Tovas expresses that: regionalism in trade should be defined as “the idea of that, countries *should* preferentially promote trade with countries of the same region rather than with any other country in the world.”⁴² He also explains further about economic and non-economic reasons of trade regionalism that the former’s aims are to maximise the benefits from trade and specialisation; with the government’s help, there could be ‘barrier-smashing’ agreement for facilitating trade among countries within the region such as the agreement to construct the Eurotunnel between Britain and France; while the latter was for: “first, to gain privileged access to strategic resources (such as energy), second, to artificially develop the dependence of other countries of the region on your own markets or own resources, and third, security and other political motives (such as the political stabilization of the democratization of the partner).”⁴³ Tovas, thus, concludes that regionalism in trade is “a political movement towards the creation or expansion of preferential regional trade agreements, that is, regionalism is inherently preferential.”⁴⁴

Regionalism is categorised into two forms as described by Andrew Wyatt-Walter that: “Although economic regionalism is by definition discriminatory vis-à-vis the rest of the world and hence opposed to the principle of non-discrimination which is the basis of multilateralism, *malign* and *benign* forms of regionalism are commonly distinguished.”⁴⁵ Benign regionalism does not have an intention in reducing the welfare of the outsider and, of course, the insiders—an example of this kind of regionalism was benign customs unions like the Benelux in 1944; this made the founders of the GATT to believe that

⁴¹ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, eds. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), p. 78.

⁴² Alfred Tovas, “Regional blocks and international relations: Economic groupings or political hegemons?,” in Strange power: Shaping the parameters of international relations and international political economy, eds. Thomas C. Lawton, James N. Rosenau, and Amy C. Verdun (New York: Ashgate, 2000), p. 326.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, p. 78.

regionalism could be a *stepping-stone* for further development of multilateral international economic order.⁴⁶ Mario Telò clarifies that while the market became more and more instable due to the globalisation, the regionalism can respond to the demand for public goods and better conditions for new multilateralism at global level for several reasons.⁴⁷ First, national actors are able to prepare themselves for the adaptation and adjustment under regional framework which is a good precondition for joining an international regime; secondly, exchanging information among members is a result of regional agreements which imply issues linkages for example economy and security, monetary and trade, and this could be very useful for stabilising international regimes; finally, national actors perceive regional agreements as a long-term commitment to regional rules, hence they tend to be more adjustable since matters at the regional level also have an effect on domestic affairs.⁴⁸ So, for the economists, regional trading blocs are “a second-best alternative to world-wide, multilateral trade liberalization.”⁴⁹ On the contrary, effects that occurred by malign regionalism are indeed negative. Regional groupings in general are formed to protect the members, so it is common that they raise tariffs vis-à-vis the outside world and at the same time reducing barriers to internal trade so as to exploit their increased market power; therefore, the malign regionalism may be, as Andrew Wyatt-Walter puts it, “a consciously beggar-thy-*non*-neighbour* policy amongst a group of countries within a geographic region.”⁵⁰

⁴⁶ Andrew Hurrell and Louise Fawcett, “Conclusion: Regionalism and international order?,” in Regionalism in world politics: Regionalism, organization, and international order, eds. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), p. 321.

⁴⁷ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, ed. Mario Telò (Aldershot: Ashgate, 2001), p. 13.

⁴⁸ Ibid.

⁴⁹ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, p. 80.

* Merriam-Webster Online Dictionary [Online dictionary], 5 January 2010. Available from: <http://www.merriam-webster.com/dictionary/beggar-thy-neighbor>, defines ‘beggar-thy-neighbour’ that: “(it) relates to or being an action or policy that produces gains for one group at the expense of another”. Daniel W. Drezner gives some examples of the beggar-thy-neighbour: “hiking up import tariffs or other trade restrictions, devaluing currencies, imposing controls on the outward flow of capital, and subsidizing exports”., Daniel W. Drezner, Beggar-thy-neighbor.

Economic consequences of regionalism can be shown into two effects. *Trade creation* is happened at the time when the countries are gathered and trade among themselves. This results in shifting from less efficient domestic country production to more efficient partner country production. It is true that it creates more volumes of trade within the region, but it also creates detrimental effects to less efficient domestic producers. Another effect that occurs as a result of regional grouping is that import countries shifting their demand from more efficient outside suppliers to less efficient regional suppliers; this is known as *trade diversion*.⁵¹ This trade diversion, argued by Cohn, may be occurred by “the reaction of non-member countries to RTAs (Regional Trade Agreements).”⁵² This illustrates that the establishment of RTAs may be used as a defensive means against the discriminatory effects of other regional groups; this is why proliferation of regional groupings tends to create more trade conflicts and lead to a fragmentation of the global trade regime.⁵³

The regionalist project in Europe is the most successful case of regional (economic) integration process. It has become a very first model of regional integration since the aftermath of WW II. Bela Balassa used the term ‘economic integration’ to refer to “the creation of formal cooperation between states and the progressive movement towards a free trade, a customs union, and a common market, monetary union and finally total economic integration.”⁵⁴ The development of European regional integration has been in accord with Balassa’s 5 stages of economic integration—Free Trade Areas (FTA), Customs Union (CU), Common Market (CM), Economic Union, and Total

take one [Online], 5 January 2010. Available from: <http://drezner.foreignpolicy.com/taxonomy/term/346/0> In the same way, beggar-thy-*non*-neighbour policy causes harmful effects on the non-members outside regional groupings.

⁵⁰ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, p. 79.

⁵¹ Theodore H. Cohn, Global political economy: Theory and practice, 2nd ed. (New York: Longman, 2003), p. 281.

⁵² *Ibid.*, p. 282.

⁵³ *Ibid.*

⁵⁴ Shaun Breslin, Richard Higgott and Ben Rosamond, “Regions in comparative perspective,” in New regionalism in the global political economy: Theories and cases, eds. Shaun Breslin, Christopher W. Hughes, Nicola Phillips and Ben Rosamond (London: Routledge, 2002), p. 13.

Economic Integration⁵⁵; however, when it came to the stage of establishing a customs union, an image of 'Fortress Europe' became clearer. Under the customs union, a common external tariff (CET) is set for the group to apply towards non-member countries; in other words, this is a free trade area with the harmonisation of trade policies among the participants.⁵⁶ Common Agricultural Policy (CAP), hence, was also a product of the establishment of the customs union, known as European Economic Community (EEC), in Western Europe since 1957.

The European Community (EC), according to Tovas, is considered as a regional trade bloc both in a benign and aggressive form. It is benign because after each enlargement it has not raised protection level against the outsiders; moreover, the completion of the Single Market did not lead to Fortress Europe. In contrast, sometimes the EC act aggressively by imposing trade sanctions on targeted countries, for example, South Africa, Libya or Israel, as to modify their policies.⁵⁷

In sum, regional grouping's main purpose is based on cooperative activities with an aim to provide protection and benefits for members of the groups. At the same time, the outsiders are excluded from this privilege and treated discriminately. This creates an inevitably undesirable attitude between the insiders and the outsiders.

2.2.2 Dynamics behind the Emergence of Regionalism

The emergence of regionalism in the aftermath of WW II could be divided into two waves, as mentioned in the introduction. There, also, have been three dynamics behind this phenomenon: Cold War, liberalisation and globalisation, and post-hegemonic stability.

⁵⁵ Bela Balassa (1961) cited in Daiwa Institute of Research, Trade, investment and financial integration in East Asia [Online PDF file], 3 January 2010. Available from: <http://www.aseansec.org/17898.pdf>

⁵⁶ Carlo Altomonte and Mario Nava, Economics and policies of an enlarged Europe (Cheltenham: Edward Elgar, 2005), p. 36.

⁵⁷ Alfred Tovas, "Regional blocks and international relations: Economic groupings or political hegemons?," in Strange power: Shaping the parameters of international relations and international political economy, pp. 332-333.

2.2.2.1 Cold War

The *Cold War* was the very first cause behind the emergence of the first wave of regionalism, centred in Western Europe. However, the regional integration in Europe came from both internal and external. As William Wallace indicates in his chapter in *Regionalism in World Politics: Regionalism, Organization and International Order*, that: “West European integration was the product not only of a common culture and history, and of a particular geographical density, but also a common disaster and predicament: the war and its aftermath, American hegemony and the Soviet threat.”⁵⁸ European regional integration was seen as a subset of American-centred hegemonic stability and its vision of multilateralism during the 1960s-1970s.⁵⁹ The integration process in Europe began under American initiative, protection, and pressure⁶⁰ as we can witness the increased US intervention in the post-war European affairs, with its eagerness in establishing a new freer international economic system, along with protecting Western Europe from being fall under the Communist.⁶¹ For the Western European countries themselves, changing international atmosphere of the post-war urged them to consider about being more cooperative, and to end the long Franco-German enmity.⁶² At the same time, a concept of the “United States of Europe”⁶³—as revealed in 1946 Winston Churchill’s speech to the academic youth in Zurich—became popular among the European élites; this was the first step in promoting regionalist projects in Europe. The

⁵⁸ William Wallace, “Regionalism in Europe: Model or exception?,” in *Regionalism in world politics: Regionalism, organization, and international order*, eds. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), p. 201.

⁵⁹ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in *European Union and new regionalism: Regional actors and global governance in a post-hegemonic era*, p. 3.

⁶⁰ William Wallace, “Regionalism in Europe: Model or exception?,” in *Regionalism in world politics: Regionalism, organization, and international order*, p. 208. Further reading on how the US supported the European integration see Desmond Dinan, *Europe recast :A history of European Union* (Boulder: Lynne Rienner, 2004), Chapter 1.

⁶¹ Desmond Dinan, *Europe recast :A history of European Union*, p. 5.

⁶² Stephen George, “The European Union, 1992 and the fear of ‘Fortress Europe,’” in *Regionalism and world order*, eds. Andrew Gamble and Anthony Payne (London: Macmillan, 1996), p. 22.

⁶³ *Winston Churchill's Speech To The Academic Youth 1946-ZÜRICH* [Online], 3 January 2010. Available from: <http://www.europa-web.de/europa/02wwswww/202histo/churchil.htm>

European governments were aware of their status under the context of Cold War where the US and the Soviet Union became major players on the world stage. This undoubtedly undermined their status-quo as the world superpowers in world politics; hence, as to regain their bargaining position, they needed to work together and be united.

Western Europe under the American security umbrella recovered their ruined economies speedily in parallel with the establishment of their various regional projects. The European regionalism, then, went far beyond the US had expected.

The well-structured regional project with high achievement in dealing with economic problems became an attractive model for Third World countries to imitate. This was the cause of the spread of regionalism throughout Latin America and Africa in the early 1960s.⁶⁴ However, the reasons of the South in forming regional agreements were very different from those in the Western Europe. For them, regionalism was seen as a “tool in the struggle to end the exploitative and dependent relationship between the developing countries and the industrialized countries.”⁶⁵ It was used to provide a larger market for their industrial goods production with their efforts to pursue Import Substitution Industrialisation or ISI policies, so their regional agreements were quite inward-looking and designed to pursue import substitution at the regional level.⁶⁶

The attempts, unfortunately, resulted in the failure by the early 1970s. Cohn points out that “there were numerous problems in the Third World regional agreements because there was a fundamental “contradiction between the idea of giving impetus to integration via trade liberalization and the protectionist logic of...import substitution” to promote industrialization,” and also the US was the global hegemon who was a “firm supporter of multilateralism and generally did not endorse RTAs.”⁶⁷ Besides, throughout the Cold War period, the growth of regionalism was very limited. According to Louise

⁶⁴ Theodore H. Cohn, *Global political economy: Theory and practice*, p. 277.

⁶⁵ Louise Fawcett and Andrew Hurrell, “Introduction,” in *Regionalism in world politics: Regionalism, organization, and international order*, eds. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), p. 15.

⁶⁶ Theodore H. Cohn, *Global political economy: Theory and practice*, p. 277.

⁶⁷ Ibid.

Fawcett and Andrew Hurrell, “the continuing bipolar nature of the international system to which all regional arrangements were subordinate”; compound with “the extreme tenacity with which states clung to their sovereignty, not only in most matters of high politics but in many matters of low politics as well.”⁶⁸ As a result, regionalist projects elsewhere outside Europe were not very successful in this first wave.

2.2.2.2 Liberalisation and Globalisation

Secondly, another important cause behind the boom of regionalism was *liberalisation of the economic system and globalisation*. Many scholars such as Theodore Cohn, Mario Telò, Andrew Hurrell, Shaun Breslin, Richard Higgott, Ben Rosamond, and Pier Padoan, consider that globalisation was a significant dynamic to the rise of regionalism.^{69,70,71,72,73} At the early post-war period, the US was a spearhead in establishing a new economic system with more openness; it was the beginning of economic liberalisation process worldwide. It established numerous multilateral international organisations e.g. GATT/WTO, the IMF and the World Bank as to facilitate and promote liberalist ideas of economic liberalisation, interdependence, and economic networking. As time goes by, thanks to the advanced technology and the own success of liberal economy, more and more countries have been accepting liberal principles as they open their economies for import and foreign investment, scale down the role of the

⁶⁸ Louise Fawcett and Andrew Hurrell, “Introduction,” in Regionalism in world politics: Regionalism, organization, and international order, p. 16.

⁶⁹ Theodore H. Cohn, Global political economy: Theory and practice, pp. 275-276.

⁷⁰ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, pp. 1-16.

⁷¹ Andrew Hurrell, “Regionalism in theoretical perspective,” in Regionalism in world politics: Regionalism, organization, and international order, eds. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995), pp. 54-58.

⁷² Shaun Breslin, Richard Higgott and Ben Rosamond, “Regions in comparative perspective,” in New regionalism in the global political economy: Theories and cases, p. 8.

⁷³ Pier Carlo Padoan, “Political economy of new regionalism and world governance,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, ed. Mario Telò (Aldershot: Ashgate, 2001), pp. 54-55.

state in the economy, and shift to export-led growth strategies; as in Brian Hocking's words: "Broadening and deepening of the global economy networked world economy."⁷⁴

In some respects, globalisation is inseparably interrelated with regionalism. Theodore Cohn and Andrew Hurrell have their common analyses on the relations between these two. Globalisation, on the one hand, confines the growth of regionalism because of the rise of many global issues that need to be managed multilaterally at global level. On the other hand, it may also help stimulate the rise of regionalism as nations have become more under globalisation pressures, it is better for them to work together in group and reach regional agreements more easily than at the multilateral global level.^{75,76} Nonetheless, "the revival of regionalism since 1980s has generally complemented with the globalisation process rather than conflict."⁷⁷

Then, again, like two sides of the same coin, globalisation is good but not for all people. It has also dangerous effects to national economy especially of the poor countries that lack of the potential to compete and also be exploited by the stronger. Since international mobility of capital tends to weaken or even dismantle national protection, regional grouping has become an alternative for LDCs to protect themselves and raise their bargaining power on the world stage. Globalisation has created a vulnerable, deeply interdependent environment of international economic communities, so region grouping is seen by many actors as a "willingness to react to uncertainties and to compete better with other regions and economic powers (EU, USA and Japan)."⁷⁸ Robert Gilpin describes the reasons of this growing regionalism that:

⁷⁴ Brian Hocking and Steven McGuire, "Introduction: Trade politics: Environment, agendas and process," in Trade politics, eds. Brian Hocking and Steven McGuire, 2nd ed. (London: Routledge, 2004), p. 7.

