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## Diplomatic Realisation of the EU’s “Goeconomic Pivot”: Sanctions, Trade, and Development Policy Reform

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### Abstract

At a time when policymakers of the European Union (EU) are pivoting towards a more assertive use of economic power in external relations, this article discusses the merits of situating the much-debated use of economic sanctions and other economic power-based instruments in the broader terminology of EU diplomatic capabilities. Pointing out a number of shortcomings in traditional literature on geoeconomics and economic statecraft, the article applies the concept of “geoeconomic diplomacy” to demonstrate how the EU’s geoeconomic success will heavily depend on the abilities of diplomats and civil servants from institutions and member states to engage in viable relationships with relevant public and private actors in the state-market realm. Based hereon, it identifies institutional and context-specific challenges that could affect the comprehensive realisation of recent EU policy reforms relevant to the geoeconomic agenda: (a) institutional measures to ensure a more robust enforcement of sanctions, (b) a new anti-coercion instrument to counter coercive trade practices by third countries, and (c) a more efficient, focused, and strategic utilisation of EU development funds for purposes of stability and peace. The article concludes by discussing the prospects for bringing such instruments closer together at the level of practical implementation through the establishment of stronger relationships between practitioners working across the EU’s various geoeconomic intervention areas.

### Keywords

anti-coercion; development policy; economic statecraft; European Union; geoeconomic diplomacy; sanctions; stabilisation

### Issue

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### 1. Introduction: Contours of the EU’s “Goeconomic Pivot”

Policymakers of the European Union (EU) have, in recent years, engaged in extensive deliberations on how to more assertively instrumentalise levers of economic power for foreign and security policy objectives. The revived preoccupation among Europe’s highest political echelons with the intrinsic relationship between national wealth and strategic influence has first and foremost played out against the backdrop of the more forceful use of economic power policies by other global actors. Be it the United States’ increasing deployment of economic sanctions, often with extraterritorial effects on European

economic interests, or China’s strategic use of trade and investment policies to either build relations or force concessions from states or private actors, the global tendency for the proactive instrumentalisation of economic resources has also animated EU policymakers to ponder about Europe’s place and future in this reforming “geoeconomic” order.

Among the strongest proponents to emerge in favour of such a geoeconomic approach to re-defining the EU’s role has been the president of the European Commission, Ursula von der Leyen. Already in her welcoming instructions to the new college of commissioners, von der Leyen (2019) starkly emphasised the imperative for the EU to strengthen the use of economic and finan-

cial instruments in its external relations. And words were soon followed by actions. In the course of 2021, the Commission, the European External Action Service (EEAS), and member states have presented numerous new initiatives aimed at introducing or ameliorating a set of geoeconomic instruments. This article focuses on three of the most prevalent. First, the announcement by the Commission of a series of measures to reduce well-known obstacles for ensuring the coherent implementation of EU unilateral sanctions. Second, the Commission's newly announced plans for creating a new EU anti-coercion instrument (ACI) designed to respond to economically powerful third countries' intensifying use of coercive trade measures to force the EU into political or economic concessions. Third, in eyeing the need for a more efficient, focused, and strategic utilisation of EU development funds, EU institutions and member states agreed on forming a new Neighbourhood, Development, and International Cooperation Instrument (NDICI) that, among other things, prioritises funding for so-called "peace and stabilisation" interventions to support EU foreign and security policy objectives in conflict situations.

This article argues that these three distinct policy announcements sharpen the contours of an emerging European "geoeconomic pivot." Habitually understood as states' strategic utilisation of national wealth to obtain geostrategic objectives (Blackwill & Harris, 2016), the analytical approach of geoeconomics has received renewed attention in both scholarly and policy-oriented spheres. Geoeconomic foreign and security policy instruments are here understood as those being used by policymakers to directly or indirectly instrumentalise global trade, finance, or value chains for purposes both of and beyond direct economic objectives. But whereas the relevance for a geoeconomic analysis of EU foreign and security policymaking has been well-established (Gehrke, 2020; Helwig, 2019; Schwarzer, 2020), the challenges that EU policy practitioners and diplomats might face when engaging in the instrumentalisation of market affairs is less understood. Indeed, an often-disregarded aspect of EU economic power politics is that the material basis for this power—i.e., national wealth and economic levers—is mostly either in the hands of or strongly influenced by private actors outside the direct sphere of government control. In other words, as policymakers do not directly control the market forces they seek to instrumentalise, they have to find innovative ways of turning economic levers into geoeconomic leverage.

