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The domestic challenges of European geoeconomic diplomacy

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Introduction

In a world economy characterised by rapidly changing power structures, unprecedented levels of global inter-connectedness and substantial redistribution of wealth from traditionally prosperous Western states to the global south, the use of economic power and capabilities in foreign policy making is yet again taking centre stage. The rising number of powerful economic states have once again increased awareness among observers of international relations on how developments in the sphere of macroeconomics directly affect the conditions of modern foreign policy making. Governments around the world seem increasingly prone to applying geoeconomic instruments – ranging from sanction regimes over trade policies to economic assistance – as incentivising or coercing measures to advance their own foreign policy interests.

As devoted attention of foreign policy makers to the interplay between governments and markets has been a defining aspect of almost every historical geographical entity’s foreign policy considerations, the role of economics in foreign policy thus seems to change. This has direct implications for the world of diplomacy, where diplomats find themselves increasingly exposed to a field which this paper describes as geoeconomic diplomacy. My core argument is that a country’s employment of geoeconomic instruments is not merely a function of its national interest, but also depends on its diplomats’ abilities of applying such instruments, which again is closely connected to the overall degree of independence between relevant government and non-government actor. As will be explained in greater detail below, this paper particularly focuses on structural challenges characteristic to geoeconomic diplomacy in Europe’s liberal market economies. One central challenge that influences ‘traditional’ diplomats from MFAs and other government bodies is their restrained access to economic power assets, either because the state does not possess the economic leverage itself (such as when applying the instruments of sanctions or international trade, where states can agree on legal framework, but depend on businesses and other market actors to implement them effectively) or is dependent on international organisations or non-state actors to implement it (such as in the instrumental use of economic assistance, where implementation often is executed with the help of e.g. the United Nations and international or local NGOs). Furthermore, and just as important, many of such non-government actors hold the capacity of playing independent roles at the international level. Such non-government agency can of course happen in a manner that is not necessarily supportive for a government’s foreign policy agenda.

This substantial point has so far been largely neglected by the geoeconomic literature, as it fails to acknowledge that the mere existence of a country’s economic power does not automatically lead to the applicability of specific geoeconomic instruments in a state’s diplomatic practice. The use of geoeconomic instruments thereby differs greatly from that of military instruments.

My definition of geoeconomic diplomacy has to be applied with caution, as it is not an exact science. It refers to the specific use of economic instruments a country’s government – possibly in cooperation with other domestic actors – is willing to and can employ to preserve and realise its national interest in its conduct of relationships with other international actors.

\footnote{Baldwin, Economic statecraft.}
which are under the control of civilian governmental and military actors alone.

From sanctions to free trade agreements: Geoeconomics on the rise in EU foreign policy making

The greater importance of the geoeconomic field is clearly visible within the context of the EU’s Common Foreign and Security Policy (CFSP), where the use of geoeconomic instruments such as economic sanctions and economic integration agreements (EIAs)\(^4\) to foster wider geopolitical interests are among the most tangible and popular EU foreign policy actions. The former has been on the rise since the so-called ‘sanctions decade’ of the 1990s, which means that the EU currently upholds around 35 sanctions regimes ranging from asset freezes and travel bans against listed individuals to trade embargos and financial restrictions against targeted countries.\(^5\) Most recent examples are the sanctions targeting the nuclear programmes of Iran and North Korea as well as Russia’s annexation of Crimea. As for the latter, the extensive list of European EIAs of course reflects the EU’s economic ambitions in the trade realm. At the same time, it seems evident that negotiations on free trade and customs unions can have broader strategic, geopolitical dimensions. This is the case with the currently stranded negotiations with the United States on the Transatlantic Trade and Investment Partnership (TTIP), portrayed by some leaders as a free trade bloc resembling an ‘economic NATO’.\(^6\) Likewise, geopolitical considerations have been key to the EU’s negotiations with its Eastern Partnership (EP) countries about the Association Agreements and Deep and Comprehensive Free Trade Areas (AA/DCFTA). Even if EU officials have repeatedly downplayed such geopolitical components as driving for bringing EP countries closer to the EU’s internal market, the Russian government’s furious reactions to the AA/DCFTA negotiations between the EU and Ukraine in 2013 – and the following Ukrainian crisis – at least suggest that this view was not shared in Moscow.

