

INSTITUTIONS AND KNOWLEDGE FOR EFFICIENT EXTERNAL TRADE POLICY MANAGEMENT

Sabina Kolesa
Ministry of Economic Development and Technology
sabina.kolesa1@siol.net

Abstract:

In the global economic environment a competitive advantage of a country can be achieved by innovative (government) institutions. In this article we provide an overview of economic theories in relation to institutions and economic diplomacy actors in external trade policy management, analyse the co-ordination process within the European Union, as well as practices of external trade policy (process) management in five EU member states (Germany, Ireland, France, Poland and Slovenia). Our goal is to discover whether – in spite of the differences in size, economic and institutional structure and trade orientation, there are common characteristics that should be taken into account when making a proposal for a co-ordination model that would enable a country more efficient trade policy (process) management in order to increase its influence at the international level. We confirm that institutions are of key importance for efficient external trade policy management – *small countries in particular can increase their influence at the international level substantially, if they are capable of efficient process management and of making alliances with subnational actors. We stress the importance of adequate knowledge and skills of individuals involved in the process, the relevance of two way communication channels and the essence of analytical studies in decision making process.*

Keywords: external trade policy, process management, knowledge, institutions, alliances

1. INTRODUCTION

The globalization has significantly changed the patterns of global economic co-operation and trade (growth of international supply chains, rise of electronic commerce and new economic powers). The number of actors involved in trade negotiations conducted at different levels (bilateral, plurilateral, multilateral) increased as well.

Due to constant changes in the environment as well as complexity and variability of the processes, the importance of institutions has increased, and knowledge of and adherence to formal rules and informal constraints became a key resource, essential for all actors, involved in a country's external trade policy management - in order to increase its influence at the international level.

Therefore, at the beginning of this paper reference is made to institutions and institutional theory. Economic development is institutional development (i.e. industrialization requires institutions to mitigate the costs associated with transactions). Institutions account for the evolution of political and economic institutions that create an economic environment that induces increasing productivity (North, 1990).

We will then analyse the process within the European Union, the role of national and subnational (state and non state) actors, the interconnectedness of the external trade policy and other national policies, and will show the complexity of the process of interactions between different actors, negotiating levels, and policies. In our opinion, knowledge of those complex processes is important for every economy, in order to improve process management and increase the country's international influence. This is particularly important for smaller countries with limited resources.

Then, we will analyse the actors to be included into the process on a national level i.e. the systems in five EU member states (Germany, Ireland, France, Poland, and Slovenia). Our goal is to find out whether there are common characteristics in the countries (in spite of the differences in size, economic structure and trade orientation) and make a proposal for a national co-ordination model. We argue competitiveness of the economy is based on the involvement of all relevant actors and policies. In formulating strategies and policies coordination between various governmental and non-governmental activities is necessary.

Analysis will be made on information (key documents) published on the web pages of the relevant (state and non state) institutions engaged in external trade management (on a sub-national and national level) - European Commission, Council of the European Union, World Trade Organisation, ministries primarily responsible for External Trade Policy in Ireland, France, Germany, Poland and Slovenia, European Fair Trade Association, International Chamber of Commerce, etc., structured interviews with four high officials - Directors General responsible for trade policy of Germany, France, Ireland and Poland (also EU Trade Policy Committee – full members) and participant observation method for Slovenia (the author chaired the Trade Policy Committee – full members during the Slovenian Presidency of the Council of the EU). In addition to the content analysis of the EU external trade policy, we will focus on the actors involved in the formal decision making process and the co-ordination with other policies (on a sub-national and national level).

Our main research questions in the structured interviews refer to the institutional structure, process management (actors and formal/informal procedures of coordination), knowledge and skills. Our goal is to find out whether there are set strategic goals on a national level, defined (and implemented) formal and informal co-ordination procedures, which actors are involved, whether there is co-ordination procedure with other relevant policies as well as whether/how countries invest into knowledge and skills. Our case study is based on analysing the systems in five different countries – different by size, external trade orientation, industry structure and time of EU accession. We aim to define potential common characteristics the country should take into account in the co-ordination model. In addition, we will try to provide empirical evidence that institutions and efficient process management, where individuals involved in the process have adequate knowledge and skills, and *analytical studies play an important role in decision making process*, increase the influence of a country at an international level.

