



APRIL 2016

Who is Afraid of European Economic Diplomacy?

European Union (EU) institutions are stepping up their effort to develop a coordinated, coherent European approach to economic diplomacy. This includes the addition of a distinct EU element to policy and action in this field, complementing that of EU member states, many of which have strengthened economic diplomacy efforts in recent years. With the globalization-induced, fast-paced changes in the balance of power and a Global Strategy on Foreign and Security Policy in the making, the time seems ripe for the EU to embark on this road. Yet Brussels needs to be clear on its objectives and on the added value of European economic diplomacy for EU member states and for European businesses. Failing short-term benefits and a long-term strategy entailing offensive and defensive elements, European capitals and companies will end up contesting the EU's efforts – worried about EU competence creep – and will leave extra-European actors unimpressed about the EU as a global force with which to be reckoned.

Towards Joint European Economic Diplomacy?¹

In July 2013, [then] Vice-President of the European Commission Antonio Tajani led a 'Mission for Green Growth' to Beijing with representatives from approximately 50 European companies. A packed agenda, ranging from ministerial-level meetings to EU-China business matchmaking sessions, sought to 'add value' to the otherwise predominantly national initiatives on trade and investment promotion and the foreign

policy of EU capitals.² The following year, Deputy Director-General for Enterprise and Industry Antti Peltomäki led another EU Mission for Growth to China, this time to Chengdu. These EU missions ran parallel to the high-profile bilateral trade missions that some seventeen EU member states organized to China between 2013 and 2015. Often, the aim here was to maximize the ability of domestic businesses to outpace their competitors – frequently from neighbouring EU countries – in the burgeoning Chinese market.

1 The authors would like to thank all reviewers for their constructive comments to earlier drafts of this Policy Brief.

2 See the following EU-webpages: http://ec.europa.eu/enterprise/initiatives/mission-growth/missions-for-growth/files/asia/china/will-you-miss-the-m4g-to-china_en.pdf; and http://ec.europa.eu/enterprise/initiatives/mission-growth/missions-for-growth/files/asia/china/programme_en.pdf.

While EU institutions in Brussels are ratcheting up their efforts towards the development of more coordinated economic diplomacy, intra-EU competition to access new markets is clearly still very much alive. This raises the question of what in fact *is* the ‘added value’ of the EU Missions for Growth, as a part of EU/European economic diplomacy. Advocates of a state-centred approach, convinced that business support is best done at the national level, are critical of any EU involvement, using a principled, legalistic perspective to EU action to argue that the EU has no competence in the area of trade promotion or foreign policy. Pointing to the European countries’ relative loss of economic and political influence to new and bigger economies, others emphasize the need to work from a common framework that combines efforts, thus adding scale to gain leverage. In the long run, the argument goes, Europe will only be competitive on the global stage if it is perceived as a ‘common economic power’.³

This Clingendael Policy Brief explicates recent efforts in Brussels to develop a European economic diplomacy, and discusses whether there could indeed be added value to European economic diplomacy – including a distinct EU element⁴ – for EU member states and European businesses. Our analysis moves from a conceptual distinction between European economic diplomacy, which refers to the collection of strategies and actions of the EU and EU member states (in coordination with private actors) in this field, and EU economic diplomacy, which only includes the policies and activities of EU institutions. Such a distinction is important, as it highlights how the EU level is just one building block of the European Union, and its purposes are quite broad in that they include both internal (intra-EU) and external elements.

Could joint economic diplomacy be a way for Europe to stop punching below its weight in the global (economic) arena, by fostering

synergic rather than adversarial dynamics? This question is particularly pressing in Europe’s relations with economic powers like China, as growing trade with and investment from this country also gives it increasing leverage in European capitals. What should be the objectives and targeted actions of European economic diplomacy? Clearly, a long-term vision and short-term benefits to such an approach need to be analysed so as to engage European stakeholders and (relevant) extra-European actors. Failing to do so will have European stakeholders worried about EU competence creep, and extra-European actors unimpressed about the EU as a global force.

Aiming for a Comprehensive Approach

The strategy and action of key economic diplomacy strands – in particular, commercial diplomacy, development cooperation and trade diplomacy – have been evolving in Europe for several years already, both at the member state and EU level.⁵ This is not surprising, as the growing global economic interconnectedness has increased the relative weight of economic and trade-related issues within the foreign and security policy realm, thereby also raising the relevance of economic diplomacy.⁶ Governments of EU member states, including the Netherlands,

3 See, for example, Chad Damro, 2012, ‘Market Power Europe’, *Journal of European Public Policy*, 19 (5).

4 See also the paragraphs below on Adding Value.

5 This Clingendael Policy Brief adopts a comprehensive definition of economic diplomacy, including activities in the field of trade and investment promotion (commercial diplomacy), trade negotiations, global financial governance, development assistance efforts and sanctions. This differs from the narrow definition of some EU countries, which regard economic diplomacy as little more than business support. For more on this, as well as on recent trends in economic diplomacy, see Maaïke Okano-Heijmans, 2016, ‘Economic Diplomacy’, in: Costas Constantinou, Paul Sharp and Pauline Kerr (eds), *The SAGE Handbook of Diplomacy*, London: SAGE (forthcoming in June).

