

➤ A Mercantilist Power?

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Goeoeconomics is returning as the leading edge of Europe's global presence. The financial crisis has helped give greater prominence to goeoeconomics as a factor that will strongly condition further power-realignment. Finance and markets have once again become high politics. State and private sector ally in pursuit of relative commercial gain as the West frets more about economic security relative to other types of threat, seeking negotiated access to resources and contracts.¹ Goeoeconomics will thus increasingly be a handmaiden of geopolitics.

The rise of goeoeconomics demonstrates how Europe's age of austerity is a profound foreign policy challenge and not merely a domestic one. The impecunious inevitably require more diplomatic ingenuity to retain power. Historians regularly point out that financial crisis has often presaged broader and disturbingly precipitous political collapse. Against this background, an assertive focus on immediate material interests and commercial deals is understandable and indeed desirable. But the EU's goeoeconomics are drifting in two directions that give rise to concern. First, inward-looking market-protection is on the rise. Second, the EU is failing to ensure that its highly mercantile form of commercial diplomacy is pursued in parallel with the more political dimensions of global presence. Both these trends are understandable and hardly surprising in the context of such vicious economic contraction, but taken too far both are unduly expedient and short-termist to pass the test of good strategy.

INSULARITY?

In terms of the first trend, the change of direction in trade policies is subtle, but nonetheless meaningful. To some degree the EU has retained a commitment to outward-looking commercial policies. At a technical level, EU trade officials are still working to restart the Doha development round and the EU is by no means the guiltiest party in the stalling of multilateral trade liberalisation. External trade has recovered to pre-crisis levels and a raft of new commercial agreements is being negotiated.

However, the finer grained detail reveals some reversal of the spirit of economic openness. Many new regulations introduced in the aftermath of the financial crisis discriminate against non-EU states and companies. Export subsidies have increased significantly. Covert forms of protectionism now abound. Patrick Messerlin calculates that EU states have introduced far more measures of behind-the-border protectionism since 2008 than have non-Western rising powers.² While traditional tariff- and quota-based protectionist measures introduced since the crisis cover only one percent of trade, financial and regulatory mercantilism has become increasingly prevalent. Official figures confirm that the EU has resorted to such covert, non-border measures more than any other region since 2008.³

1 Mark Thirwell, 'The return of Goeoeconomics: Globalisation and National Security', *Lowy Institute for International Policy*, (2010).

2 Patrick Messerlin, 'How the rich OECD nations should handle the emerging giants', *Europe's World*, Spring, (2010), 15.

3 Fredrik Erixson and Razeen Sally, 'Trade, Globalisation and Emerging Protectionism since the Crisis', *ECIPE working paper 2*, (2010), 8; 12.

The Business Europe president laments that new crisis-related EU financial regulations are choking off lending for external trade and investment.⁴ The EU is set to reduce from 176 to 80 the countries that benefit from its Generalised System of Preferences; this will involve excluding rising powers that currently take nearly half the scheme's preferences. Many third countries express concerns over the incompatibilities between the myriad bilateral trade deals that the EU is negotiating, alleging that these complicate access to European markets. The G20 is serving primarily as a site of geopolitical bargaining between big powers; in terms of the organisation's role in the financial crisis, the EU members seem to have no desire to harness the G20 as a contributor to the vitality of multilateral liberalisation. Anti-globalisation sentiment has grown not just on the unionised left but also within a right more focused on preserving local communities and values.

For now, the EU figures strongly in economic rankings. It still accounts for 50 percent of global FDI outflows and 40 percent of inflows. In 2010, the Global Economic Forum placed six European countries in its top ten competitive economies.⁵ However, interdependence with the BRICs is low, measured by both trade and investment, and exports to Asia are relatively modest. In 2010 Germany did five times more trade with other EU states than with all the BRICs. The EU's competitive edge in international markets has been eaten away by US firms, and despite the EU being set to lose 60 million workers over next decade, immigration is still far more low-skilled than in the US. Member states still exclude four fifths of services output from the internal market, let alone broader global competition.⁶ In short, there is little margin for de-internationalisation. The temptation of Euro-autarchy is likely to prove a dead-end. The original post-war rationale driving European integration may be subsiding, but if Euro-distinctiveness is lost because the gap closes between intra-European integration and broader global interdependence, this should be celebrated. What jars more negatively is an inward looking chauvinism that seeks confusedly to recreate such a supposedly distinctive European economic model.