At the end, we present a proposal of a co-ordination model of external trade policy management in order to increase a country's influence/power at a subnational/international level.

2. INSTITUTIONS AND ECONOMIC PERFORMANCE

While in the traditional neoclassical theory institutions were regarded as given or ignored, the new institutional economics focuses on institutions as the rules of the game in a society (Williamson, 1975; North, 1990). Institutions play a key role in development. They reduce uncertainty by providing a structure for everyday life.

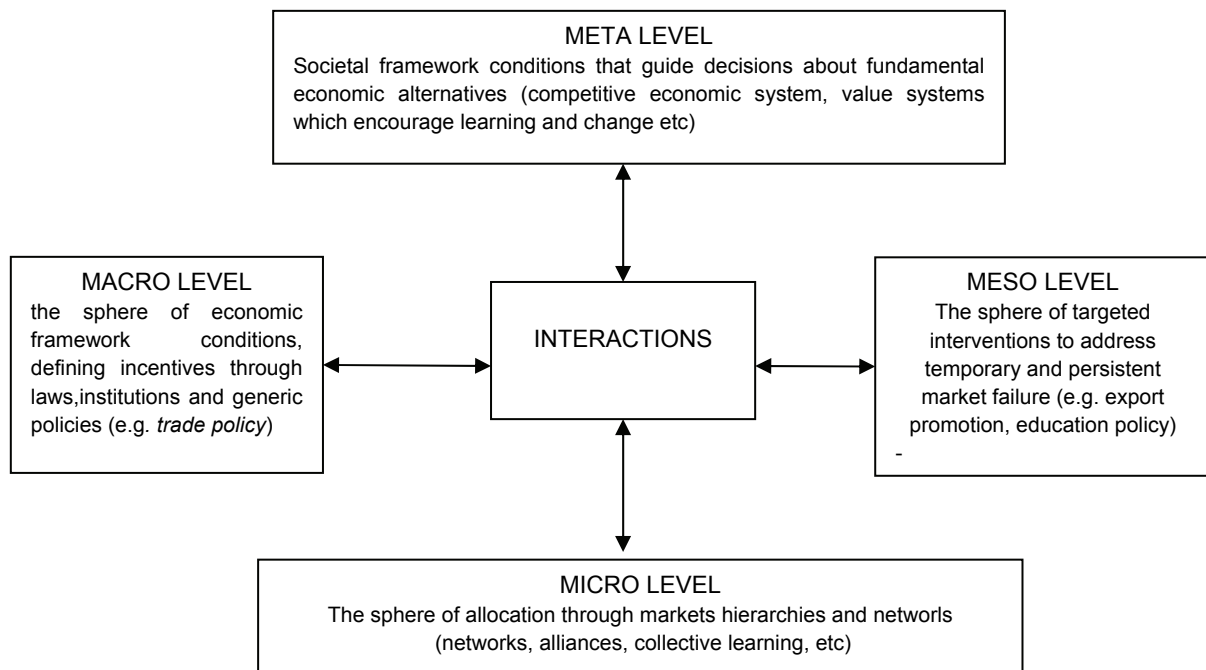
Davis and North distinguish between the *institutional environment*, which includes the “legal ground rules” that constrain on-going political and economic business, and the *institutional arrangement*, which provides a workable mechanism either for operating within the ground rules or for changing them.

Institutions consist of formal constraints (rules, laws, constitutions), informal rules (social reforms, moral rules) and mechanisms for their implementation (North, 1990). The relationship between formal and informal institutions is very important for policy reasons. Institutions and institutional mechanisms are important for national competitive success. The fundamental role of institutions is to facilitate the implementation of economic activity through the reduction of transaction cost (Hall and Joes, 1999). Institutional structure is fundamental to the establishment of an appropriate regulatory framework of market and non-market activities.

Development is seen as a response to the evolution of institutions that supports social and commercial relationships. Economic growth thus depends on the degree to which the potential hazards of trade can be controlled by institutions, which reduce information costs, encourage capital formation and capital mobility and otherwise facilitate cooperation (Klein, 1999). Since policies consist of changes in formal institutions, outcomes are a result of changes in both formal and informal rules (as well as enforcement characteristics), therefore learning more about the interaction between formal and informal rules is a necessary condition for improving economic performance.

