Chapter Six
SERVING THE PRIVATE SECTOR: INDIA'S EXPERIENCE IN CONTEXT

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Almost by stealth, the business world, dominated by the private sector, has become the centrepiece of economic diplomacy. It is certainly at the heart of promotional activity conducted by governments, whether it is focused on trade, investments, technology or other sectors such as tourism, education for foreign students, and scientific collaboration with overseas partners. We see in effect a series of public private partnerships (PPPs), involving individual business enterprises, and more frequently their collective groups, such as associations and chambers, in close collaboration with government entities. State owned enterprises also participate, but have been receding in importance in most countries. The financial crisis has obliged the government to take over failing banks in some industrial countries, while the state remains a powerful actor in China. But elsewhere state-owned enterprises often come off second best when compared with the private sector, in entrepreneurship, dynamism and overseas earnings, except where they retain monopoly control. Singapore is one of the exceptional places where state enterprises, be it Temasek or , act with much entrepreneurial gusto, but then 'Singapore Inc.' describes well the unified manner in which varied entities in that city-state jointly tackle overseas opportunities.

Even in those economic diplomacy activities in which governments are the prime actors, be it in framing regulatory arrangements, such as free trade agreements (FTAs), or in crafting investment protection accords or working out external aid programmes, business is often the driver, as well as the principal beneficiary. Thus, if we look to the totality of a country's external economic diplomacy, it often constitutes a vast public-private partnership. Should we then be surprised that all too often, business plays an active role in political diplomacy as well, working with the state in advancing the country's interests, across a broad front? Not all governments acknowledge and act on the premise of a two-way, interactive partnership as portrayed above. That is one of the paradoxes of economic diplomacy, the checkered manner in which such public-private partnership coherence is deployed in different countries.[1]

Economic Diplomacy and Commercial Diplomacy

At an annual conference of Indian ambassadors held in New Delhi in August 2010, Indira Nooyi, the CEO of Pepsico, spoke eloquently of the close nexus between diplomacy and corporate enterprises. She declared: 'Commercial diplomacy entails talking to private enterprise. It means that the process of government constantly improves with input from investors…' She compared diplomats with 'investor relations executives' who visit investors, listen to their issues, and relay their concerns back to the corporate headquarters, and added:

> This translates, in the world of commercial diplomacy, into the absolute need for candid advice. If a country is not as hospitable to business as it might be, if its

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[1] A top African foreign ministry official told me during a conversation in 2010 that he could not bring himself to work with his country's business enterprises as real partners. Elsewhere political inhibitions come in the way of open and institutionalized links between foreign ministries and business.

corporate governance standards are not up to world standards, then its leaders need to know about it and be willing to do something about it. The job of the ambassador is to have the authority and rank to be able to say this without fear of reprisal. The ambassador should also ensure that after multi-national companies invest in India, they are treated well and accorded all the importance and rights consistent with local companies. Similarly, an ambassador needs to make sure that they are humble in representing their country. How an ambassador positions their country during a growth phase will say a lot about their country's prospects when there is a downturn.[2]

This captures well the expectation of major global enterprises vis-à-vis the diplomatic system. We should note that Indira Nooyi spoke of *commercial* diplomacy. Is that the same as *economic* diplomacy?

For some, commercial diplomacy is distinct from economic diplomacy, in that the latter deals with policy issues. For sure, policy issues are a major component of economic diplomacy. But 'economic' is a much wider term than 'commercial', and it is possible to see the latter as a sub-set of the former. For instance, aid issues, whether seen from the perspective of the aid-provider or the aid-recipient fall within the rubric of 'economic' arrangements, but not commercial diplomacy. That also applies to dialogue with major multilateral economic institutions, be it the IMF or the World Bank, or the regional entities such as the African Development Bank (AfDB) or the Economic and Social Commission for Asia and the Pacific (ESCAP). Export credits given to foreign countries also belong to the broad category of economic arrangements, decided by governments, for the advancement of business interests. Promotion of tourism, and projection of a country's brand image are part of the same cluster, well outside of what we normally mean by commercial diplomacy. One can present the differences on a graphic in the following manner:

Insert **Figure 6.1 Economic Diplomacy and Commercial Diplomacy** *here - 13 lines long.*

