CHAPTER ELEVEN

Economic Diplomacy: the Experience of Developing Countries

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Some developing countries have mastered their interactions with the external world to the point where they actively pursue international economic opportunities, be it in trade, investments, technology-driven business partnerships, tourism, off-shore banking and a whole range of services. These countries regard globalization in benign fashion and are active participants in an interdependent world, be it at the World Trade Organization (WTO) or the World Economic Forum's annual big-splash gathering at Davos, Switzerland. At the other extreme are the developing states that either confront severe inadequacy of resources, or are torn by internal conflict and poor governance, leaving them woefully dependent on foreign aid. The globalization process does nothing for them. In between are located the majority of states, scrambling for the right mix of structure, policy and method, to take proactive advantage of the external environment.

Economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important. No longer the monopoly of state entities, the official agents — the foreign and economic ministries, the diplomatic and commercial services, plus their promotional agencies — now engage in dynamic partnerships with an array of non-state actors. Indeed, such domestic collaboration is a sine qua non for effective external outreach; abroad, in mirror fashion, the actions similarly address a wide field of foreign stakeholders. In recent years multilateral economic diplomacy has gained in prominence, leading some to assert that this form is 'more important' than the bilateral. In reality the relationship between pairs of states is the building block in the composite process, where multilateral arrangements are more vital today than ever before.

The Foundation of Economic Diplomacy

Globalization has expanded and accelerated economic interdependence among states. The striking feature of the response of developing states is its remarkably uneven nature, to the point where some countries have moved to the forefront, and others have stagnated, or slid backwards to become the victims of globalization. Diplomacy is an expression of the governance that a country dispenses to itself in its external relationships. As with the other forms of governance, it is rooted in the vision, efficacy, organization and motivation of its people and institutions, including the leaders, the officials, and civil society at large. Why some countries perform better than others is an enigma, to which political scientists grope for answers. Take the example of the textile preferences that the European Community (EC) extended to the Africa, Caribbean and Pacific (ACP) countries in the Lomé Convention of 1976. On the basis of the levels of transformation achieved in these underprivileged countries, the EC extended the facility of quota-free and duty-free entry.[1] In the late 1980s the World Bank noted that while the generous ACP

[1] The EC used this formula in lieu of the more common percentage of domestic value addition, no doubt because this was convenient in the textile industry; cotton to yarn represented a level of transformation, another was yarn to textiles, while textiles to garments also represented a level of transformation.

preferences were available to almost 70 countries, the island-state of Mauritius with a population at the time of barely 1.1 million accounted for almost 90% of the textiles that entered the EC under this umbrella. The other countries had simply not got their act together to take advantage of this concession, while Mauritius made it the central plank of its development strategy.

Let us consider the key ingredients for successful economic diplomacy. First, economic engagement abroad involves more than the ministries of foreign affairs, commerce and industry; it is the business units of the country, associations of industry and chambers of commerce, the financial sector, business schools and thinktanks, the tourism industry and a host of domestic actors that are both the stakeholders and the prime movers. The state agencies need to take initiatives to create viable, innovative public-private partnerships. Some countries have proactively reached out to these non-state actors and have co-opted them for the advancement of economic interests abroad, through formal and informal mechanisms. Examples are: advisory groups composed of businessmen to guide external economic outreach and FDI mobilization; official bilateral joint commissions that are actually driven by associations of business and industry; joint eminent person groups and CEO panels to brainstorm on new opportunities; thinktanks and scholars working with business leaders to advise on free trade negotiations. We find that the countries that pursue inclusive home partnerships also tend to work well with non-state actors in foreign countries.

In a few developing countries the foreign ministry is marginalized when other agencies, be it the defense and security establishment or the economic ministries, gain ascendance in foreign policy decision-making. One direct consequence is that the country's network of overseas representation is often not utilized to its capacity for the advancement of national interests.

Second, the structures of foreign affairs and external economic management need to be integrated or harmonized. This is broadly handled in three ways. Some twenty countries have combined foreign affairs with external trade. This is practiced in the Caribbean (Barbados, Dominica, Grenada, Santa [or is it Saint] Lucia), Scandinavia (Denmark, Finland, Iceland, Norway, Sweden), the South Pacific (Fiji, Marshal Islands, Samoa, Solomon Islands, Vanuatu), and a few other countries (Australia, Brunei, Canada, Mauritius, New Zealand, South Korea and Swaziland). South Africa actively considered integrating foreign affairs and international trade in 1997-98. The proposal was dropped, but harmonized arrangements of work have been implemented.

