

**Mohammad Jasim Uddin**

## CONCEPTUALISING ECONOMIC DIPLOMACY

### Abstract

Conceptualisation of economic diplomacy is not a straightforward task as its boundaries involve actors, issues and contents, instruments and levels of, and states (with/by) practicing economic diplomacy. Economic diplomacy concerns how a state undertakes its national policy, how it negotiates and works with different states on the policy at multiple levels and how interaction between the two is administered. Although non-state actors now-a-days are influential, states are central to economic diplomacy that refers to interactions on trade and economy at multiple levels. Thus, economic diplomacy is more than an approach or a model that promotes a state's economic security. This paper substantiates the argument that responsibilities of actors, countries with whom actors are to negotiate, issues at various levels and instruments employed by actors to facilitate the issues in their favour are vital for a country's economic diplomacy. Hence, the paper aims at offering a comprehensive summary of issues relevant to conceptualise economic diplomacy.

### 1. Introduction

Until 1960s, commercial experts and their desks were mainly assigned to institute trade and economic affairs.<sup>1</sup> Institutionalising the two thereafter has come to the core of diplomacy. Recently, politico-economic tasks are evenly accentuated by diplomatic services. A group of states exercises Canadian and Australian system of integrated agency dealing with international affairs and trade.<sup>2</sup> Other countries (e.g. the UK) practice their own model to manage trade and investment affairs with specific guidance from their foreign ministries and embassies.<sup>3</sup> Accordingly, economics (i.e. economic issues) has been a key element of modern diplomacy.

Traditionally, diplomacy is political.<sup>4</sup> Globalisation has amalgamated political and economic diplomacy. In the 19<sup>th</sup> century, commercial, dollar or cheque-book

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<sup>1</sup> P.A.G. van Bergeijk, J. Melissen and M. Okano-Heijmans (eds.), *Economic Diplomacy: Economic and Political Perspectives*, Leiden: Martinus Nijhoff Publishers, 2011, pp. 63-82.

<sup>2</sup> Kishan S. Rana, "Economic Diplomacy: The Experience of Developing Countries", in N. Bayne and S. Woolcock (eds.), *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd edition, London: Ashgate Publishers Limited, 2007.

<sup>3</sup> Kishan S. Rana, "Economic Diplomacy: What Might Best Serve A Developing Country", *International Journal of Diplomacy and Economy*, Vol. 1, Nos. 3/4, 2013, pp. 232-247.

<sup>4</sup> P. Baranay, "Modern Economic Diplomacy", Diplomatic Economic Club, 23 March 2009, available at [http://www.dec.lv/mi/Baranay\\_Pavol\\_engl.pdf](http://www.dec.lv/mi/Baranay_Pavol_engl.pdf), accessed on 10 March 2011.

diplomacy was separately termed as economic diplomacy.<sup>5</sup> Since 1970s, economic diplomacy has been more focused on international relations and economics.<sup>6</sup> Nowadays, it is broader in scope and encompasses new types of diplomacy.<sup>7</sup> Even the concept of economic diplomacy is rather evolving.<sup>8</sup>

Economic diplomacy as a key constituent of modern diplomacy has recently evolved significantly. It intersects a wide variety of sectors or areas. Indistinctness of diverse external economic functions is an important aspect of economic diplomacy. In addition to external trade, economic diplomacy deals with outward and inward Foreign Direct Investment (FDI), outbound and inbound Official Development Assistance (ODA), fiduciary flows, economic negotiation at multiple levels, sharing of technical and technological know-how, branding a nation or building its image, etc. There are two viewpoints - 'thin' and 'thick' - of economic diplomacy. The former is entirely directed by public spokespersons and their manoeuvring capability while negotiating external economic affairs at multiple levels and it considers economic negotiation to be 'positive sum game'. The latter appreciates engaging both public and private spokespersons and their skills, tact and adroitness throughout negotiation on international economic issues. Such literal discourses in broader sense help the paper argue two hypotheses: (a) economic diplomacy is a function of some units of analyses, where units are trade in goods and services, FDI and ODA (hypothesis generation) and (b) economic diplomacy is guided by the dynamism of its actors, levels, instruments and issues and importantly by indispensable countries with whom economic diplomacy is evolved (hypothesis confirmation). Undeniably, economic diplomacy, particularly of developing countries, would evolve with the two hypotheses and this is a key contribution to existing literature (see section two) on economic diplomacy.

This paper conceptualises actors, issues and contents, levels and instruments of economic diplomacy. Nexus between a country and its economic diplomacy is also conceptualised. This paper then illustrates analytical tools to categorise factors shaping economic diplomacy; different stages, phases, practical components and importance of economic diplomacy. It explains economic promotion and link of trade, FDI and ODA with economic diplomacy. This paper elucidates sources of tensions within economic diplomacy and identifies factors making economic diplomacy of a country successful. Summary of the paper ends with concluding remarks.

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<sup>5</sup> S. Dutta, "Economic Diplomacy: India's Pertinent Need", *Merinews*, 05 October 2007.

<sup>6</sup> C. L. Lim and M. Liang (eds.), *Economic Diplomacy Essays and Reflections by Singapore's Negotiators*, Singapore: World Scientific Publishing Co. Pte. Ltd., 2011.

<sup>7</sup> M. Yakop and P.A.G. van Bergeijk, "The Weight of Economic and Commercial Diplomacy", *ISS Working Paper No. 478*, 2009.

<sup>8</sup> M. Okano-Heijmans, "Conceptualising Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies", *The Hague Journal of Diplomacy*, Vol. 6, No. 1-2, 2011, pp. 7-36.

## 2. Conceptualisation of Economic Diplomacy and Its Related Subjects

Interstate relations are facilitated by diplomacy and foreign policy. National economic issues are influenced by international economics. Economic diplomacy amalgamates the two. It helps to realise global market factors, international trade and investment regimes. It also gives a state some directions to take foreign policy initiatives in order to advance its international economic interests. Economic diplomacy values making contact with overseas trade and business institutions, regional and multilateral organisations to boost country's international economic affairs. These, in turn, help a nation's branding or building its image globally. International contact, cooperation and negotiation facilitate to harmonise external economic issues with foreign policy strategies. Thus, economic diplomacy has been a key aspect of economic globalisation and foreign policy. Again, economic diplomacy and economic security are interlinked and both are on top of global economic agenda. Without economic promotion, economic security is unlikely. The former institutes global and regional economic partnership, advocates 'brand image' of a country and integrates economic diplomacy with traditional diplomacy. Thus, diplomacy, economic diplomacy, economic security, economic promotion and foreign policy can be telescoped into one another. This is a central theme of economic diplomacy, whereas reconciling international economics and international politics is a basic idea of economic diplomacy. The two help argue that the concepts of economic diplomacy can be viewed from various economic aspects and are characterised by a range of varying politico-economic issues.