6 For more on this, see, for example, Peter A.G. Van Bergeijk, Maaïke Okano-Heijmans and Jan Melissen (eds), 2011, *Economic Diplomacy: Economic and Political Perspectives*, Leiden and Boston: Brill; and Stephen Woolcock, 2012, *European Union Economic Diplomacy: The Role of the EU in External Economic Relations*, Burlington, VT and Farnham: Ashgate, esp. pp. 10–11.

Denmark, the United Kingdom (UK) and Germany, have strengthened trade and investment promotion abroad, or commercial diplomacy. In addition, companies – rather than non-governmental organizations – returned to centre stage in the delivery of development assistance. The trend is to move away from global social quality thinking in development towards stimulating progress by way of creating economic opportunities. In this regard, improving access to finance for European companies by broadening the mandate and the scope of action of the European Investment Bank (EIB) could prove very useful for developing new projects – which could contribute to growth and greater stability, also in Europe's neighbourhood.⁷

Brussels' new EU trade strategy of October 2015⁸ displays a similar and unprecedented willingness to use political tools for economic objectives and economic instruments for political purposes in new ways. Free-trade agreements are now a tool not only to promote (economic) *value*, but also European *values* – ranging from labour rights and civil liberties to sustainable development and market capitalism.⁹ This heralds a new era in EU trade diplomacy, wherein normative content is incorporated into the more effective sides of the EU's clout. Economic power undoubtedly has the lion's share herein.

With the globalization-induced, fast-paced changes in the balance of power and a Global Strategy on Foreign and Security Policy in the making, the time seems ripe for

the EU to step up its efforts in the field of economic diplomacy. This appears to be all the more relevant given that around 90 per cent of global growth is now coming from outside of Europe, hence making the need to tap effectively into the 'new markets' even stronger. A more sophisticated European economic diplomacy could contribute to European Commission President Jean-Claude Juncker's central policy goal of strengthening growth and employment levels in the EU. For this to be possible, however, the still-standing unnatural dichotomy between trade policy and trade promotion will have to be overcome, in EU legislation as well as in economic practice. Moreover, in a world of shifting power balances, fostering policy linkages across various fields – as per High Representative/Vice-President Federica Mogherini's aspiration – is a dire necessity. The need for more sophisticated policies that 'connect the dots' between trade and investment, resource and food security, migration, global economic and financial governance, and (sustainable) development are now more essential than during earlier times.

To argue that synergies between policy areas can and should be improved is clearly not to say that EU action in (m)any of these fields is new. International trade and investment negotiations, international financial regulation, environmental policy and development policy are the more obvious policy areas in which the EU has long acted on behalf of, or next to, its member states. EU action in other fields, such as foreign policy and energy policy, is of more recent origin. Yet the EU has even acted in the field of trade and investment promotion for many years already. Largely acting upon requests from EU member states' diplomats in third countries asking for EU help in trade-promotion initiatives throughout the years, the EU has developed specific tools to facilitate business activities.¹⁰ Instruments include bilateral trade-promotion programmes; cooperation with national chambers of commerce; and

7 EIB President Werner Hoyer in Florian Eder, 2016, 'The Last Untapped Treasure of European Integration', *Politico*, 11 March, available online at <http://www.politico.eu/article/eus-last-untapped-treasure-werner-hoyer-mario-draghi-ecb/>.

8 See European Commission, 2015, 'Trade for All', available online at http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf (accessed March 2016).

9 More specifically, the newness lies in the fact that future trade agreements aim to promote European liberal values in a more direct way than before, by way of chapters in the agreements themselves, rather than by a clause linking trade agreements with political agreements that are negotiated with partners in parallel.

10 Interviews with European Commission officials at DG Trade and DG Growth, 11 February 2016.

regulatory reform dialogues. Other European – although not EU – initiatives also illustrate how trade promotion and advocacy at the European level are hardly new. These include the Enterprise Europe Network, which was developed as a bottom-up initiative from European businesses aimed at sharing information and facilitating match-making, and the approximately 30 European Business Offices (essentially, European Chambers of Commerce) that are currently operating around the world. This activism may be surprising, because the EU, by and large, did not and does not have a mandate to act in these fields.¹¹ Undoubtedly, trade and investment promotion remain at the heart of more than a few EU member states' economic diplomacy efforts today. It is, however, also where EU thinking on economic diplomacy originated.

2013 Onwards: The EU Stepping Up the Effort

EU economic diplomacy (EU ED) kicked off in all but name in 2013 with a focus on trade and investment promotion. The Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs [small and medium-sized enterprises] (DG Growth) played a pivotal role in furthering this 'business end' of economic diplomacy. The EU's Missions for Growth became a very visible element in support for the internationalization of European businesses and their competitiveness in order to

generate growth and jobs.¹² The missions comprised high-level political and business meetings, seeking to promote industry and enterprises in various target countries in the Americas, Asia, the Middle East and even in Europe, including within the EU.

The Missions for Growth appear to have been somewhat of a 'hobby horse' of former European Commission Vice-President Antonio Tajani – arguably the most active commercial diplomat that the EU has had so far. Their number peaked in 2013, with eleven missions, followed by six missions in 2014 and hardly any thereafter. From the EU's perspective, the Missions for Growth complement national economic missions. They aim to support all 28 EU member countries and are said to contribute to ensuring the external marketing of the European Single Market. Recognizing that the role of national authorities remains essential in facilitating companies exporting abroad, Commissioner-led missions are presented as an instrument for the Europe-wide representation of industrial sectors in one mission that no individual EU state could offer.

