

## ECONOMIC DIPLOMACY CONCEPTS

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The bilateral framework within which economic diplomacy is practiced is established by multilateral treaties (especially the WTO regulations, for its 149 members, 2006), by regional arrangements (such as a regional trade agreement, a customs union or a preferential trade area), and by bilateral accords (covering trade, investment protection, double taxation avoidance treaties and other arrangements between pairs of countries. A new agreement now in fashion is the 'Comprehensive Economic Cooperation Agreement' (CECA) that bundles together trade, investments, services and tourism, aiming at tradeoffs in the interests of the contracting parties; some countries call these 'Comprehensive Economic Partnership Agreements'. The number of such arrangements worked out at global, regional and bilateral levels has grown dramatically. Thus, negotiation of external economic arrangements is a major task in most countries, handled mainly by economic ministries, with some participation by the foreign ministry.<sup>1</sup>

The four pillars of economic work are:

- **Trade** promotion, with prime, but not exclusive, focus on exports.
- **Investment** promotion, concentrated on inward investments, but not excluding the home country's outbound investments.
- Harvesting **technology**. (See supplementary text).
- Managing **economic aid**, important for developing and transition countries as 'recipients', and for 'donor' developed nations.<sup>2</sup>

**Country promotion** is foundation that supports all the above, and blends into image building, 'branding', as well as tourism promotion. Today, enhancement of the home country image underpins most diplomatic activities.

A word on definitions. Contemporary ‘economic diplomacy’ is broader in scope than the ‘commercial’ work of the past. As seen above, the tasks go beyond trade, encompassing activities that did not figure on the work agenda of embassies and MFAs 25 years back. Three examples: investment mobilization, tourism promotion and management of the country image. Each is relevant to diplomacy, as concrete activity that official representatives undertake for external relation building. Each provides feedback into other elements of the diplomatic process. It is another demonstration of integrated diplomacy.

### Country Promotion and Image Building

Wally Olins, a British expert on image-building writes in a brilliant monograph that nations need new images because ‘a changing reality is leaving perceptions far behind’.<sup>3</sup> He adds that country branding is about ‘presenting a nation or region in a powerful, attractive and differentiated way’. Olins warns: ‘Branding works when it projects and reinforces a changing reality — but it can be counterproductive if isn’t rooted in fact.’ One should use a central idea that is powerful and simple, capturing the unique qualities of the nation.

There is no aspect of external relations, bilateral, regional or global, that is not affected by ‘image’. Foreign ministries, embassies, and diplomats are considered responsible for the projection of a ‘correct’ image of their country — even if in reality their capacity to radically or immediately influence their country’s image perception abroad is limited. Proactive diplomacy demands constant attention to the country image. Diplomacy theorist Brian Hocking has written of a survey of two hundred US ‘Fortune 500’ companies; 72% said that national image was significant to external purchase of goods and services, adding ‘company brands interact with national identities in concrete ways’.<sup>4</sup>

Business takes place in all kinds of environment, including situations where countries are hostile, and may not even have diplomatic relations. Business always goes better when people like one another and find the other country congenial! Example: during the apartheid era in South Africa, major foreign CEOs were targeted with invitations, ostensibly for tourist visits, on the

calculation that they would go back impressed with business opportunities.<sup>5</sup> 2006 has seen a campaign 'Germany — Land of Ideas', funded by the Federal government and business;<sup>6</sup> Poland hired Olins for a similar image exercise.

Supplementary methods:

- A. An 'image audit' establishes a base line or a reference point; some campaigns forget this, leading to misdirected actions. This is best undertaken by headquarters, but the embassy is the advisor on the local problems.
- B. People expect official representatives to paint a rosy picture of the home country. At investment conferences audiences may discount their words (bureaucrats are convincing when they 'walk the talk'); in contrast, statements by that country's businessmen carry credibility, especially documented case studies and success stories.
- C. All the skills of outreach are mobilized for country promotion, including social entertainment and a welcoming ambience offered by the embassy. There are documented instances where even the efficient delivery of consular services has been a positive factor in country promotion. Cultural and media diplomacy are of course vital.
- D. 'Branding' of countries often works through public-private partnerships. At a local level, the embassy can play a networking role with other entities, including private business, for such activities.
- E. Image affects all the outward activities of the diplomatic mission.

