

The Economic Dimension of Diplomacy - a Component of Foreign Policy

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"The economy is the destiny" - this famous dictum of the German industrialist and Foreign Minister in the Weimar Republic, Walter Rathenau, is today more appropriate than ever before during this century.

With the end of the ideological and military confrontation between the East and the West, the economic factor attained an unprecedented significance in European and international politics. The common commitment of all European states to democracy and the market economy has opened prospects for cooperation that transcends borders and ensures prosperity and peace as never before in this century.

And this is why foreign policy and diplomacy must take into account the factor economy more than before if they are to attain their main aims - peace, stability and prosperity. It is, namely, truer today than in Rathenau's times that, in an integrating Europe, prosperity and social and political stability are no longer attainable within the boundaries of single states.

This is all the more so in view of the accelerating and all-pervasive globalization of the world economy. In the 1990-1994 period alone, the annual growth rate of the world trade volume increased by about five times faster than that of the world's GDP.

However, globalization does not imply just the expansion of world trade but also an ever greater mobility of capital and labour. Beginning in the 1980s, foreign investment has been expanding considerably faster than world trade.

The international circulation of capital has also become globalized. Parallel to the globalization of the commodity, service and capital markets, a world labour market has also been emerging, and introducing global competition in low-cost jobs.

The disappearance of trade barriers, the furious rate of progress in communication and transport technologies, and the growing mobility of production factors are transforming the world

more and more into a global market, with keen world-wide competition between its various parts.

NEW CULTURE OF COEXISTENCE

In view of the ever firmer integration of national economies and of the increasingly tough global competition, it would be a fatal error to believe that the challenges of tomorrow can be met with the old instruments used by national states yesterday.

The revolutionary consequences of globalization following the end of the cold war demand a profound change of outlook and a new way of thinking also in diplomacy and foreign policy. This implies, to begin with, the modernization and an even stronger professionalization of the economic departments in our embassies and foreign ministries. The practice of periodically exchanging personnel between companies and diplomatic representations would provide a substantial contribution in this respect. Perhaps more than ever before in its history, diplomacy should be regarded as the caretaker of the economic exchange between our countries.

However, globalization requires more than just the modernization of the instruments of our diplomacy.

In fact, we are dealing here with a deep-reaching structural change of international politics itself: the ever greater global interdependence demands from us multilateral thinking and acting in foreign policy. The most important task of diplomacy and foreign policy in the age of globalization is, therefore, to provide conditions, within a multilateral framework, for the free play of forces and factors of production, intervening only where this is absolutely necessary. This concerns above all the progressive lifting of trade and investment barriers and the evolvement of a fair and equitable world trade order.

The prosperity of nations depends to a great extent on future-oriented world-wide cooperation in economic and monetary policies, as well as on the willingness of our businessmen to take risks, on the educational level of our population, on the imagination of our inventors and researchers.

* Introductory address at the Symposium organized by the Ministry of Foreign Affairs of Slovakia, Bratislava, 14th May 1996

No economic diplomacy, however good, can compensate for this; but it can reinforce the economic performance of our respective countries.

One of the lasting contributions of the founding fathers of European integration is to have fundamentally redefined the relationship between European economy, diplomacy and foreign policy. A decisive initiative in this direction was provided by the two great Frenchmen and Europeans, Robert Schuman and Jean Monnet, with their proposal to establish the European Coal and Steel Community and thus to integrate the coal and steel sectors and to subordinate them to a common, supranational authority. In doing this, Monnet and the founding fathers of European integration pursued the aim - to quote Monnet - "of cutting a breach into the ramparts of national sovereignty, deep enough to create among the states the unanimity needed for peace".

The unifying force of common economic interests and a novel, supranational form of European cooperation were conceived as barriers to prevent once for all a new military confrontation in Europe.

The increasingly strong economic interlacing of European national economies, combined with the simultaneous transfer of political powers to supranational European institutions, has given an impetus to peace and prosperity without precedent in European history. In result, a completely new culture of coexistence has emerged in the EU in recent decades, based on jointly defined and exercised commitments. War between member states of the European Union has become inconceivable; in economic terms, the European Union represents, together with the USA and Japan, the most prosperous region in the world. A decisive factor in this was the circumstance that trade policy was placed within the competence of the European Community. This precluded any abuse of trade for the purposes of power policy and paved the way to a common perception of trade interests for Europeans.

