Economic diplomacy: what might best serve a developing country?

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Abstract: What are the essentials for a country to practice effective economic diplomacy? These include determining which agency will handle foreign trade and investment promotion work, and the manner in which actions by the different actors involved, official and non-state, are harmonised. Also relevant are the modalities for decision-making. The manner in which international and regional arrangements are handled is another key factor. The bilateral level is where many of the key actions have to be taken, for promoting exports and foreign direct investment, through a series of concrete actions to be taken by home actors and by diplomatic missions directed by the foreign ministry. Aid management is another critical activity, for recipients and for those providing aid. Tourism and country image also connect closely with the country's management of economic diplomacy. Training officials from the foreign ministry and the other agencies that play an active role is increasingly seen as important in advancing the country's external economic interests.

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1 Introduction

The inspiration for this essay comes from a recent review article by Jeffery Sachs, where he examined the ingredients for sound economic development, concluding that besides participatory institutions of domestic governance (recommended in the book he reviewed), sound growth also hinges on factors such as the country's resource endowment, its geographic location and a clutch of other factors (Sachs, 2012). Alas, he did not consider the role of external policy in the advancement of growth objectives.

Let me try to apply this analytical method to sketch an ideal set of external economic diplomacy (ED) for a developing country. In doing this, I take for granted the vital domestic elements of resource endowment (natural and human), the country's location, and its governance model; the variation between countries makes it almost impossible to directly compare one with another. My intention is to focus exclusively on the methods that can be deployed by a hypothetical state, to take advantage of bilateral, regional and international opportunities. What are the institutions, policies and practical measures that this a country aught to adopt, to obtain the best results from its external economic engagement? In effect, we want to see if an ED template can be identified, which a country could consider in adapting for itself its own effective mix of responses. Our concern here is not with the content of policy, but with diplomacy engagement and management, i.e., the way in which institutions might ideally work with one another, plus the optimisation of the foreign ministry and its embassy network, their connections with other domestic actors, the utilisation and training of human resources, and the diplomacy craft methods.

Is there a theory of ED? I am not sure. While some scholars have written about such theory, it seems that the best we can distil from practical experience and empirical analysis are the set of the broad methods and guidelines which can be applied to derive maximum benefit from the viewpoint of the country that practices ED. Let me return to this issue at the end of this essay.

2 Domestic arrangements

How do we define ED? I suggest it includes: foreign trade promotion and management, including the negotiation of trade agreements and WTO issues; mobilisation of foreign investments, in all their variants plus the agreements that pertain to investments; handling external aid, both incoming and outbound (if the country is an aid provider, even on a modest scale), as also technical aid; managing relations with international multilateral institutions, including the World Bank, IMF and regional banks; pursuing economic dialogue with international and regional forums, be it at the UN, or at other global and regional institutions (G-20, G-77, and others); projecting the country image, to enhance the country brand, especially from an economic perspective. We may add to this the manner in which external policy objectives are accommodated in the domestic decision-making process, and the institutions that play a role in this.

A key choice is made in each country: who will be in charge of ED? As we see, different models exist. In most countries, the way the above economic activities are handled is established through its history and legacy. It is only in some 25 countries around the world that a single, unified ministry handles foreign affairs and foreign trade. Even when these two important functions are combined, the actual extent of 'integration' varies considerably. Thus, Australia and Canada have a combined ministry, but the diplomatic service and the commercial service are separate branches that combine only at their apex. In the Scandinavian model, one ministry handles foreign affairs, foreign trade, investment promotion and external aid; a single set of officials handle all these tasks. But even in these examples of strong ED integration, some activities in this cluster are in the hands of different entities. Thus, in effect, ED involves complex inter-ministry partnerships.

The usual arrangement is that the foreign ministry (MFA) has some role on trade and investment issues. Given that the MFA is in direct charge of the network of overseas embassies and consulates, it aught to have a place on the decision-making table on ED issues. Typically, the full range of trade and investment and other economic issues are handled either by a single ministry (like an 'Economics Ministry' in Germany), or by different ministries. In addition, special agencies answerable to such ministries handle export promotion and investment mobilisation, as in Singapore (Chan, 2002). In the UK, while ministry level direction is separated, promotion work in the field is combined thorough 'joined-up' arrangements (i.e., 'Trade and Invest Britain'), with staff drawn from both the ministries. Mexico has a special agency 'Promexico' that is charged with economic promotion, and posts officials at Mexican missions abroad; the foreign ministry does not handle this work.