Saner and Yiu state that economic diplomacy materialises cost-effective choice either as sanction or reward in line with foreign policy goals.<sup>9</sup> Association of Indian Diplomats (AID) links economic diplomacy with states' economic security dealing with trade and investment negotiations.<sup>10</sup> Khatibzadeh argues that economic diplomacy administers economic relationship between states.<sup>11</sup> Bayne and Woolcock argue that economic diplomacy influences global economic policy and transaction.<sup>12</sup> It directs policy-decision of global economic organisations to facilitate a country's economic strategy.

Vickers and Ajulu argue that image building, branding, marketing and public diplomacy are important aspects of economic diplomacy. Economic diplomacy addresses a country's international political economy e.g., accessing

<sup>9</sup> R. Saner and L. Yiu, "International Economic Diplomacy: Mutations in Post-modern Times", Netherlands Institute of International Relations 'Clingendael', 2001.

<sup>10</sup> Association of Indian Diplomats (AID), "Economic Diplomacy Ten-point Plan for Making It More Effective", October 2005, available at <http://www.associationdiplomats.org/publications/ifaj/Vol1/ecodiplomacy.htm>, accessed on 12 December 2011.

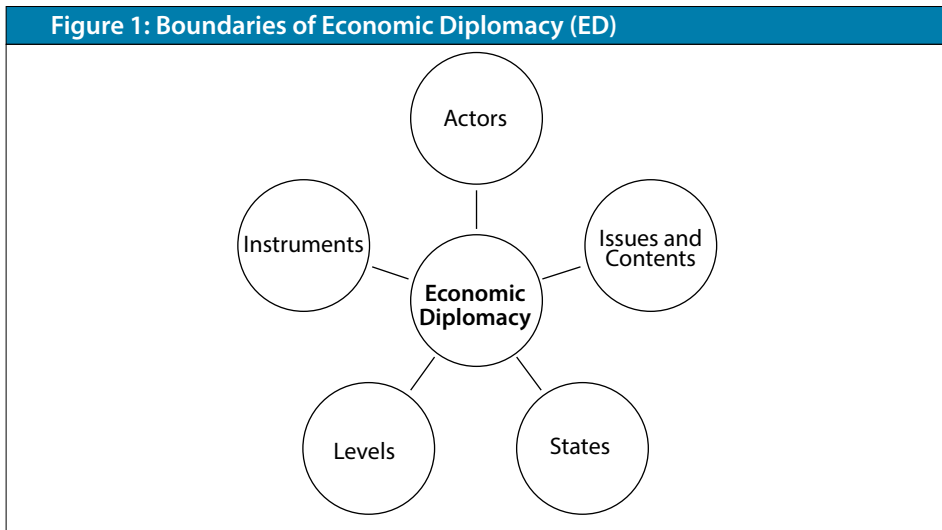
<sup>11</sup> S. Khatibzadeh, "Iran's Economic Diplomacy: An Assessment of Iran Economic and Trade Cooperation with Japan, China and South Korea", *V.R.F. Series No. 417*, 2006, available at <http://www.ide.go.jp/English/Publish/Download/Vrf/pdf/417.pdf>, accessed on 26 December 2011.

<sup>12</sup> N. Bayne and S. Woolcock, "What is Economic Diplomacy", in N. Bayne and S. Woolcock (eds.), 2007, *op. cit.*

overseas market, negotiating bilaterally and multilaterally, etc.<sup>13</sup> Dahal et al. summarise that economic diplomacy combines public and private initiatives and policies regarding international economic aspects of a country.<sup>14</sup> It helps negotiation to be competitive at regional and international markets; employs instruments to materialise a country's international economic goals e.g., boosting trade and commerce.

Rana argues that economic diplomacy is a 'plural set of practices' directed to improve external economic objectives of a country.<sup>15</sup> Van Bergeijk et al. describe economic diplomacy as a dynamic and interrelated issue; separating its practical issues is unlikely.<sup>16</sup> Woolcock concludes that economic diplomacy encompasses external trade, aid and FDI inflow; negotiation on economic issues at multiple levels and exchange of technology.<sup>17</sup> All these brand a nation and contribute to build its image abroad.

Indeed, concepts of economic diplomacy are open to varied interpretations and can be structured within boundaries.



Source: S. Khatibzadeh, "Iran's Economic Diplomacy: An Assessment of Iran Economic and Trade Cooperation with Japan, China and South Korea", *V.R.F. Series No. 417*, 2006, available at <http://www.ide.go.jp/English/Publish/Download/Vrff/pdf/417.pdf>, accessed on 26 December 2011.

<sup>13</sup> B. Vickers and C. Ajulu, "South Africa's Economic Diplomacy: Trade and Investment promotion", Institute for Global Dialogue, March 2008, available at [http://dev.absol.co.za/Presidency/docs/reports/15year\\_review/irps/economic\\_diplomacy.pdf](http://dev.absol.co.za/Presidency/docs/reports/15year_review/irps/economic_diplomacy.pdf), accessed on 02 April 2011.

<sup>14</sup> M. K. Dahal, M. M. Sainju, M. P. Lohani, S. P. Sharma and U. Parajuli, "Nepal A Generic Guideline for Development through Economic Diplomacy", Institute of Foreign Affairs (IFA), Nepal, 2008.

<sup>15</sup> Kishan S. Rana, 2013, *op. cit.*

<sup>16</sup> P. A. G. van Bergeijk, M. Okano-Heijmans and J. Melissen, "Economic Diplomacy: the Issues", *The Hague Journal of Diplomacy*, Vol. 6, No. 1-2, 2011, pp. 1-6.

<sup>17</sup> S. Woolcock, "Theoretical Analysis of Economic Diplomacy", in N. Bayne and S. Woolcock (eds.), 2007, *op. cit.*

## 2.1 *Actors of Economic Diplomacy*

Economic diplomacy is pursued by both state and non-state actors. No longer, the monopoly of state actors, the official agents - foreign and economic ministries, diplomatic and commercial services and their promotional agencies - now engages in dynamic partnerships with a group of non-state actors (NSAs). This cooperation is crucial for useful external outreach. In return, it addresses a wide field of overseas stakeholders.

