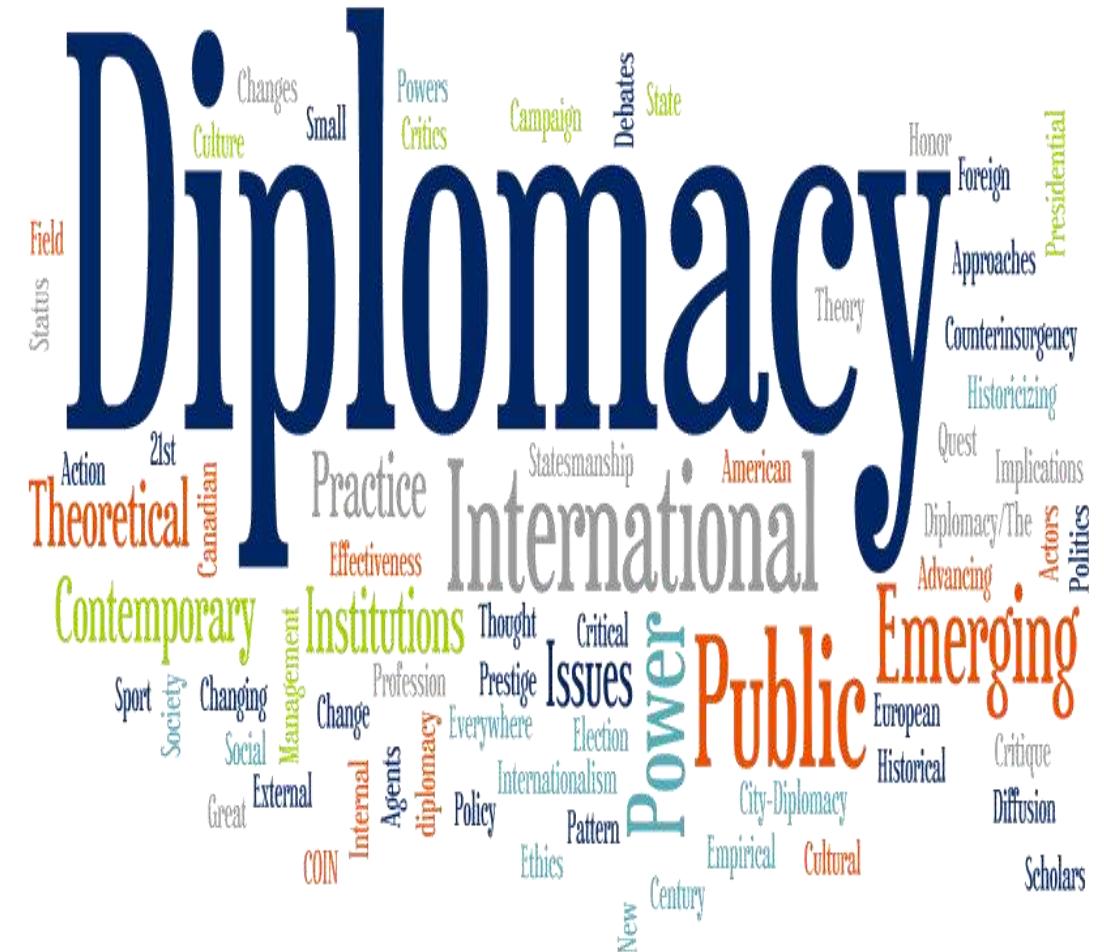




INTERNATIONAL ECONOMIC RELATIONS AND ECONOMIC DIPLOMACY

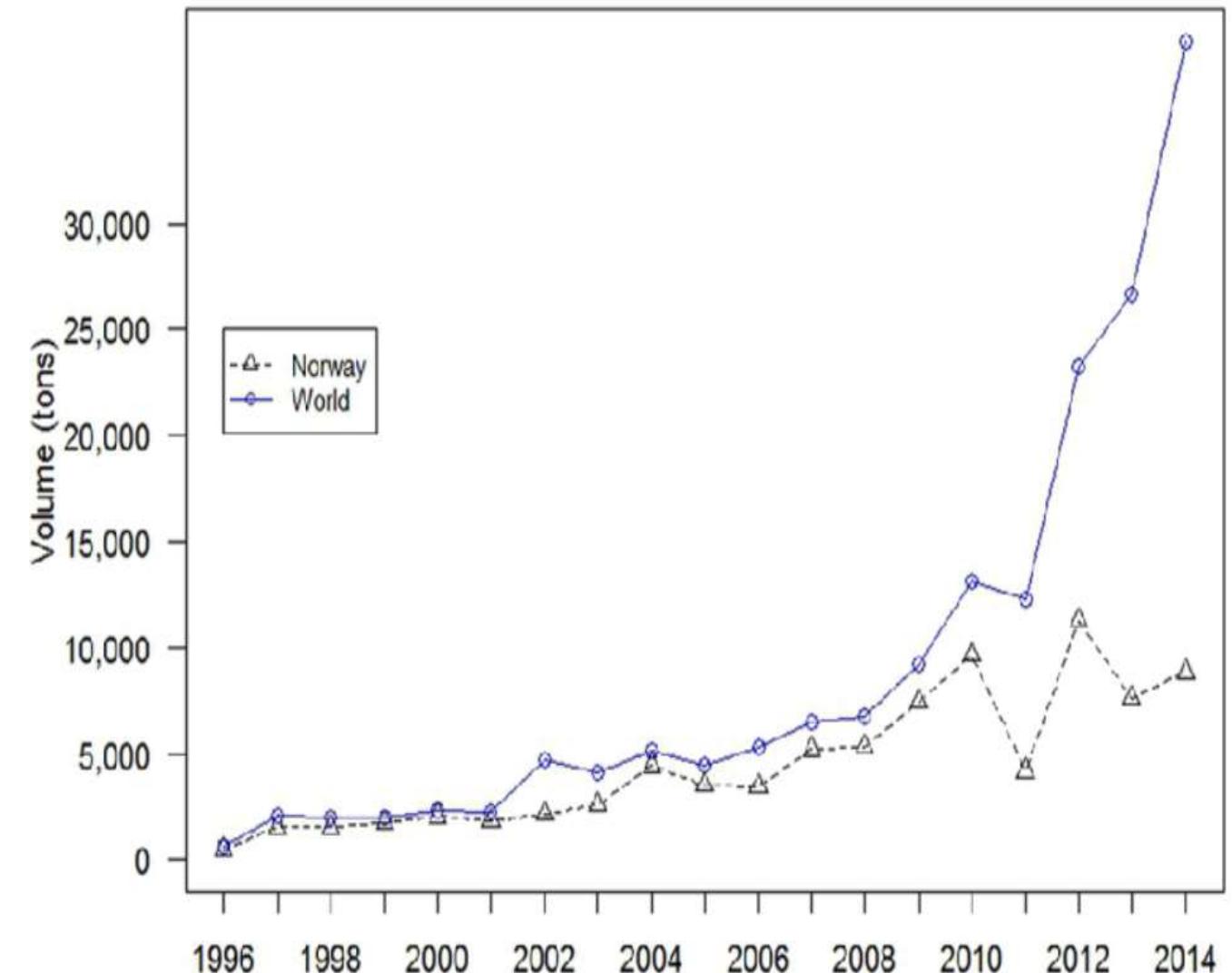
Dr. Georgios Papagiannis
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- **Diplomacy:** The art and practice of conducting negotiations between representatives of groups or states.
- The combination and synergy of economics and diplomacy, form a composite concept that involves negotiation, and the protection or advancement of state's economic interests.
- What's the meaning of the term «economic»?
 - ✓ Economic objectives or incentives?
 - ✓ Economic tools?





In response to the 2010 Nobel Peace Prize going to Chinese dissident Liu Xiaobo from the Norwegian Nobel Committee, China froze free trade agreement negotiations with Norway and imposed new veterinary inspections on imports of Norwegian salmon.





In China's "Belt and Road" Project, the country provides loans and invests in furthering projects (infrastructure etc.) within other developing countries. In Venezuela, China instigated soft loans up to \$20 billion annually. In return, Venezuela promised to export large amounts of oil to China. However, when oil prices collapsed in 2014, Venezuela accumulated \$20 billion in debt towards China (out of \$150 billion total external debt). China continued to hand out loans with little accountability, with the money mostly being used for political purposes. According to some critics of the project, this example sheds light on how Chinese economic diplomacy policies may cause some developing nations to accumulate high debt repayments towards China.



1. The use of economic assets and relationships to achieve political goals.

- ED includes using economic resources as a reward or punishment (e.g. development aid and/or economic sanctions), to achieve specific foreign-policy goal.
- **Objectives:** Increase the cost of conflict/Consolidate politically stable relations/Strengthen the mutual benefits of cooperation.
- ED primarily engages with high politics, particularly in matters related to national security. Therefore, its main objective is to sustain and reinforce a nation's power.



2. The use of political influence and relationships to achieve economic goals.

- These are methods of exerting political influence to enable countries to maximize their benefits in sectors of economic activity where they possess a comparative advantage.
- **Objectives:** Promote international trade and investment/ improve the functioning of markets/ reduce costs and risks of cross border transactions.



"My government is very concerned about your government's torture and maiming of potential consumers."