The overall European willingness to apply geoeconomic instruments has to a certain degree been paralleled with organisational reorientations, both at the level of European capitals and in EU institutions. While numerous European MFAs have implemented organisational reforms to handle new challenges in the politico-economic realm, strategic discussions about the intersection of economic power and foreign policy goals have also reached Brussels.\(^7\)

The timing of this reorientation is far from being a coincidence. It happens at times of salient material and ideational structural changes within the global economy. In material terms, the unprecedented redistribution of economic wealth from traditionally prosperous Western economies to the global south has resulted in an enhanced empowerment of emerging economies at the global stage, leading to the ‘multipolarisation’ of the global economy.\(^8\) In ideational terms, these changing power patterns have accelerated a global trend towards ‘state capitalism’\(^9\). State capitalist powers as Russia, China or India, in which governments have ownership stakes in or significant influence over major domestic companies, have been among the most successful newcomers to the global economic elite.\(^10\)

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\(^4\) Defined as a common term for partial or full free trade agreements (FTAs), preferential trade agreements (PTAs) or customs unions.

\(^5\) LaFont Rapnouil, «Signal, constrain, and coerce: a more strategic use of sanctions».

\(^6\) Harris, «America, Europe and the Necessary Geopolitics of Trade».

\(^7\) Hocking, et al., Whither Foreign Ministries in a Post-Western World?; Okano-Heijmans/Montesano, Who is Afraid of European Economic Diplomacy?.

\(^8\) Stuenkel, Post-Western World: How Emerging Powers Are Remaking Global Order.

\(^9\) These countries put greater emphasis on state interference in domestic and international economic affairs than do most European economies, and also use state-controlled economic leverage to interfere directly in strategically vital economic sectors of rivaling major economies.

While Blackwill and Harris rightly note that “today’s form of geoeconomics comes with not only new options but also new diplomatic tools”, their additional comment bears the real significance: “[Some] of these instruments are … largely unavailable to U.S. and Western leaders” as Western governments’ access to geoeconomic instruments is much less straight-forward than that of more state capitalist countries. In order to make geoeconomic instruments usable, diplomats are often dependent on close cooperation with networks of government and non-government actors such as businesses, trade unions, interest organisations, NGOs and the like. As these actors play important roles in determining the room of manoeuvre diplomats enjoy at the international level, academic discussions about the future of diplomacy will have to take into account this dynamic in a systemised and serious manner.

The fallacies of structuralism for understanding geoeconomic diplomacy

These perspectives are, however, only rarely taken into account in current geoeconomics literature, dominated by structuralist accounts that overly neglect the relationalism inherent of everyday diplomacy and hence thwart in-depth thinking about the diplomatic aspects of geoeconomics. Much of this literature is centred on system level (as opposed to the domestic or the individual level) assumptions with heritages from both neorealism and neomercantilism. In other words, scholarly debate about geoeconomics is often reduced to an understanding of any country’s use of economic instruments as a mere portrayal of rational answers to either power balances or interest maximising behaviour. In threatening the geoeconomic playing field at the structural level only, instead of asking for the implications of certain structural conditions at the domestic level, this literature falls short of understanding the structural politico-economic conditions European policy makers face in their everyday work and ignore fundamental relationship dynamics shaping interests, negotiating positions and outcomes. Also, they do not ask the important question how domestic networks work. If these conditions are not properly analysed in detail and with sensitivity towards the particular geoeconomic instrument at question (sanctions, trade deals, economic assistance etc.), scholarly debates about European geoeconomics will remain detached from realistic understanding of the conditions diplomats face in the geoeconomic field.

