



Economic Diplomacy and Foreign Policy-making

Charles Chatterjee

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INTRODUCTION

Economic/Commercial diplomacy is at the root of foreign policy-making by States; the importance of military diplomacy or diplomacy of security may not be denied, but if one takes “peace-making” seriously, then one should be able to establish one’s own hierarchy of diplomacies. Economic/commercial diplomacy is so crucially important in making friendship with other States and inter-State rapport that a State would reject it at its own peril. Indeed, the interplay between this type of diplomacy and foreign policy-making has become intertwined.¹

Pigman maintains that commercial/economic diplomacy which has a very long and impressive history existed even before many of the current States were born.² Economic/commercial diplomacy is not only concerned with providing negotiating techniques in inter-State trade and investment, policy-making but also with development of framework legislation addressed to the international community.

¹K. S. Rana, *21st Century Diplomacy*, The Continuum International Publishing Group (2011).

²G. Pigman, *Contemporary Diplomacy*, London Polity Press (2010).

The terms “economic diplomacy” and “commercial diplomacy” are often interchangeably used,³ but they stand for two purposes, and yet share certain common features. According to Sridharan, commercial diplomacy is an aspect of economic diplomacy.⁴ It might be appropriate to maintain that economic diplomacy is broader in scope than commercial diplomacy, the latter is predominantly concerned with inter-state trade and transactions, but these interactions are usually based on bi-lateral treaties between the two States concerned; on the other hand, those who would prefer the term “commercial diplomacy” would also include the attributes of “economic diplomacy” in it. The controversy surrounding these two terms may be never-ending; according to Ruel:

“... commercial diplomacy is the international relations of business that knits together political and entrepreneurial activities and agents in the global market.”⁵

According to Lee and Ruel, commercial diplomacy primarily focuses on developing networks of diplomats and commercial groups to promote trade and investment.⁶ As to economic diplomacy, Hann maintains that economic diplomacy is an effective tool to achieve economic and foreign policy goals.⁷ Naray considers commercial diplomacy as a vital part of economic diplomacy.⁸ In other words, economic diplomacy is wider in scope than commercial diplomacy. Rana believes that economic diplomacy is a process utilised to establish rapport with the wider world,

³H. Ruel, *Commercial Diplomacy and International Business: A Conceptual and Empirical Exploration*, Emerald Group Publishing Ltd (2012); see also M. I. Ozdem, *Governmental Agencies in Commercial Diplomacy: Seeking the Optional Agency Structure for Foreign Trade Policy*, Raleigh, North Carolina State University (2009).

⁴K. Sridharan, “Commercial Diplomacy and Statecraft in the Context of Economic Reform: The Indian Experience,” *Diplomacy and Statecraft*, vol. 13(2) 57–82.

⁵H. Ruel, *Commercial Diplomacy and International Business: A Conceptual and Empirical Exploration*, Emerald Group (2012) at 15.

⁶D. Lee and H. Ruel, ‘Introduction: Commercial Diplomacy and International Business’ in H. Ruel (ed.) *Commercial Diplomacy and International Business: A Conceptual and Empirical Exploration*, (2012) at 15.

⁷H. Maull (ed.), *Germany’s Uncertain Power: Foreign Policy of the Berlin Republic (New Perspectives in German Political Studies)*, London, Palgrave Macmillan (2006).

⁸O. Naray, *Commercial Diplomacy: A Conceptual Overview: A Paper presented at the 7th World Conference of TPOS, The Hague (2008)*.

and to maximise their national gains in all fields of activity, including trade, investment and other forms of economically beneficial exchanges.⁹ On the other hand, commercial diplomacy may gradually be graduated to economic diplomacy—the latter contains elements of commercial diplomacy.

Controversies aside, it may be pointed out that both commercial diplomacy and economic diplomacy aim at meaningful “reciprocity” between chosen States based on bi-lateral treaties. This issue has received further attention in Chapter 12. Such reciprocities may not be established unless the States concerned surrender part of their “functional” sovereignty.

