CHAPTER – 1

INTRODUCTION

Conceptual framework

The growth of global trade and investment liberalisation during last two decades has greatly integrated global economy. Internationalisation of production accompanied by changes in the structure of production, expansion of international trade in goods and services, and widening and deepening of international capital flows have contributed to global economic integration. Increasing share of imports and exports in GDP reflects the exposure of national economies to international trade. Reallocation of manufacturing activities from industrialised to least developed countries provides new opportunity to expand trade. New policy orientation needs to address such emerging trends.

Policy articulations have reflected the concern that the balance of fiscal power, as opposed to the balance of military power, is the key factor in determining a country's international standing. This has important foreign policy implications. It calls for an integrated strategy to bring economic and foreign policies closer. The implementation of a vigorous Foreign Economic Policy cannot be undertaken without sharpening the commercial diplomatic tool.

By the 1990s most states in the international system could not ignore the growing nexus between economics and foreign policy and began devising strategies to influence global economy in a way that served their domestic priorities. In this sense foreign policy largely became Foreign Economic Policy (FEP) and its pursuit now
confirms the ever diminishing distance between domestic and foreign concerns as much as between economics and politics.

The Ministries of Foreign Affairs need to expand their institutional capabilities in dealing with non-state actors and other government ministries and learn to manage the multiple boundaries of today's complex economic and political realities. Economic diplomacy each day is more relevant than the traditional diplomacy of power-politics. Important issues like: trade agreements between European Union and USA, tariffs agreements between European Union and MERCOSUR and also depth knowledge of multilateral regimes such as WTO, UNCTAD and UNIDO are important reasons to identify and train a new type of diplomat – The **Trade Diplomat**.

At the centre of these new diplomatic structures we find formal business-government partnerships. Such partnerships are also present in states that have not introduced organisational reform, such as the United States (US), South Africa, Germany, Norway, Brazil, Sweden and Tunisia, and are evidence of the widespread prioritisation of commercial diplomacy in the international objectives of an increasing number of states. The development of formal business-government linkages within government as well as increased government spending in support of business interests are now a common feature of commercial diplomacy. In sum, governments are reorganising their diplomatic systems so that commercial activities are far more centralised and the commercial activities of diplomats are extended. More crucially, new diplomatic practices based upon the ascendancy of business interests within diplomatic systems have begun to emerge.

With such changes already established in many countries, and under consideration in many others, we may well be witnessing substantively significant changes to the
practice of diplomacy in the twenty-first century—changes that are fashioned by commercial interests. The key features of this diplomacy are, first, it combines the economic and the political at both domestic and international levels. Second, government-business partnerships have become the key organising principle as well as an attribute of the state in the world economy. Third, the public interest is conceptualised as a collective expression of private interests. Some of these features are common to most diplomatic systems of the Western and non-Western world. What is uncommon, however, is the recognition of these features in the ‘Canon of Diplomatic Studies,’ rendering them present-but-invisible in most accounts of the theory of diplomacy and practice. Thus, while orthodox diplomatic studies might usefully explain traditional interstate high politics in bilateral and multilateral settings, it fails to identify, explain and understand many changes to diplomatic systems and in particular the increased influence of private interests in diplomacy which is of growing relevance today.

While not being totally unaware of the instrumental value of the economic variable in power calculations, states had somehow tended to play down its full potential until recently. But now economic strength is a pre-requisite for sustaining both 'hard' and 'soft' power. Economically powerful states are better able to command diplomatic and cultural influence as well as in making their presence felt inside international organizations.

The Japanese have been quite prominent in playing such a role in the Asia-Pacific region largely because of their economic dominance rather than their military prowess. The growing influence of China, too, is largely based on its economic performance and, not surprisingly, it is also concerned about channelling this advantage in the direction of 'soft' power. The United States undoubtedly provides
the best example of a nation in possession of all the necessary strengths of power, making it the most influential international actor. But even the US did not consistently place economic concerns at the heart of its statecraft at all times. In the early Cold War period a conscious integration of economic and security concerns in US statecraft was noticeable in comparison to the disjunction that was evident in subsequent decades lasting until about the mid-1990s. The Clinton administration revived the linkage and placed greater emphasis on economic priorities both at domestic and international levels.

