

Economic Diplomacy and the Role of Diplomatic Missions Nowadays

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ABSTRACT: This article analyses the potential role of diplomatic missions as a specific kind of foreign affairs state bodies in the pursuit of economic diplomacy that is considered to be a set of activities aimed at promoting foreign economic interests of state by peaceful means. It is believed that the diplomatic missions are one of the key actors of economic diplomacy at present. They play an important or even a vital role in implementing a number of diplomatic functions, particularly the promotion of trade and investment, providing political support to businesses abroad as well as shaping economic legislation. The added value of diplomatic missions as actors of economic diplomacy lies in their ability to provide entrepreneur sector with useful information on business and investment opportunities abroad, which is especially useful for small and medium enterprises, or to provide political support to businesses in foreign countries, which is in some countries and/or in some cases a prerequisite for companies to succeed.

KEYWORDS: economic diplomacy, diplomatic missions, foreign trade promotion, foreign direct investment promotion, political lobbying, negotiation of international treaties

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Introduction

Economic diplomacy as a specific set of activities of the state that focus on the achievement of its foreign economic interests by peaceful means nowadays constitutes an important part of the foreign policy activities of most states – especially given the significant status of economic interests in the overall hierarchy of foreign-policy priorities of governments. A number of actors (stakeholders) tend to participate in the practical implementation of economic diplomacy, whereby their structure and method of participation in the performance of economic diplomacy functions will be varied in the different states. In the majority of states main actors include

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diplomatic missions, which generally rank among the most numerous and most “traditional” permanent diplomatic bodies of a state working abroad, whereby they also participate in the exercise of a number of tasks of economic diplomacy. However, recently, the role of diplomatic missions has been taking a back seat, particularly in connection with the proliferation of other actors of economic diplomacy, such as branches of commercial and industrial chambers or offices of agencies for the promotion of trade and investment abroad. So what is the actual “added value” of these traditional diplomatic bodies in terms of effectiveness of performance of the states’ economic diplomacy in the current practice? This paper attempts to answer this question, at least in a non-exhaustive manner.

The aim of this study is to analyse and evaluate the current potential of diplomatic missions in the performance of economic diplomacy via the identification of certain selected areas of activities, by means of which these diplomatic bodies can contribute to an effective implementation of the foreign economic interests of a state.

Prior to the actual analysis of the potential of diplomatic missions in the field of economic diplomacy it is necessary to explain (at least concisely) certain general theoretical questions. Consequently, the first part of the paper will deal with the definition of economic diplomacy, which appears necessary given that this term is used in the current literature in different meanings. In the second theoretical part of the paper we will introduce the basic types of actors and dimensions of economic diplomacy, as a part of which the status of diplomatic missions as actors of economic diplomacy will be analysed. Finally, in the third part of the paper attention will be paid to the analytical evaluation of the potential of diplomatic missions in the performance of tasks in the sphere of economic diplomacy.

Current English specialised literature includes a relative abundance of works dealing with economic diplomacy, however, only very few of them analyse specifically diplomatic missions as a separate actor of economic diplomacy. Authors dealing with this topic in a more comprehensive manner include Kostecki and Naray (2007) who in their study analyse inter alia the various areas of economic diplomacy in a bilateral framework on the basis of researching the focus of activities of economic diplomats, whereby they focus on the specific area of their activities aimed at promoting businesses and they examine the “added value” of economic diplomacy primarily in terms of the benefits for the business community. Other authors researching the work of diplomatic missions in economic

diplomacy include Lederman, Olarreaga and Payton (2006) who in their works analyse the individual types of economic diplomacy activities, however, their research includes not only diplomatic missions, but also institutions of economic diplomacy in general, among which they also include export agencies. Other authors, such as Rose (2007), examine the effect of diplomatic missions in economic diplomacy in terms of the benefit of these diplomatic bodies for the promotion of export of their home state, whereby they analyse the possibilities of quantitative expression of the “added value” of diplomatic missions in this field of economic diplomacy activities of the state. A number of other authors deal with the work of diplomatic missions in economic diplomacy, however only as a part of the broader context of bilateral diplomacy. An example of this group of authors is Rana (2007) who in his works lists and briefly describes – alongside other tasks of diplomatic missions – also some functions in the field of economic diplomacy, whereby he stresses the practical aspect of their implementation. With regards to specialised sources written in Slovak or in Czech it is particularly Tóth and Horváthová (2006) who among others describe the various practical roles of economic diplomats (also) on the basis of their own empirical experience. Last but not least Štouračová (e.g. 2012) writes about the work of diplomatic missions mainly in the broader context of general theoretical questions of economic diplomacy and analysis of models of management of economic diplomacy activities in various states. Overall, one can conclude that in specialised literature (especially that of Slovak and Czech origin) there is rather a lack of attention paid specifically to the role and benefits of diplomatic missions in economic diplomacy, whereby it is the ambition of this paper to help to fill this lacuna, at least to a certain extent.