Economic diplomacy should be clean, ethical and a benefit-maximising process; it forms the basis for true co-operation between States as well as forming the foundation of socio-economic development. It should not be viewed only as a vehicle of acquiring financial aid, technology by developing countries from developed countries. Developing countries, either directly or through their Missions in various developed States, can also develop good rapport with the latter by offering them sustainable proposals, for example, BOT (Build, Operate and Transfer) whereby on the basis of a developing country’s invitation a relevant corporate entity from the developed receiving State will agree to set up a factory for manufacturing certain goods which would have a good market demand in that receiving State. The result would be beneficial for both the receiving State and the sending State. In this process whereas the company from the receiving State will be able to manufacture products at a cheaper cost, the materials and labour being provided for by the sending State, the latter’s people, as part of the contractual terms, will have the training and skills to manufacture that product for which export markets will usually be created by the receiving State’s corporate entity (this process may also be described as an aspect of “capacity building”). This way, both countries benefit, and the dependency of countries on other countries diminishes. Teaching with the participation of foreign teachers, is a technique, of capacity building too. Sophistication of the manufacturing process of industrial products may also be achieved by developing countries by this method too. There are certain other disciplines too, namely, tropical medicines, history or geography or exploration and exploitation of natural resources, development of investment legislation, or transform

⁹K. S. Rana, *21st Century Diplomacy* (2011) op. cit.

the local judiciary into a sophisticated one or development of any other relevant legislation in relation to banking, insurance, shipping etc. are but a few examples in which the technique of “capacity building” may be applied. In this process both the parties to an arrangement benefit. Advanced knowledge in science and technology may also be gained by this process.

Economic/commercial diplomacy is the closest form of diplomacy for achieving socio-economic development in a country; this form of development should not admit of any “politics”—a diplomat engaged in economic/commercial diplomacy must be a person possessing knowledge and experience in various disciplines—geography, history, international trade policy-making, techniques required for negotiating bi-lateral reciprocal contracts, amongst others.

The scope of economic diplomacy which has received attention in a separate chapter of this work is virtually unlimited. The perceptions of diplomats as to the ramifications of this discipline determines its scope. The relationship between science and technology and economic/commercial diplomacy, which was not given much importance in the past, has proved to be important. Economic diplomacy is a business-relationship diplomacy, one of the important purposes of which is to identify the nature of “synergy” at a bi-lateral level. It must be progressive but not “galloping” in its speed. The countries concerned must develop their capacity to absorb and adapt. Its objective is to develop meaningful reciprocity, but not dependency. Meaningful economic/commercial diplomacy may be developed between two countries of unequal level, initially, at a narrow level, gradually and eventually in an effective way.

Economic diplomacy should work at three levels: national, regional and international; at each level, the technique of diplomacy varies. One of the objectives of economic diplomacy is economic globalisation; but the latter cannot be achieved only by the former; hence the need for international co-operation based on an appropriate understanding of what economic globalisation stands for.

Economic diplomacy has often been highly politicised; this work’s principal theme is to progress with this form of diplomacy by friendly means, rather than subdued by the stronger powers, and establish sensible reciprocity; diplomats may find UN guidelines provided by its various offices

in the form of Declarations, Recommendations, Resolutions and Conventions, which are very useful in negotiating reciprocity at both bi-lateral and multilateral levels.

This work has been developed principally by referring to the relevant primary sources of information; secondary sources of information have been referred to whenever necessary.

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CHAPTER 1

The Nature of Economic Diplomacy and Foreign Policy-Making

The primary objective of economic diplomacy at a national level is to reach mutually beneficial arrangements the spill-over effect of which strengthens the foreign policy relations between the two States concerned. Economic diplomacy at an international level should aim at developing framework regulations whether in the form of international conventions or resolutions or declarations, etc. The tactics and strategies at these two levels of diplomacy are different. Whereas bi-lateral economic diplomacy requires to protect mutually beneficial national economic interest by identifying the bases for reciprocity between the parties concerned, economic diplomacy carried out at an international level is not concerned with deriving any reciprocal benefit for anybody; its main objective is to achieve something for the entire international community.