3. Building a support mechanism for ED.

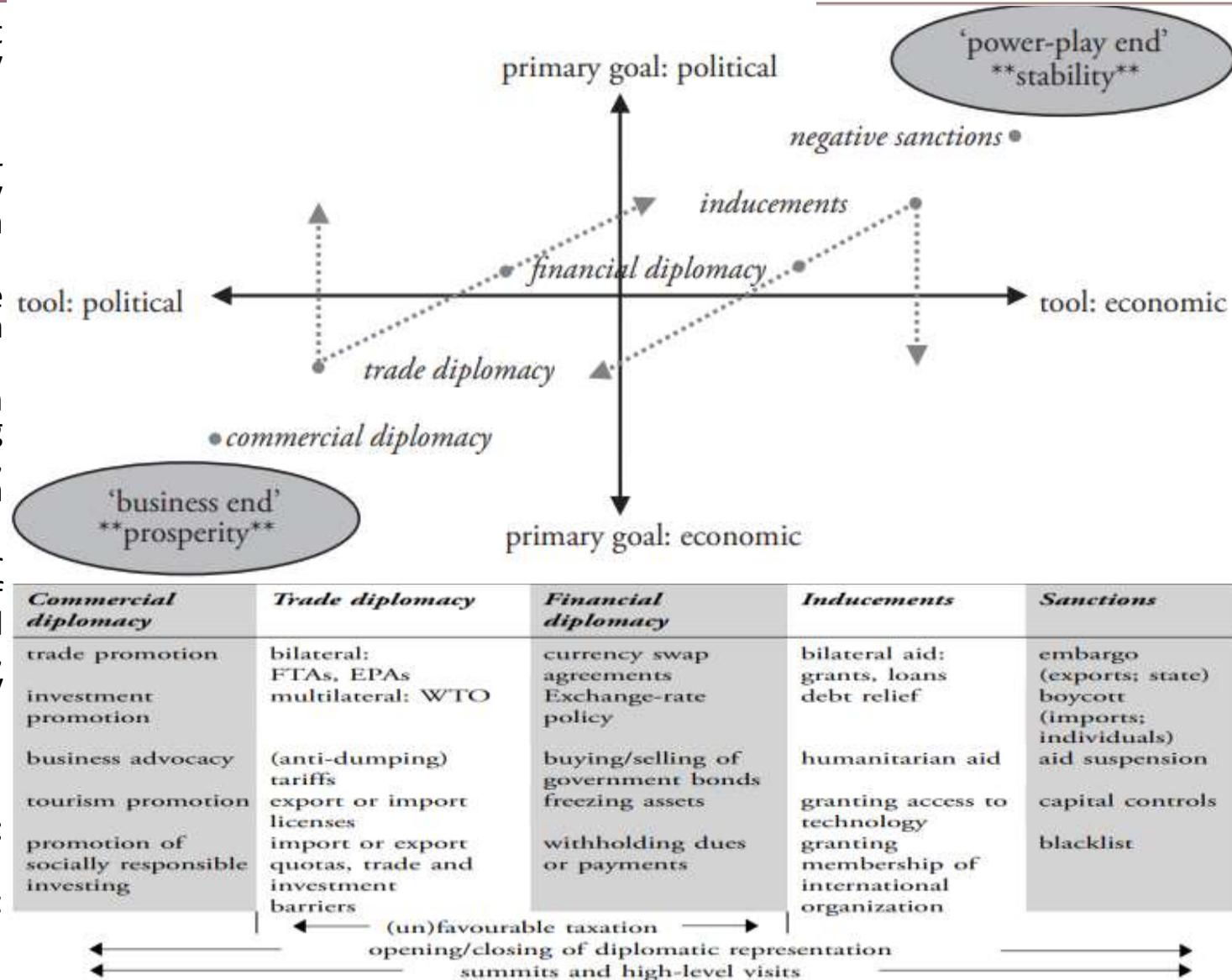
- ✓ Decision-making process
- ✓ Conduct of negotiations
- **Objective:** To establish and consolidate the appropriate political climate and international political and economic environment that facilitate and support the achievement of these objectives.
- **Players (state and non-state actors):**
 - ✓ Government Agencies
 - ✓ Regional Organizations
 - ✓ Multilateral Organizations (IMF, World Bank etc)
 - ✓ Chambers/Businesses/Investors/NGOs



THE CONCEPT OF ED

Elements

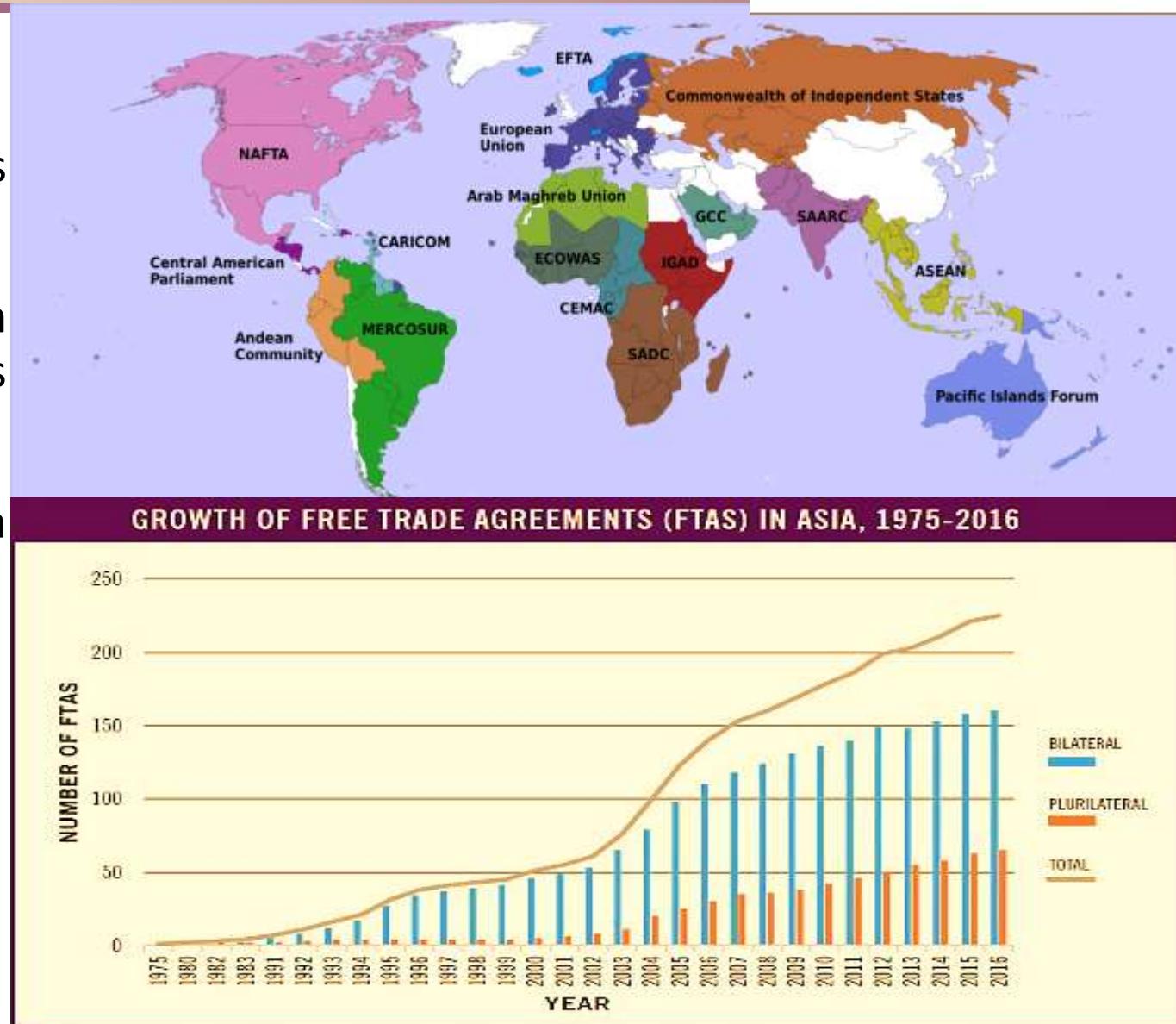
- Economic diplomacy (ED) pursued by a government involves a variety of instruments that may be relatively more economic or more political in nature.
- ED encompasses both a “*business end*” and a “*power-play end*”, with all tools of economic diplomacy positioned somewhere along the spectrum between these two extremes.
 - ✓ **Power play end:** Instruments that generally involve actions and negotiations that are primarily political in nature, such as sanctions.
 - ✓ **Business end:** Cooperative efforts between government and the private sector aimed at achieving commercial objectives that advance national interests, including trade and investment promotion (commercial diplomacy).
 - ✓ **Between these ends:** Activities may vary in their economic or political nature, such as the provision of economic or development aid, participation in bilateral and multilateral trade negotiations (trade diplomacy), and engagement in financial and monetary policy discussions or negotiations (financial diplomacy).
- Character of instruments:
 - ✓ **Development aid:** EU: Political / Asian Countries: Economic.
 - ✓ **Trade Diplomacy:** EU: Economic / Asian Countries: Political.



THE CONCEPT OF ED

Levels

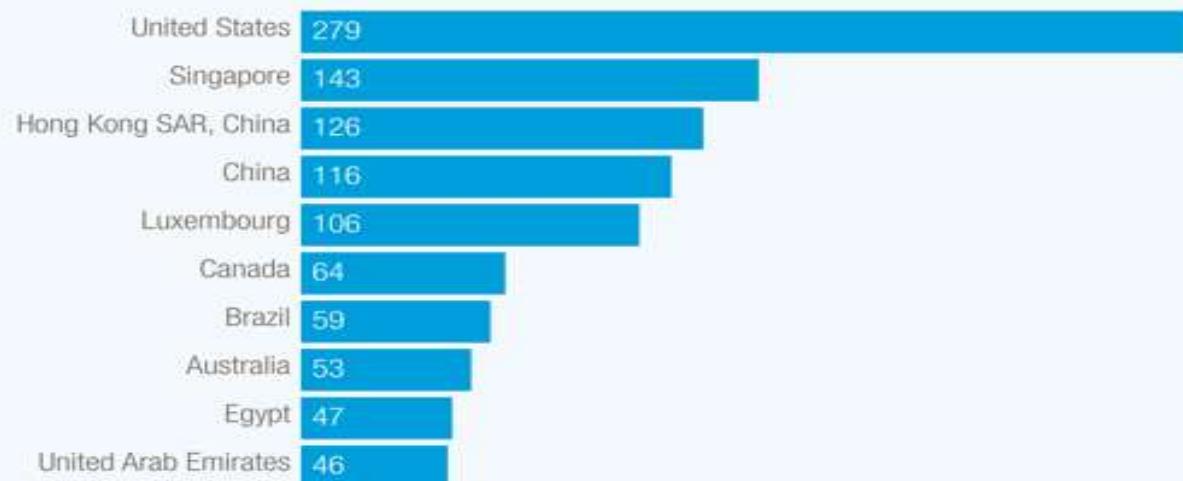
- **Bilateral:** Economic relations and negotiations between two States.
- **Regional:** Regional trade agreements with different levels of integration (FTA, Customs Union etc).
- **Interregional:** Economic relations between Regional Organizations.
- **Multilateral:** WTO.



