

European Commercial Diplomacy: the hunt for growth

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>> The economic crisis has propelled commercial diplomacy into the fore. Whilst Russia and China have long been known to vigorously use their political weight to further economic enterprises, in the past couple of years both the European Union (EU) and the United States (US) have made their commitment to some form of economic statecraft explicit. Nevertheless, differences remain. Whilst the EU focuses on commercial diplomacy as a means to achieve growth, the US speaks of economic statecraft as a means of retaining leadership and shaping the global political system. Europe's myopic focus on economic growth leaves China, the rest of the BRICS countries and the US vying for the political influence necessary to shape the emerging multipolar world order. The question remains, should the flag follow trade or should trade bolster the flag?

EUROPE'S HUNT FOR GROWTH

Facing stagnating economies, European member states have become much more aggressive on chasing export and investment deals. Economic security factors have come to overshadow other strategic concerns. Large delegations of business executives accompanying European prime ministers have become the norm, as the state and the private sector draw ever closer. The BRICS countries and the Gulf states have been the main focus of such policies. Germany is the principal exponent of a foreign policy driven by economic interests. The nation's increasing dependency on exports and critical raw materials has led to a focus on economic tools in its external action and the pursuit of narrow national economic interests, to the detriment of political goals. This has led, for example, to

HIGHLIGHTS

- Facing stagnating economies, European member states have become much more aggressive on chasing export and investment deals.
- The focus on exports and investment is leading to increased competition between member states and encouraging bilateralism, to the detriment of common EU approaches and broader foreign policy considerations.
- The EU focuses on commercial diplomacy as a means to achieve growth whilst the US speaks of economic statecraft as a means of retaining leadership and shaping the global political system.

»»»»» Germany quietly accepting the expulsion of the Konrad Adenauer Foundation from the UAE in an effort not to sidetrack commercial relations and to a very Sino-centric approach to Asia, where geopolitical tensions are rising.

Spain and the United Kingdom (UK) however, also have committed to commercial diplomacy. A white paper drawn up by Cameron's government in 2011 aimed to bolster economic growth in cooperation with international partners such as China, India, South East Asia and the Gulf. London has so far organized more than 250 official visits to various countries to encourage commercial cooperation and support British businesses. The UK would like to become the Gulf's 'commercial partner of choice.' In May 2012 BAE and Saudi Arabia signed a defence deal for Hawk jets worth £1.9 billion (€3 billion). Similarly, Spain's new government announced early on that a 'specifically economic mandate' was to be established for over one hundred embassies and consulates that currently lack trade offices. The foreign minister's first official visit was to Saudi Arabia to ratify the contract awarded to a consortium of Spanish companies to build a high speed train line between Medina and Mecca. This took place shortly after meeting with representatives from the country's 25 most important multinationals. Likewise, former French President Nicolas Sarkozy pushed hard for French companies in the Gulf and regularly invited the CEOs of major French companies to join him during his international travels. At the beginning of 2012, much to the chagrin of Italy, Germany, Spain and the UK – the partners in the Euro-fighter consortium – the French company Dassault won a contract to provide Rafale jets to the Indian military in a deal estimated to be worth \$12 billion.

The focus on exports and investment is leading to increased competition between member states for commercial access to emerging markets and is encouraging bilateralism, to the detriment of common EU approaches. Arguably their economic interests would have been better served by a more unified approach, with the EU providing added weight on issues such as

investment rules and public procurement. For example while Trade Commissioner De Gucht engages China on public procurement, intellectual property rights or dumping practices, member states are busy competing for contracts instead of supporting his efforts. More dangerously, by signalling that unity is not a priority, such nations have opened the door to bilateralism spilling over into the political and strategic arena. Again this is visible in the relationship with China, where Germany's bilateral economic relationship has come to define relations with the EU as a whole, despite the existence of a EU-China 'strategic partnership'. For example, Chinese observers did not miss the fact that the German Chancellor, visiting Beijing days before the last EU-China summit, struck a conciliatory tone on the issue of Chinese solar panel exports to the EU at a time when the Commission was considering launching an anti-dumping investigation into the issue – which it did two days later.

The issue is not just the renationalisation of policy, but also its diminished scope. The pursuit of strictly economic goals in foreign policy can lead to strategic parochialism and a neglect of the bigger geo-political picture. When Germany looks at China largely as a market for its exports, it overlooks the broader strategic implications of China's rise. At some point the economic relationship in its current form will have run its course, China will become a competitor on global export markets and Germany will be left without broader long term perspectives. In contrast to this, China's preference for pursuing policies with Europe at an intergovernmental, rather than supranational level follows a strategic as well as pragmatic logic.