Commercial diplomacy has existed from the first time that state agencies took on the role of facilitators of trade exchanges performed outside the country by merchants and businessmen. The first consulates opened European states in the 16th century in the Levant were run by foreign merchants, through mutual arrangement, to act as trade facilitators; gradually the state stepped in and took charge of these consulates; that is when commercial diplomacy took shape (Berridge 2009). Economic diplomacy is a more recent compendium of activities that emerged after the end of World War II. Governments became involved with management of external economic activities and foreign ministries began to pay special attention to the economic content of relations with foreign countries. In the UK it was the Plowden report of 1964 that identified export promotion as a priority activity for diplomatic missions, while the 1969 Duncan report gave an even stronger push to economic diplomacy.

In India, the 1966 Pillai report, which examined the working of the Indian Ministry of External Affairs (MEA) and gave some emphasis to the role of trade, but

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[2] Indira Nooyi, 'Business and Diplomacy, Working Together', address to Conference of Indian Ambassadors, 28 August 2010.

made no reference to promotion of foreign direct investment (FDI). That emerged as a concern just a few years later. An economic division came into existence around that time, in a way groping for a role. India only grasped the economic diplomacy nettle after 1973, 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 foreign exchange resources.

Phases of Economic Diplomacy

Let me narrate my personal experience, together with the experiences of Indian Foreign Service colleagues, divided into four phases, to illustrate how economic diplomacy serves the business sector (Rana and Chatterjee 2011).

I. Economic Salesmanship

By good fortune, my first ambassadorship was in Algeria (1975-79), in that initial *economic salesmanship* phase. After the oil crisis, India leveraged its political connections with the Arab countries, especially oil-rich states that were suddenly flush with money, to win turnkey projects, consultancy assignments and contracts for skilled as well as advanced technical manpower. India opened embassies in all the Gulf states and sent out very young envoys. Giving full ambassadorial rank to young officials gave them the motivation to prove themselves, by seizing local opportunities and building new economic connections.

In Algeria, India's technology expertise was unknown, but we took advantage of a favourable disposition among the state enterprises that dominated the local economic landscape, to help Indian companies, public sector and private. Our very first industrial contract was won by Tata Exports in 1977 for the setting up of two electric sub-stations. By the time I left Algiers at the end of 1979, Indian companies had won twelve industrial and consultancy contracts (Rana 2002: chapter 3). In those early days, private Indian enterprises that were active in North Africa were rather few; it was our public sector companies that had the determination to tackle such difficult markets.

At my subsequent overseas posts, in Prague (1979-81), Nairobi (1984-86), San Francisco (1986-89), Mauritius (1989-92), and Bonn (1992-95), the key difference was that private Indian companies were increasingly active, jostling elbows with a receding number of public sector enterprises. As growing industrial capacity in India translated into new export markets, the prime beneficiaries were private firms. Indian state enterprises that were active in exports tended to focus on the bulk markets offered by exports of basic commodities, iron ore and the like, and had a preference for dealings in East Europe and in the Soviet Union.

Another activity conducted largely at private initiative was the overseas deployment of Indian manpower. A number of other developing countries, among them Bangladesh, Pakistan, the Philippines and Sri Lanka have undergone a like experience. Commencing in 1977, Algeria recruited over 800 doctors from India, besides dozens of professors and engineers. The MEA acted as a facilitator, but most went on individual contracts with the Algerian authorities. That story was replicated in Libya and elsewhere, with the difference that in addition to engineers and other professionals, hundreds of thousands of skilled workers went out. Today, the Gulf region has nearly five million Indian skilled workers, besides many tens of thousands of Indian professionals; they are the principal contributors to an inflow of over $55 billion received as remittances from the Indian diaspora. Despite global recession in 2008 and the return of some of these contract workers, remittances have continued to grow.

II. Economic Networking and Advocacy

By the mid-1980s, India had matured into the second, *economic networking and advocacy* phase, though salesmanship continued; on the ground, the two phases telescoped into one another. India launched economic reforms 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'. These reforms 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. Indian economic diplomacy developed effective coordination with non-state agents: the principal business organizations, notably the Confederation of Indian Industry (CII), and the Federation of Indian Chambers of Commerce and Industry (FICCI), as well as economic think-tanks and NGOs active on international economic issues, without forgetting the media.

