

# Building the European economic diplomacy



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## Key ideas:

- 1) The concept of **economic diplomacy** has gradually moved from the narrow scope of “business promotion” to a wider notion of promotion of all major national interests and values.
- 2) Europe should strive for a kind of **international economic federalism**, where people and nations would have the possibilities to develop and exchange their economic potential under common rules.
- 3) International economic policy and geopolitics are mutually influential: a **strong geopolitical position** helps with the expansion of the economic interests of a nation, while its economic policies can strengthen or weaken its geopolitical position.

## Why we need an economic diplomacy

Economic diplomacy can be defined in several different ways, depending on its objectives. Those objectives usually include access to foreign markets for national businesses, attraction of foreign direct investments to a national territory, as well as influencing international economic and financial rules. Economic diplomacy also involves the use of economic “sticks and carrots”, namely economic rewards and sanctions, to enhance geopolitical interests or promote values like human rights or environmental protection. The concept of economic diplomacy has gradually moved from the narrow scope of “business promotion” to a wider notion of promotion of all major national interests and values.

When we speak about the European<sup>1</sup> economic diplomacy, we should bear in mind the European key-strategic objectives, namely to become a major and self-standing pillar of an open and globalised world

system. It would be in the interest of a great producer, exporter and importer, like Europe, to focus its international economic policy on the principle of free movement of trade and capital. It is worth reminding ourselves, the unique volume of European trade and investment in relation with the rest of the world. We should always bear in mind that Europe is the world's largest trading block and the world's largest trader of manufactured goods and services. It ranks first in both inbound and outbound international investments. It is the top trading partner for 80 countries (by comparison, the USA is the top trading partner for a little over 20 countries). Europe is the most open among developing countries: fuels excluded, it imports more from developing countries than the USA, Canada, Japan and China combined together<sup>2</sup>.

On the other hand, we have to acknowledge that globalisation has seriously hurt some parts of European business. This is due to the ruthless competition by countries of with much cheaper labor, and lower environmental and safety standards. We wel-

come globalisation because it boosts global wealth, and especially the interests of poorer countries. However, we also have to make sure that it functions under higher and fairer standards.

### ***The four strategic objectives of a European economic diplomacy***

The authors propose that Europe should develop its own comprehensive policy of economic diplomacy, along the lines of four strategic objectives:

1. to maintain an open trade and investment system to ensure European interests and foreign direct investments;
2. to raise the level of international standards;
3. to use the appropriate economic leverage to enhance Europe's geostrategic interests;
4. to employ a specific economic policy on the European neighborhood.

To achieve this goal, Europe should annually allocate adequate budget for its investments and development aid to third countries, with focus on carbon-free and circular economy, advanced technologies, education and health.

#### **A) Maintain an open trade and investment system to ensure European interests and foreign direct investments**

The first strategic objective of the European economic diplomacy would be the removal of trade and investment barriers at global and regional levels. Globalisation is becoming an inevitable trend, so we should not be afraid of it. Instead, we should catch up and try to use it to our benefit. It is the right framework to export our high quality products, attract investments and ensure business opportunities for our companies around the world. Around 90% of global growth is going to take place outside the current European Union, and this is an opportunity Europe should not miss. In order to continue to grow and create jobs at home, Europe should actively engage with the economy abroad.

We should also note that protectionism works against everybody's interests. It makes a small world even smaller. It blocks countries and their people from myriads of new opportunities. Europe should therefore defend and promote at all levels the principles of open trade and investments. At the same time Europe should actively work with its partners on creating the World Trade Organisation (WTO) rules and standards, and it should renegotiate with regional blocks such as ASEAN or Mercosur as well as reach bilateral agreements with both big players, such as India, and smaller ones, such as Cape Verde. Europe should strive for a kind of **international economic federalism**, where people and nations would have the possibilities to develop and exchange their economic potential under common rules. This is the only framework that would allow Europe to support the extrovert European business and consequently ensure growth for European producers.