The EU has most recently attempted to make up for its failure to engage strategically with Asia, as it aims for a 'more developed, coherent and focussed common foreign and security policy in East Asia'. Over the last two years, it has set up a high level dialogue on foreign and security issues with China and foreign policy consultations with India, both at ministerial level. In July 2012 Catherine Ashton participated in the Asian Regional Forum and the

EU is attempting to ‘create a positive environment for EU participation in the East Asia Summit’. But it has much catching up to do. In limiting its interactions to the commercial and being largely absent from various multilateral forums in the region, the EU has left the sphere of politics and security to the US.

In the Arabian Peninsula the EU has for years expended its energy in an attempt to sign a Free Trade Agreement (FTA) with the Gulf Cooperation Council. Twenty plus years later the agreement has yet to be concluded and the EU is notably absent from the region. With a single delegation in Riyadh and low to nil visibility, attempts to discuss EU policy in the region draw blank stares from local interlocutors. In the Middle East the

EU’s recently agreed trade upgrade with Israel was de-linked from its stated human rights concerns and foreign policy, such as on the current government’s settlement policy.

An additional risk inherent to the focus on commercial diplomacy is a return to mercantilist tendencies and tit for tat protectionism, an issue on which mem-

ber states have divergent views. On the surface of the matter, the EU continues to be committed to multilateral trade liberalisation. New regulations introduced in the aftermath of the crisis however, discriminate against non-EU states and companies. Tariff and quota based protectionist measures that have been introduced since the crisis may be minimal, but covert protectionism in the form of financial and regulatory standards are on the rise. According to the latest Global Trade Alert report on protectionism, ‘in terms of discriminatory measures imposed the EU27 is the worst offender’. Reciprocity is the prevailing logic. For example, despite

British and German misgivings, in March 2012 the European Commission issued a proposal to let the EU close its public procurement markets to firms from countries that exclude European competitors from their public contracts. In May the European Parliament adopted a resolution proposing the creation of a body tasked with monitoring foreign investment, with a particular emphasis on investment from China; a proposition hard to reconcile with EU member states’ courting of Chinese investment in support of Europe’s economy.

The stagnation of the Doha Round has also pushed the EU towards the pursuit of bilateral FTAs. As a consequence, we are witnessing an increasing spaghetti bowl of bilateral deals (South Korea in 2011, Peru and Colombia in 2012 and India, Canada, Japan and Singapore are pending). In Asia and in Latin America, the EU appears to have given up on regional arrangements in favour of pursuing bilateral relations. Although these bilateral FTAs are often presented as steppingstones towards regional and eventual global agreements, it is difficult to ensure consistency among them and avoid regulatory confusion.

THE US’ ‘ECONOMIC STATECRAFT’

The US is as focused as the EU on commercial diplomacy. Secretary of State Hillary Clinton stated as much in a speech she gave on ‘economic statecraft’ in October 2011 and more recently stated that ‘we will not rest until the U.S. government is the most effective champion of business and trade anywhere’. Nevertheless, some American companies complain that in practice, the US is less aggressive in promoting commercial interests on the ground than its European counterparts. The Commerce Department facilitates the US’ business activities overseas, but other parts of the government, including the State Department, that are supposed to be involved, are less effective in marshalling government power on behalf of the private sector. This is because for the US, economic statecraft is first and foremost part of a broader political effort to retain leadership and



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»»»»» shape the international system, not primarily about economic growth.

Whilst the EU member states focus on deploying their ambassadors at the service of national companies the US approach is much more strategic. The European approach is characterised by the chasing of investment deals and the correlated competition between member states, whilst the US' stated approach is, in the words of Hillary Clinton, to 'fight to build and enforce a system of rules that apply equally to everyone'. This does not reflect an altruistic motivation but rather a formula for keeping ahead. Somewhere in between, the European Commission attempts to achieve a level playing field but without the strategic dimension that underpins the American approach.