Our experience with the nascent Indian software industry, and its first wins in Silicon Valley and other parts of the US, illustrates the role of private companies as well as the benefits of networking. Initially, our local allies were the Indian technocrats working in the high-tech enterprises. With their guidance, we expanded our footprint to reach out to local industry associations and their specialized entities, like the Electrical Power Research Institute at Palo Alto and universities such as UC Berkeley. The Indian companies pursuing the information technology market dream were private companies, mostly startups, which were to become business legends a mere decade later. In October 1987, as Consul-General at San Francisco, I hosted the first ever 'Software India' presentation by a cluster of just twelve companies. Our total software exports were barely $15 million; our target of taking this to $100 million in three years' time seemed unattainable. Now, in 2010, India's software exports are at over $50 billion.

Strangely, investment promotion as an official activity directed from New Delhi went into a lull, almost precisely at the time when the economy opened up with the launch of Economic Reform in 1991. Although investment conditions underwent a radical improvement, India had no agency with a dedicated mandate for drawing in investments. This came only much later, with the creation in 2009 of a joint venture company, 'Invest India', by FICCI and the Department of Industrial Policy and Promotion, where the government deliberately chose to take a 49% minority share, to ensure that it was not treated as a government subsidiary (see http://www.investindia.gov.in/).

Meanwhile, it was Indian embassies that fulfilled the official promotional role, and for the most part they performed very well indeed. At the same time, non-official agencies stepped in to fill the vacuum. From the late 1980s onwards, CII spent much effort in reaching out to overseas business.[3] A fine example of their effort was their pursuit of the CEO of General Electric, the iconic Jack Welch. Their calculation was that if he could be convinced of the importance of the Indian market, he would bring GE into India, and that in turn would bring an influx of major US corporates. In the event GE established in Bangalore one of the largest research centres in the world in the late 1990s, with over 2500 engineers and scientists, the majority of them holding doctorate

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[3] The full story of the extraordinary role played by this industry association is yet to be told; see Kantha 2006.

level qualifications. That has been a factor in the presence today of over 63 of the US Fortune 500 companies that operate research centres in India.[4]

India's experience was that the Indian technocrats who worked in the high technology companies, in the US and to a lesser extent in Canada and the UK, acted as internal evangelists, to motivate companies to look closely at their India options. In 1996 two Indian-Americans from a California based company told a delightful story at a business seminar in New Delhi. They were sent to India to service their clients who bought their instrumentation and other products and on the side look for new business. Immediately they began bombarding their headquarters with stories about the large business opportunities in India. The company asked a vice president, who was visiting Korea, to stop over in Delhi for twenty-four hours and ask them to calm down. They persuaded a contact to keep open late his manufacturing plant at Gurgaon, barely 15 km from the airport. When the vice president arrived in the evening, they took him straight from the airport to see this plant, to judge the level of technical and organizational expertise. Next morning, as the cherry on the cake, they drove him to Agra to see the Taj Mahal. The net result was that within eight or ten months their company had one joint venture operational in India and two more were under discussion.

During this entire period, the Ministry of External Affairs strove for a central role in external economic diplomacy, making fair headway in gaining a place at the tables where decision making on investment policy and economic policy implementation takes place. Yet coordination among Indian official agencies active in economic affairs has remained patchy and a top-down process. Since 2004 the Prime Minister has headed a 'Trade and Economic Relations Committee', but all coordination issues cannot be pushed up to that level. When good collaboration takes place, it usually hinges on individuals and their personal relationships, not on institutional arrangements. For instance India's strong and effective negotiation posture at the WTO is not sufficiently backed with matching advocacy at the key bilateral capitals. Nor is investment promotion sufficiently harmonized: the key agencies at home, which implement policy and run the investment approval process, are detached from the Indian embassies that are at the cutting edge of local outreach to foreign corporations, providing them with information and often motivating them to consider an India option in their global activities. The net effect is that in relation to the approved investments that run into problems, there is relatively little follow-up by Indian embassies.

