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# State of economic play: European Union and economic diplomacy

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**Abstract:** The paper presents the state of economic play in the post financial and economic crisis of 2009 and the economic consequences which the pandemic will leave on largest global economies. We present the state of play for these key actors in regard to developments in the fields of sustainability and digitalisation, which in our belief will be the key priority points in the years to come. We present the views from policy and business sector point of view. The notion of Economic Diplomacy, as a soft power, is introduced into this analysis from the point of view of the relevant strength of different economies in regard to the power of their most propulsive (digitalised) companies. Comparisons between the EU, USA and China are presented and policy proposals are suggested.

**Keywords:** economic diplomacy; EU; economy; globalisation; COVID-19; sustainability; digitalisation.

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**Biographical notes:** Gorazd Justinek is the Dean of Faculty for Governmental and European Studies, New University and a former diplomat. His research interests include international business, particularly the internationalisation of small businesses, economic and commercial diplomacy and the competitiveness of economies and attracting foreign direct investment. He is the Founder and Editor of the *International Journal of Diplomacy and Economy*.

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## 1 Introduction

A country is only as strong as its economy. This is an old thesis, but one that often turns out to be very correct. There are several 'powers' of the state, which are usually divided into hard or soft power. The former usually originates from a country's military or economic power, while the latter mainly from individuals and civil society, appears in discrete, subtle forms and is essential for a country's deepening influence in the international community (Nye, 2021, p.196). A particularly important role in the context of soft power is therefore played by the field of Economic Diplomacy, which can work in areas where the interests of the state, economy and civil society intersect (Woolcock, 2012, p.10).

However, with our paper we will first focus on the economic power of the country, or in our case, on the economic power of an integration, which is somewhat more difficult to define. The purpose of this paper is therefore to analyse whether the European Union (EU) is on the right track to remain a world (economic) power in the coming decades.

In order to do this, we must first define how we will measure the economic power of the country or, in the case of the EU – integration, and of course we must first define what makes some countries stronger than others and how to objectively measure this?

This is one of the most important questions for the study and practice of international relations (Baldwin, 2016, p.1). Therefore, we have to apply a methodologically appropriate way to measure power, since analysing the balance of power in international politics is at the heart of the entire discussion. In the research of international relations, the measurement of power plays a central role, just as, for example, energy in physics or money in economics and serves as a key variable in theories of war and peace, international cooperation, international trade, nuclear proliferation, and democratisation. Policy makers also need some precise framework for measuring the power of states, since key foreign policy decisions related to strategies, alliances, economic policies, as well as in the last instance the decision to use military force, depend on assessments of relative power (Beckley, 2018, p.7). We can clearly witness the latter, with the recent events in Ukraine.

Power is usually defined as the ability of a country to shape world politics in accordance with its interests (Sevin, 2021, p.19), but a systematic measurement of this ability is impossible because it would require disaggregating each country's interests in a potentially infinite number of international events and influences on them (Nye, 2011, p.3). Furthermore, measuring power by evaluating ex-post outcomes is not very useful for policymaking because analysts must wait for the conclusion of an event (e.g., a war, a diplomatic summit, or a trade dispute) before they can assess the balance of power – and even then, the distribution of power will be assessed only in relation to a certain event (Wohlforth, 1993, p.4).

Therefore, most researchers usually measure the power of a country in terms of its wealth resources, e.g. with GDP (Mearsheimer, 2014, p.12). The thinking here is quite simple, namely that wealthier countries repeatedly assert their will and interests on the international stage. Many scientists dispute this kind of approach (Beckley, 2011, p.231), as do some international organisations, like the OECD, which introduced a more 'softer' way of measuring power, such as e.g. better life index (OECD, 2022).

Nevertheless, for the purpose of this article for IJDIPE, we will primarily use the measure of GDP, GDP per capita and economic growth, because in the last period we have witnessed many changes between the economies of countries, with emerging economies, especially in Asia, making huge steps forward. The COVID-19 pandemic has only further accelerated these changes, as China was one of the few big economies that, for example, recorded economic growth already in 2020, i.e. already in the year of the outbreak of the pandemic, while in that year the USA and Europe fell into a deep recessions (Focus Economics, 2021).