Importantly, the objectives of EU economic missions went beyond the narrow business and trade realm to include also political objectives and promote sustainability. In the words of Tajani himself, [then HR/VP]:

Baroness Ashton asked me to co-lead her own missions to Egypt and Myanmar; and we combined, extremely well, a political Task Force and an economic delegation to reach out to these countries in transition. Commissioner Potočník joined the Mission for Growth to China, to strengthen our message on the need for green growth models in countries with the largest carbon footprints.¹³

11 Certain elements of the agricultural sector are an exception. See, for example, online at http://ec.europa.eu/agriculture/newsroom/174_en.htm. The lack of a formal mandate may also explain why both policy-makers – especially in national public administrations – and scholars overlook such EU action, which developed through a pragmatic and demand-driven approach. For example, the only lengthy volume that has been written on EU economic diplomacy to date, by Stephen Woolcock, argues that the EU 'does not engage in commercial diplomacy, which individual member states still pursue', whereas 'the EU promotes trade in the sense that it seeks to remove barriers to trade and investment'; see Woolcock, *European Union Economic Diplomacy*, p. 10.

12 See online at http://ec.europa.eu/growth/industry/international-aspects/missions-for-growth/index_en.htm.

13 European Commission, 2014, 'Missions for Growth: Note d'information de M. Tajani' [Note on the Missions for Growth from Former Vice President Tajani], Brussels: Secretariat General, Info (2014)3, 28 January, available online at <http://ec.europa.eu/DocsRoom/documents/4703/attachments/1/translations/en/renditions/native>.

Few would dispute that EU missions can add value, at least in theory, for example in countries where EU member states are not (widely) represented, and by enhancing political leverage through economic scale. Failing to engage with and learn from EU member states' lessons learned in this realm, however, results in missed opportunities. Hence, despite their laudable objectives and partial success, Tajani's Missions for Growth have been criticized for their poor preparation and follow-up, and for the lagging structured involvement of EU member states. If the EU can improve on these fronts, and systematize effective ex-ante and ex-post assessment mechanisms, it is not unlikely that the Missions for Growth will grow in number again in the future.

Improving on Stakeholder Engagement

Following Tajani's unprecedented frontline activism, the EU has been trying to step up its engagement with European stakeholders by intensifying cooperation with governments and trade promotion bodies.¹⁴ This has resulted in a series of bilateral and multilateral meetings, both in the EU member states and in Brussels. The discussion about the role of the EU in economic diplomacy is clearly picking up speed, also in light of the changing tactics. The personal background of new Vice-President of the Commission for Jobs, Growth, Investment and Competitiveness Jyrki Katainen, originally from Finland and therefore more representative of the Northern European 'spirit', probably adds weight to the more restrained standpoint. This may explain the decrease in the number of Missions for Growth – at least for now.

While certainly not all EU member states oppose the new-found activism in Brussels as a matter of principle, more than a few remain cautious – if not wary – of Brussels moving beyond its trade-policy mandate and into the field of trade promotion. As hinted at before, the United Kingdom and

the Netherlands, in particular, approach business support from a predominantly national perspective.¹⁵ At least in part, this is explained by their well-established capabilities in this area. Economic diplomacy's link to nation branding and – in the case of the Netherlands – legitimation of the monarchy feature into this as well.¹⁶

The EU has not so far seriously tackled the issue of how national policies and practices in the field of commercial diplomacy interact with those of the EU. Similarly, EU member state governments and private-sector organizations have barely discussed the issue – partly because they remain largely unaware of the increasing EU activism and/or because they do not wish to encourage it. This applies especially to those EU member states with a traditionally narrow – that is, mostly commercial and competitive – notion of economic diplomacy.

Considering other European businesses mostly as rivals in obtaining short-term gains, however, overlooks the longer-term benefits of cooperation and coordination. A joint approach would enable the EU as a whole to use its economic clout for political and strategic purposes, particularly when dealing with major powers such as China and Russia. European economic policy-makers and businesses seem to be forgetting that European actors are not just 'senders' of economic diplomacy. Even if they may not desire a European hand in their commercial ventures abroad, a coordinated framework definitely works to their interest when on the 'receiving end' of it – for example, when it comes to opposing Chinese steel-dumping or actions undermining the safety of sea lanes in the East Asian region.

14 See online at http://ec.europa.eu/growth/industry/international-aspects/missions-for-growth/involving-eu-members/index_en.htm (accessed on 14 January 2016).

15 The Dutch Ministries of Foreign Affairs and of Economic Affairs are particularly reluctant, although they – together with representatives of the Netherlands Enterprise Agency – participated in the more recent meetings in Brussels, but not before; informal discussion with a high-level Dutch official, February 2015.

16 A key (stated) purpose of the foreign travels undertaken by Dutch King Willem-Alexander is to add status and impact for Dutch businesses, hence blurring the distinction between state visits and trade/economic missions.

EU Competence Creep or Economic Diplomacy Strategizing?

The current phase in the development of a broader EU/European economic diplomacy began in early 2015. Discussions moved to a higher political level, beyond the Missions for Growth, and were now for the first time officially branded as economic diplomacy.¹⁷ This has fuelled concerns in some EU member states as well as business organizations that economic diplomacy is being used by Brussels – in particular, the European External Action Service (EEAS) – to further its ‘incrementalist’ ambitions. For these worries to be converted into a positive stance towards a more coherent, strategic European economic diplomacy, EU institutions are hard-pressed to explicate the objectives, tools and (expected) added value of the undertaking.

