

Economic Diplomacy and International Trade from the WTO Perspective

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ABSTRACT

In the following paper economic diplomacy and international trade are analysed. The authors examine the basic components of economic diplomacy, its tools, objectives, and strategy. The article also overviews the transformation of the international trade agenda and the impact of globalization on trade policy. Multilateral initiatives in the framework of the World Trade Organisation, free trade, and open market are viewed as drivers in the long run. However, against the backdrop of globalization and pandemic, economic diplomacy remains a challenge. The authors suggest the WTO elaborate agenda and start procedural actions that would set the countries' economic, trade, and investment policies in alignment with their foreign and domestic policies to

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address the backlash against all-embracing globalization. It is concluded that successful economic diplomacy should be grounded on a rules-based multilateral system, norms, and standards, broader foreign policy aims, bilateral and multilateral agreements, greater transparency, as well as a pluralistic approach to global rules to strengthen the multilateral trade system.

Keywords: European Union (EU), General Agreement on Tariffs and Trade (GATR), Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), World Customs Organization (WCO).

INTRODUCTION

Economic diplomacy has become a popular policy instrument for governments, especially in countries of democratic mentality. This conforms to the argument that governments are more likely to employ economic tools for political and foreign policy purposes during periods of systemic changes. The scale of economic crises in various parts of the world has promoted countries to work together in different ways, and the failure of the multilateral trade negotiations in the World Trade Organisation Doha round further contributed to this trend. Economic diplomacy thereby shifted focus from unilateral liberalization backed up by WTO commitments to preferential liberalization through bilateral and regional free trade agreements. Importantly, the motivations to engage in such talks are not just economic ones such as trade liberalization, preferential market access, and trade diversion. Rather, and increasingly so, they involve a variety of economic, legal, and political considerations, based on negotiations. Hence, in this context, the concept of economic diplomacy is more relevant than trade policy (Konstantinou, Kerr and Sharp, 2016). There is no doubt that ever-growing global linkages alongside heightened protectionist tendencies point to a need for countries to have a strategic economic and commercially-based approach to access foreign markets and also attract investment.

Given this context, the article raises several questions about economic diplomacy. Is economic diplomacy defined differently across countries? How do governments and organizations adjust their strategy and practice in this field? What should be the trade diplomacy agenda of the WTO in the future?

To answer these and many similar questions the authors will analyse the legal, political and economic framework of the WTO in which the states began to work together to create an international mechanism for promoting sustainable world trade/economy.

Economic Diplomacy Strategy

Globalization has transformed organizations into international economic relationships around the world, affecting the economic, social, and political spheres of citizens. It is characterized by a complex set of interconnectivity and interdependencies with an increasing number of actors vying to influence the outcome of these relationships. They lay competing for claims to resources, markets, and legitimacy and are engaged in activities traditionally defined as belonging to the domain of diplomacy (Saner & Yiu, 2003).

The concept of economic diplomacy has gradually emerged over the past 50 years, as the economy has become the main driver of political influence. The post-second-world-war order, which started with the Marshall Plan and the European Coal and Steel Community established in 1951 was a great economic event. Thus, the major world economies conducted their diplomacy with the focus on their economic, trade, and private sector interests. This has possibly led to major reorganizations of their administrations (Bouyala, 2017).

In today's globalized world economic diplomacy is an important tool for countries to develop, stay engaged, and even survive economically. It involves using diplomatic skills with economic tools to advance a country's economic, political and strategic goals. Hence, economic diplomacy is a tool for improving economic standards, stimulating trade, and supporting domestic companies.

Economic diplomacy is a prominent issue in almost every country's foreign relation. Economic ministries, foreign ministries, trade, and investment agencies, chambers of commerce, are all part of the internal network that is building the country's economic diplomacy. The WTO issues, free trade, and preferential trade agreements as well as the agreements covering investments, double taxation avoidance have attained substantial

significance. Concurrently, the collaboration between state and non-official agencies has been increasing. Economic diplomacy is handled by embassies, consulates, and trade representations around the world. It is intertwined with politics, public diplomacy, and other aspects of diplomatic action. Normally the countries endeavor to establish a cohesive, effective, and efficient implementation mechanism to sustain and enhance the momentum of economic growth.

Through economic diplomacy a developing country pursues the following objectives:

1. Strengthen cooperation, collaboration, and partnerships with national and international actors and relevant stakeholders;
2. Attract foreign direct investments;
3. Promote tourism;
4. Promote international trade;
5. Promote national socio-economic development (Masters, 2019).

According to the authors, economic diplomacy combines diplomatic abilities with economic instruments to help a country achieve its economic, political, and strategic objectives. However, the diversity of economic diplomacy methods depends on the country's might, political agenda, and objectives.