Many saw the 'Cool Britannia' campaign of 1998-99 as a success; Italy and Spain are two other countries attempted a makeover of their images. Malaysia, the Philippines and China have also used image building with some success. In mid-2003 Germany launched a similar re-branding exercise, through a coalition that includes known public agencies like the Goethe Institute, as well as private PR enterprises, with limited result. In 2004, after the problems over the Iraq War, France carried out re-branding in the US, targeting US companies as investors in France. Some question the real value of such activities. Therefore one should focus on tangible, measurable results, like tourism or FDI inflows.

### Foreign Ministries handling trade, aid

A new method is to combine the foreign ministry with the ministry or department handling foreign trade, and often, foreign investment mobilization as well. The practice is current in the Caribbean (Barbados, Dominica, Grenada, Santa Lucia), Scandinavia (Denmark, Finland, Norway, Sweden), the South Pacific (Fiji, Marshal Islands, Samoa, Solomon Islands, Vanuatu), and some other countries (Australia, Canada, Mauritius, New Zealand and South Korea, Swaziland). South Africa considered this option in 1997-89, but abandoned it. When implemented, it ensures harmonization between commercial and political diplomacy. The Scandinavian countries also bring into the MFA the management of their external aid (as does Japan), which is also logical. Denmark has one of the best foreign ministries structures, handling all these four tasks, within a single integrated structure.

More small countries should find the above combination profitable, as a means of improving their external outreach, and avoiding turf battles on WTO and other external trade policy issues. It also ensures better mobilization of the diplomatic apparatus for the advancement of trade and investment interests. It is perhaps not applied in more countries owing to vested interests, but it has the great merit of mobilizing the diplomatic machine fully in the service of economic diplomacy.

UK offers a different and practical model, with its 'joined-up' arrangement between the Foreign Office and the Board of Trade, which together supervises Trade Britain and Invest Britain, which is run from the FCO by officials from both the ministries. That is a method that also deserves scrutiny.

### Approaches to Economic Diplomacy

For developing countries, economic work involves a progression across three stages, *salesmanship*, *networking*, and finally *regulatory management*. The three are not mutually exclusive, and in many countries, including the developed countries, we may see all the three activities pursued simultaneously.

- **Salesmanship** covers export promotion, of commodities, services and projects. The basic techniques involved are set out in the supplementary text; the embassy team acts as the promoter of the country's business, especially focused on developing new markets (or regions within a country), and new products. Informal assistance in dispute settlement is part of that set of activities, though the embassy generally limits itself to offering good offices; if the dispute cannot be resolved through such means, it has to step out of the picture and leave the resolution to the stipulated arbitration or legal process. Some Western countries have begun to charge commercial enterprises for such assistance.
- **Networking** involves acting as a bridge-builder vis-à-vis the chambers of commerce and other entities, to put them in good contact, to encourage institutional-level cooperation, and to act as a catalyst, not just with one's own agencies but also with the host country partners. For instance, the embassy can host periodic meetings of different agencies, not just those from the home country but also their local counterparts, as a clearing-house for information.<sup>7</sup> This is illustrative of 'low' diplomacy, which is relatively open, and takes on a bilateral character in the process itself. Another instance is the Canadian method of hosting quarterly 'forum' meetings at the foreign ministry, where experts, scholars and others (including the foreign embassy concerned) who may be interested in a country selected for special attention are invited for a theme-based discussion. Networking methods are many, and offer scope for innovation.
- **Regulatory management** is the current proactive activity area, where governments negotiate agreements that set the framework within which economic exchanges take place. The embassy team, the professional based in the foreign ministry, and in the economic ministries comprehensively analyze particular problem issues or an opportunity, with the object of transforming the policy environment. This work has become important owing to increasing complexity of trade issues: the WTO process with its range of 'anti-dumping' investigations and its mandatory dispute-resolution process; the range of options in regional

trade, in bilateral agreements; the FTAs and the RTAs (regional and single country free trade agreements); complex issues such as ‘rules of origin’, geographic indicators, double-taxation avoidance agreements, investment protection accords, and an array of trade protocols. Mobilization of energy resources abroad, especially hydrocarbons, is another priority activity for some countries. Diplomats are not expected to have full expertise over each subject, but they need enough understanding to deal with specialists, and integrate their counsel into the overall country objectives. Training in developing analytical frameworks becomes an essential tool for economic diplomacy.