The MFA always has to work on economic issues in an inclusive manner, reaching out to both state and non-official actors. How well such 'multi-stakeholder diplomacy' is practiced varies greatly. When inter-agency harmony is poor, all the players, especially the MFA, waste a great deal of time on turf issues.

No one has conducted a comparative study of such diversity, given the huge number of variables involved. Instead of picking an ideal, it may be better to identify the key elements for effective ED.

- Regardless of the role played by ministries and promotional bodies, it is vital for them to work to a single purpose, a common agenda. One example is Singapore; it has a Ministry of Trade and Industry, which manages to avoid jurisdiction issues with its Foreign Ministry; the latter tracks economic issues, mainly focused on multilateral subjects. Singapore's missions abroad, are animated by joint purpose with two key promotion bodies, International Enterprise Singapore (earlier the 'Trade Development Board') and the Economic Development Board, (handling investment promotion). Observers speak of a 'Singapore Inc.' style of functioning. Countries like Botswana, India, Kenya and Mauritius have their own exemplars, not all of them working with such unity.

- Another key requirement is the participation of the private sector, both through the chambers and associations of commerce and industry, and by mobilising key business leaders. Establishing public-private partnerships is one way, for projecting the country image, or assisting foreign companies to enter the domestic market. Private sector actors invariably enjoy high credibility with foreign partners.

- Joint economic commissions with foreign countries, and other similar groups, work best when they include business entrepreneurs as full participants. India saw this in accepting businessmen in its joint commission with Germany, at the latter's insistence. Joint commissions are different from 'business councils', which are usually run by commerce chambers. Foreign ministries also find it useful to involve non-state actors in 'eminent person groups' that touch on political and economic relations, and cooperation in culture, media, education, and science and technology. This is a relatively new method in managing complex bilateral relationships (Rana and Chatterjee, 2011). Sometimes commerce chambers and thinktanks take the initiative to set up their own groups for strategic dialogue with important partner countries (Rana, 2008).

Adapting a model developed by Sir Nicholas Bayne, former UK ambassador and now at the London School of Economics, the domestic process for good ED decision-making might include (Bayne and Woolcock, 2012):

1 Initial decision: A proposal may come from a foreign partner, or an international institution such as the World Bank, or from one's own stakeholders. For instance, the OECD takes the lead in developing guidelines on investment protection agreements, and its 'Development Assistance Committee' lays down standards on aid conditions that are applied by Western countries. One could also decide to apply something learnt elsewhere. Someone has to take the initiative.

2 Identifying the lead department: On trade issues, the Commerce or Trade Ministry may take the central role; but a decision on a new accord may come from the head of government, or may be advocated on political grounds by a foreign ministry. Key home actors may have their own perspectives and can be in contest with it over specifics, with the cabinet and/or the head of government deciding outcomes. Such situations may produce delay and poor compromises.

3 External and internal consultation: We see this at work on WTO issues, the more so when countries gain experience with complex issues, and realise that NGOs, domestic and international, academic scholars and business organisations possess a depth of knowledge not usually available within ministries or government agencies. For developing states, this underscores the importance of building up these domestic capacities, and in effect creating an 'international affairs community', independent thinktanks and epistemic communities. Traditional civil servants need to overcome aversion to working with business entities.

4 Political authority: Cabinets and ministers are involved in giving clearances, settling disagreements between different ministries, and in taking initiatives in new areas. Delegations to major international meetings, such as WTO and climate change negotiations, are given briefs and negotiation directions, with 'red lines' that they may not cross without approval by the cabinet. This can lead to rigidity, but also improves the bargaining strength of delegations.[1]

5 Democratic legitimisation: In working democracies the outcomes of negotiations are reported to the legislature; major new actions may be subjected to a vote under the parliamentary system of the country. Increasingly, proposed drafts are placed on websites for comment by industry and commercial enterprises. The media demand information, and also debate outcomes. Public interest in economic issues has grown markedly in the past two decades of accelerated globalisation.

6 International negotiation: This can be divided into three or four stages; they consist of: *pre-negotiation*, *preparation*, *actual negotiation*; and *follow-up*. In the real world, these stages are not distinct and often both the stages prior to negotiation, and the subsequent follow-up are handled inadequately, which produces sub-optimal outcomes. Developing countries are still in the process of building negotiation capacity, with programmes of training, and simulation exercises. Foreign, trade and

other ministries should organise joint training programmes, also including the business sector.

7 Ratification of agreement: In some countries, an elaborate process of ratification of agreements operates, in the USA but in Latin America, providing a second safeguard or check on the executive. Countries with British type of parliamentary systems usually have no formal ratification procedure. But in most countries the media and public debate acts as a domestic check.

