Economic Diplomacy: A Review

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Working Paper
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ABSTRACT

This aim of this Working Paper is to present a review of the Economic Diplomacy (ED) literature. ED has received increasing importance in international political economy and in inter-state relations, which has increased the multi-stakeholder nature of ED engagement and brought with it a shift in the priorities and perceptions of public managers towards contemporary diplomacy. The findings of the paper are that all countries must pay at least some heed to the emergence of ED as an international phenomenon given its salience to Public Value (PV) creation.

Keywords: Public Value, Economic Diplomacy, Foreign Policy, International Relations, Economic Theory.
INTRODUCTION

This aim of this Working Paper is to present a literature review of Economic Diplomacy (ED). ED has received an increasing importance in international political economy and inter-state relations, which has increased the multi-stakeholder nature of ED engagement and brought with it a shift in the priorities and in the perceptions of public managers towards contemporary diplomacy. For a particularly apt definition, Kejin states that economic diplomacy can be seen as ‘the peaceful activities conducted by the state or a union of states for resolving frictions and disputes among nations in economic matters when implementing specific foreign policies.’\(^1\) Berridge and James describe ED as diplomacy that ‘employs economic resources, either as rewards or sanctions in pursuit of a particular foreign policy objective.’\(^2\) Xiaotong surmises that ED is ‘the achievement by the government of a two-way conversion between power and wealth, through self-initiated strategy, tactics and institution-building.’\(^3\)

An alternative definition that this paper provides is that:

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Economic Diplomacy is a multi-stakeholder process of deploying economic means towards diplomatic ends, and vice versa; in a manner that creates value between and across publics through a co-creative process involving of international public managers and other important stakeholders.

To some degree, all countries have departments that engage in economic diplomacy, whether through their formal executive branch, their foreign ministries, their finance ministries, their defence industries, their tourism departments, their media, their banking system, their private sector stakeholders, their intelligentsia, their artists, their sportspersons, or their civil society, among others. However, some countries have taken the nebulous concept of economic diplomacy and given it a more concretised form, either by reshuffling their bureaucracies or through formalised process of coordination. A handful of countries even have specialised strategy documents to delineate their vision for economic diplomacy.

This trend has increased the multi-stakeholder nature of economic-diplomatic engagement and brought with it a shift in the priorities and in the perceptions of public managers towards contemporary diplomacy. Indeed the ‘stereotype’ of
diplomacy, as ‘the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means’,\(^4\) or as being ‘concerned with the management of relations between states and between states and other actors’,\(^5\) is morphing into something different, such that:

\[ED\] applies to informal negotiation and voluntary cooperation, not to rule-based systems and legal commitments; [traditional diplomacy, by contrast] is a weak and imprecise activity, where conciliation leads only to meaningless compromises; it is elitist, conducted by an establishment of privileged officials; and it is secretive and opaque, with diplomats striking deals in secret conclaves and emerging only to announce agreement. None of these stereotypes apply to economic diplomacy.\(^6\)

Definitional issues notwithstanding, all countries must pay at least some heed to the emergence of the ED phenomenon,


mindful of their institutional endowments and capacities. There is, in fact, a multitude of approaches and priorities in the field, which is reflected in both formalised documentation as well as ad-hoc arrangements of various countries. With those considerations in mind, the purpose of this *Working Paper* is to ground economic diplomacy within the public value literature.\(^7\) The argument that ED constitutes an important form of multilateral public value creation is novel in emphasising ED’s multifaceted impact,\(^8\) and deserves greater attention in the PVT literature more specifically and the public administration discipline more broadly.\(^9\)

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REVIEWING ECONOMIC DIPLOMACY