III. Image building

The guiding impulse during this third phase of economic activity is a realization of the importance of *image*. This leads to actions designed to improve the country brand. For instance, attention is paid to the tourism sector of the economy: the number of foreign visitors, their countries of origin, their average duration of stay and the amount of money they spend. It is this last figure that translates into the size of this service industry. Tourism marketing involves several different activities, in which the presentation of the image of the country as a destination is only one element; some might argue that the quality of the infrastructure for foreign visitors is no less vital. In practice tourism industry logistics are a part-contributor to image. Competition among

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[4] See *The Economist* 2010. China has 98 of these companies running research centers. They focus especially on 'frugal innovation'.

destination countries ensures that each factor plays its role. When the tourism industry matures, we find sub-state entities reaching out with their own province or regional level brands, as sub-sets of the national brand.

India as a tourism destination had plateaued at about 3 million visitors during much of the 1990s. In parallel with higher economic growth after the 1991 reforms, tourism industry infrastructure also underwent improvement. Efforts to build a more attractive tourism image went into high gear after the year 2000, when the slogan 'Incredible India' was chosen after a national contest. By 2007, the inflow of foreign tourists had risen to over 5 million; this is a good number, considering that the average stay of foreign tourists is around 20 days. The 2008 global recession did not produce more than a small dent to those figures, and the per tourist foreign exchange earnings have risen continually. Yet the economic promotion agencies have done nothing to mesh their activities with that successful slogan. Even today, India does not have an economic or business marketing slogan, unlike Thailand, which astutely declares: 'Think Asia, Invest Thailand'.

A positive move in image marketing was the setting up of an India Brand Equity Fund, in the mid-1990s. When the Commerce Ministry found that it was not easy for it to run the Rs.500 crore ($55 million) fund, given its usual bureaucratic procedures, the operation of the fund was handed over in 2000 to CII, as a public-private partnership (see http://www.ibef.org/aboutus.aspx). This has been working well, and plays a useful role in image marketing. Frequently, the private business sector has taken the lead in taking the Indian brand overseas. This has particularly been evident at the World Economic Forum (WEF) at its annual meetings at Davos, where CII has gained for itself a leading position as a prime partner, using the slogan 'India Everywhere' (Pigman 2007: 14, 81-85),. CII has also made an impact in many new, non-traditional markets, with its 'Made in India' tradeshows. FICCI is well represented in the 'Boao Forum for Asia' (BFA), a China-centric business and political forum that annually brings together leading business and political leaders from East and South East Asia (see http://www.boaoforum.org/html/home-en.asp). In April 2010 a minister represented India for the first time, and several Indian companies provided sponsorship.

IV Regulatory Management and Resource Mobilization

The final priority is *regulatory management and resource mobilization*, i.e. negotiation of trade agreements, 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 coalition building, where the competence of each agency, official and private, is respected, to work together to advance economic interests abroad.

The associated home task is to reach out to the varied partners and harmonize their sectoral interests with national priorities. Such coordination cannot be imposed by right or dictated; it emerges when the other agencies see the foreign ministry as bringing value to their direct interests. The foreign ministry is the logical centre 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 was India's very first bilateral FTA, signed with Sri Lanka in 1999 (Rana 2004: 66-70). Up till then India had an 'ideological' bias that viewed regional and bilateral free trade agreements (FTAs) as derogating from the principle of multilateral universality of trade liberalization under the GATT/WTO formula.[5] But the Sri Lanka FTA has been a singular economic and political success, and India has since signed similar bilateral agreements with Thailand and Singapore, among others, as well as one with ASEAN as a regional grouping.

Here, however, the inter-ministry coordination has been uneven, and sometimes notably absent. India has shown 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 has not always been in synch with political objectives. 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 was under negotiation. The list of items that were to be kept out of the free trade regime ran to 1414 items, and had clearly 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, which has to be handled with finesse and sensitivity, without over pitching one's demands; by early 2007 differences had narrowed and the agreement was signed in 2009.

At the same time, new initiatives in regional economic arrangements have come from the MEA. In 1997 Thailand and India set up a cross-regional network with Bangladesh, Myanmar and Sri Lanka (BIMSTEC), later joined by Bhutan and Nepal, aiming to create a free trade area. IBSA (India, Brazil and South Africa) came into existence in 2003, when the three countries decided to build on their proximity on international economic issues, to develop closer trade and transport links; it held its first summit meeting in Brasilia in October 2006. BRIC (Brazil, India, Russia and China) is a new initiative that is gaining traction. Originally identified by Goldman Sachs as the future growth locomotives of the world, these countries have now come together in a caucus based on shared interests and held their first summit in late-2009. In late 2010, South Africa announced that it is to join this cluster, making it a club of five leading emerging powers, now re-christened as BRICS. For India, the MEA is the lead coordinator on each of these groupings, marshalling cooperation with other agencies, state and non-official.