⁷⁵ Theodore H. Cohn, Global political economy: Theory and practice, p. 276.

⁷⁶ Andrew Hurrell, "Regionalism in theoretical perspective," in Regionalism in world politics: Regionalism, organization, and international order, pp. 55-57.

⁷⁷ Theodore H. Cohn, Global political economy: Theory and practice, p. 276.

⁷⁸ Mario Telò, "Introduction: Globalization, new regionalism and the role of the European Union," in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 6.

“Economic regionalism has spread because nation-states want the absolute benefits of a global economy at the same time that they seek to increase their own relative gains and protect themselves against external threats to their economic welfare and national security.”⁷⁹

In line with scholars like Winters and Telò who have argued that while regionalism is going in parallel with globalisation, it may make the multilateral system more fragile due to the fact that countries wish to join the group for the purposes of more protection.^{80,81} This is also true in the case of the European Community. Although the EC has been the US ally in promoting free trade, it realised that its agricultural sector could not compete with the cheap agricultural products elsewhere on the world market. This is why the EC, or the EU today, never think of letting go its agricultural protectionist policy. In conclusion, there are two dominant explanations for this boom: firstly, regionalisation was seen as a part of liberalisation and globalisation process, in other words, it was seen as a stepping stone for further global liberalisation and a good preparation for an open international economy^{82,83}; secondly, in more pessimistic view, regional discriminatory agreements were reactions to globalisation and potential regional blocs.⁸⁴

Apart from these arguments, in terms of politics, Gilpin sees that the expansion of regional integration can be considered as a response to a ‘security dilemma’ in which each group attempts to enhance its own bargaining position vis-à-vis other groups.⁸⁵

⁷⁹ Robert Gilpin with the assistance of Jean M. Gilpin, Global political economy: Understanding the international economic order (Princeton: Princeton University Press, 2001), p. 357.

⁸⁰ Pier Carlo Padoan, “Political economy of new regionalism and world governance,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 54.

⁸¹ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 14.

⁸² *Ibid.*, pp. 5-6.

⁸³ Andrew Hurrell and Louise Fawcett, “Conclusion: Regionalism and international order?,” in Regionalism in world politics: Regionalism, organization, and international order, p. 321.

⁸⁴ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 6.

⁸⁵ Robert Gilpin with the assistance of Jean M. Gilpin, Global political economy: Understanding the international economic order, p. 342.

2.2.2.3 Post-Hegemonic Stability

The last explanation for explaining the proliferation of regionalism especially the second wave in 1980s was due to the *post-hegemonic stability* condition. Andrew Gamble describes in his chapter that:

“The Second World War created the conditions for the emergence of a new hegemon, the United States, which produces the successful reconstruction of the world economy and the long period of prosperity in the 1950s and 1960s. But the erosion of the economic supremacy of the United States meant that its hegemonic power began to decline in the 1970s, and it was no longer able to guarantee the conditions for a stable liberal world order. The results were the recessions and economic instability of the 1970s and 1980s.”⁸⁶

This is in common with Gilpin’s words that: “The global system is now in what has been called a post-hegemonic condition.”⁸⁷ Therefore, the resurgence of regionalism in the second wave can be analysed according to Padoan’s explanation that ‘regionalism’— apart from some understanding that it was a result of concentration of trade and investment activities around major integrated regions: Europe, North America, Asia— should also be conceived as a “a policy option pursued as a response to the failure of the post-hegemonic world in providing international public goods.”⁸⁸

The collapse of the Bretton Woods Gold Standard system in 1971 and the US’ inability in dealing with the oil crisis of the 1970s which led to widespread inflation internationally clearly portrayed the declination of the US supremacy as the world hegemony. Yet, the power of the US has still remained preponderant; Anthony Payne

⁸⁶ Andrew Gamble, “Regional blocs, world order and the new Medievalism,” in *European Union and new regionalism: Regional actors and global governance in a post-hegemonic era*, ed. Mario Telò (Aldershot: Ashgate, 2001), p. 26.

⁸⁷ Robert Gilpin with the assistance of Jean M. Gilpin, *The political economy of international relations* (Princeton, N.J.: Princeton University Press, 1987). Cited in Pier Carlo Padoan, “Political economy of new regionalism and world governance,” in *European Union and new regionalism: Regional actors and global governance in a post-hegemonic era*, p. 40.

⁸⁸ Pier Carlo Padoan, “Political economy of new regionalism and world governance,” in *European Union and new regionalism: Regional actors and global governance in a post-hegemonic era*, p. 40.

and Andrew Gamble argue that what has changed is the US was not powerful as it was in its post-war *Pax Americana* anymore. In other words, it was not powerful enough to “shape the world on its own rules of a consensual hegemonic order,” but in some fields like military and cultural, “its dominance became greater in the 1990s than it had ever been.”⁸⁹ They further argue that: “the US no longer possessed that self-reinforcing and largely unchallenged primacy across *all* the necessary constituent elements of hegemonic power. Without this, it is reduced to mortal status, increasingly more likely to behave in the same fashion and be constrained in the same way as other leading states in the world.”⁹⁰ The US, therefore, changed its position from its “traditional post-war role of ensuring that the regionalism of others, particularly Europe’s, remains reasonably compatible with multilateralism in international economic relations,” towards “actively pursuing its own regional policy.” This was the biggest and most important change of the US policy in the post-war period.⁹¹

As the US hegemonic power declined, the post-hegemonic world order has turned into anarchical state as Payne and Gamble point out that: “during the crisis of US global hegemony in the 1970s and its attempted reconstitution in the 1980s, control of the world order slipped beyond the capacity of any single state and perhaps even any group of states.”⁹² This led to Andrew Gamble’s argument that: “If no power is able to supply the public goods which a liberal world order requires then states will respond with mercantilist and protectionist policies, as they did in the 1930s.”⁹³ This means that all states have to react offensively as well as defensively, this reaction is well described by Payne and Gamble that:

⁸⁹ Anthony Payne and Andrew Gamble, “Introduction: The political economy of regionalism and world order,” in Regionalism and world order, eds. Andrew Gamble and Anthony Payne (London: Macmillan, 1996), p. 14.

⁹⁰ *Ibid.*, p. 15.

⁹¹ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, p. 77.

⁹² Anthony Payne and Andrew Gamble, “Introduction: The political economy of regionalism and world order,” in Regionalism and world order, p. 15.

⁹³ Andrew Gamble, “Regional blocs, world order and the new Medievalism,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 26.

“...all states now have to react to the pressures of global production, choosing broadly between an offensive strategy which takes on the challenge and usually gives some support to the competitive thrust of national industries, and a defensive strategy which enshrines protection and seeks to effect at least a partial withdrawal from world competition in some sectors.”⁹⁴

Not only the declination of the US hegemonic power that was a stimulus behind the spread of new regionalism, the end of the Cold War was another useful factor in understanding the political dimension of regionalism. The end of the West-East confrontation changed the global political structure of power and, as a result, “provided a powerful stimulus to closer regionalism elsewhere”⁹⁵—the features were “the unification of the world economy, with the end of its political division, the erosion of the previous blocs of alliances and the changing strategies of the world’s main powers, the combination of fragmentation, and the creation of new economic and political centers.”⁹⁶

These two factors—the declination of the US hegemonic power and the end of the Cold War—allowed the world political economy to shift away from ‘multilateralism’ towards a system based upon competing regional blocs.⁹⁷ Louise Fawcett and Andrew Hurrell suggest that economic changes, mainly economic marginalisation that occurred as a result of regional groupings became a great threat for many countries.⁹⁸ They make an example of the European Community that once the EC introduced its plans to initiate

⁹⁴ Anthony Payne and Andrew Gamble, “Introduction: The political economy of regionalism and world order,” in Regionalism and world order, p. 16.

⁹⁵ William Wallace, “Regionalism in Europe: Model or exception?,” in Regionalism in world politics: Regionalism, organization, and international order, p. 202.

⁹⁶ Mario Telò, “Introduction: Globalization, new regionalism and the role of the European Union,” in European Union and new regionalism: Regional actors and global governance in a post-hegemonic era, p. 7. See also Louise Fawcett and Andrew Hurrell, “Introduction,” in Regionalism in world politics: Regionalism, organization, and international order, pp. 17-22.

⁹⁷ Andrew Wyatt-Walter, “Regionalism, globalization, and world economic order,” in Regionalism in world politics: Regionalism, organization, and international order, pp. 74-75.

⁹⁸ Louise Fawcett and Andrew Hurrell, “Introduction,” in Regionalism in world politics: Regionalism, organization, and international order, p. 23.

a single market by the end of 1992 with an intention to increase its competitiveness in a higher competitive global economy, the fear of a 'Fortress Europe' urged other areas of the world to rethink their policies towards economic regionalism.⁹⁹ Combined with the US shift from a supporter of multilateralism to a supporter of regional arrangements, this accelerated regional groupings elsewhere worldwide.

2.3 Conclusion

The relations between the EU and other developing countries are still influenced by the traditional pattern of dependency. In some views, it is the European nations' responsibility for their former colonies' backwardness. But still, if the developing countries keep on relying on the EU's help, it will be difficult to further develop and even damage the poor's economies as they would never be able to stand on their own feet. So in solving this disparity problem, developed countries, in this case the EU should encourage development in their colonies, including other developing countries by providing them opportunities to access markets or letting them gain from the income that they have the right to acquire.

The CAP is a product of regionalism. The policies that serve regional grouping are protective by nature, so in order to protect the members of the group, some protectionist mechanisms are to be created. As a result, the CAP mechanisms of price support system have been used to achieve this objective.

ศูนย์วิทยทรัพยากร

จุฬาลงกรณ์มหาวิทยาลัย

⁹⁹ Ibid.

CHAPTER III

THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy (CAP) is the most notorious common policy of the European Union (EU). It has long been in the spotlight because its existence has raised fears that other sectors once being harmonised would become highly protected like the agricultural sector. As a result, for non-European countries, an image of 'Fortress Europe' is still prominent, and its effects still have vastly impacts on non-members' economies.

Purposes of this chapter are to explain the CAP's development and to simplify its complicated mechanisms. In order to understand how it works, analyses on the CAP's two main tools that are *income support measure* and *price support measures*, have also been provided. In this finding, however, more emphasis is given to the latter as a matter of fact that it greatly distorts world agricultural prices and damages agricultural trade especially those of developing countries. Furthermore, after several attempts to reform with little success, many scholars come up with more possible reform options which might, at least, create more changes for the CAP.

3.1 Origins and Development of the CAP

3.1.1 The Treaty of Rome and Rationales in Establishing the CAP

The CAP initiation was introduced when the Treaty of Rome was being negotiated. The Treaty comprised with two parts: the Treaty establishing European Atomic Energy Community (EAEC or Euratom), and the Treaty establishing the European Economic Community (EEC). While the first aimed at promoting cooperation in the nuclear power sphere, the latter was to create and complete a customs union with common external tariffs for the member states. With the French insistence, the CAP was agreed in principle by the Six—founding members of the European Community (EC) i.e. France, Belgium, the Netherlands, Luxembourg, Italy, and West Germany—and to be

constituted in the Rome Treaty signed in 1957. As a result, the CAP became one of the main pillars of the Treaty on EEC and came into force in 1962.

Primary rationale behind the creation of the CAP was a matter of food security. It was obvious that wartime and post-war food shortages were still reminiscent among the European élites; as a result, they perceived a need in making Europe become self-sufficiency.¹ This is because too much dependency on food imports would make them become more vulnerable to the outside pressures, and this would also cause a great loss for national savings and damage the balance of payments as they have to buy more and more food to feed their people.

Another reason would be that the CAP was seen as a trade-off between France and Germany in establishing common markets and also a product of their compromise with an intention to end the long enmity between them. This point of view has been mentioned by many scholars such as Grant, Nugent, Dinan, and Howarth.^{2,3,4,5} While Germany would have advantages from the establishment of industrial common market, the French large, but uneconomic, agricultural sector would benefit from this common agricultural system. Therefore, the France's Government under General de Gaulle firmly demanded for a common agricultural policy to be happened as Howarth points out that: "General de Gaulle would permit no backsliding on the development of the CAP. He linked progress towards the industrial common market to progress on agriculture. Without the latter, he would not let the former proceed."⁶

The CAP is covered by Articles 38 to 45 of the Treaty of Rome and its objectives are constituted in Article 39. According to its objectives, the CAP aims:

¹ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe* (Cheltenham, U.K.: Edward Elgar, 2005), p. 253.

² Wyn Grant, *The Common Agricultural Policy* (Basingstoke: Macmillan Press, 1997), p. 63-64.

³ Neill Nugent, *The government and politics of the European Union*, 3rd ed. (London: Macmillan, 1994), p. 362.

⁴ Desmond Dinan, *Europe recast: A history of European Union* (Boulder: Lynne Rienner, 2004), p. 96.

⁵ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, ed. Patrick Minford (Manchester: Manchester University Press, 1992), pp. 52-53.

⁶ *Ibid.*, p. 53.

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

Thanks to the CAP, the EC did not only achieve in becoming self-sufficient in food production, soon in 1970s, it also changed its status from being a large net importer to one of the world major agricultural exporters. However, as environmental concerns began to grow in the mid-1990s, the CAP's objectives have been criticised frequently by reformers because they emphasise on a productionist policy that neglects environmental considerations.⁷

The CAP, since its inception, was constructed on three main principles which determine its characters.

- 1) *A single market* creates the free movement of agricultural products within the unified market. There is an abolition of every distortion on competition such as barriers to trade or any subsidies. The unified market has been run under central administration regulations, policies and mechanisms. In addition, common prices have also been used throughout the Community in order to reach the CAP's goals.
- 2) *Community preference* means that members' agricultural products are to be protected from external pressures such as competitive imports and price fluctuations in the world markets. It is necessary because the Community prices are usually higher than those in the world market; therefore, to be more competitive, government intervention is needed. Furthermore, this kind of protection can be seen as means to promote more export.