Till now, state remains crucial for economic diplomacy. There are transnational and national actors. Political parties in power, ministers and heads of government, parliaments, foreign and economy-oriented ministries, independent public institutions and local agencies, sub-national bodies, central banks, business and lawmaking organisations are important state actors.<sup>18</sup> Trade unions, business associations and Non-Government Organisations (NGOs) are classified as NSAs of economic diplomacy. Actors placed at the United Nations (UN), World Trade Organisation (WTO), International Monetary Fund (IMF) and the like are vital spokespersons at transnational level. International NGOs, environmental organisations, multinational companies and the like are NSAs at transnational level. While state actors work with a view to upholding states' global economic and business agenda, NSAs as independent players work with the objectives of shaping government policies and at the same time seeking publicity to put pressure on governments. The latter also pays due attention to bring useful new thinking to economic diplomacy and makes the results more widely known. Besides, international organisations as a forum or platform play a key role in collective bargaining or multiple-level negotiations.

Overseas NSAs are highly crucial for economic diplomacy. They are business enterprises, schools, universities, public and private think-tanks, diaspora (e.g. non-resident Bangladeshis - NRBs) and their associations, media, eminent personalities and their groupings.<sup>19</sup> Also important is similar spectrum of actors at home. Activities to engage them facilitate prospects of diplomatic missions to increase overseas economic networks. Cross-border networks among the actors produce and widen bilateral economic relations.

## 2.2 *Levels of Economic Diplomacy*

Liberalising trade and services or the alternative unilaterally has consequence on others.<sup>20</sup> It either increases or decreases market access. Thus, economic diplomacy is related to unilateralism. Economic diplomacy at bilateral level is of both informal and formal working on economic agreements. At times, it becomes unfavourable to the weaker, though contributes to individual interests and

<sup>18</sup> Kishan S. Rana, 2013, *op. cit.*

<sup>19</sup> *Ibid.*

<sup>20</sup> B. P. Shrestha, "Enhancing Economic Diplomacy for Trade, Investment, and Employment", *Policy Paper 10*, Economic Policy Network, Nepal, 2005.

reaching a consensus at global or regional level. Economic diplomacy at regional level intends to conclude regional trade and investment deals to liberalise regional market. Access to bigger regional market could be an alternative to wider markets and the first step to compete at global level. Regional economic diplomacy reduces disagreement at regional level and responds to global negotiation. It also offsets influence of international markets.

The Commonwealth, G8, G20 and the Organisation for Economic Co-operation and Development (OECD) are plurilateral bodies. There are two rationales for economic diplomacy at plurilateral level: (i) offering a forum for the heads of states to resolve international/national economic issues and (ii) enabling the concurring heads of states to reach a consensus that can later be advanced in multilateral framework.<sup>21</sup> Economic diplomacy at multilateral level involves all concerned countries; functions of the World Bank (WB), IMF and WTO; financial activities of the United Nations Framework Convention on Climate Change (UNFCCC) and various specialist global institutions. Resolution of global trade, economic disagreements and rule-making for those are fundamental to multilateral economic diplomacy. Risks and rewards are high for economic diplomacy at multilateral level.

Economic diplomacy at multiple levels shows that countries “take advantage of interaction between levels in various ways and identify different levels as suitable for specific policy issues”.<sup>22</sup>

### 2.3 *Issues and Contents of Economic Diplomacy*

It is unlikely to order all issues and contents of economic diplomacy. Some are detailed below.

#### 2.3.1 *Factors Shaping Economic Diplomacy*

Systemic, domestic and idea-based factors shape economic diplomacy. Systemic factors include *relative economic power* (realist theory), *international organisation and regime* (regime theory) and *global markets*.<sup>23</sup> International economic negotiations and their cooperative solutions are derived from the three, but these “treat the states in the system as unitary actors”.<sup>24</sup> *Bargaining interests* (rationalist theory) and *institutions and two-level game* – the two domestic factors – mirror composite formation of the states and shape their economic diplomacy.<sup>25</sup> Negotiating internal economic and contradictory issues at national and international levels to

<sup>21</sup> D. Lee, “Endgame at the Kennedy Round: A Case Study of Multilateral Economic Diplomacy”, *Diplomacy and Statecraft*, Vol. 12, No. 3, 2001, pp. 119-120.

<sup>22</sup> N. Bayne and S. Woolcock, 2011, *op. cit.*, p. 9.

<sup>23</sup> G. R. Berridge, “Consulates”, in *Diplomacy: Theory and Practice*, 4th edition, London: Palgrave, 2010.

<sup>24</sup> N. Bayne and S. Woolcock, 2011, *op. cit.*, p. 6.

<sup>25</sup> *Ibid.*

reach a consensus is facilitated by the two. Till now, domestic and systemic factors are not adequate to detail outcomes. Essential is to include *ideational* factor. Bayne and Woolcock articulate that “negotiations are not subject to systemic, societal and institutional pressures; they will have their own convictions, based on a range of different ideas and world views”.<sup>26</sup> Thus, negotiation is a process that comprises bargaining and persuasion (constructivist theory) and shapes economic diplomacy.<sup>27</sup>

### 2.3.2 *Stages of Economic Diplomacy*

There are four stages of economic diplomacy. First, *trade promotion* plus FDI mobilisation; second, *networking* with multiple actors to assist the first stage and manage foreign technology; third, *country promotion* linked with promoting economy, branding and re-branding country image to facilitate foreign trade and investment and fourth, *regulatory* stage to deal with external economic activity.<sup>28</sup> Different agenda and intricate negotiation process of the WTO take the regulatory issues forefront. These stages are passed through a cycle; one is interrelated to other, e.g., promotion of trade and FDI never dries up while regulation and networking are essential. Country image permeates all. At present, developing countries as well put themselves forth in improving their “nations’ branding”. Economic diplomacy is impractical without a clear direction. It must be well ordered and endowed with adequate resources and skills; should include private sectors and be always in line with external economic policy of a country.