DEVELOPMENT OF COMMON INSTITUTIONS

The current stage in European integration is represented by the Treaty of Maastricht on the establishment of the European Union. After the end of the cold war and of the division of Germany and Europe, the idea was adopted of building a political and a monetary union in order to ward against a renationalization of European politics. The pooling of our resources appeared all the more urgent as no single European country seemed to be capable of an effective response to the new global challenges. This was not moti-

vated only by the emergence of new regional centres of power, such as the North American Free Trade Association NAFTA, or the Asian-Pacific Economic Community APEC, or ASEAN. It is also the great political challenges - underdevelopment, mass migrations, the proliferation of weapons of mass destruction, international crime and terrorism, as well as the threat to our common basis of existence, to natural resources - which call for resolute common action.

There is no doubt, however, that the European Union, which today numbers 15 member countries and is expected to continue growing in the years to come, will have to adjust its institutions to the changing international setting, if it wishes to remain effective. To make sure this will be so is the task of the Intergovernmental Review Conference on the Maastricht Treaty, which opened in Turin a few months ago. The main objectives are to enhance the democratic legitimization of European institutions and to raise their efficiency. At the same time, the European Union is required to formulate a more coherent and efficient common foreign and security policy, so as to be able effectively to pursue its interests, together with its most important partners, above all the USA and Japan. Furthermore, the citizens of the European Union expect progress also in the settlement of pressing issues of common domestic and legal policies, of the asylum policy, and of crime control.

Together with the further development of common institutions, the realization of the economic and monetary union by January 1st 1999 is likewise of major importance for prosperity and stability in Europe. European diplomacy ought to pursue these goals with full force, but also with a prudence that is always advisable in matters concerning currency issues. It is only with the introduction of a single European currency that a common internal market will be fully installed. The EU can no longer afford the luxury and the problems of 14 different currencies if it wishes to remain competitive in this age of globalization, which pervades also the financial markets. Fluctuations of exchange rates between European currencies are already affecting European export industries more adversely than fluctuations of the dollar or the yen. It is evident, therefore, that a single European currency will provide security, not only for the European economy but also for its partners the world over. At the same time, it will strengthen Europe's position in relation to the dollar and yen areas.

I am, further, convinced that the states of

Central, South-eastern and Eastern Europe will also profit from the completion of the monetary union. A stable "Euro" will assume the function of the most important reserve and transaction currency for those European states which are associated to the EU or have close economic relations. In this manner, the monetary union might become the nucleus of an all-European economic and stability zone.

However, this deepening of European integration must not take place at the cost of the further expansion of the EU. The peaceful freedom revolutions of 1989/1991 have demonstrated that the peoples of Central and South-eastern Europe do not only share with the EU a common history and culture but that they are linked with it by common values. And yet, six years after the end of the East-West conflict, Europe is divided by a prosperity and stability boundary, stretching along the eastern and south-eastern borders of the present EU. That is why the extension of the EU stability zone to cover the countries of Central and South-eastern Europe and the intensification of relations with Eastern Europe are an indispensable precondition for lasting stability and security in all Europe.

SPECIAL RESPONSIBILITY OF THE EU

Since the end of the cold war, the European Union has provided to the countries of Central and South-eastern Europe not only advice and support but also free trade through the so-called European Agreements and the prospect of full membership.

After the conclusion of agreements with Poland, Hungary, the Czech Republic, the Republic of Slovakia, Romania and Bulgaria, the already initialled agreement between the EU and Slovenia should be signed and ratified at the earliest possible moment. In addition to this, negotiations over a similar arrangement with Albania should be initiated in the nearest future. Finally, after the peaceful settlement of the conflict in the former Yugoslavia, a European Agreement should be concluded also with Yugoslavia's successor states. I am convinced that this European prospect represents a major prerequisite for a lasting peace in the former Yugoslavia.

And herein lies the special responsibility of the European Union: it is the only one who can offer such a prospect for Europe.