The annexure sets out a framework for analysis of complex economic issues. It illustrates the way the interests and the roles of different stakeholders have to be taken into account, in a complex process of issue identification, genuine understanding, mutual communication and finally, resolution.

### Trade

All countries treat trade promotion as a high priority. Many entrust this work to the diplomatic service, while others handle it exclusively through specialist commercial services, or ‘trade commissioners’.<sup>8</sup> I believe that detachment of commercial and other diplomatic work reduces attention to investment mobilization, and country promotion; one misses the cross-connections of integrated diplomacy. Countries that do not practice ‘integrated diplomacy’, link economic and political work at the apex, giving the ambassador overall charge.

Typically, trade development involves:

- A. The starting point is a careful analysis of one’s global exports, comparing these with **existing exports to the target market**. Any shortfall shows what needs to be done. For example, if readymade garments comprise 15% of one’s total exports, but in the target market the share is only 5%, it is worth investigating the reasons for this mismatch. There may be strong competition from other countries, or some preferences enjoyed by

them, or ‘non-tariff’ barriers blocking one’s exports, or simply lack of adequate knowledge of that market in the home country, and/or local importers. Such analysis should, take into account the advice from one’s foreign trade ministry, chambers of commerce, but that should not block initiatives. Another way is to analyze the target country’s import basket, plus the exports to that market by one’s global competitors. This would provide insight into product groups missing in one’s exports. (Example: In the 1990s China’s annual exports of soft toys to the EU exceeded \$1 billion. India, had simply not built the manufacturing capacity, for lack of initiative by home entrepreneurs. In part, this was on account of unfamiliarity with the EU safety regulations; our embassy wrote a market survey, and this led to domestic production of high quality soft toys).<sup>9</sup>

- B. We usually focus on own exports, but helping local companies to **export to the home country** also helps, especially when such companies approach the mission for assistance. Exports and imports are two sides of the same coin, and excessive preoccupation with a single country trade balance is seldom worthwhile (this also builds local connections adding to the mission’s ‘outreach’).
- C. In the ‘promotional’ phase, especially when dealing with new markets or other opportunities, the mission plays a critical role in supplying domestic export associations and exporters with **market data and insights** gained from broad contact with local importers, visits to trade shows, and pro-active dialogue with major players like department store chains and mail-order houses. On the other hand, with established exports, the mission’s focus should be on new markets. It can commission specialists to produce market studies (though funds are a problem); an alert embassy can undertake this on its own; the study may lack professional quality, but preparing it sharpens insight.
- D. **New products** must be a special priority. Exporters at home are often not aware of new opportunities. The mission can help them with initial information and advice; it makes a unique contribution — once exporters come in, others will follow, creating a permanent market.
- E. **Trade disputes** are bothersome, but important. The mission can help at the initial or informal phase, in offering ‘good offices’ and informal

mediation, and urging reasonable settlement. It is important to maintain local credibility, also helping own enterprises —this involves discretion, withdrawing from disputes that should be left to formal machinery.

- F. **‘Buyer–Seller Meets’** is another option, varying in scale from an event attempting to reach out to a substantial number of local enterprises, to smaller events with just a few participants, which can even be organized on the mission premises. (Example: a small ‘business center’ located within the embassy can host such small events, where appropriate.)
- G. **Trade fair participation** is the other classic method of servicing existing export markets, gaining market intelligence on new trends, and creating additional opportunities. Even if one does not export to a particular market, visiting trade fairs is worthwhile to make contacts and gain insights. Organizing tradeshow participation is a special skill that commercial representatives have to master.

