
Editorial

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Biographical notes: Kishan S. Rana holds a BA (Hon) and an MA in Economics from St. Stephens College Delhi. He served in the Indian Foreign Service (1960–1995) and was an Ambassador/High Commissioner in various countries: Algeria, Czechoslovakia, Kenya, Mauritius and Germany. He was on the staff of PM Indira Gandhi (1981–1982). His titles include: Professor Emeritus, DiploFoundation, Malta and Geneva; Honorary Fellow, Institute of Chinese Studies, Delhi; Archives By-Fellow, Churchill College, Cambridge; Public Policy Scholar, Woodrow Wilson Centre, Washington DC; Guest Faculty, Diplomatic Academy, Vienna; and Commonwealth Adviser, Namibia Foreign Ministry, 2000–2001. He is the author of several books including: *Inside Diplomacy* (2000); *Bilateral Diplomacy* (2002); *The 21st Century Ambassador* (2004); *Asian Diplomacy* (2007); *Diplomacy of the 21st Century* (2011); and *Economic Diplomacy* (2011).

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The economic diplomacy of developing states moves along a value chain. As with the rest of their economy, including development of the home production base, exploitation of resources, the skilling of people, and economic policy management capacity – all this contributes to progressive transformation in the country's engagement with the rest of the world. The objective of economic diplomacy is always to project and advance the country's external interests, maximising current advantages, and preparing the country for further evolution along the value chain.

A Caribbean country may start off as an exporter of raw bauxite; India or Pakistan produce and export raw cotton. As industrial capacity grows, these basic materials are processed at home. Cotton is converted yarn, and thence to textiles. The emergence of global commerce in manufactured apparel creates opportunities to produce and export garments. Moving further down, the quality of garments changes, with embroidery and other value addition, as well as a shift to fashion products. At the same time, the country becomes an exporter of technology and entrepreneurship, investing in other countries

where labour is cheaper. In similar fashion, bauxite exporters begin to process the mineral at home producing alumina, and then aluminium and its products. Moving up the value chain for minerals involves also plentiful supply of electric power, and a range of infrastructure facilities, without which foreign business will not be attracted to the country. Those engaged in diamond mining, say in Southern Africa, work toward ‘beneficiation’, i.e., cutting and polishing diamonds at home, and then commencing jewellery production. Economic diplomacy needs to move in step with such growth in domestic capacity, and anticipate further evolution, by preparing the ground for the future. It is practiced abroad and at home; its agents are diplomats, officials in the economic ministries and policy makers. But the real beneficiaries are the home enterprises that engage in business, production and the delivery of services.

A typical developing country initially works on export markets for its raw resources. Then, when domestic production facilities grow, it looks to markets for these manufactured goods, seeking new export avenues, as well as favourable conditions of trade, including concessions that may take the shape of unilateral preferences. Around the same time it becomes important to attract investment into the home country, and with it the technology that is suited to the extension of its manufacturing base. All this while, it also works on maximising aid flows into the country, financial as well as technical. Further down the road, the country may commence its own foreign investments. It will then look to investment conditions in other countries, and look to investment protection agreements, not from a defensive perspective, but rather by way of the protection and facilities its own investors might enjoy in those countries. The economic diplomat will move from being a salesman in search of market niches, to one who promotes the country as an investment destination, and then an adviser to home entrepreneurs that look to foreign countries to set up their own production facilities.

In the early 1960s, what was to become one of India’s star public sector enterprises, Hindustan Machine Tools Ltd (HMT), exported the very first Indian built machine tool to Europe.¹ HMT’s Europe representative in Europe called on the Indian ambassador in the country to which this was destined, and invited him to attend a small ceremony at the dockside. Responded the ambassador in genuine puzzlement: What do I have to do with machine tools? Focused as he was on his lofty political agenda, of course he did not attend. No envoy worth the name would today query such an invitation.

In 2005, Nepal’s Finance Ministry and the Asian Development Bank commissioned Dr. Badri Prasad Shrestha, an expert on economic policy, to write a report on how the country might better practice its economic diplomacy. His recommendations: a need to “mainstream economic diplomacy into the total foreign policy”; “de-compartmentalization of economic diplomacy...to generate a sense of ownership and participation by the entire MOFA” (Ministry of Foreign Affairs); “forging a workable mechanism between MOFA and the sectoral ministries...for necessary communication, coordination and cooperation”; “the problem of restructuring/reorganization of MOFA”; “rationalization of embassies and missions so that they can play their overdue role in economic diplomacy”; “the problem of forging output-oriented partnership with the private sector” (Shrestha, 2005). Many small developing countries would find themselves in sympathy with these recommendations.

