

## **'Trade is War.' Belgium's economic diplomacy in the age of globalisation**

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### **1. A chasm between perception and reality ?**

*'Don't forget: trade is war. (...) In world trade everything is being used to conquer or maintain market shares.'*<sup>1</sup>

*'The government has deliberately chosen to appoint a State Secretary whose primary task consists of trade promotion instead of the earlier practice of assigning this portfolio to a Minister who had already other tasks. This stresses the importance of foreign trade and the increasing place of economic diplomacy. Economic diplomacy is becoming increasingly important, on the bilateral as well as on the multilateral level. This is the result of temporary problems, since the dioxin crisis makes our efforts all the more important. But there are also structural reasons. The globalisation of world economy confronts us with new challenges. This globalisation and the increased competition that flows from it, oblige every country to bundle its forces.'*<sup>2</sup>

*'My own government has been chopping resources, with more and more emphasis on trade and commercial aspects.'*<sup>3</sup>

Quotes as these bear witness of a widespread conviction that the emphasis on the economic dimension of international relations is a contemporary phenomenon. However, this perception that economic diplomacy has never been more important in the overall diplomacy than today is not grounded in reality and does not withstand historical evidence. In fact, economic diplomacy has always been a major part of the diplomatic efforts of all countries in all times. Wasn't the birth of modern diplomacy in Italian renaissance the result of the existential need of the rulers of the Italian city-states of the 15th century to look after their commercial interests ? Economic diplomacy, broadly defined as that aspect of diplomacy that deals with the economic and commercial aspects of international life, has from then on been an ever present part of diplomacy.

As far as Belgium is concerned the promotion of economic and commercial interests undoubtedly has been at the very heart of its foreign policy since independence in 1830. Most of its major foreign policy decisions and orientations have always been defined, if not explicitly, then at least implicitly, in terms of economic, industrial or commercial interests.

How then to explain today's perception, held by many in Belgian foreign policy circles, that never before economic diplomacy mattered so much ? How to explain that lately in Belgium also the notion of 'national interests' is once again being used ? This is all the more remarkable since Belgium usually presents itself as the most European minded of all countries, thereby giving the impression that it is willing to subordinate its national interests to its European 'idealism'.

The present emphasis on economic diplomacy is sometimes explained in terms of generational shift, as a result of an increased professionalism and even 'technocratisation' amongst the present generation of diplomats, replacing the generation of gentlemen-diplomats that quit the diplomatic service in the beginning of the seventies. According to this explanation, 'old fashioned' diplomats and diplomacy only dealt with geopolitical aspects of military security and considered commercial diplomacy as an inferior task. But history shows that exactly the same criticism was made in 1919, as to the Belgian policy at the Versailles Treaty negotiations ending the First World War. Exactly the same criticism could also be heard in parliamentary circles all along the 19th century. Diplomacy was then said to be too exclusively centred on the political relations between states, neglecting the real interests of the country. The successive ministers of foreign affairs argued that, on the contrary, their ambassadors spent most of their time searching for export opportunities and export markets. Thanks to their status, they could gain access more easily than simple consuls could to the necessary decision making circles in countries where they were accredited.

Others look for an explanation with reference to the ongoing constitutional reform. In this process the sub-state actors, called the 'federated entities' (Communities and Regions) acquired far-reaching 'sovereign' powers, including an international treaty-making power over matters in which they have exclusive competence such as export promotion. In order to retain its pre-eminence in international affairs the federal government, and more in particular the Ministry of Foreign Affairs, had to impose itself as the most obvious go-through for the international endeavours of the Regions (Flanders, Wallonia and Brussels) in the commercial sphere.

Such arguments unmistakably contain a part of truth. However, too national an explanation of the chasm between perception and historical evidence is unwarranted, since the same perception is being noted in most countries. Most ministries of Foreign Affairs all over the world nowadays insist on the importance of economic diplomacy. Diplomats of many countries make no secret about the fact that their first task now is to look after the commercial interests of the state they represent.<sup>4</sup> Since the end of the Cold War, states, i.e. ministries of Foreign Affairs (together or in competition with other departments), have shown a remarkable aggressiveness with regard to bilateral commercial activities. Belgian trade officials consider countries such as Germany, France, the United Kingdom and the United States as being much more assertive and active in this field than Belgium.<sup>5</sup>

The simultaneity of this (renewed) emphasis on economic diplomacy in many countries thus asks for an explanation that is common to most countries. The obvious candidates present themselves.

On the one hand it is said that the end of the ideological struggle of the Cold War gave the economic dimension of international relations the just and necessary attention that it missed due to the confrontation between East and West. Diplomats and officials finally got the time and the energy for dealing with economics, considered to be of much more direct relevance for the well-being of everyday citizens. President Clinton's 'It's the economy, stupid !' contains it all.

On the other hand comes globalisation, which is sometimes linked with the above explanation. One line of argument says that the increasing globalisation of the economy opens up new perspectives for further trade expansion, but at the same time also to sharpen the competition to secure countries' shares in world markets and secure new market shares. Pierre Chevalier's quotation above is one amongst the many references to globalisation as the main

explanation for the prominent role governments today play in export promotion. Another line of argument explains that growing international competition, considered to be the companion of globalisation, forces governments to offer increasingly competitive conditions for international companies to invest. In order to secure foreign investments and high-qualified jobs, governments need to enter into negotiations with transnational companies, presenting themselves 'if not as supplicants then certainly as suitors seeking a marriage settlement'.<sup>6</sup> In the theories of international relations, the notion of 'Competition State' tries to describe what is said to be a changed relationship between states and firms.

