

# Economic diplomacy as an instrument of progress and promotion of the Republic of Croatia

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ZAJEDNIČKI POSLIJEDIPLOMSKI SVEUČILIŠNI STUDIJ  
MEĐUNARODNI ODNOSI

**Marko Babić**

**ECONOMIC DIPLOMACY AS AN INSTRUMENT  
OF PROGRESS AND PROMOTION OF THE  
REPUBLIC OF CROATIA**

**Doktorski rad**

Zadar; Zagreb, 2019.

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## I. INTRODUCTION

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One of the most significant processes that has arrived as a result of globalisation is internationalisation. Accordingly, internationalisation of economy as such has attracted considerable interest and scientific research in this field is being carried out from various perspectives. Nevertheless, not only companies but also governments and supranational organizations such as the European Union are faced with the challenges arising from the fact that majority of traditional barriers on the global geopolitical and economic map do not exist anymore or at least did not exist up until latest developments that coincide with the President Trump's administration that took somewhat different course of action than usually when international relations and trade are at stake. Although it is claimed that international trade and business has great potential to be beneficial both to governments and companies, there exist still certain obstacles to the internationalisation process. Experts advocating it strongly established that it is necessary to eliminate those barriers for a positive effect that reflects in the form of job creation, tax revenue growth, economic and political integration. Thus, in recent times the use of economic diplomacy is being chosen as the significant and effective tool for abolishing these obstacles and at the same time providing quality support to companies in internationalisation. This operations only confirm the trend of change in diplomatic practice which leans more and more towards intensive economic activities.

Regardless of how we define it, the predominant opinion is that diplomacy has a constitutive role since it is considered as an effective mean for managing relations between states. Diplomacy is based on principles that enable balance to be accomplished among different stakeholders and powers in international relations. In the past, ambassadors themselves have traditionally been the most prominent promoters of trade. Simultaneously with globalisation and an ever-greater economic integration, the role of governments in reacting and managing these processes became increasingly important. The importance of economic diplomacy increases and that implies the widespread use of methods trying to achieve the maximum economic benefit through promotion of exports, foreign investments attraction, technology transfer encouragement, etc. Concurrently, the number of participants active in the implementation of such approach also becomes ever greater meaning that heads of state and government, ministers, diplomats of different ranks and various state institutions also carry out all necessary activities in the protection and promotion of their country's economic interests. In

addition to those usually called the state actors, stakeholders can also possess the non-state character (multinational companies, business associations, non-governmental organisations, trade unions, lobby groups, etc.). The former and the latter have one thing in common, that is to work together in the wide spectre of forums, i.e. in more than one arena (national economy, international economy and international organisations).

It is quite clear nowadays that civil servants and diplomats work both within and outside their ministries and embassies, and are active in the areas of economy and finance performing many business tasks. They provide considerable assistance to their country's companies that intend to establish branch offices abroad, and promote export, trade and investment. State visits of heads of state and/or government are more and more considered as business delegations during which the presidents and ministers discuss current economic trends and activities and try to exploit opportunities for improving trade and business co-operation. It may be asserted that the economic diplomacy implies, inter alia, the use of political (diplomatic) skills and tools with the aim of achieving economic goals. It is a governmental activity whereby the business community is provided assistance within which economic diplomats perform all significant activities abroad as they are part of the diplomatic mission staff or a trade/investment promotion institution personnel.

Although it has existed before and as such has been studied and upgraded, the subject of economic diplomacy has become the topic that attracts more intensive research since the mid-2000s, with the emphasis being placed on establishing a causal link between the variables of economic diplomacy on the one hand and its effect on trade on the other side.

Survival in today's global business environment is one of the priorities and crucial to achieving this goal can be exactly the diplomacy; the one that tries to gain access to and expansion on the foreign market, the one that successfully convinces foreign companies to invest in the home country and the one in which experts from the business community actively participate. Diplomacy can be a key word but also an additional explanation for success or failure on the international economic scene. Numerous states have adopted the modern approach when economic diplomacy is in question and as a result, they made significant progress in all the above-mentioned areas. Therefore, it is time that Croatia makes a significant or even radical step forward in this direction, changes its *modus operandi* and implements concrete reforms in which all the necessary stakeholders will be involved.

In accordance with the abovementioned and following the processes of globalisation and internationalisation of the world economy and all relevant geopolitical and economic trends that arrived as a result of these processes, the relevance of economic diplomacy in international relations has obviously increased. Simultaneously, scientific work, research and analytics in this area have multiplied several times, with the economic diplomacy itself as a discipline continuously developing and progressing.

Consequently, the creation of an appropriate, efficient economic diplomacy model and the good and consistent implementation of the same have become key foreign policy priorities within the vast majority of states. Therefore, the development and implementation of a new economic diplomacy model is an absolute necessity for the Republic of Croatia since thorough reform of the existing organisational structure is absolute necessity in the shortest time possible.

Numerous authors can be regarded as authorities in the area of economic diplomacy since they dedicated all or much of their scientific work to that discipline but here as part of the introduction only few of them will be mentioned briefly.

Naray considers commercial diplomacy to be beneficial to various stakeholders, with private companies being the most important direct beneficiaries. As such, they contact the institutions that conduct commercial diplomacy both in their home country and abroad. However, there exist not only direct beneficiaries but also the indirect ones like governments. Hence, successful businesses improve the countries and governments image while successful governments have a positive impact on the image of companies that operate abroad. Also, if international business is successfully developed through commercial diplomacy, it will in the long term, as a result of greater economic exchange and integration, bring profit both to the economy of the state from which the company originates, as well as the country abroad in which the company in question operates. The same author identified the following justifications for commercial diplomacy: the need to access the reliable and neutral business information, support to the new company with poor credibility and image on the foreign market, a search for potential business partners—support to companies that are within the process of internationalisation, eventual dispute settlement, support to business delegations from the home country and taking part in adoption of strategic economic decisions.<sup>1</sup>

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<sup>1</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 4.

Rana identified four types of economic diplomacy strategy, more precisely traditional, sector-oriented, evolving and innovative. The traditional strategies are represented by countries that use conventional methods and slowly or even unwillingly adopt changes. The sector-oriented strategies are used by states that have targeted and found a particular sector or market *niche*, and accordingly tailored their economic diplomacy activities. The evolving concept is represented by countries that have adapted to the new trends and consequently have undertaken structural reforms and activities. The innovating strategies found their place in leading states that implemented completely new techniques and continuous reforms.<sup>2</sup>

In addition, Rana considers that diplomacy is the form or type of management in which the state engages in external relations, or better say in relationships with other countries. As is the case in other management sectors, diplomacy is also rooted in the vision, efficiency, organisation and motivation of people and institutions, including leaders and officials. He summed up few determinants in the area of economic diplomacy: first, differences between countries in their economic diplomacy partly reflect differences in the evolution of their response or reaction to external events and factors; second, high- quality economic policy in the home country and efficient economic diplomacy are very compatible; third, the combination of foreign affairs and foreign trade is a highly effective synergistic tool; fourth, foreign offices need to build and improve their capacities and skills with regard to economic activities in their foreign missions and open to different economic partners; fifth, various economic diplomacy models or organisational structures can benefit from mutual studying and analysing of best practices and models.<sup>3</sup>

Van Barneveld, Dani, Kovacs and Teichler in their scientific study opted for comparative approach and scanned the four economically powerful European countries (Germany, France, United Kingdom and Denmark). They argue that, in addition to the standard general objectives that exist in economic diplomacy (export support and attracting FDI's), states set additional, specific goals and areas at which they focus their actions. Thus, for instance, Germany and Denmark explicitly point out the importance of the research and education sector, meaning that their ministries of science and education are involved in deployment of those goals, while the United Kingdom puts greater emphasis on innovation as a special goal, reflecting the involvement of the ministry of entrepreneurship, innovation and crafts. Speaking of

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<sup>2</sup> Rana, K. S.: *Economic Diplomacy: The Experience of Developing Countries* in Bayne, N., Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 212.

<sup>3</sup> *Ibid*, p. 219.

stakeholders engaged in the economic diplomacy of their countries, the number and differences in the models vary greatly. The United Kingdom and Denmark have a very centralized approach while Germany has a large number of stakeholders involved mostly due to a fact that it is a federal country in which the provinces, called *Länder*, have the power to carry out their own economic plans and accordingly have different stakeholders involved whereby it is important to note that co-ordination and management is being directed from the federal level through ministries. There exists another specific feature of the German model, namely a significant role played by the German Chamber of Commerce and Industry, which operates according to the principle of a public-private partnership since it is financed by the federal government on the one hand and on the other by private companies. In France a large number of institutions have been involved until few years ago, while, as a result of the merger of several stakeholders, that number has been reduced in order to simplify the procedures and to centralise and co-ordinate activities more efficiently. Such modification has been implemented because, according to the previous model, many overlapping among different institutions occurred as their scope was not clear and precise, which consequently had a negative impact on the economic diplomacy services recipients, i.e. business community.<sup>4</sup>

After dedicating first two parts of his book to the definition of economic diplomacy and analysis of the economic diplomacy theories, Žirovčić at the core of it thoroughly described and assessed national economic diplomacy models of many countries and divided them into five categories, namely the most developed countries, small developed countries, big transitional and newly industrialised countries, small transitional countries and specific countries. Lastly, he described in detail Croatia's economy and its economic diplomacy organisational structure.<sup>5</sup>

The research in this doctoral dissertation is carried out with the aim of testing the following fundamental scientific hypothesis: ***Modern economic diplomacy has positive impact on the national economy and country promotion.***

In accordance with the underlying main scientific hypothesis, there exist five auxiliary hypotheses:

- *economic diplomacy has become an effective instrument for contributing to national economic progress and creating positive image of a country;*

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<sup>4</sup> Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 3-4.

<sup>5</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016.

- *economic diplomacy occupies a significant place in the global economy and international relations;*
- *internal and international factors influence the choice of optimal models of economic diplomacy which clearly indicate the trend of involving an increased number of stakeholders;*
- *as a result of rapid geopolitical and economic trends, economic diplomacy needs to be changed and adapted to these phenomena in order to be effective;*
- *the Republic of Croatia needs to adopt and implement a new model of economic diplomacy due to global political and economic trends and the situation in the national economy.*

The aim of the research within this doctoral dissertation is to ***clearly and concretely demonstrate how the performance of economic diplomacy applied through modern models consequently positively contributes to the country's economic progress and its promotion.***

The road towards the mentioned goal includes:

- *identification of the concept and history of diplomacy globally and in Croatia,*
- *establishment, development, features, role and theories of economic diplomacy,*
- *internationally recognized models and strategies of economic diplomacy,*
- *specific national and the EU's economic diplomacy organisational structures*
- *effectiveness of the economic diplomacy,*
- *impact of the economic diplomacy on the economy and the international position of various countries,*
- *assessment of the state of affairs with regard to the current Croatian economic diplomacy model,*
- *concrete recommendations with the aim of reforming the existing Croatia's organisational structure or better say the adoption and application of the new economic diplomacy model of the Republic of Croatia.*

The doctoral dissertation is divided into several separate but interrelated chapters. After this introduction into the topic of economic diplomacy, the second chapter will elaborate different definitions of the notion of diplomacy. In addition, a historical overview of the diplomacy will be provided wherein the most significant periods, states and events for the development of this discipline will be analysed. Furthermore, the three most relevant periods of the Croatian diplomacy will be set forth and analysed.



The third chapter will be dedicated more in detail to the economic diplomacy itself, more precisely its establishment, development, role and main features. Notably, special attention will be devoted to the distinction and clarification of the two main branches of economic diplomacy, namely economic diplomacy (in the narrow sense) and commercial diplomacy, but also to the theories that were introduced by prominent authors and are embodied in international relations when speaking of the area of economic diplomacy.

The fourth chapter of the dissertation refers to the theoretical overview of concrete strategies and models of economic diplomacy that are accepted globally. Afterwards, individual economic diplomacy models of specific states alongside with their detailed economic data will be assessed. Moreover, last part of this chapter deals with the economic diplomacy of the European Union.

In order to highlight the relevance of economic diplomacy, the fifth chapter provides concrete facts and data that arise from the thoroughly created analyses. That comes as a clear confirmation of the fact that modern economic diplomacy has direct and/or indirect positive effects on the economy of countries that adopted and implemented such models and organisational structures. In line with that, various determinants and aspects of economic diplomacy effectiveness will be provided and discussed alongside with one significant mechanism that is necessary in order to measure that effectiveness properly, namely the monitoring process. In addition, the process of SME's internationalisation which gained much attention in the past few years will be presented and evaluated within this chapter. The final part of this chapter is dedicated to the first of two scientific researches that were undertaken within this doctoral dissertation, more precisely the interview that was carried out in July 2018 with several diplomatic missions (embassies) in Zagreb. More details on this research will be explained below in this introduction.

The sixth chapter directly relates to the Republic of Croatia and therefore covers comprehensively several issues. Hence, it includes thoroughly examined state of affairs in Croatian economy and its significant indicators but importantly also the current Croatian model and organisational structure of economic diplomacy. Furthermore, statistics on economic co-operation and trade between Croatia and its partners will be provided and commented. In order to provide a quality assessment of the current state of affairs but also to indicate future needs for changes in Croatia's economic diplomacy, the second scientific research within this doctoral dissertation was carried out in the form of survey conducted in July 2018 with the Croatian business community representatives who stand for the important but neglected group of

stakeholders within the area of economic diplomacy in Croatia. Just like in case of the first research, this one also will be explained a bit more below in this introduction. Consequently, at the end of this chapter, concrete recommendations that are deemed as necessary will be presented.

Finally, the seventh chapter representing the conclusion will initially go through the chapters preceding it and try to wrap up all the most important details arising from them. Additionally, it will provide a brief overview of two scientific researches and their results that formed integral parts of this doctoral dissertation. Last but certainly not the least, it will refer to the main and auxiliary hypotheses and provide a final answer whether they were confirmed or not and at the same time send a final message of the doctoral dissertation itself.

In the course of drafting of this doctoral dissertation, sources from various authors, who possess the competence and authority in this area that is of interdisciplinary nature, were used, especially since some of them spent large part of their career as the high-ranking diplomats or business people, and not exclusively as scientists. Thus, the source list is composed of books and scientific articles, through expert analyses and studies of renowned institutes and think tanks, the official data of numerous institutions competent in the area of international relations and the economy, right up to the certain high-quality website texts and articles.

According to the aforementioned, it can be argued that this doctoral dissertation consists of the three following components: a) theoretical (historical overview of international and Croatian diplomacy, establishment, development, definitions, features, scope and theories of economic diplomacy); b) analytical-comparative (assessment of different theoretical models and strategies and their comparison, analysis of concrete national economies and their economic diplomacy models, detailed evaluation of economic diplomacy effectiveness) and; c) empirical (two empirical researches closely related to the topic of this doctoral dissertation and its hypotheses).

In relation to the aforementioned, the first scientific research was conducted in the form of an interview (*via* e-mail) among diplomats, which tests their view on the issue of economic diplomacy importance in the globalised economy and international relations. Also, it contains the description of specific organisational structure and *modus operandi* of embassies in the area of economic diplomacy. Moreover, the interview tries to examine diplomats' opinion on if and to what extent different national economic diplomacy models can be considered as important or better say whether and to what extent economic diplomacy activities might influence

significant parameters like economic growth and positive image of the country. Importantly, this research will also provide a quite clear description of foreign countries high officials with regard to the Croatia's doing business climate.

The second scientific research was performed in the form of (on-line) survey that was carried out among the Croatian companies' representatives. It deals with their perception of the economic diplomacy as a discipline and its relevance as such. In addition, this research contains business community's assessment of the existing Croatian economic diplomacy organisational structure but also their concrete suggestions as regards the adoption and implementation of the future economic diplomacy model, which as a consequence reflects their actual needs and provides recommendations that should alleviate and foster their business activities abroad but also improve their status of stakeholders in the area of economic diplomacy.

The results of the research that will be presented within this PhD dissertation will provide a scientific contribution in the interdisciplinary area of science, namely international relations and diplomacy. The scientific contribution will be demonstrated through the accomplishment of following research results:

- *development of the scientific thought with regard to the impact of economic diplomacy on the national economy and country promotion;*
- *development of the scientific thought related to the significance and impact of economic diplomacy on international relations and geopolitical trends;*
- *development of the scientific thought as regards the status and importance of economic diplomacy in the economic policy creation and implementation process that is carried out within the state administration;*
- *development of the scientific thought with regard to the development process and progress of economic diplomacy.*

The results of the scientific research conducted within this PhD dissertation endeavour to display in clear and persuasive manner the important role that the economic diplomacy plays or should play when the accomplishment of certain economic goals and successful country promotion are at stake. Naturally, it is more than clear that economic diplomacy cannot be considered as the only or the most important instrument of country's progress and promotion but instead it should be regarded as one of the various significant ones. The term economic diplomacy here implies that it was performed *via* models, which were adopted and implemented once the thorough planning and assessment of all relevant national factors were carried out. It

also means that such a serious approach follows the current and anticipates the future domestic and international economic and political developments and trends that consequently indicates that ever more different stakeholders outside the foreign ministries are involved in economic diplomacy activities.

Although that will be seen quite clearly and unequivocally from the content itself, it deems necessary to avoid any unwanted misunderstanding and to clarify the very core and background of this dissertation that appertains to the area of international relations (and diplomacy). That comes as no surprise bearing in mind that this postgraduate doctoral study itself is in international relations. Therefore, it is extremely important to remind once again that this dissertation is not in economy but in international relations, or more precisely in (economic) diplomacy, which is a completely different area. Hence, the scientific work performed including the literature used, aim and hypotheses set, methods employed, researches carried out, results obtained or better say the complete work that was done here was exclusively from the diplomatic perspective or point of view in order to prove and confirm positive effects and impetus that diplomacy gives or might give to national economy and country promotion. Hence, neither methods nor parameters that will be used and presented here will have the economic foretoken. Accordingly, scientific contribution of this doctoral dissertation will concern the area of (economic) diplomacy only.

Furthermore, the title of the dissertation indicates economic diplomacy as an instrument of progress and promotion of the Republic of Croatia. Nevertheless, this doctoral dissertation addresses wide variety of issues that pertain not only to Croatia and its economic diplomacy. Instead, not only that it deals with the practical models of economic diplomacy of specific states; it goes deep into the concept of economic diplomacy itself or various theories, it analyses its effectiveness etc. In that sense, Croatia and its state of affairs in this area were comprehensively dealt with in the separate chapter but most importantly within the two abovementioned scientific researches. That chapter and those researches display the real condition of the Croatian economic diplomacy, which in author's opinion did not live up to the expectations and therefore so far cannot be regarded as an instrument of progress and promotion. Exactly for that reason the little but very important word "as" was used in the title of dissertation in order to emphasize what it could and should become instead of what it already represents. However, not just the title but even more the content of this PhD dissertation clearly indicates the potential of this discipline for becoming one of the instruments of Croatia's progress and promotion.

In order to clarify both of the scientific researches within this dissertation, it deems useful here to go a bit more into detail with regard to them. First scientific research was conducted in the form of an interview (*via e-mail*) since interviewees did not represent a large group of people but instead only seven highly ranked diplomats with considerable knowledge and experience. Bearing that in mind, scientific method of interview (*via e-mail*) served as the perfect one as it handed chance and freedom to foreign countries' representatives to express themselves and provide necessary insight not only into their profession, but also with regard to all important issues connected with economic diplomacy as a discipline and Croatia as their country's business partner. Moreover, answers obtained provided substance for becoming clear with regard to several hypotheses and conclusion.

Second scientific research was performed through the method of (on-line) survey and there are obvious reasons for that. Firstly, people who took part in it represent companies that come from various regions in Croatia and not just from capital Zagreb or any specific county. Secondly, this method deemed as appropriate since number of participating companies reached 95. Obviously, both of the abovementioned reasons confirmed practicality of this scientific method. Nevertheless, the third reason for choosing the on-line survey were precise graphs and numbers that were obtained within it and served perfect for referring to certain hypotheses and drawing conclusions.

To sum up, it deems necessary to assert that this dissertation through its researches provides clear answers, opinions and recommendations with regard to several issues related to the economic diplomacy both on international level and from the Croatian perspective. It is equally important to state that it delivers added value and relevance by receiving feedback simultaneously from the two main groups of stakeholders involved in economic diplomacy as such. Diplomats, who provide services, perform economic diplomacy on the one hand and company representatives as the recipients of those services who ought to benefit from them on the other hand.

In line with that, the two undertaken scientific researches provided the concrete value in the sense that results, recommendations and conclusions reached within them can serve or better say be applied in the future not only as a scientific material but also in practice by the decisive Croatian stakeholders who might create and implement the much-needed modern economic diplomacy model.

## II. DEFINITION AND HISTORICAL DEVELOPMENT OF DIPLOMACY

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This chapter deals with three separate topics. First is dedicated to the definition of diplomacy providing definitions created by various authors who had differences among themselves and included different activities which they deem as integral parts of diplomacy. Second part of the chapter elaborates on development of the diplomacy as a discipline throughout the history and how it evolves and expands its scope and activities. Last part's main theme is Croatia's diplomacy from the medieval times up until today.

### **II.1. Definition of diplomacy**

As widely known there exist numerous definitions of diplomacy and therein some of them will be mentioned. According to Satow, diplomacy is the usage of intelligence and skill with regard to the management of official relations among sovereign countries' administrations. One of the most famous definitions created by the prominent British diplomat, Sir Harold George Nicolson stated that diplomacy is the conduction of international relations through negotiations; the technique by which these relations are arranged and governed by ambassadors and envoys; the activity or art of the diplomats. One of the founders of international relations science, Hans Morgenthau established that diplomacy could be defined as the advancement of national interests via peaceable methods.<sup>6</sup>

Vukadinović defines diplomacy as a fundamental mean for conducting foreign policy but also as a regular tool for communication in international relations.<sup>7</sup>

The notion diplomacy covers broad spectre of activities and various areas where it is present. Therefore, according to professor Ibler it carries several meanings:<sup>8</sup>

- conducting state affairs in the area of foreign policy via official relations with other states and international organizations;

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<sup>6</sup> <http://www.yourarticlelibrary.com/international-politics/diplomacy-meaning-nature-functions-and-role-in-crisis-management/48491/> (accessed 20/07/2017)

<sup>7</sup> Vukadinović, R.: *Diplomacija: Strategija političnih pogajanj*. Ljubljana, Arah Consulting, 1995, p. 109.

<sup>8</sup> Ibler, V.: *Rječnik međunarodnog javnog prava*. Zagreb, Informator, 1987, p. 57.

- form and content of relations between countries that arise and take place through official connections and which serve as a tool for reconciliation of those countries' interests by reaching particular agreements and negotiating;
- ability, knowledge, skill of conducting negotiations with other states;
- foreign representation of a country;
- career, vocation of representing states in relations with other countries, affiliation to a certain group of people that carry out that profession.

Despite the various definitions of notion of diplomacy and its usage for different purposes, it is unquestionably and directly connected with two terms, namely foreign policy and international relations. As already established by different authors, term diplomacy is multi-valued but it is most frequently used for identification of state affairs conducting in the area of foreign policy through official relations with other countries and international organizations and as such, it is not only divided into several distinct formats and categories but should be regarded also as a combination of those. Throughout its history, diplomacy underwent many changes that were closely inter-connected with the state of play in international relations at that specific time. It represented efficient tool for achieving state's interests and goals in the international arena and as such, it reflected particularities of specific period. Changes that came into effect after World War II triggered modern diplomacy creation that produced division of it, i.e. new categories.<sup>9</sup>

Contemporary diplomacy is characterized by enhancement of international law subjects- both countries and international organizations that resulted in substantively intensified international contacts in various fields and strengthening of diplomatic services via augmentation of diplomatic and consular offices and services within foreign ministries. Furthermore, diplomatic activity, apart from political, encompasses also several other types of affairs such as economic, military, scientific, cultural and other which is even broadened by diplomatic negotiating in fields that became focal points of international relations like migrations, fight against international terrorism, ecology etc. Technological development influenced the diplomatic communication, which increased the role of media and public on processes that are ongoing in international relations. Main task set for diplomacy overall consists of representing your country abroad and promoting its various interests and goals which consequently determine the

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<sup>9</sup> Besides traditional bilateral diplomacy, new multilateral was invented. In addition, secret diplomacy's role diminished and the public one introduced. Importantly, some new events and trends had significant impact such as international organizations creation (parliamentary diplomacy), Cold War (total diplomacy) and reducing tensions in it (*détant* diplomacy), efforts to prevent numerous international conflicts (preventive diplomacy firstly used by the former UN Secretary-General Dag Hamarskjöld).

foreign policy priorities of diplomatic action whereat these priorities are dependent on change of internal and international circumstances with regard to that specific country. Therefore, diplomacy should principally serve basic principles in international relations, such as use of force rejection, reaching peace, international cooperation development, strengthening democracy, economic prosperity and respect for international law.<sup>10</sup>

## **II.2. Historical development of diplomacy**

### **II.2.1. The Ancient World**

The biggest share of information with regard to ancient diplomacy derives from the Middle East, the Mediterranean, China and India. Treaties among Mesopotamian city-states date back to 2850 BC and after that, Akkadian (Babylonian) served as the first diplomatic or better say international language of the Middle East until Aramaic substituted it.<sup>11</sup> Considerable evidence exist on Assyrian diplomacy from the 7<sup>th</sup> century but also on Jewish tribes relations between themselves and other peoples (mainly in the Bible).<sup>12</sup>

### **II.2.2. China**

The first writings of Chinese diplomacy originate from the 1<sup>st</sup> millennium BC. By the 8<sup>th</sup> century BC, they had leagues, missions, and a structured system of cordial discussion between their confronted states. Country's unification carried out by the Qin emperor in 221 BC and the strengthening of unity completed by the Han dynasty in 206 BC marked the end to such tradition of diplomatic discourse among their rival states. China became the biggest, most populous, technologically most progressing and best-administered state in the world under the rule of Han and succeeding dynasties. The arguments influenced predominantly by Chinese philosophers, such as Mencius, prevailed and those could be summed up in the following sentence: the ideal manner for a state to apply influence outside its territory is to establish a moral society worthy of admiration by foreign countries and to expect them to come and learn from China. After

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<sup>10</sup> Berković, S.: *Diplomacija i diplomatska profesija*. Zagreb, Urban Media, 2006, p. 14-15.

<sup>11</sup> Akkadian was used in diplomatic correspondence between Egyptian court and Hittite king while oldest treaties with full text survived were between Ramses II of Egypt and Hittite leaders (around 1280 BC).

<sup>12</sup> Freeman, C.W., Marks, S.: *Diplomacy*. Encyclopaedia Britannica, published 19/07/2016, <https://www.britannica.com/topic/diplomacy> (accessed 24/07/2017).



consolidating its rule at home and establishing borders with other countries, Chinese dynasties limited country's relations with the foreign world to the defence of its borders against attacks or intrusions from abroad, the reception of neighbouring states' emissaries and the control of other countries' merchants in special ports intended for trade. Chinese leaders and diplomats mostly waited foreigners to come to China and show their respects instead of travelling abroad themselves. Such system continued until Europe's colonial powers prevailed it and imposed to Asia their own concepts of sovereignty, suzerainty, areas of influence and other diplomatic norms, traditions, and practices.<sup>13</sup>

### II.2.3. India

India possessed a long tradition in diplomacy back to their kingdoms and dynasties from the Ancient era. Freeman noted this significance of diplomacy that was recognized in the Laws of Manu, a text of the sacred Hindi scriptures, the Vedas, estimated at around 1200 BC. It states that both peace and war rely on the ambassadors since it is them who create and break alliances. Hence, activities that incite war or peace are within their scope.<sup>14</sup>

Kautilya, the head consultant to Chandragupta Maurya, the establisher of the Maurya 3<sup>rd</sup> century BC dynasty, wrote the oldest text on statecraft and diplomacy called Arthashastra. The Mauryan dynasty expanded India's territory from the Indian Ocean to Himalayas and up to Iran in the West. After Alexander's departure, India was the most powerful kingdom in the region. Kautilya, also called as the "Machiavelli of India", became famous for his realistic approach to diplomacy according to which foreign affairs were characterised by self-interest and power and not by moral considerations. He claimed that nations must react in their political, economic and military self-interest and that one state's diplomacy is practiced as long as its self-interest is served. According to him, the dynamics between kingdoms should be perceived as a continuous state of war during which diplomacy served as the tool for creating alliances and providing safety and power of the kingdom. The prosperity of his people and his kingdom was the highest aim set by the king who strived to strengthen his own position and diminish the role of others

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<sup>13</sup> *Ibid.*

<sup>14</sup> Freeman Jr., C.W.: *Diplomat's Dictionary*. Washington DC, Diane Publishing, 1994, p. 26.

in his proximity whereat the methods to attain these objectives were not subject to ethical criticism.<sup>15</sup>

Kautilya stressed espionage, diplomatic manoeuvre, and contention, and proposed four principal components of statesmanship (conciliation, seduction, subversion, and coercion) and six forms of diplomatic State policies (peace, use of force, non-alignment, double-dealing, alliances, war).<sup>16</sup>

#### II.2.4. Greece

The first mark of Greek diplomacy lies in Homer's *Iliad and Odyssey* whilst the first signs of relations among states relate to the Olympic Games held in 776 BC. In the mid-6<sup>th</sup> century BC, Sparta created alliances, and by 500 BC it formed the Peloponnesian League. On the other hand, Athens was the leader of Delian League whilst the Persian-Greco wars in 5<sup>th</sup> century BC. Greek diplomacy manifested in various manners. Heralds who were first diplomats enjoyed "gods' protection" that comprised an immunity that others missed. This protection was provided by Hermes, the gods' courier who was famous not only for being persuasive and eloquent but also for knavery, shiftiness, and dishonesty. During warfare, individual heralds were the preferred channels of communication facilitating safe passage before small groups of envoys arrived. Envoys, politically important persons, were at the age of 50 at least and with high political reputation who were chosen also for their elocution. In spite of frequent missions, Greek diplomacy was periodical rather than continuous because contrary to contemporary ambassadors, two abovementioned ranks of diplomats were actually visitors in the city-states whose policies they tried to affect during their short-term stay. Unlike diplomacy, trade and other non-political relations among city-states were carried out continuously. *Proxeni*, who acted as consular officers, were the city-state citizens in which they resided, not of the one that used their services. Their primary duty was trade but also had secondary assignment of collecting information like envoys. Firstly operating only among city-states, they eventually became far-flung like Greek consuls that resided in Egypt around 550 BC. Moreover, the

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<sup>15</sup> Chandrasekaran, P: *Kautilya: Politics, Ethics and Statecraft*. Munich Personal RePEc Archive, MPRA Paper No. 9962, 2006, p. 3-10. Available at: [http://mpra.ub.uni-muenchen.de/9962/1/MPRA\\_paper\\_9962.pdf](http://mpra.ub.uni-muenchen.de/9962/1/MPRA_paper_9962.pdf) (accessed 25/07/2017)

<sup>16</sup> De Santis, F.A.: *Experiments with Diplomacy: The changing understanding of "real" in Realpolitik*. [http://www.monitor.upeace.org/archive.cfm?id\\_article=979](http://www.monitor.upeace.org/archive.cfm?id_article=979) (accessed 25/07/2017)

Greeks established archives, diplomatic dictionary, principles of international conduct that preceded international law and several other features of modern diplomacy. Their envoys and accompaniment benefitted diplomatic immunity for their official correspondence and personal possessions.<sup>17</sup>

### II.2.5. Rome

Rome followed the Greek concept of diplomacy and adjusted it to their imperial governance. As it spread, negotiations often took place with officials of seized territories, to which Rome conceded some sort of limited self-government. That self-government was acquired usually through treaties that were stipulated in accordance with Greek international law. In the Republic era, foreign policy was governed by the Senate despite the fact that foreign affairs department was set up. Emperor, on the other hand, represented the ultimate authority in the Empire within the foreign affairs sector. Foreign envoys were received with honours and protected by the immunity while Roman envoys that went abroad received instructions drawn up by their government. *Nuntius* or a herald was usually consigned to cities and in case of more complicated duties, a *legatio* or today's embassy was established of 10 or 12 inviolable *legati* who were sort of ambassadors and originally prominent citizens known for their oratory skill. Rome also initiated sophisticated archives managed by highly skilled specialists and therefore these archive-based activities occupied significant place in diplomacy within the Roman Empire. One of the most important "products" of Rome (later it became constituent part of numerous legal systems all over the world) is Roman law. It emphasized the integrity of contracts that later served as the founding part of treaties. At the end of Republican period, the legislation implemented by the Rome towards foreign people and envoys went coupled with the Greek idea of natural law, an optimal code that applied to the complete population, in order to constitute the so-called law of nations. The Roman Catholic Church adopted the integrity of treaties and the law of nations and preserved them for centuries after the Western Roman Empire dissolution. By doing so, a basis was ensured for more refined doctrinal movements in the area of international law that started to burst out thousand years later together with the European nation-state.<sup>18</sup>

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<sup>17</sup> Freeman, C.W., Marks, S.: *Diplomacy*. Encyclopaedia Britannica, published 19/07/2016, <https://www.britannica.com/topic/diplomacy> (accessed 25/07/2017).

<sup>18</sup> *Ibid.*

### II.2.6. The Middle Ages and Byzantium

After the downfall of Western Roman Empire in the 5<sup>th</sup> century AD majority of their diplomatic traditions vanished. Nevertheless, monarchs continued to maintain relations with other rulers directly or via envoys in the period between 5<sup>th</sup> and 9<sup>th</sup> century but the Popes kept tradition of utilizing *legati* and such modes of diplomacy became intensive in the next 300 years. The Byzantine Empire as continuity of the eastern part of Roman Empire had a court containing foreign affairs department and the office for dealing with foreign envoys including those sent by the Pope from the mid-5<sup>th</sup> century. Byzantium's rulers tried to deter and impress foreign diplomats and therefore marked their arrival with great ceremonies that intended to indicate greater power than the Byzantium actually possessed. Also, Byzantium developed the first professional diplomats which received written instructions and were ordered to be civilised, to have a good time as much as their finances allow them, but also to foster trade and reduce expenses by selling Byzantine goods. They had one additional task which became highly important for Byzantine's existence especially as its importance decreased, namely collecting information about their host states. This diplomatic activity that is quite close to the one of spies enabled them to create successful policies that is perceived as a compensation for the absence of actual power. Such strategy was pursued by neighbouring states as well as the Rome and the Italian city-states. Upon the Byzantine's downfall, fundamental components of its diplomatic tradition existed on in the Ottoman Empire and in Renaissance Italy.<sup>19</sup>

### II.2.7. Diplomacy of the Roman Catholic Church

Although it went through some seriously hard periods, the Roman Catholic Church carried on active diplomatic relations, most notably with the Byzantium Empire and during its 13<sup>th</sup> century conflict the Holy Roman Empire. The Popes held the role of arbiters and their legates were acting as peacemakers. The prestigious post of the church was reflected in precedence that was taken by papal emissaries over secular envoys at every court creating a tradition that maintained in states where Roman Catholicism holds the status of official religion. Canon law accepted the Roman principle on the invulnerability of *legati* and church lawyers deployed very detailed rules regulating the status, privileges and behaviour of papal envoys that were adjusted for secular use subsequently. Furthermore, rules developed for late medieval church councils

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<sup>19</sup> *Ibid.*

served as instructions for contemporary international conferences. Since the 6<sup>th</sup> century, new practice was developed and it comprised of carrying letters of credence by legates and *nuncii* as a confirmation of authority given to them as papal representatives. A *nuncius* acted as a messenger representing and acting legally for the Pope, including negotiations on draft agreements but had no authority to oblige the Pope without primarily asking and receiving instructions. Gradually, the notions *legate* and *nuncius* were used not only for the papal diplomatic representatives but also for those of secular rulers. When diplomacy concerned solely relations with neighbouring countries, rulers' meetings could be arranged without difficulty and a visiting messenger (*nuncius*) sufficed. Nonetheless, along with trade revival, negotiations at a distance became very frequent meaning that envoys could not in due time transmit to their rulers the details of negotiations. So they needed the discretionary empowerment to resolve matters by themselves. In order to achieve this, the idea of a procurator with *plena potens* or full powers that derives from the Roman civil law was reactivated in the 12th century. This plenipotentiary had authority to negotiate and sign an agreement but had no power to represent his ruler ceremonially.<sup>20</sup>

#### II.2.8. Italian City-states

Simultaneously with the collapse of the Byzantine Empire, there was an increasing menace of the Ottoman Turks towards the West. Although so far Italian city-states fought against each other, now they strived towards collective security in alliance with each other due to the external threat that they faced together. On the other hand was the Valois dynasty that united France and tried to expand its territory by assaulting Italy whose city-states were not very well capacitated in military sense especially in comparison with the Ottoman opponent who had a respectable army at its disposal. Therefore, these city-states had no other choice but to improve ties significantly through diplomatic means. They signed the Treaty of Lodi with regard to the concept of non-aggression against each other and it served its purpose. During that time, the movement called Renaissance enjoyed great prosperity all over Italy. Practice of resident

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<sup>20</sup> *Ibid.*

diplomats was introduced whereat representatives from various city-states were located in the monarch's court at the capital.<sup>21</sup>

There are two important reasons behind this practice. First, demand for instituting confidence for further cooperation and coordination because until then they progressed on animosity. Secondly, because of a very fragile balance of power they relied heavily on the intelligence collected to prepare for the threats if any city-state decides to exit the treaty.<sup>22</sup>

The role of a resident ambassador was to inform his city-states' monarch that the ruler at whose capital he is placed has escaped from the treaty. With permanent embassies and resident ambassadors in place, diplomatic practice in the northern parts of Italy was institutionalized and by the time the Thirty Years War emerged, whole Europe had accepted this system.<sup>23</sup>

However, it must be said that peace was not continuous during this period with the invasion of Charles VIII of France (Valois dynasty) in 1494 that constituted breach in this balance of power. As France attacked Italy, that was solely the confirmation of earlier Italian predictions. Importantly, this invasion propelled other European countries to embrace the ways of Italian diplomacy including the Popes, who discontinued their tradition and commenced not only to receive but also to send ambassadors.<sup>24</sup>

### II.2.9. Diplomacy in the Sixteenth and Seventeenth Centuries; the Congress of Vienna

The division of Western Europe into small kingdoms is the main reason why this area had the absence of peaceful conditions during the 16<sup>th</sup> century since these states continuously searched for stronger position in the region. Politics and religion were closely related and the existing norms and customs were seriously challenged under the influence of abovementioned Renaissance but now even more by the Protestant Reformation, which produced disagreement that was reflected in the form of wars, primarily the Thirty Years War that started in 1618 and ended in 1648. Therefore, diplomatic activities had to intensify in the 16<sup>th</sup> and 17<sup>th</sup> century

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<sup>21</sup> Gosh, K.A.: *The Evolution of Diplomacy: From Classical to Modern*, p. 6. Available at: [https://www.academia.edu/11002933/The Evolution of Diplomacy From Classical to Modern](https://www.academia.edu/11002933/The_Evolution_of_Diplomacy_From_Classical_to_Modern) (accessed 28/07/2017)

<sup>22</sup> Kurizaki, S.: *A Natural History of Diplomacy*, p.17. Available at: <http://people.tamu.edu/~kurizaki/b3.pdf> (accessed 28/07/2017)

<sup>23</sup> *Ibid*, p. 19.