⁷ Wyn Grant, The Common Agricultural Policy, p. 64.

3) *Financial solidarity* has been used to share the cost of the CAP via the Community budget, plus with a centralisation of the necessary funding. In other word, this aims to share financial burden of the CAP among the member states. The European Agricultural Guidance and Guarantee Fund (EAGGF) take the responsibility in managing agricultural budget. The EAGGF has been divided into two parts: “the ‘guarantee’ section of the Fund finances the intervention policies of the CAP, while the ‘guidance’ section administers the funds for structural reform policies.”^{8,9}

Many people may wonder what is so special about agriculture, and why it is so important and has to be this highly protected. There is a variety of reasons to explain how agriculture is significant for the nations and why it has powerful influence over those who engaged in decision-making process. There are two main points about agriculture that we have to understand: firstly, natures of agriculture are distinctive which make it unique from other economic sectors and thus require some special treatment; and secondly agricultural lobby is a considerable political force that influences over European politics. Despite substantial depopulation in agricultural sector, farmers have strong allies. This makes agricultural lobby a powerful force in controlling governments in favour of their interests.

3.1.2 What is Special about Agriculture?

3.1.2.1 The Distinctive Natures of Agriculture

Most industrialised countries have long shared a common recognition that agriculture is not like other areas of economic activity, so “it is special and merits special treatment to encourage, to assist and to protect it.”¹⁰ Why governments of mostly all nations have to cherish agricultural sectors, there are some rationales to explain this. Food security has always been the very first concern for every government. Agricultural sector is the most pivotal as the matter of fact that it is the unit that produces ‘food’, the

⁸ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 257.

⁹ T. Hitiris, *European community economics*, 2nd ed. (New York: Harvester Wheatsheaf, 1991), pp. 168-169.

¹⁰ Neill Nugent, *The government and politics of the European Union*, p. 363.

most important basic commodity that people need to survive; therefore, all governments have to seek for policies that will “keep farmers producing, maintain adequate food supplies, and ensure that stable food prices.”¹¹

There are justifications for the government to intervene. Demand of food is usually static. Even though quantity of food increases and the prices run down, the consumption remains more or less unchanged. Another reason is that agriculture depends heavily on uncontrollable factors such as climate and biological factors. Without authority intervention, the production will easily fluctuate and affect the level of price which this can be harmful to both farmers and consumers.¹² The price instability of agricultural products will lead to two major problems: if the prices rise, the inflation rises as agricultural products' prices have been tied with the food prices; on the contrary, if the prices drop, the farmers will suffer from the difficulties of inadequate income and may be forced off the land.¹³

In more broad economic terms, reliance on imports for vital foodstuffs creates a potential vulnerability to outside pressures. As in the wartime period, the European countries could not provide enough food to feed their people so there was a big flood of cheap foreign imports. Moreover, this import dependency could damage state's economy and balance of payments. This was because when facing with shortages as long as national budget available, the food would still be bought even at the high price.¹⁴ These weaknesses therefore became “a drive for greater self-sufficiency”¹⁵ among the European governments. However, recently the importance of these points of views has been decreased substantially because since mid-1970s Community's production began to move into surplus.¹⁶

Apart from the economic significance, supported farmers are also important in terms of social and environmental reasons. Historically, agricultural sector has been

¹¹ Brian Gardner, *European agriculture: Policies, production and trade* (London: Routledge, 1996), p. 5.

¹² *Ibid.*, p. 4.

¹³ Neill Nugent, *The government and politics of the European Union*, p. 363.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ *Ibid.*

considered as the ‘backbone of the nation’, they deserve some special supports and protection. Keeping farmers on their land is also necessary to maintain rural communities and preserve the countryside. This is a good way to share responsibility of rural development to the farmers as to take care of their own rural communities. In addition, government intervention is needed to prevent the poor farmers who do not earn enough for living from leaving their farms. This will result in exacerbating the already high unemployment rate in the Community.^{17,18}

3.1.2.2 Political Factors

Agriculture in many developed countries—markedly in the United States and in the EU—is considerably significant to national politics. Why it is so important despite its disproportionate share in the EU’s GDP (agriculture’s share was only 2.1 per cent in 2009 while other sectors i.e. industry accounts 25.9 per cent and 71.9 per cent for services)¹⁹ and continual depopulation of labour force in the agricultural sector as states in the Eurostat’s *Agricultural Statistics: Data 1995-2005*: “Over the period 1995-2000, the agricultural labour input has declined by 2.0% p.a. in the EU-15. This rate of change has speeded up since 2000 to -2.3% for the period up to 2005 (EU-25: -2.5%)”²⁰; as well as in the Figure 1, labours worked in Agriculture, plus hunting, forestry and fisheries, counted only 4.9% of total employment.²¹

¹⁷ Ibid., pp. 363-364.

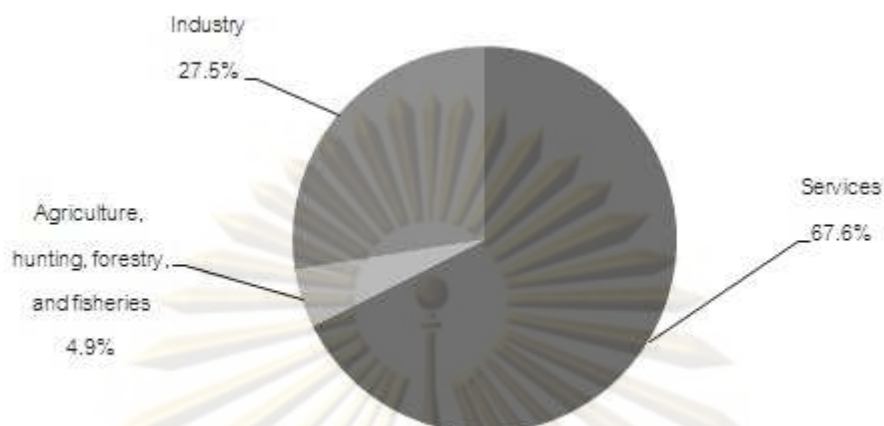
¹⁸ Brian Gardner, *European agriculture: Policies, production and trade*, pp. 5-6.

¹⁹ Central Intelligence Agency (CIA), *The World Factbook* [Online], 5 January 2010. Available from: <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

²⁰ European Union, *Agricultural Statistics: Data 1995-2005*, 2007 ed. (Luxembourg: Office for Official Publications of the European Communities, 2004), p. 13.

²¹ Ibid.

Figure 1 Share of economic activities in total employment of EU-25, 2005



Source: European Union, *Agricultural Statistics: Data 1995-2005*, 2007 ed. (Luxembourg: Office for Official Publications of the European Communities, 2004), p. 13.

There are several factors that can explain the significance of agricultural sector in the EU.

Firstly, what makes agriculture in developed countries unique is that farmers have very powerful and effective political lobbying organisations to represent and articulate their interests.^{22,23} The farmer's unions have only one main objective: "to maintain the living standards of their members"²⁴; they thus demand for "comprehensive market regimes for as much produce as possible, and it sought the largest price increases it could get."²⁵ This unity, in other word, is seen as a considerable source of strength in achieving the producers' goals. They are stronger than other industrial groups because they can utilise wide range of powerful strategic and emotional arguments in acquiring their interests.²⁶ The most influential agricultural organisation is the EU's farmer's union federation or Comité des Organisations Professionnelles

²² Neill Nugent, *The government and politics of the European Union*, p. 364.

²³ Brian Gardner, *European agriculture: Policies, production and trade*, p. 6.

²⁴ Ibid.

²⁵ Neill Nugent, *The government and politics of the European Union*, p. 367.

²⁶ Brian Gardner, *European agriculture: Policies, production and trade*, p. 6.

Agricoles (COPA). It represents “all types of farmers on the basis of affiliation through national farming groups.”²⁷

In addition, other than their own organisations, agricultural producers also have powerful friends. There are numerous players involved in agriculture as Grant points out that: “the political strength of agriculture is in part because of its links with a number of supply and processing industries whose own well being is influenced by development in agriculture.”²⁸ Involved industries can be grouped in two i.e. input industrial suppliers and industries on the output side. The principal industries on the input side include agricultural machinery and equipment, agrochemicals, fertilisers, animal feed, seed suppliers, veterinary medicines and other pharmaceutical products, the financial services sector providing loans and insurance services to agriculture, specialist institutions and firms providing educational, training and advisory services to agriculture, and specialist agricultural publications which serve farming audiences directly through medias like the print media, television and radio programmes.²⁹ On the other side, farming has a close relation with output industries like those ‘first stage’ food processing industries such as the pasteurisation of milk and its placing in containers for human consumption; while ‘second stage’ food processing industries “typically involve higher value-added transformations to semi-finished products produced by first stage industries, but also often involve the importation of raw materials from outside Europe: for example, chocolate production.”³⁰

Secondly, agricultural interests generally enjoy good contacts with, and access to decision-makers both at the national level and the EU level. An influence over governments is vital because, not only allowing those who engage in agriculture control over determined national policies, it is the route to the Council of Ministers at the EU level.³¹ While at the EU level, the Commission is the prime target for agricultural

²⁷ Neill Nugent, *The government and politics of the European Union*, p. 365.

²⁸ Wyn Grant, *The Common Agricultural Policy*, p. 21.

²⁹ See more information in *Ibid.*, pp. 21-24.

³⁰ *Ibid.*, p. 23.

³¹ Neill Nugent, *The government and politics of the European Union*, p. 366.

interests. The Commission see that its close relations with the agric groups will be useful for both of them as the groups can share their knowledge and experiences with the Commission so that they can improve the policies; conversely, the Commission can explain its actions in some situations. Moreover, their meeting can help “breaking down barriers and resistance arising from suspicions that ‘the Eurocrats’ do not really understand farming practicalities.”³²

The relationship between farmers and the politicians therefore is an important factor in agricultural politics in the EU.

3.2 Mechanisms of the CAP

The CAP has been characterised as a protectionist policy by its three main principles mentioned earlier. However, the mechanisms have been widely criticised because of its distortive effects upon agricultural prices both in the Community and at the world market including its burdens on taxpayers and consumers who financing the CAP. As a result, a direct aid for farmers has been introduced as to replace the traditional inefficient price support measures.

3.2.1 Price Support Measures

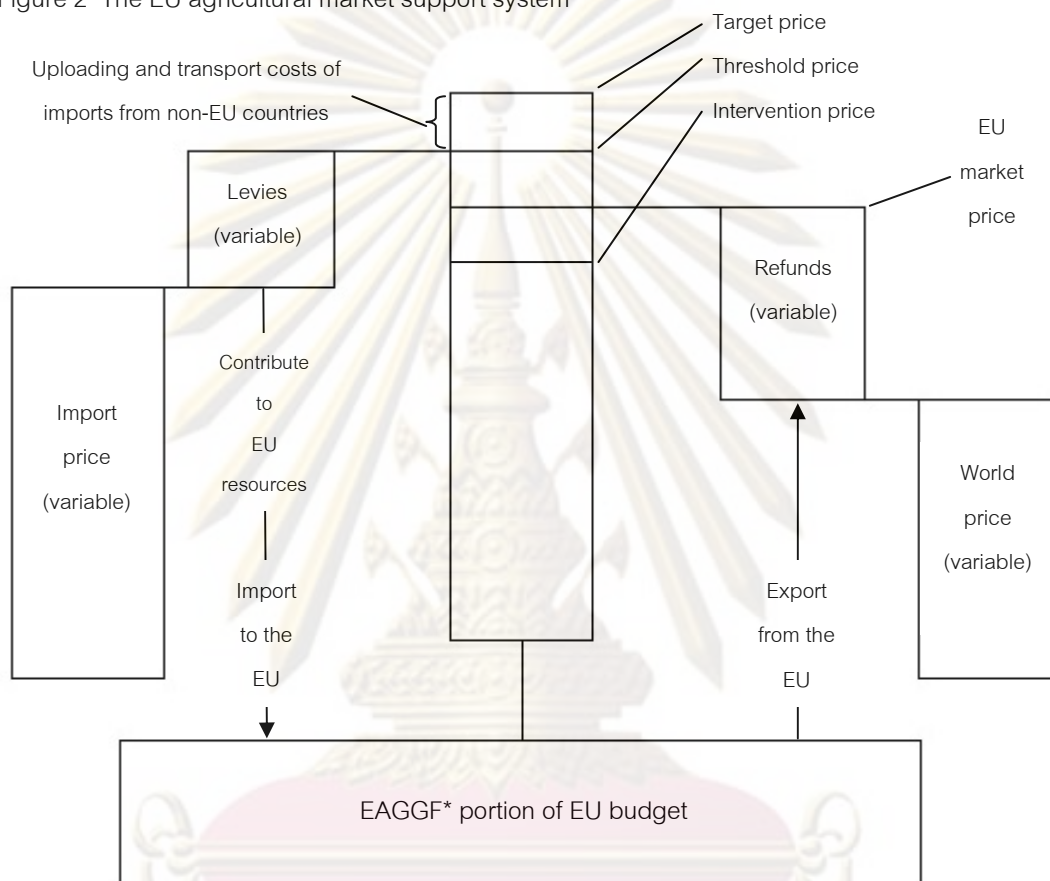
To stabilise market and protect domestic agricultural producers, common prices therefore are set by the Council for most important agricultural products. There are three types of prices that have been used in this support system: a target price, a threshold price and an intervention or guaranteed price (see Figure 2).

- 1) *Target price* is a price that it is hoped farmers will be able to obtain at the open market;
- 2) When EU import is cheaper than agricultural products in the EU market, *threshold price* is thus set by adding levies to raise the imports' price so that those imports will be less competitive compared with domestic products;

³² Ibid.

- 3) Overproduction will run down price within the EU market so when it reaches *intervention or guaranteed price*, the Commission will intervene by buying up the surpluses.³³

Figure 2 The EU agricultural market support system



* The European Agricultural Guidance and Guarantee Fund (EAGGF)

Source: Neill Nugent, *The government and politics of the European Union*, 3rd ed. (London: Macmillan, 1994), p. 369.

The figure explains how the CAP support system operates including its protectionist mechanisms. The simplest form of protection usually appears as an import barrier. No import is allowed to enter the EU market if its price is below the threshold price; therefore, to bridge the difference between lower import price or world price, and

³³ Ibid., p. 369.