The 1990s can be described as the decade of regional integration. This is an area within the domain of international relations which is attracting much of academic attention. In Europe, we witnessed the deepening of the integration process and the launch of the eastern enlargement. The proliferation of regional blocs has led to extensive research on regional integration arrangements (RIAs) in general and the European Union (EU) in particular. Yet, there is little work that analyses the integration process itself and its institutionalisation within a single analytical framework. In 1994, U.S., Canada, and Mexico formed a Regional Trade and Investment Agreement (RTIA), called NAFTA. This agreement is much more limited compared to the agreement among the EU members. There have also been regional trading arrangements involving low and middle-income countries. Examples include MERCOSUR (Southern Common Market, established in 1994 comprising, Argentina, Brazil, Uruguay and Paraguay); and AFTA (Association of South East Asian Nations, or ASEAN Free Trade Area) which became operational in 2003.

Regional integration has acquired several meanings as successive waves of regionalism occurred during the last half century. After the Second World War, a
first wave of regionalisation focused on trade liberalisation between neighbouring
countries in order to spur inter-country transactions. The current wave of
regionalism is different, as it is increasingly no longer about trade only, but presents
itself as a "multidimensional form of integration which includes economic, political,
social and cultural aspects and thus goes far beyond the goal of creating region-based
free trade regimes or security alliances. Rather, the political ambition of establishing
regional coherence and identity seems to be of primary importance." This New
Regionalism aims to promote certain "world values" as security, development, and
ecological sustainability, better than globalism.

The European Union (EU) is a good example of New Regionalism. The
Economic and Monetary Union phase fits exactly into this scheme of things. The
journey from single market to single currency is an issue which is being extensively
studied and analysed. Until the recent adoption of the Euro, many economists were
highly skeptical that a bloc of countries would agree to give up their sovereign
currencies and independent monetary policy instrument. The introduction of the new
currency on January 1, 2002 dispelled lingering doubts about the reality of a
monetary union. In fact, there is much interest in whether Europe's monetary union
could act as a role model for the other regions in the world, such as North America,
the Association of South East Asian Nations (ASEAN), South Asia (SAARC) and
West Africa.

Proliferation of preferential trading agreements (PTAs) in different regions of
the world has been a significant development over the last two decades. The South
Asian region is no exception. Seven South Asian countries (Bangladesh, Bhutan, India,
Maldives, Nepal, Pakistan and Sri Lanka) formed the South Asian Association of
Regional Cooperation (SAARC) in 1985 as a first step toward the regional cooperation. After a decade's existence, the South Asian Preferential Trading Agreement (SAPTA) was launched by the SAARC in 1995 as the second step. The declaration of the end of year 2002 as the deadline for finalising a draft treaty for the South Asian Free Trade Association (SAFTA) can be treated as the third step of South Asian economic integration.

Research framework

This thesis addresses the concepts of commercial diplomacy and regional integration. Apart from, defining and theorising these two issues the uniqueness of the study is to bring out the interaction and inter-relation between these two concepts. Although, there have been innumerable studies done on the theme of regional integration, very few have attempted to co-relate regionalism with the issue area of commercial diplomacy. This study relates both the themes with European integration and attempts towards South Asian integration. The research brings out the influence of commercial diplomacy in the regional integration of both these regions.