To analyse this paradox, the article applies "geoeconomic diplomacy" as a conceptual pathway to examining the respective roles played by and relationships between diplomats, civil servants, and various non-state and private actors in realising policy ambitions at the intersection of power politics and market instrumentalisation. This allows a congruent analysis of possible implementation challenges of three evolving geoeconomic policy areas—economic sanctions, defensive trade measures,

and peace and stabilisation assistance—that are all too often treated as separate fields, both analytically and politically. To this end, the article addresses two crucial questions concerning the EU's potential as a geoeconomic actor: first, the challenges that EU institutions and member states face at the level of everyday diplomatic practice in successfully implementing geoeconomic policies in the state-market realm; and second, whether individual geoeconomic instruments are designed and implemented with a view to ensure their practical interplay in ways that support broader EU foreign and security policy ambitions.

While the article does not claim to present an exhaustive analysis of these wide-ranging questions, it proposes a new pathway for discussing them. First, it explains the analytical necessity for moving beyond traditional concepts of geoeconomics and economic statecraft, which are largely dominated by realist assumptions about the state's ability to act as a unitary actor with unhindered access to national economic capabilities that it can use toward its strategic objectives. Second, it introduces the concept of geoeconomic diplomacy, arguing for the need to enhance our analytical sensitivity towards the actors, relationships, and processes that are relevant for translating economic levers into geoeconomic leverage. And third, it applies the concept to critically assess the everyday challenges and opportunities that diplomatic practitioners from EU institutions and member states can face when tasked with realising recent EU policy announcements in areas of sanctions, trade, and development policy. The article concludes by discussing the need to manage the expectations of both policymakers and observers in order for the EU to put its emerging geoeconomic pivot into practice, placing particular stress on the necessity for a more proactive EU geoeconomic diplomacy to forge practical ties between its various geoeconomic instruments.

## **2. Actors and Processes of Economic Power: Moving Beyond Geoeconomics and Economic Statecraft**

While the terminology of geoeconomics is commonly utilised by both practitioners and scholars to make sense of international economic power-based competition, its exact meaning and implication remain matters of conceptual dispute. This article, for its part, sides with what seems to be slowly emerging as a consensus in the foreign and security policy related branches of the academic literature, understanding a geoeconomic policy as a state's application of economic means for obtaining specific geostrategic objectives. Just as the use of military means of power can entail numerous strategic, economic, and humanitarian consequences, the use of economic means of power can be used to obtain a wide range of different geostrategic objectives (Blackwill & Harris, 2016). This definition thereby not only stands in opposition to those identifying a geoeconomic policy based on its economic ends (Youngs, 2012). It also

implies a relational understanding of economic power resources, meaning that such resources are only relevant to geoeconomic analysis if they carry clear geographical relations or demarcations to a specific policy objective in question. The present analysis of the EU's geoeconomic pivot therefore does not include every projection of European wealth at the global stage, but only focuses on the economic levers the EU seeks to instrumentalise in the narrower realm of foreign and security policy.

A second contested feature in the geoeconomic debate relates to the implicit assumptions that the terminology carries. Here, clarity is gained by distinguishing geoeconomics as an analytical category from its characteristic as a foreign and security policy practice (Scholvin & Wigell, 2018). As an analytical category, geoeconomics is often related to an ontological understanding of international power politics that builds on realist and mercantilist assumptions about zero-sum interests and inter-state conflict. This implicit perception of the conflictual drivers of world affairs was already captured when Luttwak, in the Cold War's final days, introduced geoeconomics as an analytical category, describing it as "the admixture of the logic of conflict with the methods of commerce—or, as Clausewitz would have written, the logic of war in the grammar of commerce" (Luttwak, 1990, p. 19).

Looking at geoeconomics as a practice of foreign and security policy, as this article does, entails analysing how policymakers seek to utilise economic means of power to obtain their specific geostrategic objectives. Oddly, however, most prevalent understandings of geoeconomics have not fully acknowledged how structural circumstances and influential non-governmental and private actors in the state-market realm might restrain policymakers in their effective use of economic means of power (Csurgai, 2018, p. 45). This has resulted in a lack of attention to practical difficulties related to geoeconomic policymaking. Arguably, this lack of critical reflection on whether geoeconomic instruments are under the full control of the policymakers that wish to use them might be a result of the conceptual literature's domination by realist-leaning approaches.