Too contemporary an explanation for the present emphasis on economic diplomacy is however as unsatisfactory as the earlier mentioned national explanations. Today's economic diplomacy can indeed easily be compared in intensity and in scope with the commercial diplomacy of the European states in the nineteenth century or with the dollar diplomacy under the American president William Howard Taft. A majority of political scientists, but also diplomatic practitioners tend to overlook such historical recurrences.

In an argument, which upholds the end of the Cold War or present-day globalisation as the main explanation of the current emphasis on economic diplomacy, the causality of the connection must be faulty if correct historical comparisons can be demonstrated. Either the explanation is correct and then the historical parallels are faulty, or the historical parallels are correct and then the explanation is wrong.

In all fairness, it can be argued that both parts of this dichotomy are right to some extent if one accepts the argument that globalisation is not a unique contemporary phenomenon. As some historians (contrary to the majority of political scientists) have asserted, history shows in fact successive accelerations of the globalisation process. A combination of technological breakthroughs and growing economic, financial and commercial interdependence made the world a bit smaller step by step— an (objective) development being accompanied by a (subjective) awareness of this rapidly shrinking world. Would Christendom which gave the Middle Ages its unity and which rested on the shared responsibility and power of Pope and Emperor, not be eligible for the characterisation as the first 'globalisation' ? Could not the same be said of early colonialism, that started with Henry the Navigator in the early fifteen century ?

Even if one limits oneself to modern times, then the description by the American historians Palmer and Colton of the end of the nineteenth century, should be kept in mind by all students of today's globalisation:

*'Never had the earth been so unified economically, with each region playing its due role in a global specialisation. (...) A true world market had been created. Goods, services, money, capital, people moved back and forth almost without regard to national boundaries. Articles were bought and sold at uniform world prices. Dealers in wheat, for example, followed prices in Minneapolis, Liverpool, Buenos Aires, and Danzig as reported by telegraph and cable from day to day. They bought where it was cheapest, and sold where it was dearest. (...) The creation of an integrated world market, the financing and building up of countries outside of Europe (...) were the great triumphs of the nineteenth-century system of unregulated capitalism. The system was intricate, with thousands and even millions of individuals and business firms supplying each other's wants without central planning. But it was extremely precarious, and*

*the position of most people in it was exceedingly vulnerable. Region competed against region, and person against person.”<sup>7</sup>*

In their description of the international relations of a century ago, Palmer and Colton link two aspects, which are also relevant for today's world. The acceleration of globalisation at the end of the nineteenth century was indeed accompanied by an absence of regulatory mechanisms and shared rules of conduct. In order to provide for some regulation, companies at the end of the nineteenth century created trusts, cartels and entered into price agreements among themselves. At the same time the absence of global rules of conduct made companies turn to their governments for support in their search for new shares in the world markets (and sometimes for protection of their current market shares). Governments gladly responded since their companies' world expansion provided for cash, domestic jobs and wealth (albeit for a small elite). One of the means at their disposal was the diplomatic apparatus, which was set towards an increased emphasis on economic diplomacy.

At other times, this emphasis tended to diminish, either due to the outbreak of international hostilities or to the establishment of common rules of conduct. The post-1945 development is a case in point. This post-war world was managed by the Bretton Woods mechanisms, among other things providing for the first monetary system ever to be devised by governments; by the political leadership of the United States; and, from 1950 onwards, by the creation of a European common market based on reciprocal juridical engagements. This set of institutions and mechanisms made the gradual trade liberalisation a controlled and managed development.

Today's world is not radically different from its predecessor, exactly a century ago. American political leadership is no longer undisputed and America's clout is undisputedly smaller in relative terms than at any moment since 1945. The Bretton Woods mechanisms have been given up in 1971-1973 and no successor architecture has up to now been devised. Hence the new drive for deregulation and liberalisation that started in the eighties has led to a world order in which no common rules of conduct existed that were in accordance with the needs of the new acceleration in globalisation.

Companies themselves are the victims of this lack of adequate regulatory mechanisms, since they too feel threatened from all sides. The same causes lead to the same remedies: 'merger mania' on the one hand as a means of surviving in a highly competitive environment and increased reliance on governments' services as a means for companies to secure actual market shares and acquire new ones, on the other hand. Government officials, entrepreneurs and (most of) the business press perceive today's international trade environment indeed as a highly competitive one, a sort of a jungle in which only the fittest (the largest, the most innovative, the most productive) will survive. Governments in turn have no other choice than to respond to the appeals by the companies on their territory (though no longer necessarily of their own 'nationality') and to offer their services for the mutual benefit of the well-being of their citizens and the health of the companies on their territory.

## **2. Continuities and discontinuities in Belgium's present-day economic diplomacy**

Export promotion is the oldest form of economic diplomacy. In Belgium it has always corresponded to a vital, even existential need. Right from the beginning of the Belgian State, the political establishment was of the opinion that without export the productive capacity of

Belgian industry would have inevitably faced gross overproduction, leading to shutdowns, joblessness and ‘anarchy’. Nineteenth-century industrialists largely shared this fear of anarchy. Belgian diplomacy acquired from its beginnings a mainly economic dimension, consisting in a ceaseless search for new markets where surplus Belgian products could be sold. This search for new markets did not simply amount to an altruistic concern of job-creation. It was evidently in line with the specific interests of the industrial and trading bourgeoisie, the new social class that governed Belgium in the nineteenth century.

