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The importance of economic diplomacy in the further development of the EU

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Abstract

Economic diplomacy has an important position within the European Union. This is young discipline in foreign economic relations. In the world, we can see the development of economic diplomacy for about 50 years. To describe the management of economic diplomacy, we can observe three basic models, a unified model, dual model and model of a shared agency. Within these models we monitor different uses of national and international institutions. Economic diplomacy solves a variety of topical issues, always within the competence of the institutions. For the needs of economic diplomacy, the European Union has many specific institutions where the most important is the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW). In order to strengthen economic diplomacy, the Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. The current situation in a simple European Union is influenced by the process of the UK's withdrawal from the EU. The White Paper on the Future of Europe is a response to changes in the European Union and is very important for further development within the economic diplomacy.

Keywords: economic diplomacy, monetary policy, fiscal policy, European Union, euro, institutions, DG GROW, European Parliament, European Single Market, EU

1. Economic diplomacy

Economic diplomacy deals with international economic issues. Economic diplomacy is mainly concerned with what governments do in economy, in the broadest definition. Diplomacy is a relatively elastic term and it has a wide interpretation.

Economic diplomacy can be defined in a number of different ways. The definition mostly includes three strands - facilitating access to foreign markets for national businesses, attracting foreign direct investment (FDI) to a national territory and influencing international rules to serve the national interest.

I describe mainly institutions, state and non-state actors, in this paper. I choose some examples from the actual situation in the Czech Republic for a better illustration. I use actual problems in monetary policy and also show some examples from the EU, where many problems within economic diplomacy are solved.

I would like to find alternative views on the economic diplomacy based on the method of analysis, comparison and description. I use explanatory quantitative research on the base of international comparison. Economic diplomacy is increasingly influenced by the processes of globalization. Many theoretical concepts offer scenarios of future development. The most likely development is the model of parallel worlds with a pluralist grouping of states with different concepts of globalization and with little cooperation and trust (Krejčí 2014).

Woolcock (Woolcock 2011) defines institutional framework within which actors operate. Economic diplomacy in recent years has meant more economic negotiations between countries and more interest groups are affected by.

Economic diplomacy is attached to an extraordinary importance in the context of the intensifying economics of international relations within the EU. Economic diplomacy and its individual systems are fully dealt with by the member states. Thus, economic diplomacy is not a direct instrument of the EU's common trade policy and is an exclusive policy of individual member states by holding national economic interests (Štouračová 2012).

1.1 Models of economic diplomacy

From a global perspective, three basic models of economic diplomacy can be traced. Due to the significant differences between economies, due to the historical development and the economic focus of the countries, we can describe the differences in functioning of the individual institutions that deal with the economic diplomacy. Just like the system of a state and public administration, the system of institutional security for economic diplomacy is not uniform within the European Union. The application and use of economic diplomacy tools is entirely within the competence of national states. At the same time, none of the models is used in its pure form. Different specifics of national states and economies are always included (Štouračová 2012).

The unified model is the first type of organizational and competence model of economic diplomacy that creates a unified approach to addressing economic diplomacy issues. In this case, all competencies associated with securing and implementing economic diplomacy at the governmental level concentrate on one ministry (foreign affairs), which in most cases cooperates in very closely with governmental agencies specialized in the economic agenda. These agencies have very wide powers. An example of how to use a single model is Canada, where this is provided by the Ministry of Foreign Affairs and Foreign Trade.

The structured model or dual model is the second way of organizing economic diplomacy. The dual model can be labelled as a competitive model due to the nature of the institutions. In this case, competencies in the field of economic diplomacy are divided between two basic ministries: the Ministry of Foreign Affairs and the Ministry of Economic Affairs. Such model is applied in the Czech Republic and in Slovakia.

The model of a shared agency is the third type of division of competences in the area of economic diplomacy. The precise competencies are delegated to a relatively broad extent to the government, sometimes to another public institution within this model. As a typical example of this model is Singapore, in somewhat modified form of Germany model, in another form is this type applied in the Great Britain.