Some developed countries, such as Australia, Canada and New Zealand, make a distinction between trade policy issues (which are combined with foreign affairs), and trade promotion activity, which is handled by a separate agency, outside the foreign ministry orbit. In contrast, the Scandinavian countries completely integrate trade and investment promotion, as also trade policy and external aid management, into the foreign ministry; a single set of officials handle all these tasks, and their embassies are similarly charged with the full range of work.[2] A second method is to establish a special coordination mechanism to handle external economic work, such as 'joined-up' oversight as practiced by the UK, or through entrusting trade and investment promotion to dedicated agencies, as in the case of Singapore.

[2] Japan follows Scandinavian practice in aid management. In contrast, the UK and the US separate aid management from foreign affairs; it is hard to believe that this contributes to efficiency.

A different integration method, especially for small states, is through a joint foreign trade negotiation mechanism, as established by the 15-member Caricom; their single negotiator at the EU, who also handles issues relating to preferences, delivers considerable value. It is interesting that other small countries, such as the island states of the South Pacific, have not similarly banded together ~~in fashion~~. The obstacle for these small states, members of the Pacific Islands Forum, is perhaps that they are separated by vast distance and do not share economic commonalities. The small countries of other regions, such as Southern Africa or West Africa, have also not pursued the Caricom option.

Countries that do not harmonize foreign affairs and trade expend a great deal of effort on turf disputes, on bilateral economic issues and even more on multilateral tasks such as WTO affairs; they also fail to utilize their overseas diplomatic network in the best way possible for the exploitation of foreign trade and investments. No large or medium-sized developing country has combined foreign affairs and trade. One reason may be the institutional weight of traditional systems that blocks experimentation. Another factor may be that in these countries the commerce ministry fulfils a vital domestic trade management function, and this makes a joint ministry less appealing.

Third, the twin immediate priorities of economic diplomacy are export promotion and mobilization of inward foreign investment. A range of options is available for pursuing these tasks, which are distinct, but interconnected. Export promotion involves helping home commercial enterprises to seek out foreign markets; market studies, visits by business delegations, participation in international trade fairs, and buyer-seller meets are among the standard devices for helping exporters, where the official agencies can play a facilitator role. Embassies and commercial offices can especially play a key role in reaching out to new markets and developing outlets for new export products. In contrast, mobilizing FDI involves, first of all, sensitizing potential foreign investors on the opportunities in the home country, and thereafter undertaking targeted promotion; the former produces the catchments of potential foreign investors, and the latter works to translate intention to action. Such 'salesmanship' activities by the official agencies, of course, always hinge on close harmonization with business associations and individual enterprises. An advanced form of FDI promotion is assistance to one's own enterprises to invest abroad.

Fourth, the regulatory framework is squarely the responsibility of governments — assisted by business chambers, thinktanks and scholars — which aim to create the conditions needed to advance trade and investments. The home economic agencies and the diplomatic network have to proactively identify the priority areas, and negotiate the required agreements, keeping in view the mutuality of interests. The instruments available include: free trade and preferential trade agreements, on a bilateral and regional basis; agreements that tackle non-tariff obstacles (such as phytosanitary regulations); shipping and other transport agreements; and investment protection and facilitation accords. A recent trend is to address a range of such areas, usually through mutual trade-offs among the contracting parties, through 'comprehensive' economic cooperation accords. These aim at better synergy through simultaneous handling of related subjects, which also facilitates trade-offs between the contracting parties.

Here too, smooth cooperation between the economic ministries and the foreign ministry is a prerequisite. The countries that have combined their foreign affairs and external trade departments are at an obvious advantage, but those that feature effective joined-up and other collaborative formats also do well. In addition to these institutional arrangements at home, if the diplomatic network also plugged into the process, economic advocacy and negotiations are handled optimally.

Fifth, we should distinguish between the economic diplomacy as it operates out of the home capital, and the field, i.e. through the network of embassies and consulates.[3] The majority of developing states have some way to go in optimizing their diplomatic networks to deliver full value. While these networks are exhorted to implement a 'whole of government' mindset in their work, it is the foreign ministry that is their immediate master, and thus in the best position to mobilize them. Consequently, countries that marginalize their foreign ministries in their economic diplomacy outreach, handicap themselves from the start.