This research focuses on the time frame of 1985-2005. This period is significant due to the fact that various important international events relating to trade and regionalism occurred. In Europe attempts towards Economic and Monetary Union (EMU), took shape in the 1980s. The South Asian Association for Regional Co-operation (SAARC) was established in 1985. The Uruguay round of GATT negotiations were initiated in 1986. The phase of New Regionalism also took shape in the same period. This time frame is also befitting in the situation where on the one hand Uruguay round of multilateral trade negotiations were progressing from
traditional tariff issues to new issues like investment, patents, environment, labour etc. on the other hand, the new wave of regionalism which took shape around the same time was also aiming at socio-politico-economic union, rather than just market integration of old regionalism.

The relevance of drawing comparisons and lessons between the EMU and SAARC-SAPTA-SAFTA can be established by the fact that both these regional integration attempts fall under the New Regionalism phase. Both the regional integration attempts beginning in 1985, aimed at complete economic union. Today, after two decades Europe is European Union completing economic and monetary union and heading towards a common foreign and security policy and a single constitution in the near future. In contrast SAARC, even after two decades of existence is still stumbling in negotiating a Free Trade Area, though a social charter was approved recently. Hence it is of great academic significance and relevance to study and analyse why such contrast exists.

The objectives of the research are to establish the following:

> The evolution of the issue area of commercial diplomacy within the traditional framework of diplomacy.

> Commercial diplomacy as an element in New Regionalism.

> The EMU and SAARC-SAPTA-SAFTA, as the cases of New Regionalism.

Hypotheses

The current research seeks to test three hypotheses.

> The traditional Geo-Politics oriented inter-state relations are being replaced by Geo- Economic considerations. ‘Old Regionalism’ shows predominance of Geo-Politics, whereas, ‘New Regionalism’ depicts Geo- Economics.
‘Commercial Diplomacy’ calls for new approach to study inter-state relations causing academic reorientation in the field of traditional diplomacy.

Economic and Monetary Union (EMU) phase in European integration process, a case of New Regionalism, has shown the influence of commercial diplomacy, whereas, South Asian Association for Regional Cooperation (SAARC) is still not able to overcome the contradictions between old and new regionalism restricting the scope for commercial diplomacy.

Methodology

The present study has adopted comparative and analytical methodology with case studies. It has used primary sources for conceptual, theoretical framework and case studies. For analytical purposes major reliance has been on secondary sources. Web resources have been used for consulting online articles.

Literature sources

There is a substantial body of literature on the themes of current study. Various studies, both individually and combined, on European integration and SAARC, have been done. But not much of the existing literature has approached these themes from commercial diplomacy point of view. The current research is an attempt to reduce this gap. However, the review of existing literature provides the essential background to carry forward this debate.

For commercial diplomacy aspect major reliance has been on official publications, Annual Reports from External Affairs Departments of various governments, especially Ministry of External Affairs, (MEA) and Ministry of Commerce and Industries, Government of India. For regional integration, reports and publications of United Nations University Comparative Regional Integration
studies (UNU/CRIS), Bruges, Belgium, have been extensively used. On European integration in general and Economic and Monetary Union (EMU) in particular, the Official Publications of European Union, Brussels, Belgium, have been extensively used. SAARC Secretariat, publications, Katmandu, Nepal have been consulted for analysing efforts towards South Asian Economic Union covering SAARC-SAPTA-SAFTA, negotiations and institutional structures. Though not making field trip to the headquarters of EU and SAARC is the major lacuna of the study, the European Commission office, Delhi, and SAARCNET, SAARC Chambers of Commerce (SCCI), desks hosted by FICCI in Delhi, filled the gap by allowing access to all the primary sources. Secondary sources cover books and articles published in journals, as well as online articles.