Definition of economic diplomacy

In the current literature, as well as in the relevant political documents the term “economic diplomacy” is usually used in two basic meanings. The first meaning denotes a part of diplomacy that focuses specifically on the achievement of foreign economic interests of the state. In this sense the term economic diplomacy encompasses all diplomatic activities whose primary objective is the implementation of a certain foreign-policy interest of the state in the economic sphere. For example Tóth uses the term economic diplomacy in this sense and he defines it as “a specific type of

activity of state bodies for economic relationships and their representatives vis-a-vis foreign countries conducted as a part of overall diplomacy of a state with the aim of achievement of goals of the foreign economic policy of a state” (Tóth and Horváthová, 2006, p. 17). A similar, albeit slightly narrower, definition of economic diplomacy is used by Saner and Yiu (2003, p. 13) who define it as “the activity of diplomatic missions aimed at the promotion of the business and financial sector of the home state with the aim of supporting its economic development”. In the second meaning the term economic diplomacy is generally associated with the use of economic tools for the attainment of any (i.e. not only economic, but also security) interests of a state in international relations. In this sense economic diplomacy could be understood as a specific form of coercive diplomacy, the essence of which is the use of coercion – in this case economic diplomacy on the basis of economic tools – in order to attain “diplomatic” concessions of the counterparty and the assertion of own foreign policy interests. This concept of economic diplomacy is evident in a definition by Berridge and James (2001, p. 81), according to which the term economic diplomacy is an expression for the “use of economic resources” of a state in the form of “rewards and sanctions, in an attempt to achieve a certain foreign economic objective”, as well as by Hubinger (2006, p. 64), according to whom the term economic diplomacy (besides its first meaning) also denotes the “practice of economic coercion on a state with the aim of achieving a certain political or economic effect”. Such definition of the term economic diplomacy theoretically includes a very wide range of various activities of the state, ranging from the provision of special-purpose subsidies to foreign states (in exchange for their political concessions) through targeted strategic placement of state investment abroad (motivated primarily by its political interests) to purpose-driven financing of activities of selected international organizations (with the aim of acquiring influence in their structures for the purposes of a more effective assertion of own political interests).

In this paper the term economic diplomacy will be understood and analysed in the former of the above two meanings, i.e. as a special set of activities within diplomacy, which are aimed at the assertion of specific foreign economic interests of the state.

Actors and dimensions of economic diplomacy

Actors of economic diplomacy, i.e. entities that actively participate or may participate in the performance of economic diplomacy include – besides diplomatic missions – also numerous other bodies and institutions, whose composition and significance differ between states and the manner of organization of their economic diplomacy activity. In the majority of European states, as well as states outside of Europe basic actors of economic diplomacy include (besides diplomatic missions) also branch offices of national agencies for the promotion of trade and/or investments or consular offices. Furthermore, one must also mention that the role of actors of economic diplomacy can be played also by members of government, heads of state or diplomatic staff in special missions – in the case that they partake in diplomatic activities aimed at the assertion of foreign economic interests of their home state (e.g. if these persons lead negotiations with foreign partners, which include issues of economic cooperation between states).

In general, the actors of economic diplomacy can be divided according to numerous criteria and from a number of viewpoints. For example, in terms of the formal legal status one can distinguish (a) actors of economic diplomacy with a diplomatic status, which include diplomatic missions, but also special missions, members of governments and heads of state; and (b) actors of economic diplomacy without diplomatic status, which includes branch offices of agencies for the promotion of trade and/or investment (only in the case that they are not a part of diplomatic missions), as well as consular offices. Next, actors of economic diplomacy can be classified based on the term of their service abroad, which includes (a) permanent actors that carry out economic diplomacy activities abroad on a permanent basis (e.g. diplomatic missions, consular offices, as well as branch offices of agencies for the promotion of trade and/or investment; and (b) non-permanent actors who carry out economic diplomacy activities abroad on a temporary basis (e.g. special missions, heads of states or members of government). Specialised literature mentions also other ways of classification of actors of economic diplomacy. For example, Štouračová (2012) distinguished (a) actors of economic diplomacy who work abroad, where she mentions for example diplomatic missions and foreign branch offices of agencies for the promotion of trade and investment; and (b) actors of economic diplomacy who work in their home country, such

as central governmental bodies (ministries), especially the ministry of foreign affairs and ministry of economy.

