

## **The Conundrum of European Economic Diplomacy: Trade, Development Aid & Democracy**

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**Abstract:** There is no effective economic diplomacy without democratic values, and this in the EU is at the core of European political and economic integration itself: political stability and trust, democratic governance, civil society engagement, accountability, and transparency, form the pillars of effective EU development aid. Even where the EU engages with non-democratic countries, this is to facilitate humanitarian assistance in times of crisis and to strengthen democratic reforms. The application of clear criteria for assessing human rights in the exercise of economic diplomacy, with the help of political experience and technology, is the great stake of EU integration. This paper aims to make a substantial contribution to the debate on the development of an appropriate framework for EU economic diplomacy, which will shape European democratic values and respect for human rights.

**Keywords:** Economic Diplomacy, democracy, EU development aid.

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### **Background of a difficult policy triptych:**

The promotion of democracy, development assistance, and economic diplomacy in Europe have all evolved into interrelated facets of the EU's foreign policy. The EU, a significant player on the international stage, is aware of the significance of using its economic might to advance democratic ideals and aid in recipient nations' sustainable development.

European Economic Diplomacy is the term used to describe the EU's diplomatic efforts to advance and defend its economic interests abroad. In order to increase its competitiveness, support its member states, and influence global economic governance, the EU uses trade, investment, and other economic tools in its economic diplomacy. The establishment of the European External Action Service (EEAS), which includes EU delegations, and the new EU competence for foreign direct investment under the Treaty of Lisbon have provided the Union with the instruments to establish a distinct self in economic diplomacy" (Bouyala Imbert, 2017). Economic diplomacy has evolved over time to encompass the promotion of the EU's ideals and tenets, including democracy, human rights, and sustainable development (Petitville, F., 2003).

Promoting democracy has been a major goal of the EU's foreign policies. According to the EU, fostering democratic governance is a key objective that leads to peace, stability, and development (EPRS, 2018; EPRS, 2019; 5. Gómez, I.F. et al., 2016). The promotion of democracy includes a variety of initiatives, such as backing free and fair elections, fortifying institutions, empowering civil society, and advancing the rule of law. The European Neighbourhood Policy (ENP) is the foreign policy framework aiming at bringing the EU and its Eastern and Southern neighbors closer to their mutual benefit and interest (European Commission, 2015). The EU has developed a variety of tools and mechanisms to advance democratic principles and practices in partner countries.

According to the European Commission's European Development Policy, development aid is a vital part of the EU's foreign policy and is crucial in tackling global issues, decreasing poverty, and fostering sustainable development. The goal of the EU's development assistance is to help its cooperating nations in sectors like governance, infrastructure, healthcare, and agriculture. Programs for development assistance frequently include funding, capacity-building, technical help, and policy discussion.

### **Evolution of the Nexus:**

Over time, a connection has developed between European economic diplomacy, democracy, and development assistance. Initially, democracy and development assistance were considered as independent policy realms, and the majority of the EU's economic diplomacy was concentrated on trade and investment problems (Bouyala Imbert, 2017). However, the EU has progressively incorporated these elements into its foreign policies as it has come to understand the interdependencies and synergies between economic, democratic, and development goals.

Further emphasizing the EU's dedication to coherence in its exterior actions, particularly economic diplomacy and development cooperation, the Treaty of Lisbon, which came into effect in 2009, was important.

As guiding principles for EU foreign policy, the Treaty recognized the promotion of democracy, the rule of law, and human rights. The EU's approach to development aid has changed as a result of the fusion of economic diplomacy and democratic principles, resulting in a more thorough and strategic engagement with partner nations. In order to be a global actor that blends economic interests with values-driven policies, the EU is committed to using its economic influence to promote democratic principles and sustainable development (European Union Global Strategy, 2016).

Since the creation of the EU's "Trade for All" trade plan in 2015, the EU has led the way in global economic interactions by emphasizing principles like openness, sustainable development, and human rights. The EU is paying more attention to difficult issues, providing more internal market access, establishing international standards and norms, and creating political alliances through trade agreements (Titievskaja, J., 2023). While the European Parliament is increasing its political influence on trade and foreign investment problems, unified external commercial strategy defines FDI as an EU competence.

