**ECONOMIC DIPLOMACY:**
**THE EXPERIENCE OF DEVELOPING COUNTRIES**

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Some developing countries have mastered their interactions with the external world to the point where they actively pursue international economic opportunities, be it in trade, investments, technology-driven business partnerships, tourism, off-shore banking and a whole range of services. These countries regard globalization in benign fashion, and are active participants in an interdependent world, be it at the World Trade Organization (WTO) or the World Economic Forum at is annual big-splash gathering at Davos, Switzerland. At the other extreme are the developing states that either confront severe inadequacy of resources, or are torn by internal conflict and poor governance, leaving them woefully dependent on foreign aid. The globalization process does nothing for them. In between are located the majority of states, scrambling for the right mix of structure, policy and method, to take proactive advantage of the external environment.

Economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investments and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important. No longer the monopoly of state entities, the official agents — the foreign and economic ministries, the diplomatic and commercial services, plus their promotional agencies — now engage in dynamic partnerships with an array of non-state actors. Indeed, such domestic collaboration is a sine qua non for effective external outreach; abroad, in mirror fashion, the actions similarly address a wide field of foreign stakeholders.

## The Foundation of Economic Diplomacy

Globalization has expanded and accelerated economic interdependence among states. The striking feature of the response of developing states is its remarkably uneven nature, to the point where some countries have moved to the forefront, and others have stagnated, or slid backwards to become the victims of globalization. Diplomacy is an expression of the governance that a country dispenses to itself in its external relationships. As with the other forms of governance, it is rooted in the vision, efficacy, organization and the motivation of its people and institutions, including the leaders, the officials, and civil society at large. Why some countries perform better than others is an enigma, to which political scientists grope for answers. Take the example of the textile preferences that the European Community (EC) extended to the Africa, Caribbean and Pacific (ACP) countries in the 1970s; on the basis of the levels of transformation achieved in these underprivileged countries, the EC extended the facility of quota-free and duty-free entry.[1] In the late 1980s the World Bank noted that while the generous ACP preferences were available to almost 70 countries, the island-state of Mauritius with a population at the time of barely 1.1 million accounted for almost 90% of the textiles that entered the EC under this umbrella. The other countries had simply not got their act together to take advantage of this concession, while Mauritius made it the central plank of its development strategy.[2]

Let us consider the key ingredients for successful economic diplomacy.

> First, economic engagement abroad involves more than the ministries of foreign affairs, commerce and industry; it is the business units of the country, associations of industry and chambers of commerce, the financial sector, business schools and thinktanks, the tourism industry, and a host of domestic actors that are both the stakeholders and the prime movers. The state agencies need to take initiatives to create viable, innovative public-private partnerships. Some countries have proactively reached out to these non-state actors and have co-opted them for the advancement of economic interests abroad, through formal and informal mechanisms. Examples: advisory groups composed of businessmen to guide external economic outreach and FDI mobilization; official bilateral joint

[1] The EC used this formula in lieu of the more common percentage of domestic value addition, no doubt because this was convenient in the textile industry; cotton to yarn represented a level of transformation, another was yarn to textiles, while textiles to garments also represented a level of transformation.
[2] Now, having achieved middle-income country status with a per capita income of over $3000, rising labor cost has eroded the competitive advantage of Mauritius in textiles; it is attempting to migrate to higher value manufacture and services, while shifting its textile industry investments to neighboring countries such as Madagascar.

commissions that are actually driven by associations of business and industry; joint eminent person groups and CEO panels to brainstorm on new opportunities; thinktanks and scholars working with business leaders to advise on free trade negotiations. We find that the countries that pursue inclusive home partnerships also tend to work well with non-state actors in foreign countries.

In a few developing countries the foreign ministry is marginalized when other agencies, be it the defense and security establishment or the economic ministries, gain ascendance in foreign policy decision-making. One direct consequence is that the country's network of overseas representation is not utilized to its capacity for the advancement of national interests.

Second, the structures of foreign affairs and external economic management need to be integrated or harmonized. This is broadly handled in three ways. Some twenty countries have combined foreign affairs with external trade. This is practiced in the Caribbean (Barbados, Dominica, Grenada, Santa Lucia), Scandinavia (Denmark, Finland, Iceland, Norway, Sweden), the South Pacific (Fiji, Marshal Islands, Samoa, Solomon Islands, Vanuatu), and a few other countries (Australia, Brunei, Canada, Mauritius, New Zealand and South Korea, Swaziland).[3] South Africa actively considered integrating foreign affairs and international trade in 1997-98, but the proposal was dropped; but arrangements to harmonize work have been implemented. The Scandinavian countries also bring into the foreign ministry the management of their external aid (as does Japan), which is also logical.[4] Denmark has one of the best, unified structures, handling political diplomacy, foreign trade, investment mobilization and external aid, within a single entity. A second method is to establish a special coordination mechanism to handle external economic work, such as 'joined-up' oversight as

[3] Countries such as Australia, Canada and New Zealand make a distinction between trade policy issues (which are combined with foreign affairs), and trade promotion activity, which is handled by a separate agency, outside the MFA orbit, by specialist staff, and not by diplomatic personnel. In contrast, the Scandinavians completely integrate trade and investment promotion, as also trade policy, into the foreign ministry; a single set of officials handle all these tasks, and their embassies are similarly charged with the full range of work.

