Economic Diplomacy as a Strategy for Sustainable Economic Growth

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Abstract

The focus of this research is to assess how economic diplomacy as a state policy could achieve better economic results. This research is theoretical, drawing empirical evidence on the implementation of economic diplomacy in two small EU countries, the Republic of Slovenia and the Kingdom of Denmark, and the Republic of Macedonia. The research is based on qualitative analyses, as well as recommendations and results, which could be of interest for policy makers in public administration and in academic circles. The paper examines the concept and experiences of economic diplomacy in the Republic of Slovenia and in the Kingdom of Denmark, as small countries with populations between 2 and 6 million citizens. Special attention is paid to the role of the Ministries of Foreign Affairs in the selected countries and on the coordination with other national institutions. Next, we investigate whether the economic diplomacy in the two countries is in accordance with their policy of sustainable economic growth? Western economies, especially EU countries, are facing significant economic and fiscal challenges. Economic diplomacy is an alternative tool to overcoming global threats and to increasing influence in important and vital markets. The future challenge is a strategy that through economic diplomacy is to increase the sustainable economic growth of EU countries. Finally, we look at the position of economic diplomacy in the Republic of Macedonia. The promotion of economic interests and priorities abroad is one of the most important operative tasks of the Government of the Republic of Macedonia. The purpose of these activities is to
present the Republic of Macedonia as an attractive destination for foreign investments, through the promotion of business advantages, giving incentives to Macedonian exports, as well as strengthening the country’s position as a reliable business partner and an attractive tourism destination.

Keywords: economic diplomacy, export promotion, investment promotion, globalization, sustainable development.

Experiences in Different Countries, Small Economies in the EU in Pursuing Economic Diplomacy

The connections and interdependence of national economies encourage Sovereign States to make economic diplomacy an important part of their foreign policy (Lee & Hudson, 2004). Bayne and Woolcock (2007) elaborate that economic diplomacy is not just a subject for academic study. It is an activity pursued by state and non-state actors in the real world of today. In some respects economic diplomacy is like sex: easier to describe if you have practised it yourself.

The economic situation in the EU today increases the role of economic diplomacy, but still there are different approaches to its pursuance in various countries. Our focus will be on the pursuance of economic diplomacy in two different countries, both small economies in the EU: the Republic of Slovenia and the Kingdom of Denmark. The globalisation process has significantly raised the importance of economic diplomacy. The circulation of relevant information to companies about investment and trade opportunities and facilitating greater direct, practical dialogue between business partners who would be able to identify new areas of cooperation are practical activities in the field of economic diplomacy (e.g., Monteferrand 2009).

Many countries develop their own strategy for economic diplomacy depending on the sources and positions of policy makers. In this paper we will focus on the experience of two small European countries with population between 2 and 6 million citizens (Thorhallsson, 2006). For example, Panke (2008) elaborates that smaller states have lesser administrative capacities, but a newer form of economic diplomacy
today develops a strategy for marketing a nation, based on the analysis of the state of its economy. The marketeers of the nation would most likely be diplomats assigned both abroad and at home. The process is subjective and individual, varying from county to country.

Saner and Yiu (2003) recognize that the adaptation of traditional diplomacy to the reality of post modern diplomacy has become an urgent necessity. Using for example, for investment promotion purposes, the nation’s high unemployment rate becomes less of a detriment than it is an asset providing a ready and willing work force to new investors. That strategy then becomes the core of a marketing efforts made by the nation’s diplomats. They would attend trade shows, visit potential investors, organize trade events and seminars, and otherwise be proactive in marketing the advantages of their nation. Economic diplomacy, as a form of public diplomacy, promotes investment, export and trade cooperation, and puts the nation’s economic interest at the top of its foreign policy. For example, Svetličič (2011) recognized that in small countries, economic diplomacy has a relatively higher importance than for large countries, firstly because they have to be much more intensively integrated in the global economy, and their companies are much more internationalized.