GETTING GEOECONOMICS RIGHT

A second, related trend is that the crisis is pushing the EU towards a far narrower and highly utilitarian vision of its external geoeconomics. Germany in particular is drifting very much into an economics-based international profile. Spain's budget crisis is such that its government has virtually reduced foreign policy to commercial support. The British government has quite explicitly prioritised commercial diplomacy. Diplomats agree in private that the EU simply has not engaged with Asia as a strategic issue in the same way that the US has. In the 1990s and early 2000s the EU did have at least a vision and ambition to work with Asia on deepening multilateral strategic norms, but following the crisis the EU has abandoned any strategic perspective in Asia beyond a race for commercial contracts and the reversal of its weakening economic presence. As the EU offers bilateral trade deals with some Asian states, this engenders an avalanche of requests for similar deals from other countries – Japan and Taiwan are now pressing hard for generous accords. It is clear that the strategic tensions caused by the included-excluded dichotomy of commercial bilateralism have not been addressed. The EU's abandonment of its regional deal with ASEAN in favour of negotiating commercial deals with the grouping's individual members is emblematic of this trend.⁷

One Asian ambassador complains: the EU is 'just trying to get things out of Asia, not thinking how we can really cooperate'. Even after thirty-five years of dialogue with ASEAN, the EU shows no real urgency in talking in broader political terms with the region. To the amazement of ASEAN officials, the EU has not approached Asians to ask what can be learnt from the way they coped with the 1997 crisis. Shada Islam warns that EU

4 European Business Summit, Brussels, May 2011

5 Global Competitiveness Report 2009-2010, <https://members.weforum.org/pdf/GCR09/GCR20092010CountryHighlights.pdf>

6 Figures from Daniel Hamilton, *Europe 2020: competitive or complacent?*, (2011).

7 Gauri Khandekar, 'The EU's mistaken approach to ASEAN', *Friede policy brief*, July, (2011).

is still predominantly ad hoc in its approach to the region and lacks a regional assessment or approach to Asia, for example through supporting softer forms of security policy in the region.⁸ The US and Russia now participate in the East Asia Summit, the main regional security forum; the EU does not, and in both 2010 and 2011 Catherine Ashton turned down invitations to attend the summit. The EU's security contribution amounts to little more than a small amount of border management with Japan. Without something more tangible to offer, any European muscling-in to Asian gatherings is hardly likely to be viewed as a serious endeavour anyway.

An EU-India security dialogue inaugurated in 2006 is recognised by both sides to have produced little, with most focus on the long-stalled FTA negotiations. European External Action Service (EEAS) diplomats shun the suggestion that the EU should press to work with India on issues of broader international and political values, while Indian officials in New Delhi puzzle over the EU's reluctance to cooperate on 'dealing with' China. They warn that European governments' use of bilateral commercial diplomacy merely reinforces India's tendency to see the EU as a fractured entity in political-strategic terms too.

The EU's 65 sectoral dialogues with China lack any strategic focus. And while the current KMT government in Taiwan has reduced cross-Straits tensions since 2008, Taiwanese diplomats complain they have received little reward from European governments – indeed they stand penalised by the EU-South Korea free trade deal – and that the EU is still overly sanguine about the future strategic risk of mainland-Chinese preponderance.

Of course, the EU cannot realistically aspire to be a leading security power in Asia, but it at least needs a position on key strategic issues, and especially on how its actions can back up the US's role in the region. For example, it remains strikingly unclear what the EU would do in the event of a conflagration in the Taiwan Strait. European security will depend increasingly on how the US acts in Asia; and yet attempts to influence this role have not been apparent in European policies.