8 Augmenting the knowledge base: Rather few countries do this in organised fashion; it entails distilling the lessons learnt from a completed action, or one that did not achieve fruition. With growing complexity of bilateral and multilateral negotiations this work is vital.

Economic decision-making and policy management should be handled as a plural process, which adds to both the robustness of actions and to legitimacy.

3 International framework and regional engagement

For developing countries, especially for small states, permanent missions at New York and Geneva, and to a slightly lesser extent at Brussels play a vital role in keeping the country informed of international economic developments, and guiding policymakers. They also provide valuable bilateral connections. Membership of G-77 is hugely educational, in exposing the country to new issues and thinking trends. Regional organisations play a similar role, especially those bringing together countries with congruent interests, be it AOSIS for small island states, or FOSS, for 93 countries with a population of under 10 m. Others like the Cairns Group for agricultural exporters, or the coffee producers group, cater to specialised interests.

Regional organisations play a key role, for neighbours that often share similar issues. CARICOM, the Caribbean group of 16, that has a single joint negotiator, handling trade negotiations of member countries. That model has not been replicated by other regional organisation. There is surely potential for better coordination in other regional organisations, though membership diversity may inhibit replication of the Caribbean model. When African countries were confronted with an EU demand to rework the ACP Preferences (for African, Caribbean and South Pacific countries), regional clusters like ECOWAS in West Africa put up a united front, obtaining a better deal in negotiating the new ‘Economic Partnership Agreements’, than did the members of SADC in Southern Africa or EAC in East Africa, who lacked unity.

Some regional organisations discuss key global issues, before major international conferences. There is potential for better consultations, even of a non-binding character. Contrast this with Western states that engage in continual dialogue, at the EU, OECD and elsewhere. Some new emerging state clusters, such as IBSA, and BRICS, also now harmonise positions.

4 Bilateral promotion

External economic promotion, especially for exports and investments, should be a top priority for developing countries, based on their trade basket, inward FDI options, and economic circumstances. This is conducted bilaterally, but regional options are underutilised. The astuteness and method applied becomes a key differentiator between those that forge ahead, and those that fail to exploit their potential.

In a perfect global market, this would not be required, because investors and traders would act through the Adam Smith's 'invisible hand' of *The Wealth of Nations*, to exploit market opportunities. Alas, perfect markets, acting autonomously for optimal equilibrium, exist only in imagination and theory.

4.1 Trade promotion

Let us first examine export promotion from a 'field' perspective, how this is handled in an embassy, before taking an integral view of how this is directed by the home authorities.

An embassy is principally concerned with the way the country's exports are maximised in the market where it is located. Its actions cover the following:

a The starting point is a careful analysis of the home country's global exports, comparing these with *current exports to the target market*, in relation to that markets import pattern. 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 knowledge of that market in the home county enterprises and local importers. Such analysis should, take into account the advice from one's foreign trade ministry, chambers of commerce, but that should not block embassy initiative. Another way is to analyse 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: The Indian Embassy in Mexico, on its own imitative carried out such analysis, identified the products that offered potential, communicated these findings to business and export promotion bodies in India, helped them to overcome both their hesitation and initial barriers, and successfully created a new export market for India) (Mudgal, 2011).

b *New products* must be a special priority. Exporters at home are often not aware of new opportunities. The mission can uniquely help them with information and advice; once even a single exporter comes in, others will follow via the 'lemming effect', creating a permanent market. On paper consultants can play this role, but developing country exporters simply do not have funds for professional market studies for new exports. The trade ministry aught to support such 'market development', but my experience has been that such funds are seldom provided; much depends on the proactive embassy.[2]

c In the 'promotional' phase, the mission plays a critical role in supplying home exporters with *market data and insights*; these come from contact with local importers, visits to trade shows, and pro-active dialogue with 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, including regional niches. The embassy can commission specialists to produce *market studies* (though funds are always a problem); an alert embassy can undertake this on its own; the study may lack professional quality, but preparing it sharpens insight, and becomes the basis builds own capacity.[3]

d Embassies usually focus on home 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 can be politically important, and builds connections).

e *Trade disputes and anti-dumping cases* are bothersome, but important. The mission can help at the initial or informal phase, offering 'good offices' and informal mediation, urging reasonable settlement. It is important to maintain local credibility, also helping own enterprises – one should also know when to withdraw, leaving the issue to formal machinery. Domestic producers hurt by cheap imports usually push for anti-dumping investigations. The embassy has a role in collecting data, building one's case.

f *Trade fair participation* is a classic method of servicing existing export markets, gaining market intelligence on new trends, and opening opportunities. Craft skills exist for optimal exploitation of trade fairs. Developing countries need to master this, essentially, learning by doing.

g 'Buyer-Seller Meets' vary from organised programmes to reach out to many local enterprises, to small events with just a few participants, even be held on the mission premises. Example: a small 'business centre' within the embassy can host small events, though the ICT revolution, with businessmen operating with laptops from hotel rooms, has overtaken the need for such physical facilities.[4] This shows that ideas and methods evolve continually.