<sup>24</sup> Mattingly, G.: *Renaissance Diplomacy*. New York, Cosimo Classics, 2010, p. 154.

which brought improvements in the area of diplomacy. With substantive number of newly independent and sovereign states that applied European system of permanent embassies and resident ambassadors, there occurred a need for a form of diplomatic immunity rescuing them from arbitrary treatment by recipient rulers. In addition, they were attributed the same status in the receiving country as the monarchs they represent.<sup>25</sup>

After being appointed Secretary of State for foreign affairs in 1616 and taking over the seat of French Prime Minister in 1624 during the reign of Louis XIII, Cardinal Richelieu instituted in 1626 the first ever Ministry of External Affairs to centralize all foreign affairs under one separate institution. In addition, he took the credit for two significant innovations to the practice of diplomacy, namely practice of negotiations, and more importantly, continuity of diplomacy. Kissinger refers the first one as “trading concessions” as Richelieu believed concessions and counter-concessions to be important part of negotiations that needs to be done in private, not publicly since important details must be kept confidential.<sup>26</sup> The second one is even more important and it survived through difficult periods. Richelieu stressed the continuity of diplomacy as crucial for the rise of diplomatic practice during peacetime.<sup>27</sup>

The signing of the Treaty of Westphalia in Munster and Osnabruck on the 24<sup>th</sup> of October 1648 marked the end of the Thirty Years War. It recognized Protestantism as a formal part of Christianity existing alongside Catholicism whereat serious territorial distributions occurred as well. The Swiss were granted independence from the Austrian Habsburg power; the Dutch Republic acquired sovereignty from the Spanish; Sweden, Brandenburg, and Bavaria gained more territory and France largely acquired the region of Alsace-Lorraine.<sup>28</sup>

The Treaty of Westphalia bears significance with regard to two key provisions. Firstly, it recognized the sovereignty of each state or principality and therefore, banned the intermeddle of foreign countries in internal affairs. Secondly, the ensured the basis for the clear division of a state’s political affairs from its religious ones. In relation to that, the clergy never reclaimed its prestigious position in the state’ hierarchy. Consequently, the diplomatic system now had

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<sup>25</sup> Ahonen-Ström, K., Andgren, P.: *Changing Diplomacy: Actors or Structures*. p. 9. Available at: <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1325817&fileId=1325818> (accessed 28/07/2017)

<sup>26</sup> Kissinger, H.: *Diplomacy*. New York, Simon & Schuster, 1994, p. 744.

<sup>27</sup> Cardinal Du Plessis, A.J. (Duc de Richelieu): *The Political Testament of Cardinal Richelieu: The Significant Chapters and Supporting Selections* (translated by Henry Bertram Hill). Wisconsin, University of Wisconsin Press, 1961, p.94.

<sup>28</sup> Cavendish, R.: *The Treaty of Westphalia*, London, History Today, v.48, n.10, 1998. Available at: <http://www.historytoday.com/richard-cavendish/treaty-westphalia> (accessed 31/07/2017)

two basic principles: firstly, all states were sovereign and secondly, all states were equal to each other.<sup>29</sup>

After Europe was destructed by the Napoleonic wars, major forces on the continent searched for peace via diplomatic means instead of participating in wars and for that cause, the Congress of Vienna was convened just like several others that followed it. All of them are known as the Concert of Europe as it represented an effort to set up a system of balance of power which proved to be rather efficient up until 1914. These congresses can be regarded as one of the first demonstrations of multilateral diplomacy since representatives of numerous European countries attended them. On the other hand, 19<sup>th</sup> century intensive colonization of certain Asian and African regions by European powers indicates growing phenomenon whereat relationship is regulated between unequal parties, i.e. the colonizer (masters) and the colonized (subordinated) which means that role of diplomacy was much diminished.<sup>30</sup>

#### II.2.10. Diplomacy after World War I; League of Nations

The outbreak of the World War I is widely regarded as a great defeat of diplomatic efforts. Nevertheless, as state of war or peace is never constant there is a substantial growth in diplomatic activities simultaneously with the end of the Great War. However, discussing the elements that caused the discontinuance from the traditional diplomatic practice deems essential. Multilateral diplomacy took precedence over bilateral diplomacy as the attention removed from the monarchs, the elite and Europe. As several new phenomena occurred, they influenced to large extent changes in diplomacy too.<sup>31</sup>

In line with these changes, certain results were expected from this new form of diplomacy. Firstly, owing it to growing importance of the concept of democracy that called for involvement of the citizens in the state's governance, greater amount of transparency was desired when

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<sup>29</sup> Gosh, K.A.: *The Evolution of Diplomacy: From Classical to Modern*, p. 9. Available at: [https://www.academia.edu/11002933/The Evolution of Diplomacy From Classical to Modern](https://www.academia.edu/11002933/The_Evolution_of_Diplomacy_From_Classical_to_Modern) (accessed 28/07/2017)

<sup>30</sup> Kurizaki, S.: *A Natural History of Diplomacy*, p.29. Available at: <http://people.tamu.edu/~kurizaki/b3.pdf> (accessed 28/07/2017)

<sup>31</sup> Changes like spread of democracy took place and propelled rather transparent diplomacy. Also, deeper economic relations gained momentum with the USA trading with all countries even despite the reparations that were imposed on Germany. Moreover, as modern science proved to be tool for making war even more deadly and destructive, stakes became higher. Last but not the least, nation-states now agreed to come together to serve their common interests in international community.



conducting diplomatic relations. Secondly, the set-up of an organization with membership open to every state wished to accede it seemed indispensable because it was believed that such multilateral diplomacy would significantly reduce discrepancies and contention, i.e. alleviate search for solutions needed for barriers that usually arise among countries. In conformity with these great expectations, the League of Nations was established in 1920 pointing out collective security and disarmament as its main aims.<sup>32</sup>

With the aim of fulfilling certain criteria, few other benefits were noted in relation to such multilateral diplomatic institution and its functioning. Firstly, the thriving science and technology enabled faster travel of people and information. Consequently, establishing contacts became easier than ever. The nation-states' leaders figured out that globally important problems were possible to resolve through multilateral diplomacy instead of bilateral negotiations. Furthermore, smaller nations could not just associate together but also approach and be heard at stage that was set by multilateral diplomacy whilst it was difficult for a weaker nation to negotiate bilaterally with a stronger one. In addition, it was naively believed that under the auspices of the League of Nations, it would be easy to dissuade a nation-state from aggression. Nonetheless, the League of Nations failed in preventing the outbreak of the World War II whose consequences were devastating. To the large extent, such failure could be attributed to the USA who already then represented internationally recognized power but unfortunately decided not to be a member despite being the one to propose it.<sup>33</sup>

### II.2.11. Cold War Diplomacy

The appearance of nuclear weapons and its destructive impact characterized the World War II which caused considerable concern when that war ended because another one, the Cold War between the USA and the USSR followed. In contrast to the Cold War, periods of *détente* (“relaxation of tensions”) appeared from time to time during which diplomacy was applied extensively in order to deescalate tensions and preserve this de-escalation. The approach of “nuclear diplomacy” overcame from 1945 until the dissolution of the Soviet Union in 1991

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<sup>32</sup> Tariqul Islam, S. M.: *Changing Nature and Agenda of Diplomacy: A Critical Analysis*, Asian Affairs (Bangladesh), v. 27, n. 1, 2005, p. 62-63.

<sup>33</sup> Gosh, K.A.: *The Evolution of Diplomacy: From Classical to Modern*, p. 11. Available at: [https://www.academia.edu/11002933/The Evolution of Diplomacy From Classical to Modern](https://www.academia.edu/11002933/The_Evolution_of_Diplomacy_From_Classical_to_Modern) (accessed 28/07/2017)

whose driving force was mutual distrust whereat both sides regularly monitored one another and tried to acquire advantage over the rival. During that time, the international community had the fear of nuclear war and therefore constantly expected that encounter might escalate when both sides might consider use of nuclear weapons as a necessity. “Crisis diplomacy” was an emergent category of wartime diplomacy represented during the Cuban Missile Crisis in 1962. The events that occurred were the consequence of absence of communication and distrust and therefore the de-escalation procedure called for a hotline that was set-up for both sides’ leaders in order to communicate and settle their delusions as regards each other’s moves and plans.<sup>34</sup>

At the same time, another category called “summit diplomacy” appeared and it involved the state’s leader official visit to another country’s leader. It was consisted of a number of meetings which dealt with the matters that were on the agenda.<sup>35</sup>

#### II.2.12. Modern day diplomacy

In 1945, the United Nations was established. Nevertheless, it was too often hindered in its activities mainly due to the abovementioned Cold War during which the veto power was exercised exceedingly by the Security Council permanent members one against another. Concurrently with the collapse of the USSR in 1991, things commenced to be conducted more smoothly than before. Therefore, it can be roughly ascertained that we witnessed the rise of modern diplomacy during this period that has been followed since. The ambassadors are now obliged to comprise commercial and economic relations within their scope too. It became quite clear that there has been a shift in focus from the political to the economic. Economic relations between countries proved to be an efficient tool in deescalating tensions. That is why the economic dimension of a nation also has a key role in state’s diplomacy. Furthermore, the choice of ambassador assigned by one state for another state explains the significance attached by the former to the latter. State’s foreign policy projection is no longer limited to the foreign affairs ministries since the heads of states and the prime ministers have actively commenced taking part in it, which is regarded as a kind of public diplomacy. Lastly, an enhanced

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<sup>34</sup> Tariqul Islam, S. M.: *Changing Nature and Agenda of Diplomacy: A Critical Analysis*, Asian Affairs (Bangladesh), v. 27, n. 1, 2005, p. 67.

<sup>35</sup> Gosh, K.A.: *The Evolution of Diplomacy: From Classical to Modern*, p. 13. Available at: [https://www.academia.edu/11002933/The Evolution of Diplomacy From Classical to Modern](https://www.academia.edu/11002933/The_Evolution_of_Diplomacy_From_Classical_to_Modern) (accessed 28/07/2017)

engagement of the news media has been noted in the last decades which contributed that matters are now brought to the public.<sup>36</sup>

### **II.3. History of Croatia's diplomacy**

#### **II.3.1. Croatian diplomacy in medieval era**

Origins of Croatian diplomacy trace back in distant past, during the period of first Croatian rulers while it developed significantly within the Dubrovnik Republic. It must be stressed here that the Dubrovnik Republic existed for several centuries and major factor contributing in preservation of its independence and sovereignty was successful diplomacy. Nevertheless, up until the modern Croatian state was established this theme did not receive sufficient public attention. As an initial development for the establishment of Croatian diplomacy, it is worthwhile to emphasize the importance of the letter written on June 7, 879 by the Pope John VIII.<sup>37</sup>

The Pope on that occasion informed the duke Branimir, reporting that he blessed him and the entire Croatian nation in Rome and acknowledged him with the power over the entire Croatia. With this document announced by the Holy Father, as the supreme authority in the Christian world, the moment of establishing independent, internationally recognized and sovereign Croatian state was designated. Since then, in the coming centuries, the Croatian diplomatic heritage was created, most notably through the activities of Croatian rulers and nobility. By maintaining a certain independence or better say autonomy and state continuity also after entering into a personal union with Hungary in 1102, with the contribution of Croatian diplomats to Hungarian and Papal diplomacy, and with the exceptional development of medieval Dubrovnik diplomacy, the framework of the very sources of Croatian diplomatic tradition was determined. It is noted that the first diplomatic activities of Croatian rulers related to the beginning of Croatian nation's Christianization and that they were taking place during the course of relationship with Rome, Byzantium and Franks. The clergy as the most organized and the most educated part of the society at the time played the key role in maintaining these relations. The Byzantine ruler Constantine Porphyrogenitus mentioned the mission of abbot

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<sup>36</sup> Tariqul Islam, S. M.: *Changing Nature and Agenda of Diplomacy: A Critical Analysis*, Asian Affairs (Bangladesh), v. 27, n. 1, 2005, p. 68-69.

<sup>37</sup> July 7 is celebrated as the official day of the Croatian diplomacy.

Martin and the agreement between the Pope and Croats; there are also notes on negotiation missions carried out by Donat, the Bishop of Zadar Ivan, the Bishop of Trogir etc. Another important fact related to diplomacy dates from that time; namely that duke Borna after sending his own messengers to the emperor, came himself also to Aachen, which represents the only registered occasion when a Croatian ruler personally went abroad for negotiation.<sup>38</sup>

A very significant part within the area of the so called “secular diplomacy” (diplomacy that was not conducted by the representatives of the clergy) of that time were negotiations, carried out through difficult circumstances and situation in Croatia after the death of the last Croatian king Peter and the Koloman’s arrival to the Croatian throne. After entering the union with Hungary in 1102, Croatia’s medieval diplomacy was characterized with new circumstances which resulted in new features of its diplomacy. The most active role in conducting Croatia’s diplomatic relations of that time was taken over primarily by the church and Papal representatives and then by the Byzantium and the Franks state.<sup>39</sup>

The main subject matter of diplomatic relations between Croats and other centres of power in the early medieval age relate in the first place to peace negotiations as a primary course of dispute settlement. Peace agreements were concluded by the duke Mislav with the Venetians, the duke Trpimir with Michael Boris, the duke Domagoj with the Venetians and the king Tomislav with the Bulgarians. Furthermore, negotiations were quite often the main course of action as regards border disputes settlements and other relations with neighbouring states. Various cleric and secular representatives but also special ruler’s envoys were sent to the diplomatic missions with different goals, those mainly arriving from nobility and rarely from citizenry. Public diplomacy prevailed but the secret one also played a prominent role. Moreover, bilateral diplomacy predominated albeit numerous examples of multilateral diplomacy exist too, mostly in the form of church councils.<sup>40</sup> Hence, without a doubt we may assert that Croats already during the early medieval era appeared as stakeholders in international relations,

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<sup>38</sup> Porphyrogenitus, C. (Roman Emperor): *De Administrando Imperio*, Constantinople, around 950. Among other issues, it deals with Croats and therefore represents notable source of Croatia’s early medieval history. English translation available at: <http://homepage.univie.ac.at/ilja.steffelbauer/DAI.pdf> (accessed 14/08/2017)

<sup>39</sup> Berković, S.: *Diplomacija i diplomatska profesija*. Zagreb, Urban Media, 2006, p. 29.

<sup>40</sup> Important church councils were held in Split in 925 and 928. Agreements accomplished during negotiations were confirmed with certain ceremonies, i.e. exchange of items, gifts, relics. Good example is coronation of king Zvonimir when Papal envoy handed him symbols of king’s power and Zvonimir in return gave gifts from the monastery of Saint Grgur in Vrana.

playing active roles in many negotiations and diplomatic missions especially those that dealt with significant political changes.<sup>41</sup>

After 1102, Koloman and Arpadović dynasty took the rulers name “Trpimirović” and Croatian Kingdom ceased to possess fully-fledged statehood. Although it kept certain aspects that contributed to its special status, Croatia was not anymore the full member of European political community since international diplomatic relations were within the scope of the Hungarian royal administration. Nevertheless, even after 1102 Croatian diplomatic activities continued to take place but in accordance with and dependent on political status within the personal union with the Hungary. Those activities were expressed on level of the kingdom, cities and other local entities but also by the prominent nobility families. Action of Croatian representatives during the assembly in Buda was particularly important whereat they presented the decree from March 7, 1492 and emphasized equality of the Croatian Kingdom in the union with the Hungary. Imminent threat from the Turkish invasion and weakening of Hungarian power in the era of Jagelović dynasty propelled further strengthening of Croatian diplomatic activity that peaked at the assembly in Cetin on April 28, 1527 when they independently elected Ferdinand von Habsburg as the Croatian king. Therefore, it is more than obvious that the Croatian diplomatic activity continued to exist also in the late medieval age.<sup>42</sup>

### II.3.2. Diplomacy of the Dubrovnik Republic

The Dubrovnik Republic is a unique phenomenon in European history and international relations. The small Croatian state located at the south of its coast survived between powerful neighbouring countries more than four and a half centuries, primarily owing it to their successful foreign policy and effective diplomacy. The Dubrovnik Republic existed as an independent state since the mid-14<sup>th</sup> century when it acquired all the elements of statehood until the beginning of the 19<sup>th</sup> century.<sup>43</sup>

Apart from the internal sovereignty, the Dubrovnik Republic also possessed foreign political sovereignty that manifests itself in autonomous decision making in relations with others states.

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<sup>41</sup> Berković, S.: *Diplomacija i diplomatska profesija*. Zagreb, Urban Media, 2006, p. 29-30.

<sup>42</sup> *Ibid*, p. 30-33.

<sup>43</sup> Its elements of statehood were obvious: it had its own territory and borders, its own population, its own legal order and the organization of state authorities, and it operated in accordance with the norms that were in force in international relations of that time.

That includes the recognition of other states, conclusion of international agreements, independence in establishment and maintenance of diplomatic and consular relations, including the autonomy in appointing and sending their diplomatic and consular representatives abroad and receiving the foreign ones. Bearing in mind the aforementioned, we may assert without any doubt that the Dubrovnik Republic was a state with all the necessary features of state sovereignty and recognized as a subject of international law.<sup>44</sup>

It can be freely stated that foreign policy and the competence of the Dubrovnik diplomacy played a crucial role in subsistence, evolution and prosperity of the Dubrovnik Republic. Dubrovnik established a foreign policy service very early in order to collect the foreign policy information and to protect its merchants and trade. The first written record of the Dubrovnik Republic diplomacy was found in the Dubrovnik Statute from 1272. A conclusion of the Little Council that dates from February 20, 1304 speaks about the appointment of a diplomatic representative called *poklisar*<sup>45</sup>, which was to be sent to the ban Mladen in Bosnia. Collection of rules from the 14<sup>th</sup> and 15<sup>th</sup> century, the so-called Green and Yellow Papers contain numerous rules on the establishment and organization of diplomatic and consular services, which clearly demonstrate that the Dubrovnik Republic had its own very well organized and regulated diplomacy at the time when that was a rarity in medieval Europe. After the great earthquake on April 6, 1667 when the economic and political existence of Dubrovnik came into question, it became a necessity to strengthen the Dubrovnik Republic's diplomatic and consular service, whose development enjoyed a considerable progress especially during the 18<sup>th</sup> century when it obtained all the elements of contemporary diplomacy of that time.<sup>46</sup>

As far as the structure of institutions of the state authority is concerned, the Dubrovnik Republic was an aristocratic republic (not autocratic though) and had its Duke that nominally represented the supreme authority. However, the Duke did not possess any substantive power as he obeyed the decisions adopted by the government.<sup>47</sup>

A National Assembly existed as a representative body of all citizens that gave consent to the legislation passed by the nobility until this authority had been taken over by the Great Council,

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<sup>44</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 204.

<sup>45</sup> Most probably, this name relates to Greek word *apocrisarios* which was the term used for Papal representatives in Byzantium.

<sup>46</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 204-205.

<sup>47</sup> Krizman, B.: *O dubrovačkoj diplomaciji*. Zagreb, Školska knjiga, 1951, p. 28.

i.e. the group of aristocrats who elected the Duke and had the crucial authority up until the occurrence of the Senate or the Council of Wisdom - the collective body of state authority. The Senate eventually became the government and remained so until the downfall of the Dubrovnik Republic. It adopted decisions within the area of the foreign and domestic policy, instructed in details the diplomatic and consular representatives through and controlled their activity abroad.<sup>48</sup>

Finding the best solutions for every problem and issue was preceded by long discussion and critical consideration of the reports the Senate has received from its diplomatic and consular representatives.<sup>49</sup>

The Senate appointed senators who had the task of managing and supervising certain affairs but also conducted correspondence both with foreign rulers and representatives as well as with Dubrovnik's representatives abroad.<sup>50</sup>

The Little Council, who firstly implemented decisions of the Great Council and then of the Senate, had its secretariat which was a channel through which all correspondence passed. Therefore, alongside with being the executive authority it was also the administrative-technical body. The youngest member of the Little Council acted as a Foreign Minister and regularly communicated with foreign representatives accredited to the Dubrovnik Republic.<sup>51</sup>

The Little Council also exercised the judicial power (in accordance with the Statute of 1272) until the middle of the 15<sup>th</sup> century when special courts were established. Accordingly, there existed the civil court and the criminal court while maritime disputes could be resolved at the arbitration courts.<sup>52</sup>

During its existence, the Dubrovnik Republic persevered and succeeded in preserving its neutral position, avoiding at the same time the establishment of any military alliances which was sufficient to convince other states to respect Dubrovnik renowned neutrality. Despite formally

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<sup>48</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 207.

<sup>49</sup> Ibler, V.: *Međunarodnopravni subjektivitet i vanjskopolitička nezavisnost Dubrovačke republike*. Zagreb, Zbornik Diplomatske akademije, presented at the International symposium "Diplomacy of the Dubrovnik Republic", organized by the Diplomatic Academy of the Ministry of Foreign Affairs of the Republic of Croatia, vol. 3, n. 3 – special edition, 1998, p. 58.

<sup>50</sup> Krizman, B.: *O dubrovačkoj diplomaciji*. Zagreb, Školska knjiga, 1951, p. 29.

<sup>51</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 207-208.

<sup>52</sup> Berković, S.: *Diplomacija Dubrovačke Republike*. Zagreb, Urban Media, 2009, p. 54-55.

recognizing supremacy of the most powerful force in their neighbourhood, the geopolitical position of the Dubrovnik Republic in combination with the skilful diplomacy enabled that the *de iure* status of that supremacy does not transform into *de facto*, so they preserved independence and sovereignty. Moreover, based on their neutral status many political and economic achievements have been accomplished which eventually yielded economic and total prosperity.<sup>53</sup>

The Dubrovnik Republic's foreign policy primarily had the function of preserving Dubrovnik's freedom and the sovereignty, the establishment of good relations with all stakeholders and maintaining activities in order to protect and develop trade and maritime affairs. An attempt to establish and maintain good relations with all relevant European states of the time as well as with Turkey was a constant in Dubrovnik's foreign policy. This policy was based on the principle of preserving the Republic's neutrality in international conflicts and emphasizing the status of the ultimate Christian enclave in South-Eastern Europe that will be granted a special preferential treatment from Christian countries in accordance with the doctrine of Christian universalism. The following principles of the Dubrovnik Republic foreign policy were fundamental: wisdom and completeness in analysing and assessing foreign relations; realistic, pragmatic and cautionary approach in decision-making; consciousness of their own capacities and potentials, high quality information. As the Republic's survival and prosperity were always in the focus of its action, the government and its entire foreign affairs office tried to accomplish the equilibrium between Dubrovnik's interests and the possibility of fulfilling those interests. This aspiration to preserve the freedom and the survival of the Dubrovnik Republic is very well illustrated within the engraved proverb: *Non bene pro toto Libertas venditur auro*.<sup>54</sup>

### II.3.3. Contemporary Croatian diplomacy

At the same time with the international recognition and briefly thereafter, various countries began to open diplomatic missions in Zagreb, Germany being the first one by transforming its consulate general in Zagreb into an embassy on January 15<sup>th</sup> 1992 and Italy that did the same two days later. With regard to that, the rapid establishment of the Croatian foreign affairs

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<sup>53</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 209.

<sup>54</sup> Berković, S.: *Vanjska politika Dubrovačke Republike (primjer međunarodne suradnje i diplomatske vještine)*. Zagreb, Politička misao, v. 46, n. 4, 2009, p. 210.



service and its intensive diplomatic activity that was aimed primarily on promoting crucial national interests abroad characterized this period. Importantly, three phases of creation and implementation of the contemporary Croatian diplomacy can be differentiated. First phase relates to the period until the international recognition and membership in the UN during which stopping aggression against Croatia and obtaining international recognition as a sovereign and independent state represented primary diplomatic aim. Second phase was between international recognition up until the Podunavlje region reintegration in 1998 when main course of diplomatic action related to the establishment of control and full sovereignty on the whole territory of the Republic of Croatia. Third phase subsequently was characterized with Croatian more active participation in international relations and strengthening its status in international community while full membership in Euro-Atlantic organizations was set as our main diplomatic target.<sup>55</sup> Last but certainly not the least, I would mention fourth phase in addition to the previous and it is directly connected to this dissertation. It concerns the current state of play in international relations whose integral part in its own capacity Croatia also is. More precisely, world and its economy became greatly globalized with several trends that tend to change quite quickly those circumstances that are effective for a certain period of time where only the fittest states and other actors in international arena survive and prosper more or less continuously. That is exactly why economic diplomacy occupied an extremely important place lately not only in diplomacy itself but also in international relations as a whole.

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<sup>55</sup> Berković, S.: *Diplomacija i diplomatska profesija*. Zagreb, Urban Media, 2006, p. 50-53.

### III. ECONOMIC DIPLOMACY- DEVELOPMENT, DEFINITION, CONFLICTS, THEORIES

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Economic diplomacy is an instrument of foreign economic policy whose implementation is within the sphere of activities of both state and non-state stakeholders. They have very broad scope of operation encompassing national economy, international economy and international organizations. Žirovčić correctly pointed out that economic diplomacy (in a broader sense), implemented by the various actors, comprises all state activities that intend to protect and promote national economic interests and as such is consisted of *economic diplomacy in a narrow sense* (also known as *trade diplomacy*) and *commercial diplomacy*.<sup>56</sup> After its introductory part, this chapter defines the economic diplomacy itself but also makes fine distinction between notions of economic diplomacy and commercial diplomacy and explains what they actually comprise. Additional two issues are further discussed within this chapter, namely conflicts in economic diplomacy and theories of economic diplomacy.

#### **III.1. Introduction**

As economic diplomacy deals with international economic issues (for instance like globalisation and its challenges)<sup>57</sup>, the Bretton Woods system of international economic institutions invented rules for economic relations among countries with their national economies remaining mainly intact. Such status was significantly challenged and changed after all since 1990s when economic diplomacy went deep into domestic decision-making as a consequence of advanced globalization. Broadly speaking, economic diplomacy is predominantly preoccupied with what governments do meaning that much wider number of players besides ministries of foreign affairs are involved taking their own responsibilities and

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<sup>56</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 36. Terms “economic diplomacy”, “trade diplomacy”, and “commercial diplomacy” and differences among them will be clarified later in this chapter. In Croatian language it is easier to distinguish these terms and avoid eventual confusion as the economic diplomacy in broader sense is called “gospodarska diplomacija”, the economic diplomacy in narrow sense is called “ekonomska diplomacija” and the commercial diplomacy is called “komercijalna diplomacija”.

<sup>57</sup> Bayne, N. & Woolcock, S.: *What is Economic Diplomacy* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*. Hampshire, Ashgate, 2007, p. 7.

performing their tasks.<sup>58</sup> Besides those state stakeholders, non-state actors form also constituent part of economic diplomacy, some of them by creating these policies and some by acting as *solo* players in their own capacity.<sup>59</sup> Furthermore, economic diplomacy applies variety of instruments, i.e. measures that vary from informal negotiation and voluntary cooperation, through soft legislation up until the creation of compulsory rules or even harder, sanctions. Impact of markets is specific attribute that appertains to the economic diplomacy and separates it from the political one. High level of economic integration has been a driving force of global markets for production and investment. In line with that, national legislation might prove to have detrimental effect on competitiveness of various locations and consequently markets can punish national measures that have not met the expectations. Market developments influence the parties involved by having impact on their negotiating positions and maybe even offer (a more attractive) alternative to a negotiated solution, which means that economic diplomacy in a certain case might have failed.<sup>60</sup>

Lee and Hocking assert that in the past it was considered that the role of diplomats and their contacts, activities and institutions were of great importance as their job was both creation and management of economic interdependence and dependence. Also according to them, diplomats were then the key players<sup>61</sup> when negotiating the set-up of market regulatory framework, spread of international values and cultures to the global economy, the promotion and appliance of economic policies and the protection of both public and private interests in the area of economy.<sup>62</sup>

With regard to the abovementioned, the crucial theoretical topic in the research of economic diplomacy was the degree to which economic diplomacy was associated with the state and public interests or whether it corresponds to a wider range of stakeholders and interests. Traditional, state-focused view and theory advocated the status of diplomacy as a discipline devoted solely to the state's cause and performed only by government institutions, primarily ministry of foreign affairs naturally. Consequently, economic diplomacy as its integral part with

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<sup>58</sup> Heads of government, ministers, parliaments, governmental and independent public agencies and sub-national bodies take active part in creating and implementing one state's economic diplomacy.

<sup>59</sup> Business sector used to play the key role but now the NGOs gradually commenced to take the central role.

<sup>60</sup> Bayne, N., Woolcock, S.: *What is Economic Diplomacy* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 2-5.

<sup>61</sup> Definitely still among the most important ones in my opinion.

<sup>62</sup> Lee, D., Hocking, B.: *Economic Diplomacy*, in Robert A. Denemark (ed.) *The International Studies Encyclopaedia*, Chichester, Wiley Blackwell, Vol. II, 2010, p. 1220.

economic agenda, issues, tasks and aims could not be distinguished from those of political nature.<sup>63</sup>

The new perception of economic diplomacy recognized that diplomacy could not be divided between distinctive economic and political sphere and because of that, most states consider such a distinction as simply untenable in practice. All progressive states put economic diplomacy as one of the basic pillars within their diplomatic agenda and it therefore became essential for countries to build up an integrated or coordinated diplomacy. This synergy within diplomacy implies multiple stakeholders gathered around policy networks coming from foreign and several other ministries, but also those from the private and civil sector. Thinking of diplomacy called upon going forward from perceiving it only through the foreign offices and its representatives in embassies. In relation to that, Hocking developed very interesting concept of the national diplomatic system which in more in detail describes diversity and complexity of multi-player diplomacy.<sup>64</sup>

According to it, albeit foreign ministries “run the show”; it includes other stakeholders with economic duties and concerns within and out of state administration at different levels of management. Therefore, the ministry of foreign affairs takes the role of the integrator or coordinator of diplomacy in the national diplomacy system which in practice means cooperating with other bodies like several ministries, as well as business and civil society representatives in order to reach diplomatic goals. Following that, certain states invented new institutional structures within government in order to formalize aforementioned coordinating role.<sup>65</sup>

Economic diplomacy in the system of global and interdependent economy implies more subject matters, thus extending the volume of those involved who possess economic interests and duties within the diplomatic procedures and activities. For that reason, it deems necessary to assess the connections among various public and private co-partners and interests, which actually means to discover the variety of the diplomatic networks and the relationship between public

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<sup>63</sup> *Ibid*, p. 1220-1222.

<sup>64</sup> For more details, see Hocking, B.: *The Ministry of Foreign Affairs and the National Diplomacy System*, in Kerr, P. and Wiseman, G. (eds) *Diplomacy in a Globalizing World: Theories and Practices*. New York, Oxford University Press, 2013, p. 123- 140.

<sup>65</sup> Lee, D., Hocking, B.: *Economic Diplomacy*, in Robert A. Denemark (ed.) *The International Studies Encyclopedia*, Chichester, Wiley Blackwell, Vol. II, 2010, p. 1223. For instance, Australia and Canada merged foreign and trade ministries while the United Kingdom and the Czech Republic retained those two ministries apart but instead established joint coordinative bodies.

and private within the diplomatic system. In effect, alterations in diplomatic practice can be regarded as alterations to diplomatic networks and to the national diplomacy system that depend on the time, i.e. circumstances and themes.<sup>66</sup>

Ministries of foreign affairs dominance in economic and trade area ended after other specialized ministries made serious efforts to conduct policy related international negotiations. Good example of such diplomacy that included many ministries, non-typical for that time, was evident in Switzerland where several developed countries have much bigger staff at their WTO embassy in Geneva than at their bilateral embassy in Bern. That was so exactly because of the increasing number of non- MFA diplomats and officials. Governments via their different bodies also became increasingly interested in backing up national economic development through supporting their companies by providing expertise in export, legal consulting, incentives, alleviating establishment of companies' foreign subsidiaries etc. On the other hand, government decided to involve also in providing assistance to potential foreign investors.<sup>67</sup>

Prof. Kishan Rana, former long serving Indian diplomat and now one of the prominent authors in the area of economic diplomacy specifies four stages through which economic diplomacy is performed by countries in past decades and described them as follows: <sup>68</sup>

- *Promotion* of trade represents usually the first essential goal, to which attraction of foreign direct investment (FDI) was added and became one of priorities for administrations around the globe. Rana gives good example of India which used economic diplomacy as an effective tool when it decided to open embassies in Gulf states after the huge increase of price of oil in 1970's or when significant number of technically skilled workers were sent to implement projects across North Africa thereby creating "new income streams". In 2013 such incomes on global level reached total of over US\$700bn;
- *Networking*, mobilisation of clusters of supporters and actors in trade promotion and technology acquisition activities is considered as the second aim. Such situation served as a trigger for public private partnerships (PPPs) which included multiple stakeholders

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<sup>66</sup> *Ibid*, p. 1224.

<sup>67</sup> Saner, R., Yiu, L.: *International Economic Diplomacy: Mutations in Post-modern Times*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2003, p. 12-13.

<sup>68</sup> Rana, K. & Chatterjee, B.: *Introduction: The Role of Embassies in The Contemporary Diplomacy: Paths to Diplomatic Excellence*. Basingstoke, Palgrave- Macmillan, 2013, p. 6.

(companies, chambers of commerce, think-tanks, business schools) at home and abroad as important partners and integral parts of economic diplomacy;

- The third element is *country promotion*, which is related to all the economic activities, including the inflow of foreign tourists, which is a considerable source of employment and foreign exchange earnings.<sup>69</sup> Rana points out excellently that although business activities occur even when adversities exist, a positive image of a state alleviates trade with investments being tied tightly with reputation and branding of country.<sup>70</sup> This is exactly where embassies<sup>71</sup> should step in as first points of contact and among other things upgrade their visa systems and take active part in organizing different types of trade fairs that serve as an excellent opportunity for country image improvement but also as a great business opportunity for companies;
- The final stage is the *regulatory* one and it grew extremely important concurrently with the establishment of the World Trade Organisation (WTO) as of then the management of external economic activity became complicated while economic diplomacy reached a new, high level. WTO, unlike its predecessor General Agreement on Tariffs and Trade (GATT), demanded serious contribution from governments, business bodies and public agencies while single country and regional free trade agreements too asked for additional input from governments.

Aforementioned elements or stages do not exclude each other but exactly the opposite as countries continuously move forward with their external economic activities, but without the activities from previous stage being cancelled or diminished. Importantly, country image is the most prominent one as it covers and is part of all other activities as every state constantly tries to brand or re-brand itself in best possible manner. As the time passed by, large companies became less dependent on state support when entering new markets since many of them already operate abroad and now need different kind of help in order to remove local obstacles upon their arrival. On the other hand, SME's still need their countries' substantial back up, primarily to enter a certain market and then to receive support as regards incentives and removing

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<sup>69</sup> For instance, this is area of activities where Croatia needs to put significant additional efforts in order to get more positive results in tourism as one of its crucial economic sectors.

<sup>70</sup> Besides positive country image, I would certainly add safety of investment, efficient legislative framework and tax system are *condition sine qua non* for foreign investors.

<sup>71</sup> In my opinion, chambers of commerce and tourist organisation foreign representation offices arise as indispensable players too.

barriers.<sup>72</sup> All this confirms complexity of the economic diplomacy in the sense that same state bodies need to address and undertake simultaneously various activities.<sup>73</sup>

As a consequence of emergence of a new set of international organizations that are in charge of economic policies but are organized and operate in quite complex manner, numerous states decided to expand number of ministries that possess expertise in financial and economic area thereby diminishing and neutralizing the impact of ministries of foreign affairs. For example, with regard to the WTO negotiations the US government in 1962 centralized decision-making power by creating new body, Office of the United States Trade Representative that has the status of president's executive office. In addition, the US government formed an interagency command group in order to enhance policy coordination during the GATT Kennedy Round with the aim of reducing and constraining disputes between ministries and external influences from congress members and various lobbyists.<sup>74</sup>

### **III.2. Definition of Economic Diplomacy and differences between Economic and Commercial Diplomacy**

As already stated at the beginning of this chapter, term economic diplomacy (in broader sense) needs to be decomposed before its "all-inclusive" definition is provided since there exist certain notions that might seem vague and confusing and therefore must be clarified.

