Economic Diplomacy: A Developing Country Perspective by Kishan Rana

Developing countries confront a host of concurrent challenges in their economic development. The shortage of diplomatic capacity they face, and the manner in which this impacts on domestic economic development is an understudied subject. Their foreign ministry and its network of diplomatic missions, is a potential net contributor to the domestic economic system, to the development programs and to the growth of the home economy, in some ways more so than in Western states. Their success hinges on the capacity of this system to engage the world, and work with foreign countries for their economic development. This is their core task in economic diplomacy.

Developing states, for the great part former colonies, which began to climb up the ladder of economic development in the 1950s and 1960s confronted a difficult task in rationalizing their initial diplomatic responses, in the early days of independence. The template of experiences offered by rich countries was never easy to absorb or emulate. Subsequently, the globalization era, with its frenetic pace demanding rapid diplomatic responses across a broad front, has made ir harder for them to grapple with the external economic challenge. This is a capacity issue, one not fully understood even in some of the developing countries themselves.

The four pillars of bilateral diplomacy are work covering political, economic, public, and consular, including diaspora-related segments. While political ties with foreign state partners are at the foundation of all actions, bilateral, regional and multilateral, in practice it is economic work that brings the greatest direct benefit to the home country. Consequently, it is crucial for developing countries to establish a master plan for coordinated actions, which reach out to all the branches of the government, business and other non-state actors, to mobilize economic diplomacy in an optimal manner, for trade, investments, aid, tourism flows, technical training and all other activity sectors matching the country's development agenda. This involves actions that are holistic, prioritized and sustained over time. The diplomatic system needs to work closely with many agencies at home and abroad to deliver result.

20.1 Foreign Ministry's Home Tasks

Political diplomacy comes naturally to foreign ministries and its embassies. In part this is because the client served at home is the country's political establishment, starting with the head of government, the foreign ministry itself, and the other official agencies. Economic diplomacy offers a stark contrast. Its end-users are enterprises, public and private, whether they are manufacturers, companies that furnish invisible services, including banks and financial institutions, or the enterprises engaged in trade, i.e. import and exports. At a further remove are located the business and economic training institutions, research entities, and thinktanks. The official machinery is no more than a facilitator, or a service provider, not the direct beneficiary.

Further, unlike with political diplomacy, economic diplomacy requires the formal diplomatic system to work closely with multiple domestic agencies, ministries and their subsidiaries that straddle the large—and expanding—economic sector, as well as a host of non-state actors. The latter include business chambers, industry associations; as the years have passed, the number of agents has grown. This is also the arena in which 'public private partnerships' in all their variations are now dominant, again a method that needs to be learnt in developing states.

Foreign trade promotion was not an activity undertaken by diplomatic systems to any real extent until World War II.[1] That changed after 1945 and the emerging new economic task was tacked in two different ways. Some countries established separate commercial services, either loosely implanted within embassies, or separate from them.[2] In a few countries, a conscious decision was taken to entrust commercial work to the diplomatic service. In 1946, on the eve of India's Independence, Prime Minister Jawaharlal Nehru, heading the provisional government emphatically opted for an integrated diplomatic service that would handle all manner of external work, including commercial activities.

Using embassies to attract inward foreign investments (i.e. 'foreign direct investment' or FDI) emerged as a significant activity in the West only towards the end of the 1960s. UK's Plowden Report of 1964 makes no mention of it. The 1966 Pillai Committee report, which examined the working of the Indian Ministry of External Affairs (MEA) is silent on FDI actions (Rana, 2000, p. 98). The MEA had an 'Economic Division' in the 1950s, but it withered away; it was only the early 1970 that this unit was re-established, and given a dynamic new role, to energize Indian embassies as sales agents for Indian business. The first surge in world oil prices in 1973 gave urgency to the task of earning foreign exchange, through export promotion. For India, from about 1974 onwards this meant seeking project exports in the Gulf region, the countries that were flush with their oil bonanza, looking to develop its infrastructure. A number of new embassies were opened in this region, and young officials with as little as 12 and 15 years of experience sent out as ambassadors. That was my experience as a young ambassador to Algeria in 1975-79, in what became a highly rewarding economic assignment (Rana, 2015, Chapter 6).