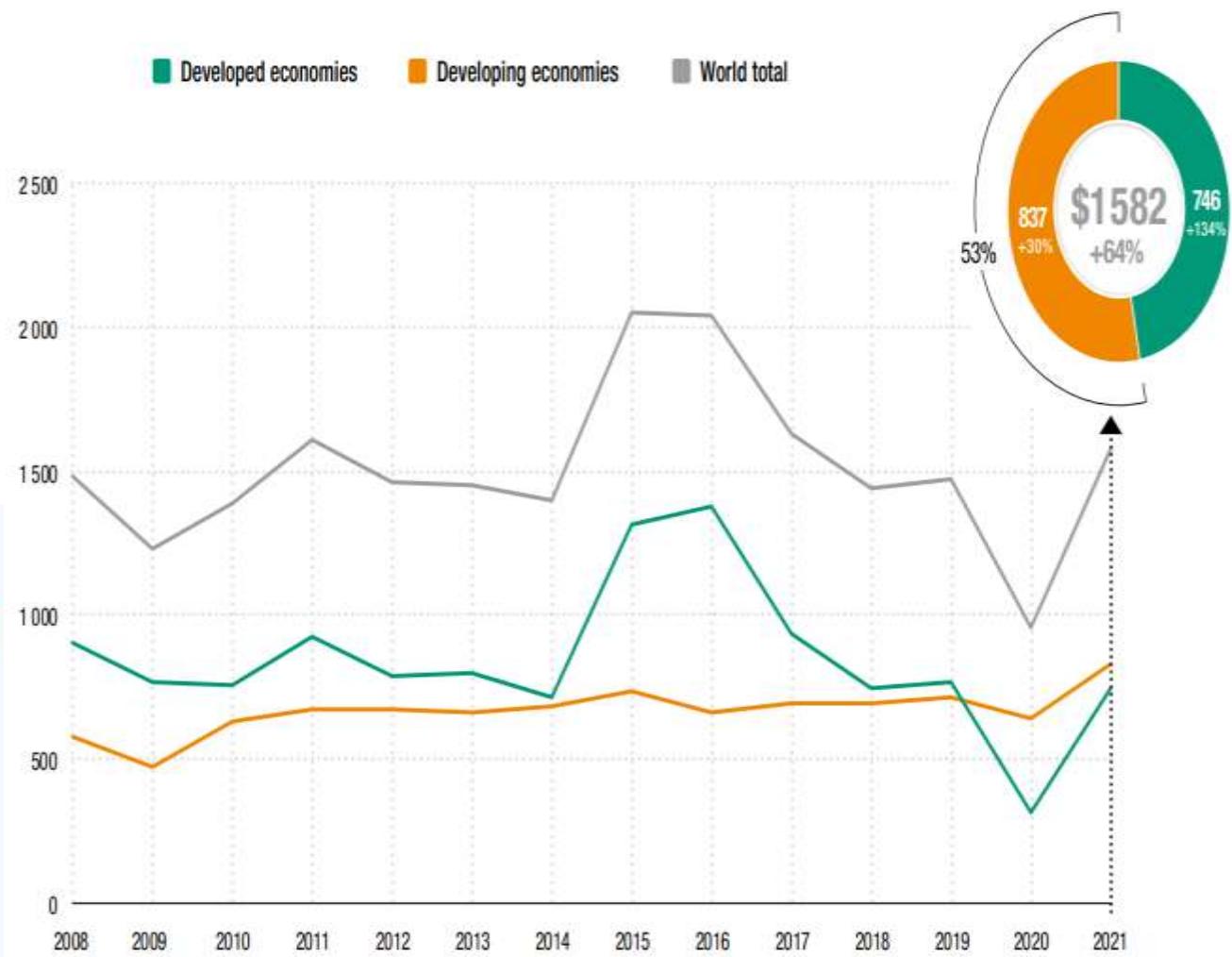
1. Attracting FDI.

- '70s: Several states sought FDI to boost their GDP.
- Following the global financial crisis of 2008: FDI has become a priority for many countries grappling with financial challenges.

Foreign direct investment (FDI) inflows, top 10 destination economies, billions of dollars, 2024



Source: UN Trade based on information from The Financial Times, fDi Markets.



Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

THE CONCEPT OF ED

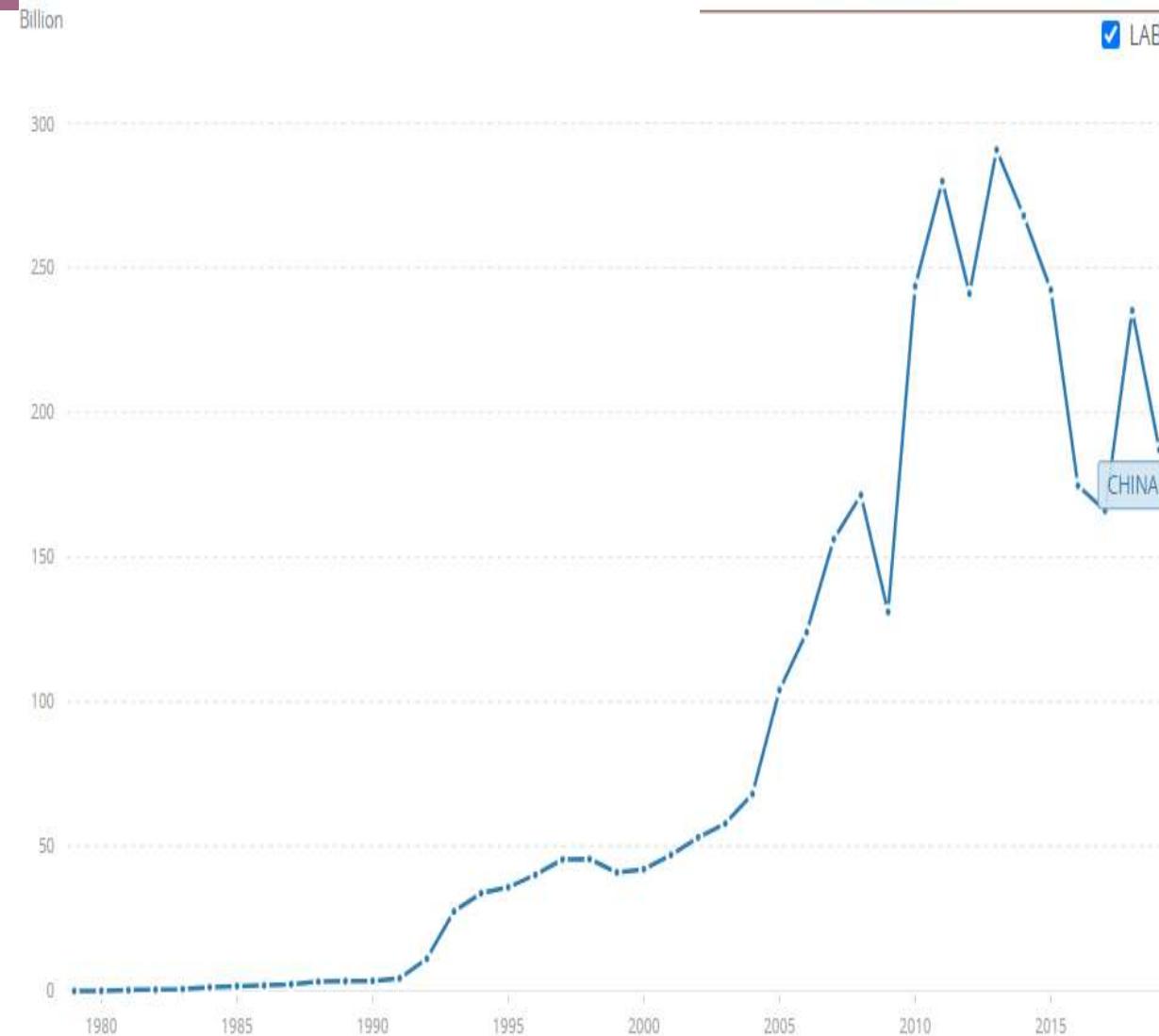
Activities (Case Study FDI China)

- **1979-1991:**

- ✓ "Open Door Policy" - creation of 4 Special Economic Zones (SEZs).
- ✓ Special tax incentives for foreign investors.

- **1992-2001:**

- ✓ Shift of preferential FDI policies from regional to local and national industrial development priorities.
- ✓ Granting permits to foreign entrepreneurs who want to buy land for infrastructure construction.
- ✓ Establishment of a more coherent regulatory framework.