#### **B) Strive to raise the level of international social, environmental and economic standards**

It is perfectly understood that labor costs in poor countries are much lower than the European labor costs, thus making those countries' products much cheaper and more competitive. This is normal. However in many cases labor standards go well below any acceptable norms: use of child labor, forced labor, exhaustive working hours, abolition of the right to organise trade unions and to strike, ultra-low minimum wages, as well as abominable health and safety conditions. The exports of countries with such low standards gain an unfair advantage. This could force all other countries -including ourselves, the Europeans - to lower their standards thus causing a "race to the bottom".

The main task of Europe should be to ensure that such race is reversed to "race to the top." This is both in the interest of our firms and economy, as well as in the interest of humanity in general. This is

a fight to be fought at all levels: local, regional and global. Europe should strategically push for higher labor, health and environmental standards in all sectors, and when drafting the international rules with organisations, such as ILO and WTO. It should use all possible rewards and sanctions in this respect. It should pursue a rigorous anti-dumping and anti-subsidy approach at all levels.

This is going to be a crucial element of the transformative power of Europe that we would like to see it projecting to the rest of the world. If we do not succeed in this direction, we risk losing both morally and in terms of competitiveness.

### C) Use of economic leverage to enhance Europe's geostrategic interests

International economic policy and geopolitics are mutually influential: a strong geopolitical position helps with the expansion of the economic interests of a nation, while its economic policies can strengthen or weaken its geopolitical position. Europe must design its economic diplomacy along the idea that it is, and must remain, a major geopolitical player.

Europe should be generous to its geopolitical allies and the countries that respect its interests and values. It would offer a clear incentive to all of them through investments, development aid and also favorable conditions for their exported goods and services. Those countries would clearly realise the benefits of co-operating with Europe and their shared interests.

It should be noted that the current European Union and its Member States are collectively the world's leading donor, as they provide over 50% of all global development aid. European Union development policy seeks to foster the sustainable development of developing countries, with the primary aim of eradicating poverty<sup>3</sup>. In 2016, that assistance reached the amount of €75.5 billion<sup>4</sup>. Europe should maintain that objective and the ambition to

remain the largest donor on the planet. That assistance would particularly focus on boosting carbon-free and circular economy, education, health and catching up with advanced technologies. It would set conditions for fair environmental, safety and labour standards, and also fair access of European business to the respective economies.

On the other hand, Europe should not hesitate to use sanctions against the countries that threaten its security or violate its core values and international law and peace. Sanctions are of course more effective if coordinated at international level. Europe should thus strive to ensure that they are imposed by the United Nations or any other competent international body. They are further more effective when they target people and companies which are most responsible for their country's misconduct. Sanctions are usually reciprocal and they also hurt the interests of the nation that imposes them. However, Europe should be ready to accept being the subject of reciprocal sanctions from the other side. It is a matter of gaining long-term respect and building the image of a respectable and principled global leader.

### D) Establish economic diplomacy links in the European neighborhood

Europe should focus on the intensification of its trade and investment links with the other Mediterranean countries, the Middle East and the post-Soviet countries. It is in Europe's interest to have prosperous neighbors. Poor neighbors export to Europe criminality, desperation and extremism. Prosperous neighbors increase business opportunities, investments, and the mutual flow of services, tourists and students. A region of prosperity is also usually a region of peace.

Europe should thus allocate comparatively higher financial, human and diplomatic resources in extending its economic incentives to our neighbors. There is huge potential for investment in north Afri-

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ca's agriculture and solar energy. Even larger potential exists in the huge space of Russia and the other post-Soviet republics. Emphasis would be placed on energy and food security, as well as technical know-how and high technology services.

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<sup>1</sup>In this paper we are using the term "Europe" as meaning all the countries of Europe, including the European Union member states

<sup>2</sup>Source: European Commission, DG TRADE, "EU position in world trade", <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

<sup>3</sup>See European Commission, European Development Policy, [https://ec.europa.eu/europeaid/policies/european-development-policy\\_en](https://ec.europa.eu/europeaid/policies/european-development-policy_en)

<sup>4</sup>See press release of the European Commission, "EU Official Development Assistance reaches highest level ever", 11 April 2017, [http://europa.eu/rapid/press-release\\_IP-17-916\\_en.htm](http://europa.eu/rapid/press-release_IP-17-916_en.htm)

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