In the 1970s, some visionary developing countries established a special mechanism at home to draw in FDI. Singapore was an early mover; it entrusted to its 'Economic Development Board' (EDB, created in 1961 to work on the country's first industrial estate), the task of securing global investments (Chan, 2002).[3] To develop the island-state's export-oriented industries, EDB opened its first overseas centers in Hong Kong and New York to attract foreign investors. Other countries enlisted their diplomatic missions to attract foreign investments. India relied mainly on its embassies and consulates, even winding up an 'India Investment Center' and its six-odd overseas offices in 1992, when it failed to deliver result, mainly owing to poor policy direction and supervision of activities. Since 2010, a joint venture between the apex business chamber FICCI and the Department of Industry and Investment Promotion, 'Invest India' has provided backup support to promotion activities, but it does not maintain any office abroad.

Management of incoming foreign aid has traditionally been handled in developing countries outside the foreign ministry, usually by the finance ministry or by the planning ministry. Many African states charge their embassies with mobilizing aid, while others left this task to the economic ministries at home. At the same time, in large developing countries that had moved forward in their development, deployed their foreign ministries to handle their own aid programs, usually commencing with technical aid in the shape of training facilities for fellow-developing states.[4] That is 'South-South' economic cooperation.

Tourism, development of transport infrastructure, education, information technology, and manpower training are only some of the sectors that connect with, contribute to, and support economic diplomacy activities. In a word, all these are holistic activities. Some countries have worked on how they wish to develop their economic diplomacy; in 2002 a policy study group representing the Nepal Institute of Foreign Affairs published a document titled 'Nepal's Economic Diplomacy', which followed on a study carried out in 1996 by the Nepal Foreign Ministry. Bangladesh and Sri Lanka are two other countries that have succeeded in their economic diplomacy, especially with both moving up value chains in their textile industry, gaining huge export success and attracting foreign investments for job creation. Comparable actions are needed in other countries, adapted to their circumstances.

Many developing countries witness contestation between the foreign ministry and economic ministries in the management of economic diplomacy. About 30 countries around the world, half of them in the Global South, have combined ministries of foreign affairs and trade; this reduces such internal friction, which has the unfortunate consequence of diverting attention from the real tasks of coherent external actions. Example: be it in pursuing foreign enterprises that apply for FDI permission, or on WTO or free trade agreement (FTA) issues, embassies located on the ground in foreign countries can supplement efforts by economic ministries to advance the home agenda, but they need to be tasked for this purpose. If economic ministries treat embassies as outposts of the foreign ministry and not as agents of the entire government, they fail use them for such external outreach.

20.2 Building institutions

Thinktanks, research institutes, academic agencies that work on economic issues, NGOs and other civil service institutions, and business and industry chambers – they all play a vital role in economic diplomacy, via their own contact networks, epistemic communities, the conferences they attend and their research. Smart economic ministries treat them as stakeholders that are brought into communication networks, through regular consultation; they are even included in official delegations to WTO and other conferences, and as advisers in bilateral negotiations, say when free trade agreements are discussed. Foreign ministries need to do the same, via periodic structured dialogue with them. While this is common practice in Western countries, it is less common in the Global South. Part of the problem in small states is that such institutions may not be thick on the ground, and the few that exist may not be amenable to working with official agencies, due to past experiences. Thus domestic outreach is important.

Foreign ministries play a role by sponsoring and financing nascent entities, including thinktanks, research institutes and similar agencies, taking care not to smother them with an excess of direction, leaving them free to set their own agendas. The economic ministries can play a matching role. Such institution building is to long-term advantage.[5] Universities and other academic institutions are natural partners for this purpose.

An even more salient need is to establish agencies for export promotion and for FDI mobilization. The former would naturally focus on the products that dominate the country's export basked, not overlooking new products that have a potential but are not fully exploited, typically owing to a lack of production capacity at home, and lack of export assistance. Investment promotion agencies are not a luxury for small countries. It is possible to have for both these sectors lean agencies that work closely with business chambers. The internet provides a rich medium for low-cost promotional methods. The experience of other developing states offers ample material for emulation.