Besides various actors of economic diplomacy one can also distinguish its numerous forms or dimensions. The basic categorisation of economic diplomacy in this context is the differentiation between (a) bilateral (economic diplomacy), which includes economic diplomacy activities carried out as a part of bilateral diplomacy, i.e. in relations between two states, and (b) multilateral (economic diplomacy), which in turn comprises all those economic diplomacy activities of the state that are performed as a part of multilateral diplomacy, i.e. in the structures of international inter-governmental organizations and at international conferences. In this paper we will focus on the bilateral dimension of economic diplomacy, as it is this dimension that is primarily associated with the role of diplomatic missions.

Diplomatic missions as actors of economic diplomacy and their potential

Diplomatic missions as actors of economic diplomacy can participate in the performance of various economic diplomacy functions. Based on a number specialised sources, the most important basic functions of diplomatic missions in the field of economic diplomacy include the following ones: 1. promotion of trade and investment contracts, 2. “political support” of domestic businesses abroad and 3. formation of economic legislation.

The majority of authors researching issues of economic diplomacy agree that diplomatic missions may play an important role in assisting businesses in the establishment of business and investment contracts abroad (see e.g. Kostecki and Naray, 2007 or Štouračová, 2012). This thesis is corroborated by the results of research of other experts, such as Rose (2007) or Raneta and Kunychka (2015) who on the basis of analysis of development of export and localisation of diplomatic missions of selected states conclude that the existence of a diplomatic mission of State A in State B has a considerable positive influence on the exports from State A to State B. This proves per se that in the field of promoting trade and investment contracts diplomatic missions represent an effective tool. However, what are the practical possibilities of engagement of diplomatic missions in this sphere? First of all, diplomatic missions can convey to busi-

nesses a lot of useful information regarding the possibilities of establishment of business contracts or the placement of investment abroad. While it is true that nowadays businesses are able to obtain a lot of this information from other sources too, e.g. from websites of chambers of commerce, in the practice diplomatic missions can access information that for a majority of businesses would be complicated (if not impossible) to acquire in the necessary time. As far as obtaining of information is concerned, the diplomatic missions have the advantage that by virtue of their diplomatic status they have good access to politicians and senior officials of the host state, thanks to which they can acquire (and then relay to the businesses in the host state) internal information that has not yet been published, e.g. on the planned public procurement contracts or sale of state shareholdings in companies or other assets of the host state, thus giving their businesses early information (as a result of which the latter have more time for the preparation of a bid or participation in a public tender). What is more, with regards to promotion of investment contracts diplomatic missions can function not only as mediators of useful information on investment opportunities of businesses from their home state, but they can also get engaged in attracting direct foreign investment, where they can act as promoters or catalysts in relation to the businesses of their host state. In this respect one of the greatest advantages of diplomatic missions is the fact that their heads (ambassadors) usually by virtue of their function have good access to top managers of companies in the host state, which creates favourable conditions for direct communication and a potential of influencing their decision-making, e.g. convincing them that it is advantageous to place the planned investment into the home state. The practical importance of such role of the diplomatic missions is evidenced by some research, in which the managers themselves have confirmed that without the personal engagement of the ambassador and local diplomatic mission certain investment projects in the host state would have never occurred (Kostecki and Naray, 2007).

Another field of activities of economic diplomacy, in which diplomatic missions can effectively engage is providing “political support” to businesses abroad. “Political support” of businesses by diplomatic missions from their home state can be useful especially in situations where the authorities of the host state for any reason are contravening the law and thus causing problems to the businesses, e.g. by unreasonable delays in the granting of administrative formalities or by illegal decisions that are

detrimental to the interests of the businesses. In such cases the head of the diplomatic mission who by virtue of his role (as has been already mentioned) has good access to senior politicians of the host state may communicate directly with the relevant minister or other member of the executive and demand explanation or a redress of grievance. In practice such step may exert effective political pressure on the authorities of the host state, which will ensure that they treat the businesses from the home state correctly. The fact that a certain matter is of interest to the diplomatic mission is in itself a signal for the host state that political relations with the relevant foreign state are at stake and that their quality could suffer if the host state does not remedy the situation. A similar role can be played by diplomatic missions in cases of public tenders organized by the host state, in which businesses from the home state participate. For example, if there is suspicion that a tender might be run unfairly, the diplomatic mission may indicate upfront to the representatives of the host state that it intends closely to monitor the tender and that any attempts to discriminate against the businesses from the home state will have political implications (Lauk, 2002). This could be a sufficiently strong motive to refrain from discrimination or unfair practices against businesses from the home state.

