
Editorial article

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1 Introduction to the debate on the economic diplomacy in the current crisis

I am very pleased to write this introduction article for the special issue of the *International Journal of Diplomacy and Economy* on the role of commercial diplomacy in the time of the current economic crisis. The idea of the special issue is just to highlight some of the current occurrences we are facing in today's world. This is why I have selected some cases that may – from different points of view – present the main issue of the modern (global) commercial diplomacy, which has developed in the last five years with high speed and is now, six years after the outbreak of the current economic crisis, much more evolved than it was before 2007. Let me explain the initial point of this debate with a short observation provided by Udovič et al. (2014), stating that

The current economic crisis that hammered the final nail in the coffin of the traditional tuxedo (i.e., high level) diplomacy, not only raised the issue of commercial diplomacy, but has made it a 'poem of the day'. The result has been that all countries – irrespective of their size – have started to put economic interests in the forefront of their foreign policy activities. Here the role of 'country correspondents' (often known under the name of economic counsellors) became indispensable, since they can (and ought to) help domestic enterprises in overcoming trade barriers and conquering new markets. This trend will define the diplomatic intercourse also after the crisis. As it seems now the economic crisis has not shifted only towards 'more commerce' in diplomacy, but has changed the patterns of the future development of diplomacy.

The comment provided by Udovič et al. (2014) is the starting point for the discussion on the historical patterns and future development of commercial diplomacy.

The issue of commercial (and broader economic) diplomacy has been a controversial issue throughout history, meaning that nobody in diplomatic theory wanted to accept that diplomacy until the 14th century had mostly been commercial diplomacy, and became political only with the emerging Italian city states. At that time, the process of conversion

from commercial to political diplomacy started. This process stopped with the *etatisation* of diplomacy (symbolically started with the Westphalian congress), being settled as one of the cornerstones of the modern international community (Udovič, 2009, 2013). From that point forward, diplomacy – which for almost two millennia was an affair of merchants and *ad hoc* diplomats (following to a great extent also the economic interests of their rulers) – put the political façade to its forefront. This approach to diplomacy was empowered by the French revolution, in which economy was not understood as a result (i.e., welfare), but as a tool to reach political ends. An illustration of this can be found in Napoleon's intervention in the Paris Chamber of Commerce after he issued the Milan Decree in 1807:

Our world changes constantly. In the past periods, you had to have colonies, if you wanted to be rich. You had to have India, Antilles, Central America, San Domingo. Those days are over. Today you have to be a manufacturer and you have to provide your own supply. Industry has at least the same value as trade had in the past [Krippendorf in Benko, (2000), p.98].

Napoleon's words present succinctly the switch in the perception of trade, which in the time of the *etatisation* of international relations became an important instrument for conceiving and performing non-economic tasks. The approach introduced by the French revolution was finally adopted by almost all European (continental) countries and lasted until the end of the First World War. Even though the balance of power required strong political diplomacy, the mid-19th century brought a short period when commercial diplomacy was gaining prominence. In 1860, France and Great Britain signed an agreement introducing trade liberalisation between the two states, known as the Cobden-Chevalier agreement. This 'free trade area' was later extended to other states. In 1862, Belgium and the German Zollverein joined the Cobden-Chevalier treaty, followed by Italy in 1863, Switzerland in 1864, Sweden, Norway, Spain and the Netherlands in 1865 (Fremdling, 1999; Luzzatto, 1960). However, the liberalisation period ended with the 1881 economic crisis when states decided to abandon the liberal approach to trade and replace it with protectionist and interventionist measures. From that point forward, it was clear that commercial diplomacy lost its game. Within the processes of growing tensions among European powers and with the German notion that the economic power of a country should be reflected in the distribution of colonies, commercial diplomacy was losing its influence. The process of marginalisation of commercial diplomacy continued also after WWI: Although there were some attempts to change the course (such as the Geneva conference in 1927), the results have not followed the wishes. The process of including the commercial diplomacy as an equal partner to the political diplomacy was abruptly stopped by the 1929 crisis, after which neither the idea nor the actions of economic actors could break the political calculations and occurrences.