Connected with this is the issue of feedback from home enterprises on the help they get from embassies. Business associations, chambers and other provide such information to government agencies, of course, but that goes through the filters of these organizations, which may have their own agendas. Canada uses an internet-based survey of exporters, randomly selected, carried out by the Department of Foreign Affairs and Trade (now called 'Canada International') for these user responses. That helps foreign ministries to understand how embassies and consulates work with business. A related point is for the foreign ministry to have a business advisory council – in the same way that trade ministries use such a mechanism – for dialogue on how economic diplomacy can be improved.

Management of foreign aid also hinges on institution building. Typically, small developing states lack human resource capacity to cope with their aid partners, who are usually well organized. For instance, if the development needs of the home country are not articulated precisely, aid projects tend to be framed by foreign states based on their comprehension and priorities. Finance or planning ministries handling such interface with donors, bilateral or multilateral, need portfolios of projects and programs, in order to engage in robust dialogue. It also pays developing countries to learn from one another, to adroitly handle aid discussions. Efficient foreign aid utilization is a related issue, the subject of much discussion in published studies. Aid givers pursue their own agenda, and it is up to developing states to manage aid projects better. They are usually not helped in this by the conditions that donors impose.

20.3 Economic Stages

One can identify four stages in the way developing countries progress in their handling of economic diplomacy (Bayne, Woolcock 2016, Chapter 6). These stages are concurrent, in the sense that moving to a higher stage, countries continue with the actions undertaken in the earlier phase. **First: Economic Salesmanship**: The initial focus is on promoting exports and attracting foreign direct investment (FDI), to earn foreign exchange and to create jobs in the home country, to give impetus to economic growth. **Second: Economic Networking and Advocacy**: Countries learn quickly that they have to build coalitions at home and abroad to tell their economic story. Business associations, export promotion groups, enterprises of different kinds, thinktanks, researchers and business schools are among the domestic non-state actors that help spreading the message about the home country, via their counterparts and networks. Embassies have a special role in reaching out to foreign entities that are their counterparts. It is good to beat one’s drum at business conferences, but it is even more credible when foreign business partners tell their own success stories to such audiences. **Third: Image Building**: One priority is tourism promotion, since this industry creates jobs and spreads earnings across the country. Equally important is the projection of the country’s image as a business destination. Image permeates all aspects of economic activity, and remains important for countries at all stages. For developing states the first goal is to be noticed and to win favorable attention. Global credit rating agencies, for example, are important reference points.

Fourth: Regulatory Management: This covers an advanced set of actions that cover assessment and negotiation of free trade agreements, bilateral, regional and global, as well as working out other international agreements such as double taxation avoidance treaties, investment protection agreements. Handling these calls for the development of domain knowledge and specialized skills that have to be carefully nurtured in developing countries, often working closely with NGOs and international experts.

These stages remain concurrent and important, during all the stages in the internationalization of developing countries. Officials need to work closely with different domestic partners, in different ministries and with non-state actors, to develop their knowledge base and remain current with developments in the professional fields. Public-private partnerships are the name of the game.

20.4 Country Examples

Some countries of the Global South do better than others in their economic diplomacy. What is the basis of success that allows some countries to pull ahead of others? Natural endowment of resources is one differentiator, but sustainable wealth does not simply come from possession of oil or other mineral wealth, or even geographic location, though these are important advantages. Consider three different kinds of examples that throw light on how economic diplomacy works for some countries.

Singapore: Today an icon of economic success, it may be hard to remember that at independence in 1963, this city state was a backwater entrepôt, facing potential ethnic strife, marked by a low income, and threatened by its major neighbors.

Thanks to astute political, economic and social management by its leaders, especially the vision of Lee Kuan Yew, it is today an eco-political exemplar, home to a multitude of regional offices of global corporations, a wealth creator with per capita income in excess of $60,000. It is also ranked as one of the world's best business destinations, and a global city. The root of this success has been innovative and astute economic management, especially mobilization of human resources.

