

Economic Diplomacy:



*DECISION MAKING AND
NEGOTIATION IN INTERNATIONAL
ECONOMIC RELATIONS*

*SOCIETY OF PROFESSIONAL
ECONOMISTS*

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Aims



- Definitions
- Introduce toolkit for analysing decision-making and negotiation in international economic relations
 - Draws on existing theory and literature (business studies, international relations, political science)
 - No predictive theory (mid-range approach based on case study observation)
- Application to specific cases requires a in-depth knowledge of the case

A spectrum of definitions



Commercial diplomacy	Economic diplomacy	Economic statecraft	Economic sanction
Diplomatic services help win private business (contracts)	Establishment of framework conditions for the economy (rules)	Use of economic relations in combination with other instruments of foreign ('grand strategy')	Stick (and carrot) of economic relations used to seek a change in a specific policy of another country (sanctions)
Attracting inward investment; concluding contracts	Negotiating a bilateral investment treaty	US – India Strategic and commercial dialogue	US stop on investment in Iran

Methodology



- Theoretical approaches used to analyse rather than predict
- Mid-range theory
 - Case based development of hypotheses
 - (seminars and classes provide opportunity to apply to cases)
- In practice requires an in-depth understanding of the case
 - Focus on developing knowledge of how to analyse

Literature



- **Drawn from prominent IR/IPE literatures**
 - Rationalist - e.g. cost benefit analysis
 - Institutional – e.g. domestic and two level/principal agent theory
 - Constructivist – e.g. world views/ideational
- **Other literatures**
 - Path dependency - historical institutionalism
 - Negotiation analysis – business studies
 - International institutions – OECD, WTO, IMF, UNFCCC, Preferential and bilateral agreements
 - Multi-level/forum diplomacy – e.g. FDI; WTO, PTAs, BITs

The analytical toolkit



- **Rationalist**
 - preferences relatively static
 - economic utility maximisation but with political utility function added
 - preference forming costs benefit analysis
 - value-claiming and creating and linkage in (agenda setting and negotiations)
 - zone of agreement
 - BATNAs
 - enforceability
 - bargaining power

Analytical toolkit



- Institutional/two level
 - institutional framework for decision making and negotiation
 - preferences aggregated and defined
 - determines principal-agent relationship (transparency and accountability)
 - interaction between levels (brake or dynamic)
 - ratification and implementation (veto players)

Slide 7

PI1

Caroline Hager, 25/03/2019

Analytical Toolkit



- **Constructivist/ideational**
 - preferences mutable
 - world views (realist or cooperation) shape
 - normative values (e.g generated by domestic politics)
 - persuasion rather than bargaining
 - consensus seeking rather than deal-making (communicative action)
 - captures interpersonal dimension/credibility and trust
 - socialisation

Other approaches/dimensions



- **Negotiation analysis**
 - Tracing the cycle – preparation; framing; venue or forum; agenda setting; negotiation; maintaining momentum; deadlines; political decisions followed by textual agreement; ratification; implementation and enforcement
- **Multi-forum or level diplomacy**
 - different levels to pursue strategic aim WTO, plurilateral, PTA, bilateral (liberalisation or sustainable development)
 - functionally different institutions (WIPO, UNFCCC, WTO)

Roles of actors



- **Government**
 - Definition of national preference; internal and external coordination; legitimation; cohesion; public diplomacy
- **Business and civil society**
 - Seeking to shape outcomes business (cost-benefit, rationalist and 'discrete') and civil society (more normative and advocacy)

Types of political economy



- **Class-based policy**
 - Factors equivalent to classes (land, labour and capital)
- **Client-based**
 - Close links between policy and specific actors
- **Interest-based politics**
 - Competitive versus un-competitive sectors
 - Concentrated costs and benefits by constituencies
- **Majoritarian- based politics**
 - Economic gains, growth/GDP, versus sustainable development
- **Populism/identity**
 - Elite versus the rest;
 - Anti-globalisation the same thing?