### Investments

Investment promotion has become a core economic diplomacy priority. All countries, developing and advanced, compete for FDI, since such investments are the best kind of capital inflows. They create jobs at home, and are ‘tied’ to the destination country, unlike ‘portfolio’ investments in stock exchanges and other fast-moving capital flows that are motivated by short-term gain and are ‘volatile’. This was one of the lessons of the 1997-98 Asian economic crisis. Many countries use special agencies for attracting investments. They are designed to work as a ‘one-stop shop’; a model is Singapore’s renowned Economic Development Board. But even if special agencies exist, embassies are prime actors, by virtue of their overseas reach, understanding of foreign environments, and intimate ground level contacts.

- A. Two primary methods should be deployed simultaneously — **extensive** and **intensive**. The first involves creating broad ‘catchments’ of potential investors, through publicity, distribution of promotional material, websites, organizing or participating in investor conferences, business seminars at chambers of commerce and other forms of wide outreach.

The second involves sustained cultivation of target investors, identifying decision-makers within foreign companies, meetings then frequently, overcoming their doubts, guiding them on home procedures, etc. The catchment method involves assiduous preparation, using local partner organization to attract audiences. The target method involves intelligent homework, followed by 'smart' advocacy. The two complement one another.

- B. Using the above, the mission might prepare a '**Target 10**' list.<sup>10</sup> This would identify of the target companies that are to be persuaded. Such work can be guided from headquarters, but the mission is the indispensable player.
- C. Another sound way is to **pursue major enterprises** in the target country. One begins with sectors that are on the home country's investment priority list, making 'cold calls' on leading enterprises, to get them to consider investment options. Example: the embassy can work with a 'Fortune 500' list, to identify likely prospects.<sup>11</sup> This nature involves reaching out to CEOs and management boards, usually by the ambassador whose rank gives access. But concerted follow-up is no less vital, pursuing the full decision chain, via the economic counselor and others, i.e. teamwork.
- D. Supplementing the above is the pursuit of companies that have **existing investments**, to get them to consider new investments. One method that has worked well is to target companies that had established joint ventures or technology collaborations in the past, and persuade them to consider fresh investments and business partnerships.<sup>12</sup> This works best in countries that have a history of past investments.
- E. Another sound device is the marketing of **success stories**, especially when recounted by foreign partners, (e.g. the local profitable joint ventures, the fruitful technology collaborations). One should use them as 'case studies' in promotional and publicity activities. Such practical local examples are more persuasive than most other forms of promotion. Businessmen prefer to listen to other businessmen, than to officials.

- F. Use of **all public platforms available** for indirect promotion is another tool, by blending in the economic message into political, cultural and other activities of the mission. This is a facet of integrated diplomacy.
- G. Is it a good idea to grant **special favor to a large investor**? The young leader of a Singapore EDB delegation sent to woo a major US company was faced with such a demand. He responded with one of Aesop's parables: In a big storm, a shepherd took overnight shelter in a cave with his flock of sheep. As he reached for a stock of hay stored at a high point in the cave (for such eventuality), he saw that some goats had taken shelter in that cave. The head-goat asked if some hay could be shared with them. The shepherd reflected a bit and agreed. The next day dawned bright and sunny; as they all left, the shepherd asked the goat-leader if his group would join his flock. The goat-leader replied: 'You were very kind to us last night, but we will not join you, because you do not seem to give full care to your own flock!' The moral: it is better to give the best treatment possible to all investors, not special favors to some. (This story is recounted in a book on EDB's experiences; that US company later came forward with its investment!)<sup>13</sup>

Investment promotion demands cooperation between the embassy and home agencies outside the MFA. Yet, it is often absent! With the exception of some ASEAN states and a few others, investment promotional agencies of developing countries and their embassies sometimes lack concord. This leads to mismatched efforts. Home agencies focus on narrating their own stories, proving how much things have changed in comparison with the past. The foreign investor is more interested in how the conditions that country offers are superior to that available elsewhere, and how things will shape up in the future. The embassy should get home agencies to view FDI promotion from the foreign investor's perspective. The embassy also needs to understand the home priorities and take care not to 'over-sell', by making unrealistic promises about home conditions, or inadvertently misleading the foreign investor.