Things started to move in **January** 2015, with a meeting organized by DG Growth with trade-promotion organizations (TPOs) of EU member states. In **February** 2015, the European Commission launched a call for tenders seeking to promote European economic diplomacy. This initiative set out to develop cooperation projects gradually with national TPOs, along with strengthening the European Trade Promotion Organization’s network; and to spur closer collaboration with EU member states and their TPOs in the framework of the Missions for Growth and other internationalization activities of the Commission.¹⁸

In **March** 2015, a meeting with European business organizations (EBOs) signalled the growing involvement of the private sector in this new EU drive towards reforming economic diplomacy. Aiming to contribute to the effort, business organizations such as the Association of European Chambers of Commerce and Industry (EUROCHAMBRES) and the European

Business Organization Worldwide Network (EBOWWN) published position papers on European and EU economic diplomacy. Predictably, EUROCHAMBRES makes a strong, if somewhat narrow, argument for a more forceful strategy on European economic diplomacy in support of the internationalization efforts of SMEs. Its call for enhanced business support is largely triggered by the fact that a low proportion of the EU’s SMEs (13 per cent) are active in international markets outside the EU. More than the EBOWWN, EUROCHAMBRES also makes a real attempt at ‘unpacking’ the business-support element of economic diplomacy.¹⁹ Little is said, however, about the choice (not) to use particular tools; how efforts at the EU and EU member state level should complement each other; and what exactly the added value of EU ED should be. For its part, Business Europe is more hesitant to contribute to the discussion; by March 2016, the organization had yet to publish its own position paper. This may be explained by the fact that Business Europe represents companies that are active in Europe and focuses on trade policy rather than trade promotion.²⁰

At a fundamental level, however, the European business community is united in its assessment that companies operating in third countries stand to benefit from a shared vision among all key European stakeholders, at the EU and member state levels. Views diverge with regard to the extent to which cooperation should be formalized, with some actors stating that ‘EU and EU member states should work in the same direction’,

17 Interview with an official of DG Growth, International Affairs, Brussels, 11 February 2016.

18 See only at <https://ec.europa.eu/easme/node/781>.

19 EUROCHAMBRES, February 2015, *European Economic Diplomacy: Position Paper*, available online at <http://www.eurochambres.eu/content/default.asp?PageID=1&DocID=6825>. An argument is made for EU economic diplomacy to capitalize on improved exchanges between three areas of business support – advocacy and visibility, market intelligence, and market access services – and includes specific suggestions as to how to streamline and improve the internal organization of the trade and investment promotion activities of the EU.

20 Authors’ interview with representatives of Business Europe, Brussels, 11 February 2016.

others calling for a unified ‘team Europe’ approach, and yet others calling on the EU to use proactively its capacity to speak with a single strong voice.²¹ In addition, the business community calls for the linkage between economic and foreign policy tools and objectives to work both ways – that is to say, while it is perfectly legitimate for the EU to use its economic clout for foreign policy purposes, if the EU is indeed to have a true economic diplomacy, the reverse should also be true. In this light, for example, HR/VP Mogherini has been called upon to integrate economic and business-related issues into her discussion agenda when visiting third countries, without limiting herself to addressing the broader (and loftier) foreign and security policy issues. Evidence of change in this direction is not readily found, however, even if Mogherini has often met with representatives of local businesses during her foreign travels.

A next step in the forging of a comprehensive EU/European economic diplomacy was made in **June** 2015, with the establishment of the ‘inter-service group’ on economic diplomacy. This meeting brings together a wide range of commissioners (EU ‘ministers’) with an external portfolio, as well as the EEAS and the EIB.²² With DG Growth and the EEAS taking the lead, this high-level group focuses on: what is being done (inventory and assessment); where the EU can improve or add to already existing actions at both the EU and EU member state levels (gaps); and how to improve (future developments). The inter-service group is to publish an official

Communication by the end of 2016, and a high-level seminar on economic diplomacy and foreign policy, which was organized by the European Political Strategy Centre in March 2016, contributed to the forthcoming communiqué’s purposes of strategic thinking and stakeholder engagement.²³

The early activism of DG Growth through its Missions for Growth may explain why this directorate still appears to be ahead of other institutions in thinking about European economic diplomacy. On its website, a useful attempt is made at elucidating a core objective that DG Growth has set for itself in the economic diplomacy realm – namely, to ensure a level playing field for EU businesses.²⁴ DG Growth’s proposed set of actions in this field is worth elaborating here in greater detail, as it elucidates some linkages with other policy fields and the roles played by other EU actors. They include the following: first, trade negotiations, at both World Trade Organization (WTO) and bilateral/regional levels, in which DG Trade takes the lead; second, cooperation with governments, notably via dialogues covering issues such as standards, conformity assessments and innovation, and specific industry sectors, including space technology, involving a variety of EU actors, including the DG for Environment and the EEAS; third, cooperation with regions and international bodies, including with Mediterranean and Eastern neighbour countries as part of the European Neighbourhood Policy (ENP), as well as with the Association of South-East Asian Nations (ASEAN) and the Asia–Europe Meeting (ASEM), on issues including entrepreneurship, space policy and tourism. Here also, there is a clear role for the EEAS as well as for the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and the Directorate-General for International Cooperation and Development (DG DEVCO). Finally, instruments to support the internationalization of EU businesses, include

21 European Business Organization Worldwide Network (EBOWWN), *Position Paper: EU Economic Diplomacy*, 7 September 2015, available online at http://media.wix.com/ugd/84660e_612623bacfb043b8a4fe2363077399d6.pdf, p. 1; EUROCHAMBRES, *European Economic Diplomacy*, p. 5; and authors’ interviews with stakeholders.