A less assumption-driven and more governance-oriented take on the study of economic power was originally presented by Baldwin in his seminal works on "economic statecraft." Baldwin introduced this conceptual approach in the mid-1980s as a means to scrutinise how state machineries translate economic levers into economic power and strategic influence in foreign and security policy. In defining statecraft as "the instruments used by [policymakers] in their attempts to exercise power" (Baldwin, 1985, p. 9), he insisted on the need for being analytically sensitive to the specific circumstances that governments face in the state-market realm. By orientating his analysis of economic power politics towards the governance structures behind the instrumentalisation of national wealth, Baldwin presented a useful pathway for understanding that economic power capabilities are not

just resources that a state—or any polity—might possess, but that the use of them requires governance actors to engage in processes for translating economic levers into actual leverage.

But whereas Baldwin acknowledged that relations between states and markets are subject to specific tensions—particularly when it comes to questions about the former's degree of control over the latter—his analysis of the state's accessibility to the resources that form the material basis of its economic levers and the actors involved in shaping them was less expansive. For example, he was largely dismissive of the view that economic power instruments, such as sanctions, should be particularly challenging to implement. Difficulties in this realm would mostly be caused by governments' lack of economic expertise, which would often not be on par with their military or diplomatic knowledge (Baldwin, 1985, p. 139). But by failing to propose how to strengthen governmental expertise in the state-market realm, Baldwin's idea of economic statecraft was not sufficiently geared towards an analytical understanding of how a government's success at leveraging economic power is impacted by its ability to form and implement a geoeconomic policy on the ground. This is particularly the case when acknowledging that geoeconomic policies are normally implemented in highly complex, globalised, and interdependent spaces, dominated by myriads of public and, especially, private actors.

### 3. Geoeconomic Diplomacy and How It Relates to the EU's External Policies

Inspiration for fostering analytical sensitivities towards the "engine room" of foreign and security policymaking can be derived from diplomacy studies, a literature that examines the practices, institutions, and processes by which states and other polities represent themselves and their interests towards other international actors. Having consolidated itself as a subfield to international relations, the literature has identified a range of conceptual "diplomacies" relating to state-market relations, including typologies such as economic diplomacy, commercial diplomacy, business diplomacy, finance diplomacy, trade diplomacy, and corporate diplomacy, just to name a few.

While all relevant in their own right, none of them, however, exclusively encapsulates the diplomatic practices behind states' use of economic power (Berridge & James, 2003, p. 91). This also holds true for the widely used terminology of "economic diplomacy," which in recent decades has transformed from a mostly academic approach to the study of diplomatic actors and processes engaged in state-market affairs to also becoming a practical description of a specific branch of diplomatic work. As such, the terminology of economic diplomacy has been subject to a similar means-ends dispute as can be found in the literature on geoeconomics, i.e., whether it should be defined based on the economic means it

applies, the economic objectives it strives for, or governments' balancing of both (Okano-Heijmans, 2011). Contrary to the literature on geoeconomics, the prevalent use of economic diplomacy terminology has come to describe governments' diplomatic behaviour of supporting domestic businesses or national economic interests in foreign global markets or their diplomatic engagements in influencing trade negotiations and agreements (Woolcock, 2013). In other words, economic diplomacy has successfully described the economic agenda of diplomatic practice, particularly governments' role in supporting the creation of national wealth. But it has not proven sensitive to thoroughly describing the diplomatic behaviours, actors, and challenges that are special to cases where states seek to instrumentalise economic levers in the field of foreign and security policy (Lee & Hocking, 2018, pp. 4–5).

To fill this conceptual gap in the literature, and to have an analytical tool to critically reflect on the possible challenges dwelling underneath the EU's geoeconomic pivot, this article suggests the use of "geoeconomic diplomacy" as a conceptual lens that takes seriously the relational and actor-focused nature of diplomacy in geoeconomic analysis (Olsen, 2020). Understood here as the particular realm in which governments pursue the ability to employ national economic capabilities to realise specific geostrategic objectives in the conduct of their relationships with other international actors, it helps to focus our attention on the processual and relational dynamics that come into play when geoeconomic policies are to be converted into tangible action. The concept is thereby based on the assumption that the effective realisation of geoeconomic foreign and security policy instruments might be hampered by policymakers' lack of direct control over state-market relations. In the absence of such controls, it looks for the ability of government representatives to manage relationships with other state and non-state actors that might underpin or impede a government in realising a specific geoeconomic policy.