EU market price, a tariff on imported products known as import levy is added.³⁴ The propose of using import levies is to “make imported products less competitive with respect to domestic products, and thus isolate the domestic market from international competition, at the expense of consumers’ welfare.”³⁵ Buckwell points out that this protection can be shown to have five effects. First, more stable price will accelerate the production within the Community. Second, it discourages domestic consumption. As a result of these two effects, the volume of imports is decreased. Fourth, revenues are increased because of collecting import taxes or variable import levies. Fifth, the Community market is stabilised and insulated against fluctuations in the world price. This is because prices in the world market are highly fluctuated due to varying grain production and use, so it will affect variable import levies as the gap between the constant threshold price and the varying world price is varied.³⁶

Another consideration is the use of export refunds. As the matter of fact that EU overproduction is a result of high, to be exact, too high ‘politically determined’ domestic price or target price, quantity restrictions such as a quota system, or a set-aside system, and export refund or better known as export subsidies are deployed to cope with the surplus problems. While set-aside system is used to limit the quantity of production, export subsidies are used to export expensive EU products at the world price on the world market. It is to compensate the export loss occurred from the difference between the world price and the domestic target price.^{37,38} This makes the EU products be more competitive with other’s exports.

However, the effects of this mechanism are considered harmful to both other exporters and the EU itself. While the EU enjoys disposing its excess and expanding its exports on the world markets, subsidies drain huge amount of money in order to keep

³⁴ Allan Buckwell, “The CAP and world trade,” in *The Common Agricultural Policy and the world economy: Essays in honour of John Ashton* (Oxon: C.A.B. International, 1991), p. 226.

³⁵ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 258.

³⁶ Allan Buckwell, “The CAP and world trade,” in *The Common Agricultural Policy and the world economy*, p. 226.

³⁷ *Ibid.*, p. 227.

³⁸ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 259.

the EU's export price remaining low enough to compete with other more efficient exporters. At the same time, it causes depression in the world prices which for other agricultural exporters especially the LDCs, it hurts their revenues gained from their exports. This thus strains the relationship between the EU and other agricultural producer countries.³⁹

There are also other methods that EU used to dispose its surpluses such as buying and storing up until the EU price rise; through food aid schemes; or even converting into animal foodstuffs.⁴⁰ However, these methods have to be financed from the EU budget. As more complaints about CAP's price support system have been growing both domestically and internationally, there were several attempts to make some changes in the CAP. After some attempts to reform, there was a marked change in reforming the CAP in 1992. There was an introduction of a system of compensatory aid as to shift from the old problematic price support system to a new direct income support.⁴¹

3.2.2 Direct Income Support

The direct income support or direct aid was introduced in the CAP reform 1992 as to reduce the use of the CAP's price support mechanisms, and to solve lower prices of farmer's incomes and to guarantee farmers with more stable incomes. It pays directly from the EU budget to those who engaged in agriculture.⁴² The CAP's traditional support system allowed farmers to receive only £40, while another £60 is wasted as shown in the Figure 3. Out of every £100 of the support paid by consumers and taxpayers, £5 goes for the administration costs, and around £25 has been used in a form of export subsidies to compensate the depression of world prices occurred by the CAP's effects. In addition, £30 that has been wasted in storing up the surpluses, for £10 or more is also

³⁹ Allan Buckwell, "The CAP and world trade," in The Common Agricultural Policy and the world economy, p. 227.

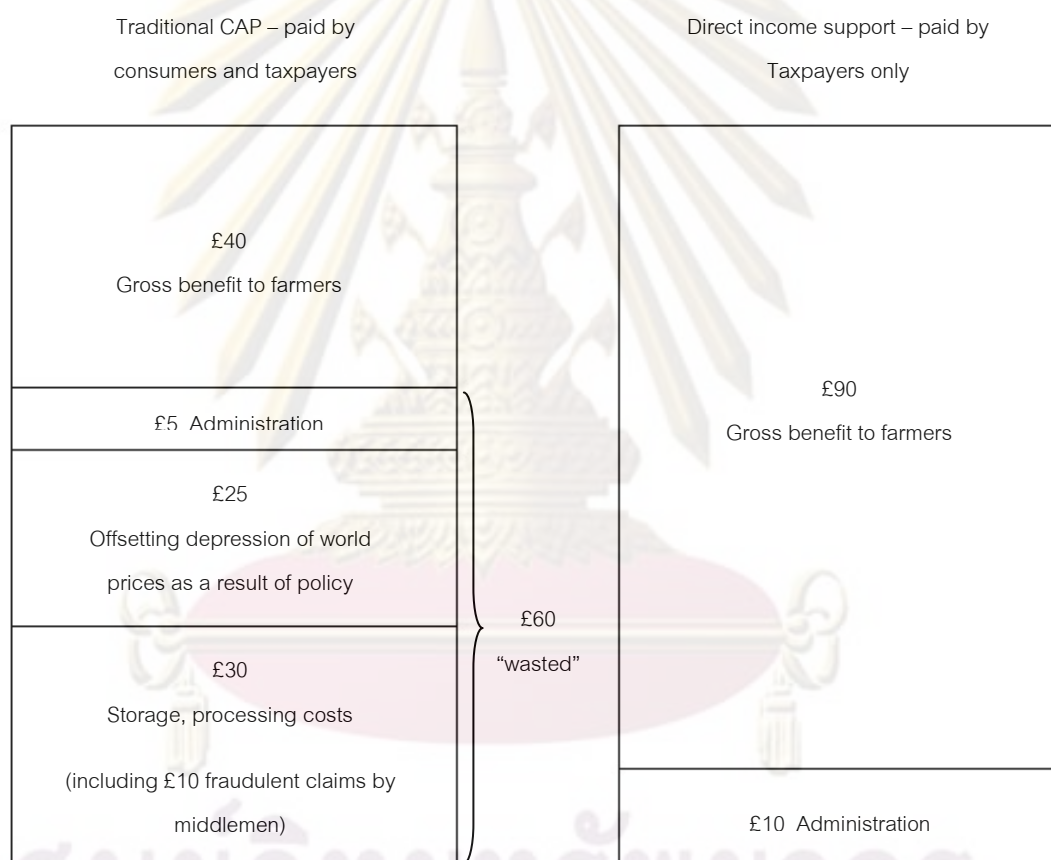
⁴⁰ Neill Nugent, The government and politics of the European Union, p. 370.

⁴¹ *Ibid.*, p. 371.

⁴² Carlo Altomonte and Mario Nava, Economics and policies of an enlarged Europe, pp. 260-261.

fraudulently drained, mainly by the ‘middlemen’ with “bogus claims for export subsidies to third countries and for monetary compensation amounts on intra-Community farm trade.”⁴³ This compares with a new direct income system, despite the increased administration costs, it is more advantageous for the farmers as they will receive the whole aid without being drained through its transferring process.

Figure 3 Efficiency of traditional policy in transferring income to farmers compared with direct income support: the destination of £100 of farm support



Source: Richard Howarth, “The Common Agricultural Policy,” in *The cost of Europe*, ed. Patrick Minford (Manchester: Manchester University Press, 1992), p. 63.

⁴³ Richard Howarth, “The Common Agricultural Policy,” in *The cost of Europe*, p. 62.

Howarth argues that this direct income support system might be more costly to administer, but it would be far more efficient because the rest of the money goes directly to farmers as shown in the Figure 3.⁴⁴

However, Altomonte and Nava argue that this system may not be popular for several reasons:

- 1) "it does not entail market distortion either in terms of higher prices or in terms of excess supply;
- 2) it is fairer than price support from a distributive standpoint since, being financed by the EU budget, and hence by the EU taxpayers, it affects citizens progressively and not regressively;
- 3) it does not necessarily constitute a closure of the EU market to extra-EU imports, although the higher the protection through tariffs, the higher will be the initial income the farmers obtain on the market (because of higher internal prices) and thus the lower the amount of subsidies necessary to reach the 'fair' income level."⁴⁵

In addition, the amount of this aid reference to historical production records, so this will lead to another fraud by the producers who try to maximise their production as to get as much as subsidies as possible. This can risk "overexploitation of the land or the cattle, at the expense of the environment or the food safety."⁴⁶ Nevertheless, moving away from the old price support system is a good sign in reforming the CAP which it is hoped to reduce the distorted effects of the CAP domestically and internationally.

3.3 Consequences of Price Support Measures

3.3.1 Surpluses and Budgetary Problems

The outcome of the price support system has been the huge amount of surpluses produced in the EU. The CAP system was designed to increase overall production in the Community, so by the late 1960s, there was an overproduction in

⁴⁴ Ibid.

⁴⁵ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 261.

⁴⁶ Ibid.

cereals, dairy products, sugar and wine which were well-described by words, 'butter mountains and wine lakes.' The EU then had to deal with these oversupplies by buying and storing it up in the intervention store, but by the end of 1986, its intervention store could not take any more of the surpluses so they had to find other ways to dispose the excesses. So the EU tried to dispose them on the world markets by increasing export subsidies with regardless of the external consequences. The world markets soon became the EU's dumping ground for its highly subsidised agricultural exports and this has caused the chronic budgetary crisis in the EU since then.⁴⁷

For the financial perspective, the CAP needs large sum of money for its operation. It consumes about two-thirds or more of the EU's budget every year. The Table 1 shows the escalation of the EU budget managed by FEOGA (an acronym of Fonds Europeen d'Orientation et de Garantie Agricole or more known as European Agricultural Guidance and Guarantee Fund—EAGGF).

Table 1 EEC agricultural budget expenditure, selected year 1965-1990 (£ million)

1965	64.6
1970	2,948.4
1975	2,712.1
1980	7,031.6
1985	12,078.5
1990	19,203.9

Source: Adapted from Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, ed. Patrick Minford (Manchester: Manchester University Press, 1992), p. 58.

However, most of the budget has been wasted for intervention purchases, storing costs, and export subsidies.

⁴⁷ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, pp. 58-59.

3.3.2 Increased Protection

In order to achieve the objective of raising a living standard of poor farmers, the CAP has to provide some protectionist measures to protect the EU's producers from external efficient producers. Import duties are used to impose on cheaper products outside the EU so that they will be less competitive with domestic products and this way often results in keeping them out of the EU's markets.

Some thus argue that the CAP price support is the EU's tool in preventing developing countries from doing their trade, the way to make them richer. Because the richer they become, the more political power they are able to acquire, so this for the EU is seen as a threat to its bargaining position in WTO.⁴⁸ This is why it has been seen as an exclusion of cheaper products from more efficient external producer.

3.3.3 The Burden on Taxpayers and Consumers

From the system, burdens go to consumers and taxpayers. Gardner points out that they both have to pay for the CAP through high retail prices for food and also finance the subsidies.⁴⁹ In addition, the CAP is regressive as poor consumers have to spend large proportion of their income on food which the CAP taxes heavily on cereals, sugar, and dairy products.^{50,51} The CAP is seen as a tool for channelling income from consumers to producers.

As the CAP tends to protect the EU farmers by keeping non-EU produces out of the market, the consumers have to pay more on farm products instead of enjoying much cheaper imported products. So it can be said that the system of the CAP goes against another objective of the CAP in providing agricultural products at a reasonable price to the consumers.

⁴⁸ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 263.

⁴⁹ Brian Gardner, *European agriculture : policies, production and trade*, p. 7.

⁵⁰ Ibid.

⁵¹ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, pp. 60-61.

3.4 The CAP Reforms

3.4.1 The Mansholt Plan 1968

The first attempt to reform occurred in 1968 when the Commission published a 'Memorandum on the reform of the CAP', commonly known as the 'Mansholt Plan' to the Council. Mansholt introduced the programme with aims to restructure EC farming. He emphasised that more efficient producers with a high rate of technological innovation would be able to create sustainable productivity gains, so he suggested that there be a consolidation of scattered small farms (mostly run by older producers) into larger economic farming units, even though the total area of cultivated land should be reduced considerably.^{52,53}

However, as expected, farmers, farm workers and the politicians who sought their votes rejected this proposal as it was too radical to be politically unacceptable. The result would be that: "half of the Community's farmers and farm workers would have to leave the land and an area the size of Belgium be taken out of agriculture."⁵⁴ Nevertheless, its failure did not mean the end; the Mansholt Plan has formed a blue-print for the following CAP reform plans in other two decades.

When the enlargement in 1973 was processing, it prevented the CAP from being reformed.⁵⁵ Later on, when a new multilateral trade negotiation round, known as the Uruguay Round, the issue of global agricultural trade liberalisation has been brought to the agenda for the first time. Since then, the pressures from both internal and international have urged for the CAP reform.⁵⁶

3.4.2 The Delors Reform 1988

Budgetary pressure plus with international pressure from the Uruguay trade negotiation round made the reform of the CAP become necessary. From these reasons,

⁵² Wyn Grant, *The Common Agricultural Policy*, pp. 70-71.

⁵³ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, p. 67.

⁵⁴ Ibid.

⁵⁵ Wyn Grant, *The Common Agricultural Policy*, p. 72.

⁵⁶ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 266.

in 1988 the European Council thus agreed to reform the CAP under a guidance of the Commission's Green Paper on *Perspectives for the Common Agricultural Policy* which published in 1985. The paper aimed at balancing supply and demand, introducing new means to reduce the production in some sensitive sectors, and finding possible alternative solutions for the future of the CAP.⁵⁷ There are three main aspects from this reform:

- 1) The CAP expense growth should not be exceeded by 74 per cent of the annual GNP growth rate of the EC;
- 2) Target prices were reduced as to reduce oversupply production. Import duties and export refunds have also been cut due to the requests from the GATT negotiations;
- 3) There is an imposition of production quotas which aims to confine overproduction.^{58,59}

The result of this reform was quite impressive because it can control the rise of the CAP budget and also limit its share in the Community's budget;⁶⁰ however, it was not enough to satisfy other negotiators in the negotiation. The talks therefore became stalled as the EC rejected the demands from the US and the Cairns Group.

3.4.3 The MacSharry Reforms 1992

In order to get through this deadlock, all parties, including the EC, finally agreed that a fair and market-oriented agricultural trading system needed to be established.⁶¹ Later in 1991, the European Commission, with Ray MacSharry as the Agricultural Commissioner, published the *Reflection* paper suggested that there was a need for the CAP reform as the current mechanisms of the CAP were no longer available to achieve its goals constituted in the Article 39 of the Treaty of Rome. Due to the fact that

⁵⁷ Ibid.

⁵⁸ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, p. 67.

⁵⁹ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 266.

⁶⁰ Ibid.