In addition, the COVID-19 pandemic has redefined certain phrases. As Mr. Nadela, the CEO of Microsoft, said at the start of the pandemic (Microsoft, 2020) in the spring of 2020 we witnessed two years of digitisation in just two months, when (we) all had to adapt practically overnight to the new reality, like the use of video communications and working from home.

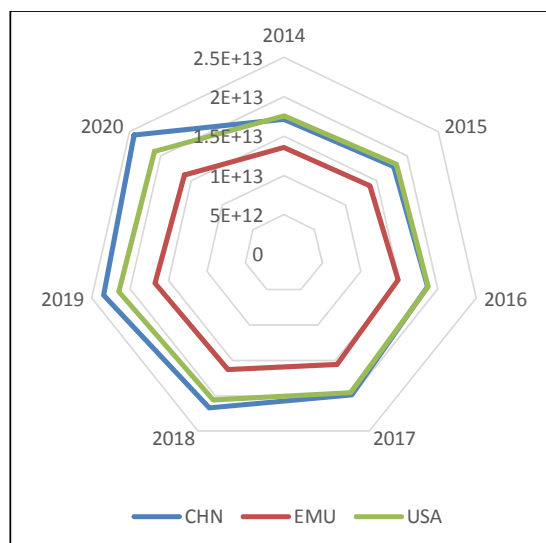
Undoubtedly, successful economies in the future will be those that will most effectively address the fields of digitisation and sustainability. Those who will be the most successful and efficient here will with great certainty define the future development of the world's leading economies. Therefore, special attention in this paper will be devoted to these two areas, where we will also try to present how the EU works in this context and whether it really has a global leading role in these two areas today and will the EU be a world leader in the coming decades as well?

Also diaspora can be 'used' as soft power sometimes. Of course, both soft and hard power originates from all the mentioned areas, which countries can exercise in the international community through the activities of economic diplomacy (ED). We will analyse how the EU is successful in this through its activities in several areas in its international activities (Justinek, 2018, p.33).

## 2 Global economic overview

If we first look at the GDP data in Figure 1, we can see that China is the world's largest economy for the fourth consecutive year (referring to 2020). The data in Figure 1 also clearly shows China's constant growth in recent years, even in 2020, i.e. the year when the COVID-19 pandemic began. We can also note the fact that the USA maintains its natural economic growth, which is still ahead of the EMU countries. However, it is also possible to record a certain decline in GDP in 2020 due to the pandemic in the USA. The same applies to the euro area, where we can conclude that even in the observed years, growth here was stable, but cumulatively it still lags far behind the USA or especially China. On the basis of the latter, we could quickly conclude that the EU is losing its role vis-à-vis the other two global actors.

**Figure 1** GDP for selected years for China, the Euro area and the US in current USD

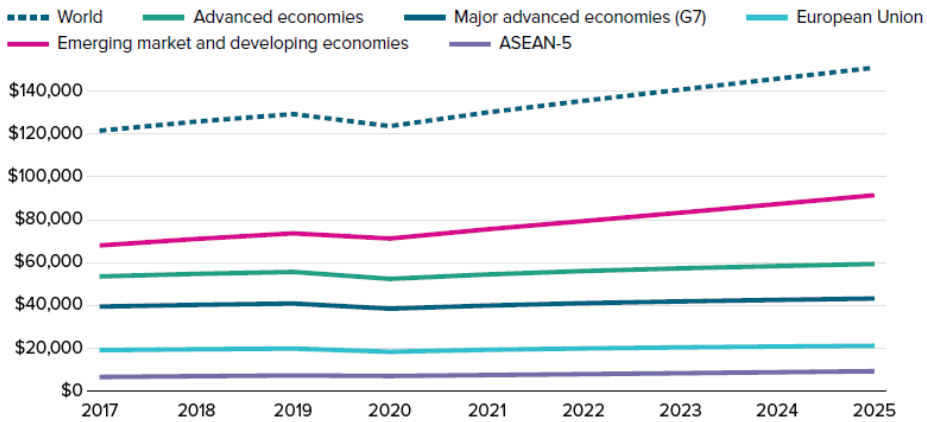


Source: Own presentation based on WB data ([https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=2020&name\\_desc=false&start=2016&view=chart](https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=2020&name_desc=false&start=2016&view=chart))

Of course, the GDP measure does not tell the whole story, as we have already pointed out in the introduction, since we also have to take into account the size of the population, living costs, etc. Some researchers go further and argue that standard gross indicators such as GDP are not good enough and are empirically unreliable in many cases, including some of the most important geopolitical events in modern history (Beckley, 2018, p.9).