The concept intentionally does not draw any theoretical demarcation lines around what types of actions and practices are, a priori, to be defined as those of geoeconomic diplomacy, but remains open to the empirical study of the behaviour and processes that geoeconomic practitioners engage in. The conceptual inclusion of various governing actors as well as actors in the non-state and private spheres sets the study of geoeconomic diplomacy further apart from studies of economic *statecraft*, as it underlines a specific understanding of the geoeconomic field as inherently driven by multiple types of actors. In focusing on the practical ability of those who govern to leverage economic means of power through relationship-building at the level of diplomacy, the concept also relates to the study of virtuous individuals that have a prudence or practical wisdom for doing things well for the society they are embedded in (Goddard et al., 2019). In the case of geoeconomic diplomacy, this could include finding ways of influencing either technical civil

servants or highly independent market actors, traditionally not embedded in processes of power politics, for supporting the instrumentalisation of economic levers for foreign and security policy purposes.

Applying the concept of geoeconomic diplomacy to the study of the EU's external policies, three aspects of how this article interprets the concept's use should be noted. First, the concept's broad definition allows one to analyse all types of diplomatic activities relevant to the geoeconomic field, be they intra-EU relationships between diplomats and civil servants from either EU institutions or member states and non-state and private sector actors, or extra-EU relationships formed between EU diplomatic practitioners and their external, third-state counterparts. As will be discussed below, this article will apply the former focus, scrutinising possible practical impediments in the geoeconomic field due to intra-EU relationships between various types of actors. By suggesting an analytical approach that allows one to reflect on the compatibility of various geoeconomic policy areas and instruments, the article thereby particularly complements existing literature on states' use and implementation of sanctions. Scholars have, for example, demonstrated the value of analysing the EU's use of sanctions, formed as part of the EU's Common Foreign and Security Policy (CFSP), jointly with other types of geoeconomic instruments at its disposal, such as the Generalised System of Preferences (GSP; Portela & Orbie, 2014). Others have argued that the rise of global interdependencies has enhanced international actors' potential use of the sanctions instrument into policy areas outside the classical politico-economic realm—such as climate change or international terrorism—and hence called for integrated analytical approaches to understand whether the breach of a specific international policy norm might be sanctioned or not (Fürrutter, 2019).

Second, while the definition of geoeconomic diplomacy holds as a premise that geoeconomic power is first and foremost related to the instrumentalisation of *national* wealth, this does not preclude the concept from being applied to analyse states' attempts to utilise their economic power resources jointly. In the EU context, such processes form part of the widely studied topic of joint EU foreign and security policymaking (Müller et al., 2021). But contrary to most of this vast literature, this article's focus is not on the conditions under which member states are able or not to reach joint foreign and security policy agreements. Rather, it asks how the level of diplomacy can help to ensure that cumulative economic power, once decided upon, is used in the most effective way.

Third, the article contributes to a broader discussion of the possibilities and limitations of geoeconomic policymaking when embedded in governance models of liberal market capitalism with significant degrees of state-market independence. As such, the analysis forms part of an intensifying academic discussion on the challenges that policymakers from the EU, US, and similar

proponents of state-market independence face in comparison with their counterparts operating in contexts of state-capitalism, such as in China and Russia where policymakers arguably have more opportunities to instrumentalise domestic market forces for geostrategic purposes (Gertz & Evers, 2020; Norris, 2016).

#### 4. Implementation Challenges to the EU's "Goeconomic Pivot"

This section applies the concept of goeconomic diplomacy as a pathway for discussing the implementation challenges that could present themselves in the EU's pivot towards intensifying the use of economic levers in various aspects of its external relations. While not claiming to be an exhaustive review of every possible impediment, it offers brief analyses of three individual cases relevant to the EU's current efforts to revitalise well-known foreign and security policy instruments that all carry goeconomic characteristics: economic sanctions, defensive trade instruments, and development assistance targeted at peace and stabilisation. It should be noted that these instruments only represent a small handful of the wide array of various EU goeconomic policies that are currently subject to political discussions. Others include, inter alia, a recast of the EU's export controls regime for preventing the dual-use of goods and technologies for military and security-related purposes; new due diligence legislation that holds EU-based companies responsible for adherence to human rights and good governance in their entire value chain; a reform of the GSP that can be used to remove import duties from select developing countries; and a new screening mechanism for foreign direct investments that sets up minimum requirements for member states' screening obligations as well as a framework for information-sharing between them.