Sixth, while almost all countries today recognize the value of economic diplomacy, what varies is their effectiveness in actions taken. Usually, a weakness in this sector is part of a general lack of drive in the country's entire diplomatic mechanism. 'A diplomatic service that is well resourced and above all well staffed…give(s) a state a significant increment of power and influence' (Berridge, Keens-Soper and Otte 2001, 3). Singapore demonstrates how a small state can harmonize its diplomatic machinery to punch much above its weight class. This lesson holds lasting value.

[3] The role of consulates has shifted from consular protection and visa facilitation (as provided in the 1963 Vienna Convention on Consular Relations), to the wider promotional jobs of sub-embassies, engaged in almost everything but hard political work, and sometimes even some of that. In takes the consulate back to its original commerce facilitation and representational roots of the 13th and 14th century.

Three Phases of Economic Diplomacy: An Indian Example

The organization of economic diplomacy in India is both traditional and modern. From its inception in 1947, the Indian Foreign Service has been an integrated entity, handling political as well as economic and other forms of diplomacy.[4] I believe this is functionally rational; the different elements in external work interact with one another, and require unified handling. My subjective view is that such services (e.g. also in Brazil, UK) are more efficient than the ones that treat commercial diplomacy as a separate professional branch, handled by specialists from other agencies (e.g. in China, South Africa, Thailand).[5] A possible gain in specialization is more than offset by the fact that economics is now part of the center-stage that all diplomats must master, and relate to all other work areas.

A major Indian weakness is institutional disharmony, in the shape of turf battle between the Ministry of External Affairs (MEA) and the economic ministries, though on major issues these agencies are able to put aside their differences. For instance, MEA swaps some posts abroad with the Commerce Ministry in exchange for a several placements in that ministry for its officials; those holding commercial assignments

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[4] Prime Minister Jawahral Nehru personally drafted the 1946 cabinet note that created the Foreign Service, on the basis that it should perform all categories of diplomatic work. But it was not until 1966 that the Ministry of External Affairs set up its Economic Division.

[5] The US State Department, operating the world's largest diplomatic network, now has five 'cones' within which officials perform different roles, but this model is not used by anyone else. The US also has a separate commercial service, a product of that country's complex decision process that led to the 1946 Foreign Service Act.

abroad are answerable to both ministries. The permanent secretary heading Commerce serves on the MEA personnel board that selects officials for sub-ambassador level assignments abroad. But WTO issues are handled primarily by Commerce, which also appoints the envoy handling this subject in Geneva. MEA's Economic Division (actually a full department with four divisions handling Indian aid and technical cooperation with foreign countries, plus external economic promotion and multilateral economic work) receives less than fulsome cooperation from the Ministries of Commerce and Industry. [6] The Finance Ministry's Department of Economic Affairs, which handles inbound aid as well as the interface with the World Bank and the IMF, has even less to do with MEA. It does not help matters that MEA practices a closed-shop policy, receiving no in-placement at its headquarters from the economic ministries.[7] In 2005 Prime Minister Manmohan Singh created a cabinet-level 'Trade and Economic Relations Committee' which he chairs, for apex-level coordination; this top-down process is powerful, but it does not substitute for better ground-level harmonization ~~working~~.

In consequence, the Indian embassy network is utilized far less than it should be, both in relation to FDI mobilization and export promotion. India laments that approved

[6] The Indian Ministries of Commerce and Industry are separate entities, but since 2001 they have been placed under a single cabinet minister, while they retain their distinct identity.

[7] MEA has traditionally apprehended such placement, fearing that these officials would demand assignments abroad. A simple way exists to square this circle: pre-select the dozen odd non-MEA officials serving abroad (against posts earmarked for them), and deploy them in MEA for a couple of years before they go abroad; that would also shed MEA's image of exclusivity.

investment proposals are often not implemented, producing a large shortfall.[8] As the embassies are the only external investment promotion agency, they should be utilized more intensively. Unlike in China or Brazil, the volume of FDI inflow — $6 billion in 2005, up to around $10 billion in 2006 — is still not high enough to go on autopilot!

