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Economic Diplomacy

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INTRODUCTION

Globalisation and shifting power balances between the West and other countries, particularly those in the Asia-Pacific region, are creating new incentives for governments everywhere to rethink the balance between their different national interests. In addition, pressing global issues, such as climate change and scarcity of natural resources (for example, water, energy and minerals) are growing challenges for governments (see Chapter 49 in this Handbook). Economic diplomacy is central to all these issues. Although it is certainly not a new phenomenon, the end of the Western-dominated era of free-market capitalism marks a new episode in its conceptual and practical evolution. The revolution in communications technologies acts both as a facilitator of and a challenge to such change (see Chapter 44 in this Handbook). As institutions at the domestic and the multilateral level, such as ministries of foreign affairs (MFAs) and the World Bank, are adapting to this new reality, national diplomatic systems (NDS) are also changing (see Chapter 5 in this Handbook).

Given this context, this chapter raises several questions about economic diplomacy. Is economic diplomacy defined differently across disciplines and across countries? What debates underlie the re-emergence of economic diplomacy in foreign affairs? How do governments adjust their strategy and practice in this field? And what are the consequences for national diplomatic systems and foreign policy at large?

To answer these questions, this chapter adopts a diplomatic studies perspective and argues that the concept and practice of economic diplomacy is becoming more comprehensive, covering at least three types of diplomatic activity: trade and investment promotion (commercial diplomacy); negotiations on economic agreements (trade diplomacy); and development cooperation. As governments seek new and innovative ways to advance decision-making in these fields, the practice and institutional organisation of economic diplomacy is undergoing significant change. Such change is not unidirectional, however, and there is significant variation in countries' national diplomatic systems, that is, the set of institutions and actors, configured for the management of a state's international environment (Hocking, 2013: 126–7). The chapter also argues that, although a broader network of sub-state and non-state actors is becoming involved in economic diplomacy, the state remains the primary actor. Government officials continue to represent and mediate the interests of business as well as civil society interests to political and public entities abroad. However, in this process the balance between advocating narrow sectoral interests and the more general concerns of domestic citizens and global public goods remains a precarious one.

Key Points

- Economic diplomacy is certainly not a new phenomenon, but globalisation and shifting power balances are making it a more important diplomatic instrument in foreign affairs for governments throughout the world.
- Economic diplomacy is becoming increasingly comprehensive, as both strategy and practice.

EVOLVING THINKING ON ECONOMIC DIPLOMACY: A COMPREHENSIVE APPROACH

In recent years governments have strengthened the economic aspects of foreign policy. For many developed countries in the West, more attention to national economic interests is a sensible response to increased competition from emerging economies, growing financial constraints, and demands for transparency, accountability and result-driven policies at home. For the governments of developing countries, economic diplomacy is primarily a means to build a coherent economic approach to foreign policy, while simultaneously converting their growing economic muscle into political leverage (see Chapter 34 in this Handbook). For rising powers, 'great power economic diplomacy' is a means to realise power transition and reshape the global order (Zhang, 2014) (see Chapters 28 and 29 in this Handbook). While China is the most recent example of this, Britain, the United States, the European Union (EU) and Japan have followed similar paths.

Clearly, when seen from a diplomatic studies perspective, economic diplomacy serves both economic and politico-strategic goals. Thus a comprehensive definition of economic diplomacy would see it as an umbrella term that refers to both the use of political means as leverage in international negotiations with the aim of enhancing national economic prosperity, and the use of economic leverage to increase a country's political stability. Activities subsumed under this umbrella term range considerably, from trade and investment promotion (including through economic missions and intelligence sharing) and negotiations on economic and financial agreements, to inducements such as development assistance and coercive measures like economic sanctions.