[4] In contrast, the UK and the US separate aid management from foreign affairs; it is hard to believe that this contributes to efficiency.

practiced by the UK, or through entrusting trade and investment promotion to dedicated agencies, as in the case of Singapore.

Countries that do not follow this practice tend to expend a great deal of effort on turf disputes, in relation to bilateral economic issues and on multilateral tasks such as management of WTO affairs; they also do not utilize their overseas diplomatic network in the best way possible for the exploitation of foreign trade and investments. No large or medium-sized developing country has combined foreign affairs and trade. One reason may be the institutional weight of traditional systems that blocks experimentation. Another factor may be that in these countries the commerce ministry fulfils a vital domestic trade management function, and this makes a joint ministry less appealing.

Another different integration method, especially for small states, is through a joint foreign trade negotiation mechanism, as established by the 16-member Caricom; their single negotiator at the EU, who also handles issues relating to preferences delivers considerable value. It is interesting that other small countries, such as the island states of the South Pacific, have not banded together in similar fashion.[5]

Third, the twin immediate priorities of economic diplomacy are export promotion and mobilization of inward foreign investment. A range of options is available for pursuing these tasks, which are distinct, but interconnected. Export promotion involves helping the home commercial enterprises to seek out foreign markets; market studies, visits by business delegations, participation in international trade fairs, and buyer-seller meets are among the standard devices for helping exporters, where the official agencies can play a facilitator role. Reaching out to new markets, and developing outlets for new export products are activities in which embassies and commercial offices can especially play a key role. In contrast, mobilizing FDI involves, first of all, reaching out to potential foreign investors, sensitizing them on the opportunities in the home country, and

[5] The obstacle for the small states, members of the Pacific Islands Forum, is perhaps that they are separated by vast distance and do not share economic commonalities. The small countries of other regions, such as Southern Africa or West Africa, have also not pursued the Caricom option.

thereafter undertaking targeted promotion; the former produces the catchments of foreign enterprises interested in making investments, and the latter aims at translating intention to action. Such 'salesmanship' activities by the official agencies, of course, always hinge on close harmonization with business associations and individual enterprises.

Fourth, the regulatory framework is squarely the responsibility of governments — assisted by business chambers, thinktanks and scholars — which aim to create the conditions advance trade and investments. The home economic agencies, and the diplomatic network have to proactively identify the priority areas, and negotiate the required agreements, keeping in view the mutuality of interests.[6] The instruments available include: free trade and preferential trade agreements, on a bilateral and regional basis; agreements that tackle non-tariff obstacles (such as phytosanitary regulations); shipping and other transport agreements; and investment protection and facilitation accords. A recent trend is to address a range of such areas, usually through mutual trade-offs among the contracting parties, through 'comprehensive' economic cooperation accords; they aim at better synergy through simultaneous handling of related subjects.

Here too, smooth cooperation between the economic ministries and the foreign ministry is a prerequisite for effective action. The countries that have combined their foreign affairs and external trade departments are at an obvious advantage, but those that feature effective joined-up and other cooperative formats also do well. In addition to these institutional arrangements at home, if the diplomatic network also plugged into the process, economic advocacy and negotiations are handled optimally.

Fifth, we should distinguish between the economic diplomacy as it operates out of the home capital, and the field, i.e. the network of embassies and consulates.[7]

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[6] Under the WTO doctrine, bilateral trade agreements, regional FTAs and the like, represent a derogation from the principle of global liberalization of trade, but by the end of the 1990s, even a country such as India that had held fast to the global doctrine, recognized that bilateral and regional arrangements are inescapable, even while it waits for the *manna* of universal trade liberalization.

[7] The role of consulates has shifted from consular protection and visa facilitation (as provided in the 1963 Vienna Convention on Consular Relations), to the wider promotional jobs of sub-embassies, engaged in

The majority of developing states have some way to go in optimizing their diplomatic networks to deliver full value. While these networks are exhorted to implement a 'whole of government' mindset in their work, it is the foreign ministry that is their immediate master, and thus in the best position to mobilize them. Consequently, countries that marginalize their foreign ministries in their economic diplomacy outreach, handicap themselves from the start.

A related issue is whether diplomatic services that are 'integrated', and handle all branches of external diplomatic work (e.g. in Brazil, India) are more efficient than the ones that treat commercial diplomacy as a separate professional branch, handled by specialists from other agencies (e.g. in China, South Africa, Thailand).

'A diplomatic service that is well resourced and above all well staffed…give(s) a state a significant increment of power and influence'.[8] Singapore demonstrates how a small state can harmonize its diplomatic machinery to punch much above its weight class. This lesson holds lasting value.

## Three Phases: An Indian Example

The organization of economic diplomacy in India is both traditional and modern. From its inception in 1947, the Indian Foreign Service has been an integrated entity, handling political as well as economic and other forms of diplomacy.[9] I believe this is functionally rational; it suits the way different elements in external work interact with one another, requiring unified handling. A separate commercial service is, in my view, an outdated concept.[10]

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almost everything but hard political work, and sometimes even some of that. In takes the consulate back to its original commerce facilitation and representational roots of the 13th and 14th century.

[8] GR Berridge, Maurice Keens-Soper, TG Otte, *Diplomatic Theory from Machiavelli to Kissinger*, (Palgrave, Basingstoke, 2001), p. 3.

[9] Jawarhal Nehru personally drafted the 1946 cabinet note that created the Foreign Service, on the basis that it should perform all categories of diplomatic work. But it was not until 1966 that the Ministry of External Affairs set up its Economic Division, which has faced obstacles from the domestic economic ministries, but has gone over their heads to the powerful business associations, helping them with external outreach.