### 2.3.3 *Phases of Economic Diplomacy*

There are three phases of economic diplomacy: *economic salesmanship*, *economic networking and advocacy*, and *regulatory management and resource mobilisation*. Ministry of Foreign Affairs (MoFA) and its foreign embassies, missions and consulates; Ministry of Finance (MoF); Prime Minister’s (PM) Office and the personnel of the three are important actors to *economic salesmanship* of a state.<sup>29</sup> Functions to increase external economic resources are included in *economic salesmanship*. It appreciates improving political negotiations between target and home countries to get foreign projects.<sup>30</sup> It concentrates to publicise home country’s skills and potentials abroad to facilitate its trade and business. *Economic salesmanship* values managing overseas economic supports.

<sup>26</sup> *Ibid.*

<sup>27</sup> P. A. G. van Bergeijk, *Economic Diplomacy and the Geography of International Trade*, Cheltenham: Edward Elgar Publishing Limited, 2009.

<sup>28</sup> Kishan S. Rana, 2013, *op. cit.*

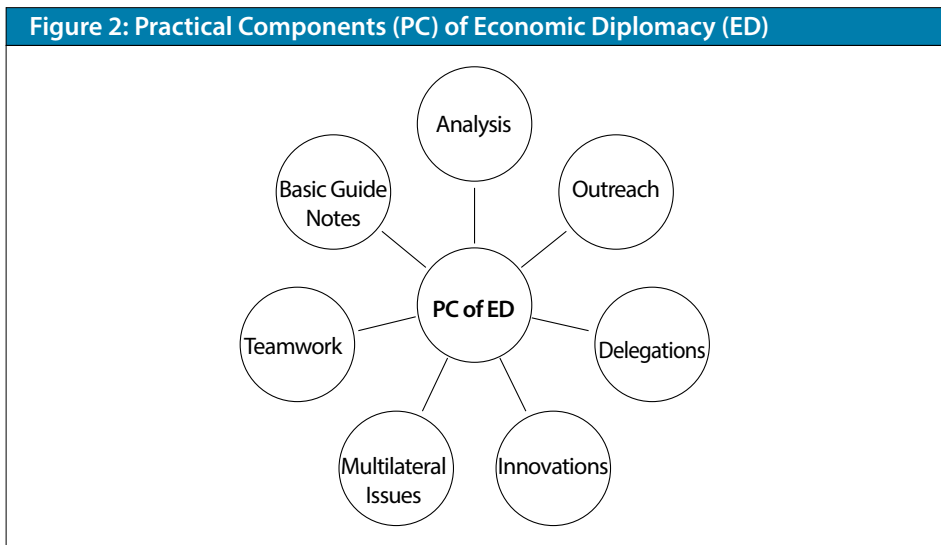
<sup>29</sup> Kishan S. Rana, “Economic Diplomacy in India: A Practitioner’s Perspective”, *International Studies Perspectives*, Vol. 5, 2004, pp. 66-70.

<sup>30</sup> R. K. Bhatia, “Infrastructure, Energy, Connectivity: Agenda for India’s Economic Diplomacy”, *RITES Journal*, July, New Delhi, 2010.

*Economic salesmanship* is extended by *economic networking and advocacy* and these two are seen in sync. Crucial in this phase is to liberalise economy and involve both state and NSAs from home and abroad working on global economy. Initiatives to increase exports, FDI inflow, inbound aid and access to foreign technologies are facilitated by *economic networking and advocacy*.<sup>31</sup> The third phase works on few things: accessing new economic blocs, agreements on resources, negotiating free trade agreements (FTAs) and country branding plus its image building. *Regulatory management and resource mobilisation* require functional coordination between public and private officials from home and abroad to harmonise country priorities with its global economic interests. MoFA is the core of such coordination and it is assigned to direct interstate discourses.

### 2.3.4 Practical Components of Economic Diplomacy

There are some practical components of economic diplomacy to facilitate international economic goals of a country.



Source: Author's Initiative

*Analysis* helps to realise target country's economic aspects: imports from and exports to, overseas investments, technological advancement, potential and actual competitors. It is essential for diplomats to harmonise overseas assignments and home country's economic needs. Economic structure, trade policy, banking system, business pattern, etc. are some key elements of *basic guidance notes* of a country. Writing a *note*, updating its material and posting it on embassy's website are essential. Such *note* is on

<sup>31</sup> P. A. G. van Bergeijk, *Economic Diplomacy, Trade and Commercial Policy: Positive and Negative Sanctions in a New World Order*, Vermont: Edward Elgar Publishing Limited, 1994.



different topics, e.g., details of a product, marketing policy, etc.<sup>32</sup> *Outreach* entails local business associations, enterprises, media, political entities, pressure groups, academics, etc. engage in external economic affairs. *Teamwork* entails economic or commercial officials of the whole mission team in dealing with particular duties e.g. investment promotion. Besides, it is vital to involve business personalities and experts in economic projects working in target country with several *outreach* activities.

A typical technique of managing external economic affairs is dispatching *delegations* abroad and it is essential to evaluate outcomes and learn lessons for upcoming opportunities. Also important is to have lessons from *multilateral issues*, e.g., the UNFCCC process. Diplomats assigned to deal with *multilateral issues* exercise multilateral and bilateral diplomacy. Rationale is to negotiate similar viewpoints bilaterally and then raise these jointly at multilateral level. Finally, *innovation* or innovative ideas and initiatives are produced through *teamwork*. Economic and diplomatic activities call for proactive outlook and create possibilities of *innovation*.

Practical components and their interrelationship are essential to facilitate external economic affairs as well as persuade foreign policy goals.<sup>33</sup> Thus, evident is importance of economic diplomacy.

### 2.3.5 Importance of Economic Diplomacy

Mutual relations between and among states are the key to economic growth and development. Each state takes initiatives to gain access to other with its trade and economic dynamism. Interstate economic relations are facilitated by economic diplomacy. National economic issues are guided by international economics and economic diplomacy integrates the two. Economic diplomacy helps to realise global market factors and trade regimes as well as assists states taking policy initiatives for advancing global economic interests.<sup>34</sup> Economic diplomacy values making contacts with multi-level economic organisations, influences and consolidates political relations between/among states to boost their multiple trade and investment opportunities. It is an instrument to deal with market failures and to lessen costs for business deals between home and host country enterprises. Therefore, interstate economic relations and market functioning are facilitated by economic diplomacy.<sup>35</sup>

Economic diplomacy promotes national economic policy in line with increasing goods and services trade internationally, mobilising FDI, managing overseas

<sup>32</sup> Kishan S. Rana, 2013, *op. cit.*

<sup>33</sup> I. R. Movlonov, "Central Asia and South Asia: Potential of India's Multilateral Economic Diplomacy in Inter-Regional Cooperation", *Strategic Analysis*, Vol. 30, No. 2, April-June, 2006, p. 426.