Also from a diplomatic studies perspective on economic diplomacy it is useful to mention some distinctions and what is not emphasised. Economic diplomacy is distinct from business diplomacy in that a public sector agent – a government agency, an official or a political figure – is the principal actor (see Chapter 46 in this Handbook). While the private sector is either actively or passively involved, businesses or their representatives are not the focus of analysis. An economist's approach to economic diplomacy is also distinctive for its focus on quantitative cost–benefit analyses that adopt an economic logic to identify where and when economic diplomacy works. This includes analyses of the effectiveness of one or more instruments, of economic diplomacy between particular (groups of) countries, or of specific industrial sectors or goods. Such economic studies often investigate geographical patterns in international trade and diplomacy by use of the so-called gravity model to trade (see, for example, Van Bergeijk and Brakman, 2010). While economic diplomacy can have a multidisciplinary focus with contributions from rich research traditions, this chapter follows the approach taken by most MFAs: that is, it addresses the subject from a diplomatic studies perspective that emphasises a qualitative approach and an inherent political logic.

In practical terms in recent years, individual governments of developed countries, from Germany to Australia, have refocused on core strategic and economic interests and strengthening relationships with key partners. This is apparent from governments' strategy documents[1] and greater investments in economic diplomacy capabilities, including the opening of more representations with an economic focus and the appointment of diplomats with economic credentials (to promote trade, investment and cooperation in the field of innovation or agriculture, for example). Governments have also strengthened economic diplomacy activities, such as economic missions led by high-level political figures to promising markets, and negotiations on bilateral and regional economic agreements, including free trade agreements. In the multilateral context, economic diplomacy is also high on the agenda. More generally, developed and developing countries note the growing importance of economic and financial diplomacy and the challenge of 'state capitalism'.[2] This is hardly surprising as governments in latecomer countries commonly play an important role in industries that are operated by the private sector; for example, in sectors such as water management, energy, agriculture and harbour development.

For all countries, the growing challenges of security and stability are another reason to invest in economic diplomacy. Building closer ties or partnerships with some countries and not with others denotes not mere diplomatic signalling (see Chapter 6 in this Handbook) but constitutes real attempts to avoid isolation, create coalitions and to improve stability – for example, the bilateral relationship of China and Japan and their respective relations to neighbouring countries in the Asia-Pacific, which both regional powers seek to court. Both Beijing and Tokyo employ a variety of economic diplomacy instruments, including comprehensive economic partnership agreements and development cooperation projects, in an attempt to strengthen their relative position towards the other. A similar game is being played by the EU and Russia in their bilateral relationship and neighbourhood region.

In economic diplomacy, broadly conceived, economic/commercial interests and political interests reinforce one another and should be seen in tandem. Economic diplomacy is thus an umbrella term, involving several strands that may be more economic or more political in purpose (Okano-Heijmans, 2013: esp. 27–33; Bayne and Woolcock, 2013: esp. 2–13). Moreover, it includes a range of activities that are largely economic in character, such as commercial diplomacy (that is, generic and sector/company-specific trade and investment promotion) as well as trade diplomacy (i.e. negotiations between two or more countries that support economic transactions and trade and/or investment agreements). But economic diplomacy also involves more politically-motivated attempts to influence others, either through positive engagement (the premier example being development or economic cooperation) or by less benign means, such as sanctions.

The question of whether and when it is legitimate or desirable for governments to engage in economic diplomacy or not continues to be a matter of fierce debate, in which scholars of varying backgrounds emphasise diverging points. In general, it is probably fair to say that the role of a governmental network as a broker towards other governments is less disputed than direct financial or other government support to their own businesses in their activities abroad. Concerns about 'fair competition' and 'level-playing field' are often heard from economists, both to criticise others for supporting domestic companies as well as to legitimise their own government support by other than financial means. Political scientists emphasise that no fair or equal standard can be created for all countries; the differences between countries' levels of development, political and economic systems, types of home industries, natural endowments, and political power of influence are simply too big. These divergences also explain the different conceptualisations and practices of economic diplomacy between countries and regions, and are an important reason why there can be no 'one-size-fits-all-approach' to economic diplomacy.