The main target markets were those of the neighbouring countries, which amounted for almost 90 percent of all exports and 70 percent of all imports in 1840. At the end of the century some large Belgian firms undertook a remarkable global expansion, taking part in the process described earlier by Palmer and Colton and investing in faraway markets such as Russia, Argentina, Egypt and Brazil. Mainly due to the personal endeavours of king Leopold II major Belgian companies also participated in the rush to China at the end of the nineteenth century, and especially to Central Africa some decades later. But however important some of those outward investments, the major part of Belgian international economic relations remained well inside the immediate neighbouring countries. In 1900 those still accounted for 89 percent of exports and half of all imports.

From the mid-20s onwards, economic diplomacy acquired a second strand: multilateralism. From 1927 onwards some European governments, including the Belgian government, started to convert (within the framework of the Economic Conference of the League of Nations) the numerous bilateral trade agreements into a multilateral framework based on free trade principles. This economic multilateralism can be described as codified free trade. This orientation implied that international economic relations were to rest increasingly on a body of common pre-fixed principles and norms, that were mutually binding for all participating countries. Multilateral juridical norm setting became an integrated part of international economic diplomacy. For small countries such as Belgium, this amounted to a set of rules of conduct that were common to all and thus more to the advantage of the small, since the large countries’ submission to multilateralism amounted to a abandonment of power-based means by which to influence other countries’ behaviour.

Both strands of economic diplomacy continued to form the backbone of Belgian economic diplomacy since World War II. For export promotion a specific agency was set up in 1948, the Belgian Foreign Trade Board (BFTB), a semi-public body of representatives of the private sector and of the government. The original task of this board was to inform Belgian exporters of the prevailing customs duties, quota’s and import regulations in force in the neighbouring countries. In the fifties, along with the ongoing world trade liberalisation effort, the board’s task shifted to direct export promotion, with important missions being organised worldwide and with the creation of a network of canvassers in order to promote export and draw foreign investments.

International economic norm setting increasingly became the sole responsibility of the European Commission both within the EU as towards third countries. EU member states no longer dispose of national trade policies, since it is the Commission that speaks and negotiates on their behalf (on the basis of a mandate by the member states). Most important for Belgian exporters was the perspective that the EC/EU contained all of Belgium’s traditional neighbouring markets. This helps to explain the extreme consensus that has always existed in Belgium concerning the economic dimension of the European integration process.

Comparing today's economic diplomacy agenda with the immediate post-war period, produces a mix of strong continuities and some striking discontinuities.

The foremost continuity, i.e. the extreme dependency of Belgian economic performance on trade and exports, is unmistakably as old as Belgium itself. It goes back to the original importance of exports for a trading nation like Belgium. Today the Belgian economy is for two thirds dependent upon exports, the export of goods and services accounting for 67 percent of Belgian GNP. Moreover, as far as jobs are concerned, recent figures indicate that one out of three jobs are directly linked to exports. This figure mounts as high as 7 or 8 to ten in sectors such as chemicals and mechanical and electrical machinery and equipment.<sup>8</sup>

A second continuity goes as far back as the first one. The bulk of Belgian international trade is still confined within its immediate geographic area. The area covered by the European Union accounts for more than 75 percent of Belgian exports in 1998 (82 percent for the whole European continent) and some 70 percent of its imports (75 percent for the European continent as a whole).<sup>9</sup> This is mainly due to the structure of Belgian companies, where small and medium-sized enterprises (SME) remain preponderant, especially in Flanders that provides for the bulk of Belgian exports. Faraway markets (including the North-American market) still do not represent an important share in Belgium's international trade, notwithstanding the efforts of successive Belgian governments.

The fact that the major part of Belgium's international trade is confined within the EU area, greatly relieves the MFA from the need to deal with the task of international economic norm-setting. Economic negotiations on product standards (including health standards), double taxation, tariffs, juridical protection of investments, etc. are now usually fixed practices within the EU. Trading inside the EU common market is thus increasingly synonymous with trading within a domestic market.<sup>10</sup> This once more stresses the importance for Belgium of European economic integration, including its monetary application: the euro, by stabilising the exchange rates between the currencies of its members, has provided for long-term stability in the Belgium's exchanges with its main trading partners.

Three discontinuities can be noted however. The first one concerns the composition of the export basket, but is not typical for Belgium. Like many other industrial countries, Belgium faced competition from the newly industrialised countries and had to adapt its own manufacture. Whereas in the immediate post-war period, steel, iron and semi-finished products represented the bulk of Belgian exports, finished products with a higher added value, such as machinery, chemicals, pharmaceuticals and services have nowadays replaced this.