[10] The US State Department, operating the world's largest diplomatic network, now has five 'cones' within which officials perform different roles, but this model is not used by anyone else. The US also has a separate commercial service, a product of that country's complex decision process that led to the 1946 Foreign Service Act.

A major Indian weakness is institutional disharmony, in the shape of turf battle between the Ministry of External Affairs (MEA) and the economic ministries, though on major issues these agencies are able to put aside their differences.[11] For instance, MEA swaps some posts abroad with the Commerce Ministry in exchange for a several placements in that Ministry for its officials; those holding commercial assignments abroad are answerable to both ministries; the permanent secretary heading Commerce serves on the MEA personnel board that selects officials for sub-ambassador level assignments abroad. But WTO issues are handled primarily by Commerce, which also appoints the envoy handling this subject in Geneva; MEA's Economic Division (actually a full department with four divisions handling Indian aid and technical cooperation with foreign countries, plus external economic promotion and multilateral economic work) receives less than fulsome cooperation from the Ministries of Commerce and Industry. The Finance Ministry's Department of Economic Affairs, which handles inbound aid as well as the interface with the World Bank and the IMF, has even less to do with MEA. MEA does not help matters by practicing a closed-shop policy, receiving no in-placement at its headquarters from the economic ministries.[12] In 2005 Prime Minister Manmohan Singh created a cabinet-level 'Trade and Economic Relations Committee' which he chairs, for apex-level coordination; top-down process is powerful, but it does not substitute for better ground-level working.

In consequence, the Indian embassy network is utilized far less than it should be, both in relation to FDI mobilization and export promotion. India laments that approved investment proposals are often not implemented, producing a large shortfall;[13] as the embassies are the only external investment promotion agency, they should be utilized more intensively. Unlike in China or Brazil, the volume of FDI inflow — $6 billion in 2005, up to around $10 billion in 2006 — is still not high enough to go on autopilot!

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[11] The Indian Ministries of Commerce and Industry are separate entities, but since 2001 they have been placed under a single cabinet minister, while they retain their distinct identity.

[12] MEA has traditionally apprehended such placement, fearing that these officials would demand assignments abroad. A simple way exists to square this circle: pre-select the dozen odd non-MEA officials serving abroad (against posts earmarked for them), and deploy them in MEA for a couple of years before they go abroad; that would also shed MEA's image of exclusivity.

In a December 2005 interview a Thai diplomat described the evolution in economic work; their ambassadors had moved from the conventional political discourse, to a situation in the 1980s when they were asked to become salesmen; now their assigned task was to function as 'managers'.[14] I would expand on that evolution to speak of three distinct phases in economic diplomacy, using the Indian example.

One. India grasped the economic diplomacy nettle in the early 1970s, as a response to the first 'oil shock' by the OPEC cartel, which almost overnight quadrupled crude oil prices. As a 'non-oil' developing country, India was forced into heroic actions to raise the foreign exchange resources, with primary focus on the Gulf region. By good fortune, my first ambassadorship was in Algeria (1975-79), in that initial '**economic salesmanship**' phase. In essence, India leveraged its political connections with the Arab countries to win turnkey projects, consultancy assignments and contracts, for skilled as well as advanced technical manpower. In Algeria, India's technology expertise was unknown, but we took advantage of opportunities to help Indian companies, public sector and private, to sign their first twelve industrial and consultancy contracts in 1975-79; we sent over 800 doctors, besides dozens of professors and engineers. That story was replicated in Libya and elsewhere, with the difference that many thousands of skilled workers went out. Today, the Gulf region has a total of over three million Indian skilled workers, besides tens of thousands of Indian professionals; they are the principal contributors to an inflow of over $24 billion received as remittances from the Indian diaspora.[15] That same salesmanship mode was deployed to help the Indian software industry gain its first wins in Silicon Valley and other parts of the US in the late 1980s (during my three years as consul general in San Francisco). Many of our embassies played a similar role.

A feature of this phase was the country's heavy dependence on foreign aid; the annual meetings in Paris of the 'Aid India consortium' were a major event, and considerable

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[13] Typically, 30 to 40 % of approved projects are implemented (this is necessarily an evolving figure); a variety of reasons underlie such a low rate, where inadequate Indian follow-up is one element. The current Indian effort is to shift the bulk of FDI to the automatic approval route, by simplifying procedures.
[14] Since mid-2004, Thailand's envoys have been asked to become 'CEO ambassadors'; initially a pilot project limited to six embassies, this is now standard policy. It resembles the US system of designating ambassadors as heads of 'country teams', to get all official agencies to work together under unified leadership, but the Thai plan goes further and aims even at a single budget for all the overseas offices, to be supervised by the envoy. It remains to be seen how it will work in practice, given the usual inter-ministry contestation that is universal.

effort was expended via summit level diplomacy to maximize the commitments announced by the major donors and the international financial institutions. Through much of the 1980s, the Finance Ministry, directly supervised by the Prime Minister's Office, handled this vital diplomatic effort, while MEA was relatively isolated.[16]