In a December 2005 interview a Thai diplomat described the evolution in economic work in his service. Their ambassadors had moved from the conventional political discourse, to a situation in the 1980s when they were asked to become salesmen; now their assigned task was to function as 'managers'. I would expand on that evolution to speak of three distinct phases in economic diplomacy, using the Indian example.[9]

I. Economic Salesmanship

India grasped the economic diplomacy nettle in the early 1970s, 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, with primary focus on the Gulf region. By good fortune, my first ambassadorship was in Algeria (1975-79), in that initial *economic salesmanship* phase. In essence, India leveraged its political connections with the Arab countries to win turnkey projects, consultancy assignments and contracts, for skilled as well as advanced technical manpower. In Algeria, India's technology expertise was unknown, but we took advantage of opportunities to help Indian companies, public sector and private, to sign their first

[8] Typically, 30 to 40 % of approved projects are implemented (this is necessarily an evolving figure); a variety of reasons underlie such a low rate, where inadequate Indian follow-up is one element. The current Indian effort is to shift the bulk of FDI to the automatic approval route, by simplifying procedures.

[9] My observations on India's diplomatic system, and examples drawn from personal experience with economic and other forms of diplomacy are narrated in *Inside Diplomacy* (Rana 2000).

twelve industrial and consultancy contracts in 1975-79. We also sent over 800 doctors, besides dozens of professors and engineers. That story was replicated in Libya and elsewhere, with the difference that many thousands of skilled workers went out. Today, the Gulf region has a total of over three million Indian skilled workers, besides tens of thousands of Indian professionals; they are the principal contributors to an inflow of over $24 billion received as remittances from the Indian diaspora. That same salesmanship mode was deployed to help the Indian software industry gain its first wins in Silicon Valley and other parts of the US in the late 1980s (during my three years as consul general in San Francisco). Many of our embassies played a similar role.

A feature of this phase was the country's heavy dependence on foreign aid; the annual meetings in Paris of the 'Aid India consortium' were a major event, and considerable effort was expended via summit level diplomacy to maximize the commitments announced by the major donors and the international financial institutions. Through much of the 1980s, the Finance Ministry, directly supervised by the Prime Minister's Office, handled this vital diplomatic effort, while MEA was relatively isolated.[10]

II. Economic Networking and Advocacy

By the time I reached Germany in 1992-95, on my final assignment, 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

[10] I observed this first-hand as a member of Prime Minister Indira Gandhi's staff in 1981-82.

the 'license raj'. These 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. This involved reaching out to the new diplomacy actors, both the agencies of government as well as the non-state actors, at home and abroad. Indian economic diplomacy is better in its coordination with the latter, i.e. the non-state agents: the principal business organizations, notably the Confederation of Indian Industry (CII),[11] as well as the economic thinktanks, the NGOs that are active on international economic issues, and the media. While MEA regained for itself a central role in external economic diplomacy, coordination among official agencies remained patchy. When good collaboration takes place, it hinges on individuals, rather than institutional arrangements. Thus India's strong negotiation posture at the WTO is not sufficiently backed with matching advocacy at the key bilateral capitals; nor is investment promotion activity sufficiently harmonized, producing the 'approved-but-not-implemented' limbo described above.

III. Regulatory Management and Resource Mobilization

The third and latest priority is *regulatory management and resource mobilization*, i.e. negotiation of FTAs, energy access agreements, and regional diplomacy via innovative

[11] The full story of the extraordinary role played by this industry association is yet to be told; see Sharmila Kantha, *Building India with Partnership: The Story of CII 1885-2005* (Penguin, New Delhi, 2006). In the 1980s, the pre-reform phase when an external drive commenced, CII took regularly took delegations of top industrialists to lobby US and other counterparts on the opportunity presented by India. Jack Welch of GE has spoken of how he was wooed over several years. This spurred its longtime rival association, the Federation of Indian Chambers of Commerce and Industry (FICCI), to reinvent itself in the 1990s. The third major business player is the Associated Chambers of Commerce (ASSOCHAM).

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. India does not have, as yet, 'public diplomacy boards' where the foreign ministry takes the lead in *suggesting* unified action to autonomous agencies, such as those covering the public media, culture, education and tourism.