<sup>34</sup> S. Woolcock, "Theoretical Analysis of Economic Diplomacy", in N. Bayne and S. Woolcock (eds.), 2007, *op. cit.*

<sup>35</sup> *Ibid.*

assistance and securing energy requirements.<sup>36</sup> These aspects are also fundamental to economic security of a country. Thus, economic diplomacy and economic security are an interlinked concept and both are crucial global politico-economic agenda.<sup>37</sup> Economic security, without economic promotion, is impractical. Economic promotion institutes economic partnerships at multiple levels, advocates states' 'brand image' and integrates both traditional and economic diplomacy. Thus, economic diplomacy, economic security and economic promotion can be telescoped into one another.

### 2.3.6 *Defining Economic Promotion*

Van Bergeijk *et al.* argue that export promotion is a key aspect of economic diplomacy.<sup>38</sup> Diversifying exportable products and markets, negotiating preferential trade agreements (PTAs) and FTAs and addressing issues like anti-dumping are fundamental to export promotion and economic diplomacy. Several issues are linked with exploiting new markets. Capacity to exploit, strategy to access, realising non- and para-tariff barriers, customer credibility and country familiarisation are related to export promotion. Potential markets and their economic strategies and trade policies are to be first assessed. Then, vital is to make contacts with potential importers. Also, it is essential to arrange buyer-seller shows, trade shows and the like to promote customer credibility. Foreign embassies and exporters can be tasked to arrange the shows. Besides, dispatching business delegations and strengthening bilateral relations are indispensable for export promotion.

Similarly, targeting potential investors and understanding their strategies, showcasing opportunities and success stories, arranging road shows and visits for business delegations, gaining investors' credibility, participating in investment promotion events and the like are some initiatives to mobilise FDI – another aspect of economic promotion. Funds invested in capital market, e.g., stock market, portfolio investment, private equity contributions and technology acquisition are some modest areas of investment promotion. All forms of investments are to be negotiated as a key to economic promotion.

Declining Country Programme Aid (CPA), shifting priority from grants to loans and diverse preferences for funnelling foreign aid are radical developments of global aid diplomacy. It helps to realise how foreign aid is going to be a key subject matter for economic diplomacy. Managing aid is fundamental to economic promotion for recipients. Permanent aid specialists posted in overseas embassies are tasked to contact regularly with development partners (DPs). It keeps aid flow undisturbed. Aid in grants, loans or export credits is linked with DPs' overseas business e.g., trade and investment. Thus, aid diplomacy overlaps commercial diplomacy and recipients have to realise such linkage.

<sup>36</sup> C. Lancaster, *Foreign Aid Diplomacy, Development, Domestic Politics*, Chicago and London: The University of Chicago Press Ltd., 2007.

<sup>37</sup> P. A. G. van Bergeijk and S. Moons, "Economic Diplomacy and Economic Security", *New Frontiers for Economic Diplomacy*, 2009, pp. 37-54.

<sup>38</sup> P. A. G. van Bergeijk, J. Melissen and M. Okano-Heijmans (eds.), *Economic Diplomacy: Economic and Political Perspectives*, Leiden: Martinus Nijhoff Publishers, 2011, pp. 63-82.

Economic promotion also includes partnership and network building with host country, amalgamating diplomacy and economics and branding a nation abroad. Branding is productive while it gauges and reinforces a shifting realism. If a developing country wants to brand its image globally, it is necessary to showcase the country in a potent, distinguishable and lucrative manner. Developing states have to be acknowledged with public diplomacy to expose their unique qualities globally. Accordingly, combining public and economic diplomacy is decisive to economic promotion of a country.

### 2.3.7 *Interlinking Economic Diplomacy with Trade, FDI and ODA*

Several literatures show contribution of economic diplomacy to trade, FDI and ODA flows. Head and Ries argue that economic diplomacy is an instrument to influence interstate economic relations to increase global trade.<sup>39</sup> They show that economic diplomacy reduces trade barriers. Within the periphery of services trade, manpower export has thus been a key subject matter of economic diplomacy. Rose, Moons and Moons and Van Bergeijk argue that there are positive outcomes between goods trade and economic diplomacy.<sup>40</sup> They conclude that opening of each additional consulate increases a significant amount of exports. Indeed, trade and market liberalisation, trade-related negotiations, partnerships, treaties and agreements and resolving interstate trade disputes are facilitated by economic diplomacy.

Some studies, however, have mixed arguments. Van Veenstra *et al.* show that export promotion agencies sometimes play insignificant role to trade promotion but there are positive outcomes between functions of embassies and traditional trade bodies.<sup>41</sup> Van Bergeijk argues that outcomes vary based on a country's economic development.<sup>42</sup> Correlation between international trade and economic diplomacy is positive when trade flows to low or middle income economies from high-income economies, whereas correlation is insignificant between high-income economies. Van Bergeijk *et al.* substantiate that estimating correlation between trade and economic diplomacy is tricky.<sup>43</sup> This is owing to a unifying model of economic diplomacy. In addition, economic diplomacy is practiced through various forums and networks that are complex and diversified.

Morriset shows relations between functions of investment promotion agencies and FDI inflows that are statistically significant.<sup>44</sup> This study argues that bilateral economic

<sup>39</sup> K. Head and J. Ries, "Do Trade Missions Increase Trade?", *Sauder School of Business Working Paper Series*, University of British Columbia, 2006.

<sup>40</sup> A. K. Rose, "The Foreign Service and Foreign Trade: Embassies as Export Promotion", *The World Economy*, Vol. 30, No. 1, January, 2007, pp. 22-38; S. Moons, "What are the Effects of Economic Diplomacy on the Margins of Trade?", *International Journal of Diplomacy and Economy*, Vol. 1, No. 2, 2012, pp. 147-162; S. J. V. Moons and P.A.G. van Bergeijk, "Economic Diplomacy Works: A Meta-Analysis of Its Effect of International Economic Flows", Paper presented in IDB Workshop on *The Effects of Trade and Investment Promotion*, October 2012.