The US historically has been a keen competitor in the race to sign FTAs across the globe. Nevertheless, its recent efforts to push the trade agenda have focused on a plurilateral process somewhere between the Doha Round and bilateral FTAs. The Trans-Pacific Partnership (TPP) is being negotiated by Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the US, and Vietnam. Canada, Mexico and Japan have all expressed interest in joining the negotiations. The nature of such an agreement illustrates the difference between the American and European approach. Whilst the deal is supposed to add billions to the US economy and become the linchpin of free trade in the Asia Pacific region, its ultimate rationale is strategic, to ensure a long-term presence for the US in the Asia Pacific region.

Despite the establishment of a Strategic Partnership with China which includes a plethora of dialogues, two of them at ministerial level on economic and security issues, there is a widespread perception that the EU struggles to imbue the partnership with significant substance. The US's strategic and economic dialogue with China also addresses a variety of topics but, most importantly, is firmly supported by President Obama, who has met the top leaders of China, President Hu Jintao and Premier Wen Jiabao, on average every quarter

since he took office. This strategic dialogue is considered crucial, not only to economic policy, but also to foreign and national security.

The US' overture towards Brussels for cooperation in Asia has opened an avenue for greater EU engagement. After the US State Department sent a confidential policy document to the European External Action Service (EEAS) calling for the US and EU to work together in the region, Hillary Clinton and Catherine Ashton released a joint statement at the Association of South East Asian Nations regional forum in July, stating that 'closer consultation between the EU and the US on Asia Pacific issues bilaterally, and with partners across the region, will be aimed at advancing regional security, development, wellbeing, and prosperity'. The EU is now in a position to be involved in the US' pivot to Asia, but this will require vision and action beyond trade. Various avenues of involvement have recently been suggested, such as conflict mediation, sharing expertise on regional integration, civil society capacity building and human rights training for the military. Whilst the US believes that joining forces with the EU will be more effective in advancing its interests and defending its values, it is up to the EU to prove that it is on board. This should not entail the EU simply tagging along to US policies, but rather defining its own priorities and the policies by which to achieve them. The EU should strive to shape relations with countries and institutions in the region, including for example Indonesia and ASEAN, and push for the type of multilateral governance that it believes in.

WHERE DOES 'ECONOMICS MEET POLITICS'?

A rethink of the relationship between economics and politics is in order. Should political and security issues be second to geo-economic interests, or rather should economic issues serve to bolster diplomacy and security objectives?

The EU assumes that it will gain greater strategic presence through its commercial policies. The EU

has a problem however, with the read over from the economic to the political and vice-versa. In the southern Mediterranean region, where the EU is the most important trade and investment partner, it has failed to gain political leverage. Conversely, in Latin America, where the EU has significant political capital, it has failed to further its economic interests and trade and investment are in decline.

While the EU has signed strategic partnerships with a number of countries and its 2010 trade strategy speaks about 'trade and trade policy reinforcing the EU's international influence', it is widely recognised that many of the strategic partnerships lack content and coherence and the EU approach remains predominantly economic. In order to demonstrate its political intent, the EU's pursuit of commercial diplomacy should be coherent with and complemented by political engagement and be driven by a strategic framework. And this should not simply be about agreeing to a human rights clause alongside FTAs. The EU's wider strategic interests, such as guaranteeing the security of the global commons (oceans, space and cyberspace) and the stability of turbulent regions, such as the Middle East, should provide the outer layer within which political and economic considerations are nested. Utilitarian attempts to gain economic presence are unlikely to serve the EU's long-term interests. The current path is veering dangerously towards a world governed by spheres of influence, rather than by rule bound global governance. The EU should focus on expanding multilateral governance and cooperation and upholding international norms, building on its solid track record of commitment on issues such as climate change and in support of the UN.

Moreover, the EU needs to better coordinate its policies. The EEAS should oversee the consistency of EU external action at large. The High Representative and the presidents of the European Council and European Commission should work from common agreed upon platforms, for example in shaping renewed political engagement with new democratic regimes in the Mediterranean region. Member states should watch that their individual

interactions are compatible with agreed common positions and do not undermine them. By identifying where it can bring added value, the EU can establish an effective division of labour between the EU institutions and member states.

CONCLUSION

The EU should double down on its commitment to multilateralism in order to avoid the erosion of rule-based governance by naked competition. Bilateral and regional agreements should not become alternatives to, rather than steps towards further multilateral trade liberalisation. If not, the EU risks carelessly encouraging free riding to the detriment global cooperation. Whilst the US is good at pursuing commercial diplomacy encased in a more strategic framework, it has a tendency to excuse itself from cooperation in the provision of global public goods. This is an arena the EU should strive to shape.

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