The common element in the above is *initiative*, *networking* and *outreach*. The embassy or consulate has to get its officials out of offices, to develop wide contacts, guiding these connections to a purpose and plan. This also entails moving out of the capital, visiting different regions. 'Cold calls', i.e., meeting heads and executives of business enterprises, regional industry and business associations, cultivating economic journalists, visiting business schools and cultivating regional and provincial administrations are all part of the toolkit.[5]

Mostly these are *micro* actions. In contrast, at home, the trade or commerce ministry, and the MFA, have the task of leading with both micro and *macro* actions, in a national effort at maximising the country's international trade. This includes setting national export targets and mobilising all the promotional agencies. Some of the methods are:

1 Establishing action plan to achieve national trade targets. This includes helping exporters to enter foreign markets, working with industry to create export capacity helping with financing (e.g., via an 'export-import bank' to ensure that lines of credit are available), and orchestrating promotional activities. This is a holistic task.

2 Creating an advisory group for trade promotion, drawn from commerce and export chambers, thinktanks, academics and leading businessmen. They advise on new opportunities and help to develop policy options. The more real such consultation, the better the results.

3 Identifying the priority markets and setting individual targets for each major trade partner country. It pays to coordinate with all actors, including the associations of business and commerce chambers, and with one's own embassies (though the latter are sometimes overlooked). Such country targets help to flesh out the national export goals. Canada does particularly well, identifying a few countries for focused attention for a year or two, before moving on to another target cluster. Such country promotions are backed by a series of coordinated actions.

4 It is worthwhile to focus on 'project diplomacy', encouraging home enterprises to form consortia to bid for complete overseas projects. This is an advanced form of exports; it is remunerative and builds reputations.[6]

5 Meshing the country's economic, political, cultural and public diplomacy, ensuring harmonisation of action that sustains policies of a 'whole of government', and beyond that, 'whole of country' character.

Countries attempt to balance their exports and imports; this includes trade in commodities and trade in services (so called 'invisibles', like tourism earnings, inflows of remittances from the diaspora and others, FDI and other foreign investment flows and the like). Any gap between the two leads to a trade deficit or a surplus. While a surplus is a favourable situation, and helps the country to build up its foreign exchange (as China has done over the past decade and more, leading to currency reserves of $3.3 trillion in 2012), it is important that the surplus does not become too large, because imports are also vital for the country's economic development. A trade deficit leads to bigger problems: first, it has to be financed, either through foreign loans (which adds to the country's foreign debt); second, mounting debt leads to a large outflow of foreign exchange for servicing this debt, and lowers the competitive strength of the economy; third, deficits cannot be sustained over time and lead to a slowdown in the economy.

When we look at relations with individual countries, we consider the country level trade balance. From a national perspective such micro balancing is not very important, unless the size of the imbalance is large and it persists over time. For example, India-China trade, which was barely $2 billion in 2000, has grown dramatically to about $74 billion in 2011. For India, the imbalance is $31 billion, i.e., its exports to China were only $18 billion, compared with China's exports to India of nearly $57 billion. The Indian Commerce Ministry is helping exporters to enhance sales; it also attempts to get China to remove 'non-tariff barriers' (complex registration rules for pharmaceutical exports, or entry difficulties for software companies).

4.2 Investment promotion

Investment promotion is a core priority. All countries, developing, emerging or advanced, compete for foreign direct investment (FDI), as the best of capital inflows. They create jobs at home, and are 'tied' to the market, unlike 'portfolio' investments in stock exchanges and other fast-moving capital flows motivated by short-term gain that are 'volatile' (i.e., foreign investors can pull out at short notice, triggering economic crisis; in contrast, FDI is not subject to short-term investor flight). This was one of the lessons of the 1997–1998 Asian economic crisis;[7] that and the 2008 recession have reinforced the value of cautious economic policy, and the need for state regulation, rather than total *laissez faire*.