<sup>41</sup> M. L. van Veenstra, M. Yakop and P.A.G. van Bergeijk, "The Geography of Trade and the Network Effects of Economic Diplomacy in the South", in M. Murshed, P. Goulart and L. A. Serino (eds.), *South-South Globalization: Challenges and Opportunities for Development*, London: Routledge, 2011.

<sup>42</sup> P. A. G. van Bergeijk, 1994, *op. cit.*

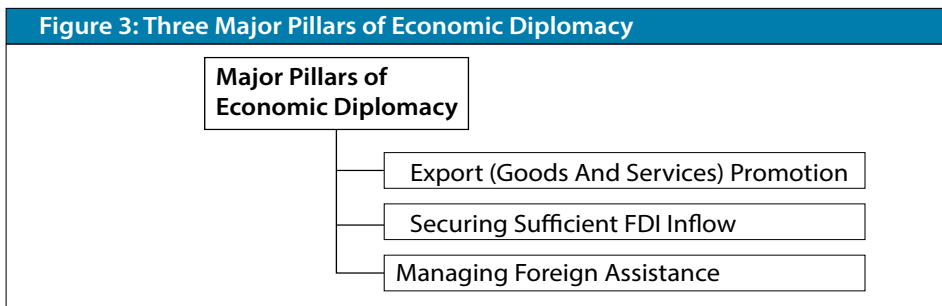
<sup>43</sup> P. A. G. van Bergeijk *et al.*, 2011, *op. cit.*

<sup>44</sup> J. Morriset, "Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small

relations have an impact on FDI inflows and the two are positively correlated. Morriset also articulates that initiatives, linked with economic security and economic diplomacy, promote FDI inflows.<sup>45</sup> Again, Moons and Van Bergeijk show meta-analysis involving financial flows with economic diplomacy.<sup>46</sup> They conclude that contributions of embassies and consulates to mobilise FDI are positive and significant. What the studies identify are: (i) instruments of economic diplomacy are essential to attract a destination to be invested and (ii) the instruments may generate varied outcomes.

Dahal *et al.* state that economic diplomacy deals with foreign aid that is usually disbursed for directing development programmes.<sup>47</sup> One of the important findings of the study is: economic diplomacy plays a significant role to reach ‘Green Climate Fund (GCF)’, generated by the UNFCCC, in order to cope with climate change. Thus, climate diplomacy has recently been a key subject matter of aid diplomacy. Again, Rana argues that economic diplomacy eases tensions between DPs and recipients; it helps the latter to get maximum amount of overseas assistance committed by the former.<sup>48</sup>

There are literatures showing aid diplomacy on the side of donors. A study identifies that “economic diplomacy is the universal mechanism of involving the countries in direct dependence on donors”.<sup>49</sup> It also quotes S. Rogov, “economic aid has political consequences”<sup>50</sup>. In effect, focus of economic diplomacy of developing countries is rapidly shifting from foreign aid to international trade and FDI. Even though, managing foreign assistance, export promotion and mobilisation of FDI inflow are still evolving as the key points of economic diplomacy.



Source: Author’s Initiative

### 2.3.8 Sources of Tensions within Economic Diplomacy

Tensions lie in economic diplomacy. Bayne and Woolcock identify three tensions between (i) *economics and politics*. (ii) *domestic and international pressures* and

Analytical Model Applied to 58 Countries”, *WB Policy Research Working Paper 3028*, Washington D.C.:WB, 2003.

<sup>45</sup> *Ibid.*

<sup>46</sup> S. Moons and P. A. G. van Bergeijk, 2012, *op. cit.*

<sup>47</sup> M. K. Dahal *et al.*, 2008, *op. cit.*

<sup>48</sup> Kishan S. Rana, 2011, *op. cit.*

<sup>49</sup> P. Baranay, 2009, *op. cit.*

<sup>50</sup> *Ibid.*, p. 3.

(iii) *governments and other forces*.<sup>51</sup>

External economic affairs are instituted by international politics. Tensions lie in harmonising economic and political aspects, since the two are reinforced by one another. Rising powers, e.g., China, India and Brazil are trying to reduce tensions between *politics and economics*. Such tension now-a-days is evident between emerging developing and developed countries. The latter amalgamates global political and economic relations with the former. Consequently, tension between *international and domestic pressures* is intensified in undertaking cost-effective economic strategies. At present, this is the foremost tension for a developing country's economic diplomacy. External pressures on internal economies are caused by interdependence in global economic affairs and lead to another tension, between *governments and other forces*. Local economies are penetrated by international dynamics and such penetration is caused by actors working in private sectors. Owing to ever-increasing globalisation, multi-stakeholders are going to be more engaged in economic diplomacy. Private actors and their multinational functions hence "go beyond seeking to influence national governments"<sup>52</sup>.

MoFA and its role in small states are sometimes confined, while other organisations are invariably tasked to make decisions on foreign policy.<sup>53</sup> Often, overseas networks of the states to promote their international economic interests are not fully utilised. Sometimes, they pay more attention to bilateral and multilateral disputes rather than coordinating trade and external affairs. They as well fail to use their diplomatic services exclusively to take advantage of global financial flows. Blending of trade and external affairs has also been infrequent for some medium or large states. There may be two reasons for that: (i) habituated with existing arrangements that disregard new practices and (ii) ministry of commerce in the states manages a major part of international trade and it impedes setting up of integrated ministry.

Divergence of economic diplomacy among the states fairly produces variation to their external economic settings. States that do not pursue economic diplomacy well are confined as well to practice political diplomacy. MoFAs of the states remain poorly networked with state and NSAs and this creates tensions for their economic diplomacy.