Sanctions have become one of the most favored tools for governments to respond to foreign policy challenges. Governments and multinational bodies impose economic sanctions to try to alter the strategic decisions of state and non-state actors that threaten their interests or violate international norms of behavior. Sanctions are often poorly conceived and rarely successful in changing a target's conduct, while supporters contend they have become more effective in recent years and remain an essential foreign policy tool. Sanctions have been the defining feature of the Western response to several geopolitical challenges, including North Korea's nuclear program and Russia's

intervention in Ukraine. In recent years, the United States has expanded the use of sanctions, applying them and ramping them up against adversaries in Iran, Russia, Syria, and Venezuela (Masters, 2019).

Economic tricks and schemes, including sanctions executed by certain individual countries, may not only be advancing the state's prosperity but also manipulating its foreign commercial and financial connections in support of its foreign political agenda. The authors substantiate this assumption by the example of Russian sanctions introduced against Georgia in 2005 which developed into a trade war. Later in 2008, Russia's hostile stance towards Georgia developed into disproportional aggression against the country. However, Russia had been spared sanctions in the case of Georgia but after the aggression against Ukraine, it has been sanctioned (Abuseridze, 2020).

Economic diplomacy of global players such as of the United States, European Union, or certain EU members, goes much beyond supporting their enterprises/investments abroad or sales of items produced by their companies. They apply economic penalties for benevolent objectives like deterrence of global negative actors, such as terrorist funders and drug smugglers, as well as corrupt authorities. On the other hand, they entail coordinating international help and financing for partner nations experiencing conflict or natural disasters. They may even include providing support to combat corruption and/or regulate commerce with smuggle-prone goods. Their economic diplomacy identifies which countries should merit financial/development assistance, negotiates agreements with host governments for effective application/implementation of aid for reform programs. Building international coalitions to assist countries in recovering from financial crises is part of economic diplomacy for these global powers.

Economic diplomacy employs economic resources either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes called 'economic statecraft' (Berridge & James, 2003). Broadly speaking, diplomacy deals with the articulation of foreign

policy in the real world of trade and investment between nations where high principles and objectives being set out in the policy are fleshed out and put into effect (Rana, 2002).

The economic diplomacy strategy, which is based on a multilateral system and broader foreign policy aims, entails a legal framework, basic regulations, and rules/norms of enforcement that are mandatory to ensure fair international trade. In this regard, the role of the WTO as an intergovernmental organization dealing with the rules of trade between nations is enormously significant. Economic diplomacy deals with economic policy issues such as in the multilateral fora like the World Trade Organization (WTO).

Transformation of International Trade Agenda

Free trade among nations is largely seen as the key to economic growth, peace, and better standards of living, leading to a happier state of human existence at a global level (Krugman, 1979).

Trade and investment illustrate how progressive policy decisions over the post-1947 period have led to a steady increase in economic interdependence. This has been facilitated by negotiated as well as unilateral liberalization. The advances in trade liberalization have not been linear. In between major advances, there have been periods when there was limited progress in multilateral negotiations, such as during the 1950s, 1970, and the 2000s. Nevertheless, advances in liberalization together with the fact that commitment under the General Agreement on Tariffs and Trade is binding, meaning they are only reversible at some considerable cost to any party wishing to revert to more closure, have meant a progressive increase in trade and investment interdependence (Cooper, Heine, Thakur, 2013).

In modern circumstances trade demonstrates how economic diplomacy has become multipolar. This means that trade diplomacy today requires the negotiation of more inclusive agreements, whereas in the past it was possible for the dominant OECD economies to shape outcomes. When the GATT was established, several countries had a hegemon able to shape

both the norms on which it was based and to a large extent the outcome of negotiations (Berger, Plas, Huygens, Akrimi, Schneider, 2008).

This has now changed. At the end of the Uruguay round of trade negotiations, which transformed the GATT into the WTO, all members were obliged to adopt the single undertaking and thus the full set of trade rules.

The establishment of the WTO at Uruguay Round was aimed at creating an integrated legal system in world trade relations for free and fair trade. Today, many critics of the WTO claim that the WTO is “pathologically secretive, conspiratorial and unaccountable to sovereign states and their electorate” (Jonquieres, 1999). Developing country members criticize the WTO and object to what they consider to be their marginalization within the WTO's negotiation and rule-making process. While for many years inter-national trade law was not part of the mainstream of international law, the WTO law is now the "new frontier" of international law. Nobody questions that the WTO law is an integral part of public international law.

Regarding negotiations, an important role of the WTO is to house negotiations on trade liberalization. The authors argue that negotiations are inevitably a reflection of the different interests of different countries and country groups. On the majority of issues, decisions are made by consensus in the WTO, which means that countries should find the necessary balance between different interests. The world at the time of the Uruguay Round was different from today. This is clearly shown in the duration of negotiation rounds in the WTO. The last round of negotiations – "Doha round" was launched in Doha in 2001 and it is still ongoing. After a decade of talks, discussions remain at a standstill. The Doha Round is focused on reducing critical trade barriers in areas such as agriculture, industrial goods, and services. This would urge businesses around the world to specialize in the production of goods and services, achieve greater economic status, and increase their efficiency and productivity, all of which would permit them to deliver higher quality and cheaper products to international consumers. With the various challenges that lie ahead, new thinking is needed