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 dictate; 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 is 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 FTAs as a derogation from the principle of multilateral universality of trade liberalization under the GATT/WTO formula. But the Sri Lanka FTA has been a singular economic and political success, and India has since signed similar agreements with Thailand and Singapore, and is negotiating other FTAs, including one with ASEAN.

In contrast, in relation to other trade regulation arrangements, the inter-ministry coordination has been uneven, and sometimes notably absent. India shows 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 is not always in synch with political objectives.[12] Yet, positive examples also exist; in the search abroad for energy sources, Indian embassies have frequently played a proactive role in helping state and private enterprises in pursuing opportunities (Rana 2004, 68).

At the same time, new initiatives in regional economic arrangements have come from MEA. A few of these show considerable promise. 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. But IOC-ARC, a group of Indian Ocean rim states that want to expand mutual cooperation, seems to have lost steam, though it has a secretariat in Mauritius. MEA is the lead coordinator on each of these, marshalling cooperation with other agencies, state and non-official.

Other National Examples

[12] 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 is under negotiation. The list of items that were to be kept out of the free trade regime ran to 1414 items, and as the Malaysian Trade Minister pointed out, included toilet seats; it became clear that the list had 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, one that has to be handled with finesse and sensitivity, without over pitching one's demands; by early 2007 differences had narrowed and an agreement is under finalization.

Let us turn to some other examples – 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 generals.[13] 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* (population 675,000)[14] 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

[13] 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.

[14] This is the official figure based on a 2005 census, though other estimates place the total population much higher, at about 2 million.

power, all sold to electricity-deficient India, earning for the country over 50% of its GNP. 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.[15] 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.

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 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 harmonization. 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

[15] Many Nepalese have rightly seen the trans-border multipurpose 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.

negotiations). 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 (e.g. combining foreign affairs and trade and promoting textiles exports, see above). In the 1970s it played a leading role in working out the sugar preferences given to the ACP countries by the European Community under the 1976 Lomé Convention; this has brought windfall gains to the producing states of

Africa, the Caribbean and the Pacific.[16] Having achieved middle-income country status with a per capita income of over $3000, rising labor cost has 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% 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% of the FDI flowing into India using the 'Mauritius route', to minimize tax liability. Mauritius also persuaded China (home to 3% of its population) to sign a similar treaty. [17]

Singapore has harnessed economic diplomacy as a major instrument in its transformation from a sleepy entrepôt 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

[16] 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 these countries have enjoyed high profits in the ensuing years of much lower world prices for this commodity. The preferences are now under phase-out, under the WTO regime.

[17] The Indian tax authorities have long attempted to close this loophole (especially to block domestic investors who illegally route investments through Mauritius in 'round-tripping' deals), but the island state has blocked this on the basis of kinship and close political ties. It was reported in January 2007 that the Chinese have pushed through a partial revision of this concession, and India is attempting the same.

(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 TDB, 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 — as a country never colonized, sharing 4863 km of land frontiers with four neighbors — 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 totaling 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 boards, 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. Other countries will watch the dénouement with interest.

Looking to the collective experience of the 130 developing countries of the G77, a rough economic diplomacy typology – set out in Table 11.1 below - finds them in several clusters: those that are ~~have remained~~ 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.

Table 11.1 Economic Diplomacy Typology

	Traditional	*Niche-Focused*	*Evolving*	*Innovative*
External economic management	Handled by the Trade & economic ministries; little involvement of MFA	Promotion concentrates on the identified niche	Some coordination between Trade and Foreign Ministries; contestation also likely.	Joined-up, and other cooperative arrangements
Policy Management	Limited role for MFA, frequent turf battles	Good internal coordination	Inter-ministry or cabinet level coordination;	Institutionalized management, strong teamwork

			tending towards improvement	
Role of Non-State Actors	Episodic, depends on personalities	Variable	New procedures, strong networking	Harmonization with all stakeholders
Economic Aid: Recipient	Handled by economic agencies, seldom coordinated with MFA	Limited coordination	Networking between the aid management agency and MFA	'Graduated' out of aid receipt, or close to that stage
Economic Aid: Donor	Unlikely to be an aid donor	Unlikely to be an aid donor	Modest program, usually covering technical cooperation	Expanding program, run by MFA in harmony with trade promotion agencies
Trade promotion	Often handled by a commercial cadre, outside MFA control	Limited focus on commercial promotion, outside the niche area	Cooperative arrangements, often integration of political and economic work	Well-coordinated activities, role model in range of activities
Investment promotion	Handled by domestic agencies, limited role of the diplomatic system	Active use of embassy network	MFAs and embassies work actively with home agencies, often at individual initiative	Strong team effort, based in institutional arrangements
Regional diplomacy role	Usually reactive	Focused on preferred niche area	Active	Innovative, exploitation of potential

Economic Diplomacy Management

We observe that many developing states a progression has taken place in the diplomatic process, with countries moving up the value chain and improving performance in the economic and other arenas. Let us consider the principal ingredients of this change.