**Economic Diplomacy in Accordance with the Policy of Sustainable Economic Growth**

Western economies, especially the EU countries, are confronted with significant economic and fiscal challenges. In a changing world, the EU focus is to become a smart, sustainable and inclusive economy. Barroso (2013) elaborates these three mutually reinforcing priorities that should help the EU and the Member States deliver high levels of employment, productivity and social cohesion. When the Lisbon Strategy ended in 2010, a decade after its introduction, and Europe was confronted with the biggest economic crisis since the Second World War, European decision-makers decided to develop an exit strategy that was meant to help guide the Union out of the crisis. It was in this context that the Europe 2020 Strategy was devised in order to create more jobs and lead to smart, sustainable and inclusive economic growth. European
targets in five areas, which Member States of the European Union have promised to achieve by 2020 are to: 1) Strive to reach an employment rate of 75% for women and men between the ages of 20 and 64; 2) Improve conditions for research & development, more specifically with the aim of increasing the combined public and private investments in this sector to 3% of GDP; 3) Reduce the emission of greenhouse gases by 20% as compared to the levels in 1990; increase the share of renewable energy sources to 20% of the ultimate energy consumption levels; and work towards improving energy efficiency by 20%; 4) Increase educational levels, especially through the aim towards reducing school drop-out rates to below 10%, and to increase the amount of people in the 30-34 years old age group who have completed third level or similar education to at least 40%, 5) Promote social inclusion, particularly through the reduction of poverty, by aiming to provide at least 20 million people with a solution reducing their exposure to the risk of poverty and social exclusion (see Europe 2020 targets). Economic diplomacy facilitates contacts with foreign institutions, businesses and international organizations: to advance economic interests, to resolve bilateral trade disputes and negotiate with trading partners to liberalize trade, to formulate an official policy for development and recommendations, to facilitate negotiations on trade-related agreements and treaties and to identify and coordinate financial assistance to troubled areas. Furthermore, economic diplomacy engages development partners to raise the standard of living, to coordinate trade policy, to promote open markets and promote interests in the international and bilateral scientific, environmental, and technological arena (Bayne & Woolcock, 2007). Economic diplomacy is an alternative tool to overcome global threats and to increase influence in vitally important markets. The challenge is attaining future growth of EU countries in line with the EU Strategy 2020.

The Position of Economic Diplomacy in the Republic of Slovenia

The main institution for economic diplomacy, the Ministry of Foreign Affairs of the Republic of Slovenia protects, pursues and
promotes the interests of the Slovenian economy abroad through its network of diplomatic missions and consular posts. Economic diplomacy includes all relevant activities of the Ministry of Foreign Affairs and the 56 Diplomatic Missions and Consular Posts of the Republic of Slovenia with their 26 Economic advisors. Before 2011, economic advisers were representatives from the Ministry of Economy, but now the Ministry of Foreign Affairs has taken over that role. It is one of the top priorities of the Ministry, which therefore on 1 October 2009 established the Directorate for Economic Diplomacy and thus acquired exclusive competence for the management of economic diplomacy. Tasks and competences of the Directorate include activities in economic diplomacy, bilateral economic cooperation and promotion carried out by two of its departments. The two basic functions of the Department for Bilateral Economic Cooperation are the direction and the coordination of Slovenia’s bilateral economic cooperation with third countries. The two basic functions of the Department for Economic Promotion are to provide assistance to Slovenian companies when entering foreign markets and to stimulate the further internationalisation of the Slovenian economy with a view to increasing Slovenian exports and achieving better geographical diversification (Šušteršič, Rojec & Korenika, 2005).

The basic task of the Directorate is to ensure the efficient work of economic diplomacy through coordination and management within the broader system of Slovenian foreign policy. In this context, the Department cooperates with other government and non-government institutions dealing with the internationalisation of the Slovenian economy, especially with the Ministry of the Economy, Agency for Entrepreneurship and Foreign Investment, the Chamber of Commerce and Industry of Slovenia, the Chamber of Craft and Small Business of the Slovenian Export and Development Bank, the Slovenian Tourist Board and Slovenian business clubs, as well as honorary consuls of the Republic of Slovenia abroad.

The Ministry of Foreign Affairs and its network of diplomatic missions and consular posts in regard to economic diplomacy: organise meetings of intergovernmental commissions on economic cooperation; make all the necessary arrangements for business delegations during visits of senior national representatives; promote Slovenia as a location for foreign direct investments; support Slovenian businesses in entering and expanding foreign markets, and in solving problems through
various forms of free of charge services; support foreign businesses in establishing contacts with Slovenian businesses; and coordinate economic activities related to the EU and international organisations.