Many countries use special agencies for attracting investments. They are designed to work as a 'one-stop shop'; in 2005 Germany created a new agency, 'Germany Trade and Invest'; Ireland has Investment Development Authority (IDA), which handles inward investments; in 2008 India created 'Invest India', a joint venture between the Industry Ministry and the leading apex business chamber FICCI. Even when special agencies exist, embassies are prime contributors, by virtue of their distributed overseas presence, understanding of foreign environments, and intimate ground level contacts.[8]

Investment promotion involves two primary methods – *extensive* and *intensive*, which complement each other. The first involves creating broad 'catchments' of potential investors, through publicity, distribution of promotional material, websites, organising or joining investor conferences, business seminars, and other events. Such wide outreach creates awareness getting companies to think about one's country as a potential destination. The second method involves sustained pursuit of targeted investors: first locating those one wants on a priority basis; second, identifying decision-makers within these foreign companies, meetings then frequently, overcoming their doubts; and third, guiding them on home procedures, once they have decided to invest. The *catchment* method involves assiduous preparation, often using local partner organisation to attract audiences. The *target* method involves intelligent homework, followed by 'smart' advocacy.

a Besides promotion conferences one also needs to create awareness through publicity, websites and attracting journalists to write focused stories.

b An embassy or an investment agency office in a country should prepare a list of 'potential targets', companies that might be persuaded.[9] This can be guided from headquarters, but in practice the embassy or consulate has to reach out, acting on its own initiative.

c A sound method: work through a 'Fortune 500' list. Begin with sectors that are on the home investment priority list, make 'cold calls' on leading enterprises, get them to consider investment options.[10] This entails meeting CEOs and management boards, ideally by the ambassador whose rank gives special access.[11] But concerted follow-up by the embassy team is equally vital, pursuing the full decision chain, furnishing required information.

d Small and medium enterprises (SMEs) should not be overlooked, though it is often hard to connect with them, because of their size and limited capacity for overseas engagement. Often, provincial and regional governments of Western countries give priority to helping their own SMEs, so that it pays embassies of foreign countries to work closely with them.

e Supplementing the above is the pursuit of companies that have existing investments, getting them to consider new investments. Another method: target companies that established joint ventures or technology collaborations in the past, and persuade them to consider fresh investments and business partnerships.[12] This works countries that have a history of past investments.

f The marketing of success stories is crucial; when recounted by foreign partners, they are effective persuaders (e.g., the local profitable joint ventures, the fruitful technology collaborations). One should use these as 'case studies' in promotional and publicity activities. Such examples are more persuasive than most other forms of promotion. Businessmen prefer to listen to businessmen, rather than to officials.

g The economic message should be blended into political, cultural and other activities of the mission. This is how integrated diplomacy works and underscores the key role of embassies.

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 do not work in concord. 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. An embassy should get home agencies to view FDI promotion from the foreign investor's perspective. The embassy must also understand home priorities and take care not to 'over-sell', by making unrealistic promises or even inadvertently misleading foreign investors.

A simple method, not used as widely as it aught to be, is for the home agency to get diplomatic missions to follow up on investment applicants, when proposals are under examination at home. The embassy can proactively reach out to the investor, and help 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 that are actually implemented is 30% in some countries.[13]

Other foreign entities are also targets, though often elusive. These are the pension funds, investment banks and others 'portfolio investors' in the stock market of the home country. Also important are the credit rating agencies that determine the attractiveness of the home country.[14] Finally, one should also try to reach out to venture funds and private equity investors, who are major capital sources, with their dedicated funds that operate through capital markets and via 'private placement', i.e., investments made directly in companies. One method of tackling all of them is at investment conferences and at mega-events such as the World Economic Forum at Davos, where key decision makers congregate.

Countries flush with foreign exchange reserves (oil rich states and others such as China, Singapore, plus some farsighted European states) have their own 'sovereign wealth funds', which invest overseas, to gain high returns on investments. They are lucrative targets for sourcing investments (Ahmed, 2011).

A growth area is investments from developing to developed countries, as a consequence of globalisation; developing states companies look for takeover targets abroad. Embassies usually come into the picture after 'merger and acquisition' decisions have been made, but they can provide networking contacts to home enterprises, and support them, as happened with the 2008 takeover of an European steel company by an Indian entrepreneur.[15] They need to track 'prestige' investments from the home country.

Much of the above applies also to the economic policy managers at home, with the difference that the latter are mainly concerned with handling the policy framework and dealing with those that apply for investment permission. The country needs an open and transparent regime. The clearer the rules, the more they attract investments. Foreign investors hate 'discretionary' interpretation of rules, which leads to delay and corruption. That also applies to tax policy.