Crucially, such direct and narrow mercantilism flows from an assumption that multipolarity will be the global order's organising principle. While it is logical and desirable that the EU focuses increasingly on enhancing its relations with the larger rising powers, it should not predicate its strategy too heavily on the premise of that multipolarity will be the sole or defining dynamic of the post-Western world order. Doing so leads to the view that power is about tit-for-tat commercial bargaining and that this should return as the dominant logic guiding EU strategy. In fact, the EU has already been gradually heading this way over the last decade; the euro crisis has hastened and intensified the trend. This is the miasma of pale-imitation crypto-realism: a foreign policy of too much guile and too little guiding principle. A strategy based on the constant search for reciprocal commercial bargains is inherently unstable and unpredictable. The incipient reliance on more protean deal-making with rising powers is a seductive but false elixir.

Too exclusive a focus on multipolarity begets a view that power is exercised through gaining commercial reciprocity. Indeed, reciprocity is now a more prominent (although, of course, not new) leitmotif of much external policy. And to some extent there is understandable logic in the push to bargain hard and win more benefits from rising powers in return for the incentives offered by the Union. But if pursued too hard, this approach risks being self-defeating. Interviews suggest that this drift in policy actually reinforces the perception that the EU may be a reasonably important trading partner but has little political intent to uphold international rules. Responding to the notion of such reciprocity, one former Brazilian foreign minister replies that in pursuing this line the EU fundamentally misunderstands the aspirations of rising powers: 'Brazil cannot be bought', he warns, it wants a stake in the system not a series of negotiated benefits.

⁸ Shada Islam, 'Europe and the Asian century', *Friends of Europe policy briefing*, June, (2011), 3.

As a basis of strategy, hard-bargaining reciprocity harbours a contradiction: it presumes that the best way to correct the EU's loss of material power is by exerting material bargaining pressure – the very thing it is losing. This is why the EU needs to compete and find leverage on a different plane. To the extent that reciprocity serves strategy it must be of a more diffuse variety, tailored to long-term give-and-take over global reordering. While the EU clearly has a great deal to learn from China, one wonders if the 'We must be more like China' line is not bending a little too far with the wind of fashion. In practice, reciprocity has also served as a comfortable pretext for the EU's own protectionists.

The main virtue of such a reciprocity-based strategy is its supposed workability: that it gets things done, without governments waiting endlessly for nebulous rules to be agreed at the multilateral level. But the evidence suggests that it often falls short on this most pragmatic of yardsticks. The payback in relations with China is not yet apparent. The EU has pressed increasingly hard on intellectual property rights, stepped up anti-dumping duties against China and taken the latter to the WTO over market access in natural resources. But the 2010 EU-China summit ended in acrimony because the EU refused to grant China market economy status, and China refused to open procurement markets in order to persuade European states to budge on this. China's assertiveness and nationalism have increased, not diminished, as European governments have raced to build up commercial portfolios. China is changing its favoured European partners from year to year, and beginning to play them off against each other in Putinesque fashion.

Katinka Barysch charts how the EU's more pragmatic alliance-building approach towards Russia has also produced few results: a cooperation agreement is still not agreed; Russia has moved towards WTO accession but trade liberalisation is blocked by Russia's customs union with Belarus and Kazakhstan; Russia still rejects multilateral energy rules, wanting a new energy treaty based on more geopolitical principles; the EU-Russia Modernisation Partnership is still essentially empty of content; Germany and France offered Russia participation in a new security committee, but Moscow has modified few of its positions on South Caucasian frozen conflicts.⁹ The improvement in Polish relations with Russia has unblocked a more unified EU strategy of cooperative engagement. But this was largely the product of domestic political shifts and the symbolism of Poland finally transcending the Cold War, not of any fundamental rethink on a coherent strategic approach vis-à-vis Russia.