A simple method coming into use is for the home agency to get the diplomatic missions to follow up on investment applicants, when proposals are under

examination at home. The embassy proactively reaches out to the investor and helps in overcoming delay. This aim: reduce the number of investment projects that disappear between the proposal stage and actual implementation. The percentage of approved proposals implemented is 30% in some countries.<sup>14</sup>

### Bilateral Economic Promotion

Over the past 50 years, countries have used joint commissions and similar mechanisms for expanding bilateral relations in economic, S&T, education and other sectors. A country may have many such arrangements, of which some are useful — annual meetings, concrete action programs and monitoring of results. Other joint commissions are window-dressing, with no real activities.

A new development is for countries to use innovative methods, either bilaterally or as a single country initiative, involving public-private partnerships, and hard targets. One example is ‘Team Canada’, where the government identifies a target country that offers special opportunity. Thereafter, a coalition of business works with the government, federal and provincial, with custom-designed activities for maximizing trade, investments. Another concept is the ‘Indo-British Partnership’ launched in 1994 under the patronage of the two prime ministers, by counterpart business organizations, with a tight schedule of activities (sector-specific industry delegations, specialized fairs, brochure shows, actions in new business areas). It has doubled bilateral trade over 5 years, boosted British investments in India, and produced investments in the reverse direction. Another method is to identify ‘action agendas’ and then set an agreed time-frame to implement these. ‘Eminent Person Groups’ are yet another bilateral mechanism for advancing activities in business and other sectors. Such groups generally yield good result. Any form of public-private partnership (PPP) is usually a good way of maximizing result, harnessing the strengths of both governments and business.

It makes sense to integrate **outbound aid** programs with economic diplomacy. This is done in India with MEA handling the management of both financial and technical aid and training for foreign personnel (via the ITEC program). In

several cases, the supply of Indian machinery under aid has produced large and long-term commercial demand for the same products.

It is also useful to coordinate **tourism promotion** activities with economic diplomacy, even while this remains a specialist field for execution. For instance the innovative ‘Incredible India’ tourism campaign could be harmonized to produce beneficial echoes in the country’s investment promotion efforts. One method successfully used by others, not yet deployed in our country, is to establish a ‘**public diplomacy board**’ that pulls together all the external promotional activities, not to run them under one regime but to harmonize the actions.

### Annexure I

#### Template for Economic Analysis

We can use a template to analyze economic or indeed any other issue. While each of the following analysis themes may not apply in every case, it should be possible to use them in a pragmatic manner, for carrying out critical analysis. This becomes a tool in the decision process.

<b>A</b>	<b>Identifying the Issue</b>	
	— What is central?	
	— Are policy issues at stake, or does this involve the application of established policy?	
	— Is it important?	
<b>B</b>	<b>As perceived: at Home &amp; Abroad</b>	
	— Who faces the problem? Are they really affected, or is it also a matter of perception?	
	— How severe is it, at Home & Abroad	
	— Is a solution feasible?	
<b>C</b>	<b>Overall National Impact</b>	
	— What is the impact on own economy, employment, prices, consumer welfare?	
	— What is the impact abroad? Does the issue also affect other countries?	
<b>D</b>	<b>Policy issues at Home &amp; Abroad</b>	

	— What domestic strategic issues arise, at home and abroad?	
	— Are issues of tactics or detail also involved?	
<b>E</b>	<b>Impact on the Media &amp; the Publics</b>	
	— What do they think of this issue?	
	— Will this become a big issue in the future?	
	— Can public diplomacy, external or internal, be mobilized to advantage?	
<b>F</b>	<b>Domestic Politics</b>	
	— Who are the stakeholders?	
	— What is their influence, and how much can they affect the outcome?	
	— How do we communicate our position to them? Should we involve them in the process?	
<b>G</b>	<b>Legal Issues</b>	
	— What agreements and regulations are involved on both sides, and which of these can help resolve the issue?	
	— What provisions in international trade agreements help us?	
<b>H</b>	<b>Information Needed</b>	
	— What information is missing?	
	— Is there anything in our institutional memory that might help?	
<b>I</b>	<b>Issue Resolution</b>	
	— Do we have any leverage that might be applied to resolve the issue?	
	— Are there any external allies that we might mobilize?	
	— How should we move forward on resolving this?	