22 Among others, this includes DG Trade, DG International Cooperation and Development (DG DEVCO), DG for Environment (DG ENV), DG Economic and Financial Affairs (DG ECFIN), DG Neighbourhood and Enlargement Negotiations (DG NEAR), DG Research and Innovation, and DG Regional and Urban Policy. See also below.

23 More details of this meeting can be found online at http://ec.europa.eu/epsc/events/detail/2016-02-25-economic-diplomacy_en.htm.

24 See online at http://ec.europa.eu/growth/industry/international-aspects/index_en.htm.

the Competitiveness of Enterprises and Small and Medium-sized Enterprises programme (COSME), the Partnership Instrument, the European Neighbourhood Instrument and the research programme Horizon 2020. This has, in a way, also established a role for the Directorate-General for *Research* and Innovation (DG Research) in economic diplomacy. The European Structural and Investment Funds, which support economic development across all EU countries in line with the objectives of the Europe 2020 strategy, are also of relevance here – particularly the Regional Development, Social and Cohesion Funds.²⁵

Adding Value?

The business dynamism described above is a telling sign of how private actors pragmatically understand the potential positive returns of enhanced and coherent European economic diplomacy. Aiming for a more comprehensive approach, two sets of value added by EU economic diplomacy can be identified, serving external and internal objectives – that is, the EU's relations with the rest of the world and relations among EU member states. Externally, EU ED should promote European objectives in the field of economics as well as foreign policy. Internally, it can contribute to a strengthening of European aggregate capabilities. Here, EU ED serves an important intelligence function and should include a mechanism by which EU member states *collectively* reconcile their internal and external economic diplomacy objectives.

Adding Value Externally: Economic and Foreign Policy

One area of external policies concerns the added value of EU economic diplomacy in the economic field, including for private economic actors.²⁶ First, EU ED could facilitate market access in countries where

certain businesses' home states are not officially represented by way of embassies, consulates and trade offices, etc. This will benefit especially the smaller EU member states that lack a well-equipped trade-promotion machinery. Relatedly, stronger EU ED would foster better policy linkages, thereby helping businesses not only with more straightforward trade-promotion initiatives, but also by raising business-related concerns at high-level political meetings. In EU economic missions, a thematic rather than bilateral/strictly commercial approach seems especially useful to forge links with development goals such as sustainable energy and food security, to which a plethora of European businesses can contribute. Undertaking this at the EU level, alongside similar national initiatives, adds value by providing a broader framework, which compounds economic and political resources and therefore strengthens the scope and depth of, for instance, free-trade agreements (FTAs), thereby also bolstering the profile of European actors among third parties.

In addition, EU ED can improve European businesses' much-needed access to finance in order to support economic growth and uphold the EU's competitive edge in innovation. SMEs in particular, but also multinational corporations (MNCs), stand to benefit from such action in the short term, while a revamp of the market benefits a broader group of businesses and consumers in the long term. Financial tools serving this purpose include the European Fund for Strategic Investments (EFSI) – the so-called 'Juncker Fund', mainly for projects within Europe – as well as EIB projects more broadly. By engaging in policy-based loans, the EIB creates a more favourable investment climate, thereby spurring development and paving the way for more companies to invest in those countries. While the bank's finance climate has served to advance European interests in sustainable development for years already, the EIB could also play a bigger role in easing the pressure of migration flows by means of projects that improve social institutions in Europe's unstable neighbourhood, including around Syria.

²⁵ See online at http://ec.europa.eu/regional_policy/en/funding/.

²⁶ Authors' discussion with policy officials of Dutch institutions, the European Commission and the EEAS, The Hague and Brussels, January–February 2016.

The beneficial ‘blend’ of economic and political issues brought about by EU ED paves the way for the analysis of the other external area of added value: foreign policy. This side of the coin is to balance the implicit belief carried in a narrow, business-like approach to economic diplomacy that aims for immediate and medium-term gains – namely, that the market will do its work to keep more fundamental challenges to the existing neo-liberal rules-based order in check.²⁷ As China’s challenges to civil liberties and to maritime law in its region clearly illustrate, this is a dangerous assumption. A comprehensive approach to European economic diplomacy can address this challenge. Two points in particular stand out.

First, a stronger EU ED would be a powerful channel through which the EU and its member states could communicate their ‘rules of the game’ to third parties in a coherent way. By developing the advocacy angle of such a pragmatic tool, the EU would convey a more solid image of itself as a truly global actor, capable of having a deeper impact in global policies and – more broadly – governance. This has clear benefits for European businesses as well. After all, today’s geo-economic struggle is fundamentally about ensuring a stable, secure environment and a fair and level playing field for one’s businesses at home and abroad; remaining (or becoming) a standard-setter in the economic and financial fields; and creating an international system that favours one’s own system of politics and economics, including the norms and values that characterize it. The leverage that comes with the combined EU market power suggests that EU member states will be better able to achieve these objectives when

acting from a common framework.²⁸ A more sophisticated European economic diplomacy would thus contribute to upholding the neo-liberal fundamentals of the existing international order.