Who is an economic diplomat? We find a wide range of actors that play this role, not all of them officials. Besides those in embassies and in ministries that work on foreign trade, investments (inward and outbound), foreign aid, and those that deal with technology issues, part-time economic diplomats may be financial officials that negotiate

or implement external agreements that cover investment protection, double tax avoidance treaties, free and preferential trade, and other forms of economic cooperation. We would also include in this cluster bankers that deal with external credits and export guarantees, chamber of commerce and industry association officials that travel abroad on business promotion missions, and even private businessmen – and their public sector counterparts – who drum up economic partnerships. We should not leave out those that deal with related sectors such as tourism, and help to build the country brand. At this point we must not forget also the ones working with different multilateral and plurilateral organisations like OECD, EU, IMF and credit rating agencies. Is it not also very important to present favourable facts to a country manager from OECD or a credit rating agency, justifying that the financial and economic situation in the observed country will improve faster than anticipated? It is very possible, that this country manager could also on the basis of these new facts prepare a (new) more optimistic report. Consecutively country ratings could be higher, thus saving millions of money due to lower and more accessible interest rates for entrepreneurs. The catchment is thus very wide, quite unlike the case of the political diplomat.

This short section at the beginning of the editorial should help us understand the integrative nature of external economic work, which is captured in the wide-ranging essays in this special issue of our journal entitled ‘Economic diplomacy in emerging and developing economies’.

The call for papers for this special issue was issued in the late spring of the year 2012. This was a year, when a part of the world was still very much in the claws of the global crisis that began in 2008; they were still struggling with high unemployment, lack of available credit, and poor economic growth. This was (still is) particularly the case for the Europe and especially the Eurozone. On the other hand, good or even extraordinary growth has been witnessed in some parts of the world (emerging and developing economies), with rather limited signs of trouble, though several economies witnessed a slowdown in the heady growth of the past decade, including China and India. Africa too has witnessed good growth, though this continent has drawn less attention than it deserves.

We could argue that the world is again very much split. It was only 30 years ago when it was divided by the iron curtain. Today we could say that ‘the West’ is very much dependant on ‘Eastern and Southern’ resources (natural resources, human resources and increasingly nowadays, even financial flows). It is true that the majority of Western countries are now out of recession; however most are still in the grip of tight budget constraints, high unemployment and minimum economic growth. Perhaps, it is very bold to say, but it seems as if the world is divided again – this time, however, it is between the ‘emerging’ and the ‘stagnating’ part of the world (Justinek, 2013).

As economic power obviously shifts from one part of the world to the other, we have been interested in observing the role played by economic diplomacy in this phenomenon. For this special issue we received eight excellent papers prepared by scholars, diplomats and others.

The first paper is coming from India but addresses Indian economic diplomacy activities in Africa. To be more precise, the author H.H.S. Viswanathan, who is also a former Indian diplomat with many postings in Africa, focuses on India’s Economic Diplomacy in Africa and especially India’s approach to development cooperation with Africa. The paper provides critical analysis of India’s economic diplomacy in Africa; presenting personal experiences of the author and therefore puts economic aspects of

diplomacy in the overall context of political and historical relations. India's economic diplomacy is informed by its philosophy of South-South Cooperation and in this sense lays emphasis on an equal partnership model. The cooperation is driven by the demands of the partner countries, with stress on human resource development and capacity building. With the high rates of economic growth in India on the one hand and a resurgent Africa on the other, India-Africa Partnership has been fine-tuned to factor in the new realities.

The next paper is coming from another BRIC country – Brazil and is authored by Igor Pessoa. The paper is entitled 'Brazilian geo-economics: a study of the Brazilian model' and focuses on Brazil's different positions in the current international arena. Important coalitions were discussed, as for example, BRICs, IBSA, UNASUL, MERCOSUL, CPLP, among others. Throughout the study, the main historical concepts of the Brazilian diplomacy were analysed and compared. In the end, the author tries to identify a pattern of behaviour, which is called the Brazilian geo-economic model. The identification of the model spawns the opportunity not only for better understanding of the Brazilian conduct, but also to propose possible improvements.

The third paper is authored by Kishan S. Rana, a widely published author, co-editor of this special issue and also a former Indian Ambassador. The paper with the title 'Economic diplomacy: what might best serve a developing country?' provides answers to questions like; what are the essentials for a country to practice effective economic diplomacy? It also determines suggestions which agency should handle foreign trade and investment promotion work, and the manner in which actions by the different actors involved, official and non-state, are harmonised. It also touches the modalities for decision-making and the manner in which international and regional arrangements are handled. The author especially points out the bilateral level, which is where many of the key actions have to be taken, for promoting exports and foreign direct investment, through a series of concrete actions by home actors and by diplomatic missions directed by the foreign ministry. The paper at the end touches the role of training officials from the foreign ministry and the other agencies that play an active role, as increasingly more and more important issue in advancing the country's external economic interests.

The fourth paper entitled 'The role of China's economic diplomacy in post-crisis' comes from China and is authored by Lijuan Sun, a PhD candidate. The paper provides detailed analysis about the role of China's economic diplomacy in the post-crisis mainly from two perspectives. One is on the level of mechanism; another is in the field of implementation. The paper focuses on the years after the world's economic crisis in 2008 and the activities of the Chinese Government which have been conducted during the past few years in the frame of economic diplomacy. The paper points out achievements in controlling the economic declining, promoting the quality and benefit of the economic growth, reaching the balance among investment, consumption and export and the balance between industries.