The post-1945 economic revolution influenced also the development of commercial diplomacy – not only in practice, but also in theory. Some of the discussion regarding the importance of commercial diplomacy started already in the '60s, but only in the '70s the researchers started to deal with the issue of commercial diplomacy in an integral manner, meaning that they were trying to couple the activities of political and commercial diplomacy, which were from that point forward understood as twins and not as two separate activities. At this point, I should mention the article published in *International Affairs* by Susan Strange titled *International Economics and International Relations: A Case of Mutual Neglect*. In this article, Susan Strange for the first time considered to

merge both disciplines within the theoretical framework – which is something that had already been done in practice. A review of the literature on the nexus between international relations (and diplomacy) and international economics shows that even though Susan Strange opened a Pandora's box on the issue of interdisciplinary approach – which has been the most useful for the development of diplomatic studies and international political economy – almost nothing happened for almost two decades and international relations theory remained concerned mostly with economic sanctions and economic foreign policy, while economic and commercial diplomacy remained outside the mainstream debate (Lee and Hudson, 2004). Almost two decades were needed for the focus of theoretical debates on (and in) diplomacy to change.¹

The dissolution of the bipolar system and the end of the centrally planned economic order in the Eastern part revived the debate on the role of states in international business. These debates also reopened questions on the role of economic and business diplomacy within national foreign ministries and diplomatic representations, as part of national diplomatic intercourse. Since there was no more need to focus only on 'hard issues' in national foreign policy (Bozyk, 2006), state administrations decided to include some soft factors in their diplomatic strategies and performance. From that point forward, commercial diplomacy has been gaining importance in every-day diplomatic communication. This process accelerated with enhanced globalisation tendencies, which gave impetus to international (economic) relations at the dawn of the new millennium. Symbolically, this is illustrated with the accession of the People's Republic of China to the World Trade Organisation in 2001.

The dramatic evolution of commercial diplomacy in practice also led to some development in the theoretical approaches to commercial diplomacy. This is why after the year 2000 we are witnessing flourishing debates about issues related to economic/commercial diplomacy, which is – even though conceptualised in different ways – viewed and developed as an interdisciplinary research area, combining different methodological tools, but at the same time covering a large plethora of studies – from business, marketing and management to international relations.² Issues that were highlighted by Strange (1970) as 'artificially divided' have been presented after 2001 within the field of diplomatic studies, which have been growing into an important part of scientific research not only within international relations, but also within the area of international economics.

The development of the field of commercial diplomacy – not only in practice, but also in the theoretical conceptualisations – has become even more intriguing in the time of the current economic crisis, when states use commercial diplomacy to mitigate the protectionist and interventionist policies of other governments. Thus, commercial diplomacy has returned to its roots, since the main notion behind it is to establish a friendly environment for companies' internationalisation and exchange of goods and services. As some interviewees explained to Udovič (2012),

the economic crisis revealed the importance of cooperation between politics and economics. There is no economy without politics and no politics without having an economic effect. Commercial diplomacy in modern international relations is a necessity and not a will. The countries that have understood this, are almost out of the crisis; we, where commercial diplomacy has been neglected for almost 20 years, are going to have a harsh and long-term recovery. However the blame for this is not only in state structures, but also in the business sector, which has not forced us to adapt to the reality. The result is

that we have been living in a sort of a safety-bubble and we have lost two decades. Without a change in mentality, another one is going to be lost.

The excerpt from Udovič's interview with a diplomat presents some of the issues already marked in the analysis by Udovič et al. (2014), i.e.:

- a commercial diplomacy is a necessity in the modern interdependent international relations regardless of the size of the country
- b commercial diplomacy is more important in cases when we have strong political ties between the political decision-makers and business entities
- c commercial diplomacy is primarily intended to smooth the economic intercourse between countries
- d commercial diplomacy is especially important in the cases of transition countries, which have strong export concentration, causing dependence on export/import or investment markets.

Taking into consideration the first issue, it should be noted that even though commercial diplomacy is necessary both for large and small countries, there is a difference in its implementation. This means that small states as price-takers can use commercial diplomacy only when the international circumstances allow doing so, while large countries can use commercial diplomacy also to influence the occurrences in the international milieu. Thus, the commercial diplomacy of large countries is strongly related to their economic foreign policy, while the implementation of commercial diplomacy in small countries depends on their economic and political characteristics and their inclusion in international affairs (by finding the appropriate niches for their operations).

The second characteristic of commercial diplomacy in the modern world relates to the role of commercial diplomacy in different socio-political-economic milieus. In a narrow sense, it is true that the help of the state is more adequate (and necessary) in cases where political decision-makers are closely linked to the economic actors. However, the economic crisis revealed that maybe this relationship is not as straightforward, since during the crisis governments and also private enterprises intensively strived not only against the rising protectionism and interventionism, but also to force international (economic) decision-makers to stabilise the international economic environment, which would allow the perseverance of economic ties and activities among different countries. Commercial diplomacy on the one hand reacted as an accelerator of economic liberalisation, while on the other it served as a sort of support for the countries that faced economic and financial problems. As such, commercial diplomacy acted not only as a pushing factor, but also as a buffer (cf. Justinek, 2010).