⁶¹ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, p. 71.

international situation had been changed substantially from that of the 1960s, the CAP had to be reviewed to be more compatible and acceptable internationally as well as domestically.^{62,63}

The MacSharry reforms, based on the previous Delors reform, helped the negotiation process resume and reach the conclusion in 1994. The reform marked a major change in the CAP with three principal elements:

- 1) Target prices are to be cut substantially to allow agricultural products being more competitive with those in domestic and world market;
- 2) Direct aids will be used to compensate the subsequent loss of income to farmers. Although this replacement may be more costly to administer, it would be a more efficient way in transferring money to farmers;
- 3) 'Set-aside' payments have been introduced as to limit the area of production. There is also the creation of other measures that relate to market mechanisms and the protection of the environment.^{64,65}

The MacSharry reforms have been marked as a successful attempt in reforming the CAP because, for the first time, there was a move away from the price support mechanisms towards income support. However, there was also some criticism from the sceptics. While the defenders of the reform saw this as a remarkable achievement in reforming the CAP which created some policy changes to be compatible with the changing circumstances, the sceptics made some points that the reform principle in paying compensatory aids to farmers would drive up the CAP's budgetary cost and the policy would become more expensive to run as it required satellite surveillance systems to check on set-aside. Some may see this as only an evolutionary, not a revolutionary one.⁶⁶

⁶² Wyn Grant, *The Common Agricultural Policy*, p. 77.

⁶³ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 269.

⁶⁴ Ibid.

⁶⁵ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, p. 62.

⁶⁶ Wyn Grant, *The Common Agricultural Policy*, p. 78.

3.4.4 The Agenda 2000 Reform and the Enlargement of the Union

A resurgence of Russia was a factor behind the EU eastern enlargement. This security consideration urged the EU to rethink about an importance to integrate the countries of East and Central Europe into the European system. In order to pursue this path, there had to reform economies, increase economic growth, and create democratic stability in these countries that they would be successful when they are under the EU influence.⁶⁷ Nevertheless, as the economic structure—including agricultural structure—of these Central and East European countries (CEECs) differed considerably (see Table 2), it led to a reconsideration of the EU policies in the Commission. In 1997, *Agenda 2000* was thus published, containing “specific initiatives on the revision of the CAP, the revision of the EU regional policy, and new policies to help the accession of the new Member States of Central and Eastern Europe.”⁶⁸

Table 2 Agriculture in the economy of CEECs 10, 1993

	Agricultural production as a percentage of GDP (%)	Agricultural employment as a percentage of total employment (%)
Visegrad Four		
Czech Republic	3.3	5.6
Hungary	6.4	10.1
Poland	6.3	25.6
Slovak Republic	5.8	8.4
Other possible early entrants		
Estonia	10.4	8.2
Slovenia	4.9	10.7
Other countries		
Bulgaria	10.0	21.2
Latvia	10.6	18.4
Lithuania	11.0	22.4
Romania	20.2	35.2

Source: Wyn Grant, *The Common Agricultural Policy* (Basingstoke: Macmillan Press, 1997), p.188.

⁶⁷ Ibid., p. 187.

⁶⁸ Carlo Altomonte and Mario Nava, *Economics and policies of an enlarged Europe*, p. 269.

From the table we can see that these CEECs have quite large agricultural sectors when they are compared with the EU's (see Table 3). So it was important to make the CAP applicable for the new enlarged nations.

Table 3 Basic data about European farming, 1994

	Share of agriculture in GDP (%)	Share of agriculture, etc.* in civilian employment (%)
EU-15	1.8	5.4
France	2.0	4.8
Italy	2.6	7.9
Germany	0.8	3.0
Spain	2.7	9.8
United Kingdom	0.9	2.2
Netherlands	3.2	4.0
Greece	7.5	20.8
Belgium	1.6	2.5**
Denmark	2.5	5.7
Austria	2.2	13.3**
Republic of Ireland	5.4	12.0
Finland	1.8	8.3
Sweden	1.0	3.4
Portugal	2.0	11.6
Luxembourg	0.9	2.8

* Agriculture, forestry, hunting, and fishing

** 1993 figures

Source: Wyn Grant, *The Common Agricultural Policy* (Basingstoke: Macmillan Press, 1997), p. 12.

The Commission saw the necessity that the CAP's burden caused by price support system to be moved away towards income support. As a result, Agenda 2000, on the logic of 1992 MacSharry reform, "provided a sound basis for the future

development of agriculture in the Union, covering all functions of the CAP i.e. economic, environmental, and rural.”⁶⁹

However, moving towards income support means that the CAP would be redistributive rather than allocative. So an idea of co-financing of the CAP has become on the attention; ‘CAP co-financing’ means that the Member States have to share responsibility with the EU in financing the CAP. This may not help reducing the support to agricultural sector, but this will help the EU’s budgetary problem by moving part of its burden to the national taxpayers. Nevertheless, it has not been concluded because countries which receive high subsidies such as France and Denmark have to pay more, despite acceptance at the Agricultural Council, this co-financing was opposed by the French at the meeting of Head of States and Governments in Berlin 1999.⁷⁰

3.5 Conclusion

The analysis of the CAP shows us how it creates desirable effects to those who engaged in agricultural sector within the community as well as undesirable effects to the outsiders, particularly upon other poor developing countries. Even there have been several attempts to reform with some successful outcomes (the CAP shifting away from price support system towards direct income support); it is still the same. This is because the agricultural politics that powerfully influence both the national and the EU politics. Although it is seemed to be an integrated policy, it is obvious that national governments still often act in favour of their own farmers.

Some suggestions from scholars have been more heard with hope to make more changes. The abolition of the CAP is definitely too radical and no one has ever imagined it will happen in this near future, so more possible suggestion would be ‘renationalisation’ or ‘repatriation’ of the agricultural policy.^{71,72,73} This way has been

⁶⁹ Ibid., p. 271.

⁷⁰ Ibid., p. 272.

⁷¹ Wyn Grant, *The Common Agricultural Policy*, p. 215-218.

⁷² Richard Howarth, “The Common Agricultural Policy,” in *The cost of Europe*, p. 75.

⁷³ Neill Nugent, *The government and politics of the European Union*, p. 384.

considered as a possible alternative to solve the CAP's problems since the idea of the CAP co-financing was introduced. Returning agricultural policy to the national governments would be more suitable due to the fact that the Member States are too different from one another. So the notion of 'subsidiarity'—"leaving national governments to do those things which they are able best to do"⁷⁴—has become more popular among the scholars. Yet, this option may be difficult to be accepted for those who benefited from the CAP.

As mentioned in the first chapter, the impacts of the CAP also create problems at international level. "Overprotected EU market and oversubsidised EU produces on world markets"⁷⁵ make other agricultural exporters dissatisfied. In the eyes of countries in the Global South, the EU's image as 'Fortress Europe' is still eminent because they feel like the EU is preventing them from gaining their prosperity through trade which is their vital source of income.



⁷⁴ Richard Howarth, "The Common Agricultural Policy," in *The cost of Europe*, p. 75.

⁷⁵ Neill Nugent, *The government and politics of the European Union*, p. 384.

CHAPTER IV

THE CAP'S IMPACTS ON THE GLOBAL SOUTH WITH A SPECIAL REFERENCE TO THAILAND

From the previous chapter, the price support system that dominates the CAP since its beginning has caused many problems within the EU. Furthermore, it also imposed unfavourable impacts on international agricultural trades. This chapter therefore intends to analyse the CAP's effects caused mainly by its price support measures at the global level, particularly the impacts on the Global South with a special reference to Thailand.

4.1 The CAP and Its International Impacts

The most important consequence of the CAP was the EU turnaround from being a large net importer of food and agricultural products to a large exporter. The CAP mechanisms have been designed to encourage production and export, and at the same time discourage consumption and import.¹ Export subsidies motivate farmers to increase their production, while import levies have been used to limit the quantity of foreign imports into the Union as to keep more competitive products out of the markets.

¹ Brent Borrell and Lionel Hubbard, "Global economic effects of the EU Common Agricultural Policy," *Economic Affairs*, 20, 2 (June 2000): 18.

Table 4 World wheat and coarse grains production, 1974/75-1988/89 (totals in million tonnes)

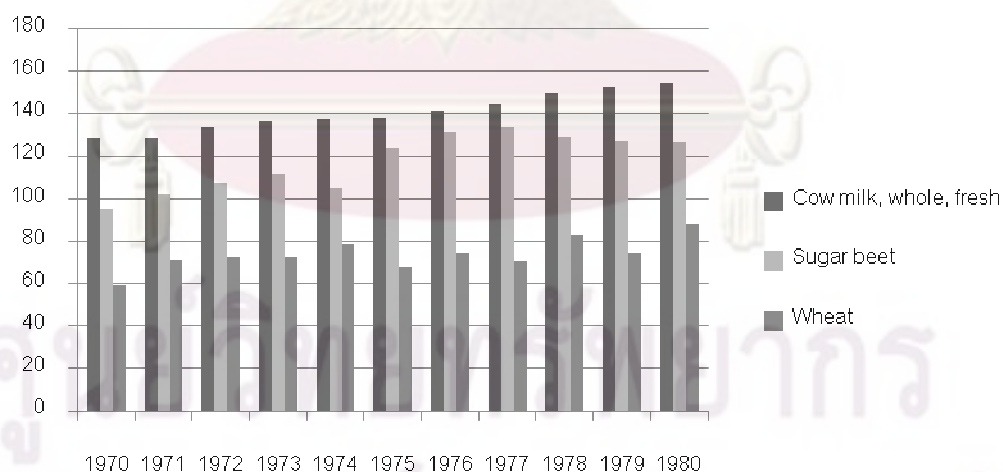
	1974/75	1979/80	1988/89*
Total world production	976.8	1,164.7	1,378.0
United States (as % of total)	20.4	25.5	16.2
Other major exporters**	9.8	7.9	7.4
Western Europe	14.5	12.6	15.7
Soviet Union	18.8	14.7	14.8
Eastern Europe	9.3	7.8	7.3
People's Republic of China	10.0	12.5	14.7
Others	17.1	18.9	23.9

* Estimate

** Other major exporters are Argentina, Australia, Canada, South Africa, and Thailand.

Source: Adapted from Table 13.1: World wheat and coarse grains trade, 1974/1975-1988/89 in John Lingard and Lionel Hubbard, "The CAP and its effects on developing countries," in The Common Agricultural Policy and the world economy: Essays in honour of John Ashton (Oxon: C.A.B. International, 1991), p. 244.

Figure 4 EU's quantity of production by selected commodities: cow milk, sugar beet and wheat, 1970-1980 (million tonnes)



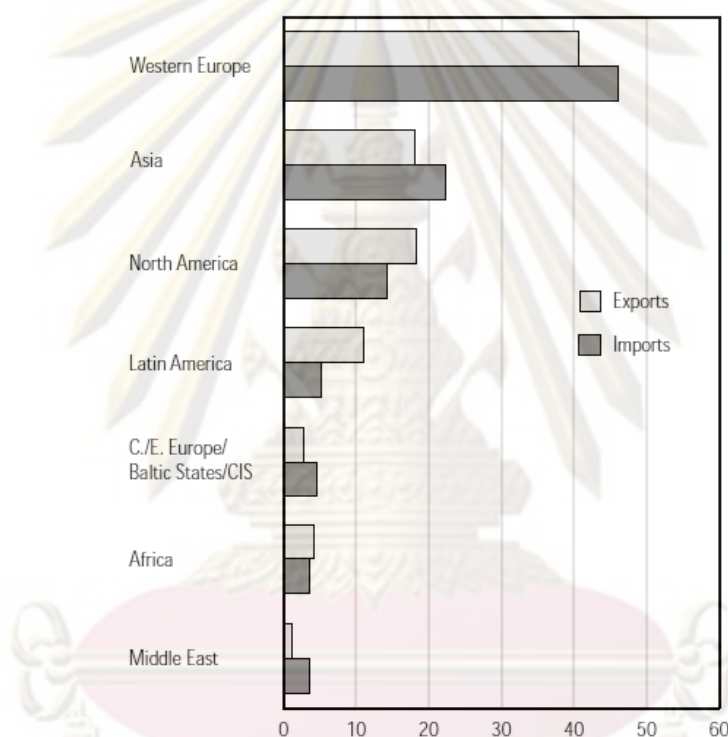
Source: Quantity info from FAOSTAT, [Online], 5 January 2010. Available from: <http://faostat.fao.org>

We can see from Table 4 that the EU's values of production in wheat and coarse grains had been increased from 14.5 per cent of total world production in the mid-1970s

to 15.7 per cent at the end of 1980s. As well as in Figure 4, more growth of production in other agricultural products, for example, cow milk, sugar beet and wheat, can be expected as a result of the price support system.

Additionally, according to the WTO's *International Trade Statistics 2000-2006*, from the year 1999-2005 the Western Europe hold the biggest share in world agricultural trade. (Figure 5-11)

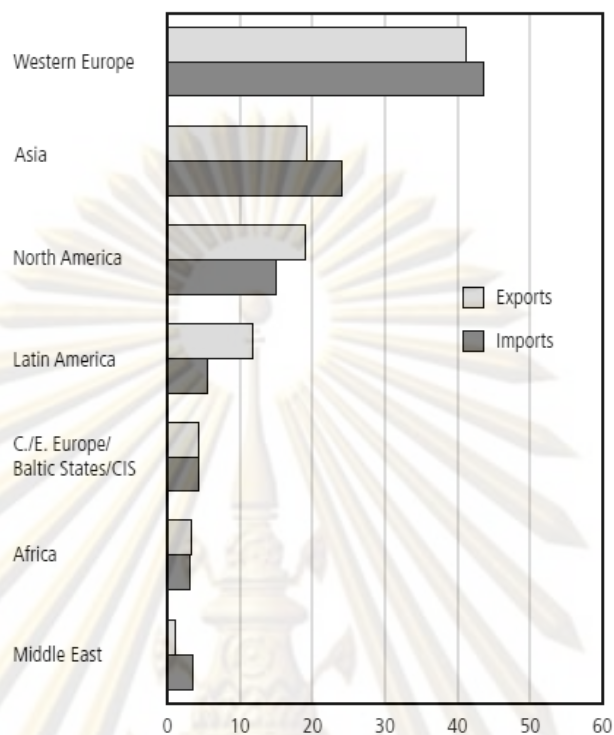
Figure 5 Regional shares in world trade in agricultural products, 1999 (percentage)



Source: WTO, *International Trade Statistics 2000* (Geneva: World Trade Organization, 2000), p. 95.