Diplomatic missions, consular posts and economic advisers offer Slovenian businesses: assistance in establishing contacts with ministries and other state institutions, chambers of commerce, business associations, and media at national and regional levels, as well as in connecting these with similar institutions in Slovenia; services to boost exports; assistance in tackling problems indicated by ministries, other institutions and businesses; and organisation of, and participation in business meetings, fair presentations and other presentations, seminars and conferences as well as other promotional events; information on business opportunities, international tenders; advisory support in entering a foreign market; assistance in establishing contacts with potential business partners; and advice and information support for potential foreign investors.

In addition to direct support for businesses, diplomatic missions and consular posts provide: a review and analysis of the macroeconomic situation in countries of accreditation; coordination of institutional bilateral economic cooperation between Slovenia and countries of accreditation; and coordination of economic activities related to the EU and international organizations (Economic Diplomacy, 2013).

Another important aspect is cooperation between all governmental and nongovernmental organizations which are involved in economic diplomacy. A Strategic Council for Economic Cooperation with Foreign Countries has been established in Slovenia, which includes ministers and directors (Establishment of the Strategic Council, 2013). But a more important aspect is the Protocol for direct cooperation of experts for purposes of solving the problems and exchanging of information about effective economic diplomacy of the Republic of Slovenia.

The Position of Economic Diplomacy in the Kingdom of Denmark

The Trade Council under the Ministry of Foreign Affairs of Denmark is the main governmental organisation for export and
investment promotion. The organisation comprises all governmental activities designed to promote Danish export and foreign investments in Denmark under one roof. The Trade Council has approximately 100 employees in Denmark and 300 employees abroad located at more than 100 embassies, consulates general and trade commissions in 60 countries around the globe. The Trade Council has established a Board of Directors to ensure that the activities are always rooted in the needs of the business community. The Board of Directors consists of active business professionals with practical international experience, industrial and social insight, which represent a variety of sectors, as well as small and medium sized enterprises. The aim is to ensure a close partnership between Danish business and the Trade Council and in this context help to promote the export and internationalisation of the Danish companies. The Board of Directors is composed in order to represent a broad spectrum of business and export interests. The Board of Directors also advises the Minister of Foreign Affairs on questions related to the Government’s export and investment promotion policies. The Trade Council focuses on offering Danish companies individual advice on all issues important for their international activities. It is a professional and innovative organisation, which aims to secure the best possible conditions for taking part in the increasing globalisation for the Danish industry. Moreover, it is an organisation which can act as a sparring partner for companies at all levels. The Trade Council is in a position to offer substantial and discernible benefits to both new and experienced exporting companies. The goal is to offer the Danish business community the opportunity to enter into a close partnership, which will enhance the professional analysis of foreign markets and thereby increase the competitiveness of the companies. The Trade Council is a customer-oriented export and investment promotion organisation, and creates results through individual approaches based on customer needs. This applies to both export promotion and efforts to attract foreign direct investments in Denmark.

The Trade Council goals are as follows: solid economic growth is a precondition for Denmark to be among the world’s 10 wealthiest countries by 2020. The world is changing rapidly and Denmark needs to think along new and innovative lines. Approximately half of Denmark’s GDP is based on exports. Increased export is a precondition for bringing
Denmark back on the growth track and for reaching the Danish 2020 target. The Ministry of Foreign Affairs stands ready as Denmark’s growth ambassador with the entire Ministry as Denmark’s growth agent. The Ministry of Foreign Affairs will contribute to growth and employment for Danish companies through targeted efforts and sharper prioritisation.

Bukovskis (2010) elaborates that role of a coordinator and technical administrator of interstate activities is also the task that the Ministry of Foreign Affairs acquires in external economic sphere. This applies to both export promotion and efforts to attract foreign direct investments in Denmark and increase the level of competence and knowledge.

The Trade Council is focused on: helping companies with new businesses or helping to expand already existing ones; providing companies with access to key decision makers and helping identify the right partners; minimising risks through risk analysis and advice, including anti-corruption; working on creating free and fair trade relations across the world; bringing benefits to Denmark by bringing knowledge, investments and jobs to the country. The Trade Council focuses on business areas of global growth, global public affairs and global opportunities and risks.