The academic discourse around economic diplomacy was driven in large part by the treatise of Bayne and Woolcock (2003), which sought to produce the first comprehensive edited volume that would draw upon international experiences to discuss the emergent practitioner force of economic diplomacy. Their work was highly influential in drawing upon key regional and global experts to distinguish between how economic diplomacy was practiced across nations (as well as supra-nationally), while also highlighting the importance of wider socio-political-economic movements such as globalisation, observing above all that ‘there has been a steady trend towards far more integrated markets in a single economic system covering the entire world, with many more countries active in it.’ Although speaking from a largely International Relations (IR) perspective, they noted the economic logic underpinning ED, given that ‘the examination of economic decision-making also illuminates how governments try to make their policies more efficient and how they respond to pressures for greater democratic accountability,’ a point that has been raised often in the public

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value literature as the *supposed* trade-off between efficiency and accountability.\textsuperscript{11}

Bayne and Woolcock acknowledged that ‘economic diplomacy is concerned with international economic issues. In principle, this should simplify the analysis,’\textsuperscript{12} particularly since a rule-based order post-1945 had set the tone for diplomacy through what Ruggie described as ‘embedded liberalism,’\textsuperscript{13} in the sense that national autonomy would not be hampered but a system would be developed for economic relations between states through rules. Some useful input on this front came earlier from Odell, who framed the issues of negotiating the world economy as ‘policies relating to production, movement or exchange of goods, services, investments (including official development assistance), money, information and their regulation.’\textsuperscript{14}

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Bayne and Woolcock adroitly described it all as ‘the process of international economic decision-making, which we call economic diplomacy.’ Economic diplomacy is tied to notions of economic statecraft, which has a longer history of analysis, and is rooted in a blend of economics, international relations, and even arguably public administration; but focuses more so on where economic measures are taken in the pursuit of political goals, including punitive actions such as sanctions. Bayne and Woolcock were among the first to highlight the need for coordination among social agents, in what this paper describes as the co-creation of public value, stating that ‘Now, with the advance of globalisation in the 21st Century, there are far more non-government players, while ministers and heads of government are active alongside their officials.’ Yet, the coordination would not be relegated to national public value agents, since ‘taking a broader definition of security concerns, the problems exposed by the financial crisis and ensuing

18 Ibid.
recession as well as the threat of climate change\textsuperscript{21} threaten the international system and still require attention to be given to economic diplomacy.’ Of primary interest to their work was the private sector and Non-Governmental Organisations (NGOs), noting that:

\begin{quote}
In the past, business firms tended to comprise the most active interest group. They exerted their influence mainly behind the scenes, though recently the financial sector has been forced into the limelight. Now non-governmental organizations (NGOs), grouped as civil society, have also moved centre stage and actively seek publicity to put pressure on governments.\textsuperscript{22}
\end{quote}

What would the means of deploying/exercising ED be? Different authors posit different priorities, as do different countries based on their relative strengths. Indeed, Bayne and Wilcock noted that, ‘[ED] uses a full range of instruments [and] embraces the whole spectrum of measures from informal negotiation and voluntary cooperation, through soft types of regulation (such as codes of conduct), to the creation and enforcement of binding rules,’ further noting that ‘progress is usually made by persuasion and mutual agreement, although


\textsuperscript{22} Bayne and Woolcock, \textit{The New Economic Diplomacy}, 4\textsuperscript{th} Edition, 23.
Economic diplomacy can also be confrontational. As Bayne and Woolcock observed, a distinctive feature of ED is that it is sensitive to market developments and grounded largely in a market logic. As Odell noted, ‘markets can be endogenous to economic diplomacy, in that they form an integral part of the process.’ This market focus is similar to the public value problem of bringing in public managers, politicians, and civil society into a market logic. As Benington observed for PVT, the theory was ‘developed initially in the United States in the early to mid-1990s, at the height of the dominance of the neo-liberal ideology which privileged models based on individual consumers within a private competitive market over communal citizens within a public democratic state.

**Tensions and Systemic Factors**

In terms of theoretical value, the main contribution of Bayne and Woolcock is in identifying three inherent tensions and six underlying (systemic) factors that characterise economic

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23 Bayne and Woolcock, *The New Economic Diplomacy*, 4th Edition, 17. They added, however, that the instruments of ED are less important than the issues that are raised through ED. Yet for practitioners, the instruments are likely to be as important as the issues, and so the academic focus may be relegated to issues, but in praxis the instruments can and do have a strong bearing on national ED strategies.