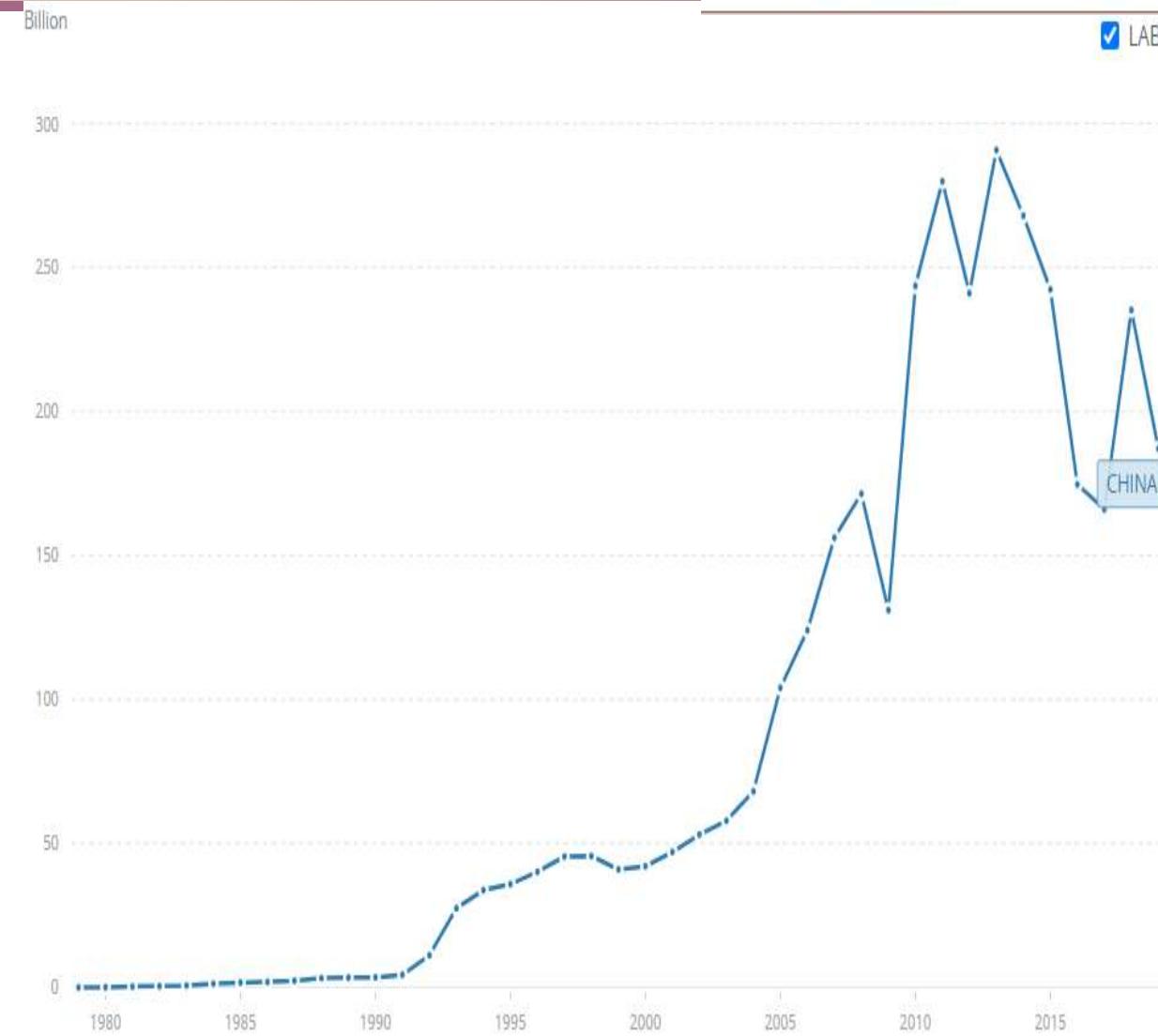


- **2002-today:**

- ✓ Joined WTO—new regulations to meet commitments.
- ✓ Unified tax rates for foreign and domestic companies.
- ✓ National list: specific provisions targeting FDI, particularly in industry sectors.

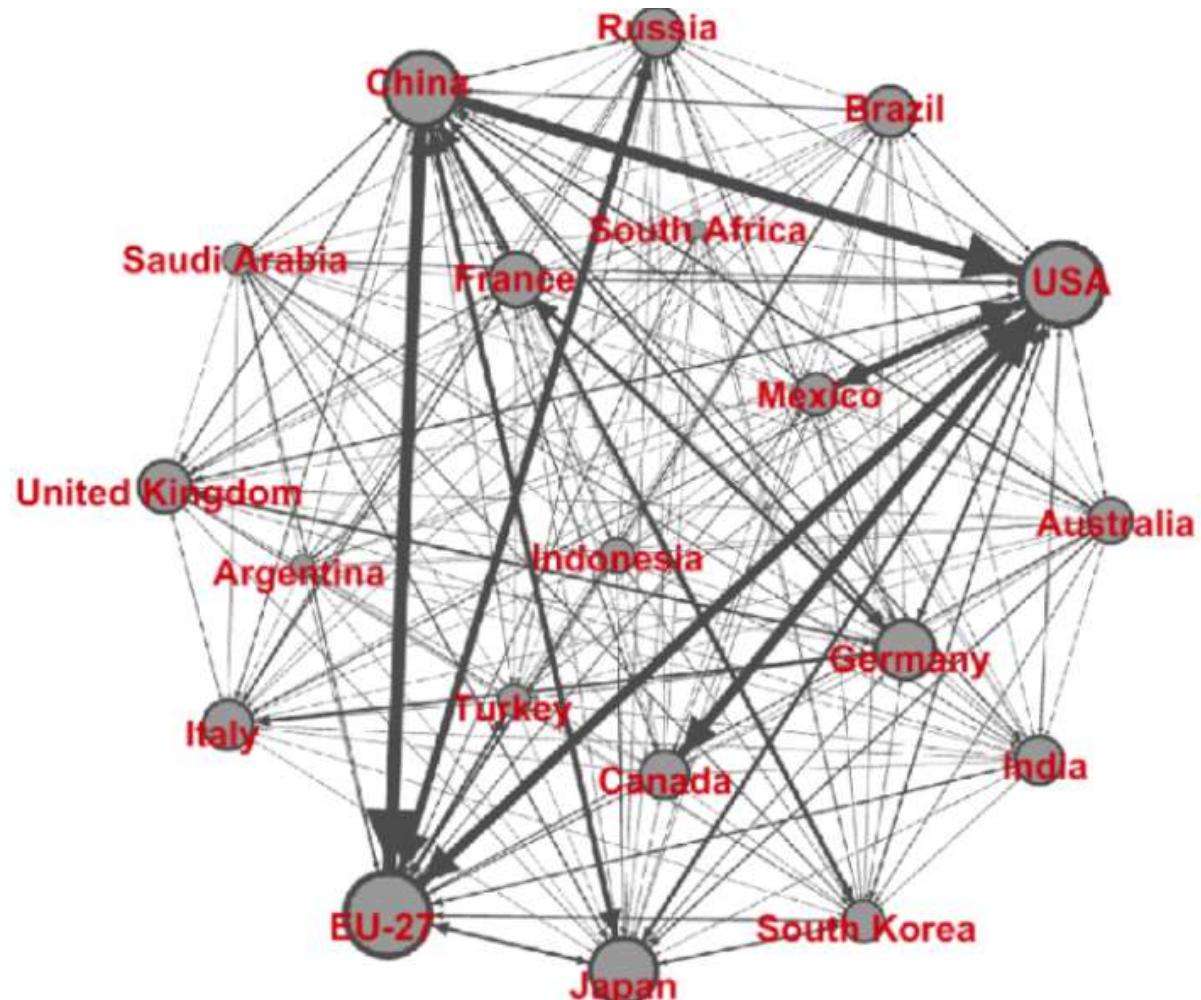
- **Factors of success**

- ✓ Economic structure (market size, quality workforce, logistics, etc.).
- ✓ Economic policies (reduction of economic barriers, improvement of the business environment).
- ✓ Legal environment (Clear and consistent regulatory framework.)
- ✓ Strategic use of economic diplomacy instruments (Belt and Road, alignment of development strategies between China and partner countries, bilateral agreements).



2. Building networks for the promotion of trade.

- 1980's: Private-Public Partnerships (PPPs) emerged between countries receiving foreign capital and the home countries of foreign investors, aiming to boost exports and acquire foreign technology.
- Participation of companies, industrial and commercial chambers, associations and institutes in network development.
- Establishment of export councils to promote new products and markets.



3. Promoting nation brand.

- Nation branding aims to measure, build and manage the reputation of countries. The application of corporate marketing concepts and techniques to countries, in the interests of enhancing their reputation in international relations. The branding and image of a nation-state and the successful transference of this image to its exports - is just as important as what they actually produce and sell (country-of-origin effect).
- **Objectives:** attract tourism and investment capital/ increase exports/draw a talented and creative workforce/ enhance their cultural and political influence in the world.
- Examples:
 - ✓ **Cool Japan:** Promoting Japan's industry.
 - ✓ **Brand Sweden:** Utrikesdepartementet and Swedish Institute.

Rank 2024	Rank 2023	Flag	Name	Brand Value 2024	Brand Value 2023
1=	1	🇺🇸	United States	\$32,271,140M	\$30,309,110M
2=	2	🇨🇳	China	\$19,960,020M	\$23,085,110M
3=	3	🇩🇪	Germany	\$4,985,350M	\$5,075,970M
4▲	5	🇯🇵	Japan	\$4,406,090M	\$4,448,780M
5▼	4	🇬🇧	United Kingdom	\$4,036,790M	\$4,796,830M
6=	6	🇫🇷	France	\$3,522,360M	\$3,669,880M
7=	7	🇮🇳	India	\$2,944,480M	\$2,923,950M
8=	8	🇨🇦	Canada	\$2,670,820M	\$2,621,270M
9=	9	🇮🇹	Italy	\$2,326,270M	\$2,345,220M
10=	10	🇰🇷	South Korea	\$1,936,760M	\$2,080,520M

4. Participating in multilateral diplomacy.

- **EU:**

- ✓ In European integration issues.
- ✓ In the negotiating mandate granted by the Council of the EU to the European Commission for negotiating free trade agreements with third countries or International Organizations (IOs).

- **International Economic Organizations:**

- ✓ WTO's rules for trade.
- ✓ International coordination of economic policies (G7/8 and G20).