Mauritius: A remotely Indian Ocean island, bereft of natural resources and with sugarcane as its mono-crop, few could have credited this country of barely 1.2 million, which gained independence in 1968, it is a vigorous democracy. It has lifted itself from poverty, to a per capita income level of $11,000 (nominal; in PPP terms, $18,000). 'By the late 1980s, the Mauritius economy had begun to rise phoenix-like…This economic surge was based on diversification, a vibrant new textile industry, and first steps in an offshore financial center; by 1990, per capita income had risen to $2000, and the hard-headed economists of the World Bank and the IMF had begun to speak of an 'economic miracle'. Two transformative actions underlay the island's success…The first was the 1975 Lome Convention, framing the economic relationship between the European Community and the Africa-Caribbean-Pacific (ACP) states. Prime Minister Ramgoolam had astutely negotiated a 'sugar protocol' on behalf of the producers; he persuaded them to accept a guaranteed purchase price formula, at around half the price prevailing at that time; he reasoned that the boom of the mid-1970s would not last forever. Consequently, when world prices slumped heavily, the ACP sugar producers gained windfall profits. The second key action was taken by Anirood Jugnauth, after he swept Ramgoolam out of office in the 1981 elections, namely, calculated diversification of the economy, focused on the textile preferences given by the European Community to the ACP states. By the late 1980s the results were in full flow, thanks to the entrepreneurship shown by the Franco-Mauritians, and some businessmen of the Indian and Chinese communities. Consider: of all the garments imported by the European Community under ACP textile preferences, about 90% were from Mauritius; other ACP states had simply not utilized this opportunity.' (Rana, 2016, Chapter 12).

Botswana: Winning independence in 1966, this country of 2.1 million has maintained a consistent democratic tradition. It is rich in mineral resources, producer of a sizable percentage of the world's diamonds, and also rich in a profusion of other minerals. It today has a nominal per capita GDP of $6000, and over $18,000 in PPP terms. Like the other two exemplars, it has provided stable political governance and sound economic policy. It is among the rare developing states that invest about 7% of GDP in education.

Nepal: For this landlocked country, the key assets are tourism and its diaspora of about 8 to 10 million (equal to over 30% of its population). But the country greatly neglected the development of its enormous hydropower resources, which offer a potential of 80,000 MW of power, of which at least 55,000 MW can be exploited. If just 20% of the latter figure had been developed, the income from power exports would have taken the country to middle income status of well over $10,000 per capita. The why of that is related to lack of mutual understanding between Nepal and India, for which both countries share the blame. As it is, the country has per capita GDP of $2500 in PPP terms (and $750 in nominal terms). The example of **Bhutan** is ever present, which now delivers over 2000 MW of power to India and is set to step this up to over 8000 MW in the next five years. Fortunately for Nepal, two major power projects are currently under execution.

These countries have pursued sound economic diplomacy, focused on their endowment, and taking advantage of the regional and global environment. Singapore has been a thought leader in ASEAN, in effect raising itself to the level of a 'global city' to insulate itself from regional and neighborhood pressures. Mauritius has fully utilized the avenues of multilateral economic diplomacy, also playing a lead role in the establishment of a negotiation group 'Small Island Developing States' (SIDS), composed of like-minded states, in the climate change global debate. Botswana has utilized its resources to create long-term wealth and invest in its people; its former president won the Mo Ibrahim Prize for good governance. Nepal is now finally on track to develop its hydropower endowment. Each is different, and yet guided by a similar vision of external economic management and connectivity. Many other developing states could learn from such experiences.

20. 5 Current Situation

Countries around the world play lip service to economic diplomacy, captivated by a vision of benefiting from globalization, and carving their own niche to maximize exports, win FDI and needed technology, and building up their human resources to meet the challenges. Skilling officials to handle economic work tasks, and establish beneficial networks at home, composed of officials from all the concerned economic agencies including the foreign ministry, and the full gamut of non-state actors, led by business enterprises and industry bodies is perhaps the topmost priority. This entails training for all these actors, through programs established in one's own country, adapted to own requirements, through building capacities that cater to all. With this also goes a need to look to the methods used by other countries that are in a like situation, because the experience of advanced Western countries is often not applicable in their context. Training and mutual learning are key requirements.

To sum up, economic diplomacy practices in developing countries need to focus on the following:

1. *Develop a master plan* that links the diplomatic system with all its home stakeholders, for integrated, prioritized actions, to serve the national development agenda.
2. *Work with all* home partners, for holistic goals.

3. *Build institutions* that will be robust enough to act autonomously, in their global networks.
4. *Train and develop manpower and exploit knowledge*, which are resources of greater value than all others.
5. *Encourage entrepreneurship*, to unlock economic value.