The extension eastwards imposes a number of heavy tasks on the EU as well as on the associated states. Yet, the history of European integration has shown that both the European Union and

its individual member countries have always profited by the accession of a new member. With each new member, the European Union becomes more European.

I am confident, moreover, that the accession of the Central and South-eastern European states as associated members, with their more than 100 million inhabitants, consumers and producers, will provide strong and lasting growth impulses to all Europe.

At the Copenhagen meeting of the European Council, the EU linked the admission of new members with a series of political and economic conditions. This involves for the associated states: respect for democracy and human and minority rights and the development of stable, good-neighbourly relations are considered no less important than the necessary adjustments of legal and economic structures: the creation of a modern legal system, of a viable public administration as well as an efficient banking sector and consistent execution of privatization.

The European Union and its member states will continue to assist the countries of Central, South-eastern and Eastern Europe in this difficult process of transformation with advice and support; the main responsibility, however, lies with the governments and parliaments of the associated states themselves. In this, they are facing a series of major challenges. The same applies to the elimination of social repercussions attending the transformation process. This makes all the more relevant the decision of the European Council in Madrid to select by the end of 1997 those associated states with whom negotiations on admission will be first instituted - an important political and psychological signal to the governments and the populations in the associated states.

Nevertheless, more will have to be done than just this "structured dialogue" between the EU and the associated states in order to speed up their accession to the European Union. The associated states should already now have the possibility regularly to attend the sessions of the EU Council of Ministers - albeit without the right to vote. In addition, a date should be set as soon as possible for the beginning of talks about admission, to begin simultaneously with all associated states. January 1st 1998 would seem to be a good time for this. On the other hand, the completion of the negotiations and the date of admission will depend exclusively on the way political and economic conditions are met. There should be no place in this for considerations of a geopolitical nature.

THE ROLE OF A TRANSATLANTIC COOPERATION

Europe of the future will also be a Europe of economic regions. The intensifying cooperation among Baltic states, together with the establishment of the Central European Free Trade Area (CEFTA), are characteristic for this trend. CEFTA is an important contribution by the countries of Central Europe to the revival of the economic relations among them and to the liberalization of European trade in general. At the same time, CEFTA will also promote the economic rapprochement between the Central European states and the EU. The role which CEFTA has thus undertaken should be further enlarged and strengthened, leading towards a customs union.

Security, stability and prosperity in Europe cannot be lastingly ensured without democracy and prosperity in Russia and in the other successor states of the former Soviet Union. Aware of this, starting in 1992, the European Union signed trade and cooperation agreements with Russia, the Ukraine and with most of the other members of the Commonwealth of Free States. Although not warranting the prospect of full membership in the EU, these trade and cooperation agreements offer the possibility, presently to Russia, the Ukraine, the Belarus and Moldova, of establishing a free trade area with the European Union.

It would be to the benefit of both the European Union and of these states to set up this free trade area at the earliest date possible, for this is an important precondition for the evolvement of an all-European economic space, where boundaries increasingly lose their divisive character.

The same applies also to the development of an all-European infrastructure. The European Union is therefore required to continue with determination of its efforts to build trans-European networks in power transmission, telecommunications and transport. In addition to this, an all-European environmental policy is an urgent necessity. I am convinced: not only would an all-European infrastructure offer to the whole of Europe new growth dimensions, but the unifying power of common economic interests would help to overcome national prejudice and selfishness.

Support to the reforms in Central, South-eastern and Eastern Europe, however, and the creation of an all-European economic space are not a task for the EU and its members alone. Also the USA, Japan and international financial institutions, like the IMF, the World Bank and the European Bank for Reconstruction and Development must continue to play their part within the scope of a coordinated multilateral process.

However, in this age of globalization, it would be an error if the Europeans looked only after themselves. A stable and cooperative world order presupposes close cooperation based on mutual trust between Europe and the North American democracies. Neither the USA and Canada nor the European Union are today capable of providing effective responses to the global challenges by relying only on their own resources. Without their joint action, none of these can be successfully met.

Both sides of the Atlantic are tied by links of common values and political, economic and strategic interests. It is therefore imperative that the European-American cooperation be taken beyond the scope of the still indispensable NATO and permanent American involvement secured also after the cessation of the cold war.