Within diplomatic studies, economic diplomacy is distinguished from other forms of diplomacy in two ways (Woolcock and Bayne, 2013: 389–90). First, MFAs are not necessarily leading the decision-making processes. Economic diplomacy also involves various 'line ministries' such as those involved in economic affairs, agriculture and infrastructure, as well as development cooperation and climate change. The second distinguishing feature of economic diplomacy is its significant link with private sector bodies. This is a natural result of the fact that the direct beneficiaries of economic diplomacy are, to a significant degree, non-government agencies – that is, small and medium-sized enterprises as well as big business. Importantly, the goals sought by these two beneficiaries – government entities on the one hand, and the private sector on the other – differ substantially. While private sector entities principally aim for economic merit, most governments and for that matter non-governmental agencies and civil society organisations, strive for so-called global public goods, such as robust institutions to manage climate change, scarce natural resources (water and energy, for example) and international stability.

Taken together, these two distinctive features of economic diplomacy make decision-making in economic diplomacy an extremely complex process. More than any other form of diplomacy, the management of economic diplomacy involves a variety of state actors at the national, provincial and local levels. Furthermore, a significant number of non-state actors, including an extremely diverse private sector as well as civil society organisations, have a stake in the government's economic diplomacy.

Key Points

- There are different economic and political motivations to employ economic diplomacy in foreign affairs, especially between developed and developing countries.
- Whether or not and when it is legitimate or desirable for the government to engage in economic diplomacy continues to be a matter of fierce debate.
- Decision-making in economic diplomacy is a complex issue because there is a diversity of state and non-state stakeholders which aim for different economic and political outcomes.

THE NEXUS BETWEEN COMMERCE, TRADE AND DEVELOPMENT

As governments are actively re-emphasising economic diplomacy in their foreign policy, there is a common trend towards developing stronger linkages between three strands of economic diplomacy: trade diplomacy, commercial diplomacy and development cooperation. These economic diplomacy tools are employed most regularly in times of relative peace, that is, when there is no need to resort to more extreme instruments such as sanctions or, worse still, declarations of war. Commercial diplomacy, trade diplomacy and development cooperation were largely separated until the 1990s, when the more developed countries in the West largely dominated global political and economic affairs. The more recent trend, however, has been back to greater linkages between the three (see Figure 45.1). In Europe and the United States, this change is spurred by the growing presence and influence of a group of countries that is not necessarily inclined to follow the rules and conventions of the game of international politics and economics that developed in the aftermath of the Second World War. For their part, latecomer countries, including Asian, post-colonial and transition states, have for a long time openly adhered to the comprehensive approach to economic diplomacy. This may be explained by the viscosity of global governance and international political and financial institutions, and therefore the greater dependency of the governments of emerging countries on economic tools and commercial relations to strengthen their position in international relations.

Of the various economic diplomacy strands, commercial diplomacy probably has the broadest consensus and the most developed body of literature. Economic diplomacy is sometimes even equated with commercial diplomacy, particularly by those who have a dominantly economic take on the subject. Trade and investment promotion – at both the general level and more specifically, via business advocacy – is a task that all governments perform in some way. In general terms, the three key activities are: providing (market and technology) intelligence; offering concrete hands-on assistance, including with trade questions, market access issues and trade missions; and providing partner search and networking support (Jones-Bos et al., 2012: 137). These tasks can be performed by specialised trade and investment support offices at home and/or by embassies or other representations abroad. The location of important new markets and production bases thus guides government decisions to focus activities on a certain country or region, as do the depth and breadth of economic relations and the involvement of the other country's government in the market. In other words, the more substantial the links between the public and private sectors in a particular country, the greater the incentive for others to invest in commercial diplomacy in relations with that country.

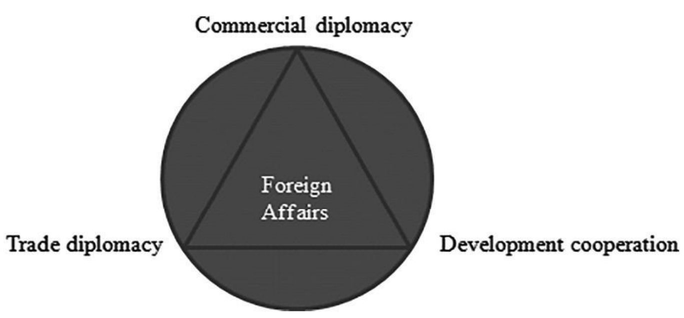

Figure 45.1 The trinity in economic diplomacy

Source: Author's compilation.

