



European Economic Diplomacy: What Role for the EIB?

Balazs Ujvari

Led by the European Commission and the European External Action Service, European economic diplomacy is in the making. This exercise requires a strengthened co-ordination not only between the EU and its member states but also with the European Investment Bank (EIB) as pointed out by the Commission's recently published 'Reflection Paper on Harnessing Globalisation'. The EIB, the largest non-sovereign lender and borrower in the world which dedicates around 10% of its annual lending volume to operations outside the EU, indeed appears to have several ways to back the evolving European economic diplomacy. This policy brief is set out to explore some.

Since the priorities of the European Union Global Strategy (EUGS) were endorsed by EU heads of state and government in June 2016, considerable efforts have been undertaken by the EU institutions to develop a coordinated and coherent European approach to economic diplomacy. A genuine European economic diplomacy consists of a collection of strategies and actions of the EU member states (which have been growing in importance in the recent years) and a distinct EU element that complements these efforts in this area.¹ It is in this spirit that the European Commission

and the European External Action Service (which has also appointed dedicated senior advisors to economic diplomacy issues) has led the work on the matter over the course of the past year.

Most recently, the 'Reflection Paper on Harnessing Globalisation' published by the European Commission on 10 May suggested that 'the EU and Member States should improve the coherence of external policies and tools to foster growth and jobs in Europe and become more efficient in pursuing our economic interests abroad.' Interestingly, the document places the emphasis on the pursuit of the EU's economic interests, while somewhat relegating the link between economic diplomacy and traditional foreign policy objectives towards third countries. In other words, European economic diplomacy has not, thus far, been framed so much in terms of economic statecraft where economic means, such as foreign aid, trade or policies governing the international flow of capital, are used as foreign policy tools. As such, the primary goal of European economic diplomacy is not to pursue concrete foreign policy agendas such as strengthening the constitutional state and governance in Tunisia or advancing normalisation in Turkey-Cyprus relations, for example. Instead, European

economic diplomacy is, in addition to boosting growth and jobs, mainly intended to further some generic, cross-cutting EU foreign policy principles such as strengthening international rules and standards on issues like human rights, working conditions, food safety, public health, environmental protection or the sustainable development goals (SDGs).

In delivering a European economic diplomacy, suggests the above Reflection Paper, a systemic and strengthened co-ordination between the EU, the member states and the European Investment Bank (EIB) is imperative. But how exactly can this latter contribute to a European economic diplomacy? This policy brief explores this question by identifying ways in which the EIB can weigh into the formulation and implementation of a European economic diplomacy.

EIB – AN OVERLOOKED (F)ACTOR?

In general, the Luxembourg-based institution has received rather limited attention in the context of EU relations with third countries. Yet, the fact remains that, founded in 1958 under the Treaty of Rome, the EIB is the largest non-sovereign borrower and lender in the world. In addition to the 28 EU member states, it operates in some 160 countries worldwide. During 2016, the total value of operations signed by the EIB group – which also includes the European Investment Fund (EIF) – reached EUR 83.75 billion (bn), of which EUR 8.04bn concerned countries outside the EU. This latter figure puts the EIB on a par with the European Bank for Reconstruction and Development (EBRD), the total annual investment of which had reached 9.4bn in the same year.² When operating outside the EU, the EIB relies on three main instruments: the External Lending Mandate (ELM), the ACP-EU Cotonou Mandate, and its Own Risk Facilities (ORF). The ELM is mostly used in pre-accession and

neighbourhood countries with a low investment-grade as well as in Asia and Latin America but also South Africa. In African, Caribbean and Pacific countries the Bank operates through the Cotonou Mandate whereas the ORFs are primarily mobilised for operations in countries with a high investment-grade.

Through its activities outside the Union, the EIB seeks to contribute to EU external action by supporting the major regional policy frameworks, including enlargement, neighbourhood and development co-operation policies with the following main objectives: local private sector development and economic and social infrastructure, with climate action and regional integration as a cross-cutting objective. While lending is by far the EIB's principal activity, the bank also provides financing via equity investments and other instruments. Technical assistance and advisory services are also provided in order to enhance the preparation and quality of the projects funded.

With regards to shifting global priorities and the adoption of the 2030 Sustainable Development Agenda, the global climate deal struck at the 21st Conference of Parties in Paris and the persisting migration crisis in particular, there appears to be an increasing interest in, and demand for, the types of products and core expertise that multilateral development banks like the EIB can offer. This seems to present more of an opportunity, than in the past, for the bank to be recognised as a relevant (f)actor in EU external action, including in terms of European economic diplomacy.