It is to be expected, however, that transatlantic cooperation will be increasingly concerned in future with economic matters. It was, therefore, quite justified that the "Transatlantic Agenda" and the "Joint Action Plan", signed by the EU and the USA in Madrid, in December 1995, should call for the strengthening of the multilateral trade system and for improved accessibility of markets. The great vision of a new "transatlantic market" that would cover the North American Free Trade Area and the whole of Europe can be materialized only if the elimination of trade and investment barriers continues unabated. There is no alternative, either for the USA or for Europe, to an enduring transatlantic partnership, a true "Alliance for Freedom and Progress".

CONCLUSION

With the end of the cold war, we are witnessing the emergence of new regional associations all over the globe, motivated above all by economic interests. The establishment of the North American Free Trade Area NAFTA, the Asian-Pacific Economic Community APEC, and the Latin American Free Trade Area MERCOSUR, or the increasingly intensive cooperation among the ASEAN group and the Gulf Cooperation Council are expressions of the ever stronger tendency towards regional cooperation and liberalization. There is no doubt that the major challenge of the 21st century will be how to bring together the emerging regional power centres and to integrate them within a fair and cooperative world economic order that is not based on protectionism. Here, too, lies one of the great tasks of 21st century diplomacy.

The creation of a stable world order can be accomplished only by means of a cooperative regionalism. On the contrary, a confrontational regionalism, or the establishment of new economic blocs, and thereby inevitably also of political blocs, would only reproduce the old national egoisms at an even higher level and serve as a source of new instabilities that might erupt into new conflicts.

It is essential to resist the risky temptation of a renewed protectionism; this is the only way to enable the poorer regions to profit by the opportunities offered by globalization and to make good use of their comparative advantages. The freedom of the world market must remain intact. At the same time, the growing economic unification of the world's regions should be accompanied by intensive political dialogue.

The large industrial countries bear a particular responsibility for a new, just and stable world order. This applies first of all to the USA-EU-Japan triad and to the G-7, the group of seven great industrial nations. In the past, the G-7 meetings resulted in considerable breakthroughs, such

as the conclusion of the GATT Uruguay Round, support measures for Central and Eastern Europe, or the reform of the United Nations. In future, however, the G-7 will have to work even harder on common strategies in meeting the global challenges of tomorrow.

This, in turn, calls for new thinking also with regard to the composition of the world economic summit. I mean that the G-7 group should be enlarged by one more member, Russia, and thus become G-8. But even this cannot be sufficient in view of the new global challenges. In other words, a globally effective economic policy is no longer conceivable over a longer term without India, China, Africa and Latin America.

Having transcended its divisions, Europe finds itself in the midst of the age of globalization. Taking advantage boldly of the opportunities this offers remains a particularly momentous responsibility of European politics and diplomacy. The response to the challenges of globalization lies in European integration and global cooperation, not in reverting to the mistakes and aberrations of nationalism. ■

Clinton's Second Term

Radovan Vukadinović

American presidential elections are an important event, not just for the US but for all the parts of the world in which the impact of America is felt. This is particularly true today, with the US as the only country which can independently assume the role of a superpower and act on the international political scene in accordance with its national interests.

The great pre-election show is over, and Clinton is one of the very few Democrat Presidents to be given a second term in the White House. Now is the time for political analysts, in the United States and elsewhere, to get busy showing why and how America has re-elected Clinton.

When, in 1994, the Democratic Party suffered a heavy defeat in the elections for the Congress, this seemed to be a revenge by the voters, who would no doubt soon get rid of Clinton as well. Today, however, it seems that this actually marked the beginning of the victorious offensive

by Clinton and his team and that the defeat had actually served as a serious and timely warning. During the first two years, the American voters seemed to have seen in Clinton's policies too many unknown factors, surprises, and even shocks, but their main objection was what they regarded as a shift to the left. This shift was reflected in the constant tendency by the Administration to seek remedy for every problem that befell American society in a new government programme or in a new tax. In voting against Democrat candidates, the American electorate wanted to put an end to such government and to give a chance to the Republicans to realize their much-vaunted "Contract with America".

THE CHAMPION OF PUBLIC INTEREST

This major defeat of the Democratic Party was probably also the source of Clinton's success in winning the Presidency for a second time. The