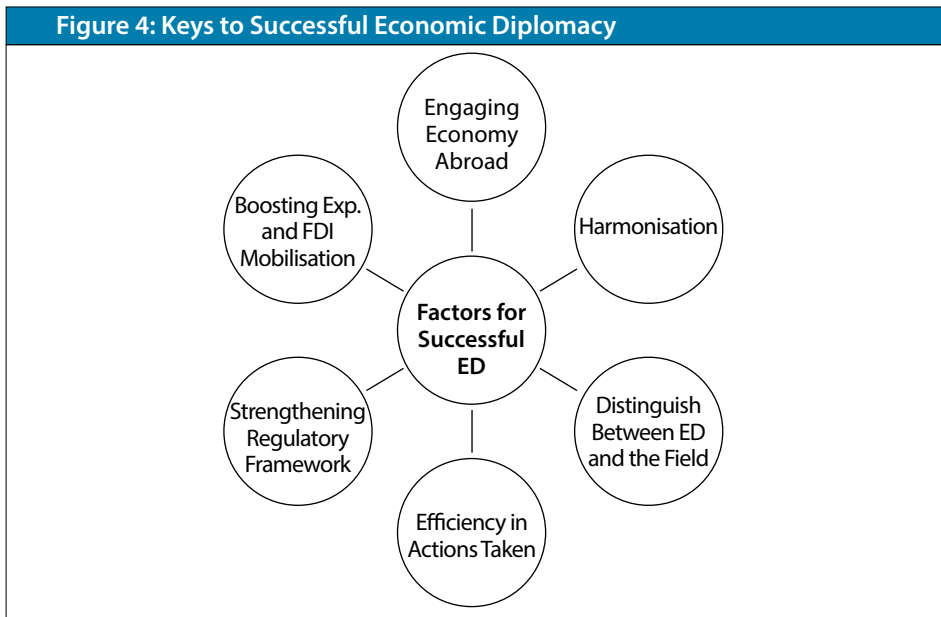
### 2.3.9 *Factors for Successful Economic Diplomacy*

Economic diplomacy helps to realise market forces, envisaging and influencing upcoming economic policies at multiple levels. It relies on some factors to be successful.

<sup>51</sup> N. Bayne and S. Woolcock, "What is Economic Diplomacy", in N. Bayne and S. Woolcock (eds.), *The New Economic Diplomacy Decision-Making and Negotiation in International Economic Relations*, England: Ashgate Publishing Ltd., 2011, pp. 1-16.

<sup>52</sup> *Ibid.*, p. 3.

<sup>53</sup> Kishan S. Rana, 2011, *op. cit.*



Source: Author's Initiative

*Engaging economy abroad* deals with some points: who, why and how to engage. Not only public agencies but private bodies also working on economic and financial issues are to be engaged. Joint trade and commerce associations, groups of eminent personalities, research institutions and researchers dealing with overseas business leaders are important to economic diplomacy.<sup>54</sup> Rationales of *engaging economy abroad* are promoting international economic affairs, searching for new economic opportunities, mobilising FDI, negotiating free trade, etc. These activities are facilitated by economic partnerships between public and private agencies. Combining informal and formal mechanisms and deepening economic relations at multiple levels are also significant to *engage economy abroad*.

External affairs, overseas economic management and their *structural harmonisation* are vital to economic diplomacy. There are three mechanisms to harmonisation. First is to combine overseas affairs (e.g. investment promotion, managing overseas assistance, etc.) with foreign trade policies and trade promotional activities under the MoFA and its embassies abroad. Such mechanism is practised by the Scandinavian states.<sup>55</sup> Second is to institute a unique harmonisation technique to deal with overseas economic activities, e.g., “‘joint-up’ oversight”<sup>56</sup> exercised by the UK. Or, the Singaporean model that introduces a specific organisation to secure its investment

<sup>54</sup> P. A. G. van Bergeijk, 1994, *op. cit.*

<sup>55</sup> Kishan S. Rana, 2011, *op. cit.*

<sup>56</sup> *Ibid.*

and trade promotion.<sup>57</sup> Third is to initiate a multiparty overseas trade negotiation technique. Such mechanism is practiced by the Caribbean Community (Caricom). A single negotiator of the organisation is assigned at the European Union (EU) to deal with trade preferences and economic promotion.

Economic diplomacy is effective when *export promotion* is prioritised and *inward FDI* is mobilised. These two are interconnected and pursued by several means. Dispatching trade delegations and arranging overseas visits for them, organising meetings for the buyers and sellers, surveying markets continuously and participating in global trade fairs are essential to export promotion. These help exporters to publicise prospective products and reach new overseas markets. Foreign trade missions and embassies are important facilitators of export promotion. FDI mobilisation, on the contrary, deals with two aspects: identifying potential investors and showcasing a country's opportunities to invest in prospective sectors and undertaking investment promotion activities. Economic *salesmanship* on FDI mobilisation is facilitated and harmonised by both state and NSAs, e.g., private enterprises, business groups, etc.

*Regulatory framework* to promote overseas trade and mobilise inward FDI has to be strengthened. Diplomatic set-up and economic agencies of a state are officially authorised to sort out the priority areas that are to be negotiated, mutually agreed and regulated.<sup>58</sup> FTAs and PTAs, negotiations on non-tariff barriers (NTBs) and agreements on investment facilitation are some crucial instruments as well as areas of *strengthening regulatory framework*. Interstate and intra-regional economic cooperation, their mutual and functional trade-offs are also important areas, where regulatory framework has to be strengthened.<sup>59</sup> All these help to promote economic diplomacy.

*Distinguishing between economic diplomacy and the network* through which it is operated is essential to successful economic diplomacy. There are some developing countries (e.g., China, India, Brazil, Russia, etc.) that engage their embassies and consulates to maximise their economic diplomacy.<sup>60</sup> MoFA and its diplomatic networks in the states are encouraged to advocate "a 'whole of government' mindset"<sup>61</sup> to promote their external economic affairs. On the contrary, some developing countries inefficiently consider MoFA and its role. Consequently, their economic diplomacy and its related issues are interrupted.

Economic diplomacy and its value addition vary based on a country's *initiatives undertaken* and their effectiveness.<sup>62</sup> Only a well-resourced and well-staffed diplomatic service can increase a country's global influence. Diplomatic mechanisms and their effective harmonisation help a small state, e.g., Singapore, to better exercise its economic diplomacy.

<sup>57</sup> C. L. Lim and M. Liang, 2011, *op. cit.*

<sup>58</sup> P. A. G. van Bergeijk *et al.*, 2011, *op. cit.*

<sup>59</sup> P. A. G. van Bergeijk, 2009, *op. cit.*

<sup>60</sup> Kishan S. Rana, 2011, *op. cit.*

<sup>61</sup> *Ibid.*, p. 22.

<sup>62</sup> S. Woolcock, "Theoretical Analysis of Economic Diplomacy", in N. Bayne and S. Woolcock (eds.), 2007, *op. cit.*

Besides, effective trade policy management, diplomatic services and their capacity building are essential. Managing trade policy involves several state and NSAs and their policy priorities. Synchronising the priorities helps opting required trade policy choices. Again, arranging training programmes, paying more attention to international economics and negotiations to the programmes are relevant to diplomatic services and their capacity building.