Two. By the time I reached Germany in 1992-95, on my final assignment, India had matured into the second, '**economic networking and advocacy**' phase, though salesmanship continued; on the ground, the two phases telescoped into one another. The Economic Reforms that India launched in 1991 — which many have viewed as no less than a second independence movement, freeing the economy from self-imposed shackles of statism and the 'license raj' — gave salience to efforts to maximize exports, mobilize FDI, and assist Indian companies to access technology, besides improving the flows of inward aid, and of foreign tourists. This involved reaching out to the new diplomacy actors, both the agencies of government as well as the non-state actors, at home and abroad. Indian economic diplomacy is better in its coordination with the latter, i.e. the non-state agents, the principal business organizations, CII, FICCI, and ASSOCHAM; the economic thinktanks, the NGOs that are active on international economic issues, and the media. While MEA regained for itself a central role in external economic diplomacy, coordination among official agencies remained patchy. When good collaboration takes place, it hinges on individuals, rather than institutional arrangements. Thus India's strong negotiation posture at the WTO is not sufficiently backed with matching advocacy at the key bilateral capitals; nor is investment promotion activity sufficiently harmonized, producing the 'approved-but-not-implemented' limbo described above.

At the same time, new initiatives in regional economic arrangements have come from MEA. A few, such as BIMSTEC and IBSA show considerable promise, while others such as IOC-ARC have been withered on the vine.[17] MEA is the lead coordinator on each of these, marshalling cooperation with other agencies, state and non-official.

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[15] My observations on India's diplomatic system, and examples drawn from personal experience with economic and other forms of diplomacy are narrated in *Inside Diplomacy* (Manas, New Delhi, 2000).
[16] I observed this first-hand as a member of Prime Minister Indira Gandhi's staff in 1981-82.
[17] BIMSTEC is a cross-regional network established by Thailand and India in 1997, and includes Bangladesh, Myanmar, Sri Lanka, with Bhutan and Nepal joining a couple of years back; it aims to create a free trade area. IBSA came into existence in 2003, when Brazil, India and South Africa decided to build on their proximity on international economic issues, to build closer trade and transport links; it held its first

Three. The priority is '**regulatory management and resource mobilization**', i.e. negotiation of FTAs,[18] energy access agreements, and regional diplomacy via innovative new groupings. One characteristic of this phase is an awareness of the country brand, leading to efforts to build an image of modernity. These tasks require domestic coalitions building, where the competence of each agency, official and private, is respected, to work together to advance economic interests abroad. India does not have, as yet, 'public diplomacy boards' where the foreign ministry takes the lead in *suggesting* unified action to autonomous agencies, such as those covering the public media, culture, education and tourism.

The key task is to reach out to the varied partners, and harmonizing their sectoral interests with national priorities. Such coordination cannot be imposed by right or dictate; it emerges when the other agencies see the foreign ministry as bringing value to their direct interests. The foreign ministry is the logical center point of such efforts, because it has no sectoral agenda of its own. The forte of the foreign ministry is its control of the totality of the external inter-state dialogue, of course, under the oversight of the head of government and his staff.

An outstanding example is India's very first bilateral FTA, signed with Sri Lanka in 1999.[19] In contrast, in relation to other trade regulation arrangements, the inter-ministry coordination has been uneven, and sometimes notably absent. India shows the complexity of economic management; with policy-making fragmented, and the Ministry of External Affairs confined to a small role, the operation of economic diplomacy goes out of synch with political objectives.[20] Yet, positive examples also exist; in the search abroad for

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summit meeting in Brasilia in October 2006. IOC-ARC is a group of Indian Ocean rim states that want to expand mutual cooperation, but it seems to have lost steam, though it has a secretariat in Mauritius,.

[18] India had an 'ideological' bias that viewed regional and bilateral FTAs as a derogation from the principle of multilateral universality of trade liberalization under the GATT/WTO formula; its first FTA was signed with Sri Lanka in 1999. It has been a singular economic and political success, and India has since signed similar agreements with Thailand and Singapore, and is negotiating other FTAs, including one with ASEAN.

[19] See Rana, 'Economic Diplomacy in India: A Practitioner's Perspective', *International Studies Perspectives*, (2004) 5, (66-70).

[20] In December 2005, on the eve of the first enlarged 'East Asia Summit' (where Australia, India and New Zealand joined the Asean + 3 leaders), the Indian Commerce Minister presented the first draft of India's negative list for the Asean-India FTA that is under negotiation. The list of items that were to be kept out of the free trade regime ran to 1414 items, and as the Malaysian Trade Minister pointed out, included toilet

energy sources, Indian embassies have frequently played a proactive role in helping state and private enterprises in pursuing opportunities.[21]

Other Examples

Let us turn to some other examples, to reflect on the manner in which economic diplomacy operates in different situations.

A number of medium and small countries in **Africa** and **Asia** with fragile economies have remained mired in conventional diplomacy, some of them observing the *forms* of international discourse, but without coherent pursuit of national objectives. Appointments as envoys are seen as sinecures for failed politicians and retired generals;[22] professional diplomats are under-trained, and when sent on assignment overseas, are often demoralized and inactive. A change factor in some of these countries is the public sector reform imposed by the IMF and the World Bank, as part of the 'structural adjustment program', in the highly indebted countries facing default in their international payment obligations. Episodic evidence suggests that performance management norms and business plan systems brought into foreign ministries produce superficial changes without improving the management of diplomacy or external projection.