In acknowledging these alternatives, the article maintains its choice of the three cases below for demonstrating the value of analysing EU goeconomic diplomacy. Firstly, the cases represent a broad array of instruments whose goeconomic qualities are generally not recognised in an equal manner. While economic sanctions and defensive trade instruments—especially when framed in the terminology of "anti-coercion"—are readily understood as forming part of the EU's goeconomic toolkit, the use of certain development funds might be seen as a less obvious goeconomic case. However, as will be explained below, the analysis zooms in on a specific area of EU development funding that can be used to grant financial support to certain parties to political and/or armed conflicts, emphasising the relevance of goeconomic considerations in specific areas of development policy. Secondly, the three instruments are decided on and implemented through different legal and practical models, each of which opens its own institutional and geographical decision and implementation space. Sanctions are unanimously decided in the Council of the EU, while the implementation authority is with mem-

ber states. Trade policies are the exclusive responsibility of the Commission, which diminishes the role of member states in specific policy decisions, although the implementation of trade policies might often involve specialised agencies at the national level. Development policies are subject to a dual structure, where both EU institutions and individual member states, with varying degrees of alignment, implement their respective development programmes.

##### 4.1. Sanctions: Improving the Enforcement of Restrictive Measures

In the first weeks of 2021, president von der Leyen's vision of creating a "geopolitical Commission" was further substantiated in a communiqué from the Commission to various EU institutions. Besides advocating for a stronger role of the euro in the international currency system and the strengthening of the structures underpinning Europe's financial markets, the priority area most directly linked to the EU's goeconomic ambitions was the plan to further improve the implementation and enforcement of EU sanctions. Emphasising sanctions as playing "a critical role in upholding the EU's values and in projecting its influence internationally," the Commission explicitly acknowledged that the "implementation [of sanctions policies] is not as uniform across the EU as it ought to be" (European Commission, 2021a, pp. 15–16).

From the viewpoint of goeconomic diplomacy, the communiqué could be understood as EU policymakers' first public acknowledgement of a critical point raised for years by both sanctions scholars and practitioners regarding the complexity of implementing restrictive measures on the ground: EU sanctions are, by design, subject to unique implementation challenges due to the large amount of state and non-state actors and structures involved at both the EU and the national level, which can lead to an uneven implementation practice across member states (Drušáková & Příklad, 2016; Portela, 2015). Even if the Commission, in its role as guardian of the treaties, is nominally responsible for monitoring the coherent implementation of the Council decisions and regulations that form the legal basis of the EU's sanctions, member states bear ultimate responsibility for sanctions compliance through national "competent authorities" appointed by each member state. Lists of national competent authorities often consist of a myriad of actors. Besides "traditional" diplomats from the ministries of foreign affairs, competent authorities include experts and civil servants from ministries of finance and economic affairs, national banks, law enforcement, custom authorities, and other specialised agencies. The enforcement of one of the EU's most popular CFSP instruments is thereby delegated to more than 180 competent national authorities and further subject to different national investigative and judicial systems across the 27 EU member states (Giumelli, 2020, p. 131). The EU's decentralised approach to sanctions implementation has

come at a cost for diplomats, who have had neither centralised enforcement capacities nor comprehensive databases or information sharing mechanisms to ensure an overview of suspected or verified sanctions violations across the EU.

The recent policy announcement presents plans to address some, but not all, of these deficiencies that have traditionally blocked diplomatic practitioners' ability to ensure coordination when putting EU sanctions into practice. First is the new Sanctions Information Exchange Repository, which is to serve as a joint knowledge base to track sanctions implementation in various member states. Second, a single Brussels-based contact point for cross-border issues—for example, in certain cases member states can grant national sanctions waivers for companies or NGOs filing for humanitarian exemptions that are then valid across the Union—as well as an EU-wide whistle-blower mechanism to detect sanctions violations. Third, there are plans to establish an expert group with representatives from member states and the EEAS, which are *inter alia* mandated to address issues related to the EU's so-called blocking statute, intended to protect EU entities against the extra-territorial effects of legislation from third countries. Finally, EU institutions are to strengthen their ad-hoc consultations with NGOs and civil society representatives in order to obtain their views on the potential humanitarian impacts of EU sanctions policies.

These promising announcements for bolstering capacities at the intra-EU actor-relational level notwithstanding, there is still an important omission, *i.e.*, the failure to address the systemic integration of non-state actors into institutionalised processes of sanctions implementation. In other words, while geoeconomic diplomats and civil servants will experience new channels for mutual exchanges at the intra-EU level, outreach to non-state actors such as NGOs, businesses, interest organisations, and banks—often operating transnationally across numerous EU countries—runs the risk for remaining primarily at the level of member states. This ultimately impedes diplomatic practitioners' ability to ensure a “uniform” engagement with private and non-state actors relevant to sanctions implementation.