First of all, its constituent components should be indicated, namely economic diplomacy (in narrow sense) or trade diplomacy<sup>75</sup> as some authors call it as the first branch of discipline and commercial diplomacy as the second type of it.<sup>76</sup>

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<sup>72</sup> As the huge amount of SME's still have lack of financial, technical, human and other resources, such state of play seems perfectly understandable especially for those who are new in business and try to enter foreign market for the first time.

<sup>73</sup> Rana, K. & Chatterjee, B.: *Introduction: The Role of Embassies in The Contemporary Diplomacy: Paths to Diplomatic Excellence*. Basingstoke, Palgrave- Macmillan, 2013, p. 9-10.

<sup>74</sup> Lee, D.: *Endgame at the Kennedy Round: A Case Study of Multilateral Economy Diplomacy*, *Diplomacy & Statecraft*, Vol. 12, No. 3, 2001, p. 119-120.

<sup>75</sup> For more details on this, see Okano-Heijmans, M.: *Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies*, *The Hague, The Hague Journal of Diplomacy*, Vol. 6, No. 1, 2011, p. 7-36.

<sup>76</sup> Žirovčić also made division between economic (trade) and commercial diplomacy by describing them separately, in very clear manner. See Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 36-40.

Economic (trade) diplomacy deals with economic policy themes, i.e. work of representatives at standard setting multilateral organisations like WTO. These diplomats cover and report on economic policies abroad and provide their government with recommendation on how to best affect them. This kind of diplomacy utilize economic resources, both as rewards and sanctions, aiming at a specific foreign policy goal. Sometimes the term economic statecraft is used to describe it properly.<sup>77</sup>

Skylakakis asserts that economic (trade) diplomacy implies the exploitation of political power and ties in order to enhance the operation of markets, accomplish internationally recognized standards, ensure property rights, and assure the correct political atmosphere for achievement of all goals.<sup>78</sup>

Commercial diplomacy on the other hand illustrates the work of diplomatic missions backing-up their country's business and finance sector searching for economic success and state's general aim of national development. That comprises the promotion of internal and external investments and trade as well. Providing information on export and investment opportunities and taking part in trade missions organisation forms essential part within commercial diplomacy. Diplomats dealing with these matters also contribute in economic ties deepening by acting as consultants to home and foreign companies for their investment decisions.<sup>79</sup>

The range of players involved in commercial diplomacy varies from the highest state officials like head of state or government through ministers or members of parliament right up to the ambassador and the lower ranked but competent diplomats. That last group of experts perform abroad, i.e. implement various business support actions in the area of trade, investment, tourism, state branding or promotion of science and technology. In most cases, they form part of a diplomatic mission or they act as managers of the commercial office who is also officially treated as a diplomat. Several business actions performed by commercial diplomats can be transferred to institutions and actors that do not have diplomatic character, such as chambers of

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<sup>77</sup> Berridge, G.R., James, A.: *A Dictionary of Diplomacy*. Basingstoke, Palgrave- Macmillan, 2003, p. 91.

<sup>78</sup> Skylakakis, T.: *The Importance of Economic Diplomacy*, The Bridge – A Quarterly Review on European Integration, 2006. Available at: [http://www.bridgemag.com/magazine/index.php?option=com\\_content&task=view&id=81&Itemid=38](http://www.bridgemag.com/magazine/index.php?option=com_content&task=view&id=81&Itemid=38) (accessed 22/09/2017)

<sup>79</sup> Scholte, J. A.: *Globalization, Governance and Corporate Citizenship*, The Journal of Corporate Citizenship, No. 1, 2001, p. 15-23.



industry and commerce<sup>80</sup>, trade promotion organisations or consultants who co-operate or perform under commercial diplomats' supervision.<sup>81</sup>

Administrations all over the world try to incite their national economies' competitiveness as a response to both benefits and shortcomings of global markets and pressures from corporate leading players whereby commercial diplomacy serves as an efficient tool that might considerably improve governments' productivity. However, Naray claims that importance and complexity of the commercial diplomacy is quite obvious if one is aware of the number of commercial diplomats all over the world. Namely, there are 20 000 of them and the expenses of commercial diplomacy actions including their salaries went over half a billion US dollars annually.<sup>82</sup>

As we see, significant financial and human resources are spent in order to support companies wishing to go or expand abroad which should bring enhanced economic integration on global level, faster growth and higher employment for their country of origin. As Kostecki and Naray revealed, the quantitative importance could be measured by certain parameters, namely number of commercial diplomacy representations in foreign countries, the home country's portion of global exports but also the estimated funding for the commercial offices abroad.<sup>83</sup>

Notably, it must be acknowledged that future business opportunities that exist within the certain country count for more than the current business trends and figures. Consequently, causal connection between the stake in global trade and the size of personnel involved in commercial diplomacy does not exist according to Naray, because for instance large or increased trade in certain goods between two states does not automatically mean more commercial diplomats involved.<sup>84</sup>

Logic behind the commercial diplomacy is directly related to goals that were set by governments with regard to business promotion taking into account also the fact that those aims

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<sup>80</sup> Or Chamber of Economy like in Croatia's example

<sup>81</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 2.

<sup>82</sup> *Ibid*, p. 3. These numbers do not refer neither to non-diplomatic staff who work for some sort of trade promotion organisation nor to ambassadors and other diplomats who do not perform commercial diplomacy activities exclusively but only as one among many within their *portfolio*.

<sup>83</sup> Kostecki, M. & Naray, O.: *Commercial Diplomacy and International Business*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2007, p. 5-6.

<sup>84</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 3.

might vary from state to state. These are creation of jobs, increased tax revenue and economic growth.<sup>85</sup> On the other side of the coin there are companies that look for more profit bearing in mind that undertaking international activities represents hazard for them. For that reason, companies are content with activities that result in decreased risk of entering certain foreign market(s), which is provided for fair price or even for free by commercial diplomacy services. When speaking about commercial diplomacy it seems inevitable to stress the issue of benefit, more precisely beneficiaries. Commercial diplomacy carries benefits to numerous stakeholders with abovementioned representatives of private sector, i. e. companies being the main and direct ones. Governments benefit also since positive image established or improved by the commercial diplomacy activities and results reflect in both directions, namely successful companies and governments enhance each other's image.<sup>86</sup>

In order to display the commercial diplomacy in a realistic manner and actually define its scope, Potter laid down five substantive activities that can be described also as business objectives:<sup>87</sup>

1. trade promotion,
2. FDI's attraction,
3. science and technology co-operation,
4. tourism promotion, and
5. home country's business community representation.

Abovementioned activities need those that support them, and the latter can be treated as necessary prerequisites that provide input so the former can actually occur and/or materialise. Potter indicated the following supporting activities:<sup>88</sup>

1. Intelligence,

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<sup>85</sup> For more details see Kotabe, M. & Czinkota, M. R.: *State government promotion of manufacturing exports: a gap analysis*, Journal of International Business Studies, Vol. 23, No. 4, p. 637-658.

<sup>86</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 4.

<sup>87</sup> Potter, E.: *Branding Canada: The Renaissance of Canada's Commercial Diplomacy*, International Studies Perspectives, Vol. 5, No. 1, 2004, p. 55-60.

<sup>88</sup> *Ibid.* Additionally, interesting insight on definition of commercial diplomacy can be found in: Boromisa, A-M., Tišma, S., Raditya Ležaić, A.: *Commercial Diplomacy of the Republic of Croatia or Why Croatia Today Desperately Needs a Strong and Systematic Commercial Diplomacy*, Zagreb, Institut za međunarodne odnose, 2012, p. 12-16.

2. Contacts and public relations activities, improving the country image,
3. Providing support for business negotiation and contract implementation, and
4. Problem resolution.

Taking into consideration abovementioned it seems quite obvious that speaking in broader terms economic diplomacy implies the application of international political means in order to achieve economic goals.<sup>89</sup> Such a definition comprises all various branches that fall within the economic diplomacy. In accordance with that, Okano-Heijmans pointed out excellently that economic diplomacy consists of two ends, a business one and the power-play one whereby all economic diplomacy activities may be allocated in between those two ends.<sup>90</sup>

The power-play end of the range covers the actions motivated by politics and government strategies while the business end on the other hand relates to all actions that deal with the national economic interest promotion and are performed in synergy by the government and the private sector. The latter part of the whole economic diplomacy concept is rightly called commercial diplomacy and explains why the notion of economic diplomacy is so broadly utilised and why it must be perceived as an “umbrella” concept because quite often when government officials talk about economic diplomacy, they *de facto* think of commercial diplomacy branch (that forms constitutive part of the broader term of economic diplomacy).<sup>91</sup>

However, it seems as pretty relevant to apprehend the wide zone between the power-play and business sides. There exist the whole variety of the instruments and activities that can be considered as a mixture of both extremes. According to Okano-Heijmans, in practice that actually means that difference between these two types is vague and therefore they may overlap which makes economic diplomacy more a network concept instead of a linear one.<sup>92</sup>

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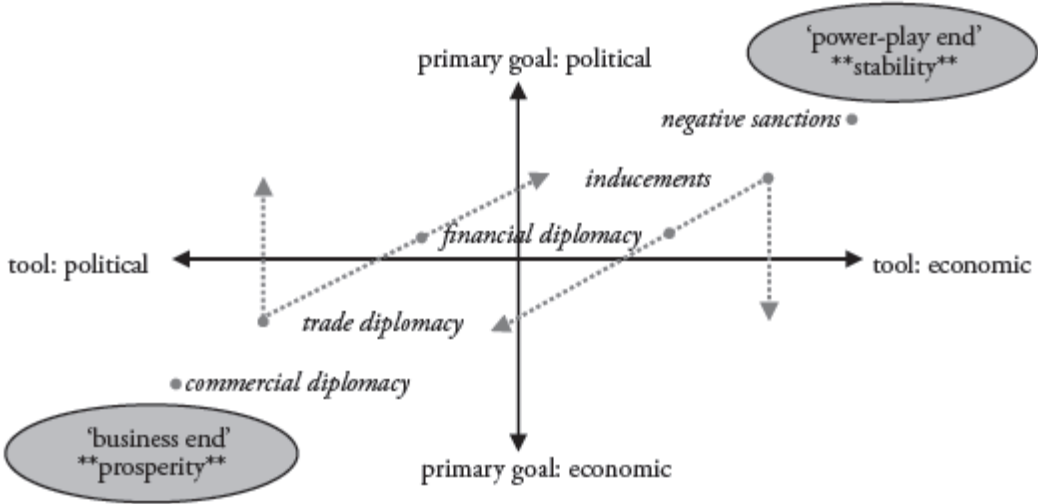
<sup>89</sup> For more detailed discussion on this, see Yakop, M. & van Bergeijk, P. A. G.: *Economic Diplomacy, Trade and Developing Countries*, Cambridge Journal of Regions, Economy and Society, Vol. 4, No. 2, 2011, p. 253-267.

<sup>90</sup> Okano-Heijmans, M.: *Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies*, The Hague, The Hague Journal of Diplomacy, Vol. 6, No. 1, 2011, p. 16.

<sup>91</sup> Janssen, M. C. J.: *What to Do? Commercial Diplomacy Strategies* (Master Thesis), Leiden University & the Netherlands Institute for International Relations „Clingendael“, 2013, p. 10-11.

<sup>92</sup> Okano-Heijmans, M.: *Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies*, The Hague, The Hague Journal of Diplomacy, Vol. 6, No. 1, 2011, p. 17.

**Figure 1: Business End vs. Power-Play End**



Source: Okano-Heijmans, M., p. 18. (See footnote 92)

Nevertheless, as already mentioned these two forms are actually different and as a consequence they possess different tools and cover different areas as explained below in Table 1.

**Table 1: Commercial and Economic (Trade) Diplomacy**

Commercial Diplomacy	Economic (Trade) Diplomacy
Trade Promotion	Bilateral: FTA's, EPA's
Investment Promotion	Multilateral: WTO
Business Advocacy	(Antidumping) Tariffs
Tourism Promotion	Export/Import Licensing
Promotion of Socially Responsible Investing	Import or Export Quotas, Trade and Investment Barriers

Source: Okano-Heijmans, M., p. 20. (See footnote 92)

Both bilateral and multilateral (within organisations like WTO) relations among nations are one of crucial elements for economic (trade) and commercial diplomacy since states use different strategies and tactics depending on the partner that is on the other side but also on the present political and economic relations they maintain at present. With regard to that, within diplomacy there exists interesting play of interchanging activities that is ongoing between attracting foreign direct investments and supporting export increase.<sup>93</sup>

It seems as inevitable to take into account the “non-governmental” sector when speaking about the economic diplomacy since ministries are not the only institutions that implement it. “Semi-government” institutions who possess *sui generis* status, most prominent among them definitely chambers of commerce are very much included and active. Moreover, the private sector has a huge role, as do the think-thanks in certain states. The exact role of private sector and its level of involvement in economic diplomacy strategy creation and implementation differs from state to state. Nevertheless, it would be correct to assert that rate of efficacy grows with the increase of activities and invention of new methods to implement it but also if inefficient activities are cancelled.<sup>94</sup> Logically, all these numbers and aims are easier to accomplish with the involvement of not just the foreign offices and other ministries or governmental institutions but more stakeholders that are established, organised and coordinated in proper manner.

With regard to the previous paragraph, Okano-Heijmans rightly established that in order to be and stay efficient, every administration needs to resolve trade-offs respecting the principle of balance between national interests and country’s course in foreign policy. Hence, careful handling of contacts and permanent scrutiny of existing and eventual economic diplomacy activities are extremely important.<sup>95</sup>

After both economic (trade) and commercial diplomacy as constitutive components of the broader term of economic diplomacy have been thoroughly discussed and discerned including explanation of most of their similarities and differences, it seems logical to merge them. In that

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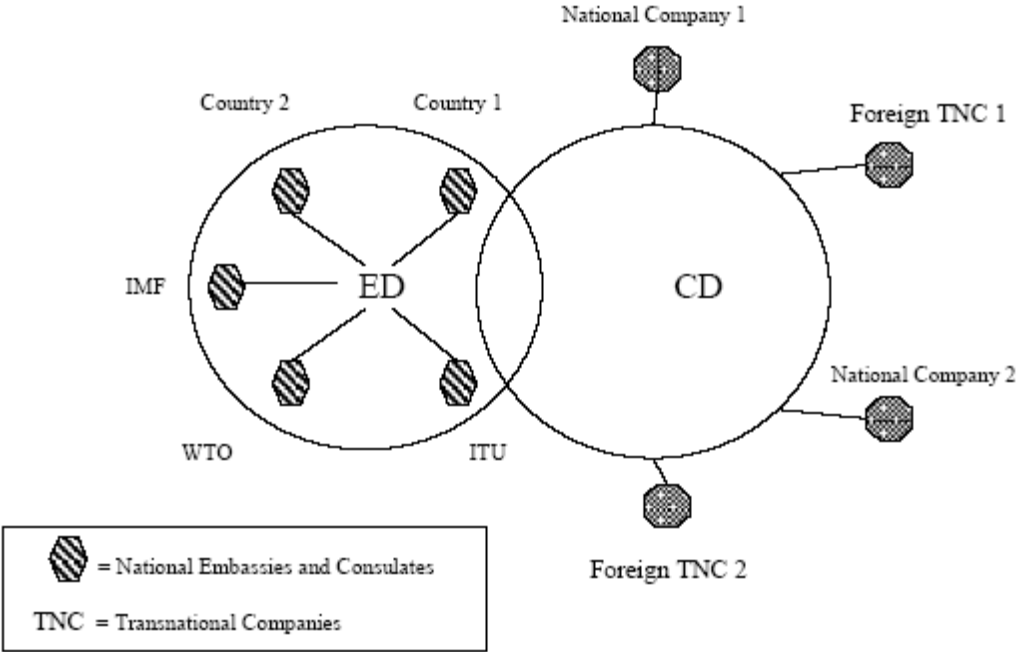
<sup>93</sup> See Van Bergeijk, P. A. G. & Moons, S. J. V.: *Economic Diplomacy and Economic Security*, in *New Frontiers for Economic Diplomacy* (eds. Carla Guapo Costa), Instituto Superior de Ciencias Sociais e Políticas, 2009, p. 37-54.

<sup>94</sup> Okano-Heijmans, M.: *Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies*, The Hague, *The Hague Journal of Diplomacy*, Vol. 6, No. 1, 2011, p. 19.

<sup>95</sup>*Ibid*, p. 20.

sense, Saner and Yiu illustrated in clear way the situation, i.e. relationship between two divisions that surrounds this (sometimes blur) area.<sup>96</sup>

**Figure 2: Economic Diplomat vs. Commercial Diplomat**



Source: Saner, R. & Yiu, L., p. 14. (See footnote 96)

Distinction between economic (trade) and commercial diplomacy that comes out of previous discussion and Figure 2 of can also be explained via following table created by Yakop that focuses on some of their respective characteristics.<sup>97</sup>

**Table 2: Multi-layered distinction among Economic (Trade) and Commercial Diplomacy**

	<b>Economic Diplomacy</b>	<b>Commercial Diplomacy</b>
<i>Level/ place of action</i>	International political arena	Fieldwork with companies

<sup>96</sup> Saner, R., Yiu, L.: *International Economic Diplomacy: Mutations in Post-modern Times*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2003, p. 14.

<sup>97</sup> Yakop, M.: *The relevance of economic diplomacy- A theoretical- empirical analysis* (Master Thesis), Faculty of Economics and Business, University of Amsterdam, 2009, p. 6.

<i>Category/form of activity</i>	Policy decision-making	Implementation
<i>Themes covered/dealt with</i>	Wide range	Specific

Source: Yakop, M., p. 6. (See footnote 97)

Based on what was said so far as regards this issue but also shown through Figure 2 and Table 2, it is more than obvious that numerous and significant differences exist which constitute economic (trade) and commercial diplomacy as two separate disciplines within the broader concept of economic diplomacy. Nevertheless, if this topic is examined in detail, I consider that one must note the existence of specific “grey zone” wherein these two branches overlap by entering each other’s “territory”. By accepting that, my opinion may be confirmed saying that economic diplomacy represents a broad concept that encompasses wide range of activities covering both economic (in narrow sense) or trade diplomacy on the one side and commercial diplomacy on the other side of the coin.

To sum up this issue, I will indicate below significant particularities of both commercial and economic (trade) diplomacy.<sup>98</sup>

Commercial diplomacy:

- Work “on the field” for companies’ benefit,
- Work on “case by case” basis,
- Work comprises information provision, consulting etc.,
- Work in private or public supported offices abroad where companies have access too,
- Work on duties assigned by home country government or company itself.

Economic (trade) diplomacy:<sup>99</sup>

- Work on international policy decision making level like IMF and WTO,
- No work on “case by case” basis,
- Work with more complex and wider spectre of topics,
- Work within international organisations,

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<sup>98</sup> *Ibid.*

<sup>99</sup> This holds true only for officials working exclusively at international organisations and not for diplomats holding posts at embassies and consulates.

- Work on duties assigned exclusively by government.

Importantly, diplomats who work at embassies, consulates and trade support offices perform both types of duties and therefore must be considered as economic and commercial diplomats at the same time. Furthermore, certain activity carried out by them occasionally contain elements of both commercial and economic (trade) diplomacy and automatically falls within both categories concurrently because to consider them exclusively as economic or commercial by their nature would be confusing and vague.

Consequently, I actually deem these two disciplines within the broad concept of economic diplomacy as overlapping and interdependent to a considerable extent and that will be further elaborated and confirmed with various facts and statements later in this dissertation.

Taking into account everything that has been said so far in respect of defining the complex notion of economic diplomacy, it could be stated that economic diplomacy comprises the work of stakeholders from both private (trade and support offices) and public sector (diplomatic missions and various ministries). Hence, this discipline implies not only provision of different means of assistance and support to home country's business community in other countries but also execution of complicated and numerous duties related to decision making at the high-level international organisations.<sup>100</sup>

Hereafter, Rana created one of the most encompassing definitions by saying that economic diplomacy represents a process that is a tool for countries to tackle the outer world, to provide itself with as much as possible benefit in all areas including trade, investments and other sorts of economic activities, where they possess comparative advantage. All this has three important dimensions, namely national, regional and multilateral.<sup>101</sup> He continued by saying that state institutions like ministries, embassies, consulates or agencies do not possess exclusivity over it anymore but instead they form partnerships with non-state/private stakeholders whose involvement prove to be *conditio sine qua non* for success.<sup>102</sup>

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<sup>100</sup> See also definitions of economic diplomacy and activities covered by it made by Berridge & James (footnote 77, p. 42 & 91).

<sup>101</sup> Rana, K. S.: *Economic Diplomacy: The Experience of Developing Countries* in Bayne, N., Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 201.

<sup>102</sup> *Ibid*, p. 201-202.



### **III.3. Conflicts in Economic Diplomacy**

Bayne and Woolcock identified three main types of tension that exist in the area of economic diplomacy<sup>103</sup> and as such constitute a challenge for governments that try to conciliate those tensions. These tensions are between: <sup>104</sup>

1. politics and economy,
2. international and internal pressures and
3. governments and “non-governmental” sector (companies or civil society).

As states are political and not economical entities with politics continuously interfering in economic issues, governments tend to reconcile the former and the latter in order to reinforce each other instead of being in conflict and therefore opt for aims and implementing measures that would serve this cause. In that sense, administrations devised different methods and one of them, advocated by most of economists, argues that states achieve economic benefit after removing barriers to external competition, irrespectively of other countries’ manoeuvres. Nevertheless, this is followed by political pressure claiming that other states will acquire leverage with mentioned reforms adopted. With regard to that, ideal manner to remove this fear and obstacle is to negotiate away trade barriers by reciprocity. Systemic theories are the most relevant explaining this tension.<sup>105</sup>

Basic tension between domestic and international pressure in economic policy-making underlies completely the economic diplomacy currently. National economies have been influenced considerably by several international factors/trends after WW2 and especially since the Cold War era ended. Economic diplomacy, unlike the political one, implies involvement of many state actors and not just the foreign offices, which in reality means many compromises within the government before one final view is agreed and that is so even more since economic issues, which have international dimension, rapidly grew in past decades. After that, process of negotiation within the international arena begins whereby earlier mentioned domestic stance needs a modification if internationally agreed result is to be accomplished. While doing so,

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<sup>103</sup> Description and analysis related to specific features and theories within the economic diplomacy refer almost exclusively to economic diplomacy in the narrow sense, i. e. trade diplomacy and not to the commercial diplomacy.

<sup>104</sup> Bayne, N., Woolcock, S.: *What is Economic Diplomacy?* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 7.

<sup>105</sup> *Ibid*, p. 7-8.

certain compromises and concessions in several areas are necessary if wished aims are to be achieved. One question arises as the consequence, namely whether new internationally agreed position still represents advancement in state's position towards their goals or not. When doing that, government needs an efficient procedure that enables quality assessment. Irrespectively of administration's conviction that certain agreement constitutes economic benefit for their country, they actually depend on the support of their electorates, i.e. voters who often tend to perceive a certain international agreement or global process in the area of economy as weakening their country. For that reason, they consider their governments as responsible and ask for more accountability. In the end, economic diplomacy has to be democratic which means that a balance between accountability and efficiency needs to be struck. In addition, tension among domestic and international pressure relates to another conflict between formal, hard rules or voluntary, soft law cooperation which in international economic system and global markets means that accepting internationally agreed and binding rules carries with itself surrender of national sovereignty to a certain extent. On the other hand, national policy and objectives sometimes ask for swift and radical change of international rules that no longer suit national preferences and are no longer regarded as legitimate. In that case, voluntary, soft law based cooperation seems more flexible, reasonable and practical option. Tension between domestic and international pressures are best described by state-centred theories.<sup>106</sup>

Tension between government and "non-government" sector is another one that took significant place in economic diplomacy especially after 1990 when globalisation process accelerated and alongside other international factors started to play an important role in national economies mostly via powerful private sector stakeholders like companies.<sup>107</sup> As a consequence, nation state's influence began to wane gravely and rapidly according to my personal opinion. Such statement is easy to verify because it is more than obvious that legislation and decisions implemented by government on national level as regards economic affairs have less and less influence not only on international level but also even internally. That process is naturally two-way since we are all very well aware that private sector expanded enormously its zone of influence in the past 20-30 years with multinational companies taking the most prominent role.<sup>108</sup>

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<sup>106</sup> *Ibid*, p. 8-9.

<sup>107</sup> *Ibid*, p. 9.

<sup>108</sup> More details on this issue available in article by MacDonald, K. & Woolcock, S.: *State Actors in Economic Diplomacy* (Chapter 4, p. 63-76.) and *Non-State Actors in Economic Diplomacy* (Chapter 5, p. 77-92.) in Bayne,

Bayne and Woolcock claim that by providing more opportunities and transferring power to private companies, governments actually stimulate economic activity while crucial processes related to that trend are removal of trade barriers, deregulation and privatisation. All this has serious repercussions for economic diplomacy as it raises questions of what should stay within government's scope, which are private companies' competencies and how can they cooperate successfully. Two prominent authors support stance according to which is essential whether government can deal with market pressures since efficient market regulation deemed to be necessary prerequisite for attraction of FDI's and assuring that national economy stays internationally competitive.<sup>109</sup>

### **III.4. Theories of Economic Diplomacy**

#### **III.4.1. Systemic Theories**

Representatives and followers of *realistic* theory of international relations see relative power of a state as a decisive factor defining one state's relations and influence as regards other countries including the area of economic diplomacy. Such position towards international negotiations and accomplishment of economic goals suggests advocating national interests based on opinion that is dominantly formed on basis of its size and economic power. According to systemic theories, international economy structure should be regarded as relations defined by relative power of subjects who actively participate in them.<sup>110</sup>

*Hegemonic stability* theory describes implementation of realistic principles and hegemon as the relatively strongest subject that is in charge of securing stability of international economic cooperation. Hence, multilaterally agreed system cannot preserve stability without the support

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N. & Woolcock, S. : *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007.

<sup>109</sup> Bayne, N., Woolcock, S.: *What is Economic Diplomacy?* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 9-10. For more in-depth analysis of governments response to globalisation and its advancements in negotiating and decision-making process in economic diplomacy see Bayne, N. & , Woolcock, S.: *What is Economic Diplomacy* in Bayne, N. & Woolcock, S. :*The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 12-16.

<sup>110</sup> Woolcock, S.: *Theoretical Analysis of Economic Diplomacy* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 23.

and supervision of the hegemon state although this system went through certain modifications through time.<sup>111</sup>

Importantly, states with significant economic and political power<sup>112</sup> still keep their dominant role and ensure that global economic order is, at the very least, relatively functional. Relative power and strength of a certain state is quite hard to estimate or quantify with regard to other participants of negotiation procedure that take place all over the world wherein states try to acquire economic benefits.<sup>113</sup>

*Dependence* theory has major baseline claiming that developing countries or less developed countries will always stay behind the (most) developed countries as they do not possess the equal chance of developing and growing economically and that imbalance arises directly out of the international economic order which suits exactly the most powerful and rich states that are unwilling to amend this global system and establish a new, more balanced economic order that would enable equal treatment, sustainable and continuous growth and development also to the less developed countries. In line with that, Group of Seventy-Seven (G-77) initiated during 1960's a process intending to disrupt the abovementioned inequality which reached its peak in 1970's through "poor South's" proposal called New International Economic Order (NIEO) but completely failed by the 1980's mainly due to the lack of unity among Southern hemisphere developing countries and the lack of "rich and powerful North's" perception of vulnerability to Southern threats. Final result of this initiative was failure that came after North's reluctance to actually make any substantive and significant amendment to the existing economic order.<sup>114</sup>

When analysing systemic approach towards international economic relations, numerous and constantly growing network of international organisations and agreements must be taken into account since they set clear rules in the area of international trade and thereby limit relative

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<sup>111</sup> United Kingdom's status of the hegemon state was ruined between two world wars and the United States took over the same role after the WW2 by organising international economic system including free trade through GATT. Although still significantly strong, United States' super dominant position weakened a bit gradually just like the system itself which made countries turn to bilateral agreements including the US whereby they used their still very strong position that guaranteed them good position within the negotiation process. For more details see: Gilpin, R.: *The Political Economy of International Relations*. Princeton, Princeton University Press, 1987.

<sup>112</sup> Although this strong position now applies more to the wider regional level than to the global one. For instance, US position in the Western hemisphere, the EU in Europe or Russia and China in Eastern hemisphere. These leading roles are best seen through activities these countries undertake in international institutions like WTO and IMF or forums like G-7, G-8, G-20.

<sup>113</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 51-52.

<sup>114</sup> Spero, J.E. & Hart, J.: *The Politics of International Economic Relations*. Boston, Wadsworth Cengage Learning, 2010, p. 201-204.

economic power of national states.<sup>115</sup> By accepting this, countries, in my opinion, voluntarily renounced considerable part of their sovereignty in the economic area on the one hand but made global trade, investments and financial transactions more legally stable albeit I must recall once again that these same rules are drafted by and serve to a large extent interests of economically (and politically) strongest states.

*Regime* theory, developed and defined by Krasner in 1980's, deals with cooperation developed among states when there exists cross-border economic activity that needs to be regulated by different rules. In relation to that, first examples of such international organisations and agreements are known in transport and telecommunication sectors.<sup>116</sup>

#### III.4.2. Theories (doctrines) of international trade

*Mercantilism* dates back to 16<sup>th</sup> century and is based on presumption that every state needs to export as much as possible and import as less as possible. According to it, state wealth controlled by monarch grows only by positive trade balance.<sup>117</sup> This theory is also referred to as the economic nationalism.<sup>118</sup> One nation's wellbeing depends on the amount of capital that state accumulates through international trade income which arrives from enhanced export and restrained import. In order to achieve it, national export should be supported with subsidies while import should be burdened with customs duties. Up until the end of the 18<sup>th</sup> century, mercantilism influenced economy and politics of the most prominent trading countries of Western Europe and also caused the spread of European countries' power on other continents.<sup>119</sup>

*Liberalism* emerged at the of 18<sup>th</sup> century in accordance with common principles of freedom and equality that also acted as impetus for free trade and benefits that arise out of both export and import. While the status of monarchs decreased gradually under the influence of civil revolutions<sup>120</sup>, *bourgeoisie* gained significant importance and promoted its interests especially

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<sup>115</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 52.

<sup>116</sup> For more details see: Krasner, S.D.: *International Regimes*. Ithaca, Cornell University Press, 1983.

<sup>117</sup> Kenda, V. & Bobek, V.: *Osnove mednarodnih gospodarskih odnosov*. Maribor, Gospodarsko-poslovna fakulteta, 2003, p. 86.

<sup>118</sup> The Concise Encyclopaedia of Economics. Available at:  
<http://www.econlib.org/library/Enc/Mercantilism.html> (accessed 13/10/2017)

<sup>119</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 59.

<sup>120</sup> Naturally, French revolution had the most far-reaching consequences.

in the areas of manufacturing, free trade and investment. In line with this, new and young social class acted aggressively and searched new markets for their products and raw materials for industry.<sup>121</sup>

On the other hand, all legislation and administrative procedures were considered as obstacles. Therefore, state's role was to ensure all preconditions necessary for successful and efficient entrepreneurship while at the same time state itself should not interfere in these activities. This form of capitalism is best described as *laissez-faire* according to which Adam Smith's<sup>122</sup> *market's invisible hand* dealt with and arranged everything in the best possible way.<sup>123</sup>

This state of affairs stood right until the 1930's when great economic crisis or better say depression denied principles set by liberalism and consequently propelled numerous countries to turn themselves to the next important doctrine called *protectionism*. Huge number of companies and banks collapsed, gross domestic product fell considerably while unemployment rose rapidly and all that served to bring state back to the focus and strengthen its role once again.<sup>124</sup>

Protectionism opposes liberalism directly and advocates government's implementation of all available measures<sup>125</sup> restricting import in order to protect domestic market and manufacturers. It was also named *anti-globalisation* as the negative sentiment against globalisation grew continuously in recent times. Following measures are used to protect domestic market and national manufacturers:<sup>126</sup>

- customs duties,
- import quotas,
- administrative barriers,
- "anti-dumping" legislation,
- direct state aid,
- exchange rate manipulation,

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<sup>121</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 60.

<sup>122</sup> Adam Smith promoted both free trade and market within his capital work called *Wealth of Nations*.

<sup>123</sup> Kenda, V. & Bobek, V.: *Osnove mednarodnih gospodarskih odnosov*. Maribor, Gospodarsko-poslovna fakulteta, 2003, p. 95.

<sup>124</sup> Kumar, A.: *Mednarodna ekonomika*. Ljubljana, Ekonomska fakulteta, 1999, p. 44.

<sup>125</sup> For instance, during the American Civil War, the US president Abraham Lincoln fiercely opposed free trade and imposed customs duties on imports (44%) which he used for financing war expenses, building railways and protecting American industry.

<sup>126</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 61-62.

- international patent system and intellectual property rights,
- *copyright*.

Professor Herman Daly belongs to economists who consistently defend protectionist doctrine with quite persuasive arguments. Hence, he claims that Ricardo's <sup>127</sup> comparative advantage reasoning from 19<sup>th</sup> century that ensured mutual benefit from free trade was exclusively based on internationally immobile capital. In contrast with that, free capital mobility was no longer employable in the 20<sup>th</sup> century since those who are in favour of free trade must choose between supporting capital immobility to protect the world for comparative advantage, or abort the comparative advantage reasoning and turn to reasoning that is established in accordance with absolute advantage. In any case, Daly says it may be asserted that world output will rise under free trade that is founded on absolute advantage; however that in no case indicates that every state will benefit from it. Accordingly, certain countries will definitely lose and therefore should be compensated.<sup>128</sup>

With regard to this, Daly concludes that ordinary economists do not seem as willing to abandon the comparative advantage argument although its main premise is not valid any more. Moreover, according to him, same group of economists seem to accept the loss of potential national benefit achievable through internationalisation in favour of globalisation, untested ideal which they wrongly identified and related with free trade from 19<sup>th</sup> century.<sup>129</sup>

When there exists urgent need to fulfil certain higher social and economic goals, government has to interfere in the area of free trade and free market. Such action refers to the theory of *interventionism*. J. M. Keynes set main theoretical principles by stating that public sector intervention via central bank and government fiscal measures deems necessary in order to stabilise situation when private sector decisions and actions cannot achieve sufficient macro economical results. Accordingly, supporters of this doctrine do not deny integrity of principles established by liberalism however, they assert *laissez-affaire* to be imperfect and for that reason, they see space for state's intervention.<sup>130</sup>

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<sup>127</sup> For more details on David Ricardo's theory of comparative advantage developed in 1817 see <http://www.econlib.org/library/Enc/bios/Ricardo.html> (accessed 17/10/2017)

<sup>128</sup> Daly, H.: *Ecological Economics and Sustainable Development: Selected Essays of Herman Daly*. Northampton, Edward Elgar Publishing, 2007, p. 30.

<sup>129</sup> *Ibid.*

<sup>130</sup> Blinder, A.S.: *Keynesian Economics* in: The Concise Encyclopaedia of Economics, 2002. Available at: <http://www.econlib.org/library/Enc1/KeynesianEconomics.html> (accessed 17/10/2017). On the other hand, it must be said that liberalism and its economically and socially related ideas prevailed over interventionism since

Long-lasting aim of free movement of persons, goods, services and capital accompanied with enormous technological, communications and transport advancement enabled elimination of all kinds of barriers, i.e. transformation of the world into a “global village”. General integration of national economies into the global economy (*via* trade, FDIs, migration of work force, capital flow etc.) enabled the world’s general economic interconnectivity. Such short but precise description from Professor Bhagwati quite correctly illustrates the process of *globalisation*.<sup>131</sup>

Nevertheless, several authors point out also the negative effects of the globalisation. For instance, Feenstra indicated significant rise in profits for trade as a consequence of globalisation taking into account international specialisation of production and export of certain goods. However, for the very same reason same effect does not appertain to the labour’s salaries in developed countries unfortunately. Hence, employment and wages of low-skilled workers have dropped constantly due to the globalisation, the process that triggered not only the trade integration but also the production disintegration as its direct opposition. With regard to the process of product disintegration, special attention has been attributed to the phenomenon of *outsourcing*, i.e. relocation of production.<sup>132</sup>

Writer Thomas L. Friedman wrote about the “flattening” of the world whereby he cited globalisation and its background effects as reasons for the fast and radically changed world we live in now.<sup>133</sup>

In addition, Professor Bhagwati listed more than obvious negative repercussions of the globalisation, namely growing poverty, children labour and exploitation, abuse of democracy, violation of workers’ rights, negative impact on environment etc.<sup>134</sup>

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1970's until the economic crisis that started in 2008. Well-known examples of interventionism are: 1) substantive administrative and economic system reform in 1930's performed through the *New Deal* by U.S. president F.D. Roosevelt; 2) economic revival and expansion after the WW2 and; 3) state interventions as a response to economic recession that began in 2008.

<sup>131</sup> Bhagwati, J.: *In Defence of Globalisation*. Oxford-New York, Oxford University Press, 2004, p. 3.

<sup>132</sup> Feenstra, R.C.: *Integration of Trade and Disintegration of Production in the Global Economy*, The Journal of Economic Perspectives, Vol. 12, No. 4, p. 31-50.