A second discontinuity concerns the ownership of Belgian enterprises. After the Second World War most of the enterprises in Belgium were Belgian property. In two waves, first in the sixties and then from 1985 onwards, foreign investments increased its presence in the Belgian economy. Nowadays, an estimated 460.000 Belgians work in foreign-owned subsidiaries (some 22 percent of the total private sector work force), whereas in the manufacturing industry this figure increases to 46 percent.<sup>11</sup> In some industrial sectors, such as the chemical sector, up to 71 percent of the added value is now created in foreign owned subsidiaries. The reaction of Belgian authorities towards this 'sell-out' of Belgian companies has been rather muted. Thanks to its geographical location, Belgium receives a relative important share of worldwide foreign direct investments (FDI). The presence of foreign companies has usually been judged positive. Recently however some, including the Director-General of international economic relations at the Ministry of Foreign Affairs, have raised

questions about unregulated capital flows that might have some unforeseen consequences on the shareholders' composition of Belgian companies.<sup>12</sup>

A third discontinuity flows directly from the second one. In world trade the importance of intra-firm trade (as part of the internationalisation of the manufacturing processes or global networking) has been growing at the detriment of the traditional movement of exports and imports. This same phenomenon is also noted in Belgium, but its effect has been barely examined up to now.<sup>13</sup> Inside Belgian foreign-owned subsidiaries themselves, the overall appreciation seems to be positive. In the case of Alcatel Bell (telecom) for instance, being member of a large group offers the advantage of group support and global scale.<sup>14</sup> This however is only possible if inside its group the subsidiary is recognised as a 'centre of competence' and is allowed to acquire a specific responsibility. In governmental circles on the contrary, the feeling is sometimes expressed that being member of a large group unduly impairs the freedom of movement of the Belgian subsidiary. It artificially restricts its geographical area and limits its scope of activities, since subsidiaries are being given only a well-defined share in the overall structure of the corporation and.<sup>15</sup> There clearly is a danger (and examples abound) that economic diplomacy is becoming a subordinate dimension of transnational corporate planning.

The official agenda of present-day Belgian economic diplomacy can be summarised as follows:

- Classical promotion of export of Belgian products. In this domain, a particular effort is said to be needed to involve SME more closely, especially in faraway markets;
- Economic norm setting: economic negotiations with faraway markets outside the EU;
- A growing importance to both inward and outward investments. On the one hand, a clear link is said to exist between foreign investment in Belgium and the increase of exports to the country of origin of the FDI. On the other hand, the promotion of Belgian FDI is deemed necessary if one aims to increase Belgian shares in foreign markets.<sup>16</sup>

### **3. The institutional set-up of the economic diplomacy in Belgium**

The main responsibility for export promotion remains of course with the exporting company itself. Nowadays companies and federations seek however and much more than in the past, the support of public authorities, whose endeavours are to be viewed as supportive of companies' efforts. In Belgium the main players in the public sector are the ministries at the national level and the regional authorities.

Since 1993, as part of the ongoing constitutional reform in Belgium, export promotion has become almost the exclusive responsibility of the regional authorities (Flanders, Wallonia, Brussels), which are to some extent similar to the American States or the German *Länder*. The Regions have set up their own export promotion agency. These perform broadly the same tasks: providing foreign market information to companies and stimulating, supporting and monitoring them in their export activities with a number of services, including financial incentives. All have at their disposal their own network of foreign-based economic and commercial attachés.

The devolution of economic competencies from the central state to the sub-state level was largely politically driven (a quest for more autonomy and competencies for the Regions at the

expense of the federal government) and was usually not to the liking of the private sector. Even if they complained in the past about the bureaucratic passivity of the federal government, and especially of the BFTB, the private sector criticism towards the activities of the regionalised export promotion services has been at times much harsher. The Walloon export promotion agency (Awex) has in the recent past been accused of gross incompetence, nepotism and extreme politicisation. Private sector surveys revealed that only a third of the exporting companies appealed to Awex and only ten percent to its foreign-based network of attachés.<sup>17</sup> This situation now seems to be overcome. The Flemish export agency (Export Vlaanderen) is not devoid of internal turmoil either. Private sector representatives complain of being often ignored and of policy decisions being dictated more by political calculation than by economic sound advice.<sup>18</sup>

Economic diplomacy is not only a regional competence. The federal government retains a limited number of tools and competencies in the area of export promotion. Foremost amongst them is the Belgian Foreign Trade Board (BFTB) playing an overall co-ordinating role, with its staff of 191 people. It took some years before a more businesslike relationship was established between the federal level and the regional authorities. In June 1997 the management structure of the BFTB was overhauled, thus reflecting the constitutional changes in export competencies, by the creation of a new intermediate 'co-ordinating committee', which brought together representatives of the Regions, the federal government and the private sector. The Flemish Region tried to slow down the actual start of the new BFTB, for it wanted a larger say in decision making, based on the fact that Flanders represented a much greater share in overall exports than Wallonia or Brussels.

The private sector presence however has played a moderating role in this political infighting. The new BFTB slowly starts to perform more smoothly. The joint presentation, in October 1999, of the action plans of the BFTB and the regional export agencies was seen by some as a sign of a more efficient, coherent and businesslike co-operation of all public actors involved in export promotion. This unmistakably corresponded to the wishes of the private sector.<sup>19</sup>

The agency's main tasks are now considered to be the study of foreign markets and the provision of information on the various aspects of these markets. The agency also organises, with the assistance of the regional authorities, economic missions to far-away markets under the presidency of Prince Filip, the Belgian Crown Prince. This formula of such high-level overall economic missions intended to open up doors to crucial decision makers, is now being evaluated and new formulas of more specialised missions in which the regional authorities take a greater share, are being examined.<sup>20</sup> Finally, the BFTB offers a general support to Belgian exports through image building and juridical negotiations and agreements that go beyond the Regions' capabilities.

What is however still missing in the new BFTB is a long-term strategic perspective. The private sector is of the opinion that the agency's culture is still too rigid and does not connect sufficiently with the needs of the exporting firms.