The tiny, reclusive Himalayan kingdom **Bhutan** (population 675,000[23]) would hardly come to mind as notable for its economic diplomacy. But it is of interest on two counts. One of its few resources is its latent hydropower capacity. Since 1974, it has utilized its privileged relations with India to implement three major hydro projects, Chukha I, Chukha II and Tala (completed in 2006), producing nearly 2000 MW of power, all it sold to electricity-deficient India, earning for the country over 50% of its Gross National Product. Contrast this with **Nepal**, with a potential hydropower capacity of over 80,000

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seats; it became clear that the list had not been screened by either the Ministry of External Affairs or other agencies. Yet, safeguarding the interests of domestic industry and agriculture is a vital issue, one that has to be handled with finesse and sensitivity, without over pitching one's demands.

[21] Rana, 'Economic Diplomacy in India', p.68.

[22] A few years back, out of nearly a score of Ugandan ambassadors abroad, only one was a professional from the Foreign Ministry. Several Central American countries also reserve the majority of such appointments for those connected politically. In contrast, a law in Brazil requires that only professionals from the foreign ministry be appointed as envoys abroad.

[23] This is the official figure based on a 2005 census, though other estimates place the total population much higher, at about 2 million.

MW; since the controversial Kosi project of the 1950s, it has not added a single KW of new power export capacity, owing to inhibitions in its relationship with India.[24] Bhutan is also notable for the measured pace at which it has opened itself to high-end tourism, with a strict quota on the numbers permitted entry, to avoid disruption to its traditional cultural and societal fabric.

In **Brazil,** the Ministry of External Relations, still known by its old location name in Rio de Janeiro, Itamaraty, enjoys a primacy that counterparts in most developing countries envy. Itamaraty has always monopolized external negotiations; the professional competence of its diplomats, their mastery of foreign languages and their experience served as mutually reinforcing elements. As new subjects entered the international dialogue, it added new departments; observers have called its economic diplomacy 'surprisingly agile and dynamic'.[25] The increasing technicality of subjects has prompted the Itamaraty to hand over some responsibilities to the Commerce Ministry specialists, and shift its economic diplomacy management to a multi-agency mode. A Trade Council based in the Presidency carries out policy harmonization. In the early 1990s, when Mercosur was established as the regional integration mechanism and WTO replaced GATT, Itamaraty was reorganized in consonance with this regional and global economic paradigm (it handles all FTA negotiations); it is one of the few countries represented at WTO by its foreign minister. The diplomatic service handles commercial work abroad.

**China** presents a very different picture. Until its breakup in 2002, the powerful ministry MOFTEC[26] handled all external economic activities (its successor is the Commerce Ministry plus other agencies). As before, the Foreign Ministry does not handle field-level external economic promotion, which is carried out by a separate commercial cadre. Coordination is implemented out through the party mechanism, which is very effective on strategic issues; a series of thematic 'leading small groups', under the supervision of the Politburo, bring together top party leaders and the key ministers for decision-making. Paradoxically, in relation to the issues of detail the system is less efficient. Inter-ministry

[24] Many Nepalese have rightly seen the trans-border multipurpose Kosi project as grossly unbalanced in its distribution of benefits. That legacy, plus a suspicious mindset toward India, has inhibited movement on any other hydro project, despite countless rounds of discussion, summit encounters, interim accords and memoranda. For India this represents a huge failure of its diplomacy.

[25] Luiz F Lampreia and Ademar S da Cruz, 'Brazil: Coping with Structural Constraints', Justin Robertson and Maurice A East, eds. *Diplomacy and Developing Nations*, (Routledge, London, 2005), p. 108.

[26] The acronym stood for the Ministry of Foreign Trade and Economic Cooperation.

coordination takes place primarily at levels of vice-ministers; inter-ministry meetings at varying lower levels, the norm elsewhere, are unknown. Overseas, while the Commerce Ministry specialists handle trade promotion, economic policy remains with the diplomats. Chinese embassies are now moving to active advocacy on behalf of their companies, borrowing the methods that the others have long pursued.

The tiny island state of **Mauritius** has been surprisingly innovative on external economic issues affecting its vital interests (e.g. combining foreign affairs and trade; textiles exports, see above). In the 1970s it played a leading role in working out the sugar preferences given to the ACP countries by the European Community under the 1976 Lomé Convention; this has brought windfall gains to the producing states of Africa, the Caribbean and the Pacific.[27] In the mid-1980s Mauritius persuaded India (originally home to 70% of its inhabitants) to give it exceptional treatment in a double taxation avoidance agreement, exempting Mauritian registered companies from capital gains tax; after the launch of India's economic reforms this has provided a bonanza, with around 25% of the FDI flowing into India using the 'Mauritius route', to minimize tax liability.[28] Mauritius also persuaded China (the origin of 3% of its population) to sign a similar treaty. Another instance of sound economic management is the targeted mobilization of FDI focused on the service industry, value-added manufacture, and offshore banking, to diversify away from the increasingly uneconomic textile and sugar production sectors.

**Singapore** has harnessed economic diplomacy as a major instrument in its transformation from a sleepy entrepôt in 1965 at the time of its separation from Malaysia and independence, devoid of a hinterland or resources, to a thriving economy, enjoying Asia's highest per capita GDP. Singapore's legendary Economic Development Board (EDB) has played a key role; together with its Irish counterpart it is arguably the best among investment mobilization agencies, specializing in targeted pursuit of investors.[29] A

[27] In the 1970s, when sugar prices reigned higher than the guaranteed price offered by the EC, Mauritius played a key role in persuading the producing countries to take a long view; in consequence these countries have enjoyed high profits in the ensuing years of much lower world prices for this commodity. The preferences are now under phase-out, under the WTO regime.