2. European Union economic diplomacy

Economic diplomacy includes state actors - government employees and officials - with international organizations such as the World Bank, United Nations, World Trade Organization, European Union, ASEAN, NAFTA etc., as well as bilateral negotiations with individual countries when concluding bilateral economic agreements such as the Agreement on Avoidance of Double Taxation, Agreement on Promotion and Protection of Investment, Agreement on Cooperation in Tourism, etc. Economic diplomacy is not engaged in the promotion of specific entities (companies, firms, corporations etc.) (Zirovcic 2016).

The decision-making and negotiation has general typology in the European Union. There are many factors and independent variables that shape the role of the European Union in the economic diplomacy. These factors mean the EU competence, decision-making regimes, external drivers, systemic factors and the EU's relative economic or market power. EU has its own normative power related to economic negotiations. The breakdown of the phases in any negotiation process is very important. The EU's role and possibly effectiveness in international economic relations will be greater the larger the EU's relative economic or market power (Woolcock 2012).

2.1 State and Non-State Actors in the EU

For the needs of economic diplomacy, the European Union has many specific institutions, the most important of which is the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW).

European Economic Diplomacy is promoted by DG GROWTH and refers to the use of political influence and policy measures to support European economic interests abroad, advocating for the European interest and improving the visibility or image of the EU. Then it helps reduce barriers to trade and negotiate bilateral and multilateral trade agreements and support European companies in internationalising to third countries. The concept therefore includes all aspects of business support, from trade policy to trade promotion.

Foreign policy becomes more effective and impactful if diplomats receive inputs and feedback from the business community. In turn, the European economy benefits when businesses can accompany high-level political delegations to non-EU markets and when diplomats as well as trade negotiators can reduce market access obstacles to open-up new opportunities. In order to forge a greater synergy and systematic cooperation between private and public actors in foreign policy, European diplomacy needs to involve the business community on a permanent basis and actively support it.

The EP could be associated to the inter-service group. The Commission and EEAS should issue the joint communication so that the EP can debate it. The EP can put forward more issues to be included within the scope of economic diplomacy. The EP can bring to bear its experience of parliamentary diplomacy and its networks and contacts.

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The EEAS is the European Union's diplomatic service. It helps the EU's foreign affairs chief – the High Representative for Foreign Affairs and Security Policy – carry out the Union's Common Foreign and Security Policy. For the next long-term EU budget 2021-2027, the European Commission is proposing to increase the external action budget of 30%, to significantly simplify its structure, and make it much more flexible and effective to address today's global challenges. The external action budget will be the EU's main tool to support its partner countries in their political and economic transformations towards sustainable development, stability, consolidation of democracy, socio-economic development and the eradication of poverty.

The issue of internationalising SMEs is mainly followed by the international trade (INTA), economic and monetary affairs (ECON) and budgets (BUDG) committees. A network was set up a few years ago in Parliament's DG for External Policies to support the committees following the issue but it is no longer operational. Generally speaking, MEPs are supportive of initiatives to promote the internationalisation of European SMEs but they also question their effectiveness and possible overlaps with action by Member States. MEPs repeatedly call for closer monitoring of the financing of these tools.

Two years ago, as the concept of economic diplomacy emerged, Parliament's INTA committee prepared a technical briefing bringing together representatives of the different institutions involved in the inter-service group (Secretary General of the Commission, DG GROW and EEAS). The European Parliament expressed concerns about the EU's measures. It has two main problems. There is a relatively high degree of duplication of instruments that are already in place, which results in inefficiency. The line between the Common Commercial Policy (EU competence) and trade promotion (Member States' competence) is very fine. (Bouyala Imbert 2017)

The European Parliament's participation should be increased in order to provide better coordination and effective monitoring of complementarities and subsidiary, ensuring that action at EU level does add value to action at Member State level.

2.2 Economic diplomacy of the European Single Market

Economic diplomacy, that is, international issues within the EU economy, can be assessed both in the area with third countries and, above all, in the internal market. The European Union's internal market is the territory of all EU Member States. The aim of this market is to define the space in which the four fundamental freedoms apply, namely the free movement of goods, persons, services and capital. The internal market is based on three pillars - the proper implementation of existing rules, the effective use of infringement procedures and the transparency of conditions. In particular, citizens and entrepreneurs from EU Member States benefit from a functioning internal market, but the deepening of four freedoms significantly contributes to achieving higher economic growth, a higher standard of living and a stronger European position in the international arena. It is an important instrument of economic diplomacy.