Moreover, all political hustles concerning the position of the BFTB in the export promotion framework have not been cleared yet. To some, the devolution of competencies to the Regions has led to a decline of Belgium's clout on world markets and creates the danger of a 'lose-lose' situation for both the exporting firms and the government's export promotion capabilities. This devolution explains according to some why the high-level missions, mentioned above, nowadays only attract smaller companies and are deserted by the big



Belgian firms. If a politically driven devolution in export promotion competencies would continue, foreign trade officials suspect that suggestions, expressed by some private sector representatives, for a partial privatisation of the BFTB will be pursued with even more vigour. Indeed, for some time now, the private sector has been insisting on a further strengthening of its presence in the public export agency. Its share in the board of management is being increased. But up to now the government has not complied with the private sector's proposal that the Director-General of the BFTB should come out of its ranks.<sup>21</sup>

As a means of overcoming further damaging political infighting between the federal and the regional levels, some have therefore been advocating the concentration of the BFTB's activities (and those of the MFA and the embassies) on the extra-EU markets. This would then leave the economic diplomacy within the EU to the sole responsibility of the Regions.<sup>22</sup> As shall also be seen further on, there is some logic to this proposal. This option appears also to be supported by State Secretary Pierre Chevalier.<sup>23</sup>

Other federal instruments for export promotion include tools, albeit limited, for the financial support to exports. Since 1997 a rationalisation of these financial support mechanisms has been implemented by creating an overall committee 'Finexpo', chaired by the directorate-general for external economic affairs (DGB). This committee handles both state loans (budget of the Ministry of Finance) and requests for subsidisation of the interest rates (the so-called 'supersubsidy', from the budget of the MFA). Commercial management of financial support is entrusted to the Ministry of Foreign Affairs, while financial management is entrusted to the Ministry of Finance. In this respect, the latter can call upon a specialised public body for the management of exchange risks associated with the allowances for the stabilisation of interest on export credits. A committee is also established for guidance and follow-up of the risks. This committee is presided over by the chief treasurer of the Treasury or his representative.

The federal government also takes action to limit the costs and financial risks that are peculiar to exports to faraway countries. The particular purpose of this kind of allowance is to put Belgian businesses on an equal footing with their foreign competitors. The purpose of the Belgian export credit company, the Ducroire/Delcredere, is to foster the international economic relations of Belgium, primarily by accepting risks in the area of exports (especially in medium-to-high risk countries), imports and outward investments. Benefit should be gained from this if the opportunities for an allowance from the Ducroire/Delcredere are expanded by a reinsurance and co-insurance mechanism at a European level.

Promotion and prospecting inward investment in Belgium is organised according to lines similar to those of export promotion.<sup>24</sup> The Regions have acquired an exclusive competence in this domain and all three have set up specific agencies for that purpose. However, since the federal government is in charge of domains that have an important effect on the investment climate, a co-ordinating mechanism was also needed in this field. A 'co-ordination office foreign investments' was therefore set up, chaired alternately by the Regions. It brings together representatives of the regional authorities with representatives of the MFA and the Ministry of Economic Affairs. The latter is in charge of its secretariat. In 1997 a Federal Agency for Foreign Investors was created within the Ministry of Economic Affairs in order to co-ordinate all federal matters that might be of importance for the investment climate in Belgium. On investment matters Belgian embassies report directly to the Regions concerned. As mentioned before, there clearly exists a lack of data and awareness on the effects of the growing intra-group investment flows. As long as this phenomenon is not better understood, an active involvement of the public authorities will continue to present an ad-hoc character.

#### **4. The role of the Ministry of Foreign Affairs**

Part of the ongoing endeavours of Belgian diplomacy is the promotion (some call it a 'restoration') of Belgium's image. This has been a recurrent leitmotif for post-war Belgian economic diplomacy. It was intended to enhance the reputation of reliability as far as Belgium and its manufacture were concerned. The refrain went rather unchanged until the middle of the nineties. At that time it acquired a new dimension, linking it to globalisation. Financial globalisation obliges all countries to pursue the same economic policy within narrow parameters, since financial markets continuously evaluate the economic performances of countries. So it was deemed to be of the utmost importance, among other things to ensure Belgium's early participation in the common European currency, that Belgian diplomats increased their efforts so as to diffuse adequate information on Belgium's fiscal and economic policies, and especially its efforts to reduce the huge public debt.<sup>25</sup>

The recent government's emphasis on the promotion of Belgium's image abroad directly flows from the necessity of restoring the confidence of foreign customers in the agricultural and food products, that represents some ten percent of Belgian exports. The dioxin crisis represented a calamity for the Belgian livestock industry and could have had a severe impact on the Belgian economic performance as a whole if the import restrictions for Belgian products would have lasted too long. (The opening quote by State Secretary Chevalier refers to this dossier.) This emphasis is thus not linked, as some in Belgium have claimed, to the complex constitutional reforms or to the political and societal crises that Belgium has encountered the last couple of years (the Agusta bribery scandal and the paedophilic murders).

To be more specific on the role of the MFA in economic diplomacy in general and export promotion in particular, a distinction can be made between the work done at the home front, by the central administration of the MFA, and abroad by the diplomatic service.

