

India and the EU: Deal-making rather than diplomacy?

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2012-10-19

In a new LSE IDEAS report titled “[Europe in an Asian Century](#)”, Richard Youngs writes that the EU’s highly mercantile form of commercial diplomacy with Asian countries, including India, is unlikely to serve its own long-term interests.

Geoeconomics is returning as the leading edge of Europe’s global presence. The financial crisis has helped give greater prominence to geoeconomics 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.

The rise of geoeconomics demonstrates how Europe’s age of austerity is a profound foreign policy challenge and not merely a domestic one. 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 geoeconomics 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.



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: 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.

For now, the EU figures strongly in economic rankings. It still accounts for 50 per cent of global FDI outflows and 40 per cent of inflows. In 2010, the Global Economic Forum placed six European countries in its top 10 competitive economies. 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.

A second, related trend is that the crisis is pushing the EU towards a far narrower and highly utilitarian vision of its external geoeconomics. 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. One Asian ambassador complains: the EU is ‘just trying to get things out of Asia, not thinking how we can really cooperate’.

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.

Crucially, such direct and narrow mercantilism flows from an assumption that multipolarity will be the global order's organising principle. This assumption 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. 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.

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. That said, 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. 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. 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.

Richard Youngs is director of FRIDE and Professor of International Relations at the University of Warwick. This post comprises excerpts from the essay “[A Mercantilist Power?](#)”, which is part of the new LSE IDEAS report, “[Europe in an Asian Century](#)”.

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