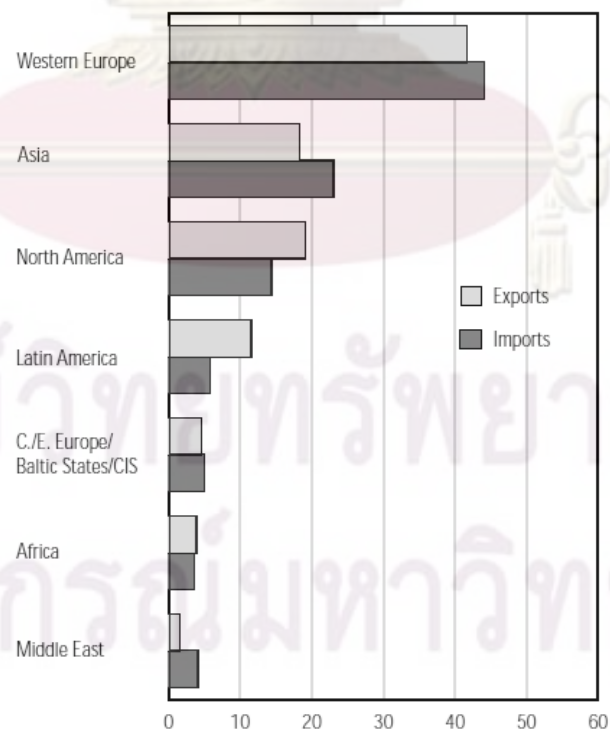
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Figure 6 Regional shares in world trade in agricultural products, 2000 (percentage)



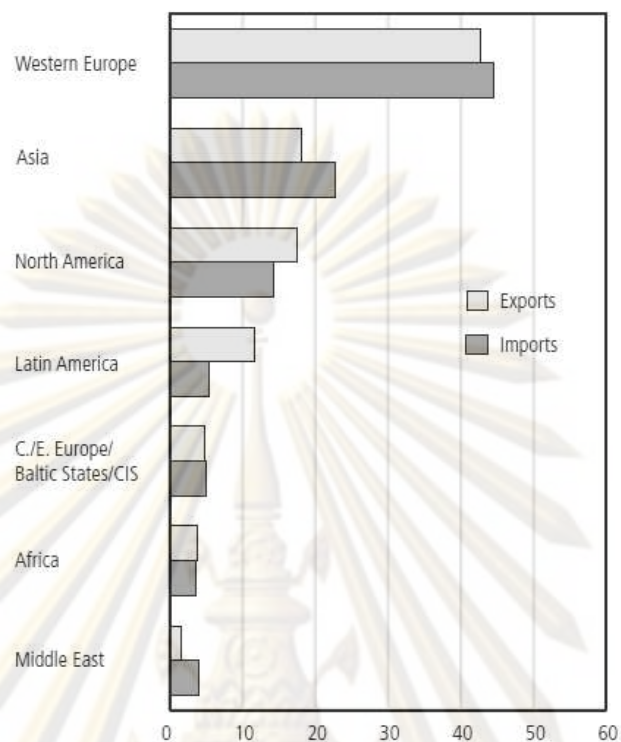
Source: WTO, *International Trade Statistics 2001* (Geneva: World Trade Organization, 2001), p. 97.

Figure 7 Regional shares in world trade in agricultural products, 2001 (percentage)



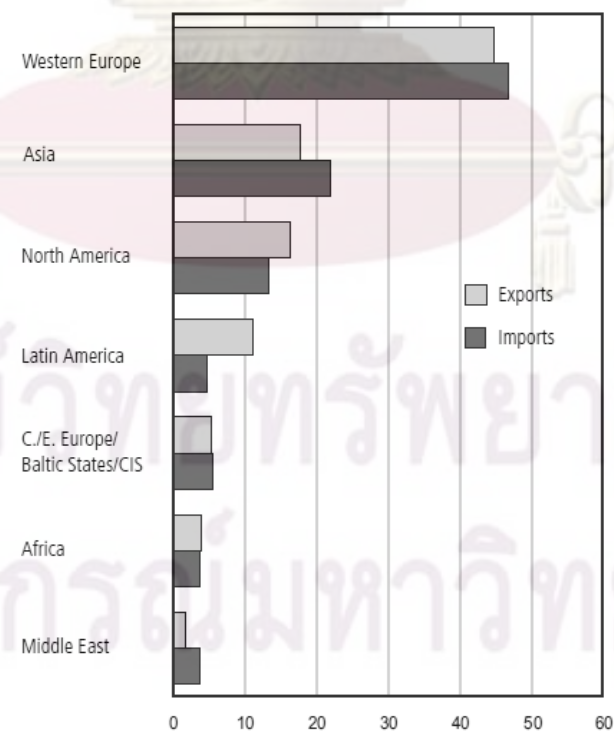
Source: WTO, *International Trade Statistics 2002* (Geneva: World Trade Organization, 2002), p. 107.

Figure 8 Regional shares in world trade in agricultural products, 2002 (percentage)



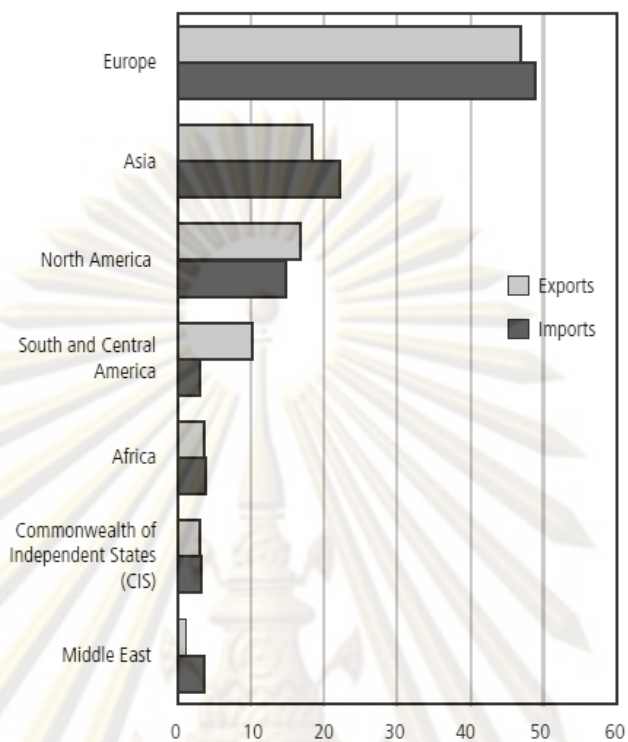
Source: WTO, *International Trade Statistics 2003* (Geneva: World Trade Organization, 2003), p. 105.

Figure 9 Regional shares in world trade in agricultural products, 2003 (percentage)



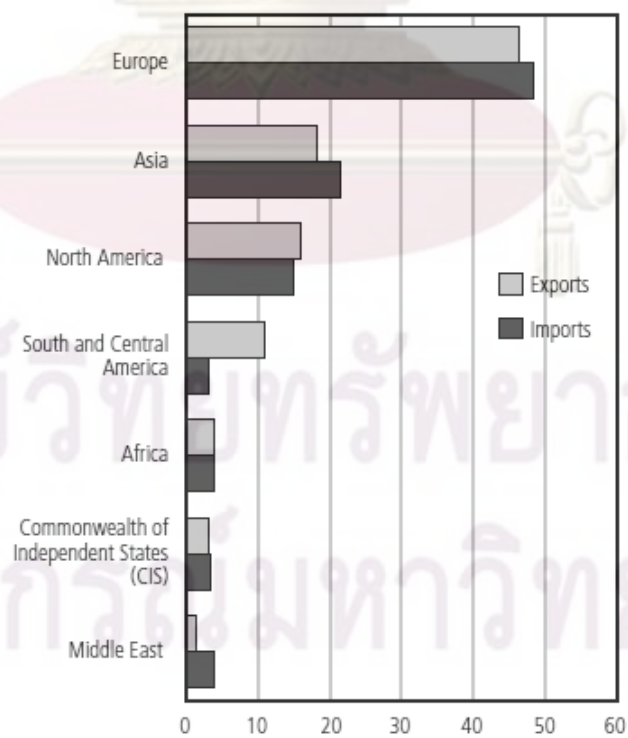
Source: WTO, *International Trade Statistics 2004* (Geneva: World Trade Organization, 2004), p. 103.

Figure 10 Regional shares in world trade in agricultural products, 2004 (percentage)



Source: WTO, *International Trade Statistics 2005* (Geneva: World Trade Organization, 2005), p. 112.

Figure 11 Regional shares in world trade in agricultural products, 2005 (percentage)



Source: WTO, *International Trade Statistics 2006* (Geneva: World Trade Organization, 2006), p. 110.

From the figures above, they show that Asia, South and Central America, Africa and the Middle East—these regions mostly comprise with Less Developed Countries (LDCs)—hold much smaller share of the world agricultural trade, while Europe with a group of rich countries hold the largest share.

The result of the massive price support system, the EU can produce agricultural products more than its internal market can absorb. Thus, it tries to dispose the surpluses into world markets. Without the price support system, the EU's product will not be able to compete with agricultural products from more efficient producers, so it has to sell at subsidised prices. What we can expect is that the flood of EU's subsidised products has penetrated into world markets and in the way that harms other exporters; those excesses will depress world prices and lead competition with other producers. This is why the accusation of the EU dumping is often been heard.^{2,3}

The effects of this distortion become worse in the case of the LDCs due to the fact that most of them have their economies heavily depend on export-oriented agriculture. This is the reason when the industrialised countries like the US and the EU dominate world agricultural trade and markets; the LDCs usually come up with resentment towards them.

4.2 The CAP's Effects on the Global South and Thailand

4.2.1 Global South

As seen in the Chapter 3 that, not only consumers and taxpayers have to take burden caused by the EU price support measures, non-EU producers also share a burden in a form of the loss of market access opportunities and the European overproduction flooding the international markets. It is more detrimental in the case of LDCs for most of them agricultural export is their main source of income or the only source of their income. Altomonte and Nava comment that: “the price support mechanism, originally created to solve an internal European problem, turned out to

² T. Hitiris, *European community economics*, 2nd ed. (New York: Harvester Wheatsheaf, 1991), pp. 190-191.

³ Brent Borrell and Lionel Hubbard, “Global economic effects of the EU Common Agricultural Policy,” *Economic Affairs*: 20.

generate highly regressive effects within the same EU, and to have a perverse effect vis-à-vis developing countries. As such, it was neither politically nor economically sustainable in the long run.”⁴

As an important outcome of the CAP is that the EU becoming a net exporter in agricultural products, demand for import from outside relatively decreases.

Table 5 World wheat and coarse grains trade, 1974/75-1988/89 (totals in million tonnes)

	1974/75	1979/80	1988/89*
Total trade	127.6	186.8	224.0
<i>Exports:</i>			
United States (as % of total)	48.9	58.2	50.9
Other major exporters**	34.4	29.7	20.9
Western Europe	10.0	8.9	18.0
Soviet Union	3.9	0.3	0.3
Others	3.4	2.8	9.9
<i>Imports:</i>			
Western Europe (as % of total)	25.7	16.4	4.3
Soviet Union	4.1	16.3	20.3
Japan	14.5	13.1	13.8
Eastern Europe	8.7	9.4	4.2
People's Republic of China	-	5.8	8.4
Others	46.9	39.0	49.0

* Estimate

** Other major exporters are Argentina, Australia, Canada, South Africa, and Thailand.

Source: Adapted from Table 13.1: World wheat and coarse grains trade, 1974/1975-1988/89 in John Lingard and Lionel Hubbard, “The CAP and its effects on developing countries,” in The Common Agricultural Policy and the world economy: Essays in honour of John Ashton (Oxon: C.A.B. International, 1991), p. 244.

⁴ Carlo Altomonte and Mario Nava, Economics and policies of an enlarged Europe (Cheltenham, U.K.: Edward Elgar, 2005), p. 260.

The Table 5 shows that from 1974 to 1989 the exports from Western Europe rose from 10.0 per cent of total trade to 18.0 per cent. On the other hand, the value of EU imports substantially reduced from 25.7 per cent in mid-1970s to only 4.3 per cent at the end of 1980s. This can be seen from the case when the EU began to reach its self-sufficiency in dairy products and sugar, Botswana's beef and Caribbean countries' sugar that used to be exported to the EU have reduced. Moreover, the EU became one of the largest exporters of agricultural products; from this status according to LDCs' view the EU is a potential competitor in agricultural trade. These two factors thus lie in the growing tension in the international trade arena.⁵

The distorting effects of the CAP, however, may benefit some groups of LDCs. Undoubtedly that the CAP imposes bad effects on agricultural exports from LDCs, but for LDCs that are food importers as well as consumers may actually benefit from this trade effect of the EU's agricultural policy. The explanation for this is the world food price has been lowered by the excess exports from the EU, so it can help those food-importing low-income countries within Africa and Asia; examples for this explanation can be seen in the case of African food importers which compared with Latin American net exporters.^{6,7,8} EU's surpluses are also useful as they are managed and delivered to the poor countries under food aid scheme.⁹ But still, critics arise because of the fact that if price-depressing effect of the CAP is allowed, it will cause a decreasing of LDCs' output. Gardner explains that when LDCs' governments import cheap grain from external exporters, it will cause a depression in domestic market prices and discourage their own producers from increasing their production. This may slow down an economic development in those countries. From this situation lead to further analysis of

⁵ John Lingard and Lionel Hubbard, "The CAP and its effects on developing countries," in The Common Agricultural Policy and the world economy: Essays in honour of John Ashton (Oxon: C.A.B. International, 1991), p. 242.

⁶ *Ibid.*, p. 241.

⁷ Brian Gardner, European agriculture: policies, production and trade (London: Routledge, 1996), p. 92.

⁸ Allan Buckwell, "The CAP and world trade," in The Common Agricultural Policy and the world economy: Essays in honour of John Ashton (Oxon: C.A.B. International, 1991), p. 237.

⁹ *Ibid.*, p. 238.

macroeconomic effects of the agricultural protectionist policies of the industrialized countries such as those of the EU and the US; low economic growth of the LDCs will also affect the growth of the export markets of developing countries. In 1990, the Organisation for Economic Co-operation and Development (OECD) calculated that the loss of developing countries from these protectionist policies was up to 26 billion dollars per annum.¹⁰

The EU is important to less wealthy developing countries as it grants concessions for some of LDCs especially the EU's post-colonies, notably African, Caribbean, and Pacific countries (ACP), via a number of preferential packages of arrangements—the series of Lomé Conventions since 1975-1999 and replaced by Cotonou Agreement in 2000. They can export their goods with free of customs duties and quotas without any reciprocity. However, there were still some exceptions for those commodities covered by the CAP; sugar requires special trade agreements as it is an important crop in both the EU and the ACP which can be produced in both temperate and tropical regions.¹¹ Nevertheless, these preferential trade agreements between the EU and the ACP have been frequently argued that it is the EU's attempt in maintaining relations of dependency of its former colonies. Apart from this, the EU also initiated 'Everything But Arms' arrangement (EBA) for the Least Developed Countries (LLDCs) in "granting duty-free access to all products imported from LLDCs, except arms and ammunitions, without any quantitative restrictions (with the exception of bananas, sugar and rice for a limited period)."¹²

¹⁰ Ibid.