Second, EU ED serves the purpose of diplomatic signalling, both positive and negative, by using related initiatives to strengthen relations with preferred partners while excluding (in a ‘sanctioning’ way) others. In this regard, the newly established EU–China Connectivity Platform could be read through these diplomatic/geopolitical lenses as a way for both Brussels and Beijing to further marginalize Russia while stepping up their infrastructure cooperation. Similarly minded, albeit not directly EU-promoted, economic diplomacy initiatives are the Trans-Pacific Partnership (TPP), which excludes China from a United States (US)–Japan trans-oceanic network, and China’s Belt and Road Initiative, which in turn does not involve the US and Japan. Geopolitically minded, economic power-play by others should not necessarily cause the EU to respond in kind. However, it should have European capitals thinking about how to address the consequences of such actions.

Thus, in addition to being essential for safeguarding economic competitiveness, the development of European economic diplomacy would also benefit the projection of the much-discussed European normative power. In conveying their values, the EU and EU member states stand to benefit from the pragmatism that European economic diplomacy may bring. As the competition between divergent ideas and underlying normative principles grows, mere rhetoric that hinges on claiming the moral high ground no longer works – indeed, if it ever did. While ‘verbalization’ of the values-based nature of certain policies is certainly important, what really matters for normative promotion are actual policies that convey such values directly. Instead of

27 For a useful counter-argument to this assumption, see Nadine Godehart, 2016, ‘No End of History: A Chinese Alternative Concept of International Order?’, Berlin: SWP Research Paper (RP2), January, available online at http://www.swp-berlin.org/fileadmin/contents/products/research_papers/2016RP02_gdh.pdf.

28 See, for example, Maaïke Okano-Heijmans and Daniel Lanting, 2015, ‘Global Economic Governance in Transition: China’s Activism and its Impact on Europe’, Clingendael Report, The Hague: Clingendael Institute, October.

advocating virtuous behaviour by means of commendable but empty statements, European economic diplomacy could strengthen its lead by example – that is, through real actions – by incorporating normative content into the more effective sides of its clout, where economic power undoubtedly has the lion's share.

Two more concrete examples will help to clarify this point. First, strategically enhanced economic-diplomacy tools could be used by the EU to attach 'positive strings' when negotiating deals with third countries. Particularly towards the developing world, such an approach would increase the effectiveness of the EU's efforts to promote more sustainable development models, entailing higher standards in a wide range of policy areas, from labour rights to food security. Second, although certainly more complex to implement, the normative role of economic diplomacy could be extended to 'harder' security domains. The EU could deploy its economic arsenal to sanction (positively or negatively) third actors' commitments to upholding the much-advocated rules-based international order. In this light, should China decide to snub an unfavourable ruling by the Permanent Court of Arbitration in the context of the South China Sea disputes (which is expected by mid-2016), resolute economic diplomacy-based action from Brussels would greatly bolster the credibility of the many *démarches* in support of international law.

In considering these various elements, it is important to highlight how the economic and foreign policy potential of external economic diplomacy's added value should not be compartmentalized. Especially in the longer term, economic diplomacy actors and instruments with seemingly dominant economic aims could instead prove their 'versatility' by further contributing to the pursuit of foreign policy goals. Consider, for instance, how the promotion of jobs and growth by the EIB and the European Fund for Strategic Investments (EFSI) will also foster greater stability at the continental level, including in the EU neighbourhood. With tools like these, the EU is better equipped to address 'cross-cutting' policy challenges such as migration.

Adding Value Internally: Strengthening Capabilities

The internal area of EU economic diplomacy's added value refers to its role in strengthening European collective capabilities. This includes the function of intelligence-gathering and information exchange. A stronger EU ED could relaunch the EU's role as a forum for discussion among national actors, rather than insisting on its much more controversial nature as a 'substantial' multinational/supranational actor. Even from this less ambitious perspective, EU-scale action can serve economic and foreign policy purposes, especially when dealing with big emerging markets, particularly at the initial stages when a bilateral approach is likely to be disadvantageous for any individual EU member state.

Serving businesses, the EU can provide a valuable platform for the 'peer-to-peer' exchange of expertise among private and public actors. This not only fosters the creation and development of higher benchmarks for future endeavours, but will also facilitate 'package deals' aimed at spurring horizontal and vertical groupings across value chains. Enhanced dialogue with EU institutions could even improve the chances of individual European enterprises gaining access to EU funds. Moreover, businesses stand to benefit from an intelligence-gathering function of EU ED. EU-level scoping exercises would surely be more accurate than those carried out by national actors, resulting in a better understanding of the several trade hurdles that private economic actors might face when venturing into a foreign market. This applies in particular for procurement procedures, with China being an outstanding case in point.

Contributing to foreign policy purposes, the EU ED intelligence function would also serve to gather and process information about actions undertaken by third parties within Europe – that is, it would strengthen European capabilities to deal better with 'incoming' economic diplomacy. Developing a joint approach to incoming investment would benefit EU member states because of greater intelligence on (planned) foreign investment in Europe. For their part, investors into the

EU stand to gain from common investment rules in the EU's internal market.

Another area where Europe stands to benefit from greater intelligence is (planned) infrastructural projects by third countries in Europe and the EU's immediate neighbourhood. Chinese initiatives in Central and Eastern Europe, for example, can be at odds with the priorities that Europe defined in its ambitious Trans-European Transport Network (TEN-T). Better intelligence will alleviate concerns in Brussels and other European capitals about the activities and intentions of Beijing and certain other governments in the region.