5 Managing aid

For small developing countries, foreign aid is a major external priority; embassy networks are tasked with maximising inflows. This raises important questions for the country's foreign policy. Aid management involves two kinds of actors, donors and aid recipients. Each has different priorities and methods. Some countries are both aid recipients and donors. Over time, countries also tend to 'graduate' out of recipient status, when levels of income rise.

5.1 Aid recipients

Their key management challenge is to maximise what they get, and use aid efficiently. The aid coordinator is often the finance or planning ministry; the foreign ministry's contribution is to deploy its embassy network for abroad continuous contact with donors, as also to treat aid as a foreign policy priority. For instance, while Scandinavian countries have recently closed embassies in small African countries, the latter have not applied reciprocity, opting to retain their embassies, to sustain contact.

It is an open secret that donors push aid recipients into modifying policies in accordance with donor wishes; 'good governance' is a popular doctrine, not always defined with clarity, but intrusive in application, for the receiving country is concerned. The World Bank and IMF have led this trend, imposing what are called 'conditionalities' that cover actions against corruption, plus domestic finance and development policies, as well as treatment of minorities, even home political process. Is this justified? Donors argue that they are enforcing international standards, and upholding human rights. Often, receiving countries have little option but to accept such impositions; in past years, countries that underwent 'structural adjustment' as determined by international institutions saw severe shrinking of their economies and reduced incomes. Today, such structural adjustment medicine is largely discredited, with changes in the thinking of economists and policy analysts on development policy. Aid recipients are also concerned with other issues:

- Countries that keep a stock of well-drawn aid projects are less likely to be pushed into receiving unsuitable proposals, than those that are unprepared and hence cannot resist such donor dictated projects.
- With aid increasingly channelled by foreign governments, and by multilateral agencies, through NGOs, it becomes important for receiving countries to keep close NGO contacts, and at the same time, resist NGO driven development priorities, which may not conform to their national interests. A vigorous homegrown NGO movement is an antidote.
- In the past, most aid was 'tied', compelling recipients to purchase equipment and services from the donor country, even if the technology was not suitable, and products and services offered were overpriced. Donors are supposed to have moved

away from such preconditions (through mutual agreement such as the OECD 'Paris declaration' on aid), but the reality of tied aid persists.[16]

5.2 Aid donors

UN and international conferences passed endless resolutions in the 1970s and 1980s (few today recall the first and second 'Development Decades' they mandated); developing countries demanded that rich states give 1% of their GDP as foreign aid, with 0.7% as 'Official Development Aid' (ODA). The Scandinavians and the Dutch are among few countries whose aid approaches this level, but the movement to claim aid as a kind of right has lost credibility. Notwithstanding this, many operate vigorous programmes as an important dimension of their international policy. China is now by far the world's biggest aid donor, unmindful of OECD aid guidelines, pursuing its own objectives of political gain, access to markets, plus mineral, energy and other resources. It is increasingly accepted that donors have a right to demand value for money in such programmes. The challenge is to do this in a manner that also respects the rights of the recipients.

Critics have likened aid to a slow poison, which can sap domestic will and produce a dependency syndrome. In effect recipients need to view it as temporary support, not as a free handout, and aim at self-sustained economic growth.

The countries that have managed such transition have relied on robust policies, using aid to supplement domestic programmes, avoiding over-dependence. Donor shift to good governance criteria has surely produced some beneficial impact, but the jury is still out if this has been a critical factor.

For small countries, dependence on foreign aid affects their foreign policy. Multilateral aid reduces such dependence on bilateral donors, but the politics of aid is a factor of life, affecting voting at the UN and posture on some international issues. At the same time, membership of continental groups such as the African Union and regional bodies provides solidarity and some relief from pressures. Diversification of aid sources, and clarity in relation to one's own foreign policy priorities are among the actions that small states can take, to insulate themselves, as best as feasible from donor pressures.

6 Tourism and Travel

For most developing countries, attracting foreign tourists is a solid option, subject to geographic and natural resource endowment. This may call for imagination and savvy marketing, but the potential gain is enormous, in foreign exchange earnings and in generating local employment. But as observation shows, some countries undervalue this resource and do not develop the needed basic infrastructure.

Developing country tourism promotion bodies can afford to have overseas offices at a few major centers. Elsewhere, embassies handle tourism promotion, as part of economic promotion. Visa issue is an embassy responsibility; for most foreign visitors this is the first point of contact – efficient service has strong impact on visitors traveling for tourism or business. Example: an Indian embassy in South America offered 'a coffee with a visa', winning acclaim for a friendly attitude.