Whereas the nature of tactics and strategies of bi-lateral economic diplomacy primarily relate to the strengths and weaknesses of the parties, without surrendering one to the other, economic diplomacy at a truly international level should be visionary—it requires a thorough understanding of the needs for framework regulations; it is not concerned with the objective of protecting the national interest of any kind. Diplomats must be able to justify why a new framework convention or regulation would be necessary. It is not based on any selfish ideas. Whereas “tactics” stands for the “plans and means adopted in carrying out a scheme

or achieving some end” or a skilful device or devices,¹ a “strategy” stands for a “plan of action or policy in business”.² Both tactics and strategies require a thorough understanding of the issues and problems relating to the subject matter of diplomacy.

In so far as economic diplomacy at a domestic level is concerned, all negotiations should centre around the national interest, but combining it with the other party’s beneficial interest too. In other words, reciprocity between the two parties must be highlighted; however reciprocal interests may not be exactly balanced if both the parties are not of similar standing. In other words, in such circumstances “reciprocity” may not be perceived in its absolute form. This issue assumes particular importance when one of the parties to an economic diplomacy manoeuvre is a developing country. The objective of economic diplomacy is not only to create and maintain economic and commercial relationship between the two parties but also to develop “capacity building” with a view to strengthening the economic and commercial foundations including infrastructures of a country. In negotiating economic and commercial deals on a State to State basis, which should eventually take the form of a bi-lateral treaty between the two parties concerned, if one of the parties is a developing country, it should also negotiate a “capacity building” plan as an integral part of such a deal. It is through economic diplomacy that “economic dependence” on countries should be minimised, which should eventually allow the developing country to attain a competitive status.

Although decolonisation process started in the late 1940s, it was not until the 1990s that the concept of “capacity building” was really promoted by the international community. In economic diplomacy-based negotiations, the parties should ideally be treated as “partners” instead of “contracting parties”. However unbusinesslike it may sound, the more capable party should develop confidence in the minds of the less capable rather than treating it with “pity”.

Economic diplomacy is a dynamic concept in that it must be creative, innovative and inventive. People engaged in economic diplomacy must also possess the same qualities to be able to rise to its demands. Economic diplomacy is at its worst when it is operated on a false perception of bargaining power of the parties concerned. At the core of diplomacy is the

¹ See *Oxford Modern English Dictionary*, Oxford, Clarendon Press (1992) at 1133.

² *Op. cit.*, at 1081.

art of negotiation, and in that art, there is no room for “muscle power”; instead, it represents the power to negotiate, which is nothing but inventive and innovative power of the actors. If it is to be based on “muscle power” and the “power to dominate” one by the other, then there would be no room for negotiation—it is otiose.

Economic diplomacy should not necessarily be anecdotal. Historic ties with countries may be a contributory factor for carrying on economic and commercial diplomacy between themselves, but it has its disadvantages too—it may consolidate into what may be described as diplomacy of dependency. After achieving their self-determination (decolonised sovereign States) the former colonies have in many cases stayed with their respective colonial masters in the belief that “rapport” would be more meaningful between them, which perception may be sustainable, but there is no harm in adopting a truly international outlook in expanding their economic and commercial activities. Cross-fertilisation of economic diplomacy may provide new opportunities, innovative ideas and competitive prices and advantages; this is, of course, not to suggest that the newly born countries should not develop any economic and commercial diplomacy and relationship with their former colonial masters. Economic diplomacy must derive benefits from as many sources as possible as it must also be as worldwide as possible.

As development stands for socio-economic development, human resource development is to be regarded as one of the main objectives of economic diplomacy too. Thus, economic diplomacy should be directed at knowledge-building with the help of others which would eventually lead to a knowledge-based economy, as without any creative knowledge there will be no solid foundation of a country. Diplomats should not therefore take a myopic view of economic diplomacy. It has already been stated that without an effective interacting economic diplomacy between countries, general inter-State diplomacy will have a fragile foundation; the examples of developing countries sufficiently evidentiary of this statement.