What about the data and research needs in developing countries? Foreign ministries need first of all a clear picture of what their business and other economic actors need to sharpen their responses to the external environment. In particular they need to know how official agencies and important non-state actors might best contribute to improving the home capacity to trade, invest and access all that the outside world can contribute to domestic economic growth. A simple example: How can embassies and commercial offices abroad help these home actors? This is a question that has to be posed and answered with integrity, and a sense of national purpose.

20. 6 Conclusion

Should economic diplomacy be competitive or cooperative? Bidding for business will tend to be the former, but working out agreements, bilateral, regional or multilateral can be animated by a sprit of cooperation (Bayne, 2010, Chapter 22). That is a lesson some developing states, especially the ASEAN states have learnt well; more developing states need to understand that proposition. In India, we also think, especially during multilateral negotiations say at the WTO, in terms of our 'defensive' interests, often called 'red lines'; it is better to consider offensive or constructive interests, especially to focus on win-win outcomes.

Rich developed states confronted the era of globalization and complex international interdependence with their well-established institutions and agents, state and non-state, thick on the ground, capable of handling the networked external environment with the needed agile responsiveness. Their economic diplomacy reflects this, in its maturity and capacity. Alas, that does not furnish developing countries with a model that can be emulated, nor the experiences that can be transplanted into countries that are entirely at a different stage of economic capacity.

In pursuing their economic diplomacy, developing states need to look to one another, identify best practices and learn from the ideas that might be ‘transportable’. A simple device is to produce a compendium of their own case studies and examine these in their own training programs, run by their own teaching faculty, academics with the needed orientation to apply theory to the real world, and practitioners, including ambassadors that are willing to frame their experience in a wider format. Singapore did this very well with two books, one on the investment mobilization of the famed Economic Development Board and the other a collection of political diplomacy case studies of the Foreign Ministry.[6] We learnt from this and produced a collection of Indian economic diplomacy case studies in 2011.[7] That is a straight research and training method that is easy to emulate and produces country-specific learning.

Developing country academic institutions, institutes that teach international affairs and diplomatic academies can work together on such practice-oriented research that advances the country’s economic diplomacy. It should blend theory; and practice to national advantage. That would lead to an effective learning method.

In particular, developing countries need comparative studies, which look not so much at the existing situation, which is often inadequate in terms of the development objectives of these countries, but to what can be done thorough the methods used by other states, which are relevant to their environment, and are thus ‘transportable’. Such an approach is also normative in nature.

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[1] In the Inter-War years it was also customary to entrust consular work to specialized services that were separate from the diplomatic service.
[2] For instance, some countries established trade commissioners, not always working from embassies. Because diplomatic actions are holistic and sometimes depend on tradeoffs between different work areas, integrated diplomatic services do better than those that separate diplomatic and commercial work, but this impression comes from personal observation and experience. No one has researched this, in part perhaps because reliable comparison is difficult.
[3] See: Chan Chin Bock, *Heart Work: Stories of How EDB Steered the Singapore Economy from 1961 to the 21st Century*, (Singapore Economic Development Board, Singapore, 2002). Presented through case studies, this is an excellent account of how this important agency has functioned.
[4] The story of India's 'Economic Partnership Administration' is narrated in an article published in 2013. See: Rana, 'India's Aid Diplomacy', Business Standard, 13 May 2013, http://www.business-standard.com/article/opinion/india-s-aid-diplomacy-113051100628_1.html
[5] This also means that the notion of embassies charging business enterprises for promotion assistance is unthinkable for developing countries, be it for India or China, even while such charges are customary in many Western countries. Nor can they afford to take a position as the Dutch did with their recrent report on MFA reorganization that it is not a function of the diplomatic establishment to replace market forces. The simple reality is that market institutions simply do not exist in developing states. See: Netherlands, The, *Modernizing Dutch Diplomacy: Interim Report*, *Final Report*, 2014, Foreign Ministry, The Hague, 2014.
[6] See: Chan, *Heart Work*, (2002), and Koh, Tommy, and Chang Li Lin, eds. *The Little Red Dot: Reflections by Singapore's Diplomats*, (World Scientific, Singapore, 2005).
[7] See, Rana and Chatterjee, Economic Diplomacy: India's Experience (CUTS, Jaipur, 2011); nine chapters from this book's twenty-seven are available as PDF files: http://www.cuts-international.org/Book_Economic-Diplomacy.htm