The great number of small and medium-sized Danish enterprises constitutes a huge export potential, and the Trade Council therefore continues its special focus on these enterprises. The Trade Council has a number of programmes especially targeted at the small and medium sized companies with international potential. The aim is to promote the internationalization of small and medium-sized Danish enterprises and assist them with opportunities at export markets.

The Danish innovation centres are part of the Government’s efforts to stimulate research and innovation. Innovation centres are an entry point for innovative Danish companies and knowledge institutions into world leading hotspots within science, research and innovation. Through the centres innovative Danish companies have excellent conditions for gaining access to new knowledge, research, technology, networks and international markets. Companies must compete on their ability to create innovative solutions. Denmark generates only one per cent of the global knowledge. So if Danish companies wish to strengthen their growth opportunities, it is necessary to collaborate on research
and innovation with the best research institutions and technology-leading companies globally. This is achieved through the attraction of foreign investments and through the Trade Council’s three innovation centres in Silicon Valley, Shanghai and Munich, which have been set up in cooperation with the Danish Ministry of Science, Technology and Innovation.

Investing in Denmark as a national Danish foreign investment promotion agency is part of the Ministry of Foreign Affairs of Denmark and it helps in starting up a business in Denmark. The objective is to create knowledge intensive jobs and growth and further strengthen the leading Danish clusters of life science, cleantech and information communication technologies. Invest in Denmark provides a tailor-made solution for locating business in Denmark. Invest in Denmark is present in the Silicon Valley, Toronto, New York, London, Paris, Munich, Bangalore, Seoul, Shanghai, Taipei and Tokyo.

All exporters may be affected by non tariff barriers, import restrictions and other protective measures. Danish companies can notify trade barriers to the Ministry of Foreign Affairs and get help to have them removed. Assistance by the Trade Council must be paid for according to the current rates and for cases that are paid according to hourly rates and where the time spent exceeds half an hour in accordance with a written agreement between the Trade Council and the company. The written agreement must contain information about the expected time consumption, an overall price for the specified service. For assistance serving the purpose of supporting the business community’s export efforts and other commercial activities abroad, a fixed price per hour or fraction of an hour or a fixed overall price for the service must be paid. There is, however, a minimum fee per individual solved case. The current price for services and consultancy provided by Trade Council is 915DKK (about EURO 123) per hour. The Trade Council collects its payment when the service has been rendered. However, depending on the circumstances a partial or advance payment may be required. Payment must be made no later than 30 days after the invoice date. A fee may be charged for late payment and interest may be charged according to the general rules (“The Trade Council Abroad”, 2013).

Economic diplomacy in the Kingdom of Denmark has a holistic approach, and involves all aspects of support business interest. There is
a discussion on the payment for assistance of Trade Council by Danish companies, because economic diplomacy is a concept for support to the business communities. An additional fee for services is a profit oriented concept and maybe participation by the business sector in the cost of events and manifestation is a better alternative for mutual participation.

The Position of Economic Diplomacy in the Republic of Macedonia

Under the Law on Foreign Affairs and the four-year Program of the Government of the Republic of Macedonia, as of 2006, for the first time economic diplomacy has become an integral part of the regular activities of the Macedonian diplomatic missions and consular posts abroad. In 2008, the Economic Diplomacy Directorate at the Ministry of Foreign Affairs was actively involved in the implementation of the Government Economic Program, thus strengthening the economic dimension of diplomacy. In this respect, the Government of the Republic of Macedonia has created a specific institutional structure, which reflects the dedication to this goal, as part of which the Ministry of Foreign Affairs has continuously maintained its role in the improvement and coordination of foreign economic policy and foreign economic activities. The primary goal to be achieved through the implementation of the economic program of the Government is economic growth, which would ensure a better standard of living for all citizens of Macedonia, a reduction of the unemployment rate and poverty, as well as improvement of the business climate. Working to achieve these goals, the Ministry of Foreign Affairs is taking comprehensive measures in order to attract foreign direct investments, as well as to increase the export volume to other countries. At the same time, the Ministry is actively pursuing tasks defined and entrusted respectively by the Government of the Republic of Macedonia arising from the everyday activities in the field of the economy.