<sup>133</sup> For more details and discussion on this topic see Friedman, T.L.: *The World is Flat*. New York, Farrar, Straus and Giroux, 2005.

<sup>134</sup> For more in-depth review of obvious negative aspects of globalisation see Bhagwati, J.: *In Defence of Globalisation*. Oxford-New York, Oxford University Press, 2004.



It is estimated that in the period from 2000 to 2008 between 2,4 and 3,2 million workplaces have been lost in the USA as a direct consequence of trade deficit they generated with China and this slashing figure serves as perfect example of globalisation effects.<sup>135</sup>

Although certain international institutions concluded that globalisation has positive impact on world economy they admitted simultaneously that world's wealth has not been distributed equally. In reality, it can be summed up that a very small but extremely powerful group of countries, companies and people keeps major part of the global "financial cake" while the largest proportion of states and population enjoy negligible part of that same cake. So, the "rich are getting richer and poor are getting poorer" we might say and reasons for such state of affairs are diverse however, that matter needs to be analysed more in depth and that is not object of discussion within this dissertation.

Nevertheless, what we may and should freely assert is a fact that globalisation, alongside with its accompanying (economic) system, (financial) institutions, effects and trends that rule not just the world's economy but also geopolitics and international relations, has created some sort of very unstable situation that is very susceptible to severe crises that leave grand proportion of countries and their population in very unequal position which is why exactly such growing discontent is already in force for some time. Therefore, it is perfectly clear that something radical as regards the world economy system and its structure needs to be done rapidly if scary aftermath in the forthcoming future is to be avoided.

### III.4.3. Domestic Theories

When democratic decision-making and posture with regard to certain issues in the area of economic diplomacy is at stake, several different interests are intertwined which means they need to confront each other in order to reach consensus on national level. In fact, various interest groups or stakeholders who represent different elements of production process (labour, capital, land) quite often have entirely different ideas and approach on what would represent the national consensus in particular issue. Although relatively frequently such result is not

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<sup>135</sup> Palmer, D.: *China trade blamed for 2.4 mln lost US jobs-report*, 2010. Available at: <http://www.reuters.com/article/usa-china-trade/update-1-china-trade-blamed-for-2-4-mln-lost-us-jobs-report-idUSN238294820100323> (accessed 18/10/2017); Crutsinger, M.: *Factory jobs: 3 million lost since 2000*, in USA Today, 2007. Available at: [http://usatoday30.usatoday.com/money/economy/2007-04-20-4155011268\\_x.htm](http://usatoday30.usatoday.com/money/economy/2007-04-20-4155011268_x.htm) (accessed 18/10/2017)

accomplished actually in reality, consensus must, or better say should be reached including all interested parties in order to transform such solution into a political decision on national level that becomes integral part of economic diplomacy. To sum up, all theories dealing with abovementioned dimension and aspects within the decision-making process are called *theories directed at societal factors*. Agricultural policy of the European Union serves as a good example as it is protectionist by its nature and as such, it directly confronts the industrial sector who defends its liberal stance and interests. Agricultural lobbying groups advocate protection of preferential treatment in regarding import agricultural products while on the other hand, industrialists seek open market and competition with the rest of the world.<sup>136</sup>

Importantly, EU's Common Agricultural Policy is mandatory all over the EU since all member states agreed and adhered to it. Probably the most important feature of this policy are subsidies that are guaranteed for agricultural producers. Import liberalisation in this area would automatically drop prices significantly on the market since import products are cheaper and then the financial means intended for EU agriculture subsidies would be considerably higher. However, such scenario is not an option actually since the European Council already in 2005 set financial threshold as regards the agriculture budget and therefore total import liberalisation in agricultural sector is not really possible.<sup>137</sup>

Contrary to the theories focused on societal factors who deal with different stakeholders defining national aims in economic diplomacy, *state-centred theories* scrutinize institutional framework that creates decisions which are subsequently transferred as national interests to the international arena of economic diplomacy. Speaking of national institutional framework, there exist two levels of it, namely legislative and executive that intertwine in practice and act as one towards "outside", i.e. international surroundings of the country. Best example of such *modus operandi* is the process of concluding a certain agreement in the area of economic diplomacy on international level. If a bilateral agreement is at stake, the parliament firstly mandates the government to start negotiations and sign an agreement with foreign state. Thereafter, the government initiates negotiations by using its best experts, then ends these negotiations and finally signs that agreement. Nevertheless, agreement in question cannot enter into force before the parliament ratifies it. In the end, if and when all aforementioned steps are undertaken also

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<sup>136</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 66.

<sup>137</sup> Woolcock, S.: *Theoretical Analysis of Economic Diplomacy* in Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 27.

by the partner country that is co-signatory of the agreement, it enters into force in both states and becomes integral part of the national legislation. However, potential problems of the process break out when two branches of authority are dominated by political parties that are confronted between themselves. Such state of play can lead to obstruction, delay or cancelling mandate parliament has given government for negotiating. If such events occur, international negotiations surely slow down or even may break-up for an indefinite period. Besides rivalry among legislative and executive, conflicts within the government itself between certain ministries are also an unwished but possible option that can affect negatively the national decision-making process.<sup>138</sup>

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<sup>138</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 66-67.

## IV. MODELS OF ECONOMIC DIPLOMACY

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This chapter is consisted of three different parts. First of them deals with the theoretical overview of economic diplomacy models, their features, particularities and differences. Central part of the chapter covers concrete national economic models of eight European countries which were chosen on purpose for specific reasons that are important for this doctoral dissertation. Last part of this chapter is dedicated to the European Union, its economy and economic diplomacy.

### IV.1. Theoretical overview

At the beginning of this chapter, certain theoretical aspects should be clarified in order to understand this area comprehensively. Therefore, this introductory part will not go deep into details of specific states' systems since several of national structures will be elaborated later on. Hence, five basic types of organisational models identified by Rana serve as perfect starting point:<sup>139</sup>

- *unified* – merging of foreign affairs and foreign trade, such as that currently effective in Sweden after the reform of 2001, as well as in Canada and Australia, where the merger is done under the guidance of the MFA;<sup>140</sup>

- *partially unified* – implies the establishment of a joint institution operating between the MFA and the Ministry of Economy/Commerce, as in the case of the former UK Trade and Investment (UKTI) in the United Kingdom, which was created jointly by the Foreign and Commonwealth Office and the Ministry of Trade and Industry just like its succeeding institution, Department for International Trade (DIT);<sup>141</sup>

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<sup>139</sup> Rana, K.: *Bilateral Diplomacy*. Geneva and Malta, DiploFoundation, 2002, p. 70-71.

<sup>140</sup> Brazil has one of the most centralised systems wherein the MFA dominates to the extent that country is represented by the foreign minister even in the WTO.

<sup>141</sup> This model might comprise also the concept of „CEO ambassador“ (Thailand) who runs the representative office consisted of officials from the MFA and other ministries and agencies.

- *third agency* – the MFA is moderately involved in economic diplomacy except in the definition of broad guidelines as in the case of Singapore, without participation at an operational level, which is attributed to two specific institutions, the Singapore Trade Board and the Singapore Economic Development Board, that are controlled by the Ministry of Commerce and Industry;

- *competition* – a model significant for its competition between the MFA and other ministries and institutions (most notably the Ministry of Economy/Commerce), with both having intervention in economic diplomacy which is occasionally marked by substantial levels of overlapping, moderate coordination or even reduced effectiveness (such as France, Portugal and India);<sup>142</sup>

- *renunciation* – the MFA does not hold an active role in economic diplomacy, but instead serves only as support for the Ministry of Economy/ Commerce that possesses higher status and political weight than the MFA in this area, as in the cases of China and Germany.

Furthermore, Rana also named six factors which he deems as vital for successful and efficient economic diplomacy: <sup>143</sup>

1. dealing with economic affairs abroad calls for involvement of more stakeholders than the MFA and the ministry of economy/commerce, i.e. associations of industry and/or chambers of commerce, financial institutions, think-tanks etc.;
2. foreign affairs and external economic management organisational structure should be integrated or harmonised;
3. economic diplomacy has two top priorities, namely export promotion and attraction of foreign investments;
4. governments (assisted by chambers of commerce, think-tanks and others) are responsible for the simple and efficient regulatory framework that will enable creation of conditions for trade and investments improvements;
5. successful economic diplomacy must be implemented on two “battlefields”, one in the home country (capital) and the other one abroad via embassies and consulates;

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<sup>142</sup> This model is characteristic for the US' economic diplomacy since numerous state bodies are important actors with many overlapping duties and activities.

<sup>143</sup> Rana, K. S.: *Economic Diplomacy: The Experience of Developing Countries* in Bayne, N., Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 202-205.

6. albeit majority of states respect the significance of economic diplomacy,<sup>144</sup> effectiveness in actions they undertake differs to a considerable extent with general lack of drive in state's diplomatic system as a main weakness.

In relation to that, Rana thoroughly observed the experience of 130 countries (although only the developing ones) and based on it he developed a rough "economic diplomacy typology" consisted of four main clusters: traditional, niche-focused, evolving and innovative.<sup>145</sup>

**Table 3: Economic Diplomacy Typology**

	<b>Traditional</b>	<b>Niche-Focused</b>	<b>Evolving</b>	<b>Innovative</b>
<b>External economic management</b>	Handled by the economic/commerce ministries; little involvement of the MFA	Promotion concentrates on the identified niche	Some coordination between the MFA and economy/commerce ministries; contestation also likely	Joined-up, and other cooperative arrangements
<b>Policy management</b>	Limited role for MFA, frequent turf battles	Good internal coordination	Inter-ministry or cabinet level coordination; tending towards improvement	Institutionalised management, strong teamwork
<b>Role of Non-state actors</b>	Episodic, depends on personalities	Variable	New procedures, strong networking	Harmonisation with all stakeholders

<sup>144</sup> Unfortunately, I am still not convinced if this is the case with Croatia.

<sup>145</sup>Rana, K. S.: *Economic Diplomacy: The Experience of Developing Countries* in Bayne, N., Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 212.

<b>Economic Aid: Recipient</b>	Handled by economic agencies, seldom coordinated with MFA	Limited coordination	Networking between the aid management agency and MFA	“Graduated” out of aid receipt, or close to that stage
<b>Economic Aid: Donor</b>	Unlikely to be an aid donor	Unlikely to be an aid donor	Modest program, usually covering technical cooperation	Expanding program, run by MFA in harmony with trade promotion agencies
<b>Trade promotion</b>	Often handled by a commercial cadre, outside MFA control	Limited focus on commercial promotion, outside the niche area	Cooperative arrangements, often integration of political and economic work	Well-coordinated activities, role model in range of activities
<b>Investment promotion</b>	Handled by domestic agencies, limited role of the diplomatic system	Active use of embassy work	MFA’s and embassies work actively with home agencies, often at individual initiative	Strong team effort, based in institutional arrangements
<b>Regional diplomacy role</b>	Usually reactive	Focused on preferred niche area	Active	Innovative, exploitation of potential

Source: Rana, K., p. 213. (See footnote 145)

Existence of quintessential differences among national economic (commercial) diplomacy systems is more than obvious with regard to organisational/institutional options.<sup>146</sup> In connection with that, the commercial diplomat unit position is the focal point of organisational contention. Parameters like the trade promotion organization's (TPO) relative independence from governmental bodies, its position and role in the trade promotion system, the ministry in charge, are some of the most significant ones for the commercial diplomacy. Government set-up or system with regard to responsible ministries seems extraordinarily complicated considering the scope of ministries of foreign affairs, ministries of commerce and promotion agencies. As already stated above, various solutions exist wherein the MFA can have the dominant position, sometimes the ministry of commerce is in command, or occasionally common organisational schemes subsist. In addition, there exists also a distinction in the TPO's status as regards the set-up and its relationship with commercial diplomats. Described division between countries and respective arrangements that they adopted are shown below in table created by Naray. (see Table 4).<sup>147</sup>

**Table 4: Commercial Diplomacy organisational arrangements according to home country**

<b>Arr. no.</b>	<b>Arrangements between Foreign Affairs and Commerce</b>	<b>Responsible ministry</b>	<b>Commercial diplomat's role &amp; TPO arrangements</b>	<b>State</b>
1	Trade promotion part of trade policy- MFA and Ministry of Commerce work	Ministry of Commerce	Commercial diplomats working with the TPO branch, which is frequently in the perimeter of the embassy. They may also	US, China, Poland, France, Russia, South Africa

<sup>146</sup> For another thorough overview of national economic diplomacy models that payed special attention to those implemented in the UK, Canada and the US see: Mercier, A.: *Commercial Diplomacy in Advanced Industrial States: Canada, the UK and the US*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2007. Mercier discusses the most important factors that determine choice of national system of economic diplomacy. In addition, he specifies several more or less successful means and programmes of export promotion and attracting foreign investments.

<sup>147</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*. Paper presented at the 7<sup>th</sup> World Conference of TPO's, the Hague, 2008, p. 6.



			report to the ambassador (MFA).	
2	Separation of trade promotion activity and trade policy- MFA and Ministry of Commerce work	MFA	Commercial diplomat coordinates the TPO branch. Trade promotion handled by separate agency (TPO).	Australia, New Zealand, Canada
3	Trade promotion integrated in MFA- MFA and Ministry of Commerce work	MFA	Commercial diplomat coordinates the TPO branch, which is integrated with the MFA.	Denmark, Norway, Sweden, Finland, Iceland
4	Coordination mechanism	Joint oversight by MFA and Ministry of Commerce	Trade promotion entrusted to a dedicated institution	UK, Singapore
5	Separation of foreign affairs and trade	MFA	Commercial diplomat is mainly generalist and deals with both economic and political issues. If agency, integrated with MFA and embassy.	Large and medium sized developing countries
6	Delegation of trade promotion	Mostly Ministry of Commerce but	Commercial diplomat runs TPO branch separately, independently from the	Japan, South Korea, Italy, Germany

		not <i>stricto sensu</i>	embassy. The latter is only involved in policy issues, as there is no commercial diplomat for business promotion in the embassy.	
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Source: Naray, O., p. 7. (See footnote 147)

Naray correctly pointed out the dilemma whether traditional diplomats are capable of performing business support tasks at the high level since such duties are interconnected with market, commercial and/or financial techniques that are not usually part of diplomats competencies. Therefore, he raises question of correlation between the high-level government negotiations and country positions at the IMF and WTO on the one hand and business promotion and SME's marketing plans.<sup>148</sup>

Here we reached the issue that I stressed intentionally and explained in detail in previous chapter when I explained the concept of economic diplomacy in broader terms and its integral elements, economic diplomacy in narrow sense and commercial diplomacy. Hence, such doubt only confirms that economic diplomacy dealing with IMF, WTO and WB is one thing and promoting exporting companies abroad and/or attracting foreign investments is another thing. However, these two branches of activities constitute together the economic diplomacy in broader sense as both areas possess undoubtedly dominant economic dimension. With regard to that, it is completely clear that albeit different they are closely related and influencing one another while duties and policies in these areas might be performed and implemented by the same or different expert(s). Decision whether the job will be done by the same or different person depends on numerous factors and parameters; for example size of the country, type of economy, economically strong sectors, economic strategy preferences, state administration system and last but certainly not the least, economic diplomacy model. That is also why there is no exact answer which approach proves to be more efficient and successful because a model suiting perfectly one state does not necessarily mean the same for another country. To conclude, I oppose to a certain level Naray's views according to which a country should almost completely divide economic diplomacy (in narrow sense) and commercial diplomacy. Of

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<sup>148</sup> *Ibid*, p. 8.

course, these duties, activities and personnel might be separated largely as some successful examples prove, but this is not the case in every country and therefore should not be done automatically but instead firstly analysed before making a decision on whether to do it or to what extent to do it. To sum up, economic diplomacy in narrow sense (or trade diplomacy) and commercial diplomacy are distinct but quite often pretty intertwined disciplines which should be closely coordinated and performed by relevant state institutions and other stakeholders.<sup>149</sup>

Nevertheless, Naray indicated two key characteristics that, in his opinion, appear to be essential for commercial diplomacy in years to come: business know-how and business experience and in line with that, he cites Ireland’s example where commercial diplomats are recruited from the corporate sector with at least five years of senior management experience. In addition, it is recommended that these persons return to private sector after several years in commercial diplomacy in order to keep in touch with what is going on in the business community.<sup>150</sup>

By entering the Vienna Convention on Diplomatic Relations from 1961, business-related activities were officially recognised as being within the scope of diplomatic representatives.<sup>151</sup> In relation with that, six main categories of activities are pointed out by Naray as essential in the area of commercial diplomacy (see Table 5 below).<sup>152</sup>

**Table 5: Commercial Diplomacy Activities Matrix**

<b>Area</b>	<b>Promotion of Trade in Goods and Services</b>	<b>Protection of Intellectual Property Rights</b>	<b>Co-operation in Science &amp; Technology</b>	<b>Promotion of Made-in and Corporate Image</b>	<b>Promotion of Foreign Direct Investment</b>
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<sup>149</sup> From my perspective and experience as someone who holds post at the Croatian Chamber of Economy and actively conducts diplomatic activities on a daily basis, competencies from the private sector with regard to financial knowledge and techniques are certainly not the only quality required when commercial diplomacy missions and their success are in question. On the opposite, diplomatic skills, high-profile contacts and sophisticated lobbying very often prove as decisive factors that determine the final outcome.

<sup>150</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*. Paper presented at the 7<sup>th</sup> World Conference of TPO's, the Hague, 2008, p. 8-9.

<sup>151</sup> See the UN Vienna Convention on Diplomatic Relations from 1961. Available at: [http://legal.un.org/ilc/texts/instruments/english/conventions/9\\_1\\_1961.pdf](http://legal.un.org/ilc/texts/instruments/english/conventions/9_1_1961.pdf) (accessed 06/11/2017)

<sup>152</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*. Paper presented at the 7<sup>th</sup> World Conference of TPO's, the Hague, 2008, p. 10-11.

Activity					
Intelligence	Collecting export marketing data	Supervision of breaches of IPRs	Monitoring research accomplishments	Image studies	Indicating potential investors
Communication	Tourism promotion conference	Presentations during awareness campaigns	Preparation of press articles on scientific accomplishments	Contribution to trade-in promotion events	Briefings for potential investors
Referral	Introducing potential exporters	Search for reliable IP lawyers	Facilitation of contacts between H.T. labs	P.R. for significant contracts where national image is important	Approaching CEOs with investment proposals
Advocacy	Support to companies in dispute settlements processes	Pressure for higher protection of home country's IPRs	P.R. in favour of joint scientific projects	Protection of national companies singled out by host country authorities	Protection of home country investors in the host country
Co-ordination	Organisation of	Co-ordination	Introducing parties to	Co-ordination	Organising minister's participation

	prospect meetings	of legal action	initiate R & D joint ventures	of made-in campaigns	n in private investors' forum
Logistics	Embassy's secretariat is servicing a trade promotion conference	Training material for awareness campaigns is printed and distributed by the embassy	Ambassador or commercial diplomat hosts a conference on promotion of scientific co-operation	Translation of the campaigns material is done by the commercial diplomat unit's staff	Members of an investment promotion mission utilize office facilities at the embassy

Source: Naray, O., p. 11. (See footnote 152)

As it will be set forth in detail later in this chapter, numerous economic diplomacy models, its versions and combinations have been adopted and implemented among states. In connection with this, such state of affairs also reflects on the category of commercial diplomats that perform their duties with three main forms of them clearly arising:

- *business promoter*,
- *civil servant* and
- *generalist*.

A business promoter type could be depicted as pro-active, business focused commercial diplomat trying to provide assistance to companies in the best possible manner following their requests for “consultant” services. As these persons are deep into business sector, they tend to act like managers and possess considerable technical knowledge and entrepreneurial *modus operandi*. As they are normally seated in the host country's business capital, with potential offices in industrially most developed parts, they have practical idea of business support activities. Most of the services provided by this sort of diplomat are payable. Civil servant type of commercial diplomat tend to act like an officer within the ministry of trade that distances himself from business deals and takes more a reactive approach instead to an active one. This diplomat stresses the importance of political dimension or better say application instead of

business support and reacts better to directions received from administration than to companies' requirements. To sum up, they prefer being a link between business sector and the government instead of encouraging business activities. A generalist is a career diplomat who carries out commercial diplomacy as *ad hoc* duties and as additional activities to his usual diplomatic tasks. Most frequently, they operate in less technical manner than business promoter and civil servant. Nevertheless, their *networking* serves quite often as a valuable asset as they possess certain high-profile contacts that prove as a decisive factor in achieving the desirable objective. Based on previously mentioned division, it may be concluded that commercial diplomats' status within the organisational scheme determines their scope and way of operating. Subordination to the MFA works in favour of classical diplomatic functions, subordination to the Ministry of Commerce (Trade) is in the purpose of acting like a civil servant while linkage to TPOs stresses the business promoter role. Hence, commercial diplomats obviously have different statuses and duties within their national commercial diplomacy systems and for that reason very frequently they obtained different education and professional experience too. Kostecki and Naray extracted crucial characteristics of certain commercial diplomacy models.<sup>153</sup>

**Table 6: Crucial Characteristics of Commercial Diplomats by Country**

<b>Type of Commercial Diplomat</b>	<b>Business promoter</b>	<b>Civil Servant</b>	<b>Generalist</b>
<b>Approach</b>	Commercial activities are perceived mostly as business activities	Commercial activities are perceived as an integral part of international relations	Commercial activities are perceived in a broader diplomatic and political perspective

<sup>153</sup> Kostecki, M. & Naray, O.: *Commercial Diplomacy and International Business*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2007, p. 21-23. Authors of the article wrote down more detailed description of certain solutions adopted by several countries. Thus, they mention Sweden, Canada and Australia model wherein foreign office and ministry of trade are merged, (now former) UK Trade and Investment (UKTI) that was supervised by both Foreign Office and Department for Trade and Industry, US commercial service reporting both to Department of the State and Department of Commerce, Hungarian system with TPO directors holding diplomatic status, Japanese and Korean system of trade and investment promotion agencies (JETRO and KOTRA) or German and Chinese model which does not include the MFA but rather another ministry as responsible for commercial diplomacy.

<b>Leading concern</b>	Emphasis on client satisfaction	Emphasis on satisfaction of the Ministry of Commerce (Trade)	Emphasis on satisfaction of the MFA
<b>Country ranking according to the commercial diplomat type</b>	Ireland Canada US Sweden Finland New Zealand Portugal Austria UK Switzerland Hungary Japan South Korea	Germany France Poland China Cuba	Brazil El Salvador Venezuela

Note: Countries moved to the right side of the column indicates that their commercial diplomacy system is hybrid including some characteristics cited in the next column.

Source: Kostecki, M. & Naray, O., p. 23. (See footnote 153)

## **IV.2. National models**

This part of the chapter will be dedicated to the specific national models adopted and implemented by various states across the Europe. Several categories of countries (big, medium and small sized, more and less developed) will be represented with their respective models and most important features which determines them as specific and more or less successful. Certain countries were chosen in accordance with several specific criteria that are, among other things, also in correlation with Croatia and its economic diplomacy. Hence, two of the Europe's great countries (United Kingdom and Germany) found their place here because their significant economic power allows them to act as important stakeholders when many processes that are ongoing in global and European economy are at stake. Another two states, namely the Netherlands and Denmark, are among the most successful and developed "small" countries in the world and as such serve as perfect example for states like Croatia with the latter also holding the status of a country outside the Eurozone. Besides countries that possess the status of "old" EU member states, two ex-Soviet countries (Lithuania and Estonia) fall within the category of "new" EU member states and have more or less the same size like Croatia while they also went through the post-communist and privatisation processes. One central European state (Austria) has long history of relations with Croatia and as such possesses a similar economic diplomacy model and organisational structure although admittedly much more successful and efficient than the one Croatia applies. Last but not the least, one country (Portugal) is also similar to Croatia since its position of a relatively small maritime country closely relates to the one held by Croatia.

### **IV.2.1. The United Kingdom**

#### *IV.2.1.1. National Economy*

The UK, an important trade and financial player, is the third largest European economy behind Germany and France. According to European parameters, agricultural sector is intensive, highly mechanised and efficient with production of around 60% of food demands with less than 2% of the labour. The UK possesses significant but declining coal, natural gas and oil resources converting this country into a net importer of energy-generating products from 2005. Services, especially in banking, insurance and business sectors, are main generators of the UK GDP growth. However, manufacturing has lesser significance comparing to what it represented but



still covers around 10% of economic output. In 2008, the global financial crisis struck the economy hard because of the significance of its financial sector. Dropping home prices, high consumer debt and the economic deceleration on global level activated national economy's recession in the second half of 2008 and prompted the Labour party-led government to carry out several measures to sustain the economy and stabilise the financial markets. In 2010 by dealing with public deficits and debt rates, the Conservative-Liberal coalition government implemented the austerity measures that continued also under the new Conservative government. Nevertheless, the deficit remains one of the highest in the G7 group, standing at 4.1% of GDP as of mid-2016, and the UK has ensured to cut its corporation tax from 20% to 17% by 2020. The UK had a debt burden of 92.2% GDP at the end of 2016.<sup>154</sup> Of course, it remains to be seen how will the UK's exit from the EU called *Brexit* finish. At the time of writing and submitting this dissertation, it is still not clear what will be the final outcome of this unprecedented process in the EU; by now it is not known whether it will be a hard *Brexit* (leaving without an agreement) or a soft-type *Brexit* meaning that it is legally arranged and set for future trade agreement. Albeit such an option seems less and less probable, there still exists (very narrow) space for cancelling or at least postponing the *Brexit* process since certain politic groups continuously ask another referendum to be held. Depending on the final solution (UK should formally exit the EU at midnight, 29<sup>th</sup> March 2019), it will be possible to set out more concrete predictions and analysis of political and economic repercussions.

**Table 7: Economic statistics of the UK<sup>155</sup>**

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$2.785 trillion (2016 est.)
\$2.701 trillion (2015 est.)
\$2.615 trillion (2014 est.)

<sup>154</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/uk.html> (accessed 13/11/2017)

<sup>155</sup> *Ibid.*

country comparison to the world: 10
<i>GDP - real growth rate:</i>
1.8% (2016 est.)
2.2% (2015 est.)
3.1% (2014 est.)
country comparison to the world: 144
<i>GDP - per capita (PPP; data are in 2016 dollars):</i>
\$42,400 (2016 est.)
\$42,000 (2015 est.)
\$41,400 (2014 est.)
country comparison to the world: 38
<i>GDP - composition, by sector of origin (2016 est.):</i>
agriculture: 0.6%
industry: 19.2%
services: 80.2%
<i>Agriculture - products:</i>

cereals, oilseed, potatoes, vegetables; cattle, sheep, poultry; fish
<i>Industries:</i>
machine tools, electric power equipment, automation equipment, railroad equipment, shipbuilding, aircraft, motor vehicles and parts, electronics and communications equipment, metals, chemicals, coal, petroleum, paper and paper products, food processing, textiles, clothing, other consumer goods
<i>Industrial production growth rate:</i>
1.5% (2016 est.)
country comparison to the world: 126
<i>Labour force:</i>
33.36 million (2016 est.)
country comparison to the world: 18
<i>Labour force - by occupation:</i>
agriculture: 1.3%
industry: 15.2%
services: 83.5% (2014 est.)
<i>Unemployment rate:</i>
4.9% (2016 est.)

5.4% (2015 est.)
country comparison to the world: 64
<i>Population below poverty line:</i>
15% (2013 est.)
<i>Exports:</i>
\$407.3 billion (2016 est.)
\$439.4 billion (2015 est.)
country comparison to the world: 11
<i>Exports - commodities:</i>
manufactured goods, fuels, chemicals; food, beverages, tobacco
<i>Exports - partners:</i>
US 14.8%, Germany 10.7%, France 6.4%, Netherlands 6.2%, Ireland 5.6%, Switzerland 4.6%, China 4.4% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$1.858 trillion (31 December 2016 est.)
\$2.04 trillion (31 December 2015 est.)

country comparison to the world: 4
<i>Stock of direct foreign investment - abroad:</i>
\$1.611 trillion (31 December 2016 est.)
\$1.89 trillion (31 December 2015 est.)
country comparison to the world: 6

Source: The World Factbook, November 2017

#### *IV.2.1.2. Economic Diplomacy Model*

The main governmental body responsible for the economic diplomacy is recently established institution called the Department for International Trade (DIT)<sup>156</sup>. As the *Brexit* carried with itself many political and economic changes and challenges for the UK, the government decided to move away from the existing model and formed new body in order to prepare the country properly for the upcoming state of affairs where the UK will stand alone internationally, including the area of international trade and economic diplomacy which some regard as a deficit and the other as an advantage for this country.

In that sense, the DIT replaced the former institution that dealt with these matters, namely UK Trade and Investment (UKTI) that was jointly formed and controlled by two ministries, i.e. Foreign and Commonwealth Office (FCO) and Department for Business Innovation and Skills (BIS). Thus, the FCO and the BIS developed policy in the area of economic diplomacy and the UKTI was responsible for implementing it and reporting to the former two.<sup>157</sup>

<sup>156</sup> This body was formed by the Prime Minister Theresa May only in July 2016 as a response to the *Brexit* decision and all its future political and economic repercussions. See <https://www.gov.uk/government/organisations/department-for-international-trade> (accessed 13/11/2017).

<sup>157</sup> Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 52. For more details on the UKTI see also: Mercier, A.: *Commercial Diplomacy in Advanced Industrial States: Canada, the UK and the*

With regard to the DIT, it started to operate only recently and because of that so far there exists no sufficient and objective literature reviewing this body, however its key features and future plans and figures will be put forward here.

As already mentioned, the DIT is an economic department that came as the government’s immediate response to the EU membership referendum. It is designed to ensure the UK progress by providing strong support to international trade and investment. It is particularly responsible for:<sup>158</sup>

- bringing together policy, promotion and financial know-how to remove trade and investment barriers and assist companies to succeed;
- providing a new trade policy framework for the UK after *Brexit*;
- promote the British trade and investment globally and
- building the worldwide appetite for UK goods and services.

**Figure 3: Crucial facts about the DIT and UK Export Finance in 2016-2017**



US, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2007, p. 16-20.

<sup>158</sup> UK National Audit Office, *A Short Guide to the Department for International Trade*, October 2017, p. 5. Available at: <https://www.nao.org.uk/wp-content/uploads/2017/10/Short-Guide-to-the-Department-for-International-Trade.pdf> (accessed 13/11/2017)

Source: National Audit Office, p. 4. (See footnote 158)

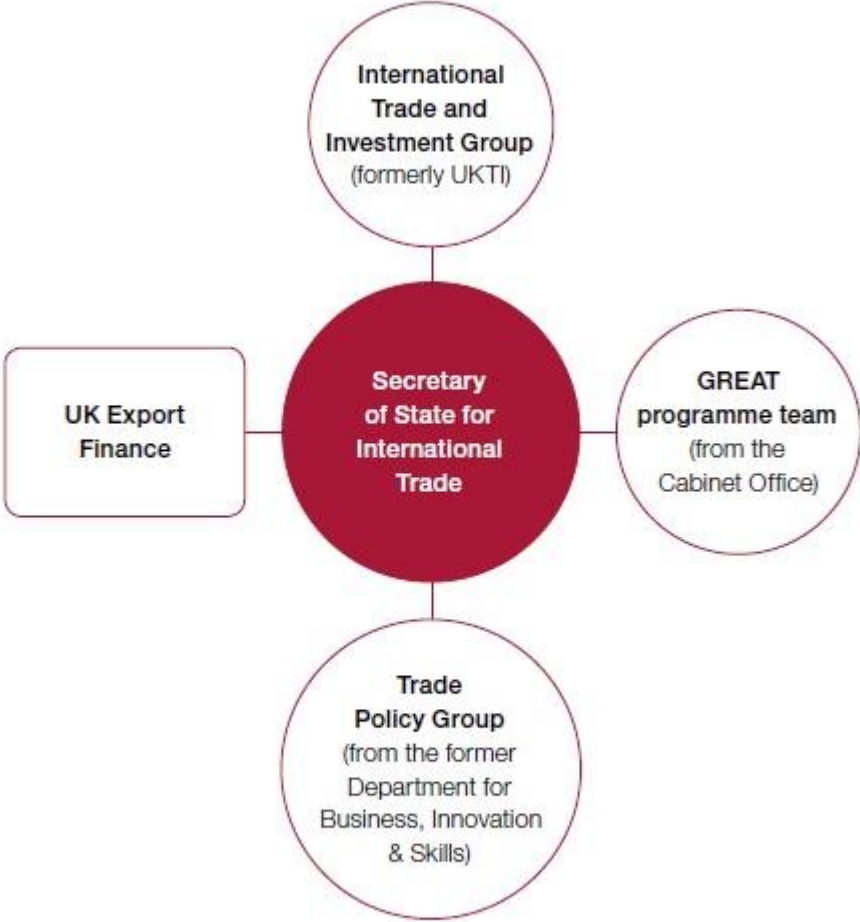
In accordance with the time of its establishment, the DIT provides its expertise and actively helps the Department for Exiting the European Union (DExEU) in preparing the UK position within the negotiations with the EU. Currently, the DIT drafts the legislation required for the UK to operate its own trade policy once it leaves the EU with the specific trade act introduction as final step. While 2017 as a first year of existence should be considered as a transitional one for the DIT, a document called the Single Departmental Plan that is still in progress will discover new targets and crucial performance indicators that will reflect the objectives of the DIT in best possible manner. Although the data and numbers recorded by the DIT in 2016-2017 period cannot be compared with those from the former UKTI and other bodies that performed the national economy diplomacy due to statistical and institutional differences, it must be acknowledged that in the same period there was a 2 % increase to 2.265 foreign investment projects in the UK in comparison to the 2015-2016 period. In addition, the number of new jobs in the UK created from the foreign investment dropped from 82.650 to 75.226 since the previous year (reduction of 9 %).<sup>159</sup>

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<sup>159</sup> *Ibid*, p. 5-6.

**Figure 4: DIT incidence**

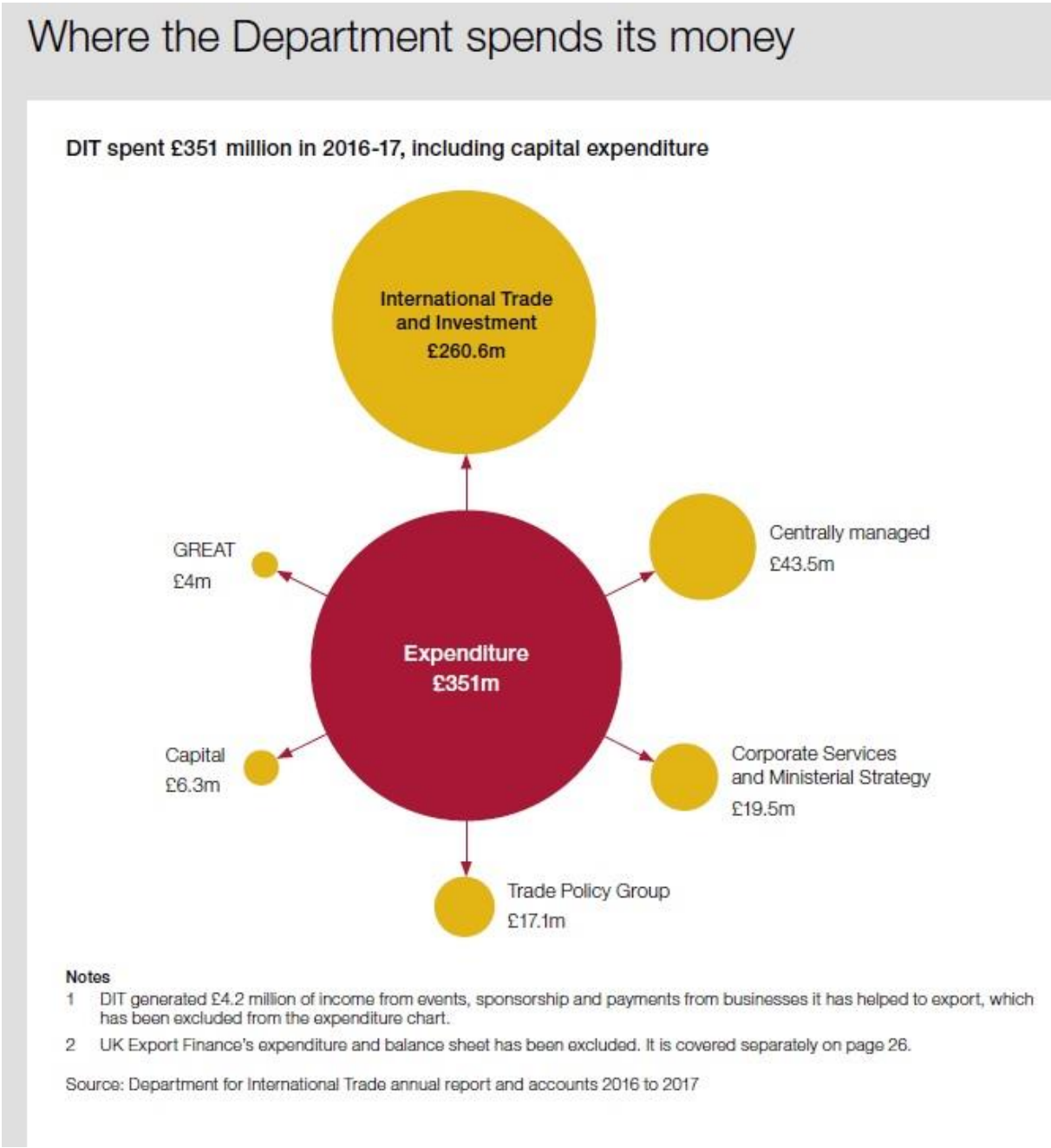
Four business areas, created from existing organisations, report to the Secretary of State for International Trade.