Without any effective reciprocity between the partner countries, there may not be any successful and long-lasting economic relationship between them. Economic diplomacy showed this progress through stages: initially, almost “unilateral”—seeking help from the developed by the developing countries, and gradually, through the learning—knowledge-building process, proper reciprocal arrangements will be effective. Although during the initial period, economic diplomacy between a developed and developing country is almost unilateral, a degree of reciprocity may nonetheless

be imported into the process by providing some services or materials, determined by the parties themselves as well as by the developing country concerned.

The above-mentioned point deserves further attention because, historically, since the decolonisation days, in the name of economic diplomacy, majority of the developing countries tend to reciprocate with developed countries at the expense of their natural resources which policy should be urgently reviewed and reconsidered. Natural resources and human resources are the best form of wealth that a country may have. Economic diplomacy between two developed countries is usually based on a high degree of reciprocity and such reciprocity proves to be beneficial for both parties by virtue of their having effectively engaged in mutual sharing of knowledge and building of new knowledge. This is one of the reasons why effective knowledge-based resource building between two developed countries takes place at almost all relevant levels including educational and scientific research programmes between universities in their countries.

On the other hand, economic diplomacy between two developing countries of similar economic standing at a bi-lateral level can also be interesting and effective. Joint programmes of socio-economic development with the assistance of a developed country may prove to be useful and cost-effective. Economic diplomacy is not all about developing rapport with developed countries or other countries for creating the scope of export trade; it should be effectively utilised for internal socio-economic development of a country. The stronger a country at the level of socio-economic level, the better.

Regional economic diplomacy in various regions of the world has become proactive particularly over the past five decades or so although its origin may be traced in the Zollverein in Germany or the Benelux Union or the Nordic Council before the current regional economic integrations came into being. Regional economic integrations have their merits as well as disadvantages, and diplomacy between regional economic integrations or between them and the non-member countries have certain special features and characteristics which have received attention in a separate chapter of this work. The crucial point for diplomats to consider whether regional economic integrations hinder trade liberalisation process in the world whereby not all countries may have market access to integrated markets even though their products are of the required standards and competitive in price.

Economic diplomacy has yet another dimension—its full play at an international level with a view to discussing matters of “concern” in relation to international economic issues. At such platforms (ECOSOC, WTO, UNCTAD and UNIDO, etc.) diplomats must develop framework agreements and eventually binding conventions. Economic diplomacy is not merely concerned with negotiations of commercial issues; the process of strengthening the economy of the country is also one of its most important aspects.

Economic diplomacy is not merely concerned with negotiations of commercial issues; the process of strengthening the economy of the country is also one of its most important aspects. This issue is particularly relevant to developing countries, but developed economies also go through a continuing development process. In other words, economic diplomacy at a bi-lateral level should be a continuing phenomenon; in this process proposals for infrastructural development, private foreign investments, capacity building, etc. must also be negotiated. Dynamism in ideas should be the driving force behind economic diplomacy.

Economic diplomacy is based on the capacity of parties to create opportunities and in this process the status of the parties should not assume much importance for it is an exercise which is based on creativity. A developing country’s diplomat can be as creative; indeed, many of them are. The product of creativity may be progressively achieved through “capacity building”.

One of the basic differences between economic diplomacy and the “mainstream diplomacy” is that whereas the latter is primarily concerned with developing and maintaining inter-State relationships, economic diplomacy is a more specific form of diplomacy with specific objectives like those of applied sciences—whatever may be agreed upon through economic diplomacy should be implemented in a tangible form—industry or anything that will add to the development process, in the State. Economic diplomacy is concerned with reality based on a country’s capacity—intellectual, industrial, scientific, etc.