Finally, a crucial but extremely challenging way in which EU economic diplomacy can strengthen European capabilities is by way of a mechanism through which EU member states can collectively prioritize between domestic and external interests and objectives.²⁹ Here, it is important to recall the distinction between EU economic diplomacy – which is developed and put into practice by EU institutions – and European economic diplomacy as the collective of EU and EU member states' efforts in the field. A key purpose of EU economic diplomacy should be to ensure that actions by the EU and its member states do not run at cross-purposes. The success of European economic diplomacy thus depends on the capacity of EU economic diplomacy to forge a coherent framework that guides policies and actions at both the member state and EU levels. Realistically, the European Council is the only body where this can be achieved.

29 See also Woolcock, *European Union Economic Diplomacy*, especially pp. 10–11; and Hans Kundnani, 2016, 'How Economic Dependence Could Undermine Europe's Foreign Policy Coherence', Policy Brief, Washington, DC: The German Marshall Fund of the United States, January, available online at <http://www.gmfus.org/publications/how-economic-dependence-could-undermine-europes-foreign-policy-coherence>, pp. 7–8. Kundnani adds that the EU should also find ways to encourage good strategic behaviour by EU member states.

Challenges and Conflicting Interests

The need for a European economic diplomacy is commonly framed in relation to the need to deliver growth and jobs in the EU. Indeed, as highlighted by Vice-President Katainen in a recent speech, there should be little doubt that improved policy synergies can bring additional economic benefits to Europe.³⁰ That being said, a European economic diplomacy strategy should not just determine how the organizational resources, skills and competencies of the EU and its member states may be combined to add value to European policies towards third countries. It should equally consider how the EU and its member states ought to respond to the policies – including economic diplomacy – of third countries towards the EU or any individual EU member state. This points to the need to strategize not just on 'outgoing' economic diplomacy, but also on what is termed here 'incoming' economic diplomacy.

After all, the EU is not only a subject in economic diplomacy but also an object; accordingly, European economic diplomacy should incorporate **'offensive' (outgoing)** and **'defensive' (incoming) elements** as two sides of the same coin. Defensive (incoming) economic diplomacy may be growing in importance, as the trend in global economic trade and investment points to more, rather than less, economic dependence by EU member states on third countries.

Defensive Economic Diplomacy

As EU member states are becoming more dependent on trade with and investment from outside the EU, a fundamental question that needs to be addressed concerns the instruments that the EU can use to deal with external pressures that threatening to

30 See Jyrki Katainen's speech 'Prosperity and Economic Diplomacy', EPSC seminar, available online at https://ec.europa.eu/commission/2014-2019/katainen/announcements/vice-president-katainens-speech-prosperity-and-economic-diplomacy-epsc-seminar_en.

undermine European policy or European long-term interests. Consider, for example, Greek Prime Minister Alexis Tsipras's flirtation with Russia in early 2015, as the Eurozone countries negotiated an austerity package and the EU at the same time discussed its sanctions regime on Moscow.³¹ Similarly, UK Prime Minister David Cameron's surprise announcement in March 2015 that the United Kingdom would join the China-led Asian Infrastructure Investment Bank (AIIB) placed short-term, national interests before European coherence and the broader context of Europe's relations with China. In this case, the process – more than the decision (to apply for membership) – was detrimental to European interests, not just in the relationship with China but also with the United States.

With regard to the development of 'defensive' economic diplomacy, two consequences of the euro crisis and the shifting patterns in EU trade and investment therefore stand out as particular challenges. First, while the new millennium has seen a decline in intra-EU trade, the economic and financial crisis is putting the Eurozone and the EU more broadly under pressure to integrate further – that is, to 'complete' the Economic and Monetary Union and to integrate foreign and economic policies (although it is worth noting that Eurosceptics argue the opposite: that less intra-EU trade means a lesser rationale for EU integration). Second, greater – and more asymmetric – interdependence between the EU and EU member state economies and the rest of the world produces gains, but also vulnerabilities.³²

Offensive Economic Policy

In addition to the broader, almost 'existential' challenges outlined above, two sets of conflicting interests further complicate the development of coherent European economic diplomacy initiatives, thus hindering its two key areas of added value.

First, with regard to the foreign policy benefits, there is patent friction between the pragmatic short-term interests on which EU member states compete and their longer-term normative goals. EU member states contest with one another to attract foreign investment and to gain larger market shares abroad for their national companies. In pursuing these goals, they often override one of the flagship objectives of the EU, which is the development and maintenance of a market-led, yet rules-based global economic governance system. This highlights and deepens the much-discussed 'capability–expectations gap',³³ which hampers the EU's ability to project its foreign policy 'actorness'. Diverging agendas at both the horizontal (that is, between member states) and the vertical (that is, the EU versus member states) level, coupled with the unevenness of the EU's mandate across different policy fields, severely limit the ability of the EU to strike effective trade-offs.³⁴ This limitation is especially evident if we compare the EU with more 'united' global players, such as the United States or even Japan. A related challenge has to do with the fact that EU policy-making moves much slower than that of other great powers, because of the cumbersome internal procedures that are the natural by-product of the divergences mentioned above. The ongoing debate about whether or not to grant Market Economy Status to China before the December 2016 deadline is one example of a paramount policy decision that the EU is unable to make overnight.