The varying institutional context



- Domestic institutional frameworks vary
 - constitutional factors;
 - roles for executive and legislature;
 - principal-agent relationships;
 - ratification processes;
 - and across issues (finance, environment and trade)
- Developed democracies; emerging powers; small and developing economies

Analysing Brexit negotiations



Aims



- Illustrate how analysis can be applied to understand factors shaping a negotiation;
- Focus on the process of negotiations;
- Not evaluation of substance or pros and cons of Brexit or explaining outcome of referendum;
- Practical application; help in understanding negotiating processes

Preliminary points



- Negotiation is still on-going
- Need to differentiate between the withdrawal and future relationship (FTA etc)

Main points



- Negotiations significantly shaped by rational calculations;
 - but political rather than economic;
- Difficulties in UK (in part) due to unique nature and short time scale of negotiations;
 - no defined 'regime' for decision making and negotiation; lack of clarity e.g on principal – agent relationship
 - no path dependency
- In terms of ideational factors;
 - No consensus on 'world-view' in UK
 - Breakdown or absence of trust between negotiators in UK process and between EU and UK (at political level)

Rationalist analysis (economic)



- **Damage limitation rather than win-win**
 - at least in short term
 - according to expert analysis HMT, BoE, OECD, IMF, DEXEU, LSE ...
- **UK sectoral analysis**
 - Agriculture; tariffs, SPS, support for eco measures?
 - Fisheries, regain control
 - Manufacturing; tariffs, border controls, TBT affect supply chain?
 - Services; end to passporting, equivalence, MR for business services?
 - Labour/migration; economically net benefit, shortages but downward pressure on wages
- **Representation**
 - Business initially muted but active opposition to no-deal
 - Civil society - absent

Rational analysis con.t



- **EU**
 - Loss of UK market for agriculture, budget constraints on CAP support
 - Manufacturers; tariffs, disruption of supply chains
 - Services; possibly more mixed some opportunity of gains
 - Labour; some member states affected
- **Its damage limitation**
 - But retain Single Market
- **Overlap of win-sets with a customs union**

BATNAs



- **EU**
 - continuing to extend PTAs (Korea, Canada, Japan, etc.)
 - WTO is default but looking rather pour option
- **UK**
 - WTO rules (adequate?? 1995 vintage, tipping point)
 - UK loss of preferences, playing catch-up, weaker negotiating position?
 - Promise of leading on PTAs??

Political rationale



- **UK**
 - Public opinion divided on Europe
 - Political defensive value-claiming (referendum, party cohesion shaped red lines/resistance points)
 - Labour opposition also (general election)
 - Nothing bi-partisan/cross party until last week
- **EU**
 - Collectively no political utility in withdrawals
 - Possibly among some populist politicians
 - Defend EU cohesion (it's the EU that is the negotiating partner)

Institutional dimension EU



- Institutions intervening variable in EU
- EU more able to use an established decision making regime
 - Anchored in treaty
 - Shared norms on how to approach negotiations
- Mandate
 - Based on *acquis communautaire* (Single Market)
 - Based on input from 27
- Trust between agent and principals
 - Established channels of communication
 - Transparency (both internal and external)
- Withdrawal agreement accepted in minutes
 - Veto players on extension results in more debate

UK Institutional Dimension



- **Lack of clarity on institutional framework**
 - no real precedent; no written procedures; (meaningful vote)
- **Mandate**
 - from electorate (excessively general) from Executive excessively constrained
- **Transparency**
 - Internal and external (overload of general information but absence of informed dialogue)
- **No trust in principal – agent relationship**
 - Agent – executive (PM, Cabinet, Cabinet Committee, SoS DexEU, FCO, DIT)
 - Who is/are the Principals: electorate – referendum result? Parliament – constitutional practice? the Government or the governing party?

Constructivist/ideational dimension



- World – views
- Ideas
- Persuasion rather than bargaining
- Role of individuals

EU ideational dimension



- **Shared world-view**
 - European cooperation and an ever closer union
 - Not very strong/ nationalist tendencies
- **Ideas**
 - Retain EU cohesion
 - No model for other exits
 - Single market acquis
- **Persuasion**
 - Difficult to know what went on in working groups
 - Official level more effective dialogue
- **Individuals**
 - Barnier and Tusk positions not challenged; retained trust of European Council

UK ideational dimension



- **UK divided on Europe**
 - UK role in world through EU
 - As a separate sovereign state
- **Ideas prominent in debate**
 - Sovereignty
 - Taking back control
 - At least as important as costs and benefits (project fear)
- **Individuals**
 - Authority of negotiator(s) questioned
 - Not trusted by principals

Prospects?



- Involuntary defection (non-ratification in UK)
- UK agent lost trust – i.e did not carry principals with her/them in the negotiations
- UK BATNA unattractive hence rejection of ‘no deal’
- A last minute deal?
- UK still trying to sort out who decides and how
- Negotiating trade and investment relationship should be easier