In some states and situations diplomatic missions may have room to engage in other more “active” forms of political support of home businesses. For example, in non-democratic states with a high level of interference of political elites into the economy and business (specifically in states with various types of totalitarian political regimes) economic decision-making of government-controlled corporations and state institutions on the award of commercial contracts or investment projects is subjected to political considerations, which creates venue for “political lobbying”. Such lobbying can be used by diplomatic missions, which – if they maintain close contacts with politicians of the host state, for which they have a very good potential thanks to their status – can “inform” the local political echelons of the offer by a businesses from their home or the possibility of making an investment in their home state, as well as of the potential political or other “advantages” connected therewith. One should add that the possibility of such influence of the diplomatic missions is often doubted in the literature, whereby it is usually reasoned that political lobbying gives an unfair advantage to certain businesses, thereby distorting competition and therefore cannot form a part of the role of diplomats who are the official representatives of their state (see e.g. Lauk, 2002), because it

would amount to de facto violation of the free market rules by state authorities, which (in liberal democracies) are the ones who should be complying with such rules. Though one may certainly agree with the fact that political lobbying distorts competition and therefore has no place in the market economies of liberal democracies, one cannot ignore the fact that in many non-democratic states it forms a common part of the economic environment or business culture. For diplomatic missions (including ones from liberal democracies), which function in such foreign state, there is often no other possibility than to adapt to such “local customs”, if they want to help businesses from their home country to take root. From this perspective, political lobbying may also be considered an essential and legitimate parts of activities of diplomatic missions (in certain states).

Another important area of activities of economic diplomacy, in which the diplomatic missions may effectively engage is the formation or shaping of economic legislation, both at the international level and at the national level (in the host state). With regards to the formation of economic legislation at an international level, diplomatic missions – since they have a permanent presence in the territory of the host state and thus are familiar with the local political and economic environment – have the prerequisites to play an important role in negotiations of international treaties regulating the terms and conditions of economic cooperation between their home state and the host state. In this field the greatest added value of diplomatic missions can be seen in their ability to provide highly qualified consultancy to the relevant bodies of their home state in the drafting and discussion (negotiation) of international treaties. The high quality of such advice provided by the diplomatic mission results from the above mentioned detailed knowledge of the local environment of the host state, as well as the specialised “diplomatic” qualification of the members of diplomatic missions (which is often absent in the case of representatives of the business community or other persons, from whom state institutions may receive information on the situation abroad when entering into international treaties. As to the participation of diplomatic missions in the formation of national (domestic) economic legislation in the host state, it is necessary to emphasise that in the practice this may often be performed only indirectly, because diplomatic missions as bodies of a foreign state must not officially participate in the legislative process of the host state, thus they do not have a right to interfere in it. However, in practice, there is a number of ways, how diplomatic missions can indirectly, but effectively influence

legislation in the host state. For example, diplomatic missions may participate in the political discussion on the legislation that is being prepared in the host state (Kostecki and Naray, 2007), especially by issuing opinions or statements on draft laws or other regulations. The “voice” of diplomatic missions in this discussion may not be binding for the bodies of the host state, however – if it is important for the relevant host state to have good relations with the home state, e.g. for strategic reasons – it may have a considerable effect in the legislative process.

Conclusion

In the current practice diplomatic missions rank among key actors of the economic diplomacy of the state, because they have a potential to play a significant or even irreplaceable role in the performance of multiple economic diplomacy activities, particularly in the field of promotion of trade and investment contracts, providing “political support” to businesses abroad and formation of economic legislation.

At the same time, it must be observed that in the practice the possibilities of engagement of diplomatic missions in the performance of the individual economic diplomacy activities are varied, whereby they may depend on the conditions in a specific host state. In this context for example the possibilities of political lobbying by diplomatic missions may be rather limited in some states, be it due to a conflict with domestic legislation and/or local political and business culture, whereas in some other states such role of diplomatic missions can be in some cases a vital prerequisite for businesses to succeed in the local market. In the same vein, the engagement of diplomatic missions in the shaping of domestic legislation in the host state may be viewed in some states as an entirely legitimate form of functioning of diplomatic bodies of foreign states, while in other states there may be a lower level of acceptance of such activities of diplomatic missions, whereby in extreme cases it may be perceived as unacceptable intervention into the domestic affairs of the host state.

The significance of the individual economic diplomacy activities of diplomatic missions may be viewed differently also from the point of view of different types of businesses. In this respect for example the obtaining and conveyance by the diplomatic missions of information on business and investment opportunities in a foreign state will have a greater added

value for small and medium enterprises than for large corporations that often have available their own network of business presence abroad, which they can harness to obtain the majority of the necessary information and at the same time they often have good access to politicians, from whom they can also acquire relevant information.

Despite varying possibilities and significance of the implementation of the relevant economic diplomacy activities by the diplomatic missions it may be concluded that in general it is beyond doubt that these diplomatic bodies have an added value in the performance of economic diplomacy of states.

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