Development cooperation can be an expression of economic diplomacy in two rather distinct, although not mutually exclusive ways, when seen from the perspective of the country providing such assistance. First, it can be employed with the primary aim to promote more political objectives such as good governance, democracy or human rights. This approach has been adopted by European countries: their activities have often been commissioned to non-governmental agencies and geographically focused on the African continent. Another approach, which is more readily adopted by non-Western and new players in the field, largely emphasises economic objectives. The rhetoric is one of adding to the economic strength of the recipient and providing assistance, by linking assistance to trade and investment. To emphasise the mutual gains, this is commonly labelled economic cooperation rather than development assistance/aid. While Japan in the 1970s was an early example of this approach, the Japanese government has partly adjusted its policies in order to appease Western concerns of 'tied aid' – that is, of using development policies to promote its own private sector interests. The rise of new players with similar approaches to Japan of old – including China, India and Brazil – now puts Japan in a middle position, as a country that aims for both economic and political objectives. Pressured by new players and financial constraints at home, European countries are evolving in a direction that resembles that of Japan, albeit coming from the opposite end. Slowly but steadily they are overcoming the long-held taboo that development and profit can go hand in hand, and becoming more mercantilist themselves.

Trade diplomacy has become a popular policy instrument for governments since the 1990s. This conforms with the argument that governments are more likely to employ economic tools for political and foreign policy purposes during periods of systemic change. The scare of economic crises in various parts of the world prompted countries to work together in different ways, and the failure of the multilateral trade negotiations in the World Trade Organization (WTO) Doha round further contributed to this trend. Trade diplomacy thereby shifted focus from unilateral liberalisation backed up by WTO commitments to preferential liberalisation through bilateral and (inter) regional free trade agreements. Importantly, the motivations to engage in such talks are not just economic ones such as trade liberalisation, preferential market access and trade diversion. Rather, and increasingly so, they involve a variety of economic, political, legal and geostrategic considerations. Negotiations have come to involve issues of norm setting, rivalry for influence, strengthening of partnerships, and resource allocation. Hence, the concept of trade *diplomacy*, rather than trade *policy*. This politicisation of trade diplomacy has been most apparent in the Asia-Pacific, where negotiations on trade, investment and financial agreements play a major role in the competition for influence (see, for example, Das, 2014 and Chapter 29 in this Handbook). While the European Union, on behalf of its member states, remains largely committed to economic goals, aiming for economically 'high-quality' and 'deep' agreements, its latest strategy document of October 2015 also evidences a shift in this direction (European Commission, 2015).

As strategies and practice evolve in all three strands of economic diplomacy, linkages between the various fields are multiplying. The conflation of trade and investment promotion (commercial diplomacy) and development cooperation has been characteristic of many non-Western players and is now becoming increasingly apparent including in countries like Denmark and Australia. But development issues also increasingly feature in trade agreements, which come to involve much more than economic issues alone. Economic partnership agreements, for example, have been conceived – next to free trade agreements – as a way to move beyond issues of trade alone, and may also involve cooperation in the field of energy and environment, science and technology, trade and investment promotion and tourism.

Key Points

- In the evolution of economic diplomacy, the three strands of commercial diplomacy, trade diplomacy and positive incentives are becoming increasingly interlinked.
- Trade and investment promotion remains the most traditional task of economic diplomacy and is becoming more important as different forms of capitalisms meet.
- In developed countries in the West, the idea that development cooperation can go hand in hand with trade and development promotion is once again gaining acceptance.
- Negotiations about international trade rules are proliferating at the regional and bilateral level, and are becoming more politicised.

DIPLOMATIC ACTORS AND ORGANISATION

Although the state is by no means the only actor in economic diplomacy, it remains the most central one. Vast differences exist, however, in the extent to which governments are active in the field of economic diplomacy, as well as in how the interlinkages between politics and economics are strategised and institutionalised.