Yet, what are the scenarios for the future? In this regard it is worth mentioning the International Comparison Program (ICP), which is a global initiative collecting comparative data on prices and expenditures in participating economies for the recalculation of purchasing power parities (PPP) and price level indices (PLI), under the auspices of the World Bank (2021). According to these data, PPP-based GDP projections for the coming years show an even more disturbing situation from the EU's point of view. Namely, these scenarios predict stagnation of the EU economy, while on the other hand, significant growth and a rise in GDP is foreseen for emerging and developing economies from 2020 onwards. These should therefore be the countries that will have the greatest influence on economic activity in the future years to come.

**Figure 2** Projections of GDP in PPP, by country group 2017 PPP USD (billion)



Source: World Bank calculations based on World data Economic Outlook  
<https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.KD>

If we summarise some of the forecasts of various international think tanks and some international institutions, we can conclude that the latter pay a lot of attention to emerging new markets, especially Asian economies, and especially China. Economic pulsivity should therefore be the highest in this area in the future years to come. On the other hand, European economies are expected to stagnate in the coming years.

### 3 Sustainable development

Sustainability as one of the key future directions was already mentioned in the introduction of this paper. This is nothing new, since already the Millennium Declaration, signed in September 2000, committed world leaders to fight against poverty, hunger,

diseases, illiteracy, environmental degradation and discrimination against women. The Millennium Development Goals (MDGs), which derive from this declaration, had ambitious goals set until 2015 and defined concrete numerical indicators for monitoring progress, based on baseline data from 1990 (UN, 2015).

Unfortunately, we all have to agree that the MDGs have not been achieved in a way or at least to an extent that would be satisfactory to the international community. Therefore, the United Nations launched a new initiative and set a new set of goals at the international level. The Sustainable Development Goals (SDGs) are thus presented as a call to action by all countries – rich and poor – to promote prosperity while protecting the planet (UN, 2022). We must recognise that eradicating poverty must go hand in hand with strategies that build economic growth and address a range of social needs, including education, health, social protection and employment opportunities, while tackling climate change and protecting the environment.

That is why the European Commission presented a new European Green Deal program at the beginning of its mandate in 2019, because climate change and environmental degradation are an existential threat to Europe and the entire world. In order to overcome these challenges, Europe launched a new growth strategy, which should transform the Union into a modern, resource-efficient and competitive economy, where there will be no more net greenhouse gas emissions by 2050 (EC, 2019).

This is, of course, a very ambitious plan, which means that in the future Europe should be a world leader in the field of sustainability. But as the UK weekly – the Economist already points out, in order to achieve the desired goals, new legislation and thus new rules will be needed. One such is undoubtedly the European climate law, which sets a target of net zero emissions by 2050, including a temporary requirement that member states reduce their emissions by ‘at least’ 55% from 1990 levels by 2030 (The Economist, 2021).

We will also have to see what will be the impact of the COVID-19 crisis will have on this transformation, although the concept of the green transition, according to many, could actually also be an opportunity for recovery after the pandemic. However, as Graham Weale, a professor of sustainable economics, points out in the Financial Times, since 2005 renewables have been the main factor contributing to the reduction in emissions, amounting to over 60%. Yet, the growth of renewable energy sources at such a rate in the future is practically illusory. Calculations by the Centre for Green Energy and Resource Management at Ruhr University Bochum show that, even under an optimistic scenario, only replacing the nuclear and coal plants foreseen for closure would require around 65% of the available increase in renewable energy sources. This means without any additional power – just for replacement. The next 25% would be needed for heat pumps, leaving just enough energy for two-thirds of the electric cars expected to be on the European roads by 2030 (FT, 2021).

In this context, it is important for our analysis to also look at the business side of the medal, namely among European companies and check whether they are really leaders in the field of sustainable products and circular economy. That’s why we looked at the annual ranking prepared by Corporate Knights, a think tank from Canada. The ranking is based on an assessment of 8080 global companies that generate more than one billion USD in revenue. In the list for 2021, we can see that 46 of the most sustainable corporations are located in Europe, 33 in North America, 18 of them are in Asia, two are in South America and one is in Africa (Corporate Knights, 2021).