Source: National Audit Office, p. 5. (See footnote 158)



Figure 5: DIT expenditure



Source: National Audit Office, p. 8. (See footnote 158)

## IV.2.2. The Netherlands

### *IV.2.2.1. National Economy*

The Netherlands, the sixth-largest EU economy, has a significant role as Europe's transport junction, with a continuously high trade surplus, stable industrial relations, and low unemployment. The strongest sectors in Dutch industry are food-processing, chemicals, petroleum refining and electrical machinery. Only 2% of the labour force works within the highly mechanised agriculture sector but brings significant excess for food-processing and emphasizes this country's position as the second largest agricultural exporter globally. As being within the euro zone, the Dutch monetary policy is supervised by the European Central Bank. The financial sector is highly concentrated, with four commercial banks possessing over 80% of banking assets, which is four times the size of Dutch GDP. During 2008, in the course of financial crisis, the government budget deficit hit 5.3% of GDP. Following a long-lasting recession from 2009 until 2013, during which unemployment doubled to 7.4% and household consumption constrained for four successive years, economic growth started to move forward in 2014. The government has implemented considerable austerity measures from 2010 in order to improve public finances and has initiated wide structural reforms in crucial policy areas, including the labour market, the housing sector, the energy market, and the pension system. The government budget returned in 2016 to a surplus of 0.3% of GDP with economic growth of 2.1% and GDP per capita finally went over pre-crisis levels. In relation to that, the Dutch government predicted for the upcoming years safe but moderate economic growth (2.1% in 2017) and descending unemployment (4.9% in 2017).<sup>160</sup>

**Table 8: Economic statistics of the Netherlands<sup>161</sup>**

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$872.8 billion (2016 est.)
\$843.1 billion (2015 est.)

<sup>160</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/nl.html> (accessed 15/11/2017)

<sup>161</sup> *Ibid.*

\$815.7 billion (2014 est.)
country comparison to the world: 28
<b><i>GDP - real growth rate:</i></b>
2.2% (2016 est.)
2.3% (2015 est.)
1.4% (2014 est.)
country comparison to the world: 129
<b><i>GDP - per capita (PPP; data are in 2016 dollars):</i></b>
\$51,200 (2016 est.)
\$50,400 (2015 est.)
\$49,500 (2014 est.)
country comparison to the world: 23
<b><i>GDP - composition, by sector of origin (2016 est.):</i></b>
agriculture: 1.6%
industry: 17.9%
services: 70.2%

*Agriculture - products:*

vegetables, ornamentals, dairy, poultry and livestock products; propagation materials

*Industries:*

agro industries, metal and engineering products, electrical machinery and equipment, chemicals, petroleum, construction, microelectronics, fishing

*Industrial production growth rate:*

2.5% (2016 est.)

country comparison to the world: 91

*Labour force:*

7.936 million (2016 est.)

country comparison to the world: 62

*Labour force - by occupation:*

agriculture: 1.2%

industry: 17.2%

services: 81.6% (2015 est.)

*Unemployment rate:*

5.9% (2016 est.)
6.9% (2015 est.)
country comparison to the world: 81
<i>Population below poverty line:</i>
8.8% (2015 est.)
<i>Exports:</i>
\$495.4 billion (2016 est.)
\$488.3 billion (2015 est.)
country comparison to the world: 9
<i>Exports - commodities:</i>
machinery and transport equipment, chemicals, mineral fuels; food and livestock, manufactured goods
<i>Exports - partners:</i>
Germany 24.1%, Belgium 10.7%, UK 9.4%, France 8.8%, Italy 4.2% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$4.759 trillion (31 December 2016 est.)

\$4.775 trillion (31 December 2015 est.)
country comparison to the world: 2
<i>Stock of direct foreign investment - abroad:</i>
\$5.623 trillion (31 December 2016 est.)
\$5.615 trillion (31 December 2015 est.)
country comparison to the world: 2

Source: The World Factbook, November 2017

#### IV.2.2.2. Economic Diplomacy Model

Although the responsibility in the Netherlands is actually and practically twofold, it must be acknowledged that the primary role for the area of economic diplomacy<sup>162</sup> pertains to the Dutch Ministry of Foreign Affairs.<sup>163</sup> As this competence was divided earlier between the MFA and the Ministry for Economic Affairs and Climate Policy (MEACP), at the end of 2012 new organisational structure envisaged supremacy of the MFA with the interesting solution through the new “ministry within ministry” as from then on the Ministry for Foreign Trade and Development Cooperation exists within the MFA.<sup>164</sup> This newly created ministry possesses even separate cabinet minister who is, it must be admitted, supervised by the minister of foreign affairs. The Ministry for Foreign Trade and Development Cooperation is engaged with the improvement of the international competitiveness of the Netherlands, the formation of an open world economy and sustainable globalisation. Therefore, the policy management is situated within the MFA or more precisely at the Ministry for Foreign Trade and Development Cooperation. The executive or better say implementing role however, remained to some extent

<sup>162</sup> See official government info on this topic at: <https://www.government.nl/topics/enterprise-and-innovation/economic-diplomacy> (accessed 15/11/2017)

<sup>163</sup> More info on the Dutch MFA available at: <https://www.government.nl/ministries/ministry-of-foreign-affairs> (accessed 15/11/2017)

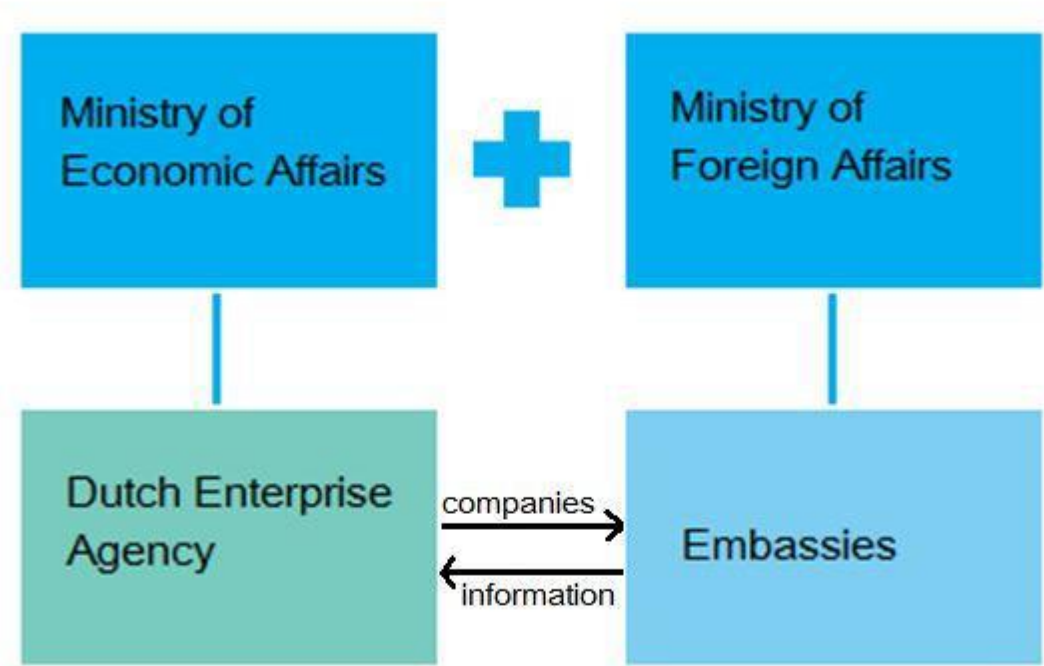
<sup>164</sup> This original solution is explained in detail at: <https://www.government.nl/ministries/ministry-of-foreign-affairs/organisational-structure> (accessed 15/11/2017)

with the MEACP especially in the area of commercial diplomacy. Speaking of economic diplomacy in narrow sense (WTO, etc.), the MFA took control and the leading role in all relevant negotiations.<sup>165</sup>

On the other hand, the MEACP<sup>166</sup> competence relates to the Netherlands Enterprise Agency (NEA)<sup>167</sup> that is controlled by the former as its additional body; the latter was established in 2014 as the successor of former NL Agency.

Moreover, the Dutch economic diplomacy is implemented and performed abroad through diplomatic missions as integral parts of the MFA as one side of the coin and the Netherlands Business Support Offices (NBSO)<sup>168</sup> which were formed by the NEA as the other side of the coin.

**Figure 6: Dutch economic diplomacy organisational structure**



<sup>165</sup> See footnote 163.

<sup>166</sup> See official website of this ministry at: <https://www.government.nl/ministries/ministry-of-economic-affairs-and-climate-policy> (accessed 15/11/2017)

<sup>167</sup> For more detailed info on this government agency see: <https://english.rvo.nl/> (accessed 15/11/2017)

<sup>168</sup> More detailed description of NBSO's available at: <https://www.rvo.nl/onderwerpen/internationaal-ondernemen/wegwijzer-internationaal-zakendoen/buitenlandnetwerk/nbso> (accessed 15/11/2017)

Source: Ministry of Foreign Affairs (Ministerie van Buitenlandse Zaken), *IOB evaluatie: Balanceren tussen koopmanschap en diplomatie-evaluatie van de Netherlands Business Support Offices 2008-2013*, No. 393, p. 47.

Available at: [www.iob-evaluatie.nl](http://www.iob-evaluatie.nl) (accessed 15/11/2017)

(Note: Ministry of Foreign Affairs contains within itself also the Ministry for Foreign Trade and Development Cooperation)

As seen in the figure above, the MEACP identifies the strategic policy goals for the NEA while the MFA points out the strategic policy aims for the embassies and consulates. The duty of the MEACP in terms of economic diplomacy is providing its shape and substance. In addition, this ministry is responsible for incoming and outgoing missions of high officials. Within its scope, it emphasizes and focuses on the so-called *economic top sectors* of the Netherlands, namely high tech material & systems, agro-food, water, energy, horticulture, chemicals, creative industries, logistics and life sciences. These are sectors wherein the Dutch economy differentiates itself while such an approach aims at upgrading the international trade position of the country and consequently its growth and competitiveness. In relation to that, the Dutch representations abroad adopt the “tailor-made” approach since they designate specific sector(s) that is (are), in accordance with market situation and all other relevant parameters and characteristics, the most suitable for the country they are situated in.<sup>169</sup>

As the MFA identifies its strategic goals, embassies can be regarded as policy executors of the MFA. The relationship between the foreign office in the Hague and the foreign missions abroad is determined by a stress on results. Their new policy instructions are set up in yearly agenda, which specifies for every foreign mission which governmental goals and results are the most relevant for the specific mission to accomplish. Only the 30 largest posts get more specific instructions with regard to their personnel and duties. Embassies and consulates, as it is now common approach in economic diplomacy, provide data and information to the Dutch companies that intend to enter that specific country market and alleviate standard bureaucracy problems connected to local government.<sup>170</sup>

The NEA operates as the entry point and service desk for companies who express intention to do business abroad. Companies can raise questions to the NEA with regard to the opportunities and barriers related with doing business abroad. The NEA has only duty of responding to

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<sup>169</sup> Both the government and private sector jointly identified 9 abovementioned sectors as crucial for country's economic prosperity. Available at: <https://www.topsectoren.nl/> (accessed 15/11/2017)

<sup>170</sup> Tweede Kamer: *Vaststelling van de begrotingsstaten van het ministerie van buitenlandse zaken voor het jaar 2012*. Available at: [www.rijksbegroting.nl](http://www.rijksbegroting.nl) (accessed 15/11/2017)



general questions and basic requests. When detailed information and more serious request are at stake, this agency redirects companies to the foreign missions of the MFA.<sup>171</sup>

As far as the Netherlands Business Support Offices are concerned, they provide quite similar services like the economic sections of embassies and consulates but their employees do not hold the diplomatic status. As already mentioned they are integral part of the NEA organisational structure and exist in countries with present or potential opportunities for the Dutch companies. Importantly, these offices are established in several important cities where the Netherlands did not open its diplomatic mission and they recruit local staff also.<sup>172</sup>

### IV.2.3. Denmark

#### *IV.2.3.1. National Economy*

Denmark represents a substantively modern market economy with a high-tech agricultural sector, advanced industry with world-leading companies in pharmaceuticals, maritime shipping and in renewable energy. This country is an excellent example of how important foreign trade for one country's economy actually is since Denmark is highly dependent on foreign trade. Denmark is a net exporter of food, oil and gas and has a comfortable balance of payments surplus, but depends on imports of raw materials for the manufacturing sector. Danish population possess a high standard of living while and the Danish economy is characterized by numerous government welfare measures and an equitable distribution of income. Nevertheless, an aging population will soon be a long-term problem. Alongside with its EU membership, Danish legislation comply with the EU standards on vast majority of issues. However, despite previously fulfilling the accession criteria for the European Economic and Monetary Union (EMU), Denmark has arranged itself an opt-out with the EU and is not obliged to adopt the euro. Denmark is one of the strongest supporters of free trade among the EU Member States. Currently, Denmark enjoys a moderate growth as its economy grew by 1.6% in 2015, 1.3% in 2016 and such trend and rates are expected to continue for the next forthcoming years. The

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<sup>171</sup> See footnote 167.

<sup>172</sup> See footnote 168. In addition, the Dutch MFA created comprehensive self- evaluation of its economic diplomacy, with diplomatic missions in the Latin American states examined as examples; *Economic Diplomacy in practice- An evaluation of Dutch economic diplomacy*, Ministry of Foreign Affairs, IOB Study, No. 385. Available at: <https://www.government.nl/documents/reports/2013/10/04/iob-study-economic-diplomacy-in-practice-an-evaluation-of-dutch-economic-diplomacy-in-latin-america> (accessed 15/11/2017).

labour market has improved from 2013 and unemployment was at 4.2% at the beginning of 2017, according to the national statistics. At the beginning of 2017, certain sectors experienced problems with finding skilled working force. Productivity growth was considerably lower than the OECD average from the mid-1990s until 2011 but it went up in last few years, which is a necessary precondition for continuing growth. Denmark preserved a good budget surplus for several years until 2008 when the global financial crisis moved the budget balance into deficit. In 2016, the deficit was 1.4% and the government predicted lower deficits for the next few years while the public debt as a share of GDP should decline. In 2015, household indebtedness stood significantly high at more than 292% of net disposable income, while household net worth - from private pension schemes and other assets - reached 497% of net disposable income.<sup>173</sup>

**Table 9: Economic statistics of Denmark**<sup>174</sup>

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$275.3 billion (2016 est.)
\$267.3 billion (2015 est.)
\$260.3 billion (2014 est.)
country comparison to the world: 60
<i>GDP - real growth rate:</i>
1.7% (2016 est.)
1.6% (2015 est.)
1.7% (2014 est.)

<sup>173</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/da.html> (accessed 16/11/2017)

<sup>174</sup> *Ibid.*

country comparison to the world: 169

*GDP - per capita (PPP; data are in 2016 dollars):*

\$48,200 (2016 est.)

\$47,800 (2015 est.)

\$47,400 (2014 est.)

country comparison to the world: 33

*GDP - composition, by sector of origin (2016 est.):*

agriculture: 1.1%

industry: 23.6%

services: 75.3%

*Agriculture - products:*

barley, wheat, potatoes, sugar beets; pork, dairy products; fish

*Industries:*

iron, steel, nonferrous metals, chemicals, food processing, machinery and transportation equipment, textiles and clothing, electronics, construction, furniture and other wood products, shipbuilding and refurbishment, windmills, pharmaceuticals, medical equipment

*Industrial production growth rate:*

3.7% (2016 est.)

country comparison to the world: 64

*Labour force:*

2.953 million (2016 est.)

country comparison to the world: 104

*Labour force - by occupation:*

agriculture: 2.4%

industry: 18.3%

services: 79.3% (2016 est.)

*Unemployment rate:*

6.2% (2016 est.)

4.6% (2015 est.)

country comparison to the world: 55

*Population below poverty line:*

13.4% (2011 est.)

*Exports:*

\$103.6 billion (2016 est.)
\$102.6 billion (2015 est.)
country comparison to the world: 35
<i>Exports - commodities:</i>
machinery and instruments, meat and meat products, dairy products, fish, pharmaceuticals, furniture and design, windmills
<i>Exports - partners:</i>
Germany 16.3%, Sweden 11.9%, US 8.2%, UK 6.5%, Norway 6.1%, Netherlands 5.1%, China 4.4% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$147.9 billion (31 December 2016 est.)
\$145.8 billion (31 December 2015 est.)
country comparison to the world: 34
<i>Stock of direct foreign investment - abroad:</i>
\$235.4 billion (31 December 2016 est.)
\$230.3 billion (31 December 2015 est.)

Source: The World Factbook, November 2017

#### *IV.2.3.2. Economic Diplomacy Model*

Overwhelming part of economic diplomacy policy in Denmark falls under the scope of the MFA whose primary duty is implementation of the following: 1) government foreign and security policy, 2) EU policy, 3) development policy, 4) global cooperation, 5) export and investment promotion and 6) trade policy. In addition there are departments dealing with consular services, i.e. assistance to Danish nationals abroad, public diplomacy and communication, protocol and resources (personnel policy, finance, IT, security etc.).<sup>175</sup>

More precisely, abovementioned areas imply the following activities of the ministry:<sup>176</sup>

- enabling a flexible and global network for the whole government through coordination of Denmark's official relations with foreign countries, including numerous international organisations, such as the UN, the NATO and the EU, as well as the Nordic cooperation,
- managing Danish development assistance,
- providing assistance to Danish companies with regard to their export, internationalisation and other commercial activities abroad in case of an obvious commercial interest for Denmark; attracting foreign investments to Denmark,
- managing and coordinating Denmark's international economic relations with other countries, including those related to the trade and policy area,
- providing assistance in attracting foreign investments and companies to Denmark through "Invest in Denmark",
- providing assistance to Danish nationals who find themselves in difficult situations abroad and performs tasks relating to the issuance of visas, residence permits and passports and

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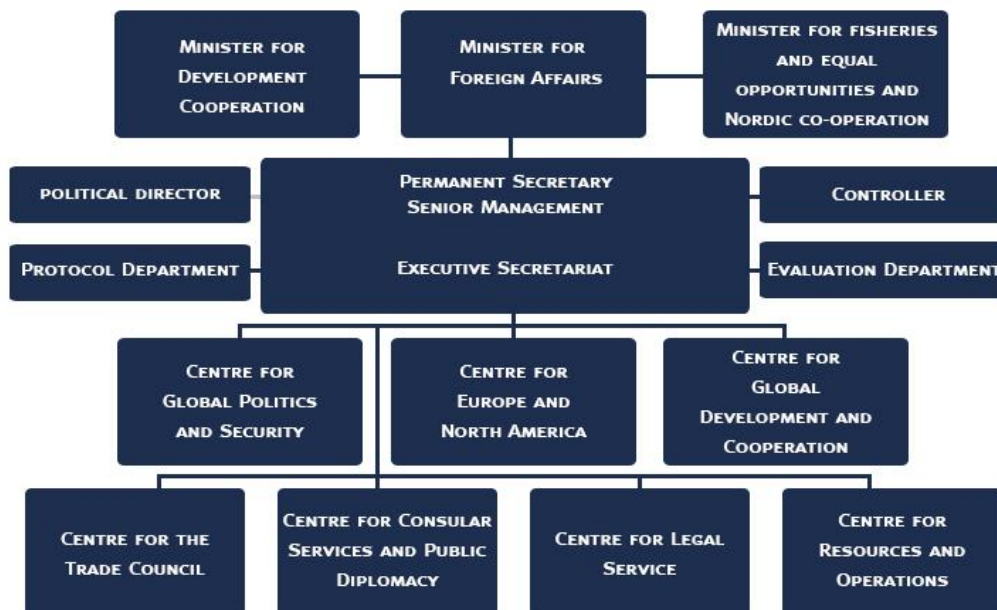
<sup>175</sup> The Danish MFA Annual Report 2016, p. 4. Available at: <http://um.dk/en/about-us/economy-and-results/> (accessed 16/11/2017)

<sup>176</sup> *Ibid.*

- contribution in providing quality information to the world about Denmark, Danish culture and Denmark's special competences (public diplomacy).

Denmark has 71 Embassies in literally every European state, in most of the large countries outside Europe, and in all developing countries where Denmark acts as active partner in that country's development. It also possesses six diplomatic representations at international organisations, for example at the EU in Brussels, at the UN in New York and Geneva, at NATO in Brussels and at the Council of Europe in Strasbourg. Moreover, there are 28 Consulates General (for example New York and Shanghai) and Trade Commissions (for example Bangalore and Melbourne) which provide mostly commercial diplomacy services and are situated in places where Denmark has considerable commercial interests. Finally, Denmark also appointed around 405 honorary consuls who are usually local lawyers or business community representatives closely related to Denmark who are located in ports and tourist areas and assist Danish nationals in distress.<sup>177</sup>

**Figure 7: the Danish MFA organigram**



Source: Ministry of Foreign Affairs. Available at: <http://um.dk/en/about-us/organisation/organisation-chart> (accessed 16/11/2017)

<sup>177</sup> Official website of the Danish MFA. More details available at: <http://um.dk/en/about-us/organisation/the-danish-foreign-service> (accessed 16/11/2017)

The Trade Council is the governmental export and investment promotion institution, which exists and operates under the MFA. It contains all governmental activities devised to support Danish export and attract foreign investment in Denmark. This body has approximately 75 employees in Denmark and 230 employees abroad sited at more than 100 embassies, consulates and trade commissions. It puts emphasis on providing Danish companies with customized consulting on all relevant matters with regard to their international activities. The Trade Council is a professional and innovative organisation aspiring to ensure the Danish industry with the best possible terms for participating in the overgrowing globalisation. Furthermore, this institution serves a sparring partner for companies at all levels by providing substantial and significant benefits to both new and experienced export companies. Its aim is to offer the businesses with the chance to start a partnership that might improve the professional analysis of foreign markets and thereby increase the competitiveness of those companies. In line with that, the Trade Council issues a yearly report whereby it indicates the Council's activities but also illustrates why even more companies should employ an advantage of initiating and maintaining such a co-operation.<sup>178</sup>

The Trade Council divided its work into four main fields: <sup>179</sup>

- *From knowledge to growth* aimed at innovation and growth through creation of innovation centres abroad where Danish companies can establish partnerships with leading counterparts in hosting countries and benefit from Trade Council's assistance and consultancy;
- *Increase your sales* where export experts at embassies, consulates and trade commissions always readily provide information on business opportunities via phone or during business trips;
- *Engage the diplomacy* that offers political insight, commercial know-how and access to host country's decision-makers and authorities that consequently enables influencing local decision processes and improves business climate for Danish companies that encountered legal or administrative barriers;

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<sup>178</sup> The Trade Council official website with more info available at: <http://um.dk/en/tradecouncil/about/org> (accessed 17/11/2017)

<sup>179</sup> *Ibid.* Detailed description of specific services, programmes and companies that were indicated as success stories available at: <http://um.dk/en/tradecouncil/services/> (accessed 17/11/2017)



- *How we work together* which means that the Council provides non-binding counselling-support in the form of introductory market counselling, identification of needs, free download of sector reports, analyses and subsidiary lists.

Another organisation set up within the Ministry of Foreign Affairs called “Invest in Denmark” represents a specialised one-stop service for foreign companies that intend to start a business in Denmark. Employees of this investment promotion agency possess the corporate background, industry insight and well-developed “networking” to provide quality consulting not just in the establishing phase of business, but also as the already established business expands. “Invest in Denmark” devised tailor-made options including connecting companies with key local stakeholders, organising fact-finding tours and producing comprehensive benchmark analyses, free of charge and in full confidentiality. The agency puts stress on sectors like information & communications technology (ICT), life sciences, cleantech and maritime industry wherein Denmark proved to be competitive and globally strong player. “Invest in Denmark” is widely present with offices in Europe, North America and Asia.<sup>180</sup>

#### IV.2.4. Germany

##### *IV.2.4.1. National Economy*

Germany as the world’s fifth largest economy and the strongest one in Europe represents a leading exporter of machinery, vehicles, chemicals and household equipment that benefits from a highly skilled labour force. Likewise other Western European states, Germany already meets huge demographic challenge directly related with long-term economic growth (alongside other numerous political and social issues). In relation to that, low birth rates and a high increase in net immigration put additional pressure on the country's social welfare system and require structural reforms. Reforms initiated by the chancellor Schröder’s government were considered as necessary in order to recognize significance and resolve problems of high unemployment and low average growth. Stabilisation and supporting measures started in 2008 and 2009 and

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<sup>180</sup> The official „Invest in Denmark“ website. More info available at: <http://www.investindk.com/About-us> (accessed 20/11/2017). Also, for another quality insight in Danish economic diplomacy model see: Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 28-37. Moreover, Danish government created strategy in export promotion and economic diplomacy containing all main directions and objectives. Available at: <http://um.dk/en/tradecouncil/about/strategy/> (accessed 20/11/2017)

tax cuts introduced during chancellor Merkel's second term augmented Germany's total budget deficit - including federal, state, and municipal - to 4.1% in 2010. However, lower spending and higher tax revenues cut the deficit to 0.8% in 2011 and in 2016 Germany reached a budget surplus of 0.6%. With regard to that, in 2009 a constitutional amendment was passed according to which the federal government is constrained to structural deficits of no more than 0.35% of GDP annually from 2016, although this goal was already accomplished in 2012. The German economy records low levels of investment. Accordingly, the government adopted a plan to insert 15 billion euros within the 2016-2018 period, with emphasis on infrastructure sector, which should ultimately act as impetus for much needed private investment. Based on negative effects triggered by the USA-China trade war, *Brexit* and sharp drop in car sales due to new strict rules on CO2 emissions, German Ministry of Economy issued (conservative) prediction for 2019 by estimating this country's GDP growth to be at 1% in comparison to the original estimation of 1,9%. In addition, it is important to mention that following the nuclear catastrophe that happened in March 2011 at Fukushima plant in Japan, government decided in May 2011 that 8 of the country's 17 nuclear reactors would be turned off immediately and the rest of them would be shut down by 2022. Consequently, Germany intends to switch in major part from nuclear power to renewable energy, which accounted for 29.5% of gross electricity consumption in 2016, while it amounted for only 9% in 2000. Before the mentioned closure of 8 nuclear reactors, Germany utilised nuclear power for 23% of its electricity generating capacity and 46% of its base-load electricity production. How the land lies, domestic consumption (boosted by low energy prices and a weak euro) and exports will presumably stimulate German GDP growth for the upcoming period.<sup>181</sup>

In 2018, Germany got its second successive right-left (CDU-SPD) coalition government with Mrs. Merkel as a Chancellor in its fourth term. Nevertheless, results of the last election with the right-wing AfD considerably rising in percentage (although still in opposition) but also problems with its long-lasting partner, Bavarian CSU indicate that situation is far from ideal for the government. The latter two parties (but also significant group within CDU) on the one hand and Mrs. Merkel on the other hand have completely opposite view as regards the migrant crisis and the policy of receiving refugees in Germany. What is clear is a fact that anti-migrant sentiment and wish for closed borders are gaining momentum and policy that has been implemented so far seems untenable in long term. Importantly, all above-mentioned events and

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<sup>181</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html> (accessed 20/11/2017)

those that might occur in the near future will certainly have economic consequences too. Now that Ms. Merkel has stepped down as the CDU leader after 18 years and Annegret Kramp-Karrenbauer has been elected in December 2018, it remains to be seen what will be the exact course of Germany’s both politics and economy in the near future. Bearing that in mind, new elections or better say government in the near future might seem as a realistic option.

**Table 10: Economic statistics of Germany**<sup>182</sup>

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$3.997 trillion (2016 est.)
\$3.874 trillion (2015 est.)
\$3.776 trillion (2014 est.)
country comparison to the world: 6
<i>GDP - real growth rate:</i>
1.9% (2016 est.)
1.5% (2015 est.)
1.9% (2014 est.)
country comparison to the world: 142
<i>GDP - per capita (PPP; data are in 2016 dollars):</i>
\$48,400 (2016 est.)

<sup>182</sup> *ibid.*

\$48,000 (2015 est.)
\$47,700 (2014 est.)
country comparison to the world: 31
<i>GDP - composition, by sector of origin (2016 est.):</i>
agriculture: 0.6%
industry: 30.3%
services: 69.1%
<i>Agriculture - products:</i>
potatoes, wheat, barley, sugar beets, fruit, cabbages; milk products; cattle, pigs, poultry
<i>Industries:</i>
among the world's largest and most technologically advanced producers of iron, steel, coal, cement, chemicals, machinery, vehicles, machine tools, electronics, automobiles, food and beverages, shipbuilding, textiles
<i>Industrial production growth rate:</i>
1.3% (2016 est.)
country comparison to the world: 135
<i>Labour force:</i>

45.42 million (2016 est.)

country comparison to the world: 15

*Labour force - by occupation:*

agriculture: 1.4%

industry: 24.2%

services: 74.3% (2016)

*Unemployment rate:*

4.2% (2016 est.)

4.6% (2015 est.)

country comparison to the world: 54

*Population below poverty line:*

16.7% (2015 est.)

*Exports:*

\$1.322 trillion (2016 est.)

\$1.308 trillion (2015 est.)

country comparison to the world: 4

*Exports - commodities:*

motor vehicles, machinery, chemicals, computer and electronic products, electrical equipment, pharmaceuticals, metals, transport equipment, foodstuffs, textiles, rubber and plastic products

*Exports - partners:*

US 8.9%, France 8.4%, UK 7.1%, Netherlands 6.5%, China 6.4%, Italy 5.1%, Austria 5%, Poland 4.5%, Switzerland 4.2% (2016)

*Stock of direct foreign investment - at home:*

\$1.391 trillion (31 December 2016 est.)

\$1.374 trillion (31 December 2015 est.)

country comparison to the world: 8

*Stock of direct foreign investment - abroad:*

\$1.981 trillion (31 December 2016 est.)

\$1.955 trillion (31 December 2015 est.)

country comparison to the world: 4

Source: The World Factbook, November 2017

#### IV.2.4.2. Economic Diplomacy Model

The core of the German economic diplomacy system lies within the Federal Foreign Office (*Auswärtiges Amt*) albeit key places for implementation of this policy are embassies and other diplomatic missions. The German MFA has a Directorate-General for Economic Affairs (*Abteilung für Wirtschaft und Nachhaltige Entwicklung*), which represents one of the integral parts of economic diplomacy structure simply since it contains top priorities of German economic diplomacy.<sup>183</sup>

Bearing in mind Germany's status as one of the industrial superpowers and major exporting player, one of the top foreign policy priorities relates to enabling German companies to successfully enter and operate in new export markets. Importantly, Germany always tries to make the most of instruments at their disposal in order to complete mentioned aim by using multilateral negotiations and agreements as a tool to secure fair and equal access to markets all over the world, i.e. internationally negotiate the best possible economic regimes and relations. Such organisational structure makes the MFA responsible also for efficient trade promotion. Nevertheless, probably the most intriguing function pertains to maintaining foreign relations in areas like nuclear energy, aerospace, high-speed transport, ICT, transport and tourism or energy, climate and environment policy since those are considered as a stable basis for fruitful cooperation between German and foreign companies. As widely known, Germans are famous for their diligence, ambition and persistence so from the global strategic point of view, it is obvious that their government sets higher and broader aims than others. In line with that, German institutions carefully follow global economic trends with specific accent on new emerging economies. By declaring export as one of its main targets, Germany is not only supporting and fostering trade by encouraging its exports and entering new markets, but also making serious efforts to influence global trade regimes.<sup>184</sup>

For instance, in 2012 the MFA created a strategic paper wherein they undertook to support agreement on global norms in the area of state-sponsored export finance. By doing so, they intended to evade a race for the best conditions, insisting on voting reform within international

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<sup>183</sup> The German MFA (Federal Foreign Office), Directorate- General for Economic Affairs official website. Available at: <https://www.auswaertiges-amt.de/en/aamt/auswdienst/abteilungen/wirtschaftsabteilung-node> (accessed 21/11/2017)

<sup>184</sup> The Federal Foreign Office, Foreign Policy and External Economic Promotion official website. Available at: <https://www.auswaertiges-amt.de/en/aussenpolitik/themen/aussenwirtschaft/aufgabena-node> (accessed 22/11/2017)

financial institutions like the WB and the IMF in order to provide the new players with more leverage in them. Moreover, Germany so far has been very much in favour of more treaties to promote and protect investment concluded with relevant states outside the EU. This far-reaching and forward thinking approach adopted by Germany serves as perfect example of organised and powerful country trying to influence global economic and financial flows and install itself as a major stakeholder. This country does not hesitate to invest resources in order to access much needed information that will enable them comparative advantage over competition within new important markets.<sup>185</sup>

The Federal Foreign Office contains, as its integral part, a broad network of diplomatic representation abroad covering almost every corner on the globe. As of 2017, Germany has 227 missions in total, more precisely 153 embassies, 54 consulates-general, 7 consulates, 12 permanent missions and 1 other mission. Naturally, the most of German embassies possess a department/section dealing with economic relations, issues and activities between Germany and the host state.<sup>186</sup>

Another institution occupies essential place in the German economic diplomacy structure, namely the German Chambers of Commerce Abroad (*Deutsche Auslandshandelskammers-AHK*). They advise, support and represent globally German companies trying to develop or expand their business activities abroad. By doing so, the network of AHK act as true institutions of German foreign trade promotion which is consisted of bilateral chambers of commerce abroad, delegations and representatives of German business community. The Association of German Chambers of Industry and Commerce (*Deutscher Industrie und Handelskammertag-DIHK*) as an umbrella institution continuously coordinates and develops the network of AHK. They are co-funded by the Federal Ministry for Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie- BMWi*). The AHK promote and protect German business interests in 130 locations in 90 countries with around 45.000 membership companies all over the world.<sup>187</sup>

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<sup>185</sup> The Federal Foreign Office strategic paper called *Shaping Globalization, Expanding Partnerships, Sharing Responsibility*, 2012, p. 36-37. Available at: [https://www.auswaertiges-amt.de/cae/servlet/contentblob/616558/publicationFile/190268/Gestaltungsm%E4chtekonzept\\_engl.pdf](https://www.auswaertiges-amt.de/cae/servlet/contentblob/616558/publicationFile/190268/Gestaltungsm%E4chtekonzept_engl.pdf) (accessed 22/11/2017)

<sup>186</sup> The Federal Foreign Office, German missions abroad official website. Available at: <https://www.auswaertiges-amt.de/en/aamt/auslandsvertretungen> (accessed 23/11/2017)

<sup>187</sup> The German Chambers of Commerce Abroad (AHK) official website. Available at: <https://www.ahk.de/en/about-us/> (accessed 23/11/2017); for more details on numerous services available and provided see the official AHK website, available at: <https://www.ahk.de/en/services/> (accessed 23/11/2017)



Moreover, two specific characteristics of German chamber system are significant and therefore need to be mentioned. First, membership in the DIHK (including AHK) is compulsory for all business entities which in return enjoy opportunity to make the most of service offered by the chamber both in Germany and abroad. Second, the AHK (as part of the DIHK) serves and promotes not only the economic interests of their members but also those of the federal government.<sup>188</sup>

State institution, more precisely the economic development agency called Germany Trade & Invest (GTAI), represents third significant pillar in the German economic diplomacy structure. GTAI has offices in over 50 locations worldwide. Its tasks imply support to German companies setting up in foreign markets, promoting Germany as an attractive business destination and assisting foreign companies that wish to set up and do business in Germany:<sup>189</sup>

- *export promotion*; GTAI is the first point of contact for Germany's export-oriented small and medium-sized enterprise (SME) sector. Their business analysts regularly report on 120 countries and provide the know-how for planning and conducting foreign business activities.
- *investor consulting*; GTAI is the first port of call at the federal level for foreign businesses that wish to be informed about investment opportunities in Germany. To make investing in Germany as easy and simple as possible, GTAI supports and provides consulting to foreign investors from market entry to locating in Germany.
- *location marketing*; GTAI promotes Germany's advantages as a business destination internationally. Such approach creates benefits not only for Germany as a business location, but also enhances the image of German companies as reliable partners, suppliers and service providers all over the world.

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<sup>188</sup> These two features of the German chamber system are very important since parallel must be drawn with my country and an institution where I work. Croatia and the Croatian Chamber of Economy have obvious similarities with the German structure although Croatia and Germany are certainly not the same because of huge differences with regard to the size and strength of national economy, financial and human resources available to state institutions and chamber etc. Therefore, Croatia cannot use the "copy paste" method but instead accept certain principles of the German structure and adapt them to Croatia's circumstances. Another national model that will be described further in this chapter, namely the Austrian one might therefore definitely serve as even better example for future creation and implementation of Croatia's economic diplomacy model. In relation to that concrete proposition, which might contain various options accepted from other countries' models, will be elaborated further in this dissertation, within a chapter dedicated exclusively to Croatia and its economic diplomacy.

<sup>189</sup> GTAI official website. Available at: <http://www.gtai.de/GTAI/Navigation/EN/Meta/about-us.html> (accessed 23/11/2017)

- *promotion of the new federal states*; GTAI promotes the business location advantages of the new federal states, provides information about developments and business opportunities in the region, and supports eastern German company efforts to access international markets.