Process of Decision-Making

First, the external economic *decision process* is more plural and often better coordinated than before; some countries are more efficient at this than others. We saw this in the examples given above. The city-state Singapore, consistently managing to punch above its weigh-class, shows how much mileage sound policy management can produce (Leifer 2000; Rana 2006). Several devices are available:

- In and out personnel placements are valuable; the diplomatic establishments working as hermetically sealed establishments are the losers. It also makes sense to send officials to work in business enterprises, and de-mystify the perception of these partners towards the official agencies.
- Transparent networking with all the home partners is needed, on the premise that the foreign ministry and its overseas network is at their service, for the advancement of their agendas. The foreign ministry becomes an external coordinator not by right or decree, much less by self-proclamation; it has to earn that recognition. Embassies abroad need a 'whole government' mindset in the way they handle their tasks.[18] This is far harder this than it sounds; it is the foreign ministry's partners that will make the judgment.
- Lateral entry, where people join and leave the foreign ministry at different levels, is becoming customary in post-modern countries where job rotation is the norm. But as the UK saw a few years back while trying to recruit consuls general for the US, even top economic jobs do not attract the needed high-grade talent. Developing countries do not face job churn, and for them lateral entry is even less

[18] This was one of the conclusions of the March 2005 Wilton Park workshop on diplomacy; a fine report on the conclusions of that workshop is available at the Wilton Park website (Wilton Park 2005).

workable. What can be borrowed from the West another concept — better use of locally engaged staff. Singapore and Australia have shown the way.[19]

- Finally, cabinet level coordination is fine, but it is at working levels that decisions are implemented. Barring exceptions, this is often a weak point.

Management of Trade Policy

Second, trade policy management now brings a range of concerned non-state actors into the process, beyond the trade chambers and industry associations (the obvious, often very vocal, stakeholders); these include the domestic thinktanks, academics, NGOs, and even the media. Policy choices become easier when autonomous public policy thinktanks exist in sufficient numbers; in most developing countries they are growing, in spread and competence. This is especially visible on the issues relating to WTO; regional and bilateral FTAs require the participation of business, as stakeholders directly affected by the decisions taken by the government representatives. For instance, Indian officials now recognize that they hastily accepted some arrangements during the Uruguay Round in the early 1990s, without full grasping the implications, because business partners and the industry associations were absent. Developing countries have been unenthusiastic over alliances with the international NGOs that seemingly support the developing world, but do not always understand the complex motivation, and the dynamics, in these countries.

[19] Recently Australia replaced their trade commissioners in the US with local staff, on the premise that Americans would know how best to sell to their own market; developing countries might reason that

Capacity Building

Third, even in these relatively advanced countries, capacity building remains an issue. Few foreign ministry or commerce officials have been trained in negotiation technique, though this is beginning to change. A similar situation is encountered in the middle tier of developing states. This needs careful handling, since foreign ministries and trade ministries are sensitive to external advice. In many developing countries there is need to give greater weight to economics in induction training in the diplomatic services, as well as more, high-quality mid-career training programmes for officials from the foreign ministry and its economic counterparts. Training programmes conducted jointly for officials of the foreign and economic ministries, where representatives of business also join, are ideal, covering international negotiations, intercultural management skills and other craft skills.