Perhaps most worryingly, these approaches to geoeconomics risk undermining multilateralism. Basing policy on defending the EU as one amongst several 'poles' is emerging as the default strategy, without any tenets to ensure that core principles of multilateralism are not thereby compromised. Bilateral trade deals are indeed positive, in so far as they are WTO-approved. But firmer evidence is required that they are actually fashioned so as to be stepping-stones towards multilateral progress, as the EU claims. Asked in more political terms precisely how the EU's bilateral strategic partnerships have been used to further multilateralism, diplomats are imprecise and acknowledge that such confluence remains a fairly airy aspiration. Companies say they are struggling to deal with the spaghetti bowl of trade deals as these overlap with each other in ways that confuse multilateral rules. Some senior diplomats worry that the EU's tough reciprocal economic bargaining is undermining fundamental multilateral principles, and policymakers demur in private that the EU has become too fearful of the strength of rising powers. Enhancing strategic presence will quite properly involve seeking short-term bilaterally-negotiated benefits; but these must be conceived as staging-posts towards deeper multilateralism rather than as final destinations in themselves.

9 Katinka Barysch, 'The EU and Russia: all smiles and no action?', *CER Policy Brief*, April, (2011).

READING THE TRENDS

There are many features of the emerging world order that mitigate the purity of multipolarity – and which must be reflected in the way that EU geoeconomic strategies respond to the crisis. Polarity implies a degree of separateness between blocs that simply does not attain today. Parag Khanna powerfully articulates the picture of a world order whose essential feature is not its multipolarity but its multi-actorness.¹⁰ The most influential features of the new world order are speed, unpredictability, deepening problem-intersections at all levels and non-linear change, all quite antithetical to the staid frameworks of traditional, inter-pole diplomacy.¹¹ In consequence, Joloyn Howarth stresses that today's 'grand strategy' cannot be based on traditional, Westphalian alliances, as influence derives more from multi-faceted cooperation and connectedness.¹² According too much weight to multipolarity can smack of structural determinism. To argue that non-Western powers' more assertive foreign policies amount per se to multipolarity hollows the concept of its analytical rigour. Many countries may 'rise' without being of remotely similar structuring potential in international relations.

It would be premature to conclude that geoeconomics is entirely suffocating other dimensions of EU policy. Political and security policies in some circumstances still prevail. Relative to internal EU flows, European global trade and investment remains modest. If there has been something of a geoeconomic stampede to Asia, the economic aspects of EU policies have, if anything, weakened in Latin America. In the Middle East and sub-Saharan Africa trade and investment efforts have intensified but still underplay these regions' full potential. But in general terms the investment in security-related resources is on a downward trajectory and the EU's foreign policy centre of gravity tilts towards geoeconomics. The concern is not yet with economics completely emasculating politics, but with insufficient priority being attached to conjoining these two strands of policy. The need is for a changed approach to diplomatic and security issues as a means of underpinning geoeconomic interests. Arguably, geoeconomics should play to the traditional EU strength of being an 'economic giant, but political dwarf'; but in many regions it also reveals its Achilles Heel of an abiding disconnect between economic and geopolitical interests. It is often noted now that foreign ministers have been largely absent in the management of the economic crisis.

The EU was slow in reacting to the shift in power away from the West; arguably, it now rather overstates the weight of polarity in its external strategies. One of the strong points of EU foreign policy was its early recognition that geoeconomics and geopolitics cannot be separated; to countenance such a separation now would represent an unfortunate regression. All this means that while assertive geoeconomics is entirely proper, the EU errs in casting its commercial policies in such narrowly mercantilistic terms as are unlikely to serve its own long-term interests. ■

10 Parag Khanna, *How to rule the world*, (2011).

11 Joshua Cooper Ramo, *The Age of the Unthinkable*, (2009).

12 Joloyn Howarth, 'The EU as a Global Actor: Grand Strategy for a Global Grand Bargain?', *Journal of Common Market Studies*, 48(3), (2010), 455-474.