24 Odell, *Negotiating the World Economy*.


26 Benington, “Creating the Public in Order to Create Public Value?” 232.
diplomacy. The three tensions that they identified, and which all practitioners of ED must be mindful of, are as follows:

1. Tension between politics and economics.

2. Tension between international and domestic pressures.

3. Tension between governments and other forces.

The six systemic factors that they highlight are as follows:

1. **Relative Economic Power between Countries**
   
   This is inspired by emphasis on realist theories. However, the context in which power is applied is also important.

2. **International Organisations & Regimes**
   
   The dense international network of multilateral institutions can ‘help states to reach cooperative rather than coercive solutions to economic problems.’ This is situated in regime theory discussions.

3. **Markets**
   
   In ED, markets play a much more central role than in other forms of diplomacy.

4. **Domestic Interests & Bargaining**
   
   The variety of interests held by different social groups will determine their attitudes towards economic issues, which are

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deployed by government abroad, acting as agents of the public in value creation. Rationalist theories help inform this debate.

5. Institutions & the Two-Level Game

Drawing upon Putnam’s work,\textsuperscript{28} the praxis of agents reconciling internal pressures leads to processes in international negotiation.

6. Ideas & Persuasion

The internal convictions of negotiators, based on their worldviews and ideas, will influence the process of ED. Constructivist theories shed light on this area.

These factors together can be deployed in understanding a country’s approach to ED, how it is generated, what objectives is pursues, and through the use of which agents and what resources.

Expanding on the evolution of ED, Bayne highlights that ‘its range greatly increased; new subjects became active, often arousing strong popular concern; it penetrated deep into domestic policies, with many more actors involved inside and outside government.’\textsuperscript{29} In addition, the second and third world


(developing and ex-communist countries) were increasingly integrated into the world system,\textsuperscript{30} and so multilaterals were forced to serve a wider public in their value creation efforts.\textsuperscript{31} From a public managerial standpoint, the relative power and resources (element of the public value strategic triangle: operational resources)\textsuperscript{32} of governments shrunk, and they were attempting to maximise value but from fewer inputs.


\textsuperscript{32} Chohan and Jacobs, “Public Value in Politics: A legislative Budget Office Approach,” 1063-1073; Chohan and Jacobs, “Public Value as a rhetoric: a budgeting approach,” 1217-1227.
PUBLIC VALUE CO-CREATION

To compensate for the reduction in public value operational resources, to address international interests that spoke to their public’s values, and to manage an international system where value creation would be possible, public managers resorted to a new strategy that could be considered ‘public value co-creation’, and according to Bayne it included the following four elements: 33

1. Involving Ministers

This raised the political profile of ED, increased the domestic legitimacy, 34 and reduced the sense of politics-administration dichotomy 35 through better coordination between politicians and bureaucrats.

2. Bringing in Non-State Actors

The incorporation of players from outside public managerial backgrounds, including civil society, academia 36 and the private sector. Both brought a different ethos but speak to public value’s sense of co-creating value. The challenge for government was to spread the load among different players,

33 Bayne, Challenge and Response in the New Economic Diplomacy.
34 See also public value angle on legitimacy.
36 Academia in the sense of both universities and think tanks.
noting that private sector and civil society have different impacts on ED.

3. **Greater Transparency**

Civil society drove a movement towards ‘better information, greater clarity, and more publicity.’ The public articulated a value for greater transparency, and governments sought to respond to this value. For the private sector, greater information would lead to more efficient outcomes. For governments, certain advantages could be realised by transparency such as cross-border tax avoidance. ED has, thus, become a more open/transparent form of diplomacy.

4. **Using International Institutions**

Bringing in multilateral institutions into ED helped mobilise international consensus (on trade in WTO etc.) on key issues, and also held public managers of countries to external discipline. It also helped politicians to share the budget of their decisions with external parties. Using multilaterals has worked to differing degrees for each country, and in the process, sometimes the multilateral institutions have

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37 Chohan and Jacobs, “Public Value in Politics: A Legislative Budget Office Approach.”; Chohan and Jacobs, “Public Value as a Rhetoric: A Budgeting Approach.” It should be noted that transparency is a public value.
39 Ibid.
discredited themselves following excessive pressure or partisanship in their execution of mandates (FATF, IMF, and the World Bank).