In order to cope with the complexity of factors that drive the performance of the given economy, the concept of Systemic Competitiveness introduces four analytical levels (Esser et al. 1995). Factors and their interaction at four different levels shape the ability of countries to compete in an increasingly competitive world economy. In the model the meso level addresses specific policies (such as technology policy, industrial policy, regional policy, etc.) and the institutional and organizational environment supra-national level to create favourable conditions for industrial dynamism (i. e., strategies and coalitions). In short, the Systemic Competitiveness approach acknowledges the crucial importance of favourable macroeconomic framework conditions, robust institutions and a predictable macroeconomic policy for economic development (Meyer-Stammer, 2008). Barston (1973) pointed out the importance of creating coalitions and using international organisations to generate support for their policies.

Picture 1: The four levels of systemic competitiveness



Source: Esser et al. (1995)

When analysing international trade (in relation to process management) it is important to focus on *interest groups, international structures and ideas*. Kennedy (2007) emphasizes the importance of interest groups and their efforts to influence on international trade policy of a relevant country.

Knowledge is also increasingly regarded as the critical resource of economies (Drucker 1993; Quinn 1992). How the institutional framework affects market competition and leads to the growth and the accumulation of the knowledge? Institutions are responsible for coordinating the knowledge of market participants. They provide essential knowledge to individual decision-makers (Boland).

In summary, economic performance is the outcome of a complex process of playing the economic game according to formal and informal rules that provide incentive structures and channel innovative activities in a certain direction (Mantzavinos, C.; North, Douglass, C.; Shariq, Syed (2003).

3. EXTERNAL TRADE POLICY COORDINATION PROCESS WITHIN THE EUROPEAN UNION

This section will describe the process of coordination within the European Union. Our *goal* is to identify all key (state and non-state) actors at a national and subnational level and their interactions in the process of negotiations (bilateral, plurilateral, multilateral).

Analysis is made on the basis of information published on the web pages of European Commission, World Trade Organisation etc, and participant observation method. In addition to the content analysis of the EU external trade policy, we will focus on the actors involved in the formal decision making process within the integration and the co-ordination with other policies.

At the multilateral level of negotiations (WTO) European Commission (EC) is negotiating on behalf of EU member states - on a basis of a mandate given by the Council of EU (FAC - Foreign Affairs Council) and in consultation with a Council committee of high-level trade officials called the Trade Policy Committee. In addition to numerous formal meetings held at different levels and in different formats, one must not forget informal meetings among 'like minded' members of EU and meetings

with non-EU member states with similar interests. To make it even more complex we must take into account EU member states. The complexity of internal coordination procedures will be shown in the case study of some EU member states in the following chapter.

External trade policy is not isolated, rather it is interconnected with several other policies (competition, energy, environment and sustainable development policies). Therefore the need for co-operation and consistency among numerous actors is gaining even more relevance. We have already identified key actors in the formal process of creating EU external trade policy (i. e., *Council of EU, European Parliament, European Commission*, state actors in member states and several non-state actors at (sub) national level). Within the European Commission *DG Trade* is officially responsible for external trade policy, but due to interconnections with several other policies the external trade policy is drafted by 7 additional directorates (DG for Agriculture and Rural Development (AGRI), Climate Action (CLIMA), Competition (COMP), Enterprise and Industry (ENTR), Environment (ENV), Europe Aid Development & Cooperation (DEVCO) and Taxation and Customs Union (TAXUD). The Role of European Parliament with regard to external trade gained importance after the Lisbon Treaty had entered into force. Now the agreement/confirmation of the EP is required for all trade negotiations – (an) additional actor(s) to be considered. In addition, non-governmental organisations have become more and more active (e.g. UNICE – Union of Industrial and Employees Confederations, Eurochambers, ERT – European Roundtable of Industrialists, etc. (for more details see Bratina and Bobek, 2007). Not only are they presenting their positions in non-formal processes, they are often members of advisory committees within the EC. The Commission can, however, influence them by financing certain activities (Bomberg and Stubb, 2003).

In short, there are three groups of actors involved in the formal process of *negotiations within the EU*:

1. EU Institutions and Bodies: European Commission, European Parliament, Council of EU, European Economic and Social Committee, and Committee of the Regions);
2. EU member states' governments;
3. Different interest groups, organised at the EU level or member states level; non-EU actors.