On the positive side, the communiqué emphasises plans for strengthening interlinkages between the sanctions' realm with the other geoeconomic instruments examined in this article. Not only does it underline the importance of actively ensuring that EU development assistance is used in full compliance with EU sanctions. It also explicitly articulates the intention for a revised approach for bringing sanctions enforcement in direct alignment with the EU's planned anti-coercion measures. While it remains to be seen how the comprehensive ambitions will play out in practice, the unequivocal mentioning of the links between sanctions with trade and development policies is a useful stepping stone for sanctions practitioners to engage in geoeconomic questions beyond their own silo.

#### *4.2. Defensive Trade Measures: A New Anti-Coercion Instrument*

A second recent policy announcement that underlines the EU's striving for a clearer geoeconomic profile is a new ACI designed to counter what EU policymakers have identified as third countries' increasing use of coercive trade and investment measures against the EU or individual member states. One recent example of such coercive practices was China's threat to impose tariffs on European car imports in retaliation for a German decision to ban “untrustworthy” vendors of 5G technology—including the Chinese company Huawei—from its market. Another was China's overt pressure on multinational companies to cut ties with or downgrade their business in Lithuania in the aftermath of Taiwan's opening of a representative office in Vilnius. By using an explicitly geoeconomic framing, trade commissioner Valdis Dombrovskis hence emphasised in March 2021 that the ACI is to be seen “as part of our new EU trade policy approach, [where] we have committed to being more assertive in defending our interests” (European Commission, 2021d). If economic adversaries such as China and Russia are not countered, the Commission argued, their coercive use of financial and economic instruments would continue “to compromise the economic and geopolitical interests of the EU and its members” (European Commission, 2021b, p. 2).

The Commission's proposal for a new ACI was presented in December 2021 (European Commission, 2021c). Just as it had been advocated by observers during the initial public consultation process (Hackenbroich & Zerka, 2021), the Commission's proposed ACI toolbox includes a wide range of measures. Besides restrictions on trade, foreign direct investments, and access to EU capital markets, it also aims at the use of tariffs and the exclusion of third parties from EU services and programs. Although the ACI proposal has yet to be negotiated with the Council and the European Parliament, it already seems clear that many of the proposed components are technically reminiscent of existing EU defensive trade measures targeted at protecting the competitiveness of EU industries. Understanding such measures as a means of EU geoeconomic leverage might, at the outset, be less obvious than the example of CFSP sanctions. Nevertheless, the quality of defensive trade measures as relevant to the geoeconomic realm comes to light when acknowledging that any protection of a domestic market against foreign involvement might imply a loss of export or investment opportunities for a competitor state (Baldwin, 1985, pp. 46–50). This is particularly true when protective measures are targeted at geostrategic rivals, which happens to be the case in the bulk of the EU's pending investigations of illegal dumping and subsidised imports, for which most companies under suspicion are from China (28), India (seven), and Russia (four).

With the new ACI, EU trade practices will be further embedded in the logic of economic power politics.

Analysed from the viewpoint of geoeconomic diplomacy, a key question about the ability of EU practitioners to implement the ACI effectively will be defined by the practical cooperation between the Commission and the Council in uncharted waters. Whereas the Commission holds exclusive institutional responsibility for the EU's Common Commercial Policy (CCP), the Council is responsible for CFSP matters. And while the Commission's trade practices are technically aligned with the EU's principles for external action enshrined in the Treaty on European Union's articles 21(1) and 21(2) (Ott & Van der Loo, 2018), and member states have historically been able to influence the Commission in trade negotiations (da Conceição, 2010; Gstöhl & De Bièvre, 2018), the Commission's Directorate General for Trade holds a large degree of operational autonomy in trade-related matters. In its proposal for the new ACI, the Commission explicitly seeks to maintain this vital role as it suggests that ACI measures will also be enforced as part of the CCP and hence via the EU's comitology procedures. Complex in nature, this framework would de facto leave it to the Commission to initiate so-called implemented acts and delegated acts designed to target third-party actors deemed to be involved in coercive behaviour against the EU. Member states would ultimately confirm or reject the proposed measures via qualified majority voting.