In order to strengthen economic diplomacy, the free movement of goods is the most important as a prerequisite for the functioning of the EU internal market. It is not only a matter of abolishing tariff barriers to the free movement of goods, but a wider release, as common products continue to meet the various technical requirements laid down in the national legislation of each Member State, which of course differ from each other.

The free movement of people in the European context means not only the free movement of workers, students, pensioners, but also the right of entrepreneurs to settle in another Member State for business purposes. The freedom of establishment for the purpose of business applies to both self-employed and commercial companies. The right to settle in another Member State for the purpose of doing business is unlimited. The established regulations are then governed by the same regulations as domestic entrepreneurs. On the other hand, an entrepreneur may rely on his right of establishment against attempts to limit it, for example, by a residence requirement, a zoning plan, market saturation, the need for advice from local professional organizations and other more or less hidden efforts to deter him.

An entrepreneur may choose any legal form of business for establishment. It can thus establish a company in the host state or buy shares in established companies under the same conditions as nationals of that state, or establish a branch, subsidiary, or branch of a company established in another EU country. These branches enjoy the same rights in the host state as the companies established there, and may therefore defend themselves against discrimination on the grounds of rights or benefits enjoyed by companies primarily established.

Mutual recognition of qualifications is important for the development of the internal market and also for economic diplomacy. Most business activities and most of the jobs offered are individually regulated in each Member State, linked to a certain qualification. Most of these are professions for which the requirements have not been harmonized at EU level and where, therefore, the diversity of Member States' legislation acts as an obstacle to the free movement of persons or service providers. Therefore, the principle of mutual recognition also applies here, that is, qualifications obtained in one Member State are recognized in other Member States and need not be repeated. This recognition of qualifications goes beyond the formal recognition of diplomas through nostrification and includes everything that a qualified profession requires, including practice.

In the European context, the free movement of services means the provision of services across borders, so-called without being established in the State where the service is provided. Services are increasingly accompanying goods as a significant dynamic component, and in connection with goods, services are subject to the rules applicable to goods. Similarly, they are subject to the free movement of capital and persons. Therefore, the free movement of services within the EU's single internal market is as important as the free movement of goods.

The free movement of services is largely imperfect and, due to rapid dynamics, full of various obstacles, which prevents its full use. The European Commission pays particular attention to this aspect in the Services Directive.

The free movement of capital, along with the scientific and technological and innovation boom, is a major force for economic development. The primary condition that is fulfilled in the Czech Republic is the fully convertible Czech crown. It is also about removing all national barriers to capital transfer with other EU Member States as well as with third countries and about introducing EU rules on securing cross-border payments and transfers of capital of all kinds.

The least visible real free movement is certainly on the labour market. Indeed, the free movement of labour is only marginally fulfilled in reality, as evidenced by the mere 3% of citizens willing to work in a Member State other than the home within the EU.

As a result of the different interests of the individual members of the European Union and thus of the participants in the single internal market, it is above all that the internal market is still incomplete. Stronger support for the freedoms in the internal market would require greater generosity on all sides and a consistent abandonment of national protectionist scenarios. Such measures go against the spirit of liberal economic diplomacy.

2.3 Fiscal Processes

From the point of view of fiscal perspectives on economic diplomacy, the EU's most important current budgetary framework for the period after 2021 is now being presented in the EU. The long-term financial framework for the period 2021-2027 - modern budget for a Union that protects, empowers and defends was introduced in May 2018 (European Commission 2018). In terms of economic diplomacy, two instruments are interesting. Firstly, it is the Reform Support Programme and the European Investment Stabilisation Function to strengthen Europe's Economic and Monetary Union. And secondly, it is the InvestEU Programme.

The European Investment Stabilization Function is a new instrument which should help to maintain public investment levels in the event of large asymmetric shocks, thus preserving stability and facilitating economic recovery. This is due to the more complex situation of the economies of those countries that can no longer use the currency channel. National stabilization mechanisms may not be sufficient to cope with some macroeconomic shocks and there is often a risk that the problem will spread to other countries. This can have a particularly damaging impact on the volume of public investment and the real economy. This new instrument is intended for euro area Member States and countries participating in the ERM II exchange rate mechanism, which can no longer use their monetary policy to adapt to economic shocks.