Other National Examples

This chapter has so far focused on India's experience. Let us put that in context by examining some other countries – in alphabetical order - 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

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[5] Professor Jagdish Bhagwati (2008) is a strong critic of FTAs, bilateral and regional, calling them 'termites' of the global trading system. It is hard to fault his logic, but such preferential arrangements are a fact of life.

generals.[6] 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 programme', 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 may produce superficial changes without improving the management of diplomacy or external projection.

The tiny, reclusive Himalayan kingdom *Bhutan* 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 sold to electricity deficient India, earning for the country over 20 per cent of its GNP.[7] Contrast this with *Nepal*, with a potential hydropower capacity of over 80,000 MW. Since the controversial Kosi project of the 1950s, it has not added a single kilowatt of new power export capacity, owing to inhibitions in its relationship with India.[8] 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.[9]

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 have 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' (Lampreia and da Cruz 2005: 108). The increasing technicality of subjects has prompted the Itamaraty to hand over some

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[6] 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 envoy appointments for those connected politically. In contrast, a law in Brazil requires that only professionals from the foreign ministry be appointed as envoys abroad.

[7] Seven more hydro projects are under implementation, which will take power production to over 8000 MW, representing a huge surge in income for Bhutan.

[8] Many Nepalese have rightly seen the trans-border multi-purpose Kosi project as grossly unbalanced in its distribution of benefits. That legacy, plus a suspicious mindset toward India, has inhibited progress 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.

[9] Bhutan's contribution to governance is the notion of a 'national gross happiness' index, reminding us that the pursuit of GDP is not an end in itself, and that countries should also keep in view intangible gains in social and individual welfare.

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 harmonisation. 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, while Brazil 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 of Foreign Trade and Economic Cooperation (MOFTEC) 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 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 coordination takes place primarily at the level of vice-minister; 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. In the 1970s it played a leading role in working out the sugar preferences given to its Africa, Caribbean and Pacific (ACP) associates by the European Community under the 1976 Lomé Convention, bringing windfall gains to the other sugar producers in the group.[10] In the late 1980s Mauritius accounted for almost 90 per cent of the textiles that entered the EC under the quota-free and duty-free regime offered to all ACP countries. Having achieved middle-income country status with a per capita income of over $6500 ($14,500 in PPP terms), rising labour costs have eroded the competitive advantage of Mauritius in textiles and sugar. It is now adopting targeted mobilization of FDI focused on the service industry, value-added manufacture, and offshore banking, while shifting its textile industry investments to neighboring countries such as Madagascar.

In the mid-1980s Mauritius persuaded India (originally home to 70 per cent 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 20 per cent of the

[10] 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 they enjoyed high profits in the ensuing years of much lower world prices for this commodity. The preferences are now being phased out, under WTO rules.

FDI flowing into India using the 'Mauritius route', to minimize tax liability. Mauritius also persuaded China (home to 3 per cent of its population) to sign a similar treaty. [11]

Singapore has harnessed economic diplomacy as a major instrument in its transformation from a sleepy entrepot 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 (Chan Chin Bock 2002). A comparable role in promoting exports of products and services has been played by International Enterprise Singapore (IES, formerly known as the Trade Development Board). Singapore's 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, and its '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 human resource management (Rana 2006).

Thailand's economic diplomacy, like its international profile, looks unspectacular, even conventional. But as befits its centrality in South-East Asia, 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 has since moved ahead with concrete regional economic actions. The 1992 Greater Mekong Sub-region (GMS) brings China into collaboration with Cambodia, Laos, Myanmar, Thailand, and Vietnam, with scores of projects funded by the Asian Development Bank and other agencies, totalling over $10 billion, to improve transport infrastructure and trade. BIMSTEC was launched with India in 1997 - see above. The ambitious Ganga-Mekong Project, still largely on the drawing board, aims 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. Initially limited to six embassies, this is now standard policy and resembles the US system of designating ambassadors as heads of 'country teams', to get all official agencies to work together under united leadership. 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. After the downfall of Prime Minister Thaksin Shinawarta in 2006, this notion has been put in cold storage, and instead Thai ambassadors are enjoined to lead all the representatives of different state agencies and enterprises in their capital under a 'Team Thailand' format, which too makes for good interagency cooperation in the field.