Before the crisis, commercial diplomacy was understood as less relevant, since the perspective was that it is a persistent activity of states for convincing other states to do or not to do something. In the time of the crisis, it became clear that commercial diplomacy is not only an activity required by states, but first and foremost an activity that is executed by states and required by national enterprises that operate abroad (Ruël and Zuidema, 2012). The aftermath of this is that the instruments and tools of commercial diplomacy are as developed as they have to be to fulfil the demands of the enterprises. Therefore, higher (and more complex) demands result in better (more competitive and

efficient) instruments of commercial diplomacy and vice-versa. Without a proactive business sector (Strange and Stopford, 1991; Strange, 1992) and clear paths on the economic priorities of a state, commercial diplomacy cannot be effective. This is extremely important for small transition countries facing limitations in their human and financial resources. Since they have to optimise their diplomatic activities, these should not only be targeted, but also economically efficient.

Finally, commercial diplomacy can be an effective tool for geographic diversification of export/investments (Udovič and Rašković, 2010), since state officials can open different doors to enterprises that wish to operate abroad (Saner et al., 2000). From the 14th century, countries have their embassies abroad. At these embassies, they employ experienced people who can help enterprises recognise cultural and societal patterns, especially in (not only geographically) distant cultures. Since these employees know the business environment of the host country, they can serve as a sort of a help button for the enterprises that would like to internationalise to the selected market.

These four elements frame the debate in this special issue, which starts with an analysis of two European Union member states – Croatia and Slovakia. The article on Croatia, which became the 28th member of the European Union in July last year, shows that even though Croatia had in the past some experience with commercial diplomacy, the commercial diplomacy system is still underdeveloped and subject to frequent change. In their article, Ana-Maria Boromisa and Anastasya Raditya Ležaić present the main challenges the Croatian commercial diplomacy is dealing with. The article on Croatia is followed by an analysis by Michal Polgár, who presents the main characteristics of Slovakian commercial diplomacy. The main difference between the two countries is clear at first sight – while Croatia is changing the structure of commercial diplomacy very often, Slovakia has a quite stable commercial diplomacy structure. In some views, Slovakian experience with commercial diplomacy can serve as a model how other commercial diplomacies should be structured. The third article deals with the commercial diplomacy of Serbia, which has been established only a few years ago. Željko Bellina presents some of its characteristics. As pointed out in Bellina's article, the main issue of Serbian commercial diplomacy is 'where to establish the commercial diplomacy posts'. Since Serbia would like to diversify its export and FDIs, it is necessary to choose commercial diplomacy posts in such way that they will assist the export/FDI diversification of the national economy.

The theoretical discussions in the special issue are followed by in-field experience, presented by three practitioners – Zvone Dragan, Joško Klisović and Marek Csabay. Zvone Dragan, as a former Slovenian and Yugoslav ambassador, discusses the relevance, position and role of commercial diplomacy in the time of the current crisis. Joško Klisović presents a view of the Croatian commercial diplomacy, as seen from the Croatian Ministry of Foreign Affairs, while Marek Csabay combines the practical experience he has from his post at the Ministry with his theoretical background on what commercial diplomacy should be. Altogether, these six pieces constitute a relevant background for discussion on the future development of commercial diplomacy and its role – not only during the economic crisis, but especially after it. The idea of the special issue is therefore not only to present relevant dossiers about commercial diplomacy, but also to open the door as wide as possible for the development of different theoretical concepts linked to commercial diplomacy. I hope we succeeded in doing so and that we have not only poured new wine in old bottles.

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Notes

- 1 In 1985, Baldwin published a book *Economic Statecraft*, which is marked even today as one of the most prominent and influential books in *International Political Economy*, concerning the issue of economic statecraft, commercial diplomacy, economic foreign policy, etc.
- 2 To quote only some of the most well-known analyses on commercial diplomacy: Saner et al. (2000), Riordan (2003), Saner and Yiu (2003), Bayne and Woolcock (2003), Hocking (2004), Lee and Hudson (2004), Muldoon (2005), Langhorne (2005), Strange (1992), and van Bergeijk et al. (2011).