##### **4.1. The Ministry's role in export promotion**

In Belgium too economic diplomacy has gained increased attention in the last couple of years. Foreign trade promotion has acquired a new dynamism and political acceptability.<sup>26</sup>

Belgium has never had a separate Ministry of Foreign Trade. The Belgian foreign trade administration has always been an institutional part of the Ministry of Foreign Affairs. Up to 1997, these aspects were being handled by the directorate-general for external economic affairs (DGB). In 1997 the MFA underwent an important reorganisation, partly to compensate for the gradual reduction of its officials,<sup>27</sup> partly to adapt to the increased requirements for economic diplomacy. The most visible aspect of the reorganisation of the MFA was the integration of the geographical desks of both the economic directorate-general and the political directorate-general within a 'new' DGB. At present, the DGB handles all bilateral relations, in their political as well as in their economic dimension, and the international financial, commercial and economic relations.

The DGB thus handles most of the multilateral trade negotiations. It also ensures that the economic and commercial interests of Belgium vis-à-vis third countries are represented within the framework that has been established in the treaties relating to the establishment of the European Community. This framework has led to the creation of different working parties and specific committees, particularly Committee 133 (formerly 113), which is in charge of common commercial policy.

In order better to be able to identify Belgian interests at bilateral level, regular co-ordination meetings (the so-called 'round table conferences', initiated in 1992 on Asia) are held within the MFA. These round-tables focus on a given area and are chaired by the DGB. They bring together the people in charge of foreign trade in the different federal and regional administrations as well as the relevant professional federations and business representatives in the geographical area under consideration. The deliberations within these round-tables furnish the basic direction to Belgian export activity, identifying possible new opportunities and market niches.

The MFA also regularly holds Consular conferences with the same aim of better identifying Belgian economic interests. These always take place abroad, in the country or the Region under consideration. Thus the DGB organised a Consular conference in January 1998 in Manila, soon after the outbreak of the financial crisis in Asia, in order to evaluate the consequences for Belgian trade with the Region. This formula makes it possible to bring together all the diplomatic, consular, economic and trade representatives of the area.

A final instrument of the MFA in order to identify Belgian export possibilities is the informal network of Belgian Chambers of Commerce abroad, the Honorary Consuls and the Advisors for Foreign Trade. This network is lately being upgraded, since it is considered to be an often unknown and insufficiently used tool for the promotion of Belgian companies abroad.

Once Belgian interests are defined, the MFA then goes into the second stage of seeking to promote them. It has a number of tools at disposal, such as the organisation of economic consultations with third countries. These consultations, which can take the more formal format of a joint commission, brings together officials and business representatives of both Belgium and the third country and dwell upon a large agenda of common interests. Broadly defined these bilateral consultations are the main instrument by which two countries define the framework and the norms that will organise their bilateral trade, so as to provide legal security in the absence of fixed rules of conduct.

In the course of 1998 the MFA also decided to concentrate its efforts more specifically on a selected list of countries. The target-countries strategy has defined a limited number of countries on all continents, outside the EU. The criteria for selection are both political and economic. Within the MFA the DGB organises meetings with representatives of all sectors of society (private sector, regional and federal ministries, people-to-people contacts) in order to draw up a working programme for intensified contacts for the coming three to four years. Russia, Argentina, South Korea and Canada figure among the target-countries.

It can be said that at the federal level the MFA functions today as a catalyst for the bulk of the foreign economic relations of Belgium, even if some private sector spokespersons think of the MFA-procedures as cumbersome and intricate.<sup>28</sup> It acts as the intersection where regional and federal authorities co-ordinate and where private sector and government officials deliberate, both for short-term projects as for middle-term strategies. Its performances in the recent

dioxin crisis in 1999 were considered excellent, since it proved to be a well oiled mechanism for both domestic co-ordination as external representation. The more directly involved departments (especially Agriculture and Public Health) on the contrary had difficulties in getting their act together in time and in performing adequately in this urgency.

#### 4.2. The role of the embassies

Most diplomats nowadays realise that export promotion remains one of the constant and substantive tasks of every Belgian embassy. This takes several forms:

- Gathering of information on opportunities, either for the large sectors, the big projects, or for a specific type of sales/contract is one constant task. Overall information is gathered about the competitive position of Belgium with regard to other direct or potential competitors. Relays are done to all interested bodies in the Belgian federal/regional system. One permanent task is also to keep feeding a global economic and commercial databank at the BFTB. Embassies also play an important role in establishing the potential political and social risks, a crucial yardstick for the Belgian export credit company, the Ducroire/Delcredere.
- Practical and detailed inquiry on the competition conditions for specific projects/contracts, particularly when and where a form of subsidy or guarantee/insurance (through Ducroire/Delcredere or a Belgian bank) is involved. This is done either at the direct request of the company, its bank, or together with a request lodged as an instruction coming from the Ministry of Foreign Affairs (i.e. State Secretary for Foreign Trade, or the DGB, or the relevant regional desk).
- Démarches and practical assistance in favour of Belgian offers, to the authorities (including the ministerial or head of state level) or to private interested parties in order to liaise with a Belgian company. This can include the communication of information at the request of the local potential buyer/contractor. It includes also the organisation of high profile trade missions headed by the Crown Prince.
- Publicising of successful commercial interests and achievements, both in the country of accreditation and from Belgium. This can include any kind of public initiative (ceremony, news letters, press articles, interviews, publicised visit, receptions, etc...) set up by the embassy in support of a commercial event (signing of a contract, inauguration of a plant, visit to a unit...). It can also be done through initiating the organisation of useful contacts in Belgium for potential commercial partners with relevant interested Belgian companies, or also through signalling the visit of opinion-making journalists to the BFTB which then will set up an adequate program.
- Organising or stimulating the existing Belgian commercial presence in the country of accreditation, in the form of a Belgian Business club or a Chamber of Commerce, etc. This is aimed at creating an enhanced image with a potential for cross-strengthening reflexes, and at providing an additional source of information among Belgians and Belgian interests. It also includes maintaining connections with the nationals of the country of accreditation who have studied or have special links with Belgium in order to cultivate the goodwill.