In 2017, GTAI has 362 employees, of which 264 are situated in Germany and 98 abroad. The workforce includes limited company employees, assigned officials and salaried staff of the German Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle- BAFA*), as well as foreign workers employed through the AHK.<sup>190</sup>

In any case, as far as Germany is concerned we may freely conclude that economic diplomacy model and structure arrive as a direct result of this country's economic and political power. Huge administrative capacity and broad network of actors involved in German economic diplomacy both at home and abroad contribute continuously and considerably with the aim of accomplishing better efficiency and results set up by the government.<sup>191</sup>

#### IV.2.5. Austria

##### *IV.2.5.1. National Economy*

Austria possesses well-developed market economy, skilful labour, high quality of living and as such is economically closely related to the rest of EU countries, most notably Germany. This country has a significant service sector, a solid industrial sector and a small, but very well developed agricultural sector. Economic growth has been considerably modest in past few years, from 0.9% in 2015 to 1.4% in 2016. Albeit current unemployment rate of 5.8 % should be considered low according to European standards, it is at its highest rate since the end of WWII, due to a considerable influx of refugees and EU migrants that find their place within the labour market. Such an unemployment rate would be even worse without comprehensive vocational training programmes and generous early retirement. Austria's holds quite good fiscal position in comparison with other Euro-zone states, however it expects certain external risks.

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<sup>190</sup> *Ibid.*

<sup>191</sup> For comprehensive analysis of the German economic diplomacy see further excellent materials: Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 15-27 and; Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 90-97.

Those include unforeseen slow global economic growth that threatens the export market, Austrian banks' continuing exposure to the area of Central and Eastern Europe, consequences of the Hypo Alpe Adria bank fiasco, political and economic uncertainties caused by the European sovereign debt crisis, the refugee crisis etc. The budget deficit was at 1.4% of GDP in 2016 and public debt reached a post-war rate of 86.2% of the GDP in 2015.<sup>192</sup>

It is important to note that the new right coalition government under Chancellor Kurz took office in December 2017. It undertook new approach with regard to migrant crisis and refugees (security and counter-terrorism are considered as the priorities) These issues are one of government's main areas of interest and therefore might have considerable consequences for this country in the near future both in political and economic sense.

**Table 11: Economic statistics of Austria**<sup>193</sup>

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$417.1 billion (2016 est.)
\$405.8 billion (2015 est.)
\$397.7 billion (2014 est.)
country comparison to the world: 47
<i>GDP - real growth rate:</i>
1.5% (2016 est.)
1% (2015 est.)

<sup>192</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/au.html> (accessed 24/11/2017)

<sup>193</sup> *Ibid.*

0.6% (2014 est.)
country comparison to the world: 154
<b><i>GDP - per capita (PPP; data are in 2016 dollars):</i></b>
\$47,700 (2016 est.)
\$47,600 (2015 est.)
\$47,600 (2014 est.)
country comparison to the world: 32
<b><i>GDP - composition, by sector of origin (2016 est.):</i></b>
agriculture: 1.3%
industry: 28.1%
services: 70.6%
<b><i>Agriculture - products:</i></b>
grains, potatoes, wine, fruit; dairy products, cattle, pigs, poultry; lumber and other forestry products
<b><i>Industries:</i></b>
construction, machinery, vehicles and parts, food, metals, chemicals, lumber, paper and paperboard, communications equipment, tourism

*Industrial production growth rate:*

1.8% (2016 est.)

country comparison to the world: 117

*Labour force:*

3.944 million (2016 est.)

country comparison to the world: 93

*Labour force - by occupation:*

agriculture: 0.7%

industry: 25.3%

services: 74% (2015 est.)

*Unemployment rate:*

6% (2016 est.)

5.7% (2015 est.)

country comparison to the world: 79

*Population below poverty line:*

4% (2014 est.)

*Exports:*

\$142.8 billion (2016 est.)

\$142.1 billion (2015 est.)

country comparison to the world: 33

*Exports - commodities:*

machinery and equipment, motor vehicles and parts, paper and paperboard, metal goods, chemicals, iron and steel, textiles, foodstuffs

*Exports - partners:*

Germany 29.9%, US 6.3%, Italy 6.2%, Switzerland 5.7%, Slovakia 4.4% (2016)

*Stock of direct foreign investment - at home:*

\$242.8 billion (31 December 2016 est.)

\$300.8 billion (31 December 2015 est.)

country comparison to the world: 24

*Stock of direct foreign investment - abroad:*

\$300.5 billion (31 December 2016 est.)

\$349.7 billion (31 December 2015 est.)

Source: The World Factbook, November 2017

#### *IV.2.5.2. Economic Diplomacy Model*

As widely known Austria is considered as a small, open economy in the middle of Europe with close relations to other European Union countries and the rest of global economies. While the export of goods and services amounts to 54 % of Austrian GDP, trade and investments generate a win-win-win situation. In the last few years, Austria reached a positive foreign trade balance with over 100.000 Austrian exporters and importers developed trade links and investment relations on regular basis with partners worldwide. Moreover, Austria actively encourages its companies to invest abroad and consequently Austrian businesses entities have invested 200 billion euros abroad, employing one million people in those foreign activities. Thus, new business community representatives in Austria perceived the whole world as its market and opportunity and decided to establish more and more international offices quite quickly.<sup>194</sup>

Austria stresses the importance of training for their companies' employees both in Austria and abroad. Accordingly, companies are encouraged to make the most of the internationally recognised and successful Dual System of Vocational Education and Training developed in Austria for companies and their international activities.<sup>195</sup>

It is very important to say that the key role within the Austrian economic diplomacy model lies with the Austrian federal chamber of economy (*Wirtschaftskammern Österreichs- WKO*) that might and should serve as very good example for the future Croatian economic diplomacy

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<sup>194</sup> The official brochure of „go-international“ programme developed by the WKO, Advantage Austria (*Aussenwirtschaft Austria*), p. 3. Available at: [https://www.go-international.at/go\\_international\\_brochure\\_en.pdf](https://www.go-international.at/go_international_brochure_en.pdf) (accessed 27/11/2017)

<sup>195</sup> This system plays crucial role in Austria's economy and internationalisation of Austrian companies. It brought only positive results and as such serves as good example for Croatia. In relation to that, the Croatian Chamber of Economy alongside with ministries (economy and education) initiated in 2017 the establishment of very similar system that would bring much needed changes both in education and in economy.

organisational structure as it proved to be very efficient and successful on the one hand and is quite comparable and transferrable to Croatia on the other hand.<sup>196</sup>

The WKO established international department and Austria's official trade promotion organisation called "Advantage Austria" (*Aussenwirtschaft Austria*) which has a network of approximately 110 offices in 70 countries. Advantage Austria offers a wide spectre of services in intelligence and business development for both Austrian businesses and their international partners. It has around 800 employees and 35 consultants worldwide that assist business community in detecting Austrian suppliers and business partners, organise about 1,200 events annually to bond business representatives. Besides that, they provide services like introduction to Austrian companies searching for importers, distributors or agents, providing in-depth information on Austria as a business destination and assistance in entering the Austrian market.<sup>197</sup>

From 2003, Austrian support for companies aiming to operate internationally has been integrated in the "go-international" programme that assists companies trying to establish themselves as reliable and trustworthy partners abroad. Through this programme, companies are provided with the tools and opportunities to place their offers on international market. Experience in exploiting international market opportunities and custom made consulting enables companies to properly evaluate and enter new markets. Direct financial support instruments supplement go-international and its first version (quick-start package) started in 2003 and was extended twice until 2009. The second package was in force from 2009–2011, the third from 2011–2013 and the fourth from 2013–2015. The current go-international package is the first implementing for a four-year period, 2015–2019, ensuring a more strategic approach to programme planning, reducing bureaucracy and serving companies' needs better. All those activities are performed via Advantage Austria.<sup>198</sup>

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<sup>196</sup> Like AHK in Germany, the WKO also has compulsory membership and operates both as companies and government service. The Croatian Chamber of Economy and the Croatian MFA signed at the beginning of 2017 cooperation agreement that should be the starting point for future economic diplomacy model that might and should enable positive changes and results for our economy in relation to export and foreign investment. With regard to this topic, more details will be provided later in chapter dedicated exclusively to Croatia's economy and economic diplomacy.

<sup>197</sup> The official Advantage Austria website. More info available at: <http://www.advantageaustria.org/international/index.en.html> (accessed 27/11/2017)

<sup>198</sup> The official "go-international" website. More details available at: [https://www.go-international.at/English\\_Version.html](https://www.go-international.at/English_Version.html) (accessed 27/11/2017)



In order to ensure the success of the current 2015-2019 go-international package, a very broad range of measures has been build up. As regional priorities are concerned, overseas markets with high growth potential are on top of the list, while exporting education and services, enabling technology networking and promoting research and innovation represent sectorial priorities. From the strategic point of view, goal of go-international is to preserve Austria's position as the top 5 per-capita exporters among the EU member states. Accordingly, the following three goals should be accomplished by 2019: <sup>199</sup>

1. assist 8.000 companies that export their goods and services for the first time,
2. guide 10.000 companies towards entering new markets or investing abroad,
3. reach out to 3.5 million international visitors at Austria's international business portal [advantageaustria.org](http://advantageaustria.org).

The current go-international package encompasses 25 sets of measures split into 5 following clusters: <sup>200</sup>

1. motivate and prepare SMEs to initiate exporting (*Get Going*),
2. support existing exporters when entering new markets and assist Austrian businesses in investing abroad (*Keep Going*),
3. emphasis on the export of know-how, consulting, creative services, and education programmes (*Going Special*),
4. create platforms for Austria's economy abroad; "communicating" Austria (*Going Strong*),
5. provide direct grants to businesses (*Go Get It*).

## IV.2.6. Portugal

### *IV.2.6.1. National Economy*

Since becoming fully-fledged member of the EU's predecessor, European Community in 1986 Portugal became a diversified and increasingly service-orientated economy. In the course of

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<sup>199</sup> The official brochure of „go-international“ programme developed by the WKO, Advantage Austria (*Aussenwirtschaft Austria*), p. 10. Available at: [https://www.go-international.at/go\\_international\\_brochure\\_en.pdf](https://www.go-international.at/go_international_brochure_en.pdf) (accessed 27/11/2017)

<sup>200</sup> *Ibid* (more info on specific measures within the 2015-2019 go-international package).

next 20 years, governments privatized numerous state-owned companies and liberalised crucial economic areas, primarily the financial and telecommunications sectors. Portugal joined the Economic and Monetary Union (EMU) in 1999 and introduced the euro as its currency on 1 January 2002 concurrently with another 11 EU member states. Portugal enjoyed the higher economic growth compared to the EU average during the 1990s, however the growth rates dropped in the period 2001-2008. The economy contracted in 2009, and lapsed once more during the 2011- 2013 period, since the administration imposed spending cuts and tax increases in order to fulfil requirements stemming from the EU-IMF financial rescue package agreed in May 2011. Three years later, Portugal efficiently came out of this programme while a slow recovery gathered momentum in 2015 owing it to strong export performance and increase in private consumption. Growth slowed down slightly in the first half of 2016, but bounced back in the last two quarters of the year to reach 1.4 % as final rate for 2016. Nevertheless, unemployment stays high at 10.2% at the end of 2016, but has recorded improvement since peaking at 18% in 2013. The centre-left minority Socialist government has applied some unpopular austerity measures while succeeding to stay within most of the EU fiscal targets. Importantly, the budget deficit dropped from 11.2% of GDP in 2010 to 2.0% in 2016, the country’s lowest since 1974 whereat Portugal overtook the EU and IMF estimates of 3%. As a consequence of these financially successful achievements, Portugal (alongside Croatia) went out of the EU’s excessive deficit procedure in June 2017.<sup>201</sup>

**Table 12: Economic statistics of Portugal<sup>202</sup>**

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$298.6 billion (2016 est.)
\$290.7 billion (2015 est.)
\$283.1 billion (2014 est.)

<sup>201</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/po.html> (accessed 28/11/2017)

<sup>202</sup> *Ibid.*

country comparison to the world: 57

*GDP - real growth rate:*

1.4% (2016 est.)

1.6% (2015 est.)

0.9% (2014 est.)

country comparison to the world: 159

*GDP - per capita (PPP; data are in 2016 dollars):*

\$28,900 (2016 est.)

\$28,400 (2015 est.)

\$27,900 (2014 est.)

country comparison to the world: 66

*GDP - composition, by sector of origin (2016 est.):*

agriculture: 2.3%

industry: 22.4%

services: 75.4%

*Agriculture - products:*

grain, potatoes, tomatoes, olives, grapes; sheep, cattle, goats, pigs, poultry, dairy products; fish
<i>Industries:</i>
textiles, clothing, footwear, wood and cork, paper and pulp, chemicals, fuels and lubricants, automobiles and auto parts, base metals, minerals, porcelain and ceramics, glassware, technology, telecommunications; dairy products, wine, other foodstuffs; ship construction and refurbishment; tourism, plastics, financial services, optics
<i>Industrial production growth rate:</i>
0.7% (2016 est.)
country comparison to the world: 147
<i>Labour force:</i>
5.178 million (2016 est.)
country comparison to the world: 80
<i>Labour force - by occupation:</i>
agriculture: 8.6%
industry: 23.9%
services: 67.5% (2014 est.)
<i>Unemployment rate:</i>

11.1% (2016 est.)
12.4% (2015 est.)
country comparison to the world: 140
<i>Population below poverty line:</i>
19% (2015 est.)
<i>Exports:</i>
\$54.76 billion (2016 est.)
\$54.47 billion (2015 est.)
country comparison to the world: 48
<i>Exports - commodities:</i>
agricultural products, foodstuffs, wine, oil products, chemical products, plastics and rubber, hides, leather, wood and cork, wood pulp and paper, textile materials, clothing, footwear, machinery and tools, base metals
<i>Exports - partners:</i>
Spain 26.2%, France 12.6%, Germany 11.7%, UK 7%, US 4.9% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$147.1 billion (31 December 2016 est.)

\$143.5 billion (31 December 2015 est.)
country comparison to the world: 35
<i>Stock of direct foreign investment - abroad:</i>
\$84.73 billion (31 December 2016 est.)
\$83.3 billion (31 December 2015 est.)
country comparison to the world: 37

Source: The World Factbook, November 2017

#### *IV.2.6.2. Economic Diplomacy Model*

Turning point for Portuguese economic diplomacy relates to the XIX Constitutional Government (2011-2015) and its programme from 2011 that identified improved economic diplomacy as one of national strategic priorities. In line with that, a working group was established in order to create an implementation plan that should emphasize new stress on economic diplomacy, evaluate certain alternative options, propose a new model of organisation and coordination of services offered and agencies involved in international economic activities. Finally, this working group drew up report with reform prepositions that aimed at higher efficiency, rationalisation and clear division of competencies between the Portuguese MFA and the Ministry of Economy.<sup>203</sup>

Accordingly, the government's programme recommended the following measures:<sup>204</sup>

<sup>203</sup> Neves, M. S.: *Economic diplomacy, geo-economics and the external strategy of Portugal*, Janus.net e-journal of International Relations, Vol. 8, No. 1, 2017, p. 108.

<sup>204</sup> The XIX Constitutional Government programme, 2011, p. 106. Available at: [https://www.portugal.gov.pt/media/130538/programa\\_gc19.pdf](https://www.portugal.gov.pt/media/130538/programa_gc19.pdf) (accessed 28/11/2017)

- allocate financial means to states having significant potential to raise Portuguese exports and attract FDIs <sup>205</sup>;
- actively contribute to improve the internationalisation and competitiveness of companies; assure a coordinated action with private sector in foreign markets; enable less bureaucratic procedures with regard to Portuguese companies activities abroad and foreign companies investing in Portugal;
- cancel the existing double taxation system;
- motivate large Portuguese companies to include SMEs in their internationalisation;
- assist consortium of companies' training and of integrated value chain networks;
- initiate "Portugal Brand" as a sign of quality for Portuguese companies, brands, and products abroad;
- encourage and improve partner relations between Portuguese business representatives residents and non-residents, including the reform of Netinvest programme and the investments of non-residents in Portugal;
- promote activities of the Portuguese Chamber of Commerce and Industry and other business organisations in the countries of residence and their national articulation.

According to the structure presented by the abovementioned government programme, the role of the MFA as a state institution is central in economic diplomacy as its tasks in this area comprise formulation (creation), coordination and execution (performance) of the Portuguese foreign policy including international economic relations. With regard to that, Portuguese ambassadors posted abroad have the coordinative role in providing assistance to Portuguese companies, promoting Portuguese goods and services, attracting the FDIs and promoting Portugal as a tourist destination. In addition, ambassadors are in charge of the political risk assessment and the identification of new sectors and business opportunities.<sup>206</sup>

Alongside the MFA, additional three institutions were awarded key role status as regards the Portuguese economic diplomacy implementation. First and the most important one is Trade and Investment Agency (*Agência para o Investimento e Comércio Externo de Portugal- AICEP* <sup>207</sup>)

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<sup>205</sup> FDI were targeted as key area. Therefore, government's programme included guidelines (p. 42-43) that should enable attraction of significant FDIs. More details available at:

[https://www.portugal.gov.pt/media/130538/programa\\_gc19.pdf](https://www.portugal.gov.pt/media/130538/programa_gc19.pdf) (accessed 28/11/2017)

<sup>206</sup> Da Ponte Neiva, A. L.: *Economic diplomacy in action: The case of the Embassy of Portugal in the Czech Republic* (Master Thesis), Universidade Catolica Portuguesa, Porto, 2016, p. 42 & 49.

<sup>207</sup> For more detailed information on the AICEP's individual activities, see official website available at: <http://portugalglobal.pt/PT/PRODUTOSSERVICOS/Paginas/PesquisaProdutosServicos.aspx> (accessed 29/11/2017)

that is deemed as the crucial institution and as such it is responsible for promotion of the image of Portugal and export of products and services, attracting FDIs and managing the Portuguese direct investment abroad. AICEP provides tailor-made assistance and supports Portuguese companies in every stage of respective projects. The AICEP's final aim is the promotion of a competitive business environment that will act as a crucial impetus for the international expanding of the Portuguese economy. Second public body is the Agency for Competitiveness and Innovation (*Agência para a Competitividade e Inovação- IAPMEI* <sup>208</sup>) with administrative and financial autonomy and its own assets that is however under indirect government supervision in the form of the minister of economy. Besides its headquarters, it has several regional representations across Portugal and is a member of international networks of similar institutions predominantly related with the European Commission <sup>209</sup>. The IAPMEI's task is to promote competitiveness and business growth, strengthen innovation, entrepreneurship and business investment in companies that conduct their activities in sectors within the scope of the Ministry of the Economy. Thus, this institution stresses the importance of SMEs continuous development and therefore offers various services and solutions in order to support and finance their internationalisation. Third additional institution involved in economic diplomacy is "Tourism of Portugal"<sup>210</sup>, a body responsible for tourism development and supervised also by the Ministry of Economy. This agency aim is to develop and improve infrastructures in tourism sector, develop vocational training, attract and support investment in tourism, coordinate Portugal's promotion as a tourism destination both at home and abroad. Finally, one private institution, namely the Chamber of Commerce and Industry (*Câmara de Comércio e Indústria Portuguesa-CCIP* <sup>211</sup>) should be mentioned as it forms part of the economic diplomacy structure. It represents interests of its members, i.e. Portuguese companies both at home and abroad, provides its know-how, analysis and statistics as regards foreign markets that are of interest for Portuguese economy.<sup>212</sup>

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<sup>208</sup> For more detailed information on the IAPMEI's individual activities, see official website available at: <https://www.iapmei.pt/PRODUTOS-E-SERVICOS/Empreendedorismo-Inovacao.aspx> (accessed 29/11/2017)

<sup>209</sup> For instance Enterprise Europe Network (EEN) that exists also in Croatia but is connected directly with the Croatian Chamber of Economy.

<sup>210</sup> For more detailed information on the "Tourism of Portugal"s individual activities, see official website available at: <http://www.turismodeportugal.pt/english/AreasofActivity/Pages/AreasofActivity.aspx> (accessed 29/11/2017).

<sup>211</sup> More detailed description of Portuguese Chamber of Commerce activities is available at official website: <https://www.ccip.pt/pt/o-que-fazemos/internacionalizacao> (accessed 29/11/2017).

<sup>212</sup> Da Ponte Neiva, A. L.: *Economic diplomacy in action: The case of the Embassy of Portugal in the Czech Republic*. Master Thesis in Business Economics at the Universidade Catolica Portuguesa, Porto, 2016, p. 43-47.



In order to accomplish higher efficiency and control within the economic diplomacy structure, the XIX Constitutional Government formed a new, public-private “multi-player” body called the Strategic Council for Internationalisation of the Economy (*Conselho Estratégico para a Internacionalização da Economia- CEIE*). It is directly responsible to the Portuguese prime minister and its composition includes the minister of finance, minister of foreign affairs, minister of economy and four representatives of private business entities arriving from companies that have active role in the process of internationalisation. CEIE’s aim is to constantly assess both public- and private-sector policies and articulate them successfully, adopt conclusions with regard to the promotion of Portuguese economy internationalisation and attract the FDIs.<sup>213</sup>

#### IV.2.7. Lithuania

##### *IV.2.7.1. National Economy*

Following the Soviet Union breakup, Lithuania became independent in 1990 and as such went through a post-communist transitional period typical for states converting from planning to the market economy. Policies of macroeconomic stabilisation, including privatisation of majority of state-owned companies and a stark commitment to a currency board arrangement enabled Lithuania to establish itself as an open and fast growing economy with increased consumer demand. Notably, FDI’s and financial means deriving from the EU funds alleviated the aforementioned transitional period. Lithuania acceded the WTO in May 2001, the EU in May 2004 and the Euro zone in January 2015. Currently, it is fulfilling the aims set for the OECD membership set in 2015 and is expected to become member of this organisation in the course of 2018. The national economy went through the hard time during 2008-2009 world financial crisis; however, it has recovered and became one of the fastest growing in the EU. In 2015, Lithuania’s most important trading partner was Russia, followed by Poland, Germany and Latvia while exchange in products and services trade between the US and Lithuania amounted 2.2 billion dollars. Continuing economic recovery depends on improving the business environment, in particular through loosening labour legislation, improving competitiveness and

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<sup>213</sup> *Ibid*, p. 47. It is well worth noting that this type of multiplayer and supervisory *ad hoc* body could serve as useful example for Croatia’s organisational structure since a body consisted of such high-ranking state officials takes over effective control and provides correction from one place of all ongoing processes that relate to economic diplomacy.

export growth that were impeded and postponed by economic deceleration both in the EU and Russia. A deficiency of skilled workers represents a serious challenge since considerable numbers of young and highly educated population continuously leaves the country. Importantly, Lithuania built a self-financed liquefied natural gas (LNG) terminal in January 2015 enabling the first non-Russian distribution of natural gas to the Baltic States and decreasing Lithuania’s dependence on Russian gas from 100% to approximately 30% in 2016.<sup>214</sup>

**Table 13: Economic statistics of Lithuania<sup>215</sup>**

<i>GDP (purchasing power parity, data are in 2016 dollars):</i>
\$86.05 billion (2016 est.)
\$83.06 billion (2015 est.)
\$80.73 billion (2014 est.)
country comparison to the world: 88
<i>GDP - real growth rate:</i>
2.3% (2016 est.)
1.8% (2015 est.)
3.5% (2014 est.)
country comparison to the world: 124

<sup>214</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/lh.html> (accessed 04/12/2017)

<sup>215</sup> *Ibid.*

*GDP - per capita (PPP; data are in 2016 dollars):*

\$30,000 (2016 est.)

\$29,000 (2015 est.)

\$28,200 (2014 est.)

country comparison to the world: 63

*GDP - composition, by sector of origin (2016 est.):*

agriculture: 3.3%

industry: 28.7%

services: 68.1%

*Agriculture - products:*

grain, potatoes, sugar beets, flax, vegetables; beef, milk, eggs, pork, cheese; fish

*Industries:*

metal-cutting machine tools, electric motors, televisions, refrigerators and freezers, petroleum refining, shipbuilding (small ships), furniture, textiles, food processing, fertilizer, agricultural machinery, optical equipment, lasers, electronic components, computers, amber jewelry, information technology, video game development, app/software development, biotechnology

*Industrial production growth rate:*

0.3% (2016 est.)

country comparison to the world: 156

*Labour force:*

1.478 million (2016 est.)

country comparison to the world: 132

*Labour force - by occupation:*

agriculture: 9.1%

industry: 25.2%

services: 65.8% (2015 est.)

*Unemployment rate:*

7.9% (2016 est.)

9.1% (2015 est.)

country comparison to the world: 100

*Population below poverty line:*

22.2% (2015 est.)

*Exports:*

\$24.23 billion (2016 est.)
\$24.73 billion (2015 est.)
country comparison to the world: 66
<i>Exports - commodities:</i>
refined fuel, machinery and equipment, chemicals, textiles, foodstuffs, plastics
<i>Exports - partners:</i>
Russia 13.5%, Latvia 9.9%, Poland 9.1%, Germany 7.7%, Estonia 5.3%, US 5.2%, Sweden 4.8%, UK 4.3% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$15.87 billion (31 December 2016 est.)
\$16.24 billion (31 December 2015 est.)
country comparison to the world: 85
<i>Stock of direct foreign investment - abroad:</i>
\$4.48 billion (31 December 2016 est.)
\$4.155 billion (31 December 2015 est.)
country comparison to the world: 73

Source: The World Factbook, December 2017

#### IV.2.7.2. Economic Diplomacy Model

Albeit it seemed that in the past economic diplomacy did not receive enough attention, the Lithuanian government in 2016 clearly aimed at accomplishing several important tasks, namely entering new export markets on the one hand and creating and maintaining economic relations with foreign partners were mentioned among foreign policy priorities. As widely known, Lithuania is not a member of the OECD and thus this aim was set as a primary target.<sup>216</sup> In order to achieve abovementioned goals, the government is dedicated to conduct negotiations with potential foreign partners that that will consequently enable numerous Lithuanian products to successfully enter those markets. Notably, as economic relations among Lithuania and foreign economic partners need to be improved and enhanced, diplomatic representation on crucial markets will be strengthened. It must be said that the MFA and the Ministry of Economy are the two most important state institutions dealing with economic diplomacy with the former one having the central role within the organisational structure. There exists a vice minister<sup>217</sup> and a department within the MFA that cover the economic area of international relations. In order to clearly illustrate areas of interest of Lithuanian economic diplomacy, here will be listed three separate units within the abovementioned department, i.e. trade policy division, export and investment promotion division and international economic organizations division. Nevertheless, such a structure serves as an executive part of the Lithuanian economic diplomacy system.<sup>218</sup>

As far as the Lithuanian foreign representation is concerned, its diplomatic missions do not exist in all European countries and are predominantly located in the Northern Hemisphere due to limited financial resources and administrative capacities. However, in comparison to other two Baltic states, it has the most developed diplomatic network that corresponds with its size

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<sup>216</sup> This holds true especially since other two Baltic states are already members of the OECD and introduced euro as official currency before Lithuania.

<sup>217</sup> Vice minister in charge of economic diplomacy. Available at: <https://www.urm.lt/default/en/officials/viceministrai/albinas-zananavicius> (accessed 05/12/2017).

<sup>218</sup> Mažeika, P.: *Economic Diplomacy of Germany, Poland and Lithuania* (Master Thesis), Kaunas, Vytautas Magnus University, Faculty of Political Science and Diplomacy, 2016, p. 48-49. For more details on this issue, see the Lithuanian MFA official website. Available at: <https://www.urm.lt/default/en/about-us> (accessed 05/12/2017).

and the strength of its economy. Additional institutions and broad network of economic diplomats substitute its deficiency of administrative capacities.<sup>219</sup>

As far as the scope of work is concerned, there is clear distinction between diplomats dealing with economic diplomacy (in narrow sense) and those handling commercial diplomacy issues. The former are in charge of official relations with state institutions abroad, for taking part in EU coordination activities in third countries, political-economic lobbyism, the collecting macro-economic information, media analysis, contacts with companies both in the foreign state and Lithuania and support to the arrangement of business missions. The latter search for business contacts mostly through visits to companies provide information and consultation to Lithuania's and foreign companies, organise business missions and specific business events, introduce Lithuania's economic potential at various events.<sup>220</sup>

After the MFA initiative, the government established a new body in 2013 called the Economic Diplomacy Council<sup>221</sup> (*Ekonominės diplomatijos taryba*), with the aim of creating a more constructive and concrete discussion between state institutions and private sector, i.e. business community that should result in more efficient implementation of country's foreign economic policy and defence of national economic interests.<sup>222</sup>

The Economic Diplomacy Council has a duty to formulate proposals on where the government should direct its focus as regards the economic diplomacy. It is chaired by the minister of foreign affairs, while the minister of economy serves as vice-chairman. Its focus is directed towards accessing and doing business in new markets, disrupting trade barriers with non- EU Member States, and carrying out the strategy of EU domestic market accessibility.<sup>223</sup>

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<sup>219</sup> *Ibid*, p. 49-50. This stands firmly also for Croatia since there exists clear absence of the quality MFA personnel in the area of economic diplomacy. Therefore, larger presence of the Croatian Chamber of Economy and possibly other institutions in crucial markets deems as necessary.

<sup>220</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 121.

<sup>221</sup> For more info on this body, see the official MFA website. Available at:

<https://www.urm.lt/default/en/economic-diplomacy/economic-diplomacy-council> (accessed 05/12/2017)

<sup>222</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 118. Comments put forward with regard to multi-player supervisory body set up in Portugal and its correlation with Croatia's organisational structure (see footnote 213) apply also here.

<sup>223</sup> Mažeika, P.: *Economic Diplomacy of Germany, Poland and Lithuania* (Master Thesis), Kaunas, Vytautas Magnus University, Faculty of Political Science and Diplomacy, 2016, p. 49.

Moreover, two additional institutions form integral part of the Lithuanian economic diplomacy organisational structure, namely Enterprise Lithuania and Invest Lithuania. Both of these are state agencies supervised by the ministry of economy.

Enterprise Lithuania aim and mission is entrepreneurship promotion, support to business development and export fostering. This body provides consultancy and expertise for start, growth and export of Lithuanian companies (SMEs predominantly). It supports the establishment and development of competitive companies and fosters the country's exports by alleviating cooperation with business partners' networks and offering quality training, consultancy, market analysis, and business-partner search services for companies. Enterprise Lithuania serves as a highly qualified assistant to start-up companies and a one-stop shop that supplies the information on legislation, requirements and licenses as well as giving back-up to those interested in establishing business in Lithuania. The agency possesses all necessary data on national macroeconomic trends and developments, export estimations or bilateral trade relations and activities. Their know-how enables them to provide necessary support and information with regard to the best and most reliable suppliers of goods, services and technologies in Lithuania.<sup>224</sup>

Invest Lithuania is the official agency for FDIs and business development. By being that, it provides high-quality support and assistance to foreign investors wishing to set up companies in Lithuania and provide them with the best possible start. Invest Lithuania covers three areas within its scope:<sup>225</sup>

1. *decision-making*

- tailor-made in-depth market and industry insights,
- consulting on business costs,
- information on the labour and legislative framework,
- site visits (companies, universities, government institutions).

2. *business establishment*

- introduction and meetings with key market players and important governmental institutions,
- assessment to identify financial assistance opportunities from the government and EU,

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<sup>224</sup> Official website of the Enterprise Lithuania. More info available at: <http://www.enterpriselithuania.com/en/about-us> (accessed 07/12/2017)

<sup>225</sup> Official website of the Invest Lithuania. More details available at: <https://investlithuania.com/investor-guide/> (accessed 07/12/2017)



- support with regard to PR and marketing strategy before, during and after the project announcement.
3. *business development*
- assistance with specific problems,
  - lobbying for greater governmental support.

#### IV.2.8. Estonia

##### *IV.2.8.1. National Economy*

Estonia, who became the EU member in 2004 and entered the Euro zone in 2011, has a modern market economy and one of the higher per capita income levels in Central Europe and the Baltic region, nevertheless its economy largely depends on trade, leaving it vulnerable to external negative impacts. Estonian governments have established and implemented a free market, pro-business economic programme and rational fiscal policies that have resulted in well balanced budgets and low public debt. The economy primarily benefits from considerable electronics and telecommunications sectors and well developed trade exchange with Finland, Sweden, Germany, and Russia. After two years of significant recovery in 2011 and 2012, the Estonian economy slowed down in 2013 with only 1.6% GDP growth, mostly because of a long-lasting recession in greater part of the EU. GDP growth in 2014 went up to 2.9% but then fell down below 2% in 2015-16 because of the lower demand in key Scandinavian and Russian export markets. In 2016, the government implemented moderate increases in fiscal spending intended to contribute to GDP growth in 2017. As is the case with many other EU member states, Estonia meets a problem of a deficiency of skilled and unskilled workers albeit the government has revised its immigration legislation in order to enable simplified import of qualified labour from abroad.<sup>226</sup>

**Table 14: Economic statistics of Estonia<sup>227</sup>**

*GDP (purchasing power parity; data are in 2016 dollars):*

<sup>226</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/en.html> (accessed 07/12/2017)

<sup>227</sup> *Ibid.*

\$38.94 billion (2016 est.)
\$37.67 billion (2015 est.)
\$36.65 billion (2014 est.)
country comparison to the world: 116
<b><i>GDP - real growth rate:</i></b>
2.1% (2016 est.)
1.7% (2015 est.)
2.9% (2014 est.)
country comparison to the world: 152
<b><i>GDP - per capita (PPP; data are in 2016 dollars):</i></b>
\$29,700 (2016 est.)
\$29,100 (2015 est.)
\$28,500 (2014 est.)
country comparison to the world: 64
<b><i>GDP - composition, by sector of origin (2016 est.):</i></b>
agriculture: 3.4%

industry: 27.9%
services: 68.7%
<i>Agriculture - products:</i>
grain, potatoes, vegetables; livestock and dairy products; fish
<i>Industries:</i>
food, engineering, electronics, wood and wood products, textiles; information technology, telecommunications
<i>Industrial production growth rate:</i>
-0.6% (2016 est.)
country comparison to the world: 163
<i>Labour force:</i>
691,400 (2016 est.)
country comparison to the world: 153
<i>Labour force - by occupation:</i>
agriculture: 3.1%
industry: 20.2%

services: 76.7% (2016 est.)
<i>Unemployment rate:</i>
6.8% (2016 est.)
6.2% (2015 est.)
country comparison to the world: 88
<i>Population below poverty line:</i>
21.3% (2015 est.)
<i>Exports:</i>
\$12.36 billion (2016 est.)
\$12.04 billion (2015 est.)
country comparison to the world: 78
<i>Exports - commodities:</i>
machinery and electrical equipment 30%, food products and beverages 9%, mineral fuels 6%, wood and wood products 14%, articles of base metals 7%, furniture and bedding 11%, vehicles and parts 3%, chemicals 4% (2016 est.)
<i>Exports - partners:</i>

Sweden 17.9%, Finland 16%, Latvia 9.2%, Russia 6.5%, Lithuania 6%, Germany 5.9%, Norway 4.1% (2016)
<i>Stock of direct foreign investment - at home:</i>
\$22.19 billion (31 December 2016 est.)
\$22.02 billion (31 December 2015 est.)
country comparison to the world: 75
<i>Stock of direct foreign investment - abroad:</i>
\$9.396 billion (31 December 2016 est.)
\$9.164 billion (31 December 2015 est.)
country comparison to the world: 62

Source: The World Factbook, December 2017

#### *IV.2.8.2. Economic Diplomacy Model*

The range of institutions and actors actively participating in Estonian economic diplomacy is wide. It includes the Ministry of Economic Affairs and Communication, the MFA with its foreign representations, agencies, companies, business associations etc. Policy instructions for supporting local entrepreneurs and promoting export are set out in numerous national strategies and one among them is especially important, namely Estonian Entrepreneurship Growth Strategy 2014–2020<sup>228</sup> that has been created by the Ministry of Economic Affairs and

<sup>228</sup> Estonian Entrepreneurship Growth Strategy 2014-2020. Full text in English available at: [http://kasvustrateegia.mkm.ee/index\\_eng.html](http://kasvustrateegia.mkm.ee/index_eng.html) (accessed 08/12/2017)

Communication in September 2013. Supplemented by the competitiveness plan Estonia 2020, the specific five-year action plan and annual action plans, this comprehensive strategy set a framework for higher productivity, encouraging entrepreneurship and fostering innovation in Estonia. It is focused, *inter alia*, on Estonian full integration in the international economic environment and the incitement of smart specialisation, fast adaptability and a high level of innovation.<sup>229</sup>

The Ministry of Economic Affairs and Communication<sup>230</sup> has the leading role both in creating strategic elements of economic diplomacy when supporting Estonian export and in identifying the key areas that stand as priorities in order to accomplish sustainable future economic development and growth. In addition, this ministry has also actuated the establishment of the main institutions supporting Estonian export, i.e. Enterprise Estonia and KredEx (will be discussed below). In order to attribute additional significance to international economic relations within the Ministry of Economic Affairs and Communication, the position of the minister of foreign trade and entrepreneurship<sup>231</sup> was formed in March 2014 in addition to the already existing minister of economic affairs.<sup>232</sup> With regard to the area of trade, this ministry deals with trade relations within the EU via its internal market department,<sup>233</sup> focusing on the free movement of goods and services, competition, quality assurance, and consumer protection.<sup>234</sup>

The MFA<sup>235</sup> mission relates to “opening doors” to Estonian companies intending to enter new markets by providing them with consultancy and support. Through the broad network of missions and representatives abroad, the MFA has adequate and sufficient infrastructure and expertise to perform all necessary tasks. Thus, it is involved in the export academy, target

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<sup>229</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 106.