7 Image Management

Tourism connects directly with the country image; travelers choose places that they view as friendly, attractive and secure. Image also affects the totality of ED, in terms of investments and trade as well. Much more than before, countries ranging from Pakistan to Poland engage image consultants, to burnish their attractive features and overcome negatives. This is a rare activity where scholars are often business consultants, specialising in country branding; some produce their own global brand indexes.

A typical small developing country can seldom afford such advisors. The more feasible proposition is to objectively survey one's 'brand image', and in harmony with internal stakeholders, including official and non-state entities, to undertake holistic actions to address shortcomings and burnish the positives, on a 'whole of nation' basis. For example, Kenya has created a 'Brand Board' as a public funded entity; it could do better treating this as a public-private partnership.

8 Training

A growing body of knowledge is available with international institutions to guide countries in their external economic engagement. UNCTAD has guides for commercial representatives; model texts of tax treaties and other agreements available at OECD and elsewhere. WTO works on capacity building in developing countries; UNITAR offers many training courses. International NGOs, like DiploFoundation offer distance programmes covering economic, multilateral, and other forms of diplomacy. It is important for all countries to include economics in their training programmes, for new entrants, and for focused mid-career training on multilateral economic issues. Many countries offer sabbaticals to officials, to gain specialised knowledge.

Many foreign ministries have established diplomatic training academies. Some key measures:

- Open such facilities to officials from other ministries, especially those handling economic issues. It also pays to include representatives of business chambers, and companies. This produces cross-fertilisation of ideas and networking.
- One needs to develop one's own trainers, reaching out to academia and to retired diplomacy practitioners. This blends concepts and tradecraft.
- Running regional training programmes is expensive, but it helps create mutual solidarity and exposes participants to best practices.
- As a DiploFoundation teacher for a dozen years, I have seen the value that small countries derive from distance learning, without the high cost of bringing officials home; joining participants from ten to fifteen countries also aids mutual learning.

Every modern diplomat needs grounding in economics. This is not rocket science, but simply concentrates on ability to seek out opportunities to advance home country interests. The experience of India, the UK and some others that deploy diplomats on commercial and economic assignments is that most are quick learners and deliver as much value as specialists. Added advantage: they understand far better the interconnections between economic and other work segments, including political diplomacy. Such insights are not available to specialists. This key issue is often neglected by those unfamiliar with practical diplomacy; it needs study.

9 Concluding thoughts

Are there exemplars of good ED among developing states, especially small countries? In southern Africa the term 'beneficiation' is popular to connote that those endowed with mineral resources aught to valorise them at home, rather than simply export raw commodities. Thus *Botswana*, a leading producer of diamonds, has pushed the development of a bourse in Gaborone, giving preference to companies that undertake local processing, even production of jewelry; it invests around 7% of its GDP in education, to develop its own human resources to support this policy. Its neighbour *Namibia*, similarly endowed with minerals, tries to emulate this. Other African states producing copper or iron ore are becoming aware of a need for downstream processing at home, to improve earnings and create jobs. *The Maldives* has leveraged its virtually sole asset, archipelagos that give it over 2000 islands, to build luxury hotel resorts for top-end tourists. *Bhutan* has valorised its Himalayan rivers to generate over 2000 MW of hydropower, earning 20% of its GDP; its unique culture becomes the attraction for tourists received in limited numbers, willing to pay a high per day minimum. Neighboring *Nepal*, with a realisable hydropower potential of over 40,000 MW, has not managed to implement a single project in over 50 years, and faces chronic power crisis.

Mauritius, an island state lacking major resource endowment, has lifted itself by its bootstraps, a monoculture sugar producer with a per capita GDP of barely $600 in the 1970s, transformed into a diversified economy with a trained workforce and per capita income of $15,000 (on PPP computation), mainly through sound policy and ED. How was this done? The process began with an election in 1982 that replaced the founding leader, Prime Minister Ramgoolam[17] with PM Jugnauth, who: First, his government leveraged the splendid beaches and climate (which many other tropical islands possess) to focus on top-end tourism, making exclusivity a USP, and a money spinner; one might note that the Maldives also used this model. Second, Mauritius took full advantage of EC (later EU) preferences, and encouraged entrepreneurs, homegrown and foreign, to set up a textile industry. While the same privilege was available to all the 70-odd African-Caribbean-Pacific, by the late 1980s, out of the garments and textile products that reached the EU under these preferences, 90% came from Mauritius. That is a commentary on the failure of other ACP states to benefit from these facilities. Third, starting in the 1990s, Mauritius has carried diversification and human skill development. It first established an off-shore financial centre, and then widened its manufacturing base and service industry. IMF declared that the country has achieved 'an economic miracle'. Underlying this is strong political stability and social harmony in a multi-ethnic nation of 'rainbow' diversity.