Regional Diplomacy

Fourth, the regional diplomacy practiced by some of these countries is remarkable. In China, the provinces are important actors in regional diplomacy, addressed at the countries that adjoin them (Lampton 2001). Thus, Liaoning and Shandong provinces play the lead role in relation to South Korea; Yunnan does the same with the Greater Mekong Sub-region project (GMS), as noted above. China addresses a different cluster - Bangladesh, India and Myanmar – through the putative group BCIM, which it is also actively promoting. China is currently a member of some 40 regional and neighborhood networks, most of them with an economic focus. We noted above the regional diplomacy

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besides local knowledge, the commercial secretary would also need knowledge of the home country. But the general case for better use of local staff is incontestable.

practiced by Thailand, as well as the trans-continental entity IBSA, covering Brazil, India, and South Africa.[20] In most regions similar integration in trade and other fields is driven by economic logic, with anticipated political and security benefits.

One interesting dimension of this new diplomacy is that foreign ministries often lead it, acting in concert with trade and other economic ministries; we observe this in relation to the developing country members of Asia-Pacific Economic Cooperation (APEC), as well as in other groupings. Indirectly this inculcates 'transgovernmentalism', i.e. the system's capacity to work jointly.

Role of Sub-National Entities

Fifth, sub-national entities emerge progressively as autonomous external economic actors. We noted above the role of Chinese provinces in regional diplomacy. In addition, most inward FDI approvals are handled by Chinese provincial governments. In India, the recent shift to automatic investment approval has produced a like effect, with competition among states to attract big ticket projects. Similarly, the large developing countries (e.g. Brazil) send out increasing numbers of provincial level business delegations. The next step would be for some of them to establish their own marketing offices abroad, following the lead of developed states such as Canada, Germany, and the US. Some Indian states have ventured to establish 'partner state' relations with foreign counterparts.[21]

[20] IBSA plans to double mutual trade in four years to reach $10 billion, and is pursuing a free trade agreement. Such an FTA would effectively link Mercosur, with SACU, the customs union that covers several countries in Southern Africa, and India (the South Asia FTA is still under implementation).

[21] China has been relaxed in permitting such external activity by its provinces, but India such actions push the envelope of centre-state relations; economics is thus also helping in shifting the federal power balance.

Economic Promotion in the Field

Economic promotion carried out in the field by large and medium sized developing countries shows congruent features.

Foreign Direct Investment (FDI)

First, FDI investments for many of the large developing countries now take on a two-way character, though inflows remain much larger than the outflows. (In India 2005 saw about $5 billion as inflows, and almost $2 billion as outflows, as investments in oilfields abroad, manufacturing, and IT services; during 2006 FDI outflows jumped to nearly $7 billion). China's foreign investments, especially in Africa, have attracted even greater notice, in hydrocarbons, as well in some technology-dominated sectors. Further, inflows into Brazil and China have matured to the point where the work of mobilizing new investments is less important than facilitation, working with investors to overcome obstacles. India, which has lagged behind in FDI inflow volume, remains concerned with investment mobilization; this is a high priority activity for its embassies.

Investment promotion remains a key task for embassies, regardless of the stage of economic development. Of course, the work content evolves, but in the best systems the entire embassy team, including the ambassador, is engaged in this activity. Other sectoral work - science & technology, education, media promotion and even culture - feeds into and interacts with economic outreach.

Trade Promotion

Second, trade promotion also remains a high priority, with the difference that in addition to a search for new markets and the promotion of new export products, the embassy networks are also engaged in policy issues, e.g. potential trade agreements and FTAs, and the related anti-dumping negotiation tasks.

Some question whether the embassy networks of the larger developing states should persist with promotion work, on the argument that services of consultants and other agencies are more efficient and affordable by most home enterprises. But ground evidence, including the experience of Western countries, shows that while the content of promotion work evolves, embassies remain engaged in such tasks. For the smaller countries basic help with market studies, hosting small buyer-seller meets at the embassy, and reaching out to the economic entities and individual enterprises in the target country remain vital, simply because home exporters lack the means to sustain such actions on their own.

Integration with Mainstream Diplomacy

Third, integrating economics into mainstream diplomacy promotion is easier when a single service handles all the work segments than when commercial work is handled by a separate cadre. It also makes sense to use the entire team in a foreign capital for economic promotion, on a task force basis (Thailand has attempted this with its ‘CEO ambassador’ policy). The ambassador carries sizable leadership responsibility vis-à-vis official as well as private business representatives in his country of assignment (Rana 2004/5).

Embassies abroad necessarily work with a range of domestic actors in their promotion work in the target country. Through these actions, they become for the foreign ministry a conduit for better links with the economic ministries and with non-state entities. Foreign ministries often underestimate this home role of embassies, in part because this is a new and evolving situation.