<sup>230</sup> Ministry of Economic Affairs and Communication official website. Available at: <https://www.mkm.ee/en> (accessed 08/12/2017)

<sup>231</sup> At the end of 2016, this function changed official name into minister of entrepreneurship and information technology. More details available at: <https://www.mkm.ee/en/ministry-contact/minister-entrepreneurship-and-information-technology-urve-palo> (accessed 08/12/2017)

<sup>232</sup> At the end of 2016, this function changed official name into minister of economic affairs and infrastructure. More details available at: <https://www.mkm.ee/en/ministry-contact/minister-economic-affairs-and-infrastructure-kadri-simson> (accessed 08/12/2017)

<sup>233</sup> More detailed scope of action available at: <https://www.mkm.ee/en/objectives-activities/european-union-and-international-co-operation> (accessed 08/12/2017)

<sup>234</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 107.

<sup>235</sup> The MFA's more detailed aims and scope of work available at official website: <http://vm.ee/en/mission-vision-values> (accessed 08/12/2017)

market educations and training, organisation of business missions outside capital cities (meetings with local stakeholders and B2B meetings<sup>236</sup>), organisation of companies' presentations in the Estonian missions abroad as a sign of the government's support for projects. In contrast to the ministry of economic affairs and communication, the MFA is responsible for trade relations outside the EU and therefore set-up an external trade division that deals with coordination of the EU common commercial & foreign trade policy and negotiations with non-EU states.<sup>237</sup>

Institutions directly responsible for implementation of the instructions set by the Ministry of Economic Affairs and Communication are business promotion organisations, principally the Enterprise Estonia (EE)<sup>238</sup> and the Estonian Chamber of Commerce and Industry (ECCI). The EE, established in 2000, provides education to Estonian entrepreneurs interested in export and distributes export financial refunds through the export planning programmes and export market supporting programmes that are co-financed from the EU structural funds since 2004. Moreover, the EE officials abroad successfully co-operate with the foreign representations of the MFA.<sup>239</sup> The EE is an umbrella agency consisted of several sub-entities that exist within its structure and manage various economic areas, with Invest in Estonia<sup>240</sup> (attracting FDIs) and Trade with Estonia<sup>241</sup> (export) being the most prominent ones.<sup>242</sup>

The Estonian Chamber of Commerce and Industry<sup>243</sup> (ECCI) also has an active role that plays within the Estonian economic diplomacy. Re-established in 1989, the ECCI has the task of taking part in developing entrepreneurship in Estonia and providing public administration with consulting on the design of national economic policy. It provides consulting services in the area of legal framework, foreign trade, the EU, conducting business abroad (trade missions, presentations), training and information services and hosts the only permanent arbitration court

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<sup>236</sup> Business-to-business meetings.

<sup>237</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 107-108.

<sup>238</sup> More details on the Enterprise Estonia available on the official website: <https://www.eas.ee/eas/?lang=en> (accessed 11/12/2017).

<sup>239</sup> The EE's scope, numerous activities and goals are described in detail within the Enterprise Estonia Strategy 2015-2018. Available at: <https://www.eas.ee/wp-content/uploads/2015/11/EAS-Strategy-for-2015-2018.pdf> (accessed 11/12/2017)

<sup>240</sup> Invest in Estonia official website. Available at: <https://investinestonia.com/> (accessed 11/12/2017)

<sup>241</sup> Trade with Estonia official website. Available at: <https://www.tradewithestonia.com/> (accessed 11/12/2017)

<sup>242</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 108.

<sup>243</sup> More info on the ECCI available at the official website: <https://www.koda.ee/en/about-chamber-commerce> (accessed 11/12/2017)

in Estonia.<sup>244</sup> In 2017, this institution has nearly 3300 members mostly coming from the sectors of textile, metal, wood, construction and food industries with 95 percent of members being SMEs.<sup>245</sup> The ECCI opened five regional offices around the country and acts also as an important partner of the MFA in different projects.<sup>246</sup>

### **IV.3. Economic Diplomacy of the European Union**

Although the EU is certainly not a state, its high political and economic relevance requires this organisation to be treated and evaluated as the whole in many different aspects including economy and economic diplomacy that appertains to it.

#### **IV.3.1. Economy & Politics**

When speaking of the EU, it must be emphasized that its economy has two distinct dimensions, i.e. the internal one and the international one. The former implies that the 28<sup>247</sup> EU member states arranged a single market that enabled free movement of goods, services and capital.<sup>248</sup> The latter however means that the Union wants to boost its trade position and its political and economic significance bearing in mind the constantly changing global circumstances. In spite of considerable differences in *per capita* income between member states and in national policy and solutions with regard many topics like inflation, debt, and foreign trade<sup>249</sup>, the EU has accomplished a certain level of coordination of monetary and fiscal policies. A common currency, the euro, flows between nineteen member states, under the “umbrella” of the European Economic and Monetary Union (EMU). Eleven member states inaugurated the euro as their currency on 1 January 1999, Greece in 2001 and another 7 entered the Eurozone since 2004, which means that another 7 member states have the obligation to introduce it as their

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<sup>244</sup> More details on the ECCI services available at: <https://www.koda.ee/en/about-chamber/services> (accessed 11/12/2017)

<sup>245</sup> Almost the same situation stands as regards the membership structure of the Croatian Chamber of Economy since around 95% of members are SME's.

<sup>246</sup> Spruds, A. & Bukovskis, K. (ed.): *Economic Diplomacy of the Baltic States*, Riga, Latvian Institute of International Affairs & Friedrich Ebert Stiftung, 2014, p. 108-109.

<sup>247</sup> If and when the UK executes its *Brexit* on 29<sup>th</sup> March 2019, the EU will be composed of 27 member states once again.

<sup>248</sup> Actually this concept encompasses four freedoms as widely known since persons are also fully entitled to move, live and work freely within the EU.

<sup>249</sup> Differences are obvious not only in economic sphere as everyone is very well aware of many political issues that are treated differently among member states. Migrant crisis serves as perfect example to confirm such an assertion.



official currency once they fulfil the necessary fiscal and monetary convergence criteria.<sup>250</sup> The EU recorded slow GDP growth for 2014 through 2016; however, the recovery has been unequal. Certain countries (Czech Republic, Ireland and Spain) have achieved high growth while others (Finland, Greece) have fought to run away from recession. In general, the EU's relief has been bolstered by lower commodities prices and accommodative monetary policy, which has reduced interest rates and the euro's foreign exchange value. Nevertheless, considerable obstacles to growth have remained, including continuously high unemployment in certain countries, high levels of public and private debt, uninspiring investment and last but certainly not the least, a fast aging population that already poses not only an economic problem but also a political threat to the survival and future of Europe.<sup>251</sup> These setbacks alongside low oil prices have subdued inflation in the Eurozone notwithstanding the European Central Bank's (ECB) endeavour to stimulate more lending and investment via its asset-buying programme, negative interest rates and long-term loan refinancing programmes. In line with that, the ECB at the end of 2016 declared it would prolong its bond-buying programme also in 2017 to support and bolster the Eurozone economy and bring inflation to its statutory aim of below 2%. It is very important to mention the latest developments which might have not only economic but also political consequences. Firstly, an economic problem and potential high risk for the Eurozone and the EU as a whole in the form of Italy whose economy fell into recession once again (third time in the past ten years) at the beginning of 2019. In addition, Eurozone's GDP growth is in obvious decline (2,3% in 2017, 1,8% in 2018 and 1,3% estimate for 2019) while unemployment rate (7,9%) is almost as double compared to the USA (4%).

Irrespectively of decent results the Union economy has accomplished, it is naturally highly dependent not only on global trade but also with regard to political and financial perplexity.<sup>252</sup>

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<sup>250</sup> Excluding the UK and Denmark who have the formal opt-out clause negotiated and implemented. Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015) have introduced the euro. On the other hand, Sweden, Croatia, Poland, Czech Republic, Hungary, Bulgaria and Romania need to do the same once they meet the criteria.

<sup>251</sup> Such an assertion with regard to Europe's population is my personal opinion that is however confirmed with bad and implacable figures. Europe's very existence and traditional identity based on Christian values will come into question very soon (if not already) if radical measures both on national and EU level are not undertaken in shortest period which does not seem to happen unfortunately since leading political options currently do not recognize such a situation as a problem. Repercussions will be severe in political, economic and social sense.

<sup>252</sup> After decades of existence of the EC and the EU, it is more than obvious that this bloc's reaction to different critical situations (economic crisis, migration etc.) is not the most appropriate one. Reasons for such inefficiency are various. Firstly, the way it functions in organisational sense, as a result of many compromises, paralyses the system and prevents it from reacting in the best possible manner. Secondly, there are many issues where specific member states have diametrically opposite stance and cannot find the common efficient solution. Thirdly, the EU is not a state but an organisation and as such, it does not possess all the usual mechanisms and instruments that a country has at its disposal and is therefore prevented from reacting with

In relation to that, it is very well known that in June 2016 the UK voted on referendum to leave the EU (although it is still not known how will it be actually executed and what future relations will look like), becoming the first country to exit (UK should formally leave the EU on 29<sup>th</sup> March 2019) this organisation. Political discrepancies among member states on fiscal and economic policy (Italy's government open confrontation with the EC with regard to the budget spending) may damage or limit the EU's preparedness to amend its crisis-prevention and resolution mechanisms. Externally, the EU makes a lot of effort in order to expand trade and investment flows<sup>253</sup> via comprehensive free trade agreements.<sup>254</sup> In that sense, it is worth mentioning that the EU signed the Comprehensive Economic and Trade Agreement (CETA) with Canada which provisionally entered into force in September 2017. This is even more important if one is aware of the fact that the long waited Transatlantic Trade and Investment Partnership (TTIP) between the EU and USA collapsed. Currently, there is little chance of reviving it especially since the trade (and political) relations between two sides sit at its lowest point. President Trump took somewhat different course of action in foreign policy than his predecessors did and one of the best examples (besides many political and security issues) are tariffs that were imposed during 2018 against the EU and China for specific commodities.

In the first half of 2018 another important event took place in one of the most important member states since it carries great importance for the whole EU and represents another cracking of the EU system and a very source for another eventual crisis in the Union. More precisely, at the beginning of March 2018 the general election was held in Italy and the new, anti-Bruxelles (politically with regard to migrants issue and opposing sanctions against Russia; economically with regard to already mentioned budget spending) government led by non-politician and university professor Giuseppe Conte sworn in at the end of May 2018.

Parties who have strong anti-EU sentiments in some very important areas play two main roles in this government. For instance, the Five-star Movement based large part of its campaign on opposing austerity measures that are preferred option by the EU technocrats and therefore more spending and investing should occur in Italy in the forthcoming period. What is even more

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all necessary means and on time. Consequently, this union needs a deep reform in order to function properly or go back to what the European Community once was and let single member states decide for themselves on all the sensitive issues since such solution cannot be reached on the European level.

<sup>253</sup> The EU has enjoyed mixed success as negotiations with the US (TTIP) collapsed but were completed with Canada (CETA).

<sup>254</sup> The World Factbook 2017. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html> (accessed 13/12/2017)

intriguing is perception of euro as official currency because there emerged certain voices in this country that consider Italy should quit euro and immediately reintroduce lira as a national currency. In relation to that, it is important to remember that first choice for the post of finance minister (Paolo Savona), who was rejected by the President Mattarella, openly advocated Italy's Eurozone exit.

Maybe even more important issue relates to migrant crisis that became top topic once again especially in Italy, which actually carried much of the EU burden here since large portion of migrants entered Europe *via* Italy. That practice has ceased now with the Lega party president, Matteo Salvini who acting as the minister of interior (and Vice Prime Minister) recognized this trend as a political and economic threat not only on national but also on European level and started to redirect migrant ships to other member states (tensed situation with France).

In addition to Italy's position, if we are aware of the stance represented by Visegrad Group or better say four Central European countries (Hungary, Czech Republic, Slovakia and Poland) and the new Austrian government led by Chancellor Kurz, it is perfectly clear that now exists a serious opposition to what the EU has practised so far when immigration and refugees are in question. Therefore, a practice that favours significant and free influx of Middle East and African migrants should cease immediately because now it is more than obvious than ever that such state of affairs brings many negative repercussions in political, economic and social sense. In relation to that, numerous violent acts caused by migrants occurred on the one hand but even worse, horrible terrorist attacks that caused tragedy and chaos on the streets of dozens of European cities seem to threaten continuously this continent's normal everyday life.

All the above-mentioned recent events came as perfect confirmation that the EU found itself in serious political and economic crisis since this organisation became gravely dysfunctional. Discrepancies among member states are profound in many abovementioned areas meaning that the course of action and *modus operandi* that prevailed so far in the Union is no longer tenable. New institutional arrangements are desirable as soon as possible or the very existence of the EU we know will come into question. Trend of bringing significant part of sovereignty from the EU back to national states is clearly manifested in many countries and that is the direction that the future solution for the EU should follow.

**Table 15: Economic statistics of the European Union<sup>255</sup>**

<i>GDP (purchasing power parity; data are in 2016 dollars):</i>
\$19.97 trillion (2016 est.)
\$19.6 trillion (2015 est.)
\$18.91 trillion (2014 est.)
country comparison to the world: 2
<i>GDP - real growth rate:</i>
1.9% (2016 est.)
2.3% (2015 est.)
1.6% (2014 est.)
country comparison to the world: 141
<i>GDP - per capita (PPP; data are in 2016 dollars):</i>
\$39,200 (2016 est.)
\$38,100 (2015 est.)
\$37,000 (2014 est.)

<sup>255</sup> *ibid.*

country comparison to the world: 45
<i>GDP - composition, by sector of origin (2016 est.):</i>
agriculture: 1.5%
industry: 24.7%
services: 71%
<i>Agriculture - products:</i>
wheat, barley, oilseeds, sugar beets, wine, grapes; dairy products, cattle, sheep, pigs, poultry; fish
<i>Industries:</i>
among the world's largest and most technologically advanced regions, the EU industrial base includes: ferrous and non-ferrous metal production and processing, metal products, petroleum, coal, cement, chemicals, pharmaceuticals, aerospace, rail transportation equipment, passenger and commercial vehicles, construction equipment, industrial equipment, shipbuilding, electrical power equipment, machine tools and automated manufacturing systems, electronics and telecommunications equipment, fishing, food and beverages, furniture, paper, textiles
<i>Industrial production growth rate:</i>
1.5% (2016 est.)
country comparison to the world: 128
<i>Labour force:</i>

233.3 million (2016 est.)
country comparison to the world: 3
<i>Labour force - by occupation:</i>
agriculture: 5%
industry: 21.9%
services: 73.1% (2014 est.)
<i>Unemployment rate:</i>
9.4% (2015 est.)
10.2% (2014 est.)
country comparison to the world: 123
<i>Population below poverty line:</i>
9.8%
note: see individual country entries of member states (2013 est.)
<i>Exports:</i>
\$1.9 trillion (2015 est.)
\$1.808 trillion (2014 est.)

note: external exports, excluding intra-EU trade
country comparison to the world: 2
<i>Exports - commodities:</i>
machinery, motor vehicles, pharmaceuticals and other chemicals, fuels, aircraft, plastics, iron and steel, wood pulp and paper products, alcoholic beverages, furniture
<i>Stock of direct foreign investment - at home:</i>
\$5.148 trillion (2012)
\$4.828 trillion (2011)
country comparison to the world: 1
<i>Stock of direct foreign investment - abroad:</i>
\$9.121 trillion (2012)
\$8.721 trillion (2011)
country comparison to the world: 1

Source: The World Factbook, December 2017

#### IV.3.2. Economic Diplomacy

Heavily influenced by the globalisation and rapid changes in world's economics and geopolitics, it seems that time passes quickly for the EU to engage more actively in the area of

economic diplomacy. That is even more so taking into account a fact that about 90 % of the global economic growth arrives currently outside of Europe. The demand for more strategic approach that will bridge the gap between trade and investment, resources and food supply, migration, global economic (and financial) governance and sustainable development is now far more important than before. Abovementioned need to create synergy among various policies does not in any case mean that the EU did not produce any activities in those areas so far. Trade and investment negotiations in international arena are areas wherein the Union already possesses significant experience as it acted on behalf of, or right next to, its own member states. Nevertheless, the EU quite recently began to undertake various activities in other sectors like foreign or energy policy. On the other hand, the EU has even acted in the area of trade and investment promotion for considerable period already. The EU has established certain tools to foster business activities, predominantly by acting on demand from its member states' diplomats in third countries. These include bilateral trade-promotion programmes, cooperation with national chambers of commerce and regulatory reform dialogues. There exist also some other European initiatives like Enterprise Europe Network that explain how trade promotion at the European level are not something new. In line with that, trade and investment promotion activities continue to be at the centre stage of several EU countries' economic diplomacy efforts. However, these sectors are also basis where the Union's reflection on economic diplomacy started.<sup>256</sup>

As already mentioned, the EU economic diplomacy began with its focus on trade and investment promotion in 2013. The EC's Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (known as the DG Growth) played a crucial role in promoting this area of economic diplomacy orientated to the business (community). Thus, the EU's Missions for Growth became a considerable instrument in supporting the internationalisation<sup>257</sup> of European companies and their competitiveness in order to generate growth and jobs.<sup>258</sup> Those missions were consisted of high-level political and business meetings, aiming to promote industry and businesses in different countries in the Americas, Asia, the Middle East and even

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<sup>256</sup> Okano-Heijmans, M. & Montesano, F. S.: *Who is Afraid of European Economic Diplomacy*, Clingendael Policy Brief, Netherlands Institute of International Relations *Clingendael*, 2016, p. 3-4. Also, interesting review of the EU economic diplomacy has been made by Woolcock, S.: *Regional Economic Diplomacy: The European Union in* Bayne, N. & Woolcock, S.: *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Aldershot, Ashgate, 2007, p. 221-240.

<sup>257</sup> Internationalisation (of the SMEs) will be discussed in detail as part of the next chapter.

<sup>258</sup> Missions for Growth, EC's official website. Available at: [http://ec.europa.eu/growth/industry/international-aspects/missions-for-growth/index\\_en.htm](http://ec.europa.eu/growth/industry/international-aspects/missions-for-growth/index_en.htm) (accessed 21/12/2017)



in Europe, including also in the EU itself. The most prominent role with regard to the Missions for Growth has been undoubtedly played by the then EC Vice-President Antonio Tajani<sup>259</sup> who proved to be among the most proactive commercial diplomats that the Union had so far. In 2013, there occurred eleven missions, followed by six missions in 2014 and barely any since then. From the EU's point of view, the Missions for Growth supplemented national economic missions. Their goal was to support all 28 EU member states and contributed to assure the external marketing of the European Single Market. Acknowledging that the role of national governments rests crucial in assisting and fostering companies' export, those missions were intended as a tool for the European-level representation of industrial sectors within a mission that no individual EU member state could provide.<sup>260</sup>

Although not every member state opposes the EU economic diplomacy activities, several of them remain cautious and wary of the Union's crossing the line whereat it broadened its traditional mandate in trade-policy sector and entered into the trade-promotion area. However, numerous member states regard business support from a predominantly national perspective and such a stance can surely be rightly justified by their considerable capacities developed in this area.<sup>261</sup> The EU on the other hand has not dealt with the issue of how national policies, practices and activities in the area of commercial diplomacy correlate with those of the EU. In line with that, member states' governments and private-sector associations also have scarcely debated this topic partly due to their considerable unawareness of the growing EU activism and partly because they do not want to foster such an EU approach. This applies in particular to those countries that put strong emphasis on their commercial diplomacy sphere within their national economic diplomacy models.<sup>262</sup>

As it was clearly set out in European Commission's strategy, Jean Claude Juncker identified not only jobs and growth but also investment as a core economic element during its term. In comparison to the Barroso EC, Juncker emphasised the need to make economic growth

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<sup>259</sup> Mr. Tajani currently holds the office of the President of European Parliament.

<sup>260</sup> Okano-Heijmans, M. & Montesano, F. S.: *Who is Afraid of European Economic Diplomacy*, Clingendael Policy Brief, Netherlands Institute of International Relations *Clingendael*, 2016, p. 4.

<sup>261</sup> The Netherlands (where I lived and finished the LL.M. programme) serves as a perfect example since foreign visits undertaken by the Dutch King, Willem-Alexander pay almost equal attention to opening new markets and finding business opportunities for Dutch companies on the one hand (therefore can be treated almost as trade missions) and the official state meetings with foreign leaders that have the political character.

<sup>262</sup> Okano-Heijmans, M. & Montesano, F. S.: *Who is Afraid of European Economic Diplomacy*, Clingendael Policy Brief, Netherlands Institute of International Relations *Clingendael*, 2016, p. 5.

sustainable, inclusive and resistant to future world economic shocks.<sup>263</sup> The intention behind this is to put Europe on a road to economic recovery for good. Thus, the first of the 10 priorities proclaimed in September 2014 was called “Jobs, growth, and investment”.<sup>264</sup> President Juncker’s Investment Plan for Europe was adopted in November 2014. It is worth 315 billion euros during the period 2015-2017 and financial means are secured through the European Fund for Strategic Investments (EFSI).<sup>265</sup> Additionally, the plan is to double its duration and financial resources that would provide investments with a total of minimum 500 billion euros by 2020.<sup>266</sup>

From April 2015, the European External Action Service (EEAS) and the European Investment Bank (EIB) have been cooperating closely in order to improve EU economic diplomacy activities. In relation to that, the EC stated that crucial factor for enhancing coherence in the Union’s economic diplomacy was to enhance relations with the EIB, especially with regard sharing more information and interacting more with the numerous projects. With regard to the EIB, it already proposed a set of financial products for SMEs (loans, trade finance guarantees and equity) that can support the internationalisation of companies, including those in third countries. Moreover, it provides long-term financing in support of the EU presence in partner states via FDIs. Alongside the EC, the EIB is the co-founder that established the EFSI and implements its projects through usual EIB procedures. From October 2015, the EIB cooperates even more tightly with the Commission and the EEAS in order to up-grade the EU economic diplomacy. This bank has undertaken activities that are not its core business (migration, trade facilitation, possible operations in certain countries) and participation in international forums like the G20. In line with that, the EIB’s external offices received guidelines to engage more in strategy-oriented meetings in order to perceive the EU’s objectives properly and to connect better with the EU delegations. It is important to state also that an inter-service group dealing with economic diplomacy was established under the supervision of the Commissioners’ Group on External Action (CGEA) in April 2015. It is consisted of representatives of the various EC’s Directorates- General (DGs), the EEAS and the EIB. The main aim of this inter-service group

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<sup>263</sup> Although it is illusory to expect that the latter goal is achievable in reality since it is inevitable that global economic trends influence both in positive and negative manner also the economy of the EU, i.e. its member states. EU’s aim instead should be to mitigate as much as possible those negative effects of global economic trends.

<sup>264</sup> Ten priorities of the Juncker Commission. Available at: [https://publications.europa.eu/en/publication-detail/-/publication/12d089a4-dc80-11e6-ad7c-01aa75ed71a1/language-en?WT.mc\\_id=Selectedpublications&WT.ria\\_c=677&WT.ria\\_f=647&WT.ria\\_ev=search](https://publications.europa.eu/en/publication-detail/-/publication/12d089a4-dc80-11e6-ad7c-01aa75ed71a1/language-en?WT.mc_id=Selectedpublications&WT.ria_c=677&WT.ria_f=647&WT.ria_ev=search) (accessed 18/12/2017)

<sup>265</sup> The EFSI official website. Available at: <http://www.eib.org/efsi/> (accessed 19/12/2017)

<sup>266</sup> Juncker’s Investment Plan for Europe. Available at: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan_en) (accessed 18/12/2017)

was to create proposals for further improving of the coherence and effectiveness of the EU's external economic activities. Its task was to draw up a strategic approach, identify priorities and the internal tools for functioning in synergy, including the EU delegations. The EC's General Secretariat chairs the group that assembles twice annually. Importantly, this group already made progress as it provided assistance as regards the stronger internal coordination. Further action relates to providing the EU delegations with concrete guidelines on how to foster the EU economic interests in third countries.<sup>267</sup>

Besides the EU institutions, several other business organisations and associations organised at the European level have formed their opinion and created concrete guidelines as regards the EU economic diplomacy, namely what the Union should focus on and what its final aim should be.<sup>268</sup> It must be said that they support more integration in this area since they propose more activities by the EU itself and obviously less national level involvement by the member states.

In contrast to that, as already mentioned there emerged strong voices from leading politicians in certain very important EU member states who disagree with a further integration in most of the areas including of course the economic diplomacy, which in their opinion should be integral part of country's sovereignty and therefore should not be dealt with on the EU level.<sup>269</sup>

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<sup>267</sup> Bouyala Imbert, F.: *EU economic diplomacy strategy- In depth analysis*, Bruxelles, European Commission Directorate-General for External Policies, 2017, p. 11-13.

<sup>268</sup> Although such associations may not hold the status of most important decision makers, their vision, know-how and recommendations sometimes carry certain weight. See *European Economic Diplomacy*, Eurochambres Position Paper, Bruxelles, February 2015. Available at: [http://www.eurochambres.eu/custom/EUROCHAMBRES\\_Position\\_Paper\\_on\\_European\\_Economic\\_Diplomacy\\_-\\_Final-2015-00049-01.pdf](http://www.eurochambres.eu/custom/EUROCHAMBRES_Position_Paper_on_European_Economic_Diplomacy_-_Final-2015-00049-01.pdf) (accessed 03/01/2018); *EU Foreign Economic Diplomacy*, Business Europe Position Paper, Bruxelles, April 2016. Available at: [https://www.buinessurope.eu/sites/buseur/files/media/position\\_papers/rex/foreign\\_economic\\_diplomacy-final.pdf](https://www.buinessurope.eu/sites/buseur/files/media/position_papers/rex/foreign_economic_diplomacy-final.pdf) (accessed 03/01/2018)

<sup>269</sup> Whether it will be European or national competence is a question that causes confrontation between member states and the EC and member states themselves. This issue arises alongside with many other areas that should be addressed and resolved when the future organisation and structure of the EU is decided.

## V. ECONOMIC DIPLOMACY EFFECTIVENESS

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Real test for the actual relevance of economic diplomacy<sup>270</sup> is its effectiveness. Although it was mentioned earlier in this dissertation that economic diplomacy is not the only country's instrument for progress and promotion, one definitely must not forget that economic diplomacy which does not achieve concrete results, i.e. improvements for country's economy and image at global stage bears no significance and therefore must be treated as unnecessary and undesirable. Although this area was already tackled in this dissertation, it was done marginally and for that reason it will be discussed more in depth within this chapter. In line with that, some of the most important features and parameters of economic diplomacy effectiveness will be elaborated here. However, for the sake of clarity here it must be stressed once again that this doctoral dissertation, as it is strictly within the area of international relations (more precisely in diplomacy), has no intention of scientific research from the economic or better say econometric point of view and therefore will not elaborate this dimension in detail further in text. That means that author will not conduct econometric research methods, which are occasionally used to check or verify economic parameters and numbers connected with economic diplomacy effectiveness. Instead, this dissertation focus is on the international relations area meaning that economic diplomacy effectiveness will be observed here from a diplomatic perspective and for that reason, economic methods and results obtained in previous researches will be mentioned only as supportive element in this chapter, same as within the rest of this dissertation. Furthermore, one very important process is an excellent example of country's efficiency when speaking of economic diplomacy and it is called internationalisation of SME's. For that reason, it forms part of this chapter and will be assessed below. Finally, last part of this chapter is dedicated to the scientific research, more precisely an interview that I conducted with foreign representations, i.e. embassies located in Zagreb with regard to the economic diplomacy, their respective national models and economic ties with Croatia.

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<sup>270</sup> Since this chapter is dedicated to the effectiveness of economic diplomacy, I must notify here that emphasis will be put on the commercial diplomacy, more precisely this branch of the economic diplomacy will be observed and discussed while economic diplomacy in narrow sense (trade diplomacy) and its effectiveness will not be elaborated within this chapter.

## **V.1. Introduction**

As already mentioned earlier, commercial diplomacy targets to provide direct benefit to private sector, i.e. companies but also indirectly to the government of its home country and through that to the nation and country as a whole.

Events like creation of jobs, higher tax income or economic growth fostering that arrive as a consequence of successful economic diplomacy should be regarded both as economic and political positives since both businesses and government exploit benefits that arise out of such trends.<sup>271</sup>

In addition, there exists another political benefit of improving the positive image of a state which, as Yang, Shin, Lee and Wrigley observed, improves and enhances state's attractiveness abroad.<sup>272</sup>

Besides those abovementioned that are shared with the public sector, there are activities of economic diplomacy and its benefits, which are related and aimed directly at companies. Naturally, type and scope of those activities depend on the size of companies. In connection with that for instance, economic diplomacy potentially plays a crucial role in providing assistance to SMEs when entering a foreign market for the first time while large companies see diplomacy as a quality platform for giving them back-up in international tenders and affecting important decision-making processes and legislation in the foreign country.<sup>273</sup>

An interesting assertion based on study conducted in the area of economic diplomacy (both economic diplomacy in narrow sense, i.e. trade diplomacy and commercial diplomacy) has been made by Yakop and Bergeijk who stated that two mentioned disciplines might be considered as efficient: a) when the home country is a highly developed one and the host country is a developing one and, b) among developing countries themselves. They also claim, however, that

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<sup>271</sup> More details with regard to this within in-depth study by Kotabe, M. & Czinkota, M. R.: *State Government Promotion of Manufacturing Exports: A Gap Analysis*, Journal of International Business Studies, Vol. 23, No. 4, 1992, p. 637-658.

<sup>272</sup> Yang, S., Shin, H., Lee, J. and Wrigley, B.: *Country reputation in Multidimensions: Predictors, Effects and Communication Channels*, Journal of Public Relations Research, Vol. 20, No. 4, 2008, p. 422.

<sup>273</sup> Naray, O.: *What a Good Commercial Diplomat Has to Know and Be Capable of*, Exchange The Magazine for International Business and Diplomacy, No. 2, 2010, p. 8.

diplomatic representation through embassies or consulates does not represent a significant factor for enhancement of trade in the OECD area.<sup>274</sup>

According to Kostecki and Naray, economic diplomacy represents a value creating course of action.<sup>275</sup> Several studies have been undertaken by various authors who commonly advocate more investing in diplomatic representation (financial and human resources) in order to accomplish better results (export and trade growth) since the latter could be achieved easier via the former.<sup>276</sup> For instance, Rose claims that every new consulate abroad is directly related to bilateral export rates since it can be considered as a cause for a rise in the range of 6-10 %.<sup>277</sup>

Economic diplomacy tries to encourage business development via numerous business promotion and facilitation activities. In relation to that, companies that operate on foreign market have the following needs that can be served or fulfilled through economic diplomacy: a) admittance to secure and neutral business information, b) support and improvement for low credibility and image in foreign market, c) partner search (SMEs internationalisation), d) conflict managing, e) support to home country business delegations (ministers travel alongside business people) and f) strategic concerns, like government involvement in strategic trade policies, support for R&D activities or improved access to energy resources.<sup>278</sup>

Economic diplomacy can be considered as effective in several ways with usually mentioned growing export and international trade as some of its direct effects. Thereby, export increase is one of the most significant benefits of economic diplomacy addressed by Czinkota in his study who declared that export actively creates the public perception of country's competitiveness

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<sup>274</sup> Yakop, M. & van Bergeijk, P. A. G.: *The Weight of Economic and Commercial Diplomacy*, The Hague, International Institute of Social Studies, Working Paper No. 478, 2009, p. 4.

<sup>275</sup> Kostecki, M. & Naray, O., *Commercial Diplomacy and International Business*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2007, p. 7.

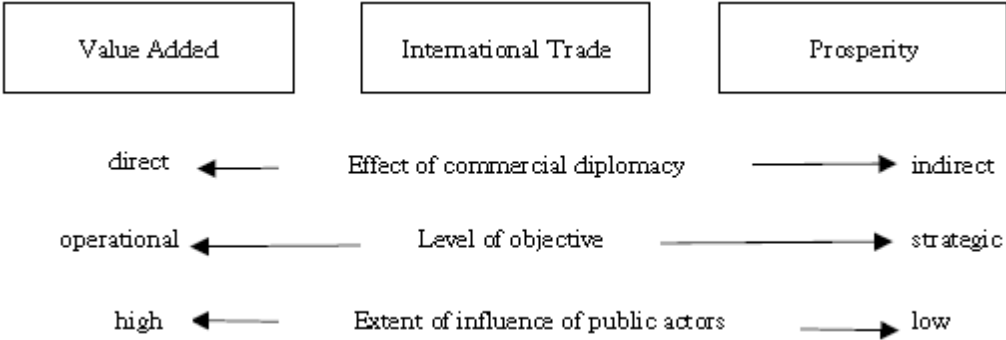
<sup>276</sup> In case of interest for more econometric evidence and details, see the following studies: 1. Nitsch, V.: *State Visits and International Trade*, CESifo Group, CESifo Working Paper 1582, München, 2005; 2. Saner, R., Yiu, L.: *International Economic Diplomacy: Mutations in Post-modern Times*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2003; 3. Stringer, K.: *Think Global Act Local: Honorary Consuls in a Transforming Diplomatic World*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2007; 4. Yakop, M. & van Bergeijk, P. A. G.: *The Weight of Economic and Commercial Diplomacy*, The Hague, International Institute of Social Studies, Working Paper No. 478, 2009; 5. Van Bergeijk, P., Veenstra, M. & Yakop, M.: *Economic Diplomacy, the Level of Development and Trade*, Clingendael Discussion Papers in Diplomacy, the Hague, Netherlands Institute of International Relations Clingendael, 2010.

<sup>277</sup> Rose, A. K.: *The Foreign Service and Foreign Trade: Embassies as Export Promotion*, World Economy, Vol. 30, No. 1, 2007, p. 32.

<sup>278</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 2 & 4.

but also defines the amount of imports which that country can withstand.<sup>279</sup> Accordingly, it was established that companies that took part in government’s export promotion programmes reached higher export figures.<sup>280</sup> On the other side, economic growth, high development and prosperity appear as indirect and final objectives. Direct objectives which are completed bring added value to companies that use the services of economic diplomacy while on the other hand, fulfilled indirect objectives mean benefit for the government and the country as a whole.<sup>281</sup>

**Figure 8: Economic Diplomacy Objectives**



Source: Ruel, H. & Zuidema, L., p. 7. (See footnote 281)

It may be said that concepts developed in previous studies stressed the importance of types of activities performed and the quality of those activities that constitute economic diplomacy. Both the category and the quality should be relevant for companies that intend to thrive abroad and accomplish successfully indirect objectives of economic diplomacy, like economic growth and increased international trade.<sup>282</sup>

As regards the relevance of economic diplomacy is concerned, Ruel and Zuidema defined it as the relevance and applicability of business promotion back-up instruments provided by the public stakeholders holding diplomatic status to their home country companies that intend to operate successfully abroad.<sup>283</sup>

<sup>279</sup> Czinkota, M. R.: *Export Promotion: Framework for Finding Opportunity in Change*, Thunderbird International Business Review, Vol. 44, No. 3, 2002, p. 315.

<sup>280</sup> See Wilkinson, T. & Brouthers, L. E.: *Trade Promotion and SME Export Performance*, International Business Review, Vol. 15, No. 1, 2006, p. 233-252.

<sup>281</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 6.

<sup>282</sup> *Ibid.*

<sup>283</sup> *Ibid.*

## **V.2. Determinants of Economic Diplomacy Effectiveness**

Bearing in mind the fact that economic diplomacy should to be treated as an efficient discipline only in case it brings added value to companies which make use of its services, it deems as crucial to elaborate concretely on how that value is or can be added in practice. Therefore, factors, which are decisive in relation to the mentioned effectiveness, must be named and explained more thoroughly.

### **V.2.1. Resource-based view and foreign post resources**

The resource-based view originally identifies resources as significant prerequisites for company's products and services and its results and efficiency in the end.<sup>284</sup> A fundamental premise of such view is that if companies' resources are both rare and valuable, they can enable a competitive advantage.<sup>285</sup> Nevertheless, according to Bryson, Ackermann and Eden economic diplomacy does not aspire in every case to acquire a sustained competitive advantage but they claim that it is essential for public organizations to identify and develop strategic capacities so the highest possible value for crucial co-partners can be created.<sup>286</sup> Therefore, since a foreign post is situated in the host country and possesses its political and business contacts, it is supposed to have scarce and worthy resources. Consequently, companies can utilize such resources, which ensure it to do business efficiently on that specific foreign market and form a sustained competitive advantage.<sup>287</sup> In conformity with this resource –based view, economic diplomacy activities performed via foreign posts have considerable potential to supplement company's own resources which in the end allows those companies to be efficient and strong within those foreign markets.<sup>288</sup>

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<sup>284</sup> For more details on this stance, see Priem, R. & Butler, J.: *Is the Resource-based View a Useful Perspective for Strategic Management Research?*, The Academy of Management Review, Vol. 26, No. 1, 2001, p. 22-40.

<sup>285</sup> Barney, J.: *Firm Resources and Sustained Competitive Advantage*, Journal of Management, Vol. 17, No. 1, 1991, p. 105-107. When discussing resources, Barney incorporates all assets, capacities, activities, information, know-how etc. possessed by a company that ensure that company creates and applies strategies which enhance its effectiveness (p. 101).

<sup>286</sup> Bryson, J., Ackermann, F. and Eden, C.: *Putting the resource-based view of strategy and distinctive competencies to work in public organizations*, Public Administration Review, Vol. 67, No. 4, 2007, p. 702.

<sup>287</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 8.

<sup>288</sup> For more details, see Wilkinson, T. & Brouthers, L. E.: *Trade Promotion and SME Export Performance*, International Business Review, Vol. 15, No. 1, 2006, p. 233-252.