in the WTO. The approaches of twenty years ago are no longer adequate to today's global obstacles. The WTO Secretariat needs to begin a process that will revitalize the organization and equip it to deal with the changing international economic environment. Regarding the future of the WTO, it has a great opportunity to improve sovereignty, democracy, and the market. All three ideas have nonetheless come down to as foundations of modern international society, and to which all members of that society are at least rhetorically devoted. Two of the three concepts are indispensable to the multi-lateral trading system: there could be no WTO without sovereignty and international law, and it would have no purpose without market economics. WTO should be oriented in the future on democracy between members: leadership and burden-sharing, the future of the multilateral trading system depends in part on the ability of negotiators and political leaders to demonstrate the value of trade liberalization to legislators and representatives of civil society. The authors argue that the WTO should focus on Institutional reforms. At issue are the changes members might make in the WTO as an institution, how they might make better use of the information that the system generates, and what new ideas may develop for the trading system (Abuseridze, 2021).

Developments in international trade relations such as the growth of regional trade organizations, the creation of the WTO, highlight the need to recognize and understand the new actors. Earlier conventional classic studies of trade diplomacy such as Curzon (1965) and Hudec (1975) provide state-centric accounts of power-based diplomacy in the GATT. The world economy is now governed by a set of economic institutions with rules and procedures. With the creation of the WTO in 1995, trade between states is increasingly governed by international rules which have to be negotiated and implemented. The first decade of the 21st Century has also witnessed an increase in the number of bilateral free trade agreements between states which, all extend the agenda and need for trade diplomacy (Donna & Hocking, 2010).

Modern globalization and the transformation process makes economic diplomacy a more important phenomenon. As part of the current transformation, actors have expanded their engagement in diplomatic skills and developed a strategy for economic diplomacy to achieve its economic/trade objectives. Against the backdrop of globalization and pandemic, diplomacy remains an important tool.

In the last few years, the WTO finds itself on challenging global terrain. The COVID-19 pandemic, the U.S.-China trade war, the long process of the Doha Round, and the challenges to the multilateral system require a new and ambitious trade diplomacy agenda.

This agenda should encompass a clearly defined and consistently applied framework that sets the WTO's trade policies.

Therefore, there may arise a legitimate question, what should be the trade diplomacy agenda of the WTO in the future?

According to the authors, in the future WTO has a great opportunity to improve sovereignty, democracy, and the market. All three constituents are considered today as foundations of modern international society to which all society members are at least rhetorically devoted.

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According to the authors, the future of the organization is determined through identifying existing problems and assessing the challenges in the context of globalization.

However, the latest trade tension has put the WTO's Dispute Settlement function, long referred to as the "jewel" of the WTO under question.

Therefore, to ensure the credibility of the WTO and its effective work, the authors take the initiative to develop agenda and start procedural actions to eliminate this shortcoming. The agenda should encompass a clearly defined and consistently applied framework that sets the countries' economic/trade and investment policies (economic diplomacy skills) in alignment with its foreign and domestic policies to address the backlash against globalization.

CONCLUSION

Summarizing the results of the research, the authors believe that the challenges induced by the continuing globalization create a qualitatively new scene and the actors need to undergo significant transformation to ensure the formation of a competitive strategy. Hence, clarity of strategic objective will be critical to the pursuit of economic diplomacy, which should be concerned with four aspects:

1. Commercial diplomacy implies the use of government and diplomatic resources to promote fair trade, create future business opportunities and promote business and entrepreneurship.
2. Norms and standards established by the international organizations such as International Standards Organisation - ISO (includes food and health standards, etc.); Organisation for Economic Co-operation and Development - OECD (includes international investment, taxation, government procurement, etc.); World Customs Organization - WCO (includes customs and trade facilitation).
3. Bilateral and multilateral agreements are reached through negotiations on trade, investment, development, finance, or the environment that are inevitably a reflection of varied interests of different countries and country groups. In modern

circumstances, the negotiations are based on the principles established by international norms, i.e. where free trade, specific market access commitments, etc. are observed. The talks can be highly complicated. In some cases, the negotiations are almost as large as the entire round of multilateral trade negotiations.

4. Economic statecraft constitutes an intentional attempt of a state to deliberately incentivize economic actors to act in a manner that generates security externalities conducive to the state's strategic interests, primarily through economic means. Aspects of successful economic diplomacy must be based on universal values and a rules-based international system such as democracy, rule of law, justice, and equality.

The role of the WTO in ensuring stable and fair trade is immense. Trade growth occurs owing to the free trade system. Hence, the WTO through its leverage should facilitate rule-making for trade liberalization, dispute settlement between its member states, and monitoring to ensure implementation of the WTO agreements. Because of all-embracing globalization, the WTO should be pushing for reforms.

These reforms should restore/ensure confidence towards the WTO as the most trustworthy intergovernmental organization as well as between the member states. Eventually, it will promote fair trade, economic revival, and welfare which is in the interests of all actors.

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