Bayne surmises that this new general path in ED had both successes and frustrations. Initially, it seemed to show great promise. Later, trade issues created obstacles, the environmental movement faced limitations, while in finance, many reforms were not entirely implemented. In short, despite early gains, there were limits to what the new strategy described by Bayne achieved.

Woolcock draws upon the international political economy (IPE) literature to provide a toolkit for ED, although it cannot be described as a comprehensive theory. Green and Charveriat discuss the role of NGOs in ED, noting that they can have a significant impact in shaping public opinion and putting pressure on governments to behave in certain ways.

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41 The Sino-US trade war is a recent culmination of that breakdown in consensus on trade.

42 See a discussion of the consequences of multilateral shortcomings on climate change in Adil and Chohan, “Climate Change as a Socioeconomic Threat: International Perspectives.”

43 The elements of this toolkit essentially represent the aforementioned six factors.

while conducting ED.\textsuperscript{45} Noting the definitional difficulties regarding NGOs, they describe them as ‘organizations that pursue some wider social aim that has political aspects, but that are not overtly political organizations such as political parties.’\textsuperscript{46} There are other useful definitions of civil society available in the public value literature, but Green and Charveriat make good use national-level and multinational NGOs, using their networks and alliances, to illustrate the power of NGO advocacy in realising ED goals. They also give practitioner suggestions on how to design and apply advocacy strategies in the NGO context.


\textsuperscript{46} Ibid.
CASE STUDY METHODS

Certain ED case studies are also useful reading for considering the local evolution of ED practices. Rana gives a detailed example from a third world context (India) of government facilitating the private sector, drawing the distinction between what would be economic diplomacy and what is commercial diplomacy, both being important in the value creation of ED. Image building, exporting manpower, deploying embassies, coordinating among stakeholders, and using a proactive approach are all cited as important for developing countries. VanGrasstek studies the US-Russian relationship in terms of ED since 1810 and until the present; highlighting therein the competing interest groups within the United States, and how specific events became causes celebres at different stages over the past two centuries. In conceptualising China’s ED, Xiaotong highlights an important paradox: as its power resources have increased, so has the external challenge to it realising its international interests.

Indeed, the Belt and Road Initiative (BRI), spearheaded by

48 E.g., the Jewish lobby was anti-Russian while the farmer lobby was pro-trade with Russia (and Soviet Union).
49 The Magnitsky Act being one example; exit visas in the Soviet Union being another. In Bayne and Woolcock, The New Economic Diplomacy.
China, represents an important new manifestation of ED in the 21st Century, but it faces its detractors and an increasingly hostile international environment. Xiaotong highlights four objectives of China’s ED:

1. Increasing the country’s power resources
2. Prolonging its international ‘window of opportunity’
3. Increasing its will for leadership
4. Improving the conversion of its power resources.  

Baracuhy presents a Brazilian case study of how the Itamaraty mobilises resources to achieve specific regional and international goals (e.g., agriculture) and punch above its weight in ED among the developing world. Vitalis and Soobramanien present two different perspectives on the ED potential of small countries, in the developed and developing worlds respectively. Using the case of New Zealand, and then extending the argument to Singapore and Switzerland inter alia, Vitalis argues that small developed states have to strike a balance among their interests and use a combination of 

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51 Xiaotong, “Conceptualizing China’s Economic Diplomacy.”
52 Itamaraty refers to the Brazilian Foreign Ministry.
direct and indirect means to do so.\textsuperscript{55} Oftentimes, their indirect role can be quite instrumental, and ‘small countries like New Zealand understand the importance of concentrating and prioritising resources on issues that matter to their vital national interests.’\textsuperscript{56}

For developing small states, Soobramanien notes early on that ‘much more needs to be done to enable them to overcome the obstacles that prevent them from integrating into the global trading system and deriving meaningful economic benefits for their population.’\textsuperscript{57} Rather than being policymakers, he notes that they are ‘policy-takers’ and have to adjust to unfolding realities’ such that they remain ‘highly dependent on other major large economies, be it for trade, FDI flows or foreign aid.’\textsuperscript{58} Given that the choices are more difficult he suggests certain points to consider the developing-country context:

- rethinking trade multilateralism,
- looking at the merits and demerits of group diplomacy,


\textsuperscript{56} Ibid.