**Regionalism and Academia**

The academic discipline of regionalism and regional integration, which had Europe as the theoretical reference point, was by and large a discipline fomented by the American academia. Ernest Haas (1924-2003) at the University of California, Berkeley; David Mitrany (1888-1975) at Harvard, Yale, and Princeton, Karl Deutsch (1912-1992) at the MIT, Yale and Harvard, and Leon Lindberg at University of Wisconsin Madison were the first initiators of a discipline that today has largely transcended the American spectrum and developed in several other countries. In Europe, strongholds of research on regionalism are the University of Sheffield/Political Economy Research Group, which fathered the World Order Approach to Regionalism (Gamble and Payne, 1996; Grugel and Hout, 1999; and Hook and Kearns); Gothenburg University/Department of Peace and Development Research (PADRIGU), the nest of the NRA/New Regionalism Approach (Hettne, 1999-2001; Schulz, 2001; Söderbaum,
2002; Tavares, 2004); the United Nations University/Comparative Regional Integration Studies, involved with indicators of regional integration, regional security vis-à-vis the United Nations, the link between regional integration and identity and formal and informal approaches to regionalism in Africa; the Center for the Study of Globalisation and Regionalisation at the University of Warwick, which puts a heavy emphasis on the correlation between regionalism and globalisation (Higgott and Ougaard, 2001; Scholte, 2000); and, finally, the Center for International Studies at Oxford University, which is developing a project on international (regional) organisations and the security issues of the post-Cold War era. Outside Europe, some departments are also significant nests of theoretical undertaking. The School of International Studies at Jawarlahal Nehru University, New Delhi (JNU), is a reference in South Asian security and regional integration in Asia (Muni, 2000; Bajpai, 1999) as the Center for Southeast Asian Studies at Kyoto University and the Center for Strategic and International Studies in Jakarta are recognized institutes on Southeast Asian regionalism. In the United States, the enthusiasm of the 1960's has faded and very few departments have nowadays a strong expertise in regionalism (as distinct from area studies). Research is mainly conducted by economists who are still dwelling upon the regionalism/multilateralism question, by liberal institutionalists who elaborate on the correlation between PTA’s and likelihood of conflict or by political scientists with rational and state-driven orientations.

Chapterisation

The current research is organized into seven chapters.

The First chapter titled, Introduction, consists of research framework, objectives, and hypotheses of the study. Apart from giving certain conceptual details it focuses on literature review.
The Second chapter titled, 'Commercial Diplomacy; Concept, Evolution and Approaches', focuses on thematic analysis of concept of commercial diplomacy. Apart from evolution, meaning and approach to the concept, the study deals with the case study of India. Study also brings out the changes occurring in the field of traditional diplomacy due to the emergence of commercial diplomacy.

The Third chapter titled, 'Regional Integration; Concept, Theories and Debates', brings out various concepts of regionalism, and goes on to describe difference between old and new regionalism. Further, the chapter focuses on theoretical approaches to the theme. Finally it focuses on debates concerning regionalism, like regionalism v/s multilateralism, whether regionalism is trade diverting or promoting? And is regionalism compatible with free trade, and World Trade Organization (WTO).

The Fourth chapter titled, 'European Integration; The EMU Phase', deals with new regionalism as applied to European integration. The chapter apart from tracing historical evolution of European integration focuses on the EMU phase, beginning in the 1980s, when the regionalism was in the verge of being discarded due to old regionalism’s failure to face the world recession in the 70s. the EMU phase as established by the chapter is the toughest battle waged by the integrationists. The chapter relates commercial diplomacy to European integration process by analysing the cases of France and Germany, which show the clear tussle between domestic economic considerations and external relations.

The Fifth chapter titled, 'South Asian Economic Union in the Making; SAARC- SAPTA-SAFTA', is an attempt at chronologically analysing the efforts made towards South Asian Economic Union. The chapter brings out the role played by
SAARC Secretariat and SAARC Chamber of Commerce and Industries (SCCI), in forcing the South Asian leaders to overcome the geo-political considerations for the sake of geo-economic gains.

The Sixth chapter titled, ‘South Asian integration: Experience and Lessons’, focuses on a critical evaluation of the regional integration efforts in south Asia by focusing on economic social and political parameters of the region. By comparing the efforts in south Asia with the European integration experience draws certain lessons. Finally the research concludes by focusing on certain research findings and suggestion for further study.