Second, affecting the more strictly defined economic returns of European economic diplomacy, another conflict worth highlighting is that between the interests of large MNCs and those of SMEs. When devising a strategy to deal more effectively with the increasingly interconnected global economy, it is not easy to strike a balance between these interests, given the

31 Kundnani, 'How Economic Dependence Could Undermine Europe's Foreign Policy Coherence', p. 1.

32 See also Kundnani, 'How Economic Dependence Could Undermine Europe's Foreign Policy Coherence'.

33 See Christopher Hill, 1993, 'The Capability–Expectations Gap or Conceptualizing Europe's International Role', *Journal of Common Market Studies*, 31 (3), pp. 305–328.

34 For example, the United States can do a 'trade-off' with TPP and security.

divergences at both the internal and the external level. Within the EU, given their more limited resources and diversification, SMEs understandably tend to be warier of growing economic openness, as they have fewer tools to cope with the resulting increasing competition from extra-EU businesses. A similar argument applies with regard to the external projection of private economic actors. MNCs – as evident from their very name – already have a substantial foothold in the third countries where they operate and, as mentioned above, often act as spearheads for EU ED in those countries. For MNCs, the greatest added value of EU ED is to be found in the advocacy sphere, wherein the sheer superiority of the EU's aggregate economic clout (against that of any of the EU member states) provides unquestionable advantages. On the other hand, SMEs lack their own infrastructure when venturing into foreign markets, and their interests with regard to internationalization are therefore those of 'newcomers', requiring much more in terms of substantial support for establishing their business than MNCs.³⁵ When blending the two dimensions together, SMEs' physiologically inferior versatility also means that they are less able to balance the pitfalls of increased – and, as in the case of China, potentially unfair – competition in Europe with the benefits of operating in extra-EU markets.³⁶

Conclusions and Recommendations

Even if economic diplomacy is nothing new – at neither the national, nor at the European level – fast-growing economic and geopolitical interconnectedness is creating a vastly different phase in its practice.

Realizing this, the EU stepped up activities in the field from 2013, turning to a more strategic effort in 2015. Its initiatives aim at mapping out (old and new) economic diplomacy tools and seeking to understand better how they work – at both the EU and member state levels – and what factors influence their effectiveness.

In order to flesh out an improved economic diplomacy, European actors will have to find effective and efficient ways of dealing with the two key challenges that might hinder its strategic development. At the political level, this concerns the clash between the member states' short-term interests and the EU's longer-term goals; while at the business level, the main challenge is the diverging priorities between companies and sectors, with particular emphasis on the 'cleavage of interests' that separates MNCs and SMEs, both at home and abroad. How should the EU and its member states go about dealing with these challenges?

First, the engagement of EU member states and other key stakeholders needs to be strengthened. The aim should be to develop effective mechanisms for joint identification and the prioritization of European economic diplomacy's objectives, which are understood as a blend of both distinct EU-level and more cross-cutting EU/EU member state elements. This includes the development of proper impact assessment of EU missions and other economic diplomacy actions. Also, information-sharing with and among European businesses should be intensified, along with intelligence-gathering on the key economic undertakings of foreign actors, both inside and around the EU.

Second, regulated dialogues and control mechanisms for European economic diplomacy within the European Council are required in order to minimize the risks (whether real or perceived) stemming from attempted EU competence creep. In addition, in order to foster efficiency and accountability, the more practical side of decision-making responsibilities should be delegated to (existing) working groups that are headquartered in Brussels. As for actual implementation, strategic economic diplomacy will entail the development and

35 Authors' interview with representatives of Business Europe, 11 February 2016.

36 For a detailed case study on how this plays out in the telecommunications sector, see Astrid Pepermans, 2016, 'Hoe China het Sino-Europees Telecomconflict Won' [How China Won the Sino-European Telecoms Dispute], *Internationale Spectator* (online article in Dutch, forthcoming in April).

pursuit of targeted (that is, country/region-specific) priorities, relying on ‘on-site’ EU and EU member states’ representatives in order to achieve tailored goals – as opposed to a clearly flawed one-size-fits-all approach.

Finally, on a broader level, such a strategic overhaul would also yield major ‘normative’ returns, by helping to establish a concrete framework that is able to explicate and promote European values. Ultimately, upgrading European economic diplomacy

is about maintaining a level playing field for businesses within and outside the EU, upholding a rules-based system of global trade and economic governance, and promoting sustainable models of development. Economic diplomacy would thus not only be useful for the EU to foster greater internal prosperity and stability, but it would also prove a very good approach for reviving Europe’s slowly shrinking relative weight within the global arena.

About the Clingendael Institute

The Netherlands Institute of International Relations ‘Clingendael’ aims to enhance and deepen knowledge and opinion shaping on issues related to international affairs.

The Institute realizes this objective through its research, training and consultancy for national and international parties. The Institute publishes reports and policy briefs, holds numerous conferences and publishes the digital magazine *Internationale Spectator*. Every year Clingendael offers a wide spectrum of courses and programmes, training hundreds of diplomats, civil servants, and other professionals from all over the world.

For further info, please view: www.clingendael.nl

About the authors

Maike Okano-Heijmans is Senior Research Fellow at the Netherlands Institute of International Relations ‘Clingendael’ in The Hague.

Francesco Saverio Montesano is Research Assistant at the Netherlands Institute of International Relations ‘Clingendael’ in The Hague.