4. EXTERNAL TRADE POLICY (PROCESS) MANAGEMENT IN SOME EU MEMBER STATES

After analysing the decision making process at the EU level, we will now focus on the practises of external trade management in chosen EU member states (Germany, France, Ireland, Poland, and Slovenia). Our main research questions are, whether there are set strategic goals on national level, defined (and implemented) formal and informal co-ordination procedures of external trade policy management exist, and if so, which actors are involved in the process. In addition, we will investigate, whether there is a co-ordination procedure with other relevant policies. Our case study is based on analysing the systems in five different states – different by size, external trade orientation (mainly liberal or protectionist trade policy), industry structure, and time of EU accession. We aim to define potential common characteristics the states should take into account in their models of co-ordination of external trade policy (regardless their size, external trade orientation or industry structure). In addition, we will try to provide empirical evidence, that institutions and effective process management increase the influence of a state at an international level.

The key findings of our analysis, based on four structured interviews with four high officials - Directors General responsible for trade policy of Germany, France, Ireland and Poland (also EU Trade Policy Committee – full members) and participant observation method for Slovenia – as well as information published at web pages of relevant institutions (European Commission, Economic Ministries, World Trade Organisation, etc), engaged in external trade management in the analysed countries, are:

- Ireland, France, Germany and Poland have economic and trade policies with clear goals in order to achieve their goals at international level. The importance of those is stressed also in theory (Shafaedin, 2003).
- All the analysed countries have implemented a model of coordination (with some specifics according to institutional structure of each national system), where all the relevant ministries (responsible for external trade and other relevant policies) are involved in the process, and the Permanent representations in Brussels and Geneva play an important role as well. They serve as a 'bridge' between national and sub-national actors. They have to poses knowledge of national interests and priorities, as they influence the decisions of the European Commission. On the other hand, they act as an information channel for national capitals – informing government actors on policy proposals of the EU institutions and positions of other member

states. In Slovenia, however, we noticed some deviations (e.g. lack of horizontal coordination and analytical studies, fluctuation of experts, etc).

- According to the information gathered by the interviews informal coordination with different non-state actors is also important. This enables the countries to take a consistent national position within different working bodies in Brussels and form national and sub-national alliances, based on national interests and priorities.
- Ireland, a small state by geographic size, significantly increased its international power after liberalising external trade in 1950 and after joining the EU. Important role in this transition was played by the government with its strategic orientation as well as co-ordination among different policies and relevant actors. Empirical evidence confirms theoretical arguments that institutions play a key role in the economic performance of a country (Barston, 1973; Baille, 1998; North, 1998; Strašek and Jagrič, 2004).
- Based on the information published on the web pages of relevant state actors (ministries responsible for trade policies) and from the interviews we can identify the key weaknesses of Slovenia's current coordination system (partly due to constant reorganisations and changes of responsibilities of state actors) in comparison with other analysed countries (Ireland, France, Germany, and Poland). They are: lack of horizontal coordination and synchronization of policies (between different working groups), not all the relevant actors are included in the formal process, there are insufficient analyses as a basis for decision making, informal communication with different (state and non-state, national and subnational) actors in order to form alliances is weak and investments into knowledge and skills are insufficient as well. There is no direct proof of a negative economic performance due to the above listed weaknesses, but according to theory and our interviews coordination of actors and policies are (perceived to be) the main precondition for efficient external trade policy management. Efficient institutions are a key element for achieving competitive advantages (Porter, 1990; Esser, 1995; Barston, 1973 etc).

5. PROPOSALS

Based on a critical review of the literature, analyses conducted, case studies of the selected EU member states, and a synthesis of findings we present a proposal of an external trade policy management model. The model, based on good practices of the analysed EU member states, suggests incorporating all key (state and non-state) actors in the formal and informal co-ordination processes.

When drafting a model within a country, we should take into account: institutions and their key role in economic performance of a country (North, 1990; Esser, 1995); external trade policy measures, relevant other policies and their influence (at the EU and MS level); principle of consistency (horizontal and vertical) of the policies at the EU and national levels; formal structures and processes within the EU and at the national level; good practices of other countries.