Creativity in relation to the best utilisation of the reserves of a country—human and natural—is one of the important objectives of economic diplomacy at an inter-State level. Economic diplomacy is not solely concerned with gaining economic or commercial benefits for others; one of its principal objectives is to create and maintain rapport with other countries.

Like mainstream diplomacy, economic diplomacy is to be operated as a vehicle to reach a predetermined destination, which is the creation and maintenance of bi-lateral commercial relationship for mutual interest. The term “mutual interest” should not be misconceived. “Interest” in this context would mean economic and commercial interest,³ of both the sending and receiving States. The term “mutual” in this context would mean “performed by each of the parties concerned towards or with regard to the other(s); reciprocal.”⁴ This meaning is relevant when both the parties to an agreement are of similar standing, economically, commercially or otherwise; but when the parties are not so, “mutuality of interest” would not be achieved, and in that situation, the lesser party should not take a subservient role but try to negotiate businesses in a way whereby both parties would benefit, for example, a developing country, instead of looking for an opportunity to import foreign products, should propose a BOT (Build, Operate and Transfer) programme with that country whereby the richer country would set up the industry in the lesser (developing country) and train indigenous people so that eventually they are able to manufacture the product and export to that country on mutually beneficial terms. The lesser country will have to import that product only for a short period of time. There is always room for well thought-out strategies. It is important to ensure that in the name of diplomacy countries are not engaged in what may be described as “diplomacy of dependency”.

Economic diplomacy should progress through stages: Short-term, medium-term and long-term. Whereas short-term diplomacy (which should not exceed a period of five years) is to be engaged for achieving short-term objectives, namely, import contracts or contracts for any other short-term objectives on a reciprocal or concessional arrangement. The subject matter of medium-term diplomacy would be such which would aim at capacity building in collaboration with a foreign partner a successful negotiation of which would lead to a bi-lateral investment treaty between the two countries, on the basis of which commercial contracts, including investment contracts which usually take the form of State contracts would be concluded. One of the important aspects of

³“Mutual scientific interest” should not really be included in economic and commercial interest.

⁴*The New Shorter Oxford English Dictionary*, Oxford, Clarendon Press (1993) at 1869.

long-term economic diplomacy is to ensure that indigenous production by indigenous means is achieved in order to lessen dependency on others. The link between a medium-term and long-term diplomacy is obvious in that whereas medium-term diplomacy will lead to long-term diplomacy and the latter should provide economic self-sufficiency. During the medium term, for example BOT (Build, Operate and Transfer) schemes, which have already been explained, should be negotiated. BOT schemes have already been discussed in this chapter.

It has already been stated that in the contemporary period, economic diplomacy is required to be done at three levels—national, regional and truly international, the latter primarily for framework policies and regulations, and this issue has received further attention in a separate chapter of this work.

Based on the above discussion, it is reiterated that the primary aim of economic diplomacy at a national level is to achieve national self-sufficiency and expertise to become competitive in the world markets. This also must be achieved through reciprocal arrangements bearing in mind that economic diplomacy is the main vehicle for developing other forms of rapport with other States. But a successful economic diplomacy alone cannot make a country self-sufficient; an effective democratic political system guaranteeing the rights and freedoms of people with an unbiased judicial system is a sine qua non to achieving a sustainable and lasting economic diplomacy. It is important to build confidence in the minds of foreign investors by developing appropriate protective legislation and operating a reliable judiciary.

Economic diplomacy is not meant for developing business relationships with others but also for strengthening the country's infrastructure and intellectual capacity. A good economy is that economy which is knowledge-based. It becomes a source of creativity. Economic diplomacy need not be solely developed between a developed and a developing country; it should be developed between a developed and a developed country; and developing and developing too. There can be a variety of sources of mutual benefits, and these benefits need not necessarily take the forms of financial aid or transfer of technology. Exchange of ideas even between countries of similar economic standings can prove useful.

It has already been explained that economic diplomacy should be compared with a vehicle for a purpose. Its driving force is the idea that a diplomat must provide; but this vehicle should be driven continuously and with a moderate speed, as otherwise, any high-speed negotiation of