Can these and other exemplars give us a theory of ED? I would rather ask: what broad guides or principles can we draw from them, to identify good ED?

- Good domestic governance is at the heart of economic success and ED; latter is contingent on home policy.
- ED works best when it valorises all the tangible and intangible assets, including human skills, entrepreneurship and access to global networks (a key point for

Mauritius in the above example was the entrepreneurial role played by its miniscule Chinese and Franco-Mauritian community, respectively 3% and 1% of the population, plus the business leaders among the majority Indian community; these clusters deployed their ethnic networks). Alas, entrepreneurship is another intangible, whose winning formula takes us all the way back to Schumpeter.

- Sound policy actions that promote the country's external interests at bilateral, regional and global levels should be matched by effective promotion of trade, investment flows of different kinds including FDI, tourism, plus the service industry.
- The diplomatic network is a key asset in promotion tasks, with matching actions by other agencies active on the overseas canvas.
- Creating framework conditions for ED has to be matched by ground actions that deliver the desired result. 'Making trade possible, and making trade happen are two different things.'[18]
- Country marketing hinges on professionalism of the diplomatic service, working in harmony with home actors; in Mauritius it was the investment agency MEDIA that played a key role (much as in Singapore). Joint actions are essential.

ED and all other work of external relationship management is a single, holistic activity. We do divide it in segments, political, economic, cultural, public, and the rest, but it is the interconnections that are crucial in the pursuit of what may be called total diplomacy.

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Notes

1 As Putnam points out in his 'two-level game' analysis, flexible negotiation briefs actually weaken bargaining strength.

2 Most of the essays in *Economic Diplomacy: India's Experience* (2011) bear this out.

3 This advice is based on experience in Germany, when the Indian Consulate General in Frankfurt, which had a fine set of local commercial staff led by an enterprising Consul General, prepared its first market study in 1993, and gained expertise in preparing further studies of this kind covering products that were important for India.

4 This has been the experience with some business centres in Indian embassies.

5 In my first book *Inside Diplomacy* (2000), I have narrated experience in Algeria during my first ambassadorship (1975–1979), which led to the signing of India's first twelve industrial and project contracts in a country that was far off Indian radar screens, using precisely such methods of intensive cultivation and networking.

6 India relied on this method in the early phase of its economic diplomacy learning curve after 1973, when expanding foreign exchange earnings became a matter of survival after the first 'oil price shock'.

7 Foreign over-borrowing by Thailand and others, using short-term loans for long-term housing and other projects, triggered this crisis. When foreign investors pulled out, this weakened Thai currency, further accentuating the crisis that then spread to other neighbouring countries, which too had over-borrowed.

8 India has taken an unusual step in 2008, by creating a new promotion company, for inward and outbound FDI, as a joint venture between its apex business chamber called FICCI (which has 51% majority ownership) and the Ministry of Industry, with state governments also holding a share. The unusual aspect is a deliberate decision to hold minority ownership and leave the business chamber in the driving seat. See: http://investindia.gov.in/.

9 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.

10 I learnt the value of cold calls during my first experience with economic diplomacy as an ambassador in Algeria; conversation with the head of an LNG liquefaction plant at Arzew in 1977 on India's expertise in hydrocarbon consultancy – which amazed him as he had never heard of this – led to his pulling out a tender bid document from a drawer, asking me to forward this to the Indian company, Engineers India Limited. EIL went on to win that contract, which opened the door to a series of other assignments details in *Inside Diplomacy* (2000).

11 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!

12 Example: India used this method very effectively in Germany in the 1990s.

13 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.

14 Today these rating agencies bask in their power to make or break economies; they prefer to deal mainly with the government at home.

15 When LN Mittal took over Arcelor Steel, he faced opposition in France and the Netherlands, and Indian ministers spoke up on his behalf. China has faced opposition in the USA and Canada in its acquisition of oil companies, which has surely figured in quiet diplomacy with the countries concerned.

16 The first declaration on this came in 2005, and OECD has established a 24-member 'Development Assistance Committee', which pursues this issue. Countries such as China and India are not part of this mechanism.

17 Seewoosagur Ramgoolam took one key decision that proved fortuitous for developing country sugar exporters in the 1970s; he persuaded sugar producing ACP countries to accept a fixed purchase price, which at the time was much less than the then prevailing exceptionally high price for this commodity; when world prices slumped to much lower, but normal levels, all the sugar-producers gained a large windfall that lasted till the 1990s.

18 Pascal Lamy, WTO Director General, speaking in New Delhi, 13 August 2008.