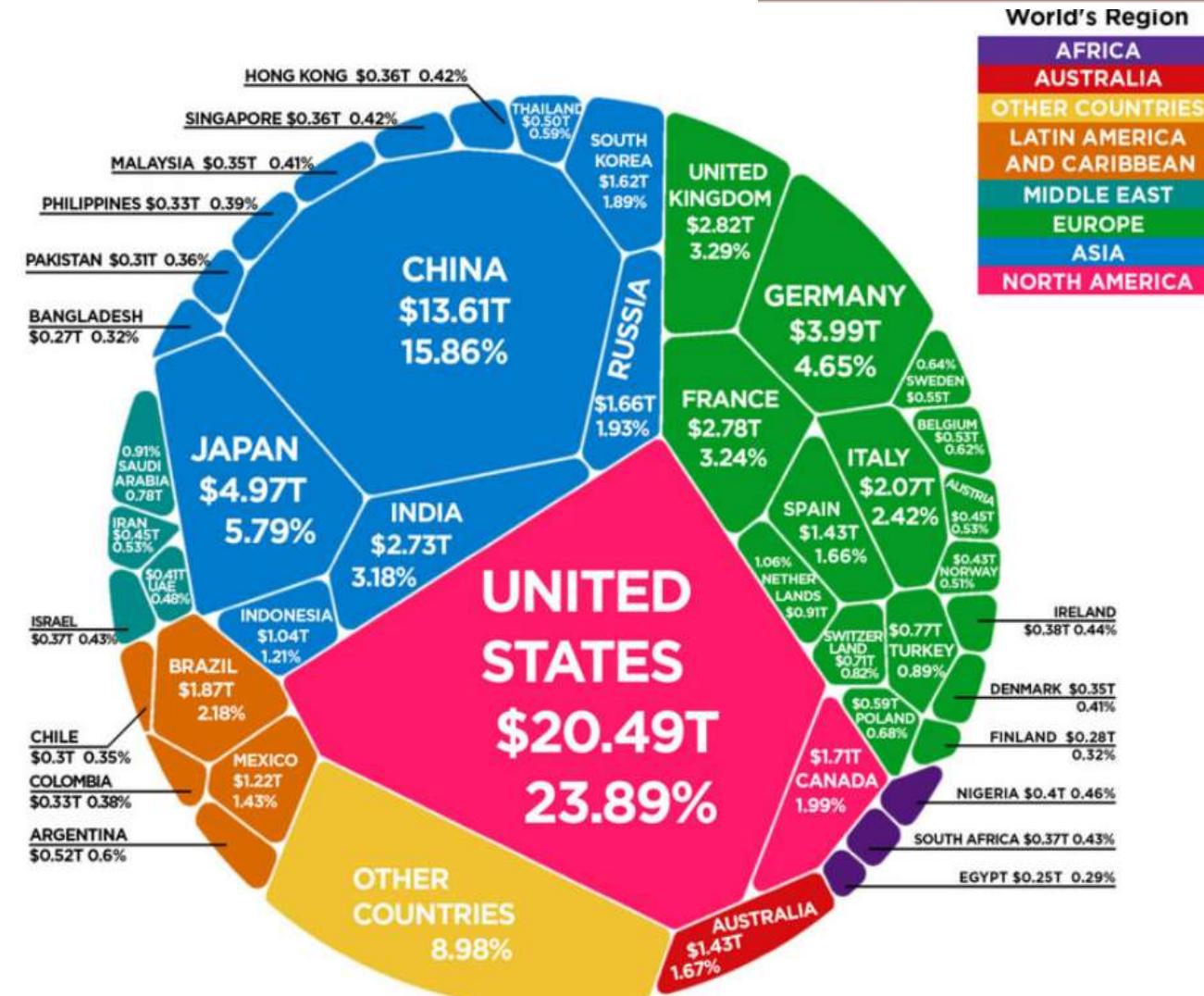
* European Economic Area (EEA) / Overseas Countries and Territories (OCT)
** Free Trade Agreement (PTA), Deep and Comprehensive Free Trade Agreement (DCFTA), Investment Agreement, Enhanced Partnership and Cooperation Agreement (EPCA), Partnership and Co-operation Agreement with preferential element (PCA).
† The updated agreements with Tunisia, and Eastern and Southern Africa are currently being updated; the updated agreements with Mexico and Chile are under ratification. The DCFTA with Georgia does not apply in South Ossetia and Abkhazia.



THE EMERGENCE OF NEW ECONOMIC DIPLOMACY

Changes in the world economic system

- The transformation of the global economic system from a bipolar to a multipolar structure has shifted the center of economic gravity from the Euro-Atlantic area to the Pacific region.
- Factors:
 - ✓ A decline in U.S. influence due to a relative reduction in power, leading to diminished control over international organizations (such as the IMF and WTO) that were originally established under its initiative.
 - ✓ Increased support from Asian economic powers in driving multilateral negotiations.



THE EMERGENCE OF NEW ECONOMIC DIPLOMACY

Globalization/interdependence in the world economic system

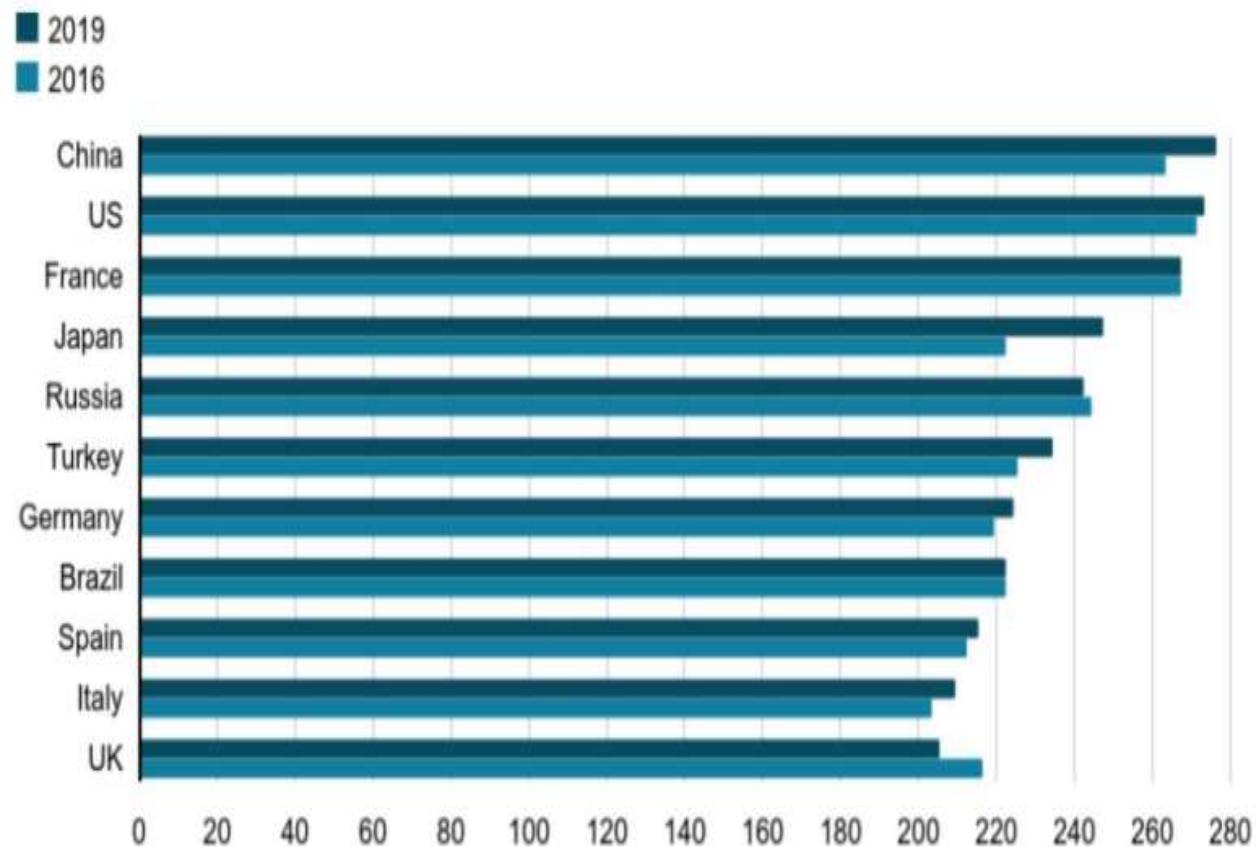
- The expansion of the 'free market' system has significantly contributed to the growth of international trade, attracting investments, financial transactions, and an increased number of participants, including MNCs, banks, and investment groups.
- The rise MNCs has profoundly altered the international business landscape, fostering greater interdependence and facilitating capital transfers. As a result, states and MNCs increasingly engage in negotiations aimed at achieving mutual benefits.
- The agenda and complexity of issues concerning ED have expanded, shifting from traditional missions (such as exports and development aid) toward addressing shared global challenges, including poverty, human rights, democratization, and climate change.