Which responsibilities a state takes up in the field of economic diplomacy differs substantially between countries. In countries that adhere to a stricter separation between state and market – mostly developed, neoliberal market economies – governments generally take a back seat, playing the role of facilitator. In countries at an earlier stage of development, governments tend to adopt a greater role, including steering and guiding certain sectors of the economy. This is no different from earlier times when European countries started to develop in the nineteenth century. But the level of development is not the only indicator of the extent of state involvement in the market. Differences also exist between countries and regions. A common characteristic of governments of many Asian countries, for example, is the fact that they strategically allocate resources to spur growth of a vastly diverse private sector at home and abroad. This may be the largest difference compared with countries in the Middle East and Russia, where state-owned natural resource industries dominate the private sector – making for a narrow, state-led economic diplomacy focused on the energy sector. Variations between Asian states, in turn, lie in whether the strong role of the state is organised in formal ways – such as in China, Vietnam and Singapore – or more informally – as in Japan, South Korea and Indonesia (Okano-Heijmans, 2012: 275–7).

When unpacking the various players that comprise 'the state' as an actor in economic diplomacy, it is instructive to think in terms of the national diplomatic system (NDS) – that is, a set of institutions and actors, configured for the management of a state's international environment (Hocking, 2013: 126–7). MFAs and the network of overseas representation are one characteristic feature that has assumed particular significance within this system. But they operate in an increasingly complex network that manages foreign affairs. Other ministries and semi-governmental agencies involved in the field of economic diplomacy include those in charge of trade and economic affairs, agriculture, infrastructure, as well as development cooperation and climate change. No matter the level of development or the politico-economic culture of a country, all share the continuous challenge of optimising extremely complex decision-making processes in economic diplomacy.

In an attempt to improve coordination between the various dimensions of foreign economic affairs, governments have tried to overcome the traditional and pragmatic, but unnatural, separation between politics and economics, or between MFAs and other departments involved. In some countries this resulted in a more or less formal arrangement between the MFA and the economic or trade departments, of which the so-called 'Concordat' in the Netherlands is one example (Serry, 1999). This agreement notwithstanding, the Dutch Department for Foreign Economic Affairs continues to be an 'odd-man-out' in both the MFA and the Ministry of Economic Affairs. As a result, it has moved back and forth several times between the two ministries. For much the same reasons, in the 1980s and 1990s a number of countries – including Australia, Canada and Argentina – amalgamated the foreign office with the trade department. That this is also a less than ideal way to deal with the challenge is illustrated by the comment of an Australian diplomat, who said that this was a 'shotgun marriage, but ultimately well worth it' (quoted in Mills, 2013: 407). (Australia took amalgamation further – see below.) In South Korea, a similar merger took place in 1998 but was undone ten years thereafter.

A more recent trend concerns the merging of the offices responsible for foreign affairs, trade and development. In Australia the conservative government, when led by Prime Minister Tony Abbott, amalgamated the Australian Agency for International Development (AusAID) with the Department of Foreign Affairs and Trade (DFAT). In the

Netherlands and Denmark, where the MFA took up responsibility for development cooperation years ago, foreign trade was added in recent years. The rationale offered was that alignment of policies will improve policy coherence on priority issues and will result in the greater overall impact of efforts. An unanticipated result, however, has been that organisations that traditionally concerned themselves with development cooperation are now also making their voice heard on trade policy.[3] The government therefore increasingly needs to consider the voice of domestic stakeholders engaged in development in international trade negotiations. A similar process of institutionalising links between commerce, trade and development in foreign affairs has been taking place in Canada. Here, foreign affairs and trade had amalgamated decades ago, and development was added in 2014. Also the EU, which holds trade negotiating authority for its 28 member states, now formally links trade and development, stating that its policies aim to put trade at the service of development and poverty reduction.[4]

In those countries where the various economic diplomacy strands are merged, there is, as before, a minister with responsibility for international development and another minister responsible for trade. Both ministers' powers derive from those of the minister of foreign affairs, however. They are thus subordinate to the foreign minister, even if for practical reasons the development and trade ministers are allowed quite a degree of latitude. When looking at trade negotiations in particular, one finds that countries have come up with diverging solutions to enhance coordination between ministries and to ensure that non-economic issues are also considered. In the European Union, the chief negotiator – and his staff – are all from the Directorate-General for Trade, while the chief negotiator of trade negotiations in Japan is always an MFA official. Norway takes a middle road, by putting the foreign ministry in charge of multilateral trade issues and having the Ministry of Trade taking care of bilateral (Melchior et al., 2013: 63), whereas in the United States, the Office of the Trade Representative (USTR) has a direct link to the President and his Cabinet as it is part of the Executive Office.