The Stabilization function will complement the existing instruments put in place at national and European level to prevent crises through related EU funds. Possible shocks are to be addressed through the European Stability Mechanism and Balance of Payments Instruments.

Not only in terms of the theory of optimal currency zones, it is important to monitor the risks of large asymmetric shocks. For this purpose, the possibility of back-to-back loans guaranteed by the EU budget of up to EUR 30 billion is envisaged. Loans will be additional financial support at a time when public finances will be under pressure and focus mainly on the development of public investment with a positive impact on growth. Another tool will be a grant component that fully covers interest costs. A new stabilization fund will be set up. It will allow member states to collect contributions from other member states which correspond to the proportion of their cash receipts from the property they own in exchange for the notes they provide. Revenues from this Fund will be allocated to the EU budget to allow eligible Member States to provide interest rate subsidies. Such interest subsidies make the economic meaningfulness of this instrument conditional.

Also another instrument is interesting from the point of view of possible instruments of economic diplomacy at EU level. It is InvestEU Programme. The InvestEU Programme will bring under one roof the multitude of EU financial instruments currently available and expand the successful model of the Investment Plan for Europe, the Juncker Plan from the year 2014. With InvestEU, the Commission will further boost investment, innovation and job creation, triggering an estimated EUR 650 billion in additional investment. The new programme will consist of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. Such a format is reminiscent of commonly used business support tools within economic diplomacy in a number of countries, including the Czech Republic.

The InvestEU Fund focuses on mobilizing public and private investment in the EU, which is still a major drawback in Europe. The aim of the new fund is above all to make more effective use of scarce resources where the Commission proposes to allocate EUR 15.2 billion to InvestEU. It will also be possible to use a EUR 38 billion guarantee to be used to support strategically important projects in EU countries and to bring together private and public investment The Commission expects to have additional investments worth more than EUR 650 billion. The InvestEU Fund should create a diversified and flexible portfolio with a focus on supporting sustainable infrastructure; research, innovation and digitisation; small and medium-sized companies and social investments and skills. Member States will be able to transfer part of the cohesion policy funds to InvestEU's budget guarantee. These funds will be redirected to InvestEU Fund and will be able to benefit from the EU guarantee.

Building on the model of the Investment Plan's European Investment Advisory Hub, the InvestEU Advisory Hub will integrate the 13 different advisory services currently available into a one-stop-shop for project development assistance. It will provide technical support and assistance to help with the preparation, development, structuring and implementation of projects, including capacity building.

2.4 White Paper on the Future of Europe - Five Scenarios

In spring 2019, the current situation in the European Union is mainly influenced by two events. Firstly, it is the process of the UK's withdrawal from the EU and the second event is the European elections in May 2019. Both these facts significantly influence the processes of economic diplomacy and are a clear milestone for further development within the European Union.

The citizens of the United Kingdom of Great Britain and Northern Ireland voted to leave the European Union in 23 June 2016 in a referendum, which resulted in a close result. Finally 51.9% of the voters voted for the EU, especially in England and Wales. On the contrary, the inhabitants of Northern Ireland, Scotland and London also opposed Brexit. The deadline for terminating membership is 2 years after the activation of Article 50 of the Lisbon Treaty, it should have been in 29 March 2017. At present, in May 2019, there is still great uncertainty about how the UK will leave the EU. This threat of insecurity at a time when it should have been clear is not only for economic diplomacy depressing.

The White Paper on the Future of Europe (European Commission 2017) is a response to changes in the European Union and the European Commission in Rome in March 2017 analyzed the results of the past 60 years and the future of the 27 EU Member States. The European Commission aims to support the debate with the European Parliament and the interested Member States. The Commission offers different alternatives for which Europe can decide.

The White Paper examines how Europe will change over the next ten years: the impact of new technologies on society and jobs, doubts about globalization, concerns about security and the rise of populism. The White Paper offers possible responses to changing realities and opportunities to turn challenges into opportunities. The challenges we face are, in addition to changing EU membership, new technologies - the impact of wider use of technology and automation on industry and the labour market, climate change - the need to market innovative environmental solutions, migration - border protection while preserving the right to free movement in Europe, security threats near borders and within the Union, building up military capabilities east of our borders, war and terrorism in the Middle East and Africa, demographic decline and weakening economic power, aging populations, the rise of populist and nationalist rhetoric and the need to restore confidence citizens, to achieve results corresponding to expectations and to find consensus among Member States.