This lack of analytical sensibility also bears normative consequences. Various analysts have warned that the enhanced use of geoeconomic instruments might lead to the ‘weaponisation of economies’ or even ‘wars by other means’. The gloomiest of such accounts was expressed by Luttwak in his (in)famous dictum describing geoeconomics as “the logic of conflict with the grammar of commerce”. While such accounts are not necessarily misleading, this paper does not share the determinism embedded in these structural approaches, which often build on neo-realistic and neo-mercantilist assumptions about how states’ increased use of economic means in a multipolar, unstable international system leads to inter-state antagonism and conflict. Rather, it aims to propose reflections on key aspects that scholars and policy makers alike should engage with when thinking about Europe’s ability to utilise geoeconomic instruments in its foreign policy making, and, consequently, about the skills and competencies needed by diplomats in this vital arena of modern diplomacy.

11 Blackwill/Harris, War by Other Means: Geoeconomics and Statecraft, pp. 9-10.
12 Adler-Nissen, “Conclusion: Relationalism or why diplomats find international relations theory strange”.
13 Blackwill/Harris, War by Other Means: Geoeconomics and Statecraft; Wigell, “Conceptualizing regional powers’ geoeconomic strategies”.
14 Blackwill/Harris, War by Other Means: Geoeconomics and Statecraft; Leonard, “Introduction: Connectivity Wars”.
15 Luttwak, “From geopolitics to geo-economics”; see also Criekemans, “Where geoeconomics and geostrategy meet”.
Shifting perspective: From ‘diplomatic systems’ to ‘diplomatic networks’

Taking into account the role of domestic actors in foreign policy making, such as prevalent in Foreign Policy Analysis (FPA) literature, is of course far from being a novel insight. Works on ‘multi-stakeholder diplomacy’\(^\text{16}\), ‘national diplomatic systems’\(^\text{17}\) and ‘network diplomacy’\(^\text{18}\) have also been helpful in highlighting the importance of treating behaviour and interests of domestic actors as vital aspects of foreign policy making. Some of these contributions echo the 1970-90s IR debates on the ‘second image’, where scholars such as Katzenstein, Putnam and Moravcsik proposed various rationalistic explanations for the role of domestic actors and structures in forming a state’s foreign policy interests and negotiation behaviour at the European or international level.\(^\text{19}\) Yet neither these classical works, nor more recent contributions, suggest coherent analytical tools for the careful scrutiny of relationships between traditional diplomats with other government and – especially – non-government actors, and do not provide particular insights into how the everyday relationships – or practices – between these domestic actors influence a state’s diplomatic behaviour at the international level. Furthermore, the idea of bargaining games implies that negotiators are a priori aware of their priorities and win-sets, even though these can be said to develop in the process of domestic consultation and international negotiation – a process that furthermore may not be sequential. With reference to the notion of “circum-negotiation”\(^\text{20}\), one should be aware that diplomats and negotiators may change their interests in the context of unfolding domestic and international relationships and, critically, in the course of negotiations.

Instead of understanding the relationship between the government and domestic actors as a rational bargaining game, I hence suggest to think about these relationships as domestic networks that influence a country’s diplomatic behaviour. Hocking pointed in this direction by introducing the notion of ‘National Diplomatic System’ (NDS), which emphasises how the internationalisation of national ministries and agencies increasingly challenges the MFAs role as a country’s diplomatic face.\(^\text{21}\) While there is certainly plenty of empirical evidence supporting this development, the specific nature of geo-economic diplomacy necessitates analytical frameworks that (1) encompasses the role of domestic non-government actors and (2) allows for greater sensibility towards how the involvement of domestic actors changes from case to case, and thus for a less static understanding of cooperation than Hocking’s notion of ‘systems’ calls for. Following this view, MFAs could analytically be perceived as central nodes in networks of

\(^{16}\) Hocking, *Multistakeholder diplomacy: forms, functions and frustrations*.

\(^{17}\) Hocking, »The Ministry of Foreign Affairs and the National Diplomatic System«.

\(^{18}\) Heine, »From Club to Network Diplomacy«.

