

ECONOMIC DIPLOMACY — A PRACTITIONER PERSPECTIVE

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Should we use the term ‘commercial diplomacy’ to describe the totality of bilateral economic interactions between states, and reserve ‘economic diplomacy’ exclusively to describe the international economic dialogue between states, i.e. that part which is primarily of multilateral character?¹ In practice, economic exchanges between states at bilateral levels encompasses trade, investments and technology transfers, aid, as well as their negotiations covering bilateral trade as well as other forms of economic exchanges (such as investment protection agreements, double tax avoidance treaties, and technology agreements, besides preferential and free trade arrangements and the like). We risk over-stretching the term by calling all this ‘commercial diplomacy’, when ‘economic diplomacy’, semantically wider, is available as a more inclusive, precise description. As for international and regional dialogue on economic issues, whether covering trade, finance or other related sectors, the phrase ‘multilateral economic diplomacy’ encompasses them all. The Indian Ministry of External Affairs (my work base for 35 years), and some others have consistently opted for the more embracing term.

Economics Competence for Diplomats

In India we learnt the lessons of economic diplomacy in the school of hard knocks, in the immediate aftermath of what was then called the ‘oil shock’ of 1973, when the per barrel price jumped overnight from around a dollar to some seven and eight dollars, as a consequence to the formation of the oil cartel OPEC. It was a rude awakening on the importance of economics in the international affairs, and forced us to work harder to step up external economic earnings to meet the high cost of oil. It led to a surge of actions, focused on the Gulf region, mobilizing the country’s diplomatic process to promote external economic interests. In particular, India carried out active lobbying for construction and other project contracts, and for the placement of experts and skilled

technicians in lucrative jobs in these countries. My first ambassadorship, Algeria 1975-79, put me on a sharp and rewarding learning curve in economic diplomacy.²

Since those early days, economic diplomacy has become the central work plank of Indian diplomatic missions at most places. This also the experience of other states; the French and the German Ambassadors told a business meeting in New Delhi in September 2002, that they spend some 60% of his time on economic promotional work.³ And yet, the penetration of hard economics into diplomacy training, and mastery over the ‘dismal science’ by diplomacy practitioners remains woefully inadequate, for a variety of reasons. This is especially true of many developing and transition states, which have an even greater need than others in harnessing diplomacy to serve national economic interests, in this age of globalization and interdependence.⁴

What can be done? There are a number of steps that foreign ministries (MFAs) and diplomatic training institutes should urgently consider. First, give focused emphasis to basic economics during induction training for new entrants (other than for graduates in economics, who generally are in a significant minority in most foreign ministry intakes).⁵ Second, concentrate on practical economics, basic economic concepts, national and international, in these and in mid-career training programs.⁶ More and more countries are now exploiting the potential of the internet for distance teaching.⁷ Third, expand out-placement programs for MFA officials to work in economic ministries (trade, finance, industry, and even petroleum, energy or others), and with apex business bodies like national business chambers, economic think-tanks or public sector enterprises. Even better, persuade private corporations to accept diplomatic service personnel for such out-placements or internships. Fourth, bring in outside expertise into the MFA for jobs like economic advisers, and economic policy analysts. Diplomatic services traditionally resist ‘lateral entry’ and seldom favor induction of such experts on even on limited contract basis, but ministries need to bite the bullet when in-service expertise of requisite quality is not available.⁸ Fifth, ensure that multilateral economics, be it WTO issues or anti-dumping actions or regional trade arrangements, is mastered at all levels, for practical application both at home and abroad.

The goal should be to endow the diplomatic service with real competence in economics, both in relation to bilateral and multilateral diplomacy, spread across different levels of seniority, so that MFA officials can effectively carry out assignments at various hierarchy levels, from ambassador to mid-level diplomats, at home and abroad. Building in-house expertise for diplomatic services has two other advantages. First, efforts to get corporate executives on short term assignments to serve as commercial or economic officers have often not worked well, in part because such jobs do not always attract the best talent that is willing to stay on even for the duration of one assignment (as UK found out after it tried to appoint a new consul general in New York this way; some found the emoluments inadequate and one person left after barely two years into the job). Second, the object is not just to access economic expertise in isolation, but to integrate it with other facets of diplomacy, producing inter-connections, trade-offs and leverage. This is precisely the work of diplomacy professionals.

Organization of Economic Work

Many diplomatic services are now 'integrated' handling all categories of work, especially commercial and economic work (Germany, India, UK and many others). There are other situations where at headquarters political and trade work is carried out in one ministry, such as Australia, but in the field there is a trade service handling the commercial jobs, that is separate from the diplomatic service. But in those instances where commercial work is completely separated, these officials answer to an agency other than the MFA, as in the case of China, France or the US. Of course, in each country the institutional arrangement is the result of complex internal dynamics, and has its own logic. In all such cases of separation of commercial or economic work, the ambassador acts as the unifying agent, with full control, real or notional, over all work sectors. But he presides over a structure that carries inbuilt disability.