We can see current views on EU developments in the form of scenarios that the European Commission has created itself, offering alternatives to EU citizens in the run-up to the European Parliament elections in May 2019. Five scenarios model the future state of the Union, depending on the choices made by Europe (European Commission 2017).

This is a conservative scenario - Carrying On, with 27 EU Member States focusing on implementing a positive reform agenda. The advantage of this scenario is the assumption of respect for citizens' rights resulting from the respect and enforceability of EU law. On the other hand, the possibility of major disputes between member countries is suggested.

The second scenario is called the Nothing but the Single Market, with 27 EU Member States gradually moving towards a single market. This is an alternative where Member States are unable to agree on further action in many spheres and the need for individual cases remains bilateral. The European Union is thus focusing on deepening the key aspects of the single internal market.

The third alternative is the scenario Those Who Want More Do More allow the EU to work more intensively and deepen their integration efforts in specific areas. Citizens' rights stemming from EU law start to vary according to whether they live or do not live in a country that has decided to do more. There may be questions about transparency and accountability at different levels of decision-making.

The Fourth scenario is Doing Less More Efficiently assumes that the 27 EU Member States will focus on selected policy areas that will be more intensive and faster to act, while less active in other areas. Particular attention should be paid to innovation, trade, security, defence, migration and border management, as well as to the excellence of R&D and investment in decarbonisation and digitization projects. However, the European Union often has the problem of agreeing which areas need to be prioritized and where the Union should be less active.

And the final scenario is Doing Much More Together assumes that EU member states decide to do much more co-operation in all policy areas. However, there is a risk of losing support from those who feel that the EU does not have the necessary legitimacy and that it is taking too much authority from the Member States. Unfortunately, real events and negotiations show that the Federation is rather a wishful thinking of a minority within the EU.

Such a set of scenarios is not a possible fan of options for the future, but rather a halt in a situation where the EU stands at a crossroads where there are several options to choose and which option to choose.

3. Economic diplomacy in the further development of the EU

The importance of economic diplomacy within the European Union has many dimensions. One view is about fiscal processes, especially in the context of the current budgetary framework. Another view is about the currency market. Within the euro area, the power of the common currency is the instrument of economic diplomacy. Conversely, countries that do not have a common currency can apply domestic monetary policy as an instrument of economic diplomacy. The Czech Republic still has a relatively long period of time in which, in the area of monetary policy, it will be possible to use the exchange rate for the needs of economic diplomacy and, if necessary, to thoroughly stabilize the economy as it did in the previous year's exchange rate commitment.

The most important space for economic diplomacy in the European Union is a functioning single internal market. In this market, support for the economic relations of individual Member States is very successful. Similarly, the potential of the common commercial policy and the power of the European Commission to negotiate favourable conditions with third countries can be exploited. The single internal market will be what the Member States will be joining in the coming years. While Member States sometimes introduce different national constraints, supranational structures, especially the European Commission, are constant followers of market improvement and completion and barriers.

Topical issues in economic diplomacy include the conclusion of international agreements. An example of a successful agreement is the Comprehensive Economic and Trade Agreement (CETA), which came into force in the autumn of 2017. The complicated economic relations are currently being monitored between the EU and the US when negotiations on the forthcoming Transatlantic Trade and Investment Agreement (TTIP) have been discontinued and the European Union at the same time faces US customs barriers.

At the beginning of 2019, European economic diplomacy is undergoing a very difficult period in the form of the departure of Great Britain from the European Union. The complexity of the negotiations and political influences has led to the threat of uncertainty at a time when it should have been clear. If it has been known much earlier that the only feasible scenario was the one without agreement, this option would be more acceptable today than when everything is still possible.

The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. A functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices. The European Single Market is one of the EU's greatest achievements. It has fuelled economic growth and made the everyday life of European businesses and consumers easier. One of the new instrument is Single Market Strategy. This is the European Commission's plan to unlock the full potential of the Single Market. The Single Market is at the heart of the European project, but its benefits do not always materialise because Single Market rules are not known or implemented, or they are undermined by other barriers.

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