If maintained, this decision-making procedure would stand in stark contrast to the use of CFSP sanctions, dependent on a unanimous vote in the Council. The new ACI thereby has the potential to rupture established competencies and responsibilities between the Commission, the EEAS, and member states (Verellen, 2021). As such, diplomats from the foreign and security policy realm will grow even more dependent on receiving and understanding timely and comprehensive information from private European actors about allegedly coercive trade practices conducted by third parties. So far, the collection of economic intelligence about dumping activities and potentially illegal foreign investments has largely depended on the lobbying by European companies and business interest groups, mainly targeted at EU trade practitioners (De Bièvre & Eckhardt, 2011). In order to realise the political ambition behind the ACI, which is essentially aimed at creating a stronger linkage between the EU's trade relations and its CFSP policies, various practitioners who have generally been working in very different political contexts will not only need to engage in discussions around decision-making procedures, but also widen their mutual understanding of the subject matter. Identifying an unfair business practice is one thing; agreeing on whether a given behaviour by a foreign state or state-influenced company amounts to a coercive attack that threatens wider EU interests is another. These difficulties notwithstanding, the new ACI has the potential to help bring the geoeconomic realms of sanctions and trade policies, and the respective practitioners implementing them, closer together.

#### *4.3. Development Assistance: A More Targeted Use of EU Funds for Peace and Stabilisation*

Collectively forming the world's largest donor of development assistance, EU institutions and member states have recently underscored their ambitions for using development funds to achieve geoeconomic ends. This ambition is, to some degree, reflected in the set-up of the EU's new comprehensive development instrument, NDICI, which was ultimately endorsed by the Council and the European Parliament in March 2021. With a total worth €79.5 billion financed as part of the EU's Multiannual Financial Framework (MFF) for 2021–2027, a prominent objective of NDICI relates to EU engagements in the thematic area of peace and stabilisation (Regulation 2021/947 of the European Parliament and of the Council of 9 June 2021, 2021) with a total budget of €4.09 billion. Although it is difficult to directly compare the integrated NDICI approach to the previous stand-alone EU "Instrument contributing to Stability and Peace," financed under the MFF for 2014–2020 with a total budget of €2.34 billion and applied in more than 75 countries, it seems fair to suggest that peace and stabilisation-related activities will not receive less attention in the NDICI framework.

As is the case with EU trade measures, EU development assistance is not formally integrated into the CFSP framework, though it is bound to follow the principles for external action as listed in the Treaty on European Union's articles 21(1) and 21(2) (Broberg, 2018, p. 261). In practical terms, however, peace and stabilisation funds can be distinguished from general development assistance in that they are often used to support CFSP priorities, for example, through the provision of financial assistance for governments, groups, or individuals that share EU interests in the context of crisis or conflict. Observers have hence argued that peace and stabilisation assistance can play a role as "a jurisdictional bridge-builder between the development and security policy areas" (Furness & Gänzle, 2016, p. 150), further manifesting its relevance in the geoeconomic realm.

From the viewpoint of geoeconomic diplomacy, a number of impediments prevent EU practitioners from building bridges between EU development assistance and its foreign and security policy objectives. One aspect of this is the coordination of various levers. Even though it is a key ambition of the NDICI to streamline the use of peace and stabilisation assistance with other types of EU development engagements, a myriad of geoeconomically relevant economic assistance instruments has also been fostered beyond the NDICI framework. One example is the recent creation of a "European Peace Facility" (EPF). Financed outside the MFF, and hence in addition to NDICI, with a €5 billion budget for 2021–2027, the EPF is a financial instrument for providing stabilisation measures in relation to EU Common Security and Defence Policy (CSDP) missions. While not a tool of development assistance, the EPF can be seen as an

additional instrument in the EU's geoeconomic toolbox, and thus another one that geoeconomic practitioners need to coordinate. A similar example is the coexistence of member states' bilateral peace and stabilisation programmes, which collectively outperform the EU's own instruments in financial scope (Rotmann et al., 2021). For example, the German Federal Foreign Office's budget for crisis prevention and stabilisation for 2021 was €434 million, i.e., more than is annually allocated under the EU-wide NDICI.

Since member states will continue to act as independent donors in their own right, practitioners are challenged to monitor the degree to which European-funded peace and stabilisation activities are implemented in different, and sometimes mutually contradictory, manners. EU development finance institutions and member states have for decades declared their commitment to ensuring coordination by using various mechanisms ranging from traditional inter-service consultations between various Commission directorates-general to the recently launched "Team Europe Initiatives," which were created to align initiatives and messaging on the use of EU development funding. However, such alignment attempts can be particularly challenging in the often politically sensitive interface between development cooperation and foreign and security policy. For example, a recent independent evaluation of the EU's support to conflict prevention and peacebuilding concluded that "on the ground" coordination between EU institutions, member states, and other international actors had been characterised by substantial difficulties (Ball et al., 2020, p. 28). Discords of this nature ultimately hamper the effectiveness of the geoeconomic leverage to which the EU aspires.