The paper by a leading European management professor, Huub J.M. Ruël et al. presents the perceptions of business executives from a developed economy, the Netherlands, on commercial diplomacy services offered by the Netherlands Embassy in an emerging economy, Malaysia. It provides an insightful example of what business executives think of commercial diplomacy and what they need in order to do business in Malaysia. Although the study presented is descriptive, it provides valuable contributions to the literature. The findings in the paper point out that companies familiar with the

Malaysian business environment apply less for diplomatic business support, but that support towards newcomers is assessed as valuable.

The next paper, by Miroslav Raicevic, offers an overview of Serbian economic diplomacy, through the historical context of the complex foreign-policy and internal realities that were characteristic of the end of the 20th century and the beginning of the third millennium. The complex realities of the 1990s (the disintegration of the former Yugoslavia, wars in the region, international sanctions, bombing, the collapse in GDP, fall in living standards and high unemployment, unprecedented rates of inflation) resulted in a thorough understanding of economic diplomacy. The research undertaken during this period and being presented in the paper points to the enormous, long-term economic price paid due to the conflict, the lack of clear definition concerning national foreign economy interests, the neglect of national companies' interests in anemic economic conditions, and the resulting breakdown of economic diplomacy.

The seventh paper entitled 'The role of economic diplomacy on energy projects: the exploration of natural gas resources at Cyprus exclusive economic zone', applies the theory of political neo-realism, taking into consideration that access to and control of natural resources is a key factor of national economic power. It further highlights the crucial traits of Cypriot energy diplomacy estimating their impact on the long-term development of Cyprus's natural resources. The key argument is that Cyprus should forward an economic diplomacy targeting at mutually beneficial interdependency in energy sector with key state players within the regional security complex of East Mediterranean region.

The eight paper entitled 'Exporting Vietnam's agricultural and fishery products to European Union market under green trade barriers' provides another point of view on trade and environmental protection regulations. The authors state that these regulations act as green trade barriers and are still increasing despite the fact that there is no common policy framework or a powerful international organisation responsible for monitoring them. The vague borderline between environment protection and trade protectionism has fuelled many trade disputes and concerns over its negative impacts on exporting countries. This research is done with a view of providing a comprehensive theoretical framework on impacts of environmental trade barriers as well as exploring how they work in Vietnam and European Union trade relationship. The paper provides one important result: requirements to upgrade technology to meet the precise technical regulations and expenditure for conformity assessment actually increase production costs to small and medium companies in the short-term. However, proper adjustments to these requirements will bring about long-term benefits.

The final paper represents a bit different view and focus of the covered topic. It provides a view from a military perspective, which is rather rare, when talking about economic diplomacy. The paper is authored by John V. Farr and Kenneth W. McDonald, both coming from the Military Academy at Wes Point (USA) and is titled 'Strategic resource investment methodology for developing countries'. The authors argue that we need methods, processes, and quantitative analytical tools to determine where to invest scarce resources, what are the capabilities gaps, and the effectiveness of certain types of investments in closing the gaps. Thus, the paper introduces the strategic resource investment methodology (SRIM) for this purpose. This five-step process includes an establish context, problem definition and conduct the needs assessment/stakeholder requirements, solution design, decision-making, and implementation and monitoring phases iterative systems process.

The selected papers in the special issue, not only represent a great overview of economic diplomacy cases in different emerging and developing economies, but also represent the wide range of different topics, which are all part of economic diplomacy. The papers touch the concepts of development aid, geostrategic and geo-economic issues, trade diplomacy, commercial diplomacy, energy diplomacy, macroeconomic figures, war consequences, trade barriers, environmental diplomacy, etc.

All this and much more is thus covered in the presented papers of the special issue. The selected papers additionally confirm the right decision from a few years ago, when editors were establishing a special journal, namely *International Journal of Diplomacy and Economy*, exclusively devoted to covering the complex issues of economy and diplomacy.

The special issue on emerging and developing economies however, represent an excellent ‘add on’ flavour to the mix and to the topics covered within economic diplomacy. The issue represents a great basis for further discussions and analysis for future work of diplomats, experts, scholars and others.

References

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 Shrestha, B.P. (2005) *Enhancing Economic Diplomacy (For Trade, Investment and Employment)*, September, Economic Policy Network, Ministry of Finance, Kathmandu.

Notes

- 1 The story of that state enterprise is apocryphal. When a proposal to set up this enterprise was mooted in the mid-1950s, the Indian government invited a UK consultant to advise; he recommended that it was futile for an underdeveloped country like India to manufacture machine tools. Jawaharlal Nehru overruled that recommendation. HMT’s star shone bright from its inception in 1961, up to the early 1980s; it set up a series of manufacturing plants from its profits (even venturing into quartz watch manufacture in the mid-1970s). Subsequently, it fell victim to the inefficiency and bureaucratisation malady that seems to be the fate of most state enterprises. It remains active, but has lost its early shine.