[28] The Indian tax authorities have long attempted to close this loophole (especially to block domestic investors who illegally route investments through Mauritius in 'round-tripping' deals), but the island state has blocked this on the basis of kinship and close political ties. It was reported in January 2007 that the Chinese have pushed through a partial revision of this concession, and India is attempting the same.

[29] See Chan Chin Bock, *Heart Work: Stories of How EDB Steered the Singapore Economy from 1961 to the 21st Century*, (Singapore Economic Development Board, Singapore, 2002).

comparable role in promoting exports of products and services has been played by International Enterprise Singapore (IES, formerly known as the Trade Development Board). The hallmark has been: an inclusive approach that mobilizes all stakeholders on a 'team Singapore' formula; long-term vision and thinking outside-the-box (witness its investments in technology parks in China, India and elsewhere, 'growth triangles' with Malaysia and Indonesia, utilizing their hinterland); astute regional and trans-regional diplomacy (for example the ASEM dialogue linking ASEAN and the EU); and an exploitation of best practices in diplomacy and HR management.[30]

**Thailand's** economic diplomacy, like its international profile, looks unspectacular, even conventional. But as befits its centrality in South East Asia — as a country sharing 4863 km of land frontiers with four neighbors — it has specialized in regional diplomacy. ASEAN came into being at its initiative in 1967, at a time when most of the five original members had irredentist claims against one another. Thailand since moved ahead with concrete regional economic actions, notably: the 1992 Greater Mekong Sub-region (GMS) that brings in China into collaboration with Cambodia, Laos, Myanmar, Thailand, and Vietnam, with scores of projects funded by the Asian Development Bank and other agencies totaling over $10 billion, to improve transport infrastructure and trade; BIMSTEC (see above); and the ambitious Ganga-Mekong Project, still largely on the drawing boards, to develop transport and other linkages between the basin states of these two great river systems. In 2004 Thailand advanced the concept of the 'CEO ambassador', first as a pilot project and thereafter passed into law, which mandates that its envoys abroad are to exercise full control over all the representatives of ministries and agencies located abroad, to function as chief executives to advance Thai interests. This was a pet notion of former Premier Thaksin Shinawat, but it is unlikely that a related move, to impose a unified budget for the entire gamut of offices abroad, to be controlled by Thai envoys, will be implemented. Other countries will watch the dénouement with interest.

Looking to the collective experience of the 130 developing countries of the G-77, a rough economic diplomacy typology of finds them in several clusters: those that have remained moored in conventional methods, only implementing slow change; those that have

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[30] See Kishan S Rana, 'Singapore's Diplomacy: Vulnerability into Strength', *The Hague Journal of Diplomacy*, Vol.1 No.1, March 2006

identified a niche, to focus actions on that chosen sphere; those that have adapted themselves to new opportunities with structural changes and clear actions; and those that have moved to the forefront with cutting edge techniques and continual reform. Of course the real world does not respect such neat categorization, but this approach allows us to focus on the points along the learning curve where these countries are located.

Economic Diplomacy Typology

| | **Traditional** | **Niche-Focused** | **Evolving** | **Innovative** |
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| | | | | |
| **Foreign Trade and Investment Promotion** | Handled by the Trade Ministry; little involvement of MFA | Promotion concentrates on the identified niche | Some coordination between Trade and Foreign Ministries; contestation also likely. | Joined-up, and other cooperative arrangements |
| **Policy Management** | Limited role for MFA, frequent turf battles | Good internal coordination | Inter-ministry or cabinet level coordination; tending towards improvement | Institutionalized management, strong teamwork |
| **Role of Non-State Actors** | Episodic, depends on personalities | Variable | Set procedures, strong networking | Harmonization with all stakeholders |
| **Economic Aid: Recipient** | Handled by economic agencies, seldom coordinated with MFA | Limited coordination | Networking between the aid management agency and MFA | ‘Graduated’ out of aid receipt, or close to that stage |
| **Economic Aid: Donor** | May not be an aid donor | May not be an aid donor | Modest program, usually covering technical cooperation | Expanding program, run by MFA in harmony with trade promotion agencies |
| **Commercial Work** | Often handled by a commercial cadre, outside MFA control | Limited focus on commercial promotion, outside the niche area | Cooperative arrangements, often integration of political and economic work | Well-coordinated activities, role model in range of activities |
| **Investment promotion** | Handled by domestic agencies, limited role of the diplomatic system | Active use of embassy network | MFAs and embassies work actively with home agencies, often at individual initiative | Strong team effort, based in institutional arrangements |
| **Regional diplomacy role** | Usually reactive | Focused on preferred niche area | Active | Innovative, exploitation of potential |

Economic Diplomacy Management

We observe that in many developing states a progression has taken place in the diplomatic process, countries moving up the value chain, and improving performance in the economic and other arenas. Let us consider the principal ingredients of this change.