The promotion of economic interests and priorities abroad is one of the most important operative tasks of economic diplomacy. The purpose of these activities is to present the Republic of Macedonia as an attractive destination for foreign investments, through the promotion
of business advantages, giving support to Macedonian exports, as well as the strengthening of the country’s position as a reliable business partner.

Initially the idea of appointing economic promoters of the Republic of Macedonia abroad grew out of a pilot project of the Ministry of the Economy in 2005, under which two trade promoters were appointed in the former Republic of Serbia and Montenegro and the Russian Federation and two investment promoters in Italy and Germany. The agreement between the Ministry of Foreign Affairs and the Ministry of the Economy was practically implemented and upon the proposal of the Ministry of the Economy three promoters were appointed (two trade promoters at the Embassies in Belgrade and Moscow and one investment promoter in the Embassy in Rome). Based on the work programme of economic promoters in 2005, they were required to make monthly plans of activities and to inform the Minister of the Economy about their implementation. The Ministry of the Economy assessed the work of economic promoters depending on the results of their operation. But due to lack of a financial structure and a budget for the coming years, this pilot programme was completed in early 2006.

In the second half of 2007, a new pilot project of the Agency for Foreign Investments and Export Promotion started. Thus, economic promoters were appointed in order to reinforce the capacity of the country’s economic diplomacy in terms of implementing activities projected under the Program of the Government of the Republic of Macedonia. Furthermore, for the purpose of improving the perception of our country and highlighting its beauties, its identity, and its culture, the Ministry of Foreign Affairs, through the diplomatic missions and consular posts promotes the Republic of Macedonia as a brand, which would make our country more recognizable worldwide. Furthermore, the Ministry of Foreign Affairs coordinates the activities for the preparation and organization of Business Forums and Road Shows abroad.

The successful implementation of the program activities in the area of economic diplomacy depends essentially on the joint implementation and coordination of activities between diplomatic missions and consular posts on the one hand, and economic promoters appointed by the Agency for Foreign Investments and Export Promotion,
on the other. The Agency for Foreign Investments and Export Promotion has about 30 economic promoters abroad. In addition, the Government of Macedonia has appointed two ministers responsible for investment promotion and has enhanced the role of Agency for Promotion and Support of Tourism.

Based on previous experiences in the fulfilment of the obligations assumed by heads of the diplomatic missions and consular posts for visiting 10 companies a month, the Economic Diplomacy Directorate at the Ministry of Foreign Affairs has assessed that it is necessary to incorporate certain qualitative elements to this criteria, as well. The first step taken in this respect has been the classifying of foreign countries according to their economic parameters and the level of interest that they have thus far shown in cooperating with the Republic of Macedonia. As of 2008, acting through the Ministry of Foreign Affairs, the Government of the Republic of Macedonia has been issuing instructions to embassies and consular posts requiring them to send detailed information to the Ministry of Foreign Affairs on announcements of tenders in the host countries on daily basis. The Ministry of Foreign Affairs instantly electronically distributes this information to the business associations in the Republic of Macedonia, the member companies of which are interested in participating in tenders in other countries. Thus, there are opportunities opened to these companies to expand their business activities outside the borders of the Republic of Macedonia (“Economic Diplomacy”, 2013).

The next step was the decision by the Government of the Republic of Macedonia to adopt a conclusion obliging the Ministry of Foreign Affairs to develop a new methodology in 2011 for all diplomatic missions and consular posts, according to the adopted criteria for the implementation of a new methodology as a pilot project in 2012. At the Annual Working Meeting in December 2012 with Macedonian Ambassadors which was held at the headquarters in Skopje there were discussions about the activities of Macedonian economic diplomacy in 2012 and about activities planned for 2013. Furthermore, Macedonian Ambassadors were introduced 'to' the methods of evaluating the economic activity over the past three quarters of 2012, as well as with the evaluation criteria used throughout the year long pilot project. In
addition, there were discussions about the priorities of Macedonian economic diplomacy in 2013, explaining the new amended methodology to be used in the impending period.