The entire picture, though, shows a contradiction:

- On the one hand, the EU changed its border controls from standard tariffs to "defensive" tariffs, which are permitted by the WTO in the event that others apply banned measures, and this is standard practice at the international level: According to Moens&Aarup (2023), "as geopolitics and U.S.-China competition elbow their way into the picture," the European Commission "is preparing to ditch its long-held free-market ideals."
- The European Union, on the other hand, is more welcoming to investment and offers greater incentives to draw capital, most recently the European Commission's proposal on June 19 to "change the way investors pay withholding tax in the European Union, to attract more cross-border trade in securities and help develop the bloc's capital market" (Strupczewski, 2023). Since only a small number of agreements have been able to be approved with Asian nations thus far, the main challenge is identifying strong allies on the international economic chessboard. China, Japan, and the Republic of Korea (South Korea) are the only three Asian nations among the EU's ten strategic allies (Carleton University & Canada-Europe Transatlantic Dialogue, 2015).

Sadly, "to date, we have seen a lack of leadership and coherence in the "external component" of European Economic Diplomacy, resulting in confusion and inefficiency." 2016 (Rudloff & Laurer).

Six significant obstacles face European economic diplomacy, whose resolution will influence the direction of the EU's major programs among other things:

1. Increasing agreement complexity
2. The gimmick of bilateralism and new protectionism
3. Participation and openness among a new generation of
4. Trade Accords
5. Emerging Powers
6. Avoiding collapse and new protectionism

Therefore, there is a pressing need for a shared, unambiguous, and complete vision with regard to the expansion of the European business community's global footprint, which will help to boost market share for European businesses and, in turn, growth and employment at home.

### **European Economic Diplomacy and Development Aid:**

According to the European Commission (2018), the EU has become a major contributor to international efforts to fight poverty and advance sustainable development. It is dedicated to achieve the Sustainable Development Goals (SDGs) of the United Nations and actively participates in international development cooperation, all while upholding democracy, human rights, good governance, and environmental sustainability. Key ideals and principles support European economic diplomacy in development assistance, including the advancement of democracy, human rights, the rule of law, social inclusion, gender equality, and environmental sustainability.

In order to ensure the relevance and efficacy of assistance measures, the EU strongly emphasizes the ownership and partnership approach and works closely with recipient nations (Góra, Styczynska, & Zubek, 2020). The EU uses a range of economic diplomacy tools, including trade-related assistance, technical cooperation, capacity building, financial assistance, and policy discussion, to support development aid.

In order to encourage inclusive economic growth, increase trade and investment, and advance sustainable development in partner nations, the EU makes use of its economic clout and influence (European Union External Action, 2021). In the context of development aid, trade and investment are essential elements of

European economic diplomacy. The EU promotes trade as a catalyst for economic growth and the eradication of poverty by giving developing nations preferential access to its markets. It also assists partner nations in strengthening their trade capacities, addressing trade barriers, and improving trade infrastructure.

In its economic diplomacy regarding development aid, the EU places a strong emphasis on policy coherence for development (PCD) (European Commission, 2019). By ensuring that all EU policies, including those pertaining to trade, agriculture, the environment, and migration, are consistent with the overarching goal of reducing poverty and promoting sustainable development, PCD works to ensure that the EU as a whole. PCD seeks to maximize synergies for beneficial development results while minimizing any potential negative effects of EU policies on developing nations.

The EU's commitment to promote democratic principles, sustainable development, and poverty reduction is reflected in economic diplomacy via development aid.

The EU works to provide a comprehensive and cogent approach to development cooperation by integrating economic, political, and social factors. The EU strives to promote inclusive growth, support democratic governance, and advance sustainable development in partner countries through its economic diplomacy instruments and focus on trade and investment (Marková, J., 2019; Justinek, G., 2023).

### **The case for Democracy:**

The promotion of democratic norms and principles is a key component of European economic diplomacy (Killian, P.M.E., 2021). Democracy is viewed by the EU as a core virtue that supports both its internal governance and external relations. The Treaty on European Union, which highlights the promotion of democracy, human rights, and the rule of law as essential objectives of the EU's external activities, is one of the legal frameworks that upholds the EU's commitment to democracy.