The renewed emphasis on economic diplomacy is also a driver of adjustments that many governments are making in their diplomatic network. New representations – embassies, consulates (-general) and/or trade representative offices – are opened in large countries where presence in the capital city alone does not match economic potentialities (see Chapter 12 in this Handbook). This is a particularly interesting trend in those countries that are scaling down representation abroad more generally, such as the Netherlands. At the same time, new initiatives are being developed to limit the number of closures, such as asking fees for economic diplomacy activities including 'matchmaking' for companies. Japan, for its part, is adding to its number of representations despite financial constraints more broadly, with a particular focus on new posts in Africa. Despite having formal diplomatic ties with more African countries than China, however, it has fewer diplomats stationed on the continent than its giant neighbour. For its part, France is a frontrunner in emphasising the role of territorial (local) collectivities, complementing that of the state. The assets of French regions are deemed significant in terms of international competitiveness and attractiveness. Amongst others, this has resulted in activism by the EU as a trade negotiator to include 'geographical indications' in trade agreements as a way to protect trade names and trademarks used in relation to food products identified with a particular region.

While the above illustrates the challenges of managing interests and responsibilities between ministries, economic diplomacy obviously involves many more actors than representatives of nation-state governments alone. Economic diplomacy involves government-to-government relations, but is increasingly also about the build-up of government-to-business networks and the opening up of these networks for the private sector and for the economy at large. As in other fields of diplomacy, the e-revolution greatly contributes to the brokering and information gathering by practitioners of economic diplomacy.[5] A network of relevant actors can generate an overall capacity to search, find, analyse and disseminate the kind of strategically relevant information that most private actors do not readily possess. Political will is of course another vital ingredient and, indeed, a necessary condition. So is the recognition that a sophisticated economic diplomacy offers possibilities for a country's private sector and its foreign policy goals.

The extreme diversity of the private sector stands in stark contrast to the limited capabilities of governments, however. After all, the interests of small and medium-sized enterprises differ substantially from those of large companies that have greater financial and network capacity to perform certain economic diplomacy functions themselves. And this is not all: other actors, including chambers of commerce, business federations and civil society organisations, make their voices heard on economic diplomacy. Their aims may include calls for sustainable trade, reducing the power of big business, greater transparency of government, and attention to human rights and labour standards.

The fact that non-state actors have a stake in economic diplomacy, however, is not to say that they have a significant say. Trade diplomacy, for example, is said to continue to consist primarily of private negotiations between trade ministry officials representing particular governments, while business and civil society interests are still mediated and represented, for the most part, by government diplomats (Pigman and Vickers, 2012). Likewise, while non-state actors have a significant stake in commercial diplomacy and in development cooperation, they do not actually take part in negotiations with foreign public counterparts. Rather, they are better characterised as pressure groups, trying to steer government policy in a certain direction, and as consumers of government facilitation (in the case of commercial diplomacy) or as executors of government policy (in the case of development cooperation).

Key Points

- MFAs, as key players in the National Diplomatic System, are adapting to the evolving dimensions of economic diplomacy and incorporating various elements of it, especially as it concerns responsibility for trade and development.
- Choices for how to reorganise the extremely complex decision-making process in economic diplomacy depend in part on the level of development and the politico-economic culture of a particular country.
- Although many non-state actors – including the diverse private sector and a variety of civil society organisations – have a stake in economic diplomacy, they do not necessarily have a significant say.

ECONOMIC DIPLOMACY TOWARDS THE FUTURE

One important side-effect of the global and financial crisis that started at the end of the 2000s, is that it discredited Western standards for other countries. The *laissez faire*-style capitalism and economic diplomacy as a means to primarily further political and economic liberal values (such as free market capitalism, liberal democracy and civil liberties) thereby lost much of its appeal. Instead, a more comprehensive approach that pragmatically links trade, investment and development for economic and strategic purposes is gaining ground. This trend is reinforced by the growing power and influence of China, as well as India, Brazil and others and confirmed by the renewed emphasis in recent years in European countries on a new economic diplomacy that emphasises national economic interests.