EIB AND EUROPEAN ECONOMIC DIPLOMACY

The EIB's 2017-2019 operational plan underlines that the bank seeks to make a

contribution to European economic diplomacy, particularly by means of increased use of its ORFs. In its ELM mid-term evaluation report to the Council and the EP, the Commission notes that the EIB is expected to be a key player in supporting EU enterprises who want to do business abroad, which is one of the crucial objectives of European economic diplomacy.³ Arguably, the bank is well-equipped to support the internationalisation of EU businesses in multiple ways. Firstly, the EIB finances innovation and skills within the EU. In addition to ensuring sustainable growth and creating high-value jobs, this also contributes to improving the long-term competitiveness of EU enterprises in a global context which can facilitate their entry into, and position on, foreign markets.

Secondly, the institution also provides direct financing in support of the outward and cross-border investments of EU companies. Recently, most such EIB activities have focused on the Mediterranean region (e.g. EUR 10m for Spanish EUROPAC Group in 2015 to support its growth on the Moroccan market). More notable, however, is the lack of FDI support operations towards Asia in the last years. Yet, as per the EUGS, Asia is the very region towards which the EU most crucially needs to build up a robust economic diplomacy. With regards to China, in particular, the strategy emphasises the need for a level playing field, allowing EU investors to gain a greater presence on the Chinese market and to be treated on equal terms with domestic actors. The fact that the EIB mainly operates through ORFs in the country may come in handy in this respect, given that this is currently the only channel of EIB external lending that allows for direct FDI support. Nevertheless, in line with the growing expectations towards the bank in

terms of FDI financing, the question also arises as to whether or not the EIB should be (re)authorised to specifically support cross-border and outward investments under the ELM, as was the case with former mandates.

Thirdly, the EIB also enhances opportunities for EU companies to participate in projects outside the EU as suppliers or contractors, while also supporting working capital facilities in favour of small and medium-sized enterprises (SMEs) and mid-caps active in commerce inside and outside the EU. Lastly, despite the short-term repayment conditions relating to such activities, the institution has, in recent years, also developed tools to promote foreign trade by European SMEs, including through dedicated trade finance (e.g. EIB Trade Finance Facility for Greece created in 2013) and export credit facilities (e.g. €50mn facility with Northstar Luxembourg for buyer credit financing signed in late 2015). The EIB also partners with other institutions on similar schemes: an example of which is the EIB-Inter-American Development Bank (IADB) Joint Initiative to support investments from Latin American SMEs and mid-caps in the EU and vice versa.

Nonetheless, the EIB's potential in underpinning European economic diplomacy goes much beyond the internationalisation of EU businesses. The significant financing provided by the institution to several countries outside the EU, notably those in the neighbourhood and the Western Balkans, also makes the case for a more strategic consideration of the EIB factor when EU foreign policy objectives are pursued vis-à-vis third countries. In addition to serving beneficiary countries' interests, the financing made available by the bank furthers, to a varying degree, the EU's own strategic interests too. Examples include the financing of energy projects that help to assure adequate energy

supply towards Europe; the undertaking of climate projects to help decarbonise some of the largest polluting economies such as China; and the boosting of resilience in countries affected most by migratory pressures (either as origin or transit countries). Therefore, if European economic diplomacy were to be linked to the pursuit of broader strategic interests (instead of focusing narrowly on growth and jobs), the EIB could still act as an additional lever of influence through its financing operations as it contributes to the EU's visibility outside the bloc and magnifies the Union's – financial – offer in the eyes of third countries.

CONCLUSION

In sum, while the EIB has several tools to pursue economic diplomacy activities notably through supporting the internationalisation of EU business, operations serving this objective have only constituted a minor portion of the bank's lending portfolio in the recent years. In

addition, most such operations of the bank have focused on the southern neighbourhood of late, whereas the EUGS champions economic diplomacy considerations primarily in the context of EU-Asia relations. Therefore, for the EIB to play a greater role in European economic diplomacy in tune with the EUGS, it will be imperative to enhance and reorient its pertinent activities towards Asia, with a particular emphasis on China and India. Doing so successfully will also allow the bank to gain a greater acknowledgement for its role in implementing the principles of EU external action and the objectives laid down in EU regional policy frameworks, potentially also consolidating its emerging recognition as an additional lever of influence in EU external relations.

Balazs Ujvari is a Joint Research Fellow at Egmont – The Royal Institute for International Relations and the European Policy Centre.

Endnotes

¹ Okano-Heijmans, Maaïke and Montesano, Francesco Saverio (April 2016), Who is Afraid of European Economic Diplomacy?, Policy Brief, Clingendael.

² European Bank for Reconstruction and Development (May 2017), Annual Report 2016. Available at: <http://www.ebrd.com/news/publications/annual-report/annual-report-2016.html>

³ European Commission (14 September 2017), Report from the Commission to the European Parliament and the Council, COM(2016) 584 final, Brussels, p. 8.