Let us also note that the picture is changing. Two African examples: in Botswana and Kenya, high importance is now given to economic diplomacy, through the training of ambassadors and other diplomats, enforcement of performance norms, and

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[11] The Indian tax authorities have long attempted to close this loophole. It was reported in January 2007 that the Chinese have pushed through a partial revision of this concession; India is attempting the same.

highlighting of best practice examples at regular conferences of ambassadors. Kenya has set up a 'Kenya Brand board', the importance of country image. The learning from such good actions is bound to influence other countries.

A review of the performance of the 130 developing countries of the G77 suggests they can be grouped in several clusters: those that are moored in conventional methods, only implementing slow change; those that have 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.

Working with the Private Sector

It has taken some time for diplomacy professionals to learn the methods of dealing with the corporate world. Since different countries, as noted, are at varied stages along this learning curve, the Indian experience may have wider relevance.

Public versus Private

When Indian embassies first embarked upon economic diplomacy it seemed logical that where choices were available, the enterprises belong to the home public sector should be privileged over those from the private sector. In the oil-rich states it was usually the public enterprises that took a lead with project contracts. But private enterprises followed with alacrity in the major countries, like Saudi Arabia, Kuwait or Iraq, while in South-East Asia and Africa it was the private enterprises, not the public, that took the lead. Thus often choices had to be made.

When I was in Algeria in 1977, a private Indian company was the first to identify an Algerian enterprise as the final user for jute bags, mainly produced in the region around Calcutta. Some months later, when our state enterprise STC made soundings to sell the same product to this Algerian customer, I urged STC not to act as a spoiler for the private Indian company. Neither STC nor the MEA objected to the embassy's action (Rana 2002). My experience with reporting to both state and private enterprises was equally positive. Starting in 1976, at each of my six overseas assignments I wrote six-monthly reports giving a brief overview of local and bilateral economic developments and the state of play on the projects or large contracts that were under action at the time. I took care to avoid information that any enterprise, public or private, might regard as commercially sensitive. These reports went to the economic ministries concerned, the apex industry and export promotion bodies and to the principal enterprises involved, public and private. The wide distribution did not evoke any criticism, and the enterprises valued the wider local contextual information that was furnished.

During the 1980s, the business ethos in India underwent evolution, in favor of creating a more equitable balance between state and private enterprises. The Confederation of Indian Industry was the first among the apex bodies to admit pubic enterprises as full members; the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Association of Indian Chambers (ASSOCHAM) followed suit in the 1990s. In time they also gave full membership to the subsidiaries of foreign enterprises.

At the same time, these business associations embarked on a proactive role as advocates of bilateral economic partnerships that went beyond narrow corporate interests. Two examples illustrate this. FICCI took over responsibility for running bi-national business consultations, meshing these with official 'joint commission' meetings, usually held at ministerial levels. Currently FICCI runs over 80 such bilateral business fora. CII organized 'CEO delegations' to the top Western markets and by the 1990s these included the heads of public sector enterprises. I received several CEO delegations, first in San Francisco and then in Germany. Each group was carefully selected, always led by the President of CII of the time, and accompanied by its dynamic Director General, Tarun Das.[12] I always accompanied these business groups during their packed two-three day programmes. This added to their prestige and gave me improved insight into the country of assignment. Invariably, the main focus of these delegations was on broad country promotion and marketing India as an investment destination. The participants established business contacts for themselves, for sure, but company-to-company deals were not pursued during the visits.

Wider Benefits

From the perspective of embassies abroad, there are two other direct benefits of working closely with businessmen from the home country. First, giving prominence to business delegations from home, and hosting their meetings with local business leaders at the embassy residence, improves the range of local contacts for the envoy and their team. This is a huge advantage for working diplomats, especially in large and varied societies such as the US and Germany. One of my best contacts in Germany was the executive head of the Bundesverband der Deutschen Industrie (BDI), CII's German counterpart. I owed that to Tarun Das' initial introduction, enriched through subsequent CII visits to Germany.