¹¹ John Lingard and Lionel Hubbard, "The CAP and its effects on developing countries," in The Common Agricultural Policy and the world economy, p. 253.

¹² European Commission, Everything But Arms [Online], 10 March 2010. Available from: http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/everything-but-arms/index_en.htm

4.2.2 Thailand

Thailand is also ranked as a country in the Global South. Despite the fact that it has become more industrialised as we can see from the share in GDP in the Figure 12, agriculture is still very important in Thailand. This is because agricultural sector has the largest share of total labour forces (Figure 13). In addition, Thailand is also one of the Top-10 agricultural exporters in the world as its share was 2.4 per cent of total world exports in 2008 (Table 6). Thai major exported agricultural products are rice, cassava (tapioca), rubber, corn, sugar cane, coconuts, and soybeans.¹³

Figure 12 Share of GDP by sector, 2009 (percentage)

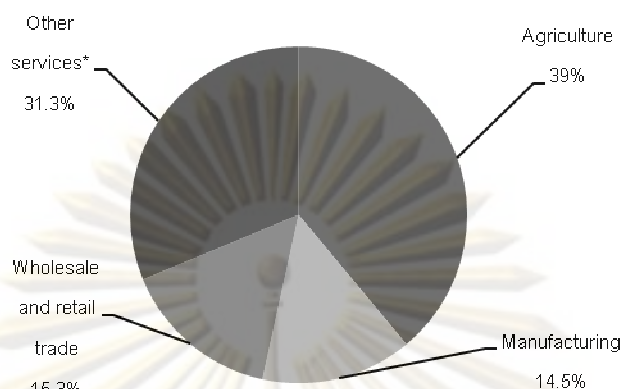


Source: Central Intelligence Agency (CIA), The World Factbook [Online], 5 January 2010. Available from: <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

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¹³ Central Intelligence Agency (CIA), The World Factbook [Online], 5 January 2010. Available from: <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

Figure 13 Labour force by sector, 2008 (percentage)



* Other services include financial sector, education, hotels and restaurants, etc.

Source: Bank of Thailand, [Online], 5 January 2010. Available from: http://www.bot.or.th/English/EconomicConditions/Thai/genecon/Pages/Thailand_Glance.aspx

Table 6 Top-ten agricultural exporters, 2008 (billion dollars and percentage)

Exporters	Value		Share in world exports		
	2008	1980	1990	2000	2008
EU(27)	566.32	-	-	41.8	42.2
Extra-EU(27) exports	127.63	-	-	10.1	9.5
United States	139.97	17.0	14.3	12.9	10.4
Brazil	61.40	3.4	2.4	2.8	4.6
Canada	54.08	5.0	5.4	6.3	4.0
China	42.29	1.5	2.4	3.0	3.2
Argentina	37.50	1.9	1.8	2.2	2.8
Indonesia	32.86	1.6	1.0	1.4	2.4
Thailand	31.66	1.2	1.9	2.2	2.4
Malaysia	27.80	2.0	1.8	1.5	2.1
Australia	26.14	3.3	2.9	3.0	1.9

Source: World Trade Organisation (WTO), [Online], 5 January 2010. Available from: http://www.wto.org/english/res_e/statis_e/its2009_e/its09_merch_trade_product_e.pdf

From the interviews with some Thai Trade officers, Thailand has also been affected by the CAP's measures.^{14,15} There were some examples: first was tapioca. The EU's market was very important for Thai tapioca export as more than 80 per cent of Thai tapioca export goes to the EU with major importers i.e. the Netherlands, Spain, Belgium and Portugal.¹⁶ However, the CAP reform in 1992 made the Community cereal prices lower; for this case it made the EU cereal be able to compete with Thai exported tapioca for animal feed production. This thus ran down the demand for Thai tapioca import since then.^{17,18}

Second, Thailand was the biggest canned tuna exporter to the EU in 1993. Its share of EU's canned tuna import was 29.17 per cent followed by the Philippines (18.92) and Ivory Coast (11.12 per cent).¹⁹ The EU, however, began to increase protection for its canned tuna industry (not only of its members but also its post-colonies'—ACP countries—and of the countries in Latin America's trading bloc, known as the Andean Pact). This was because of a dramatically increased of tuna canned import to the EU from the Third countries by the 1990s. So the EU imposed high import levies (around 24 per cent) upon the Third countries' canned tuna including Thailand's. This resulted in less competitiveness of Thai canned tuna against those from the ACPs and Latin America nations.²⁰

¹⁴ Pongwalai Puapan. Thai Trade officer, Department of Trade Negotiations, Ministry of Commerce. *Interview*, 25 February 2010.

¹⁵ Chet Suksang. Thai Trade officer, Department of Trade Negotiations, Ministry of Commerce. *Interview*, 25 February 2010.

¹⁶ พิษณุ เหยี่ยุมมหาสาร, ข้อมูลการค้า อียู ความสำเร็จการค้าไทยในศตวรรษที่ 21 (กรุงเทพฯ: บพิธการพิมพ์, 2539), หน้า 58-62. [Pisanu Rienmahasarn, *EU's trade info for successful Thai trade in the 21st century* (Bangkok: Borpitt Printing, 1996), pp. 58-62.]

¹⁷ *Ibid.*, p. 58.

¹⁸ สำนักเจรจาการค้าทวิภาคี กรมเศรษฐกิจพาณิชย์ กระทรวงพาณิชย์, “ยุทธศาสตร์การขยายความสัมพันธ์ทางเศรษฐกิจระหว่างไทยกับสหภาพยุโรป,” (กรกฎาคม 2545), หน้า 10. (เอกสารไม่ตีพิมพ์). [Bureau of Bilateral Trade Negotiations, Department of Business Economics, Ministry of Commerce, “Strategies in expanding economics relations between Thailand and the EU,” (July 2002), p. 10. (Unpublished Manuscript)]

¹⁹ พิษณุ เหยี่ยุมมหาสาร, ข้อมูลการค้า อียู ความสำเร็จการค้าไทยในศตวรรษที่ 21, หน้า 124.

²⁰ สำนักเจรจาการค้าทวิภาคี กรมเศรษฐกิจพาณิชย์ กระทรวงพาณิชย์, “ยุทธศาสตร์การขยายความสัมพันธ์ทางเศรษฐกิจระหว่างไทยกับสหภาพยุโรป,” หน้า 8.

Another example would be the case of chicken meat export. The EU is one of the biggest markets for Thai poultry exports. Since the year 1990 Thailand's export to the EU had been increased and reached its peak in 1992 (16,000 tonnes). After that quantity of Thai poultry exports began to decline. Apart from high EU's import tariff, Thai poultry exporters had to face numerous difficulties caused by high competition of cheaper poultry export from China, special tariff concession for Hungary granted by the EU, and highly protectionist measure from the EU's poultry producers such as France and the Netherlands.²¹ Thai poultry export was worsened as in 2004 there was a spread of 'avian influenza' or commonly known as 'bird flu' in many parts of the world especially in Asia. Indeed, Thailand was also reported pandemic, so the EU banned Thai uncooked chicken meat export. Now Thailand has no more the pandemic of bird flu, but the EU still restrict the quantity of Thai poultry exports into the EU.

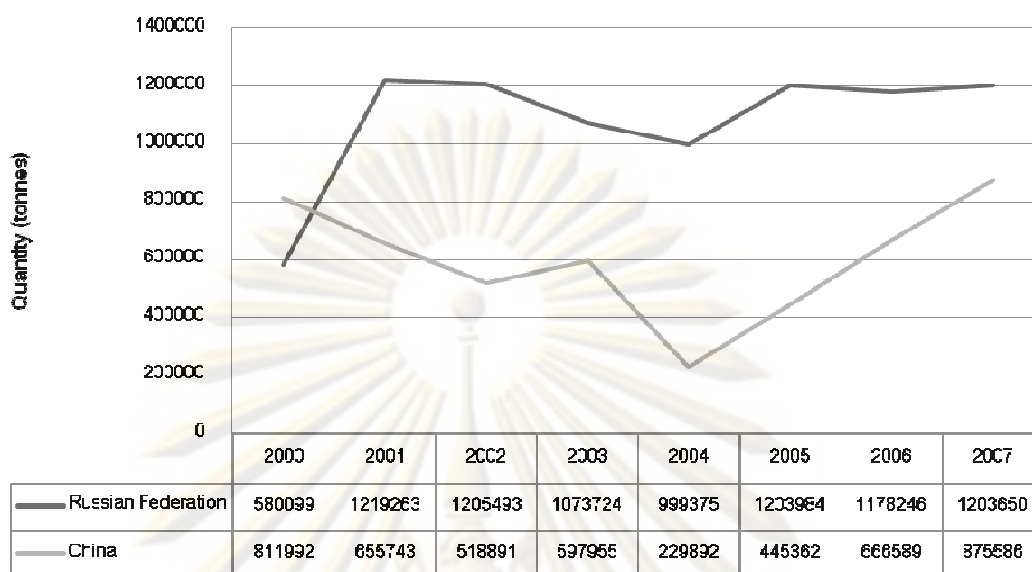
In addition, since the year 2000, Russia has become the world largest chicken meat importers as shown in the Figure 14. The quantity of chicken meat import has continued to rise despite a little drop in 2004 due to the global spread of bird flu.



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²¹ พิษณุ เหยียบมเหสาร, ข้อมูลการค้า อัญมณีสู่ความสำเร็จการค้าไทยในศตวรรษที่ 21, หน้า 130-131.

Figure 14 Quantity of chicken meat imports to Russian Federation and China, 2000-2007 (tonnes)



Source: Quantity info from FAOSTAT, [Online], 22 April 2010. Available from: <http://faostat.fao.org>

The rise of Russian poultry demand is seen as a new opportunity for Thai poultry exporters to expand their markets. However, the EU is considered as a potential rival for Thai poultry exporters as the matter of fact that the EU is also one of the world net poultry exporters. So this might be a challenge for Thai exporters to compete with the EU's poultry products both in terms of quality and transportation cost.

The case of sugar is also a good example to illustrate the CAP's impacts on Thai agricultural exports. Thailand is one of the world top-5 sugar exporters (Table 7) and its main sugar markets in 2006 are in Asia (53 per cent) and most has been the export within in the ASEAN (37 per cent).²² The CAP, however, subsidised the huge amount of the EU's sugar export which was considered to be against the World Trade Organisation's rules (WTO) of free and fair trade. Therefore, in 2003 Thailand with Brazil and Australia, other two major sugar exporters, brought the dispute of the EU oversubsidised on its sugar exports (level of EU subsidies on sugar export can see in Table 8) to the WTO. The dispute ended with the triumph of the three sugar exporters.

²² Office of the Cane and Sugar Board Ministry of Industry, Thailand, [Thailand's Sugar Industry in 2007](#) [Online PDF file], 5 January 2010. Available from: en.ocsb.go.th/images/1194580943/Presentation001.pdf

As a consequence, the EU has to limit its production as well as cut its subsidies as being bound with the WTO regulations.

Table 7 Top-ten sugar producers, 2008/9 (million tonnes)

	Quantity of production	Quantity of export	
Brazil	38.633	23.685	[1]
India	16.304	0.237	[15]
EU	14.865	0.707	[9]
China	13.587	-	-
Thailand	7.717	5.004	[2]
USA	6.924	-	-
Mexico	5.761	0.707	[9]
SADC*	5.309	1.793	[4]
Australia	4.810	4.225	[3]
Pakistan	4.239	-	

[#] = World export ranking

*Southern African Development Community

Source: Illovo Sugar Limited, [Online] 5 January 2010. Available from: http://www.illovosugar.com/World_of_sugar/Sugar_Statistics/International.aspx

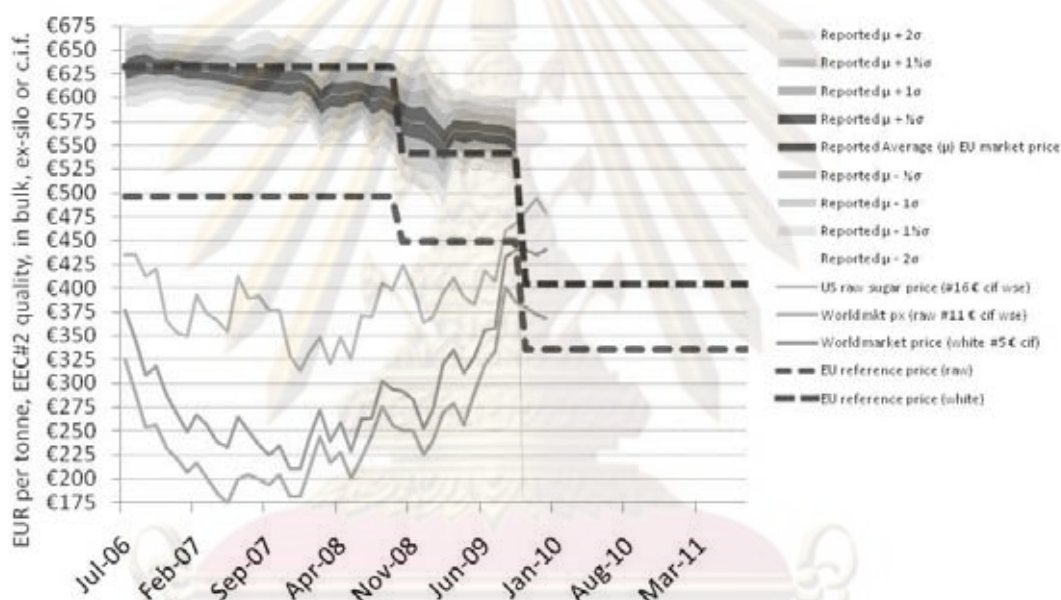
Table 8 EU's export subsidies in 2008 by products (€ million)

	Values of subsidies
Total	926
Cereals	10
Sugar and Isoglucose	501
Fruit and Vegetables	19
Products of the Wine-Growing Sector	15
Milk and Milk Products	29
Beef and Veal	33
Pigmeat, Eggs, Poultry and Beekeeping	201
Processed Agricultural Products	118

Source: Valentin Zahrt, Key data on the CAP [Online], 5 January 2010. Available from: <http://www.reformthecap.eu/key-data-on-the-cap>

However, as the world price began to rise since mid-2009 and reached the level that was higher than the EU's market price (according to the Figure 15), this led to the EU's intention to export more 500,000 tonnes in this year (2010). This has raised concerns among the sugar exporters mainly Thailand, Brazil and Australia that this might lower the sugar price and also the EU violate the binding with the WTO regulations.^{23,24} So now, Thailand is keeping an eye on the EU sugar exports whether it is trying to dump its stocked sugar with subsidies on the world market or not.