\(^{19}\) Katzenstein, »International relations and domestic structures«; Putnam, »Diplomacy and domestic politics: the logic of two-level games«; Moravcsik, »Liberal Intergovernmentalism and Integration: A Rejoinder«.

\(^{20}\) Saunders, »Pre-negotiation and circum-negotiation«.

\(^{21}\) Hocking, »The Ministry of Foreign Affairs and the National Diplomatic System«.
domestic actors. While placing the MFA as the central network actor is not necessarily an accurate empirical reflection of the centrality of MFAs in all aspects of a state’s foreign relations, this analytical move would help to better understand how ‘traditional’ MFA diplomats relate with relevant non-government actors – and where they face major challenges.

Making sanctions work? Diplomats need to operate within domestic actor networks

The practical implications become clear when held up against a specific case. One could argue that the use of economic sanctions, for instance, are formally performed by government officials and hence resembles any other foreign policy decision. However, what makes it a case of geoeconomic diplomacy is that numerous domestic government and non-government actors are potentially affected directly by the trade and financial restrictions, which could expose diplomats to domestic pressures from types of actors that would normally not show overt interest in EU foreign policy decisions. Using the network perspective can thus help to shed light on diplomats’ considerations, and possible limitations, regarding the use of economic sanctions in at least two ways. First, on the political process of deciding on the aim, scope and durability of a legal sanctions regime directed at an international target. Examples of relating practices could be domestic actors’ attempts to either support or question the MFA’s aim of applying economic sanctions against an international target. Second, the administrative process ensuring that sanctions are implemented according to their legal framework. The impact of domestic networks could for example be registered in the German MFA’s dealing with the European sanction regime against Russia in reaction to the illegal annexation of the Crimean Peninsula.

22 In granting the state a central role in my analytical framework, my approach differs from that of the blooming research agenda on transnational, cross-border networks and new forms of global governance in networks beyond the national state (Kahler, Networked politics: agency, power, and governance; Slaughter, The Chessboard & the Web - Strategies of Connection in a Networked World). At the same time, the notion of geoeconomic diplomacy is by definition points to the government’s ability to cooperate with domestic non-state actors that have the capacity to play an independent role at the international level. As vividly described by Neumann: “One consequence of the exponential growth in international, transnational, and nongovernmental organization is the number of people who, though not diplomats traditionally understood, are nonetheless engaged in practices akin to diplomatic ones. Such people are producing knowledge that is in direct competition with the kind of knowledge that diplomats traditionally attempted to monopolize” (Neumann, At Home with the Diplomats: Inside a European Foreign Ministry, pp. 171-172).

23 Following the seminal definition of Hafner-Burton et al., I understand networks as any set or sets of ties between any set or sets of nodes. Network analysis, then, “concerns relationships defined by links among nodes (or agents) … [and] addresses the associations among nodes rather than the attributes of particular nodes. It is grounded in three principles: nodes and their behaviors are mutually dependent, not autonomous; ties between nodes can be channels for transmission of both material (for example, weapons, money, or disease) and non-material products (for example, information, beliefs, and norms); and persistent patterns of association among nodes create structures that can define, enable, or restrict the behavior of nodes” (Hafner-Burton/Kahler/Montgomery, »Network analysis for international relations«, p. 562).

24 It is worth noting that domestic pressures could be received with various degrees of acceptance by different government actors and agencies, meaning that a MFA could perceive the importance of these concerns differently than e.g. a ministry of economics or the administration serving the head of state or government, often more exposed to a greater degree of domestic rather than foreign policy concerns (Hocking, »The Ministry of Foreign Affairs and the National Diplomatic System«).
relation to international negotiations on sanctions, German diplomats were repeatedly exposed to demands – both internally and in public – from the German economics ministry for a progressive dismantlement of sanctions at a faster pace than envisioned by the MFA. A similar domestic pressure was also visible from the regional government level when Bavaria’s Prime Minister Seehofer visited Russian president Putin in February 2016. Without the direct consent of the German government, Seehofer promoted a more forthcoming message on the sanction question than the federal government’s official line. Seehofer’s visit was very likely a signal to Bavarian SMEs, who had vocally expressed their discomfort of feeling economically negatively exposed to the effects of both EU sanctions and Russian counter-sanctions. This illustrates how economic sanctions – which contrary to other foreign policy tools can have direct economic impacts on domestic business communities – not only can lead to domestic criticism of foreign policy decisions, but also give domestic actors incentives for trying to circumvent the own government’s policies. Furthermore, although there is little evidence that German businesses have acted as overt ‘sanction spoilers’, cases such as the deliverance of gas turbines from German company Siemens to sanctioned Crimea (arguably against Siemens’ knowledge) portray how governments’ effective monitoring of the correct implementation of sanctions can be hampered by legal loopholes and complex production and delivery chains.