The Republic of Macedonia has adopted clear strategies in terms of identifying strong export sectors of its economy, while actively searching for developing markets for these goods and services. Governments are becoming increasingly pro-active when it comes to seeking out new markets and encouraging their own businesses to export abroad. This is particularly true when it comes to encouraging companies to seriously consider exporting to emerging markets. There is, however, an obvious dilemma as to where scarce resources are best utilized (Gotisan & Molendowski, 2012). The Macedonian economic diplomacy involves many institutions and relies on a decentralized concept, which needs strict rules about competences with a view to better cooperation.

Conclusions

Globalization and the technological revolution have increased the speed of changes, and economic diplomacy has a perspective future. This is confirmed with the greater involvement of all countries in economic diplomacy. Today, successful bilateral visits at the highest level are always followed by news about contracts for the sale or delivery of goods or services in the interest of the economies of countries. Usually high-level official delegations include managers of the top domestic companies in order to allow economic activities to bring about the conclusion of large scale business deals.

Based on the analysis of the experiences of the three countries in pursuance of economic diplomacy, we can conclude that the most comprehensive and developed economic diplomacy is implemented in the Kingdom of Denmark. The economic diplomacy is developed in the same direction in the Republic of Slovenia, keeping in mind that it is a newer member of EU. What these two countries have in common is the central role of the Ministry of Foreign Affairs in the pursuance of economic diplomacy. The Kingdom of Denmark, in addition has a holistic structure of economic diplomacy, but the latest trend involves
charging their services with some of the companies that use support by the economic diplomacy structure. While developing its economic diplomacy, the Republic of Slovenia has opened its Embassies for study and business visits by businesspersons who want to do market research in order to prepare a strategy for performance at foreign markets. Ambassadors and promoters are required for direct assistance to businesses in their activities outside the country.

Macedonia develops its own economic diplomacy where in addition to the Ministry of Foreign Affairs, the Agency for Foreign Investments and Export Promotion has a significant role, taking into account that economic promoters are appointed by this Agency. According to the experience of the small EU countries we have analyzed in terms of evolution and better future development of the economic diplomacy of the Republic of Macedonia, we would suggest some recommendations and the following ideas:

- The Central role of the Ministry of Foreign Affairs in pursuing economic diplomacy. This example is provided by the Republic of Slovenia and the Kingdom of Denmark, where the main coordination and the main role is given to their Ministries of Foreign Affairs, which ensures full control and monitoring of all activities and policies in economic diplomacy from one central place.

- Greater involvement of the Embassies of the Republic of Macedonia in terms of business visits and study stays by Macedonian businesspersons who want to do market research in order to prepare a strategy for performance at foreign markets. This initiative has been successfully implemented by the Ministry of Foreign Affairs of the Republic of Slovenia. The Chambers of Commerce of the Republic of Macedonia will support and recommend to the Ministry of Foreign Affairs, certain exporting Macedonian companies, which would like to carry out research and design a strategy for targeted foreign markets. Embassies will be hosts to representatives of Macedonian companies for a period of 1 to 3 months. This initiative does not require a large budget, while the Ministry of Foreign Affairs will be directly involved and it will strengthen relations with business associations in the country.

- Greater multilateral economic activity and international presence. The biggest challenges in the XXI century are: greenhouse effects and CO2 emissions, the consequences of climate changes,
attainment of the UN Millennium Development Goals, finalization of the Doha Development Agenda in the multilateral trading system, and negotiation of the Framework Convention on Tobacco Control with the World Health Organization. All these issues are an important part of the multilateral economic system. Climate change and the future new deal to replace the Kyoto Protocol will cause significant adjustment needs for additional investment of the domestic industry and the energy sector. The finalization of Doha Development Agenda in the multilateral trading system will give possibilities for Very Recently Acceded Members, because of the obligation to implement a great number of concessions and commitments in the process of accession, but all members must participate in the ongoing negotiation of the World Trade Organization, because nothing is agreed until the entire package is agreed. The Framework Convention on Tobacco Control provides long-term deal with tobacco producers because of the harmful effects on human health. The final goal is the abolition of the production of tobacco products in a transition period, maybe of 20 years or more. This process will produce commitments for restructuring domestic polices in the agricultural sector. The Republic of Macedonia should be more active in the multilateral economic activity in order to protect its economic interests.

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Krum Efremov: Economic Diplomacy as a Strategy for Sustainable Economic Growth