Based on all the data presented, we can conclude that Europe is an important and leading actor in the field of sustainability, but the path to the realisation of the set goals will be very long and undoubtedly strongly depend on the economic recovery after the COVID-19 pandemic and the new facts and consequences of the Russian–Ukrainian crisis.

#### **4 Digital transformation**

Digitisation is both a great opportunity and a challenge for the current and future generations. It introduced a revolution in practically all areas. Both in business structures, value and supply chains and innovation and market structures. The recent COVID-19 pandemic has vividly pointed out the importance and necessity of digital technology for different companies and different sectors: from healthcare to retail, from manufacturing to education. The same applies to diplomacy, which we will talk more about in a future chapter.

The EU allocates a lot of its resources for a successful digital transformation. In March 2021, the European Commission presented the vision and goals for the successful digital transformation of Europe by 2030. This is also crucial for achieving the transition to a climate-neutral, circular and resilient economy, in accordance with the aforementioned European Green Deal. The EU's ambition is to become digitally sovereign in an open and interconnected world and to pursue digital policies that empower people and businesses to take advantage of a human-centred, sustainable and more successful digital future (EC, 2021).

However, a recent European Investment Bank (EIB) investment report shows a slightly different picture, namely that EU companies are lagging behind in the adoption of digital technologies, particularly in the construction sector and the Internet of Things. It also emphasises the importance of introducing digital technologies, as the latter can lead to a significant increase in productivity and higher growth, and above all to greater competitiveness. Indeed, a huge number of leading companies in the field of digital technology are based in the USA, and it seems as if the EU has fallen behind in this race (EIB, 2021).

Additionally, a report prepared by the European Digital Alliance of Small and Medium-sized Enterprises states, among other things, that Europe was the birthplace of many revolutions that changed the world, such as the first industrialisation, and that it was the centre of key innovations for centuries. While Europe is still at the forefront of innovation and invention, many European tech players seem to be having more trouble growing than their foreign, especially American and Asian, competitors. The most (market) valuable global companies today are digital – and founded either in the USA or in Asia. However, the US and China follow very different economic and social models. While the US focuses on market freedom, China combines state control with capitalism in its own unique way. In competition with these two models, Europe is somewhat ‘in between’. And this applies not only to global politics, but also to practically all European policies related to the competitiveness of the European digital economy (European Digital SME Alliance, 2021).

In addition, according to Forbes magazine, six of the top 10 most valuable brands in the world are from the technology sector (Apple, Google, MS, Amazon, FB, Samsung), and none of the latter are from Europe. Of the 10 most valuable brands, as many as eight

come from the USA, one from South Korea (Samsung), and the only 'European representative' is in 9th place, representing the luxury industry – Louis Vuitton (Forbes, 2021).

The growth of a strong and independent digital industry is therefore fundamental to ensuring Europe's economic prosperity in the future. Moreover, digital autonomy and sovereignty are key elements for preserving and protecting a free and democratic society in Europe, because otherwise the majority of future business will be tied to technology companies that will have their domicile outside the EU. Digitisation and technological development thus shape and will probably shape the global business environment in the future.

Hopefully, the EU's ambitious digitalisation agenda will be implemented by 2030 with more success than some other strategies in previous decades (Lisbon Agenda, Barcelona Process, etc.).

## **5 Economic diplomacy of the EU**

Globalisation has changed our lives beyond recognition, and with the development of new technologies, no work or job will ever be the same. Whether you are a plumber, construction worker, CEO, bureaucrat, athlete, lumberjack, pilot or last but not least, a diplomat.

Yet, it was not only the IT revolution that has turned upside down our daily lives, it also changed the life of the diplomat of the 21st century. In the past, we have often argued that economic issues have been side lined (Justinek and Sedej, 2012, p.80) by traditional diplomacy (Rana and Justinek, 2013, p.194). However, in the last decade, and especially after the financial and economic crisis of 2008, much more attention has been paid to the economy in the context of diplomacy and international relations.