An integrated service offers advantages in several ways. One, all officials are, or can be, exposed to economic work at different career stages, and they learn to combine

this with their political and other activities. This makes it far easier for the embassy team to operate on a task force basis, cutting across artificial divides. They also learn to establish linkages and use leverages between different diplomacy work segments. Two, by the time an official rises to the position of a head of mission, experience has been gained in all sectors, again facilitating the way the head will have to use these combined skills. Three, the ‘coordinator’ role of the MFA also mandates this expertise. Given 21st century reality that diplomacy is less about politics and more about external coalition building in the pursuit of diversified functional interests, grasp of economics is indispensable to effective interface with home agencies. A well-harmonized diplomatic system consisting of the MFA and its missions abroad can deliver additional value for functional or line ministries, by placing the sectoral interests of such agencies in a broader context, and offering them opportunities for making inter-connections that advance their interests, across a broader front than what they might identify or access by themselves. UK offers a good example of a Foreign office that works in this manner, on the platform provided by a unified diplomatic service.

The other organizational device is to combine economic work with foreign affairs, through a joint ministry of external affairs and foreign trade (a la Australia, Canada, Sweden and several others), or to combine at the MFA the work of external aid (a la Denmark). UK has implemented a hybrid solution that installs the trade and investment promotion agencies (‘Export Britain’ and ‘Invest Britain’) in the Foreign and Commonwealth Office, under the joint charge of the Board of Trade, and operated by the diplomatic service. Traditional thinking, and entrenched interests of powerful economic ministries, come in the way of wider recourse to this effective formula.

Academic and Practical Research

As in most branches of international affairs, the narratives and the perspective of the West dominate the academic discourse. Developing countries, and the transition states, have not done enough to narrate or project their experiences and place these before

specialists and the general public, where concepts and conclusions based on these are made available to the international community.

A first step would be to record the rich accumulation of experience with economic diplomacy that is actually taking place in different parts of the world. Given the fact that relations in regions as disparate as Central Asia and Latin America are experimenting with economic diplomacy at bilateral and regional levels, they are becoming repositories of additional new information. Some of the methods they have deployed are also innovative and need examination to see if the ideas and experiences are transportable to other locations. For instance, the ASEAN states have been engaged over the past three decades and more in an intensive process of identification of commonalities, networking and even some real integration. It is largely a top-down process, and lacks the depth of the actions that the European Community deployed in its early years, in building people-to-people understanding, and smashing of old stereotypes. And yet the ASEAN process has also involved institution building, even at the non-state level that is of considerable relevance to other regions across the world. ASEAN's concepts of 'smart partnerships' for instance have found an echo in Southern Africa in SADC. ASEAN has also used networking among thinktanks and elites (e.g. via 'eminent person groups) to build stronger non-official interconnections — this merits emulation in Africa.

The same is true of the flexible way in which India responded to economic sanctions that were applied in different ways by the US, Germany and Japan, following its nuclear tests in May 1998. Business associations, and Overseas Indians were used to great effectiveness in reaching out to US and other policy-makers, and in convincing them of the wider context in which India's actions needed to be seen.⁹ Another persuasive instance of new thinking on public-private partnership comes from the Indian Commerce Ministry and the 'Confederation of Indian Industry' (CII). About 6 years back the Commerce Ministry created an 'India Brand Equity Fund' of Rs.5 billion (equivalent to \$130 million at the time), to help companies to build brands abroad, and in the process burnish the country image as well. Experience showed that a government agency simply could not handle the task, despite good intentions.¹⁰ In 2003, the operational management

was handed over to CII, under the supervision of the Ministry. The Fund has its own website, and has established a transparent process for using the grants for the intended purpose, taking also the help of a leading management consultancy enterprise. Other ideas are afloat, to place within embassies personnel from business chambers, funded by these chambers, to work as fulltime members of embassy teams, while also serving their own masters.¹¹ Similar living examples can be located in most countries, but generally speaking, developing countries have been slow in developing their own public-private partnership models. They can benefit from mutual emulation.

In particular, diplomatic systems as well as economic ministries that are the economic diplomacy players have done very little to capture their embedded knowledge, and to make this part of their standard knowledge management system. For instance, in the Indian system, in 1990 the Foreign Service Institute put together a collection of success stories by commercial officers and some ambassadors, based on experiences in different foreign countries. That was the sole such experiment and no one considered the fact that these narratives are valuable sources for learning, emulation and extraction of working guidelines. This is a story that repeats itself in other countries, especially in the developing world, because there is little effort to institutionalize good working methods.

Ethical Issues

Economic diplomacy poses challenges at individual and systemic levels for foreign ministries and their personnel. The business world exposes professionals to new kinds of issues, professional and ethical, that did not arise with traditional diplomacy. These include:

- How far should diplomats go in advocacy, in support for business deals that favor individual home enterprises? At what point does this promotion of national interests transgress into partisan actions that serve narrow interests? This issue is especially acute for embassy personnel located abroad, and therefore forced to take local decisions on issues of detail.¹²

There are cautious professionals who prefer to avoid the dilemma by keeping away from business deals; there are others who get involved to the point of seeking personal 'rent'.