Another aspect that could impede the EU's geoeconomic leverage, and which EU institutions and member states are only becoming more aware of, lies in situations where peace and stabilisation assistance and sanctions are used in the same country context. Potential conflicts between the two instruments might be easier to solve on paper than on the ground: First, accountability for funds spent through development projects and compliance with EU sanctions policies can be difficult to monitor. This is because the implementation of peace and stabilisation projects often relies on diplomats' cooperation with complex networks of international organisations, NGOs, private consultants, and for-profit implementers, as well as local state or non-state actors. The challenges are particularly high in contexts where diplomats and development specialists do not have physical access to the actors and geographical areas receiving the assistance. Second is the well-known problem of sanctions' blocking of aid delivery, which remains a highly relevant yet unresolved issue. With its explicit commitment to ensuring the proper inclusion of humanitarian exemptions in EU sanctions regimes, and to consulting humanitarian actors, the Commission seeks to address a long-standing tension between the use of humanitarian

and development funds and sanctions. Examples of such challenges have, inter alia, been visible in the context of Syria, either when EU-sanctioned individuals allegedly benefitted from EU-funded development activities (Haid, 2019), or when the implementation of targeted development and humanitarian aid would be impeded by EU sanctions stipulations (Moret, 2015). If practitioners of geoeconomic diplomacy are to understand and mitigate such risks, it will be necessary to strengthen relations between development-focused actors and those intrinsically engaged in CFSP deliberations, particularly when it comes to ensuring that various geoeconomic instruments are not implemented in a contradictory manner.

## 5. Conclusions: Managing Expectations of EU Economic Power Policies

This article has called for the need to critically assess the practical implementation challenges that could hamper the realisation of current aspirations among EU policymakers for a pivot towards a stronger and more efficient use of geoeconomics in their foreign and security policies. To this end, it has argued for the need to analyse different geoeconomic instruments based on their shared contextual circumstances, namely as policy tools situated at the intersection between the spheres of states and markets.

Acknowledging that geoeconomic instruments often share crucial and interlinked challenges at the level of practical implementation, this article has applied the concept of geoeconomic diplomacy to move our analytical attention from the level of policy objectives to the everyday dynamics essential for translating a geoeconomic policy ambition into tangible foreign and security policy practices in the state-market realm. Through an analysis of the possible implementation challenges related to various recent geoeconomic policy reforms at the EU level, the article has also used the concept of geoeconomic diplomacy to discuss how "traditional" diplomatic practitioners, operating in the logic of foreign and security policy, will only be further pushed to engage with myriad state and private actors playing key roles in the state-market realm. However, these actors will often operate far from the political and institutional logics of foreign and security policy, a feature that challenges geoeconomic diplomats to engage in new forms of outreach and alliance-building.

Furthermore, this analysis has pointed to various examples of where the intensifying EU posture in the geoeconomic field could lead to more frequent interplays and possible frictions between different types of (diplomatic) practitioners implementing various EU geoeconomic instruments. One example could evolve from plans for the EU's new ACI, which in all likelihood would enhance the institutional encounters between foreign policy-oriented sanctions practitioners and those engaged in the trade realm. Another example could arise out of the EU's sustained application of peace and



stabilisation development funds in conflict areas, especially in cases where EU sanctions and development funds are applied in the same context. In these situations, the implementation of development projects could be negatively impacted by the imposed sanctions regime or create conditions for circumventing the EU's own attempts to deprive its geostrategic adversaries of economic gain. In any of these cases, the risks of "silo thinking" and communication deficiencies between diplomatic practitioners engaged with different aspects of the EU's geoeconomic agenda would have to be mitigated.

EU institutions' intensifying focus on addressing concrete implementation challenges related to the use of sanctions should therefore be seen as a welcomed reorientation towards improving the framework conditions for a joint engine room of EU geoeconomic diplomacy and foreign and security policymaking. That being said, this isolated step must be the first of several towards a more comprehensive process to further align EU geoeconomic instruments. Until then, the expectations of those eyeing a bright geoeconomic future for the EU will have to be managed by emphasising that the coherent and efficient application of the EU's potential geoeconomic capabilities will largely depend on the establishment and maintenance of relational attitudes and contacts at the level of diplomatic practitioners, both those inside and outside the traditional circles of foreign and security policymaking.

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