As influence on certain decisions does not necessarily depend on the power of the state, but also on other factors, such as the country's goals, focus and ability to forming alliances (Barston, 1973; Baille, 1998; Udovič and Svetlicic, 2007, etc.) we suggest *drafting a document with national policies' priorities (strategy) and clearly defining (offensive and defensive) goals of external trade policy* (on a basis of national strategy, and structure and interests of industry) and *implementing a formal system of horizontal and vertical coordination* (upgrading the processes, if relevant) in order to consistently present the positions and making relevant coalitions (forming alliances). The tasks and responsibilities as well as *procedures should be clearly defined* and a list of relevant contacts made – in order to achieve the country's goals and increase the influence at international level.

According to the theoretical arguments (Hocking and Spence, 2005) and empirical evidence (interviews high officials in EU MS) we also suggest *implementing a system of informal coordination* (not only within a country but also on a subnational level). Permanent Representations in Brussels and in Geneva should have good contacts with EC, other MS and other (state and non-state) actors and support capitals with providing relevant information.

Based on good practices of the analysed EU member states (information gathered by interviews) we also suggest *establishing relevant analytical basis for decision making; constant investing in knowledge and skills of personnel* (including mentoring); *setting up a (regularly updated) portal/data*

base, accessible to all relevant actors; providing information and promotion of activities (internet, round tables, etc.).

We assess that such a co-ordination system, incorporating all key (state and non-state) actors and policies, would be more transparent and would enable the country to effectively and efficiently manage external trade policy (in connection with other policies and in line with its strategic goals and industry interests). We also stress the importance of *adequate knowledge and skills* of individuals involved in the formal process of external trade policy management, the relevance of *two-way communication channels*, and the *essence of decision making process to be based on analytical studies conducted in co-operation with external experts*. The proposal includes vertical and horizontal connections of actors and policies, two way communication channels, defined national priorities and external trade interests (offensive and defensive), which should be based on proposals and interests of the business sector as well as empirical analyses.

5. CONCLUSION

In the global economic environment a competitive advantage of the country can be achieved by efficient government institutions. This is in particular important for small states, as they can compensate their size by establishing efficient institutions. Innovative institutions are a precondition for successful economic development and increased international competitiveness (Svetličič, 2005; Senjur, 2002; Kuznets, 1955). The importance of institutions was stressed by institutional theory (North, 1990 and Esser, 1995). WEF and IMD also define business environment and institutions as key determinants of competitiveness. Liberal trade supports innovativeness and competitiveness of a country, but at the same time it is important that countries have defined national priorities and external trade interests (offensive and defensive) based on proposals and interests of the business sector and analyses conducted. External trade policy should be coordinated with other national policies as well. In addition, coordination and synchronization of the policies at the EU level are necessary. After analysing the coordination systems in the selected EU member states, we can conclude there is *no unique model of coordination*. The processes in member states depend on their institutional structure. But we can define some common characteristics (based on the interviews and information published on web pages): in all cases, countries have set strategic goals on a national level, main coordinators defined, and formal procedures set. Building coalitions on a subnational level plays an important role as well (Barston, 1973; Baille, 1998). Ireland is a good empirical evidence of a small state that has managed to increase its international power/influence by introducing a clear strategy, focus, and by making alliances. On the other hand, we see a potential for Slovenia to upgrade its model of external trade policy management and increase its influence at the international level.

The model, based on good practices of EU member states, suggests incorporating all key (state and non-state) actors in the formal and informal co-ordination process, which has to be more transparent and upgraded as well. This requires vertical and horizontal connections of actors and policies, two way communication channels, clearly defining national priorities and external trade interests (offensive and defensive), based on proposals and interests of the business sector and empirical analyses. We also stress the importance of adequate knowledge and skills of individuals involved in the formal process of trade policy management, the relevance of two-way communication channels and the essence of decision-making process to be based on analytical studies conducted in co-operation with external experts.

Of course, we are aware of the fact, that by analysing the systems in four countries, we cannot generalise the findings. Further comparative analysis should be made among EU small member states. A comparison of the processes within other small states, not members of the EU integration, could provide further insight into the research.. In our opinion, the model is relevant, as it takes into account different levels, different policies, the role of economic diplomacy in relation to external trade policy and the views of institutional theory, key role of government/institutions, co-ordination of policies and making alliances. In our view this is extremely important for small states by geographic size that heavily rely on international markets.

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