In sum, the sanction case exposes how diplomats can find themselves as the centre of activities of a surrounding actor network that can both promote and contradict a government’s attempt to effectively apply geo-economic instruments. Here it should also be noted that the composition of such domestic networks will change whether European sanctions are e.g. targeted at Russia, Iran or North Korea. This demands of diplomats to navigate in highly volatile domestic environments - of analysts working in the field of geoeconomics to be sensitive towards the volatility and complexity of the domestic context traditional diplomats face.

Conclusions

Considerations about diplomats’ skills and competencies needed on the interface between foreign policy, economics and businesses were most certainly at the heart of U.S. secretary of state Hillary Clinton’s concerns in 2011, when she proclaimed that the future would hold a high demand for diplomats being able to “read both Foreign Affairs and a Bloomberg Terminal”. It is beyond question that similar requirements for understanding and handling the geoeconomic sphere are also on the rise for European 21st-century-diplomats. This is not only the case for those diplomats responsible trade negotiations (trade diplomacy) or assisting domestic businesses to succeed on foreign markets (commercial diplomacy), but also for those handling ‘classical’ security-related and strategic issues.

As the field of geoeconomics becomes ever more important for foreign policy makers across the globe, demands for European diplomacy and diplomats are thus changing with rapid speed. While the traditional state-to-state understanding of diplomacy has been questioned, new analytical frameworks that encompass the ‘networked’ relationship between MFAs with other governmental and non-governmental actors are still to be developed and discussed. Such reflections on the special nature of geoeconomic diplomacy likewise tap into more general discussions about the agency of non-state actors in modern diplomacy. This paper has illustrated how such actors can not only be helpful for MFA diplomats, but that the latter can find themselves in positions of dependency to the former – even in situations where a certain geo-economic policy predominantly targeted at state-to-state affairs. Bagger and von Heynitz advanced a similar view when elaborating on the idea of ‘the networked diplomat’ who should be able to integrate external ideas and interests of a wide range of government and non-governmental actors, but also communicate positions and multiplication effects of state-driven foreign policy. Follow-

25 Clinton, »Economic Statecraft«.
26 Bagger/v. Heynitz, »Der vernetzte Diplomat«.
ing Clinton’s cited call for dual politico-economic sensibilities and Fletcher’s ideas about the ‘naked diplomat’ ready to operate in rapidly changing and unforeseeable circumstances among a plethora of actors in the ‘real’ and digital realm, MFAs should indeed focus their recruitment on candidates with a great variety of professional and personal backgrounds. On a practical level, the realisation of this network perspective should lead to questions about the proper skill-sets needed in modern diplomacy.

While these observations help to sharpen our sensitivity to dynamics on the changing playing field of modern diplomacy, they do not suffice as coherent answers to key questions in the field of geoeconomics. Some of the most relevant for further research are which domestic actors influence a government’s access to geoeconomic instruments, how these domestic actors perform this influence and what this ‘networked reality’ means for the geoeconomic room of manoeuvre for European foreign policy making at the international stage. Also, it should be investigated how findings about the role of domestic networks might affect other areas of diplomacy than the geoeconomic one. Seeking answers to these and similar questions should be paramount in the both worlds of diplomats and diplomacy scholars of the 21st century.

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27 Fletcher, Naked Diplomacy: Power and Statecraft in the Digital Age.