\textsuperscript{58} Ibid.
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- and building national trade capacity.

Above all, Soobramanien recommends that ‘in cases of serious resource constraints and inadequate representation abroad, which is often the case […], ensuring proper coordination at the national level and setting priorities based on economic and political interests is vital.’

Given the importance of trade agreements in general understandings among scholars of ED, Heydon provides a useful study of the motivations underlying and effects resulting from trade agreements, finding that there are benefits such as trades gains and trade growth, but also that they create systemic tensions (increased litigation, perceived discrimination etc.). For financial diplomacy, both Chohan and Pickford highlight the importance of the 2008-

59 Ibid.
62 Financial here refers to investment / capital allocation / financial markets, etc. as opposed to trade.
09 crisis in rallying financial institutions, both multilateral\textsuperscript{65} and national-level,\textsuperscript{66} in mobilising towards cooperation to mend the fallout of the crisis. While highlighting the importance of financial diplomacy during the crisis, Pickford also draws three crucial lessons about the ED effects of the 2008-09 financial contagion:

1. The interdependency of the world economy leads to spillovers and aftershocks in many countries simultaneously.

2. There is a high degree of cooperation required in coordinating financial responses to crises.

3. Strong international responses in cooperation are only possible when there are severe downsides to non-cooperations.

It is important to note that financial diplomacy in the early period of the Coronavirus crisis (specifically March-April 2020) has also been characterised by a significant amount of coordination among central banks, with the US Fed taking the lead in opening channels of dollar borrowing for other central banks. However, the response has not been fully inclusive and worsens the conditions for many struggling developing

\textsuperscript{65} In particular, the IMF.
\textsuperscript{66} Particularly central banks and national financial regulators
economies that do not get this access to open dollar borrowing.\textsuperscript{67}

In counterpoint to the many successes of ED that are covered, Depledge considers the global failure in coordinating a diplomatic effort to stem climate change’s damage,\textsuperscript{68} noting above all that climate change is a ‘super wicked problem’ that involves complexity, reconciling science with politics, and urgent/critical - ‘testing diplomacy to its limits.’\textsuperscript{69} The Coronavirus outbreak in 2019-20 also illustrates the wicked problems requiring a coordination effort against complexity, the reconciliation of science with politics, and the need to act with urgency. There is, thus, a parallel to be drawn between Depledge’s work on climate change and the recently erupted pandemic conditions in terms of mobilising diplomatic (including ED) resources.


\textsuperscript{68} Climate change bears directly upon economic activity, but it also has a security dimension that falls in traditional diplomacy.

\textsuperscript{69} Joanna Depledge, “Climate Change Negotiations: Pushing Diplomacy to its Limits” in \textit{The New Economic Diplomacy}, 4\textsuperscript{th} Edition.
CONCLUSION

Although by no means a comprehensive review of the budding ED field, the aforementioned works give a good indication of the direction in which ED studies are heading. Evidently, they cover numerous regional and thematic aspects that reflect the diversity of elements subsumed by ED itself, which is in no small part influenced by the differing scopes of items that are added by different academics and practitioners to the ED agenda.
ABOUT THE AUTHOR

ABOUT CASS
The Centre for Aerospace & Security Studies (CASS), Islamabad, was established in 2018 to engage with policymakers and inform the public on issues related to aerospace and security from an independent, non-partisan and future-centric analytical lens. The Centre produces information through evidence-based research to exert national, regional and global impact on issues of airpower, defence and security.

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