When we talk about economic diplomacy (ED), we have in mind the following concepts or especially the soft power of the state, which we talked about earlier. The aim of the ED is thus to influence decisions on cross-border economic activities carried out by governments and non-state actors (Okano-Heijmans, 2011, p.22). Indeed, ED includes the activities of the government and its (inter)national networks and can be defined as the use of government relations and government influence to facilitate international trade and investment. Governments also work with foreign and domestic companies to promote trade and investment through domestic institutions (investment and export promotion agencies), usually under the auspices of economic diplomats (Saner and Yiu, 2003, p.22).

Today's world is largely defined by the prevalence of previously unimaginable technological changes. One area that is at the centre of rapid, ongoing development is the social media phenomenon. It 'took off' just after the turn of the 2nd century and could thus be defined in the entrepreneurial sense as a 'gazelle' among other media. Social media tools are therefore no longer used solely for entertainment and recreation, nor do they serve solely as a useful way to reach customers and the rest of the public (Sedej and Justinek, 2013, p.84).

However, we have already seen many communication 'revolutions' in the past (telegraph, telephone, radio, TV) and many even then claimed that these innovations would mean the end of diplomacy. But it never happened. Diplomacy was actually becoming more and more important. The tools of diplomacy have changed, but the activities of diplomacy have remained the same.



Social media are thus increasingly used in diplomacy as well (Sevin and Dinnie, 2015, p.267). Most democratically elected world leaders also compete for attention, connections and followers on Twitter and other social networks. While some heads of state and government continue to amass large followings, foreign ministers have established their own virtual diplomatic network by following each other on the social media platform. For many diplomats, Twitter has become a powerful channel for 21st century digital diplomacy (Twiplomacy, 2014).

With the www development and, most recently, social communication applications, the world is not the same any more. It is true that anyone with a smart device and access to the web can launch global activity. Therefore, practically anyone can engage in international relations which, only a few decades ago, had been an area reserved primarily for diplomats (Justinek, 2019, p.165). Maybe we could start using also the wording of iDiplomacy (Justinek, 2018, p.33).

Although new technologies and media tools have their role, of course, the latter still does not represent the whole story. Diplomacy in the 21st century is completely different from what it used to be, for many other reasons as well. One of these is undoubtedly the large increase in the number of new actors involved in the design, development and co-creation of diplomacy. In the last two decades alone, we have seen the rise and fall (and in some cases the rise again) of multinational corporations, non-state actors, private foundations, sovereign wealth funds, financial organisations, business associations and civil society organisations, all of which strongly shape and play a large role in diplomacy (Saner and Yiu, 2014, p.311). If we just take a look at the 100 biggest economies of the world, only 50 of them are states. If we compare GDP of states to the revenues of companies, Wal-Mart would be the 25th biggest economy in the world (Posner, 2016).

All these new stakeholders can engage in global campaigns and 'force' state actors into entering negotiations and making decisions they are not entirely happy with. Civil society (in tandem with new media) has become one of the most important players in international relations and even domestic issues in the 21st century (Woolcock, 2012), having (usually) human rights protection at the top of their agenda.

Especially the role of diaspora can be noticed in some countries when analysing ED. Chen (2022) analyses city and diaspora as two non-state actors in international relations. China has one of the biggest diaspora communities in the world, yet the diplomatic implications of the diaspora at the inter-city level have been underestimated and understudied. Drawing on first-hand data collected from exploratory fieldwork in Prato, Italy, study sheds light on the Chinese diaspora's role in the Wenzhou-Prato city twinning. It argues that diasporas, as transnational citizens, have an indispensable role to play in enabling and materialising city twinning practices, but understanding the underlying motivations requires recognising the agency of diasporas themselves as non-state actors of diplomacy. The findings show that city diplomacy and diaspora diplomacy are both multidimensional and may be entangled with one another.

In Slovenia there is a study being carried out on the role of Diaspora as soft power in the field of ED. More results will be available in the year 2023, however the preliminary results have showed that the majority of business people from Slovenia working and living in the USA, do not know a lot about the system of ED and would value more information in this regard.

Today, when we talk about international relations, diplomacy and global issues, we cannot ignore security, economic issues and international financial affairs, sometimes

even specific companies. Nor even the concept of Human Rights in this context, especially the role of Business and Human rights in international Business (Justinek and Černič, 2022, p.389).