First, the **decision process** in diplomacy management is more plural and often better coordinated than before; some countries are more efficient at this than others. We saw this in the examples given above. The city-state Singapore, consistently managing to punch above its weigh-class, shows how much mileage sound policy management can produce.[31] Several devices are available, when we consider the practices of other countries. One, in and out personnel placements; the diplomatic establishments working as hermetically sealed establishments are the losers. It also makes sense to send officials to work in business enterprises, and de-mystify the perception of these partners towards the official agencies. Two, a need for transparent networking with all the home partners, on the premise that the foreign ministry and its overseas network is at their service, for the advancement of their agendas. The foreign ministry becomes an external coordinator not by right or decree, much less by self-proclamation; it has to earn that recognition. Embassies abroad need a 'whole government' mindset in the way they handle their tasks.[32] This is far harder this than it sounds; it is the foreign ministry's partners that will make the judgment. Three, lateral entry, where people join and leave the foreign ministry at different levels, is becoming customary in post-modern countries where job rotation is the norm. But as the UK saw a few years back while trying to recruit consuls general for the US, even top economic jobs do not attract the needed high-grade talent. Developing countries do not face job churn, and for them lateral entry is even less workable. What can be borrowed from the West another concept — better use of locally engaged staff. Singapore and Australia have shown the way.[33] Four, cabinet level coordination is fine,

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[31] See Leifer, Michael, *Singapore's Foreign Policy: Coping With Vulnerability*, (Routledge, London, 2000); Rana, 'Singapore's Diplomacy: Vulnerability into Strength', *The Hague Journal of Diplomacy*, Vol.1 No.1.

[32] This was one of the conclusions of the March 2005 Wilton Park on diplomacy; a fine report on the conclusions of that workshop is available at the Wilton Park website.

[33] Recently Australia replaced their trade commissioners in the US with local staff, on the premise that Americans would know how best to sell to their own market; developing countries might reason that

but it is at working levels that decisions are implemented. Barring exceptions, this is often a weak point.

Second, **trade policy management** now brings a range of concerned non-state actors into the process, beyond the trade chambers and industry associations (who are obvious, often very vocal stakeholders); these include the domestic thinktanks, academics, NGOs, and even the media. Policy choices become easier when autonomous public policy thinktanks exist in sufficient numbers; in most developing countries they are growing, in spread and competence. This is especially visible on the issues relating to WTO; regional and bilateral FTAs especially require the participation of business, as stakeholders directly affected by the decisions taken by the representatives of government. For instance, Indian officials now recognize that they hastily accepted some arrangements during the Uruguay Round in the early 1990s, without full grasping the implications, because business partners and the industry associations were not present. The large developing countries have been unenthusiastic over alliances with the international NGOs that seemingly support the developing world, but do not always understand the complex motivation, and the diplomacy dynamics, in these countries.

Third, even in these relatively advanced countries, **capacity building** remains an issue. Few officials, even in foreign ministries, have received training in negotiation technique, though this is beginning to change. A similar situation is encountered in the middle tier of developing states. This needs careful handling, since foreign ministries and trade ministries are sensitive to external advice, the more so in the large developing states. In many developing countries there is need for greater weight to in economics in induction training in the diplomatic services, as well as more, high-quality mid-career training programs for officials from the foreign ministry and its economic counterparts.

Training programs conducted jointly for officials of the foreign and economic ministries, where representatives of business also join, are ideal, covering international negotiations, intercultural management skills and other craft skills.

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besides local knowledge, the commercial secretary would also need knowledge of the home country. But the general case for better use of local staff is incontestable.

Fourth, the **regional diplomacy** practiced by some of these countries is remarkable. In China, the provinces are important actors in regional diplomacy, addressed at the countries that adjoin them.[34] Thus, Liaoning and Shandong provinces play the lead role in relation to South Korea; Yunnan does the same with the Greater Mekong Sub-region project (GMS), as noted above; consider the putative group BCIM, also actively promoted by China, which addresses a different cluster, Bangladesh, India and Myanmar. China is currently a member of some 40 regional and neighborhood networks, most of them with an economic focus. We noted above the regional diplomacy practiced by Thailand, and the emergence of a trans-continental entity, IBSA, covering Brazil, India, and South Africa, plan to double mutual trade in four years to reach $10 billion, and is pursuing a free trade agreement.[35] In most regions similar integration in trade and other fields is driven by economic logic, with added political and security benefits.

One interesting dimension of this new diplomacy is that foreign ministries often lead it, acting in concert with trade and other economic ministries; we observe this in relation to APEC, and in other groupings. Indirectly this inculcates 'transgovernmentalism', i.e. the system's capacity to work jointly.

Fifth, **sub-national entities** emerge progressively as autonomous external economic actors. We noted above how this works in China, where most inward FDI approvals are handled by the provincial governments; in India, the recent shift to automatic approval channels has produced a like effect, and competition among states to attract big ticket projects. Similarly, the large developing countries (e.g. Brazil) send out increasing numbers of provincial level business delegations. The next step would be for some of them to establish their own marketing offices abroad, following the lead of developed states such as Canada, Germany, and the US. Some Indian states have ventured to establish 'partner state' relations with foreign counterparts.[36]

<u>Economic Promotion in the Field</u>

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[34] See David M Lampton, ed. *The Making of China's Foreign & Security Policy in the Era of Economic Reforms*, (Stanford University, Stanford, 2001).

[35] Such an FTA would effectively link Mercosur, with SACU, the customs union that covers several countries in Southern Africa, and India (the South Asia FTA is still under implementation).

Economic promotion carried out in the field by large and medium sized developing countries shows congruent features.