The export promotion activities of embassies take a somewhat different form depending on their location within or outside the European Union. The intra-EU export promotion is largely done at the level of the Regions, which are rather well represented all over the markets of the EU. This activity is much more technically standardised as European integration makes the norms, rules and regulations more uniform. Most individual companies already know these

markets quite well, or the access to those markets is much easier and requires less assistance from a 'supporting' body. The federal embassies play a significantly lesser role, and this without any resulting negative impact or missed opportunities.

The extra-EU promotion is different. The Regions are less systematically present in the non-EU markets. Many foreign countries expect the federal embassies to be active in commercial promotion, alongside, or in absentia of, a regional commercial agent. For many Belgian SME faraway markets look difficult and they feel a need for more assistance of and support from the embassy.

## **5. Conclusion**

Contrary to widespread belief that globalisation equals retreat of the State, the importance of economic diplomacy by governments (and state intervention in export promotion in particular) has clearly not diminished over the last few years. Diplomatic practitioners sense that a more pro-active attitude and effort in this field is being requested from them.

Economic diplomacy however is no brand-new contemporary phenomenon. Since the renaissance it has always been one of the twin tasks of diplomacy, along the security dimension (maintaining the balance of power). Economic and military diplomacy can be viewed as two linked DNA-chains, alternately gaining prominence to the apparent detriment of the other dimension, with the latter of course not disappearing but temporarily taking a back seat. Political scientists should more heavily invest in the research of historical recurrences so as to avoid the all too common phenomenon of calling something contemporary where in fact we are witnessing a cyclical resurgence of a long-term pattern.

In the international system, economic diplomacy takes prominence when acceleration in globalisation (or a suddenly increased degree of interdependence, together with the awareness of it) is accompanied by an absence of agreed rules of conduct. Firms then call upon 'their' governments in order to enhance their own endeavours on the world market. Governments have no choice but to further their companies' interests, otherwise other firms would benefit. This analysis helps to explain why today's economic diplomacy can indeed easily be compared in intensity and in scope with the late 19th and early 20th century's commercial diplomacy of all industrial states.

This analysis however should not lead to the conclusion that over the centuries nothing has changed in economic diplomacy. Many changes have occurred, such as the emergence of economic multilateralism in the twenties (which greatly transformed and facilitated economic diplomacy) or the growing importance of services in international trade to the detriment of goods.

Awareness of historical recurrences helps us to look at contemporary phenomena in a wider context. Does the growing intra-firm trade in the overall international trade equal a radical transformation of economic diplomacy? If one views today's globalisation as a radical new and unprecedented qualitative transformation of the world economy, then the conclusion concerning today's economic diplomacy is easily reached: states are retreating and the void that is being created, is filled by firms, with governments simply running errands for private sector interests.

Let us now try to put this in perspective. Today's competitive international environment resembles in many aspects its predecessor in the second half of the nineteenth century. The traditional mercantilist trade policies then was giving way to *laissez-faire* that enhanced even more the leading role of the UK as the workplace of the world. A more or less predictable international environment was the result. But in the last quarter of the century this comfortable situation rapidly changed. Economic hegemony shifted from the United Kingdom to the United States and other European states acquired or aimed at 'a place in the sun'. The second industrial revolution engendered new financial giants, new trading goods and new manufacturing methods that spread all over the world. This combination partly explains the global expansion (or globalisation) of the late 19th and early 20th centuries, described by Palmer and Colton. This sudden acceleration of the globalisation process was accompanied by the (re)emergence of ideas about the swift disappearance of the State as the leading political organisation, of which Norman Angell's *The Great Illusion* (1909) was an eloquent illustration – albeit an erroneous one as history would soon prove.

Indeed, in this precarious and highly competitive international environment, companies had no other choice than to struggle for survival by, on the one hand, establishing cartels and trusts providing some stability in order to mitigate the effects of the booms and busts of unregulated economic development and, on the other hand, actively securing their existing shares in the world markets or searching for new ones. In this quest they turned to their governments for support. An intensive economic diplomacy was the result, strengthening the role of the State – notwithstanding all assumptions of its near demise.

It would therefore be more accurate to view also present-day intensive economic diplomacy as a mere transitory phase. Post-war economic diplomacy until the seventies/eighties dealt mainly with goods and was pursued in a predictable international environment, managed (or 'disciplined' if one prefers) by the Bretton Woods monetary mechanism and the political and economic prominence of the United States and American firms. The absence of regulatory monetary mechanisms, the shifting economic power relationship between the United States and the European Union (evolving from a unipolar to a bipolar economic leadership)<sup>29</sup> and the emergence of new items on the trade agenda (services and the consequences of the information-based industrial revolution) put the international economic environment under heavy stress, at the same time as trade liberalisation combined with a deregulatory effort has vigorously been pursued.