A second gain becomes evident where business leaders of pairs of countries join in 'eminent person groups' or other similar groups that engage in 'strategic dialogue'. It is increasingly the fashion for countries that wish to build closer mutual ties, and associate their economic contacts with political, cultural and other links, to set up such groups. It becomes vital for embassies and foreign ministries to profit from the networking contacts provided by the business leaders that engage in these 'Track Two' dialogues (Rana 2002a and 2008). Business contacts can be used to promote relations in other activity areas, such as political or cultural activities. For example, I developed close ties with Horst Teltschik, former adviser to Chancellor Kohl, after I reached Bonn in 1992. He was then head of the Bertlesmann Foundation and a member of the India-Germany Consultative Group, our Track Two cluster. When he joined the management board of BMW and moved to Munich, we persuaded him to become our honorary consul general, which gave us exceptional access in the important state of Bavaria.

Feedback on Business Issues

In the quotation with which this essay began, Pepsico head Indira Nooyi made a key point: ambassadors have a responsibility to take up with host governments issues relating to standards of corporate governance and the business environment, and also report to home governments on global standards 'without fear of reprisal'. How does that work in practice?

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[12] Tarun Das headed CII in all its varied incarnations, for over 30 years, demitting office as its director general in 2004, and serving thereafter as its chief mentor till 2009. He has played an extraordinary role in the economic transformation and liberalization of India.

Envoys must report back to their governments with honesty and integrity. The first responsibility is to present the ground situation as it exists, without sugar-coating. What about tendering advice on what the government should do, in terms of investment and business conditions for foreign enterprises? This too is necessary, in terms of actual issues raised with the mission about conditions in the home country. For instance, in 1986 Texas Instruments, the very first foreign company to set up an offshore software development centre in Bangalore, contacted us in San Francisco (our consulate also covered Texas) about its apprehension that a power supply cut imposed by the Karnataka government would disrupt their operations. We took this up with the state government at a high level, and received back within 48 hours a reply from the state Chief Secretary that they were fully aware of the importance of this project and the centre would be exempt from any power cut.

In similar fashion, Indian missions invariably relay back to home authorities local feedback from investment promotion conferences, to say nothing of specific investment or other business related complaints. But a working diplomat might hesitate to tender unsolicited advice on what should be the policy of the home government, without a solid peg on which to anchor that advice. Governments are wary of their own envoys who become too obviously the spokesmen for perspectives that belong properly to their countries of assignment. A polite term for that in this profession is ‘localitis’.

What about advising the country of assignment on its economic framework conditions? Again, the yardstick has to be how much this connects with the direct interest of the home country or one of its constituents. One should have no inhibition in defending these stakeholders, but gratuitous advice on what that country ought to do is a different matter. An example illustrates this. When visiting India in 1993, German Chancellor Kohl brought with him a strong business delegation and asked ~~that~~ if they could meet the Indian Prime Minister. This was accepted, though it was contrary to usual Indian practice. The German executives had prepared well for this and offered Prime Minister P V Narasimha Rao a long catalogue of suggestions on improving investment and other business conditions in India. They followed this up in writing, at Rao’s request. Just before his return visit a year later, Rao made sure that a detailed reply was furnished to the German memorandum. This created a good impact when he met with German and Indian businessmen in Bonn. In contrast, a Japanese ambassador used a public speech to criticize India’s investment conditions for inhibiting inflows of FDI from his country. While he was right in his diagnosis, this public criticism of his host country was badly received by the Indian media.

Potential Hazards

Proximity to business is not without potential hazard for embassies and for diplomats. It exposes officials to temptation to personal profit, by way of commissions for deals that they may help to arrange, or to seek other avenues to gain for themselves. Similar temptations may also arise for officials in foreign ministries who are involved in making arrangements for home businessmen to access overseas markets. Foreign ministries do not advertise the misdemeanours of officials, but let us consider some situations where things can go wrong:

- In some countries local officials expect commissions or bribes to grant contracts or to speed up approvals. Sometimes embassy members, including locally-engaged employees, can be tempted to get involved. Envoys must be very vigilant that their staff keeps clear of any entanglement in such situations.