### 2.3.10 *Models of Economic Diplomacy*

There are six models of economic diplomacy: *unified*, *part unification*, *third agency*, *competition*, *renunciation* and *others*.<sup>63</sup> Australia applies *unified* model and amalgamates its external affairs and international trade. Diplomatic and commercial services of Australia are *unified* by its heads of missions. The UK applies *part unification* model. It has two specific units in its foreign office, jointly with department of trade and industry, to handle trade and investments, manned by a unified diplomatic service.<sup>64</sup> Singapore applies *third agency* model. The MoFA of Singapore does not pay a significant attention to economic affairs. Two specific boards on 'trade' and 'economic development' affiliated with ministry of trade and industry are assigned to promote external economic aspects. Representatives from the boards are placed in important foreign missions or embassies. Heads of embassies and other envoys work directly with the representatives in *Team Singapore* style.

Thailand and India apply *competition* model. The MoFA and public economic agencies in this model are confused with their tasks, e.g., promoting exports, mobilising FDI, dealing with WTO issues, other trade and economic associations. Therefore, diplomatic mechanisms and promotion of external economic affairs are poorly synchronised in *competition* model. Similarly, the MoFA in *renunciation* model pays insignificant attention to interstate economic affairs. It hands the task over to other relevant ministries. Germany and China apply *renunciation* model. There are *other* models, where foreign assistance is handled by the MoFA. Usually, donors, e.g., Japan and Denmark work on foreign aid through their MoFA. Recipients do not practice the model. However, exception is India. It handles outbound aid by its foreign ministry, but inbound assistance is dealt by its finance ministry.

## 2.4 *Instruments of Economic Diplomacy*

There are several instruments of economic diplomacy. These vary from practitioner-to-practitioner or country-to-country. Van Bergeijk argues that measures penalising an economy or creating an economic embargo are vital instruments.<sup>65</sup> Informal and formal agreements, negotiations, regulations, cooperation and

<sup>63</sup> Kishan S. Rana, 2011, *op. cit.*

<sup>64</sup> *Ibid.*

<sup>65</sup> P. A. G. van Bergeijk, 1994, *op. cit.*



interactions are important instruments. Formal instruments include joint committees and their decision-making on international economic affairs.<sup>66</sup> It is also fundamental to interact at multiple levels.

Influencing host country's commercial and economic approaches in line with home country's international economic interests is an important instrument. Interacting with regional and global regulatory agencies and economic actors as well as addressing likely conflicting issues on trade and economy are vital tools to shape decisions in favour of home country.<sup>67</sup> Ensuring home country image and reputation as well as credibility and capability of home enterprises are important. Practitioners of economic diplomacy have to be attached with international media and multilateral forum.

Public diplomacy, in particular image-building is a very important instrument. Economic diplomacy and public diplomacy are interlinked with state branding given that trade and investment destinations are influenced by the image of the state that it globally enjoys.<sup>68</sup> The MoFA and its informal and formal networks are interconnected with image-building. There are many forms of image building. But it goes well when it entails partnerships between public and private agencies.

## 2.5 *Economic Diplomacy and States*

Different countries with their resources and skills play different role in global economy. Therefore, economic diplomacy of developed and developing countries is different. An important query is: how the latter thinks about recent global economic setting. A set of developing countries is sceptic about economic diplomacy and its recent phenomena. This raises some issues. How far developing countries are capable of exercising economic diplomacy? Whether economic diplomacy could provide realistic policy options for developing countries? Whether developing countries would include these policy options in their economic diplomacy?

## 3. **Concluding Remarks**

This paper aimed at offering a comprehensive summary of issues relevant for conceptualising economic diplomacy and it evolves with the concept that responsibilities of actors, countries with whom actors are to negotiate, issues at various levels and instruments employed by actors to facilitate the issues in their favour are vital for a country's economic diplomacy. Unquestionably, this would remain a central theme of economic diplomacy literatures. This paper finds that both state and non-state actors are equally important for a country's economic diplomacy.

<sup>66</sup> S. Khatibzadeh, 2006, *op. cit.*

<sup>67</sup> P. A. G. van Bergeijk *et al.*, 2011, *op. cit.*

<sup>68</sup> Kishan S. Rana, 2011, *op. cit.*

Economic diplomacy refers to interactions on trade and economy at multiple levels. What is unlikely is to order all issues and contents of economic diplomacy.

Although stages and phases of economic diplomacy may sometimes be generalised, they are ideally distinct. Promotion of trade, networking, country promotion and regulation are important four stages of economic diplomacy. By contrast, economic salesmanship, economic networking and advocacy and regulatory management and resource mobilisation are vital three phases of economic diplomacy. There are some practical components to facilitate the stages and phases of economic diplomacy. These are analysing economic dynamics of a target country, writing a commercial note or briefing guide, outreach, teamwork, dispatch of business missions or delegations, basic understanding on multilateral issues and scope of innovation.

Interlinking practical components of economic diplomacy is essential for home country's economic promotion and security as well as achieving its foreign policy strategies. Economic security without economic promotion in trade, investment and aid management is almost unlikely. On the contrary, economic promotion in the fields requires integrating economic and mainstream diplomacy, building economic partnership regionally and globally and advocating brand image of home country. Now-a-days, economic diplomacy of a developing country is shifting its focus from foreign aid to international trade and FDI. Even though, managing foreign assistance, export (goods and services) promotion and increasing FDI inflow are still evolved as the three major pillars of economic diplomacy.

There are three major sources of tensions within economic diplomacy. These are between economics and politics, domestic and international pressures and government and other forces. There are some important factors to address the tensions. These are (i) engaging economy abroad; (ii) harmonising structures of foreign affairs and external economic management; (iii) prioritising export promotion and mobilising inward FDI; (iv) strengthening regulatory framework; (v) increasing effectiveness of economic diplomacy undertaken; (vi) managing trade policy; (vii) capacity building of diplomatic services and officials; etc.

Instruments of economic diplomacy include informal cooperation and negotiation as well as formal interactions, regulations and agreements. Influencing host country trade and economic policies, interacting with global decision-making agencies and estimating upcoming disagreements with global economic actors are essential. It is also vital to engage with global media and multi-level forum to uphold home country image and reputation as well as credibility and capability of home enterprises. Therefore, economic diplomacy is significant for both developed and developing countries. The latter should give more emphasis on available resources and skills to uphold their international economic interests.