Increasing intergovernmental interactions

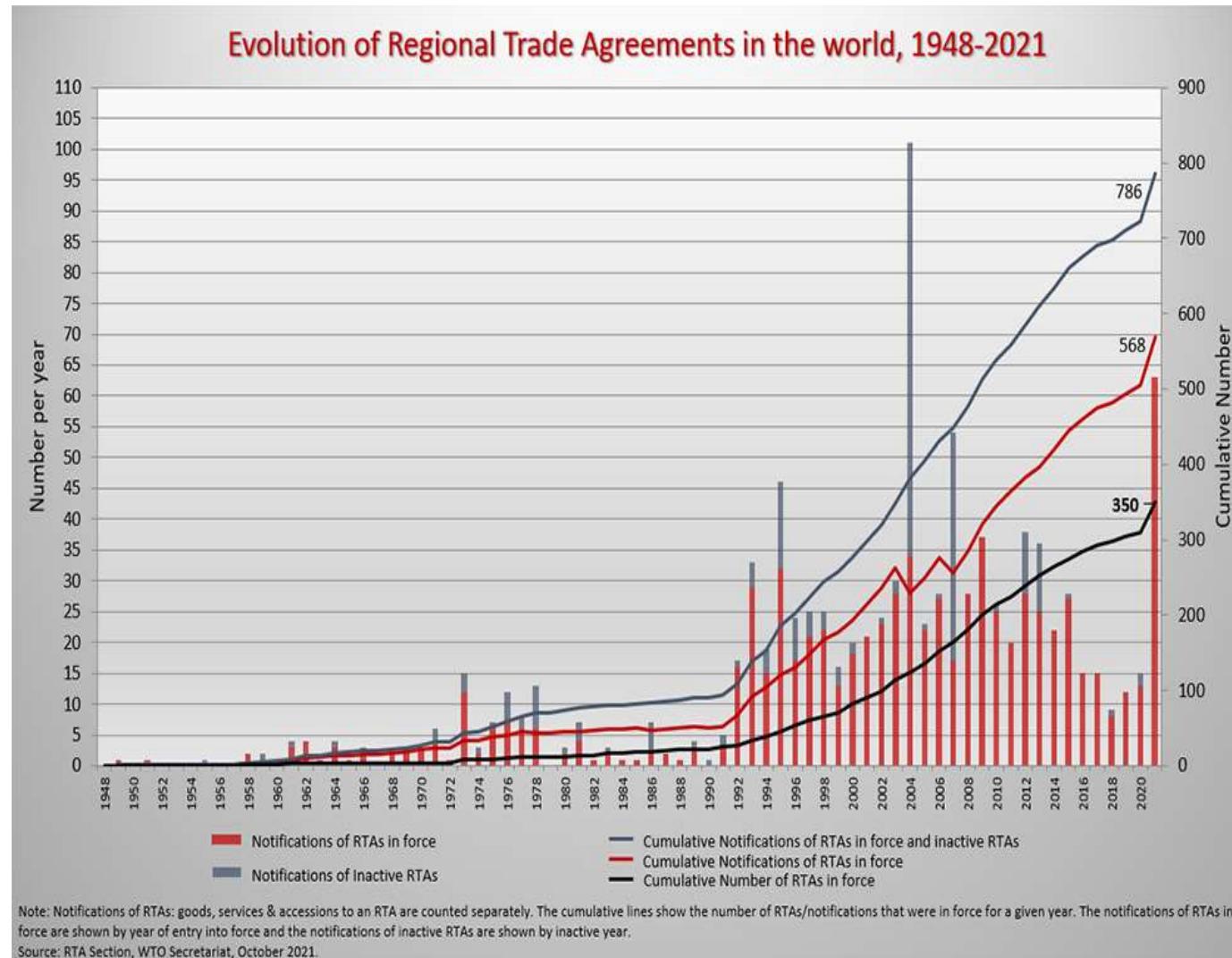
- **Reasons:** Increase of states/Strengthening the direct role of a state in the economic field.
- **Consequences:** Increase of diplomats and missions/Expansion of decision-making groups/Strengthening the tendency to create other types of diplomatic relations (e.g. informal procedures).

Diplomatic missions worldwide



Strengthen of (Inter) Regional Partnerships

- **Main characteristics of new (inter)regional partnerships:**
- ✓ Mega-regional cooperation (e.g. NAFTA-APEC)
- ✓ Participation of superpowers (e.g. USA – Japan)
- ✓ Cooperation of developed countries with developing countries
- ✓ Diversity in levels of institutionalization
- ✓ Lack of clear separation between political and economic organizations
- ✓ Participation of a state in more than one partnership
- ✓ Bottom-up processes
- ✓ Strengthening partnerships and creating synergies



Relationship

- **ED is a foundational element of a country's foreign policy.** A developed economy serves as a crucial source of power, influencing both foreign and defense policy priorities. **The objectives of ED are shaped by foreign policy**, which determines the conditions under which international economic negotiations take place.
- **Two-way relationship:** A strong economy enables a country to use economic means to expand its global influence, which in turn contributes positively to further economic growth.
- **Comparison:** While the context of economic diplomacy differs from that of political diplomacy, the two are closely linked. They often involve the same state institutions and employ similar instruments of enforcement and persuasion. As economic and international political relations are deeply intertwined, it is often difficult to draw a clear distinction between economic and political negotiation practices.
- **Question:** If political priorities conflict with economic priorities, which should take precedence?



- Greece expressed concerns about potential competition between Mediterranean Member States and those along the southern coast of the Mediterranean. The European Commission allowed access to the common market for agricultural products from the Mediterranean Partner Countries (MPCs).
- **Initial position:** Greece reacted strongly to the Commission's proposals, advocating for more protective policies toward the MPCs.
- **Final position:** Greece's stance shifted, reaching an agreement primarily for political reasons. The Ministry of Foreign Affairs focused on excluding Turkey from the horizontal actions of the Mediterranean policy (funding several projects to support regional cooperation).
- **Conclusion:** This case highlights that in economic negotiations aimed at preserving a state's position of power, political priorities often take precedence over economic considerations.



Objectives in foreign policy

1. Enhancing influence of a country to another and increasing its capabilities especially in the economic security.

- ✓ Internal economic security: the country's ability to create favorable conditions for continuous growth and prosperity.
- ✓ External economic security: the economic interests of a country outside its territory.

2. Preventing actions of certain states, that can have negative effects on foreign policies.

- ✓ Using economic tools such as financial aid, sanctions or conditionality, instead of military or political means.
- ✓ Conditionality: Provide aid under certain conditions (e.g. strengthening democratic institutions, human rights, environmental protection)

3. Financial penetration to subjugate or to destabilize a State. E.g. US embargo against Cuba.

Figure 2. EU Human Rights Dialogues and Consultations, 2022

- Dark Blue: Countries where the EU held human rights dialogues and consultations
- Teal: Countries where the EU held human rights dialogues with regional cooperation bodies representing them
- Red: Countries where human rights dialogues remained suspended/canceled



Source: Based on an overview table shared by the European External Action Service with the Human Rights and Democracy Network on December 6, 2022 and information provided via the EEAS Newsroom.

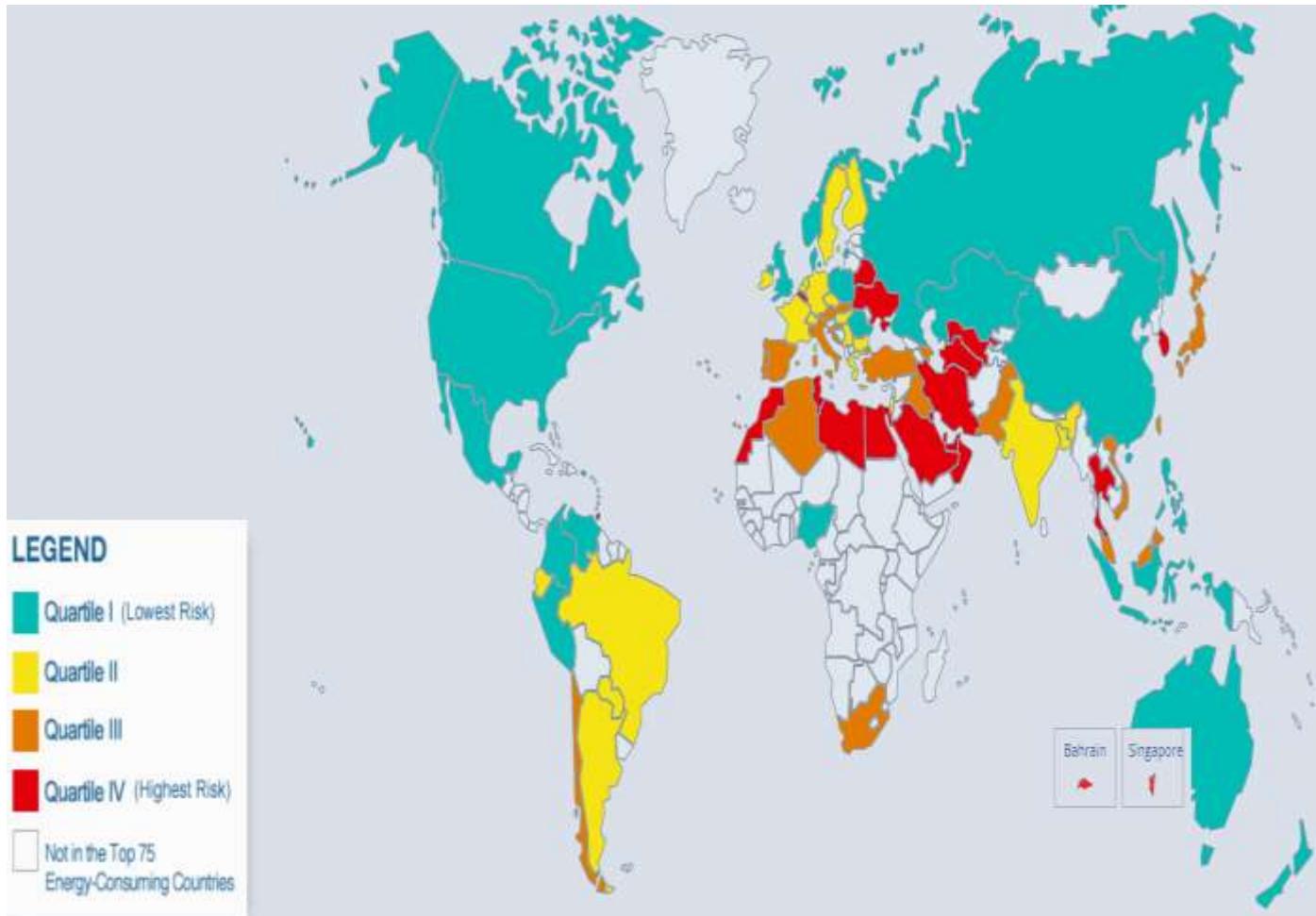
- **Use of foreign policy to:**

- ✓ Secure production
- ✓ Access to the energy supplies
- ✓ Transfer energy resources
- ✓ Promote cooperation in the energy sector

- **Examples:**

- ✓ 1941: Germany's heavy dependence on oil was a key reason for its invasion of the USSR, aiming to seize access to the Caspian Sea's oil resources.

- ✓ Early 20th century: The British-Russian rivalry intensified over control of Iran following the discovery of oil in the region.



- **Baku-Tblisi-Ceyhan:**

Length 1,768 km. 2nd longest oil pipeline in the former USSR. Commissioned 2006. Maximum discharge 1 million barrels/day.

- **US Interests:**

- ✓ Development and democratization of new independent states.
- ✓ Ensuring the exploitation of energy resources by American companies.
- ✓ Diversification of energy sources.
- ✓ Reducing Russian influence.

- **Oil pipelines:**

- ✓ Baku-Novorossiysk.
- ✓ Baku-Supsa.