- Embassy or foreign ministry officials may be tempted to claim payment, or some kind of compensation, for the introductions they provide to help home businessmen in their foreign contacts. Or businessmen may offer some form of reward for such activity. This too should be resisted.
- Officials, especially when close to retirement, may be tempted to leverage their corporate contacts, at home or overseas, to gain post-retirement appointments for themselves. Many countries guard against this by stipulating an approval process for such appointments, or prescribing a ‘cooling off’ period before officials can take them up (in India this is two years). In countries where appointments to public office and to private entities resemble a revolving door, be it in the US or France, this may not be seen as a big issue, but India has a conservative view of officials taking on post-retirement appointments with enterprises that were their official contacts during their time in public service.

Conduct rules for officials exist in every administration, to guide them on the straight and narrow path of rectitude. At the same time, rules and guidelines cannot cover every kind of situation, and in practice it is the enforcement of regulations that sends a clear message to those that fall prey to temptation.

A different kind of problem is caused by over-concentration on economic diplomacy, regarding trade or other business opportunities so important that one loses sight of other issues, including sound political judgment. This happens when a foreign regime is under potential threat, but its trading partners are involved in profitable dealings, including the supply of defense equipment. They can become over-committed to the status quo so that they fail to see the danger. Iran in 1979, under the Shah, is a classic example of such misjudgment by some western countries, like the UK, where the overthrow of that regime was not foreseen, despite obvious indications of unrest.[13] Some Indian companies burnt their fingers at the time of collapse of the Soviet Union, but New Delhi, for all its perceived proximity to Moscow, adapted itself well to the new situation after 1991.

Concluding Thoughts

In an earlier book, I had written:

> In mid-2003 External Affairs Minister Yashwant Sinha appointed a committee headed by veteran civil servant N K Singh to advise in two months on improving economic diplomacy. This group brought in major international consultants, but with a change of government in mid-2004 that report also went into limbo. It was alleged that the Finance Ministry disfavored a stronger MEA role in economic diplomacy; one source told the author that the N K Singh report ‘is no longer relevant’ (Rana 2009).

That represented the first effort in India to take a concentrated look at the practice of economic diplomacy, and consider improvements, on a holistic basis; but it was inconclusive. It would make sense now to set up a commission, or an empowered group, involving a wide range of stakeholders, to consider improvements to what is already a fairly effective system. In particular, it would be relevant to consider the best practices and methods worthy of emulation as practiced elsewhere.

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[13] The final despatch from Tehran of the British Ambassador, admitting what went wrong, is in Parris and Bryson 2010: 231-8.

For any country, the pursuit of its external interests, in terms of resolving conflicts, overcoming problems, and taking advantage of opportunities, most of this performed through working with foreign partners, is a unified, holistic activity. Both as practitioners who implement foreign policy, and as scholars who analyse this complex process, we give the activities discrete labels, such as political, economic, cultural, educational or public diplomacy. But in essence these are mere names of convenience. Each set of activities blends and segues into the others. One might call this integrated diplomacy.

To put it another way, the appellations we use lead to distortion in understanding. What we may see as economic activities usually have political connections and probably a public dimension as well. External actions in the education sector, for example, impact on publics and produce economic consequences, plus, to a lesser degree perhaps, some political impact. This does not negate the classification we apply, but cautions us that it is the totality of external activity that should be the focus of study, and that even while we study one set of activities, we must keep in perspective the total impact on the conduct of external relations. I have ventured to call this 'integrated diplomacy'.

Speaking at the annual conference of ambassadors in New Delhi in August 2009, Prime Minister Dr. Manmohan Singh highlighted the strong linkage between development and diplomacy. The full potential of economic diplomacy would have to be exploited for poverty alleviation in particular and progress and prosperity in general. He drove home the point that India's commitment to inclusive development, in a fast changing, globalized economic environment, required its diplomats at all levels to play a pro-active role in helping India to move speedily into the 21st century (Bhatia 2010). Clearly, harnessing opportunities in the external environment to the advantage of the home country is a factor in economic development. For diplomats, working closely with the private sector is one of the ways in which this can be accomplished.

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Indian Brand Equity Fund: http://www.ibef.org.