European economic diplomacy often incorporates **conditionality measures**, which link economic cooperation, trade, and financial assistance to the adherence to democratic principles (Bergeijk, P.A.G., Okano-Heijmans, M. & Melissen, J., 2011). The EU uses conditionality to encourage recipient countries to uphold democratic norms, respect human rights, and implement governance reforms. Conditionality mechanisms aim to incentivize democratic practices and hold governments accountable for their commitments,

Through the negotiation and implementation of association agreements with adjacent countries and the accession procedures for candidate nations, European economic diplomacy: - helps the promotion of democracy. These agreements and procedures offer a framework for expanding political and economic co-operation, as well as for enacting democratic reforms, bolstering institutions, and adhering to EU norms and standards. They also actively support democratic institutions, civil society organizations, and government agencies. The EU supports groups in the civil society sector that fight to advance democracy, human rights, and good governance with financial support, capacity building, and technical support. The EU also supports the growth and reinforcement of democratic institutions, electoral systems, and the rule of law, and invests in institutional capacity building.

European economic diplomacy engages in negotiations and political discussion with partner nations to advance democratic governance. With the goal of addressing democratic difficulties, exchanging best practices, and promoting political reforms, the EU participates in dialogue with governments, civil society, and other stakeholders. The EU uses diplomatic channels to promote democratic principles, voice concerns about human rights abuses, and assist democratic transitions. This includes a variety of programs designed to strengthen democracy and improve democratic governance and civic engagement. In order to support democratic changes, electoral processes, independent media, and the empowerment of underprivileged communities, these programs offer financial resources, technical skills, and forums for knowledge sharing. Such initiatives support inclusive democratic behaviors and the building of democratic institutions.

Focusing on advancing democracy through economic diplomacy shows how committed the EU is to democratic values as crucial elements of its external relations. The EU works to promote democratic reforms, improve democratic governance, and assist democratic transitions in partner countries by utilizing economic means and applying a variety of approaches. The EU's integrated strategy for advancing democratic ideals both inside and outside of its borders is highlighted by the merger of economic diplomacy and democracy promotion.

### **Policy Recommendations:**

1. To maintain consistency with the goals of development assistance and democracy promotion, **strengthen Policy Coherence for Development (PCD) across all EU programs**. Avoid having any detrimental effects on democratic institutions and processes by incorporating democratic ideals into economic policies, trade agreements, and investment frameworks.
2. **Strengthen democratic conditionality in aid for development initiatives**. Establish a connection between financial support, trade agreements, and investment possibilities and the commitment of the receiving nations to democratic principles, human rights, and good governance. Establish precise

standards and metrics to measure the advancement of democracy and offer incentives to nations that satisfy these standards.

3. **Assist democratic institutions and civil society groups** in their efforts to advance democracy, human rights, and civic engagement. Enhance civil society's ability to promote democratic practices and ensure government accountability by offering financial support, capacity building, and technical help.
4. **Encourage inclusive and participatory governance approaches** that incorporate minority communities, women, youth, and underrepresented groups in decision-making. Encourage activities that increase openness, responsibility, and public participation in decision-making, promoting a setting that upholds democratic ideals and encourages sustainable growth.
5. **Encourage discussion and collaboration with partner nations, civil society groups, and other parties** to address democratic issues and advance democratic changes. Talk openly and constructively, respecting the notions of ownership and regional context, in order to exchange knowledge, facilitate democratic transitions, and share best practices.
6. **Developing Mainstream Democracy.** Make ensuring that democratic government, human rights, and social inclusion are prioritized in development programs and humanitarian operations. Include technical help and capacity building to improve democratic institutions, elections, and the rule of law.
7. Trade and investment policies should be in line with democratic principles and should promote sustainable growth. **Encourage ethical economic conduct**, adherence to social and environmental norms, and observance of human rights in trade and investment agreements. Encourage commerce that promotes inclusive growth, job creation, and the eradication of poverty while upholding labor rights and the sustainability of the environment.
8. **Funding for development aid** should be increased, especially for initiatives that support **equitable development and democracy**. Make sure that budgetary allocations reflect the EU's dedication to democratic principles and sustainable development goals. Utilize cutting-edge finance techniques and collaborations with other donors to mobilize more resources.
9. **Create effective monitoring and evaluation systems** to determine how European economic diplomacy affects the provision of aid for development and the advancement of democracy. Evaluate frequently how well policies, programs, and conditionality measures are working to promote democracy and sustainable development. Make use of evaluation results to enhance upcoming programs and policies.
10. To advance democracy and development aid, **foster global cooperation with international organizations, regional organizations, and other donors**. To maximize the impact of democratic governance projects and ensure complementarity, combine efforts, exchange best practices, and pool resources.

These policy suggestions can help European economic diplomacy efficiently advance development assistance while upholding democratic ideals. This all-encompassing strategy will support democratic governance, enable inclusive growth, and foster social progress while also helping to meet sustainable development goals.

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