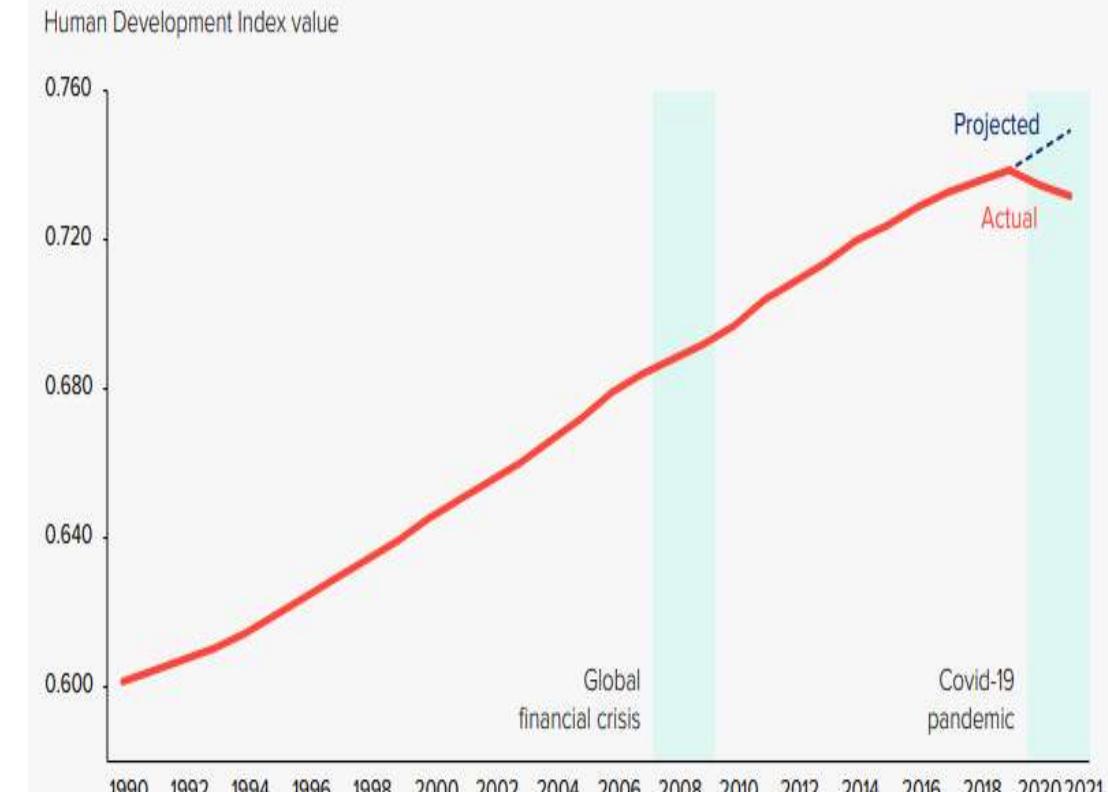
Energy Security (Case Study BTC)

- **Companies' argument :** High costs with alternative solutions:
 - ✓ Expansion Baku-Supsa.
 - ✓ Pipeline through Iran.
- **US arguments:**
 - ✓ Environmental pollution of the Bosphorus by tanker ships (supported by Turkey with the Treaty of Montreux).
 - ✓ Iran-Libya sanctions violation and doubts about the cost.
- **US Tactics:**
 - ✓ Compelled Turkey to guarantee construction costs to ensure company reliability.
 - ✓ Provided funding through government agencies (the Overseas Private Investment Corporation and the Export-Import Bank).
 - ✓ Closely cooperated in facilitating negotiations between Turkey, Azerbaijan, and Georgia.



Human Security

- The United Nations Development Programme's 1994 is considered a milestone in the field of human security. It argued that ensuring "*freedom from want*" and "*freedom from fear*" for all people is the most effective path to addressing global insecurity.
 - ✓ **Freedom from fear:** This approach maintains that focusing on the reduction of violence is a realistic and manageable way to promote human security. Its main priorities include emergency assistance, conflict prevention and resolution, and peace-building efforts.
 - ✓ **Freedom from want:** This approach adopts a holistic perspective on achieving human security. It argues that the scope of threats should be expanded to include hunger, disease, and natural disasters, as these are inseparable from addressing the root causes of human insecurity.
- The **Human Development Index (HDI)** is a statistical composite index of life expectancy, education, and per capita income indicators, which is used to rank countries into tiers of human development.



Note: The period of the global financial crisis is indicative.

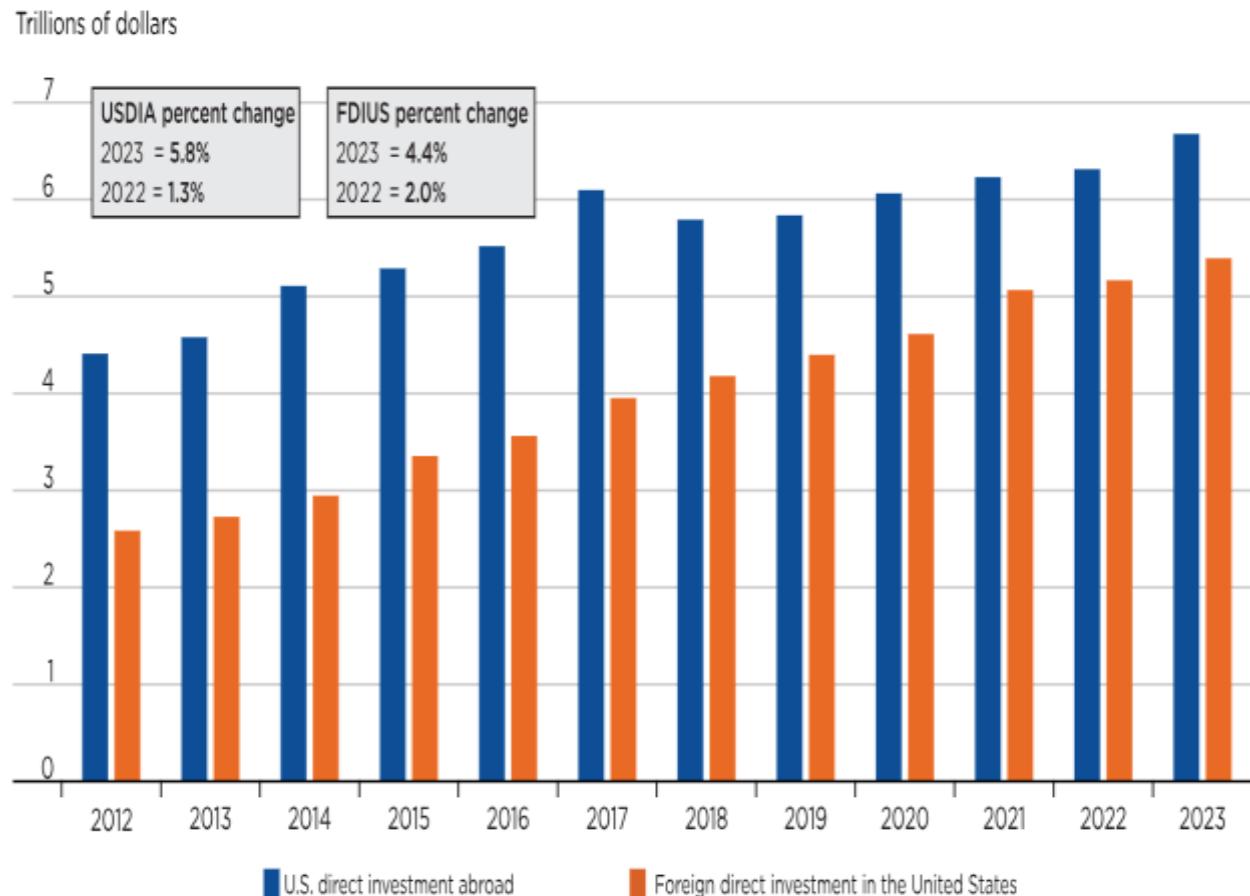
Source: Human Development Report Office calculations based on data from Barro and Lee (2018), IMF (2021c, 2022), UNDESA (2022a, 2022b), UNESCO Institute for Statistics (2022), UNSD (2022) and World Bank (2022c).

INTERNATIONAL BUSINESS DIPLOMACY

- **Concept:** Business activities between states and companies. Mainly managing the relations of a government entity or an organization with Multinational Corporations (MNCs).
- **Challenges:**
 - ✓ **States:** Pursue the training of their diplomats in the needs of companies.
 - ✓ **MNCs:** Inadequate to understand the world of international relations and diplomacy.
 - ✓ **MNCs vs. South Africa:** In 2001, 39 major pharmaceutical companies sued the South African government for allowing the import and production of cheap generic AIDS drugs, claiming it violated WTO patent rules. The case sparked global outrage amid a severe HIV/AIDS crisis. Under intense international pressure, the companies withdrew the lawsuit. The event marked a turning point for global health policy, leading to the Doha Declaration affirming countries' rights to prioritize public health over patents.



1. Offering incentives and aid to foreign companies seeking to invest in the country, entailing negotiations regarding terms and establishing a cooperation framework.
2. Supporting domestic businesses in expanding their operations internationally.
3. Leveraging influence over business associations and organizations to build support for economic diplomacy objectives.



FDIUS Foreign direct investment in the United States

USDIA U.S. direct investment abroad

U.S. Bureau of Economic Analysis

- **Government:** Negotiating tool – the executive and legislative authorities. **Objectives:** Attract FDI inflows and protect the national workforce.
- **MNC:** Negotiating tool – the potential to invest in another country, along with its economic and political leverage. **Objectives:** Ensure freedom of movement, reduce operating costs, improve quality, and increase profits.
- **Agenda:** Negotiations focus on the incentives offered by host states and the MNCs' ability to enhance these incentives for maximum benefit. Key factors influencing the outcome include the assessment of advantages and disadvantages, as well as the negotiating skills of both parties.
- **Negotiating power of the host country:** Amplifies when investments involve raw material exploitation (e.g., oil, natural gas, ores). Diminishes in sectors characterized by rapid technological advancement.