One must therefore readily conclude that before drawing too hasty a conclusion, the real impact of intra-firm trade on overall trade needs to be investigated more thoroughly, as part of a more sophisticated approach towards globalisation, leaving aside a-historical and fashionable best-sellers à la Benjamin Barber's *Jihad vs McWorld*.

*(‘Trade is War.’ Belgium’s economic diplomacy in the age of globalisation. Leicester, University of Leicester, Centre for the Study of Diplomacy, DSP Discussion Papers, nr. 62, 2000, 20 pp.)*

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<sup>1</sup> State Secretary for Foreign Trade Pierre Chevalier in: *Knack*, 13 October 1999

<sup>2</sup> State Secretary Pierre Chevalier at the (annual) Diplomatic Conference, Brussels, 3 September 1999

<sup>3</sup> (Former) Foreign Minister of Australia Gareth Evans as quoted in: *International Herald Tribune*, 11 January 2000

<sup>4</sup> Two strikingly clear statements to this effect come from the (present) American ambassador in Paris, Felix Rohatyn, and the (former) American ambassador in Brussels, John Blinken. See respectively

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*International Herald Tribune*, 18 June 1998 and *De Morgen*, 18 July 1998. For the UK, see in particular: Lee, D., 'Globalisation and diplomatic practice: export promotion strategies in the United Kingdom.' Paper presented at the BISA Annual Conference, Manchester, December 1999

<sup>5</sup> Marc Servotte (Former Director-General of the Belgian Foreign Trade Board) in: *Ouverture sur le monde. Liber Amicorum Jan Hollants Van Loocke*. Brussels, Fabrimetal, 1995, p. 101

<sup>6</sup> Stopford, J., Strange, S., Henley, S., *Rival states, rival firms. Competition for world market shares*. Cambridge, Cambridge University Press, 1991, p. 2

<sup>7</sup> Palmer, R.R., Colton, J., *A history of the modern world*. New York, Alfred A. Knopf, 1995, p. 603

<sup>8</sup> *Input-Output Table 1990*. Brussels, Federal Planning Bureau, May 1999; *50 années de commerce mondial et commerce extérieur belge, 1948-1998*. Brussels, BFTB, 1998. (This last document erroneously asserts that two out of three jobs are directly linked to exports.)

<sup>9</sup> BFTB, *Annual Report 1998*; 'Le Commerce extérieur de la Belgique en in 1998', in: *Commerce Extérieur*, June 1999, 11

<sup>10</sup> Noirfalisse, J.-M., 'La grande exportation : un éternel défi pour la Belgique', in: *Ouverture sur le monde*, p. 91

<sup>11</sup> Figures by the Ministry of Employment (Brussels) and in: *Délocalisation. Mondialisation. Un rapport d'actualisation pour la Belgique*. Brussels, Federal Planning Bureau, 1998

<sup>12</sup> Grauls, J., 'Buitenlands beleid: luxe of noodzaak?', in the journal of the KVAB, May 1999

<sup>13</sup> *Avis relatif aux investissements étrangers en Belgique*. Conseil Central de l'Economie, Brussels, 12 November 1997, pp. 10 and 12

<sup>14</sup> De Wilde, J., 'De wereldwijde export van de Belgische telecomindustrie', in: *Ouverture sur le monde*, pp. 193-200

<sup>15</sup> Servotte, M., 'Officiële exportbevordering binnen en buiten de EU', in: *Ouverture sur le monde*, pp. 97-103

<sup>16</sup> *World Investment Report 1998. Trends and Determinants*. New York, Unctad, 1998, p. 6; *Avis relatif aux investissements étrangers en Belgique*, pp. 7-8; State Secretary Pierre Chevalier at the (annual) Diplomatic Conference, Brussels, 3 September 1999

<sup>17</sup> *Le Soir*, 16 January 1998 and 4 June 1999

<sup>18</sup> *Trends*, 26 November 1998 and 21 January 1999; *Financieel-Economische Tijd*, 8 January 1999; *De Standaard*, 18-19 December 1999

<sup>19</sup> Gui de Vaucleroy, President of the FEB/VBO (Belgian Employers' Organisation) at the (annual) Diplomatic Conference, Brussels, 1 September 1999

<sup>20</sup> *De Standaard*, 20-21 November 1999

<sup>21</sup> Emile Goffin, Acting Director-General of the BFTB, in: *La Libre Belgique*, 27 February 1999

<sup>22</sup> Marc Servotte in: *Financieel-Economische Tijd*, 2 March 1999

<sup>23</sup> *Financieel-Economische Tijd*, 26 November 1999

<sup>24</sup> *Accord de coopération 'Investissements étrangers'*, 7 February 1995

<sup>25</sup> 'Diplomatie fédérale et promotion de l'expansion économique du pays à l'étranger'. Speech by (former) Minister of Finance (and Foreign Trade) P. Maystadt before the Association of former Diplomatic and Trade officials. Brussels, 12 November 1997

<sup>26</sup> Speech by Minister of Foreign Affairs L. Michel to the MFA personnel, Brussels, 20 July 1999; *Note de politique étrangère*. Brussels, Ministry of Foreign Affairs, 7 December 1999 (point 4.4)

<sup>27</sup> Since 1980 the Belgian MFA lost a quarter of its staff.

<sup>28</sup> Gui de Vaucleroy, o.c., 1 September 1999

<sup>29</sup> Bergsten, F., 'America and Europe: clash of the titans?', in: *Foreign Affairs*, Vol. 78, 2, March/April 1999