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References:

1. Nicholas Bayne and Stephen Woolcock, *The New Economic Diplomacy*, Eds. (Ashgate, Aldershot, 2003).

2. Hocking, Brian, *Diplomacy of Image and Memory: Swiss Bankers and Nazi Gold* (Diplomacy Studies Program Discussion Paper No. 64, University of Leicester, April, 2000).
3. Wally Olins, *Trading Identities: Why Countries and Companies are Taking On Each Others' Roles* (Foreign Policy Center, London, 1999).
4. Rana, Kishan S, *Inside Diplomacy* (Manas, New Delhi, 2000), Chapter 4, pp. 96–127; Chapter 5, pp. 128–43.

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<sup>1</sup> Brazil is an exceptional country where WTO affairs and the negotiation of FTAs is handled mainly in the Foreign Ministry, mainly because it built up early competence in these negotiations; but even Brazil now tries to bring in the economic ministries into the process.

<sup>2</sup> Countries such as China, Egypt and India are both donors and recipients of external economic assistance. Each focuses on providing the kind of aid that is best suited to its strengths, especially technical assistance which leverages availability of high quality trained manpower and the domestic training infrastructure.

<sup>3</sup> Wally Olins, *Trading Identities: Why Countries and Companies are Taking On Each Others' Roles* (Foreign Policy Center, London, 1999).

<sup>4</sup> Brian Hocking, *Diplomacy of Image & Memory: Swiss Bankers and Nazi Gold* (Diplomatic Studies Program Discussion Paper No. 64, University of Leicester, April 2000).

<sup>5</sup> The cross-over between business and tourism is recognized very well by countries such as Malaysia, Mauritius, Singapore and Thailand, and inadequately by many others in the developing world. Good tourism promotion meshes very well with business promotion.

<sup>6</sup> See [www.land-of-ideas.org](http://www.land-of-ideas.org)

<sup>7</sup> We hosted such meetings at the Indian Embassy in 1993-95, at which German and Indian economic actors were invited, together with the Federal Economic Ministry representatives; after some time the Foreign Office officials expressed interest in attending, and became keen participants.

<sup>8</sup> Until about 30 years ago a majority of countries had separate commercial services for external economic work, but the trend has been for integration with other diplomatic tasks. A major exception is the US, which has a separate Commercial Service that operates under the US Commerce Department, but at the level of the ambassador the work is fully integrated.

<sup>9</sup> The key point: contrary to the assumption of a 'perfect' market by theoretical economists, under free market conditions, in the real world a simple lack of information is a powerful hindrance. In the case of soft toys, we found that the EU's safety standards were *perceived* as a barrier. Indian manufactures assumed that it would be very difficult to meet these standards. But once they gained the essential knowledge, they entered this market.

<sup>10</sup> This method is based on personal experience. The number of targets chosen is not important, as long as this is handled as a rolling program, to keep the embassy focused on potential investors who have to be pursued, in a planned manner.

<sup>11</sup> Sometimes this works so well that it may take some persuasion to convince the enterprise being visited that the embassy has acted on its own assessment of potential prospects, and not any 'inside' information!

<sup>12</sup> Example: India used this method very effectively in Germany in the 1990s.

<sup>13</sup> Chan Chin Bock, *Heart Work: Stories of How EDB Steered the Singapore Economy from 1961 to the 21<sup>st</sup> Century*, (Singapore Economic Development Board, Singapore, 2002).

<sup>14</sup> This figure is based on India's experience in the post-Reform period after 1991. Achieving a higher rate of implementation is crucial in all countries.