- Should the diplomatic mission play the role of an informal adviser to a business enterprise when local circumstances dictate *de facto* payment of commissions or routing of the deal through agents who play a local facilitator role? On the ground, such issues are seldom posed in absolute black-and-white, and the line that should not be crossed often becomes a matter of judgment. Seeking directives from the foreign ministry or other official agencies at home is usually not viable, except in extreme cases when the issues are clear enough anyway.
- Is the intervention likely to lead to some future personal gain for the diplomat? It may come in different shapes, from innocuous gifts to more serious incentive payments and the like. How should the headquarters deal with other kinds of rewards that may be offered by business enterprises through post-retirement appointments to boards of directors, or future consultancy assignments?

Diplomatic services are loath to wash dirty linen in public, but episodic evidence from different parts of the world does prove that the engagement into economic diplomacy comes at the price of rising incidents of impropriety and corruption.

One way of dealing with the issue is through a clear code of professional ethics, but these do not exist as yet on a widespread basis, beyond the basic rules of conduct that countries have for their own public officials. In theory these rules should be sufficient to cover economic diplomacy, but a few states like Australia have attempted specific guidelines to cover dealings with the business world. There are other countries that have considered this issue, especially in the aftermath of glaring lapses in conduct, but have come to the view that no set of specific regulation can cover all situations, and that over-elaboration can lead to rigidity, besides problems of interpretation. In the end, good judgment is the best guide.

Economic diplomacy is an exciting growth segment of the profession, and one where stronger mutual discourse among academics and practitioners would enrich both.

¹ *A Dictionary of Diplomacy*, GR Berridge and Alan James (Palgrave, Basingstoke, 2001) makes this kind of distinction.

² Algeria, then under the charismatic leadership of President Boumeddiene, punched way above its weight category in those days, in Third World affairs. It was in some ways the ideologue of OPEC. Some of my experiences in the period 1975-79, when my colleagues and I were immersed in economic diplomacy at the deep end, are narrated in Kishan S Rana, *Inside Diplomacy* (Manas, New Delhi, 2000; revised paperback edition 2002)

³ The French and German Ambassadors spoke at a business meeting on 'Economic Diplomacy Today', organized by the Confederation of Indian Industry, September 2002.

⁴ This observation is based on eight years of teaching at the Foreign Service Institute, New Delhi, which annually organizes three 6-week training programs for diplomats from Africa, Asia, Central and East Europe and Latin America, each for about 24 mid-career diplomats, and teaching at an internet-based post-graduate diploma programs of the DiploFoundation (www.diplomacy.edu).

⁵ In Germany there is a discernible shift in the discipline that is the first contributor to the annual intake, from law to economics, but in general the proportion of economics graduates in typical MFA intakes is barely 10%.

⁶ In the US Foreign Service, some 20 officials annually pursue one-year mid-career graduate programs that give them a master's degree in economics. Smaller diplomatic services simply cannot afford to tie up human resources in this fashion.

⁷ Examples: Canada and UK have such programs. India is planning to start a distance-learning program shortly for officials posted abroad, at levels of counselor and first secretary. .

⁸ The Indian Ministry of External Affairs has consistently resisted such lateral entry, but has now accepted the induction of defense experts in a limited way; some hope this may open the door to economic experts as well.

⁹ This is narrated in some detail in my book '*Bilateral Diplomacy*'. The presence of an Indo-American community that the US 2001 census placed at 1.7 million, and the way it has mobilized itself in support of India-related issues is another story that commends itself to attention.

¹⁰ In some bureaucracies, a positive decision in favor of one applicant, which involves disbursement of money, carries the risk that at some future date that action may be questioned. It is far safer to have some other agency, like an empowered committee where non-officials and businessmen are in the majority, make that decision.

¹¹ The Indian software industry association NASSCOM will be the first one to use this formula to station an official in the Indian Embassy at Washington DC, to lobby for this major export industry.

¹² A personal yardstick that I used at six assignments (five as a head of mission and one as head of post) was to do all that locally supported a home-based enterprise, as long as there was no appearance of partisanship, and there was absolutely no element of personal gain. The choice of action was always easier when the beneficiaries were either clusters of enterprises, such as those belonging to a business association, or a public-owned enterprise was involved. Where the beneficiary was a single private sector enterprise one needed to apply caution, and back off if there was a potential for misunderstanding. I also learnt that by acting transparently, and reporting fully one's actions, it was possible even for an ambassador to get involved proactively with support to home enterprises, belonging to both the public private sectors, even to the point of accompanying business visitors to initial meetings with local enterprises where this was judged to be productive (and this applied especially to 'statist' local systems).