Brand Image

The home country's image underpins most diplomatic activities. Wally Olins writes in a brilliant monograph that nations need new images because 'a changing reality is leaving perceptions far behind' (Olins 1999). This is especially true of developing and transition states, which have seen dramatic change, but this is underestimated abroad. Country branding is about 'presenting a nation or region in a powerful, attractive and differentiated way'; however 'branding works when it projects and reinforces a changing reality — but it can be counterproductive if isn't rooted in fact.' The key is to use a central idea that is powerful and simple, capturing the country's unique qualities.

There is no aspect of external relations, bilateral, regional or global, that is not affected by 'image'. Foreign ministries, embassies, and diplomats are considered responsible for the projection of a 'correct' image of their country — even if in reality their capacity to radically or immediately influence their country's image perception abroad is limited. But proactive diplomacy demands that serious and constant attention be paid to the country image. Diplomacy theorist Brian Hocking has written of a survey of two hundred US Fortune 500 companies, in which 72% said that national image was significant to external purchase of goods and services, adding that 'company brands interact with national identities in concrete ways' (Hocking 2000).

Consider the way some of these countries have worked. China used image consultants in marketing Beijing as the venue for the 2008 Olympics and Shanghai did the same in presenting itself as a 'world city'. The successful tourism destination countries make focused use of branding. Poland recently invited Olins to help re-fashion its overseas image. South Africa has long been an accomplished practitioner of country branding. Brazil attaches weight to this too, and has a special unit in the office of the minister of foreign relations that oversees image activities. In 2006, Pakistan was reported to be working with foreign advisers to improve its image.

In the mid-1990s India created a 'brand equity fund' of Rs.5 billion (then equal to $130m.), only to find that the Commerce Ministry was unable to disburse any money. In 2003 the operational management was handed over to the Confederation of Indian Industry (CII), as a public-private partnership.[22] The India Brand Equity Fund helps Indian companies to build their product image in export markets, and in the process burnish the country image; it also carries out other promotional activities overseas.

Image building is a dimension of public diplomacy; the latter encompasses culture, the media, education and all the different activities through which publics, abroad and at home, are influenced in relation to a country's foreign policy. What is missing in most developing countries is a sustained and coordinated image management effort, mobilizing all the agencies that contribute to the way the country is perceived. Developing countries do not as yet have the kind of 'public diplomacy boards' that exist in France and the UK, headed by the chief mandarin of the foreign ministry, which bring together the authorities handling the state media, tourism, education, culture and others that contribute to this image. While this subject takes us quite far from economic diplomacy, suffice it to say

[22] Ministry officials were wary of deciding in favor of one or another applicant, in the absence of hard criteria, but found it easier to approve recommendations made by CII, through its autonomous examination. The website of this fund is www.ibef.org

that public diplomacy is closely connected with the pursuit of external economic interests.

Conclusions

To sum up:

- First, the differences among developing countries in their economic diplomacy partly reflect differences in the evolution of their response to the external environment. Often those that pursue their economic interests poorly also do an inadequate job in their political diplomacy; their foreign ministries are isolated islands, inadequately networked with official and non-state counterparts. Conversely, when the government structure works in unison, with a decision process that is open to inputs from a wide community of stakeholders, we also find the best diplomacy role models.
- Second, sound economic policies at home and effective economic diplomacy go together. Growth produces the capacity to project the country overseas; this virtuous circle operates powerfully, in that expanding attractiveness produces a receptive climate for country marketing. But individual and systemic actions remain equally essential; that explains in part why some countries do better than others.
- Third, combining foreign affairs and foreign trade is a powerful device for synergy; real joined-up arrangements may work almost as well (as in the UK). This is a concept whose time has come.
- Fourth, foreign ministries need to build economic skills into their diplomatic networks and to open themselves to the economic partners, with exchanges of

personnel. Training programmes should be run jointly for the functional economic agencies, businessmen and foreign ministry personnel.

- Fifth and last, the economic management systems can benefit from mutual learning, analyzing the best practice models. Traditionally, few foreign ministries have looked to one another, or carried out benchmarking. But this is one of the new tricks that this old profession is now beginning to absorb, adapting to the era of globalized diplomacy.

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Useful Websites

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