The redistribution of global power in the twenty-first century is also having an impact on economic diplomacy in the field of economic governance. First, the trend is towards more bilateral and regional economic diplomacy, at the expense of multilateralism. Trade negotiations, for example, are moving away from the truly multilateral talks under the auspices of the WTO and resulting in a strengthening of competitive multilateralism. Separately, EU countries are becoming partners and competitors in commercial diplomacy. A second change that the evolution of economic diplomacy is having on economic governance concerns the emergence of new governance structures, at least partly at the expense of existing ones. As an example of the latter, consider the comment of one expert in the field of development cooperation that South Korea in 2010 may well have been the last non-Western country to join the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) – an organisation that risks losing relevance as a club of traditional donors.[6] New governance structures established in 2014 include the New Development Bank, initiated by the BRICS-countries, and the China-led Asian Infrastructure and Investment Bank. Although these institutions still face major practical and strategic challenges, they are probably the two most prominent examples of what may be new multilateral economic diplomacy in the making.

Key Points

- The global and financial crisis that started at the end of the 2000s discredited Western ways as standards for other countries, including in the field of economic diplomacy.
- In economic governance, multilateralism is losing ground against more bilateral and regional economic diplomacy and new governance structures are being created.

CONCLUSION

Historically, economic diplomacy takes a more prominent place in foreign policy during periods of change. It is thus no coincidence that economic diplomacy is gaining in importance once again as the international system is shifting from a multilateral towards a multipolar order (Rood et al., 2015). Confronted with the viscosity of global governance and international political and financial institutions, the governments of emerging countries primarily employ economic diplomacy – rather than political influence or military force – to strengthen their position. This is leading to Western countries rethinking the balance between their different national interests, resulting in a renewed emphasis on their economic diplomacy.

As a result of this there is an increased emphasis on pragmatic linkages between commercial diplomacy, trade diplomacy and development cooperation in developed countries. This is recognisable in policies at home and abroad, as well as in the reorganisation of government institutions, where MFAs are increasingly taking up responsibility for trade and development. For their part, latecomer countries have long weighed political considerations more substantially in their economic diplomacy, pragmatically linking trade, investment and development.

In an increasingly competitive world where political and economic power is in flux and financial constraints are increasing, countries need to make clear decisions about where their priorities lie. While a comprehensive approach to economic diplomacy should not be mistaken for killing three birds with one stone, it can be instrumental in turning tomorrow's challenges into today's opportunities. Making environmental protection a feature of economic diplomacy, and focusing activities on industries that contribute to this cause, is one way of doing this. Established powers in the West have reason to protect the political-economic model and fundamental values that took years to develop, but they should not be afraid to comply with necessary adjustments to the structural design of global economic governance. At the domestic level, this means that a long-term, thought out strategy is required in order to be successful. If the revival of economic diplomacy is to keep a benign character, however, governments are well advised to invest in new economic governance structures and to limit their economic diplomacy to activities where the government has real added value; that is, where domestic economic interests intersect with the basic needs of citizens throughout the world in terms of security and prosperity.

NOTES

1 See, for example: *Shaping Globalization – Expanding Partnerships – Sharing Responsibility: A Strategy Paper by the German Government*, Berlin, 2012; and *The Coalition's Policy for Foreign Affairs*, Canberra, September 2013.
2 'The Foreign Ministry at a tipping point', unpublished Post-Conference Report of The Foreign Ministry of the Future Conference, Brussels, 10–11 July 2011.
3 Meeting with a Dutch MFA official, May 2014.
4 Official website of the European Union: http://ec.europa.eu/trade/policy/countries-and-regions/development/.
5 The implications of the internet revolution on diplomacy at large are discussed in Chapter 44 in this Handbook.
6 At present the OECD-DAC consists of 29 members, comprising the United States, Japan, South Korea and European countries.

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