In short, the world is at an important crossroads for the first time since the Cold War, as the map of the world (in the context of power) is being redrawn. However, to clarify, it is not about national borders in the classic Westphalian sense, but rather about the power of certain centres, and above all it is about hard and soft power, or ED power (Justinek, 2018, p.32). For example, the director of a high-tech corporation is undoubtedly a more desirable interlocutor at a meeting than the foreign minister of a smaller country. And here lies an extremely important soft power that the EU should be careful about. Unfortunately, all of the above leads us to the conclusion that the EU is also losing out also on ED field compared to the USA, which, in addition to its great hard (military and economic) power, also accumulates a large part of its soft power in the field of ED.

## **6 Conclusion**

As we presented in this paper, there are many economic forecasts and analyses among scientists, think tanks, even international institutions, which point to the rise of growing (Asian) economies in the last decade, while in the coming years, according to the estimates and forecasts of these same institutions – the European economies will more or less stagnate. Therefore, if European economies want to keep pace with the world's most propulsive economies, a number of changes will have to be implemented.

We agree that digital and sustainability are likely to be the next two central pillars for the world's most influential economies in the coming decades. Some time ago, the EU presented new strategies that deal with both topics, and in this regard also carried out revisions of the latter. At the same time, it should be pointed out that the strategies are ambitious and supported by concrete resources, including financial ones, which is often very important.

If we could agree that Europe is doing well in the area of sustainability (both in the area of policy and the business sector), in the area of digitisation, as we have seen, Europe is far behind. So how to take a step forward in this area?

We are convinced that, first of all, the entire business environment (taxes, incentives, labour market, etc.) must be more attractive and user-friendly in all European countries. Of course, all of this cannot be done within the mandate of one European Commission and it will take more time to implement it, but we have been talking about it for years, even decades.

It might be necessary to reinterpret the whole perception of entrepreneurial thinking in Europe at all levels and in all fields. Entrepreneurial thinking should become an important content of curricula not only at business faculties, but also in primary schools and especially at universities from the field of natural sciences.

More should also be done in the field of research and universities, as many high-tech companies closely cooperate with top universities, which are again predominantly located in the USA (Top Universities, 2022). In this regard, it should also be noted that some Chinese universities are steadily becoming higher ranked (e.g. Tsinghua University is already ranked 29th, and five other Chinese universities are additionally ranked among the top 100 universities in the world (Shanghai ranking, 2022).

And of course, last but not least, the US market actually functions as a single market with around 330 million inhabitants, while on the other side of the Atlantic the EU still does not function as a true single market. At the same time, we must not forget that China, on the other side of the Pacific, also functions as one (centrally managed) market with approx. 1.4 billion inhabitants.

We can therefore trace a significant shift in dynamics from both coasts of the Atlantic to both coasts of the Pacific. Emerging economies and their speed of growth, competitiveness, and resilience are of great interest globally due to the high potential investors see in them (Hintringer et al., 2021).

In the editorial of *International Journal of Diplomacy and Economy* from 2021 highlights exactly this big shift that we have seen in recent years. And not only in the field of ED, but in almost all fields (Justinek, 2021, p.1). In this context, the COVID-19 pandemic has further transformed world economies and stimulated some processes that would otherwise take years to implement, such as digitisation, but on the other hand, it has probably stopped some (traditional) processes or business sectors forever.

In addition, practically everywhere in the world we have witnessed the return of Keynesian economic policy – even in countries where liberal economic concepts have been considered the foundation of development for decades. What consequences this will have for public policies and public finances in the future, we will see in the coming years. In this case, the EU undoubtedly reacted in a very solidary way, but the consequences of the latter can already be seen in interest rates and extremely high inflation in the year 2022.

In the last two decades, therefore, many movements have taken place globally and Europe needs to speed up its processes, because we do not want European leading companies to just silently observe the growth and development of their competitors on both sides of the Pacific. We have already witnessed such cases in the past. Surely we all remember the decline of the Finnish Nokia and the Swedish Ericsson in the field of mobile telephony, which once shaped the world market and global trends. We are currently witnessing something similar in the automotive industry, where Tesla Motors from the USA has been setting new standards in recent years, despite the case that automotive industry is a traditional European industry, where even a few years ago we probably wouldn't even have dared to think about something similar to happen.

Let's hope that in 2030 we will not look back and say that Europe had good strategies that were only partially or poorly implemented. Europe needs to fully implement strategies that are well-prepared and address the right issues, and perhaps the time of recovery from the COVID-19 crisis is just the right time to do this homework.

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