HOST – COUNTRY ADVANTAGES	MNC ADVANTAGES
Favorable geopolitical position	Ability to exert political influence.
Dynamic economy –no problems with external dept or balance of payments	Technological/management/capital adequacy and global market access.
Lack of competition from other states	Lack of strong competition from other MNCs
Valuable natural resources	Flexible diplomatic tactics and adaptability
Financial system/Infrastructures	Possibility of investment in another country
Adequate technological level	
Trained / skilled workforce and flexible working environment	
Lack of dependency on FDI inflow	
Incentives/Lack of bureaucracy	
Stable political system	
Lack of threats from other states	

- Protected domestic market.
- High import tariffs (81% cars-30% assembled parts) - 95% added value on the domestic market.
- Prohibition of foreign ownership exceeding 50%, in a domestic company.



- **Objectives:** Opening the Spanish market and leveraging Spain as an export base.
- **Pursuit:** Securing the lowest possible tariffs for importing assembled parts and maintaining minimal value-added requirements when importing components from subsidiary companies.
- **Strategy:** Establishing fully owned subsidiary companies abroad.



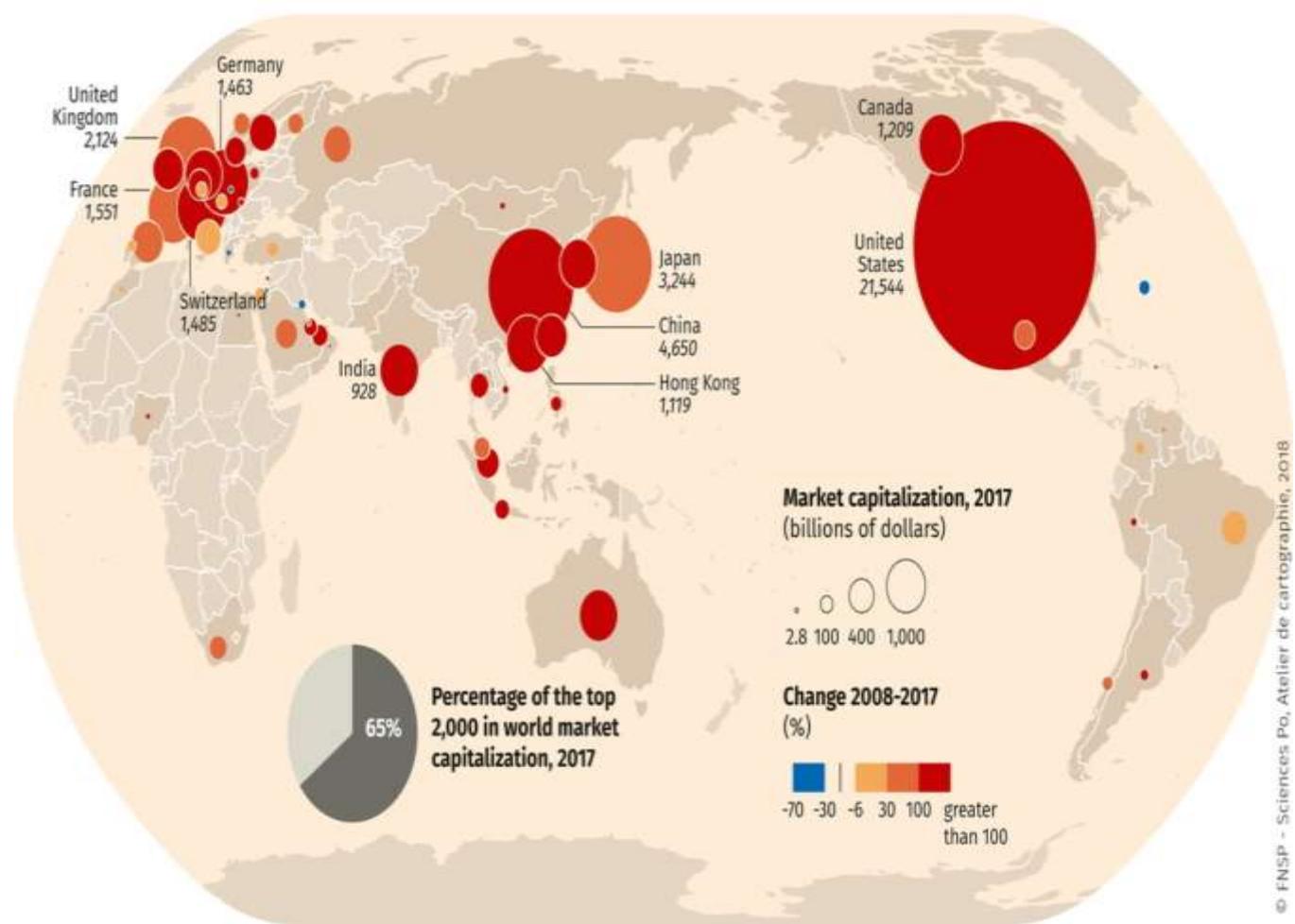
- The key to Ford's strong negotiating position was its ability to consider investment in another country. Several European states competed to attract such investments.
- **Ford's benefits**
 - ✓ Reduction of tariffs on assembled parts from 30% to 5%.
 - ✓ Reduction of the added value from 95% to 50% with an obligation to export 2/3 of the whole production.
- **Spain's benefits**
 - ✓ Significant growth in the automotive industry and exports.
 - ✓ Attraction of further investments from major companies such as General Motors and Volkswagen.



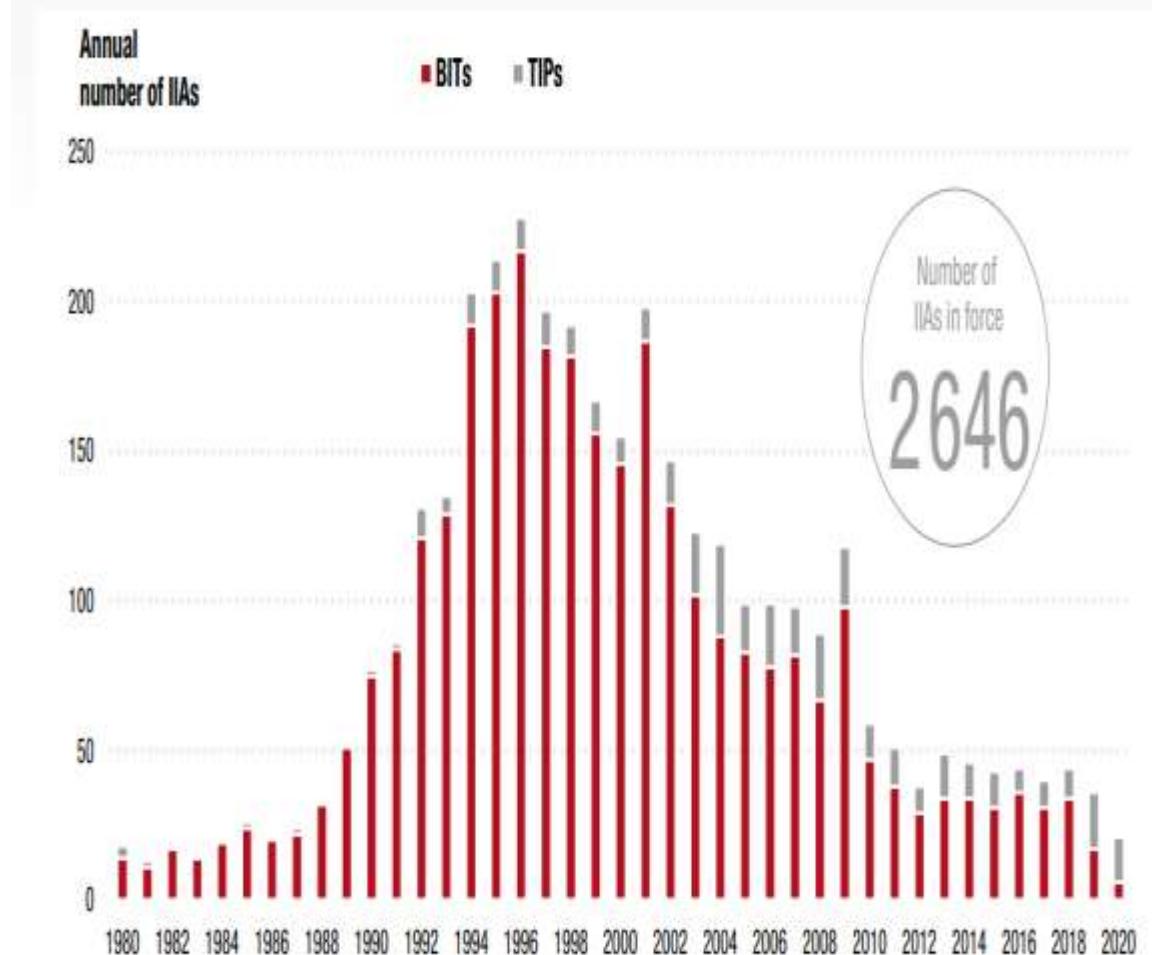
- **Factors influencing MNC decisions to invest abroad encompass various elements:**

1. Alignment between the country of origin and the investing companies in their objectives and in their perception of FDI as a means of exerting influence.
2. Anticipated impact on competitiveness, employment, and exports.
3. Evaluation of the potential consequences in the event of failure.
4. The government's narrative, which can shape or influence investment decisions and strategies.

The 2,000 largest multinational companies, 2008-2017



- The absence of a globally agreed-upon framework regulating the activities of MNCs can be primarily attributed to several key factors:
 - ✓ Disagreements between affluent industrialized nations and poorer developing countries have hindered consensus on international regulatory frameworks.
 - ✓ MNCs primarily originate from developed nations, making the creation of international control mechanisms potentially disadvantageous to these countries' economies.
 - ✓ The United States has shown limited interest, influenced by liberal ideology and the significant political power of MNCs. U.S. priorities tend to focus more on promoting influence and power rather than regulating corporate investments.
- International Investment Agreements (IIAs)
 - ✓ Bilateral Investment Treaties (BITs)
 - ✓ Treaties with Investment Provisions (TIPs)



Source: UNCTAD, IIA Navigator.