Figure 15 Reported EU and world market sugar prices



Source: [sugartraders.co.uk](http://www.sugartraders.co.uk), [Commission to publish monthly price data](http://www.sugartraders.co.uk/2009/12/commission-to-publish-monthly-price.html), [Online], 5 January 2010.

Available from: <http://www.sugartraders.co.uk/2009/12/commission-to-publish-monthly-price.html>

²³ Allan Odhiambo, [Spat over EU sugar exports to keep prices up](http://www.businessdailyafrica.com/Company%20Industry/-/539550/866356/-/item/0/-/1pmq6jz/-/index.html) [Online], 22 February 2010. Available from: <http://www.businessdailyafrica.com/Company%20Industry/-/539550/866356/-/item/0/-/1pmq6jz/-/index.html>

²⁴ Reuters, [Sugar exporters criticizes EU sales plan at WTO](http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/commodities/2010/February/commodities_February26.xml§ion=commodities) [Online], 18 February 2010. Available from: http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/commodities/2010/February/commodities_February26.xml§ion=commodities

According to our examples, we can see that the CAP indeed has impacts on a small developing country like Thailand. Fortunately, Thailand has become more industrialised and agriculture is not its only source of income. Moreover, the EU is undoubtedly important market for Thai agricultural exports, yet Thailand exports more to ASEAN and other countries in Asia. Although there are affirmations from Thai trade officers of the CAP's impacts on Thai agricultural trade, they also admit that the impacts are not very severe for damaging the whole Thailand's agricultural sector. Nevertheless, the Thai authority is keeping an eye on the EU's conducts and it is always ready to counteract if its national interests are at risk.^{25,26}

4.3 Conclusion

For agricultural export-oriented developing countries, the EU, to be a major agricultural exporter, is somehow unfair. The EU is a group of rich developed countries, they are industrialised and have many sources of income as we can see from the share of their GDP by sector: in 2009 income from service sector was 71.9 per cent of the total GDP and industry covered around 25.9 per cent while agricultural sector earned only 2.1 per cent of the GDP.²⁷ While the EU earns huge sum of income from services and industry sector, many of the developing countries have only sources of income from agricultural exports. This has been considered as an excessive accumulation of wealth within the EU.

This is why the CAP mechanisms are seen as an inequality-enhancing policy. While a group of rich countries enjoy their gain from various sources of income, they, at the same time, prevent LDCs to gain their vital income through agricultural trade. So those in the Global South are upset when the EU tries to expand its share in the global markets and sometimes seizes their valuable markets. As a result, the tension between the North and the South still persists.

²⁵ Pongwalai Puapan, *Interview*, 25 February 2010.

²⁶ Chet Suksang, *Interview*, 25 February 2010.

²⁷ Central Intelligence Agency (CIA), *The World Factbook*, [Online] 5 January 2010. Available from: <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

CHAPTER V

CONCLUSION

From the previous chapter we can see how the EU's CAP affects the agricultural trade and the economy of the countries in the Global South including Thailand. This chapter therefore provides various dimensional analyses of the CAP and brings the finding to the conclusion. Mainly, the attention has been paid to the analysis of the CAP through regionalism on the one hand; on the other, from the finding we can further analyse the EU's intention in helping the poor fight against poverty despite the fact that its CAP hinders them gaining their income through trade.

5.1 The CAP via Regionalism

5.1.1 Implications of the CAP in Regional and Global Political Economy

The CAP has become an important factor that shapes regional and global political economy. At regional level, it has been a product of European regional integration; in order to deepen the integration process, the common policies have been used to harmonise all member states' policies so they can work together in the same direction. Having shared their responsibilities together, the members of the EU tend to cooperate more by converging their policies and also their interests so that they can strengthen the unity of the group. Economically, this common policy creates trade creation within the Community and, at the same time, keeps non-member traders out of the Community's market. So the creation of the EU is therefore a stimulus for the spread of regional grouping elsewhere.

In a broader term, the CAP has been seen as a part of economic liberalism that was promoted by the US throughout the Western Europe in the aftermath of the WW II. It helps the EU serve the US grand design of world liberal capitalist economic regime. Thanks to the US' helps and liberalism, the EU began to gain more from agricultural trade soon after the establishment of the CAP and became one of the biggest agricultural exporters of the world. Liberalism, later transformed into 'neo-liberalism', has

dominated world trade system and played roles as a mainstream of global economic pattern until now. However, if we put more emphasis on the agricultural policy of the developed countries, especially the CAP, its characteristics indicate that neo-liberalism is not the only idea that lies beneath. The principles of the CAP reflect characters of both free trade and protectionist; being a single market, there is an abolition of all barriers within the EU, while community preference aims at protecting the member states from external pressures. To be precise, the CAP is a mixture of neo-liberal and mercantilist economic regime. Balaam describes in his writing that: “Mercantilist policies—designed to generate a trade surplus in commodities—are popular in capitalist countries like Japan, Germany, South Korea, and Taiwan.”¹ Therefore, we can witness that the EU, as well as the US and Japan, have been trying to expand their production and trade along with protecting themselves by using tariffs, export subsidies and quotas, and also seek for more market access by using the WTO to dismantle barriers to trade of the others. The clearest scene in the WTO would be that the major economic powers including the EU often use the WTO, on the one hand, to dismantle the developing countries’ protectionist policies, on the other hand they violate the WTO rules and conduct unfair trade by remaining their highly protected agricultural sector and keeping distort world agricultural trade.² This is the reason why the LDCs feel that they are being unfairly treated, and the WTO is a tool for the developed countries to exploit them.

In addition, the CAP has been seen as an anti-development in trade liberalisation. As we have argued that it tends to be protectionist in its nature so it has various mechanisms to protect its members. These mechanisms thus become barriers to trade which the EU has no will to destruct. From the Uruguay Round and the Doha Round, we can witness the EU’s reluctance in liberalising its own agricultural sector, but at the same time it urges other countries to lower or eradicate their protection. It is

¹ David N. Balaam, “Agricultural trade policy,” in *Trade politics*, eds. Brian Hocking and Steven McGuire, 2nd ed. (London: Routledge, 2004), p. 167.

² Surat Horachaikul and Jittipat Poonkham, “Kantian Europe or Neoliberal Europe?,” in *Asia and Europe: Dynamics of inter- and intra-regional dialogues*, eds. José Luis de Sales Marques, Reimund Seidelmann and Andreas Vasilache (Baden-Baden, Germany: Nomos, 2009), p. 156.

certain that the EU is not the only one to be blamed; other developed countries particularly the US and Japan also heavily protect their agricultural sectors. This is considered as the great obstacle in trade negotiation because no one is willing to give up its trade protection. In fact, the presence of protectionist policy for agricultural sector has been maintained forcefully by political forces in those countries. So it is a commitment of their governments to facilitate and protect those who are involved in the agribusiness.

5.1.2 Rationales behind the Existence of the CAP

The existence of the CAP is worth putting into our consideration because it is an important condition of agricultural politics in the EU. Unceasing international pressures along with growing resentment of the European people indeed are making some changes in the CAP, but it is not powerful enough to reform the whole CAP. The forces that prevent radical reformation of the CAP are the farmers and their allies' interests.

As we have discussed in the third chapter that the EU's agricultural politics is unlike elsewhere because, not only the farmers are important in terms of being significant electorates for the EU politician, they are also involved with different groups of people. This means that if the farmers decrease their production, there is also a decrease in the use of factors of production as well. As a result, industries involve with agriculture such as agrochemicals, fertilisers, animal feed, seed suppliers etc. will be damaged. So this is the reason for the CAP to remain at the core of the EU's policies.

5.1.3 ASEAN-EU FTA: an Opportunity for Thailand?

ASEAN's trade with the EU has been counted as 10.9% of total ASEAN trade with the world.³ In 2008, EU imported from ASEAN 79,292.5 million Euros and exported

³ European Commission, Statistics of ASEAN [Online PDF file], 5 May 2010. Available from: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113471.pdf

to ASEAN 55,676.2 million Euros; EU's trade with ASEAN is 5% of EU's total trade and 11.5% of ASEAN's total trade.⁴

The establishment of ASEAN-EU FTA is seen as an opportunity for Thailand to expand its trade and investment. As a group, Thailand along with other member states will be at a better position in bargaining vis-à-vis the EU. We all know that being a single state will not have enough power to bargain or pressure a regional bloc like the EU, so it will be more possible for Thailand to be advantage to gain its interest through regionalism. However, the project was deadlocked due to the facts that ASEAN is unlike the EU since its members are more disaggregated; their interests are too diverse and there is also a problem of disparity in economic development among them so it is difficult to harmonise under common policies. Not only the economic problems that stunned the whole process, political matter in Myanmar was also an important factor holding back the EU from moving forward. Consequently, the EU turned to the bilateral negotiation with more potential ASEAN members such as Singapore, Vietnam and Thailand.

According to Thai authority's view, arranging FTA with the EU is beneficial for Thailand as Thai export will more enjoy the EU's market access which the EU's market is one of the most important markets for Thai exports. Furthermore, increased competition will challenge Thai producers and lead to improvement of Thailand's production efficiency. However, the EU is negotiating the FTA with Chile, Mexico and the Mercosur regional bloc—comprises Argentina, Brazil, Paraguay and Uruguay—which they are potential rivals to Thailand in supplying goods and services to the EU.⁵ So this is quite urgent for Thai government to make a decision in establishing the FTA with the EU. Nevertheless, it is necessary to pay attention in the assessment of the impacts of the

⁴ กรมเจรจาการค้าระหว่างประเทศ กระทรวงพาณิชย์, นานาพรรคคณะจากภาครัฐต่อการทำ ASEAN-EU FTA: การเจรจาเปิดตลาดสินค้า ภายใต้ ASEAN-EU FTA [Online PDF file], 5 May 2010. Available from: http://www.thaifta.com/trade/ppt/aseu_sunun17sep51.pdf [Department of Trade Negotiations, Ministry of Commerce, Various visions from Thai authority towards ASEAN-EU FTA: Open market negotiation under ASEAN-EU FTA [Online PDF file], 5 May 2010. Available from: http://www.thaifta.com/trade/ppt/aseu_sunun17sep51.pdf]

⁵ Petchanet Pratrungkrai, June start eyed for FTA talks with EU [Online], 12 April 2010. Available from: <http://www.nationmultimedia.com/home/2010/04/12/business/June-start-eyed-for-FTA-talks-with-EU-30127019.html>

FTA since some sensitive economic sector like agriculture may be at risk. Although Thailand is a considerable competitive agricultural producer, the flood of EU's highly subsidised agricultural products may hit Thai markets and damage Thai agricultural sector, particularly the small Thai farming. While the growth in industrial sector and service sector may increase, as a result of the FTA. Thai official traders confirm that there is no constitutional safeguard for Thai farmers or the utilisation of subsidies. Thai authority can only keep an eye on the situation, if there is complaint from the producer, it will make a move. In case it finds that it is unfair, harmful, or disadvantage to Thai interest, it will react by using multilateral means such as the matter of the EU dumped its heavily subsidised sugar on the world market and depressed the world sugar price. Thailand, like Australia, New Zealand, and Argentina, has no support from its own government, so the producers have to face with fluctuations of world agricultural prices and this will even go worse when the EU or the US export their subsidised commodities resulting in lowering prices as well as incomes without any compensation from the government.⁶

5.2 Benign Alternative Superpower?

The EU declares its intention in helping the poor fight against poverty in many of its publications. It does help by providing aids to those countries in various means; however, only giving is not enough. For a sustainable prosperity the EU as well as other developed countries should help less developed countries to be more efficient by boosting their economic growth through trade. The rhetoric of 'trade not aid' is absolutely true for this situation.

The EU has long been perceived by some supporters as a 'Kantian' Europe, unlike 'neo-liberal' United States because of the use of soft power in conducting international affairs. However, the presence of the CAP portrays that the EU is no difference from the US in a way that its interests are its top priorities. This is confirmed by Surat Horachaikul and Jittipat Poonkham that:

⁶ Brian Gardner, *European agriculture: Policies, production and trade* (London: Routledge, 1996), p. 84.

“Statistically, in 2000, the annual dairy subsidy paid by the EU was \$913 per cow. This was nearly double the average annual income of someone living in sub-Saharan Africa. In aid, the EU gave \$8 per head to sub-Saharan Africa. So the claims that Europeans are morally superior to Americans in their concern for the ‘Third World’ are hypocritical.”⁷

The EU intention in helping the poor has been doubted, arguing that the EU intends to maintain its relations with the LDCs under the pattern of traditional dependency. In more broad term, as developing countries are majority participants in the WTO, the EU thus tries to create an alliance with the LDCs, and provides them various attractive aid programmes to win their hearts. Yet, not all LDCs are welcomed to join the EU’s programme as the matter of fact that some LDCs are more advanced, and they are potential enough to become its competitor.

In fact, no one is willing to help others without any returns. National interests are still the top priority for every nation and this is good explanation why the CAP is still at the core of the EU’s policies. Furthermore, the call for the CAP reform will be powerful when it comes from domestic rather than international. This is because agricultural politics in the EU are so powerful and it destined the whole system of the EU. The Eurocrats do not dare to pursue some radical changes in the CAP, unless the complaints will come from their own people.

The existence of the CAP will last but there is an expectation for more efficient mechanisms that decrease the distortive effects created by its price support system. Even though the new income support system may lead to another budgetary problem in the future, it does not distort international agricultural trade. To manage the budget, the system of co-financing is a good means to share the burden of the EU to the Member States. No matter the reform is to response to internal or external complaints; it is a good sign for gradual changes in reforming the CAP.

⁷ Surat Horachaikul and Jittipat Poonkham, “Kantian Europe or Neoliberal Europe?,” in *Asia and Europe: Dynamics of inter- and intra-regional dialogues*, p. 155.

5.3 Conclusion

The EU declares its intention to build a better prosperous world by helping countries in the Global South fight against poverty. While LDCs economies mostly based on agricultural sector, most of their income therefore comes from agricultural trade. However, the developed countries including the EU highly cherish their agricultural sector and strongly protect it by using numerous protectionist mechanisms. The effects of these mechanisms unfortunately damage most of LDCs, particularly the poor's economies as it keeps them out from their source of income and this become unavoidable tension between the North and the South. This conflict will remain if there is no change in this protectionist policy.

This to be concluded that the EU's desire in building a better world is flawed because it cannot help those poor in the Global South develop their economies and reach their self-dependency. As long as the EU's market is blocked by the high level of duties and there is a flood of subsidised goods in the world market, it will be difficult for the poor LDCs to stand on their own. This, in the end, will result in even widening the disparity between the two worlds.



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