First, **FDI investments** for many of the large developing countries now takes a two-way character, though inflows remain much larger than the outflows (in India 2005 saw about $5 billion as inflows, and almost $2 billion as outflows, as investments in oilfields abroad and in manufacturing; during 2006 FDI outflow jumped to nearly $7 billion). China's foreign investments have attracted even greater notice, in hydrocarbons, as well in some technology-dominated sectors. Further, inflows into Brazil and China have matured to the point where the work of mobilizing new investments is less important than facilitation, working with investors to overcome obstacles. India, which has lagged behind in FDI inflow volume, remains concerned with investment mobilization; this is a high priority activity for its embassies.

Investment promotion remains a key task for embassies, regardless of the stage of economic development. Of course, the work content evolves, but in the best systems, the entire embassy team, including the ambassador, is engaged in this activity. Other sectors, science & technology, education, media promotion and even culture work feeds into and interacts with economic outreach.

Second, **trade promotion** also remains a high priority, with the difference that in addition to a search for new markets and the promotion of new export products, the embassy networks are also engaged in policy issues, e.g. potential trade agreements and FTAs, and the related anti-dumping negotiation tasks.

Some question whether the embassy networks of the larger developing states should persist with promotion work, on the argument that services of consultants and other agencies are more efficient, and affordable by most home enterprises. But ground evidence, including the experience of Western countries, shows that while the content of promotion work evolves, embassies remain engaged in such tasks. For the smaller countries basic help with market studies, hosting small buyer-seller meets at the embassy, and reaching out to the economic entities and individual enterprises in the target country

[36] China has been relaxed in permitting such external activity by its provinces, but India such actions push the envelope of center-state relations; economics is thus also helping in shifting the federal power balance.

remains vital, simply because home exporters lack the means to sustain such actions on their own.

Three, **integrating economics into mainstream diplomacy** promotion is easier when a single service handles all the work segments, than when commercial work is handled by a separate cadre. It also makes sense to use the entire team in a foreign capital for economic promotion, on a task force basis (Thailand has attempted this with its 'CEO ambassador' policy). The ambassador carries sizable leadership responsibility, vis-à-vis official as well as private business representatives in his country of assignment.[37]

Embassies abroad necessarily work with a range of domestic actors in their promotion work in the target country. Through these actions, they become for the foreign ministry a conduit for better links with the economic ministries and with non-state entities. Foreign ministries often underestimate this home role of embassies, in part because this is a new and evolving situation.

Brand Image

The home country's image underpins most diplomatic activities. Wally Olins writes in a brilliant monograph that nations need new images because 'a changing reality is leaving perceptions far behind'.[38] This is especially true of developing and transition states, which have seen dramatic change, but this is underestimated abroad. Country branding is about 'presenting a nation or region in a powerful, attractive and differentiated way'; however 'branding works when it projects and reinforces a changing reality — but it can be counterproductive if isn't rooted in fact.' The key is to use a central idea that is powerful and simple, capturing the country's unique qualities.

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. But

[37] See Rana *The 21st Century Ambassador*, (DiploFoundation, 2004 and OUP India, 2005)
[38] Wally Olins, *Trading Identities: Why Countries and Companies are Taking On Each Others' Roles* (Foreign Policy Center, London, 1999).

proactive diplomacy demands that serious and constant attention be paid to the country image. Diplomacy theorist Brian Hocking has written of a survey of 200 US Fortune 500 companies, in which 72% said that national image was significant to external purchase of goods and services, adding that 'company brands interact with national identities in concrete ways'. [39]

Consider the way some of these countries have worked. China used image consultants in marketing Beijing as the venue for the 2008 Olympics, and Shanghai did the same in presenting itself as a 'world city'. The successful tourism destination countries make focused use of branding. Poland recently invited Olins to help re-fashion its overseas image. South Africa has long been an accomplished practitioner of country branding. Brazil attaches weight to this too, and has a special unit in the office of the minister of foreign relations that oversees image activities. In 2006, Pakistan was reported to be working with foreign advisers to improve its image.

In the mid-1990s India created a 'brand equity fund' of Rs.5 billion (then equal to $130 m.), only to find that it's Commerce Ministry was unable to disburse any money. In 2003 the operational management was handed over to the Confederation of Indian Industry (CII), as a public-private partnership. It helps Indian companies to build their product image in export markets, and in the process burnishing the country image; the India Brand Equity Fund also carries out other promotional activities overseas.[40]

Image building is a dimension of public diplomacy; the latter encompasses culture, the media, education and all the different activities through which publics, abroad and at home, are influenced in relation to a country's foreign policy. What is missing in most developing countries is a sustained and coordinated image management effort, mobilizing all the agencies that contribute to the way the country is perceived. Developing countries do not as yet have the kind of 'public diplomacy boards' that exist in France and the UK, headed by the chief mandarin of the foreign ministry, which bring together the authorities handling the state media, tourism, education, culture and others that contribute to this image. While this subject takes us quite far from economic diplomacy, suffice it to say

[39] Brian Hocking, *Diplomacy of Image & Memory: Swiss Bankers and Nazi Gold* (Diplomatic Studies Program Discussion Paper No. 64, University of Leicester, April 2000).
[40] The website of this fund is [www.ibef.org](http://www.ibef.org)

that public diplomacy is closely connected with the pursuit of external economic interests.

Conclusions

In sum, developing countries are at diverse stages in their pursuit of economic diplomacy. Like all other states, they can gain much from mutual learning, and analyzing the best practice models. Traditionally, foreign ministries have not looked to one another, or carried out bench-marking, but this is one of the new tricks that this old profession is now beginning to absorb, in efforts to adapt to the era of globalized diplomacy.

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