### V.2.2. Particular foreign post resources

States around the world adopt various institutional schemes that might prove as a decisive factor when effectiveness of economic diplomacy comes into question. In relation to that, it was already mentioned that Naray specified characteristics like the organisation's relative independence from state administration, its place in the economic diplomacy organisational structure and the supervising state institution as the most important ones.<sup>289</sup> Others like Hogan, Keesing and Singer named particular determinants deemed as crucial for success such as:<sup>290</sup>

- autonomy (in operations),
- confidence (both from government and companies),
- relevant activities and services (customised according to companies needs),
- adequate representation (key market for home country),
- highly qualified staff (experience and training for this post), and
- sufficient finance (to perform activities properly).

In addition, these authors also claim that mixture of three components makes a perfect combination with regard to training of economic diplomacy experts working abroad, namely academic education, practical training and working abroad experience.<sup>291</sup>

As already written earlier in this dissertation, Kostecki and Naray specified distinctive types of economic diplomats who are connected to their perception towards commercial topics and accompanying worries. Hence, three types of diplomats were distinguished, more precisely business promoters, civil servants and generalists.<sup>292</sup> Since these were already thoroughly described, I will not elaborate on them in detail any more.

In relation to resources which may be viewed as the most significant baselines of economic diplomacy effectiveness, attributes of the economic diplomat (style and background) and

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<sup>289</sup> Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008, p. 6.

<sup>290</sup> Hogan, P., Keesing, D. and Singer, A.: *The Role of Support Services in Expanding Manufactured Exports in Developing Countries*, Vol. 53, Washington, D.C., Economic Development Institute, World Bank, 1991, p. 49.

<sup>291</sup> *Ibid*, p. 52.

<sup>292</sup> See footnote 153, Table 6 and accompanying text.

attributes of the foreign post (budget, business network, communication facilities) could freely be regarded as such.<sup>293</sup>

### V.2.3. Client company readiness

Client company which utilises economic diplomacy services has a considerable potential to play an important role with regard to economic diplomacy effectiveness. As Mills and Morris correctly pointed out, the clients have significant role in service creation alongside service providing institutions.<sup>294</sup> In order to take part actively in the service creation process, client companies need to possess substantive know-how and skills. Also, it is important to say that level of companies' participation varies considerably in accordance with different types of services. In line with that, if company participates to a lesser extent than needed, final result associated with service will quite probably be negative.<sup>295</sup> According to Ruel and Zuidema when economic diplomacy services are at stake, a restrained level of company participation is desirable. Therefore, it may be asserted that client companies definitely have the potential to affect the results and effectiveness of economic diplomacy. Unfortunately, sometimes there occurs a situation where certain companies do not seem to take active part in the service procedure, but instead do seem to be unprepared which in the end results in unrealistic and blur requests and expectations from such companies.<sup>296</sup>

### V.2.4. Host country's institutional environment

Host country is the environment in which the economic diplomacy takes place and its institutional set-up is the parameter through which the results of economic diplomacy can be better understood and assessed. As one of the main principles of institutional perspective, Ruel and Zuidema indicate similar practices utilized by organisations (or better say companies in this

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<sup>293</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 10.

<sup>294</sup> Mills, P. & Morris, J.: *Clients as Partial Employees of Service Organizations: Role Development in Client Participation*, *Academy of Management Review*, Vol. 11, No. 4, 1986, p. 726.

<sup>295</sup> Bitner, M. J. , Faranda, W. , Hubbert, A. & Zeithaml, V.: *Customer contributions and roles in service delivery*, *International Journal of Service Industry Management*, Vol. 8, No. 3 & 4, 1997, p. 194.

<sup>296</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 10-11.

case) when operating within the same institutional framework.<sup>297</sup> Nevertheless, Scott inaugurated three interconnected pillars that reflect the regulative, normative and cultural-cognitive aspects of the institutional environment.<sup>298</sup> In a certain way, such a multi-layered institutional set-up might put under pressure companies in order to accept the existing circumstances, i.e. environment in the host country.<sup>299</sup>

Diversities among states with regard to the economic diplomacy effectiveness is to a certain extent connected with state institutions that “take care” of companies arriving from abroad. Therefore, state’s institutional framework might be a serious alternative for examining considerable differences among states, as Busenitz, Gomez and Spencer established.<sup>300</sup>

With regard to abovementioned, foreign companies which are treated in an unfavourable manner by institutions in certain states might barely get accustomed and do business efficiently in those countries than foreign firms do in other states whose institutional framework is better suited and adjusted for foreign entities. That is a reason why companies might be in an enhanced demand for economic diplomacy services.<sup>301</sup>

Hence, taking into account abovementioned, we may indicate four categories of determinants that constitute framework, which might prove decisive for economic diplomacy effectiveness, i.e. its quality and significance. These are foreign post (resources), economic diplomat (types), client company (readiness), and the host country (institutional set-up).<sup>302</sup>

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<sup>297</sup> *Ibid*, p. 11.

<sup>298</sup> Regulative dimension represents existing national laws and rules that promote certain types of action and bans the others, normative dimension represents values and norms on human nature and behaviour and cultural-cognitive dimension represents know-how owned by people in the country. For more details on three pillars see Scott, R.: *Institutions and Organizations: Ideas and Interests*. Los Angeles, Sage Publications, 2008, p. 59-70.

<sup>299</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 12.

<sup>300</sup> Busenitz, L., Gómez, C. and Spencer, J.: *Country institutional profiles: Unlocking entrepreneurial phenomena*, The Academy of Management Journal, Vol. 43, No. 5, 2000, p. 1000.

<sup>301</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 12.

<sup>302</sup> *Ibid*.

### **V.3. Assessment of effectiveness and repercussions for Economic Diplomacy**

#### **V.3.1. Assessment of effectiveness**

Although some previous researches<sup>303</sup> might have implied that business affinity is a “must have” for economic diplomats, results obtained by Ruel and Zuidema in their study did not find any confirmation of connection between business experience and business education on the one hand and the quality of economic diplomacy on the other hand; in other words they suggest that such profile does not automatically bring higher quality of economic diplomacy. Despite a fact that companies representatives might be satisfied that an economic diplomat expresses professional understanding for their problems, it still does not automatically bring higher quality of economic diplomacy nor does the international trade or economy boosts. That is so since an economic diplomat more or less has similar capacities and competencies as the businessperson while contrary to that an economic diplomat with political preferences can utilize his competences and contacts which are different from those of the company representatives and actually are more in favour of the company itself. It means that an economic diplomat with no or less business affinity might be very useful and add value to the company.<sup>304</sup>

Just like with regard to previous presumption, some authors<sup>305</sup> carried out studies and seem to be in accordance with the view that business promoter represents the most successful and efficient type of economic diplomat. Nevertheless, civil servants and generalists as other two types of economic diplomats have their own value and quality which may be of great use for companies. Since those studies results cannot be regarded as conclusive, it seems quite difficult to claim firmly which type of diplomat delivers high-quality economic diplomacy and therefore should be treated as the most efficient one.<sup>306</sup> Consequently, in my opinion, only a modern and comprehensive multi-disciplinary study would be able to give a more exact and straight answer to the abovementioned question if that is possible at all.

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<sup>303</sup> See studies conducted by Hogan, Keesing and Singer (footnote 290), Kostecki and Naray (footnote 275) and Naray (footnote 278).

<sup>304</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 21.

<sup>305</sup> See studies conducted by Kostecki and Naray (footnote 275) and Naray (footnote 278).

<sup>306</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 21-22 (see also footnote 292).

As mentioned earlier, resources related to foreign post are also treated by researchers<sup>307</sup> as one of the most important parameters for determining if and how effective or better say successful economic diplomacy is with special emphasis put on business network as the crucial one. Albeit they do not provide companies with considerable comparative advantage, resources still improve effectiveness of economic diplomacy by giving companies chance to utilise resources in order to do business abroad successfully. Among resources, business network is often indicated as the most important one but others like human or financial resources certainly have a significant role too since the former cannot be used to the maximum without the sufficient existence of the latter.<sup>308</sup>

Although it may not seem like that on first thought, it is established that companies as clients do have their role to play in economic diplomacy.<sup>309</sup> Moreover, their role is significant since economic diplomacy services output is directly connected and influenced by companies' input. Therefore, in case companies provide insufficient and incorrect information or submit an unrealistic and unclear request, there exists real risk of a service that is not helpful, which displays economic diplomacy as ineffective.<sup>310</sup>

In addition, host country's cognitive environment definitely affects to a certain extent the significance of economic diplomacy. That is so since a non-friendly cognitive environment makes the economic diplomacy more significant for the host country.<sup>311</sup>

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<sup>307</sup> See the following studies: 1. Hogan, P., Keesing, D. and Singer, A.: *The Role of Support Services in Expanding Manufactured Exports in Developing Countries*, Vol. 53, Washington, D.C., Economic Development Institute, World Bank, 1991; 2. Kostecki, M. & Naray, O., *Commercial Diplomacy and International Business*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2007; 3. Lee, D. & Hudson, D.: *The old and new significance of political economy in diplomacy*, Review of International Studies, Vol. 30, No. 1, 2004, p. 343-360; 4. Naray, O.: *Commercial Diplomacy: A Conceptual Overview*, Conference paper for the 7th World Conference of TPOs – The Hague, The Netherlands, 2008; 5. Potter, E.: *Branding Canada: The Renaissance of Canada's Commercial Diplomacy*, International Studies Perspectives, Vol. 5, No. 1, 2004.

<sup>308</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 22.

<sup>309</sup> See studies by 1) Mills, P. & Morris, J.: *Clients as Partial Employees of Service Organizations: Role Development in Client Participation*, Academy of Management Review, Vol. 11, No. 4, 1986, p. 726-735; 2) Bettencourt, L.: *Customer voluntary performance: Customers as partners in service delivery*, Journal of Retailing, Vol. 73, No. 3, 1997, p. 383-406 and 3) Mills, P., Chase, R. & Marguiles, N.: *Motivating the client-employee system as a service production strategy*, Academy of Management Review, Vol. 8, No. 2, 1983, p. 301-310.

<sup>310</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 23.

<sup>311</sup> See studies by 1) Busenitz, L., Gómez, C. and Spencer, J.: *Country institutional profiles: Unlocking entrepreneurial phenomena*, The Academy of Management Journal, Vol. 43, No. 5, 2000, p. 994, 1003 and 2) Kostecki, M. & Naray, O., *Commercial Diplomacy and International Business*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2007.

### V.3.2. Repercussions for Economic Diplomacy

Based on results and answers received in the study, Ruel and Zuidema asserted that despite the trade increase and economic growth it causes, commercial diplomacy seems to be overrated. According to them, instead of providing back-up to companies, government and various state institutions should put more stress on creating and carrying out high quality trade policy and reaching and implementing agreements, finding solutions for trade barriers like closed borders or high import taxes.<sup>312</sup>

Such an order would suggest giving total priority to the economic diplomacy in narrow sense (trade diplomacy) over the commercial diplomacy and here I must express strong disaccord with such a narrow and incomplete view.<sup>313</sup> As I already mentioned earlier, these two branches that constitute the economic diplomacy as a whole are indeed different in certain aspects but also very intertwined in many areas and therefore should be treated as distinct but not as totally separated and certainly not as one of them being dominant to the other one. It is an undeniable fact that trade diplomacy carries great relevance but to claim that it supersedes the commercial one, which is “no longer relevant”, would be a great mistake. From everyday work at the Croatian Chamber of Economy I am very well aware of how important concrete and specific support to companies for doing business on international level is. Moreover, the assistance provided to companies not only benefits themselves but country’s economy generally and finally a country and its people as a whole. These facts were firmly established and confirmed many times, both in theory and practice and therefore should not be prejudiced.

Taking into account importance of economic diplomacy and discussion on its effectiveness, few comments might be indicated here. First, government should seriously take into consideration giving priority to business networks of foreign posts as finding, connecting and finally doing business with partner companies in the host country deems as one the most significant aims of economic diplomacy. In relation to that, successful establishment and implementation of business networks can be executed only with active presence in the host

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<sup>312</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 23-24.

<sup>313</sup> Here I did not dedicate much of attention to the effectiveness of economic diplomacy in narrow sense (trade diplomacy) not because I deem it as irrelevant. On the contrary, I consider it as extremely significant for every country but it is a separate issue that deserves considerable attention itself and it is simply not possible and recommended to go into many details on wide variety of specific topics within one doctoral dissertation. For earlier mentioned and these reasons but also because I deal with commercial diplomacy predominantly in my professional career on a daily basis at the CCE, I assessed commercial diplomacy’s effectiveness and not the one referring to economic diplomacy in narrow sense.

country. Secondly, companies with user or potential user status in the economic diplomacy should be involved deeper in the process and activities. In order to achieve that, certain methods are at disposal like fees or selection process for instance. Although fees could actually decrease the number of companies using the economic diplomacy services, it might on the other hand force companies to prepare themselves properly before they speak to embassies since so far many of those who contact diplomatic missions are not in fact ready to do business in the host country or internationally as a whole. Other method, which in my opinion serves the purpose rather better, is selection process that implies screening of companies and their requests through various filters. Consequently, companies that are considered as unprepared because of different reasons should be excluded as unfit to receive assistance and benefit from economic diplomacy services. Thirdly, albeit in recent years it has been a predominant opinion that business affinity is highly desirable and wanted for economic diplomacy, it cannot be automatically concluded that such type of diplomat always brings the higher quality and efficiency to economic diplomacy than those who do not possess such business-only orientated mind-set. Hence, a wise advice for governments would be to employ economic diplomats who have knowledge and experience in various fields and not only in business community as the former may in many cases bring greater economic benefit in the host country than the latter.<sup>314</sup>

#### **V.4. Monitoring**

Speaking of effectiveness, monitoring as such forms very important part of it. Significantly, most states did implement some sort of monitoring and evaluation of economic diplomacy effectiveness.

Surveys examining companies' contentment are for instance one of the usual monitoring and evaluation methods. It is important to mention that this occurs when companies pay fees for economic diplomacy services received.<sup>315</sup> Institutions who provide those services are very much interested that companies get appropriate value for money they pay. Hence, economic diplomats' performance gets scrutinized and evaluated on the basis of companies opinion whether it got any added value or not. Furthermore, activity indicators such as the number of contacts in a year, number of info publications issued or the time spent per client company are

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<sup>314</sup> Ruel, H. & Zuidema, L.: *The Effectiveness of Commercial Diplomacy- A Survey Among Dutch Embassies and Consulates*, Clingendael Discussion Paper in Diplomacy, The Hague, Clingendael Institute, 2012, p. 24-25.

<sup>315</sup> For example, in the UK and Denmark.

used more broadly. When economic diplomacy services are chargeable time spent per client company criteria gets a particular role; taking into account a fact that companies are willing to pay only for those services they consider as sufficiently valuable, more time spent with them actually provides companies with more assistance and benefit.

In addition, general statistical indicators are also utilised. These are for instance number of days necessary for establishing company abroad or number of attempts needed to start a successful business. Bearing in mind that economic diplomacy institutions, alongside external factors from abroad, can directly affect these parameters, growth and decrease in their value may certainly be a trigger for institutions introspection.<sup>316</sup>

#### V.4.1. Danish monitoring model

As mentioned earlier, the Danish Trade Council works under tutelage of the Danish MFA and therefore strives towards economic diplomacy aims set up by that “parent” institution.<sup>317</sup> The Trade Council monitors completion of abovementioned goals through limited number of parameters. These are called Key Performance Indicators (KPIs):<sup>318</sup>

1. *Income target*, based on the fee paid to diplomats by companies. As already said, this is a way to measure the time spent per company. In line with that, the Trade Council considers that there exists a significant connection between one company’s results and the time spent on that specific company by the diplomat. Hence, the main intention of the Danish government is to enhance the time spent per client.

2. *Value creation*, i.e. growth in sales and/or any other economic activity by the company that was facilitated by the diplomat. This parameter is measured *via* questionnaire going alongside receipt when the economic diplomacy service has been delivered. Options offered to companies in order to express their satisfaction with services are described as “decisive”, “major”, “some”, “little” or “none”. Since they are ambitious and set their goals high, Danes consider answer

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<sup>316</sup> Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 11.

<sup>317</sup> Precisely set economic diplomacy goals are carefully monitored on a yearly basis and results are provided within the Danish MFA annual reports. Available at: <http://um.dk/en/about-us/economy-and-results/> (accessed 19/03/2018).

<sup>318</sup> Barneveld, J. van, Dani, S., Kovacs, H. & Teichler, T.: *Benchmark standardisation- Practices from Denmark, France, Germany and the United Kingdom*, Amsterdam, Technopolis Group, 2014, p. 34-35.



“some” as disappointing. They closely monitor answers and feedback on the value added they receive from companies and act promptly if and when necessary. In case they receive negative feedback, diplomats are expected to get back to company immediately, resolve the problem and set things straight.

3. Specific services that form part of *Global Public Affairs*, services that are exclusively provided by the diplomatic institution like Trade Council.

4. Contacts or the number of companies contacted on a yearly basis, the so-called *outreach* which is a goal that measures the marketing endeavours and is being used exclusively for free-of-charge economic diplomacy services.

In the end, the Trade Council oversees the statistics service to evaluate their performance. Parameters taken into account which are monitored are the time needed to start a company abroad or the number of efforts done to do that.<sup>319</sup>

#### **V.5. SME's internationalisation**

Considering a fact that this chapter is dedicated to the economic diplomacy effectiveness, internationalisation of SME's seems as a great example for displaying it clearly. Since internationalisation (of SME's) as such encompasses wide spectre of purely economic issues which are not closely related with this dissertation, it will be discussed here without an in-depth analysis of internationalisation of SME's, i.e. it will relate to internationalisation only to a limited extent that corresponds with the dissertation, more precisely with economic diplomacy effectiveness.

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<sup>319</sup> *ibid.*

### V.5.1. Barriers

First component of SME internationalisation package are barriers that make this process difficult to succeed or at least postpone its successful implementation. In its paper, the OECD made a thorough survey wherein they indicated the following four crucial barriers: <sup>320</sup>

- limitations in working capital for exports financing,
- restricted information for potential markets identification and analysis,
- inability to contact potential clients abroad and
- lack of know-how in managing.

Besides the four abovementioned barriers, the OECD in its book dedicated to the removing of barriers to SME's internationalisation created the top-ten list of barriers ranked both by the SME's (Table 16) and member states economies (Table 17) which are shown below.<sup>321</sup>

**Table 16: Top ten barriers to the internationalisation ranked by the SME's**

<b>Rank</b>	<b>Barrier</b>
1	Limited working capital for exports financing
2	Identifying business opportunities abroad
3	Restricted information to identify/ analyse markets
4	No capacity to contact potential overseas clients
5	Having high quality foreign representation

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<sup>320</sup> *Top Barriers and Drivers to SME Internationalisation*, Report by the OECD Centre for Entrepreneurship, SME and Local Development, 2009, p. 10.

<sup>321</sup> *Removing Barriers to SME Access to International Markets*, Paris, OECD Publishing, 2008, p. 36 & 47.

6	Deficit in managerial time for engaging in internationalisation
7	Insufficient and untrained personnel for internationalisation
8	Problems with matching prices offered by competition
9	Insufficient home country government assistance and/ incentives
10	High costs of transportation

Source: OECD, p. 47. (See footnote 321)

**Table 17: Top ten barriers to the internationalisation ranked by the member states economies**

<b>Rank</b>	<b>Barrier</b>
1	Insufficient home country government assistance and/ incentives
2	Limited working capital for exports financing
3	Restricted information to identify/ analyse markets
4	Identifying business opportunities abroad
5	Deficit in managerial time for engaging in internationalisation
6	Deficit in managerial time for engaging in internationalisation
7	Developing new products for foreign markets

8	Unknown business practice abroad
9	Unknown administrative procedures related to export
10	Achieving export product quality/standards/specifications

Source: OECD, p. 36. (See footnote 321)

### V.5.2. Drivers

Second pillar of the SME's internationalisation is connected to drivers or motivation for this process. There exist various motives among countries which are chosen as key factors for initializing, improving and accelerating internationalisation.

As with barriers, the OECD conducted a study that singled out the following drivers as the most important ones:<sup>322</sup>

- growth motives,
- „know-how“ motives,
- network/social connections and supply chain links and
- domestic/regional market motives.

In addition, some of the internationalisation motives are shared among states and certain are not. List of countries and drivers is shown in below (Table 18).<sup>323</sup>

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<sup>322</sup> *Top Barriers and Drivers to SME Internationalisation*, Report by the OECD Centre for Entrepreneurship, SME and Local Development, 2009, p. 13- 15.

<sup>323</sup> *Ibid*, p. 12- 13.

**Table 18: SME internationalisation motivation in various states**

Country	Motive/stimulus	Author
Australia	Grow market; control supply chain, reduce cost	EFIC, 2008
Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Spain, Sweden, and UK	Market position; knowledge and relationship search	Kocker and Buhl, 2007
Canada	Growth, management capacity factors, social capital, immigrant links, R&D investment, firm size/age/experience, limited domestic market	Orser <i>et al.</i> , 2008
Ireland and India	Knowledge resources	Garvey and Brennan, 2006
Portugal (Azores Islands)	Social networks/ties	Camara and Simoes, 2008
Spain	Managers previous international experience, firm size/age; regional location; country/regional image	Lopez, 2007
Spain (Catalan region)	Managers previous international experience, growth and profit expectations, social and business networks,	Stoian, 2006

	and domestic market saturation/stagnation	
Sweden	Growth, managers previous international experience, unique product or technology, limited domestic market	Rundh 2007
UK	Growth, profits, market size	Barnes <i>et al.</i> , 2006
UK	Growth, profit, to reduce dependence on a single or smaller number of markets	Reynolds, 2007
USA	Profits	UPS, 2007
USA	Weak dollar, immigrant links, Internet global reach	Iwata, 2008, USA Today, 2008
USA	Global trade infrastructure	USA Today, 2008
Chile	Firm-specific factors (technology content and size) and sector	Milesi <i>et al.</i> , 2007
Indonesia	Firm size/resource base, sector-level export intensity, presence of foreign buyers, and firm export orientation	Wengel and Rodriguez, 2006

Source: OECD, p. 12-13. (See footnote 322)

### V.5.3. SME internationalisation approaches

Third part of the SME internationalisation relates to approaches used to implement this process efficiently. The following three have been pointed out by Wilson as the most relevant with each of them having their own benefits and shortcomings: <sup>324</sup>

- import/export,
- strategic alliances/joint ventures,
- foreign direct investment (FDI).

Most important features of those approaches are laid down in below (Table 19).

**Table 19: Internationalisation approaches comparison**

	<b>Export</b>	<b>Alliances</b>	<b>FDI</b>
<b>Benefits</b>	Relatively easy and fast	Limited resources and market know-how are required	High company competitiveness and growth
	Low investment costs		Location-based advantages
	Flexible		Development of new know-how and capacities
	Lower risk		Minimised transaction related risks

<sup>324</sup> Wilson, K.: *Encouraging the Internationalisation of SMEs in Promoting Entrepreneurship in South East Europe- Policies and Tools*, ed. by Potter, J. & Proto A., OECD Papers, 2006, Vol. 6, No. 2, p. 49-50. For more details on each of three methods see description on pages 50-53.

<b>Challenges</b>	Eventual absence of harmonisation with sales agents abroad	It is of utmost importance to find the best possible joint venture partners	Complicated, time consuming
	Tariff and no-tariff trade barriers	Structuring efficient partnerships might be inconvenient	High investment/commitment
	High cost of goods transportation		The least flexible method
			Higher risk

Source: Wilson, K., p. 50. (See footnote 324)

#### V.5.4. The role of government

The entrepreneurship represents a complicated system consisted of many stakeholders with different roles to play and different interests to protect which make this situation even more complex since efficient functioning of this economic area and economic prosperity are not easy to achieve.

Hence, entrepreneurship comprises micro, small and medium companies, multinational corporations, chambers of commerce, various associations, groups of individuals but also state administration, local authorities, scientific and educational institutions, banks and financial sector and others. If entrepreneurship is to have success, all these stakeholders need to cooperate closely, to work in synergy. In relation to that, regional and local authorities and development agencies empowered by the government need to be proactive and decisive when creation and implementation of entrepreneurial programmes supporting export and internationalisation of SME's are at stake. In addition, it is important to mention specialised agencies that need to



accomplish significant tasks in SME's internationalisation, namely these institutions are responsible for providing significant information, creating networking platforms and enabling ideas and best practice sharing. Therefore, it is more than obvious that public policies are crucial with regard to the proper environment and support at the national, regional and local level. Consequently, the government's role should not be perceived as a dominant but rather as an alleviating one with financial supports that however should not be excessive since companies need to strive towards being competitive and not rely totally on state supports. Business climate and economic trends are changing quite fast and for that reason not only the private sector but also all the players involved and interested must adapt rapidly in order to avoid inefficiency and stagnation.<sup>325</sup>

Although there exist both numerous stakeholders and methods in the area of SME's internationalisation, it is important to note that actually we could not identify specific measures and programmes that can be regarded as universally successful. The main reason for that lies in various factors that determine which methods and to what extent might be efficient on a specific market, i.e. in a certain country. These factors are size of the country, its strongest economic sectors, type of national economy, global economic trends, geopolitics and others.

In relation to the abovementioned, number and percentage of SME's in the specific state needs to be identified and divided according to size, sector and growth orientation. Also, it is of great importance to assess thoroughly what are the actual requirements of the SME's, to listen directly which challenges and opportunities are in front of them. Therefore, constructive dialogue is a must-do for both sides especially bearing in mind a fact that companies among SME's have different priorities and goals which often need to be addressed swiftly with substantive support. Support to SME's can be provided in different areas via number of measures that are aimed at alleviating companies' doing business on foreign markets. In relation to that, Wilson listed several crucial areas and associated proposals<sup>326</sup> which should foster the SME's internationalisation:<sup>327</sup>

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<sup>325</sup> *Ibid*, p. 53-54.

<sup>326</sup> For other concrete recommendations on government's role in SME's internationalisation, see the Association of Chartered Certified Accountants Report: *SME Internationalisation in Central and Eastern Europe*, London, Association of Chartered Certified Accountants 2012, p. 10-11. Available at: [www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-tp-sicee.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-tp-sicee.pdf) (accessed 25/04/2018).

<sup>327</sup> Wilson, K.: *Encouraging the Internationalisation of SMEs in Promoting Entrepreneurship in South East Europe- Policies and Tools*, ed. by Potter, J. & Proto A., OECD Papers, 2006, Vol. 6, No. 2, p. 54-58.

1. *Positive environment towards internationalisation*

- specialised agencies and public-private partnership play key role in creation of atmosphere that motivates companies towards going international; affirmative public campaigns of companies that succeeded in internationalisation; encouraging company leaders to study foreign languages since communicating proves to be critical characteristic;

2. *Provision of information on international trade and business*

- SME's must have an easy access to quality information (taxes, legislation, financing) on export, international trade etc in order to expand the number of those SME's that decide to do business internationally;

3. *Stimulate the provision of specialised and quality business support services*

- High quality or certified consulting and competence development programmes through workshops and similar activities; provide support in internationalisation with regard to technology, product standards and quality, export oriented training programmes, legal and accountancy back-up, finance, marketing;

4. *Education reform* <sup>328</sup>

- Education recognized as one of crucial factors; before entering foreign markets competitiveness and productivity should be improved via training, modernisation of equipment and methods and technology transfer; governments put education reforms as one of their top priorities and curriculum must be orientated towards developing skills for rapid solving of problems; universities form partnerships with companies in order to promote technology transfer; business schools engage entrepreneurs in their activities; universities must formally include entrepreneurship as an integral part of curriculum and allow students to spend more quality time in companies, both home and abroad;

5. *Creation of cross sector and cross border networks*

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<sup>328</sup> This topic deems as crucial for Croatia for the past few years. The long-awaited education reform needs to be adopted as soon as possible in order to enable high quality education which is a prerequisite not only for better knowledge but is also indispensable for country's sustainable development and economic growth but also for stopping the trend of Croatian population leaving country in serious numbers etc.

- Introduction of measures like matchmaking, market research intelligence or help with standards and quality that assist SME's to contact, connect and cooperate with foreign partners; creation of networks that enable companies to advise and support each other; development agencies should assist in establishment of regional cross border networks and SME's cooperation;

6. *Financial support and assistance*

- State agencies provide specific financial tools (grants) but also financial (for participating in international fairs and trade missions) and insurance support (export credits); other types of assistance are support to export consortia, co-financing SME activities on foreign markets, access to credits with favourable conditions for SME's international activities;

7. *Reduction of administrative burden*

- Perceived as one of the main obstacles for SME's internationalisation; aim is to reduce the duty to comply with numerous sets of rules and requirements especially in the area of standards, intellectual property rights and financial market regulations;

8. *Stimulation of trade and investment*

- Global and regional trade agreements<sup>329</sup> as an useful tool have reduced trade barriers like tariffs or quotas and propelled international trade; FDI's should stimulate and attract SME's to enter foreign markets (involvement in multinational companies supply chains and indirect role in exporting activities) making them more competitive at the same time;

9. *Strengthening the legal framework*

- Equality between old and new companies is required with intellectual property protection and opposing monopolies and unfair trade practices as practical measures to

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<sup>329</sup> However, in my opinion the role of global and regional trade agreements remains doubtful as political and financial power of strongest countries casts doubts on fairness of those deals towards economically less stronger countries. Also, it is quite often and rightly objected that those agreements serve predominantly interests of multinational companies and bring huge profits to them while on the other side they ignore the labour rights and consumer protection.

accomplish that; strengthening of legal framework in transition countries is crucial whereas policies should be implemented consistently and equally.

Besides abovementioned suggestions, it is worth mentioning that the Assembly of French Chambers of Commerce and Industry (ACFCI) & Paris Chamber of Commerce and Industry (CCIP) created quality structure of priorities, recommendations and concrete proposals which they drafted as a response to the European Commission's Communication on SME's internationalisation.<sup>330</sup> Chambers' document contains summary of all the problems and challenges on the one hand and solutions and measures on the other hand in which they addressed all the key issues related to this topic.

## **V.6. Scientific research- interview on economic diplomacy with diplomatic representatives in Zagreb**

As integral part of this dissertation, I conducted two scientific researches, as the first of them will be presented here while the other one will be displayed later within the chapter dedicated to Croatia's economic diplomacy. The former was conducted in July 2018 in the form of interview *via* e-mail with seven diplomatic representatives located in embassies in Zagreb. It was consisted of four different groups of questions that deal with specific issues and some of them are closely related to the main and auxiliary hypotheses. The first group refers to the role and influence of economic diplomacy, the second group deals with organisation and structure of embassy, the third is dedicated to concrete services provided and activities performed by the Embassy and the fourth addresses the business climate in Croatia and economic cooperation between their respective country and Croatia. The majority of questions and answers from first, third and fourth group will be presented and explained below in text. However, the complete interview with some of the chosen countries will find its place at the end of this dissertation, as an appendix. Diplomats from the following seven countries participated in this interview,

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<sup>330</sup> Assembly of French Chambers of Commerce and Industry (ACFCI) & Paris Chamber of Commerce and Industry (CCIP): *Internationalisation of SMEs- 24 Proposals For a More Effective European Policy*, Paris, 2012. Available at: [www.cci-paris-idf.fr/sites/default/files/etudes/pdf/documents/internationalisation-pme-pp-1204-eng.pdf](http://www.cci-paris-idf.fr/sites/default/files/etudes/pdf/documents/internationalisation-pme-pp-1204-eng.pdf) (accessed 25/04/2018). This document is even more interesting for me especially because such a significant chamber of commerce and industry drew it up, which not only has a long tradition but also an everyday experience in one of the world's strongest economies. As such, it certainly has much to say and offer and therefore such organisations' ideas and recommendations should always be taken into account seriously when creating and implementing new strategy and policy in the area of entrepreneurship and SME's internationalisation.

namely Belgium, Brazil, Canada, Russia, Switzerland, Turkey and the UK. By carrying out research with representatives from these countries many important criteria (European and non-European countries, EU and non-EU states, G7 and BRIC members, big and small countries) referring to the perception and vision of economic diplomacy were covered and answers to tough questions received. However, it must be pointed out that further in the text and table countries will not have their full names but will be covered by a specific letter instead since the embassy representatives insisted on discretion and did not want their answers to be revealed publicly. Letters are assigned in random manner, i.e. letters do not correspond with the abovementioned alphabetic order of countries. In that way, certain answer cannot be connected with specific country.

#### V.6.1. Role and influence of economic diplomacy

- *Based on concrete statistics and present working experience, do you consider contemporary economic (commercial) diplomacy as actually having positive impact on national economic growth and your country's promotion?*

With the exception of country G representative who stated that it has positive impact on country's promotion but only to certain point to growth, respondents almost unanimously confirmed the positive impact of economic diplomacy on both growth and promotion. The country A diplomat broadened such position by saying that economic diplomacy has a great prospect. The country D and E representatives expressed the most positive stance towards economic diplomacy since they responded with the term absolutely and supported it by saying that they possess concrete figures that are clearly in favour of such an opinion. Hence, it may be freely asserted that answers obtained with regard to this question clearly supported the main hypothesis of this doctoral dissertation.

- *In your opinion, did economic (commercial) diplomacy (and to what extent) as integral part of government's foreign policy become efficient tool for accomplishing economic goals and creating positive image of your country?*

Like in the previous question, respondents were very much in favour of economic diplomacy; more precisely, they all perceived it as an efficient tool but provided such a statement with somewhat different justification or better say explanation. For instance, the country B representative admitted that special emphasis is put on establishing that country as one of the world's most competitive and innovative economies and economic diplomacy apparently has

an important role in with regard to it. Diplomat from country A on the other hand, emphasized the role of economic diplomacy as a tool by saying that currently it has a greater potential than the classic one, i.e. political diplomacy. Furthermore, the D country representative simply and clearly asserted that it is an efficient tool as it significantly contributes to accomplishing economic goals. In addition, the country F representative said that economic diplomacy certainly is an efficient tool and then explained it further by naming different special activities and services which are implemented at different levels. The only diplomat who slightly diminished this image of economic diplomacy as an efficient tool was the one from country C who stated that it is only a part of a complex system or structure but that it certainly helps in achieving economic goals. In relation to the first auxiliary hypothesis, it may be concluded that answers provided by diplomats obviously confirmed it.

- *Do you think that present day's economic (commercial) diplomacy has a quite significant role in global economy and international relations?*

Results were quite interesting since every respondent provided its own, specific answer to this question. Nevertheless, it might be concluded that three out of seven respondents said that this type of diplomacy has a significant role in global economy and international relations, more precisely the country G representative thinks that economic diplomacy contributes positively to the bilateral and international trade, the country B diplomat said it has significant role or better say that it is increasingly important, the country D representative shortly replied with yes. The diplomat from country F provided brief but interesting answer by saying that the world is run by the money while the country A representative did not clearly confirm present significance of economic diplomacy but instead predicted that it will have greater influence on international relations in the future. On the other hand, only one diplomat, the one from country C doubted economic diplomacy significant role by saying that this discipline is still adjusting to new circumstances and new tools it has on disposal. Lastly, one diplomat declined to answer this question, more precisely the country E representative. Such state of affairs suggests a division among respondents as regards the second auxiliary hypothesis since it was not clearly (by the majority) but instead only partially (by the minority) confirmed although only one respondent unequivocally denied significant role of economic diplomacy.

- *Bearing in mind a fact that various internal (national) and external (international) factors and trends influence country's decision on which economic (commercial) diplomacy model and structure will it adopt, which other state and private stakeholders*

*besides ministries of foreign affairs (foreign office, state department) do you consider important for creation and implementation of the economic (commercial) diplomacy?*

All the respondents unequivocally supported the view or approach according to which other stakeholders, besides ministries of foreign affairs, should be actively involved in economic diplomacy. The foreign office simply cannot and should not deal with these important and demanding issues and activities all by itself as it simply does not possess capacity to do so. For instance, the country C officer generally asserted that economic diplomacy should be an effort of all the ministries while the country G thinks that related ministries like ministry of economy or ministry of transportation, chambers of commerce, foreign investment boards, exporter and importer unions should be included. Furthermore, the country B indicated the ministry of economy as even more important than the ministry of foreign affairs but added also authorities in charge of innovation and research, specialised agencies for economic and commercial exchange and chambers of commerce. Similarly, the country D diplomat specified ministry of international trade, regional governments and development agencies, ministries of defence, agriculture, industry and the national export bank as players involved in economic diplomacy. On the other hand, the country A was in favour of the big private and state companies as important stakeholders while the country E representative answered that economic diplomacy is developed and coordinated with various interested state agencies, ministry of development, industry and agriculture, business associations and chambers of commerce. Finally, as being part of its constitutional reform, the country F moved competencies in trade, export and foreign investments from federal to regional level. Therefore, regional agencies, instead of the foreign office and central government, are in charge of this policy. Consequently, all the responses received clearly confirmed the third auxiliary hypothesis.

- *Because of the rapid geopolitical and economic changes and different trends, how should economic (commercial) diplomacy follow those processes and transform itself too in order to be constantly efficient?*

Just like as in the previous question, answers to this question were also specific instead of unified. Six of them agree that economic diplomacy must adapt to the ever-changing circumstances while the remaining one claims the opposite, i.e. that economic diplomacy creates or causes geopolitical trends and changes (country A representative) and not the vice

versa.<sup>331</sup> The diplomat from country D embassy specified continued education of trade officers as necessary and the one from country F said that economic diplomacy should become less procedure-bound, more flexible in the use of its tools and diplomats better trained in high-tech. The country B representative was accurate as several focal points were pointed out. Although it remains doubtful whether such a response answers question on adapting to changes, this diplomat indicated clear focus on priorities, providing added value to clients, i.e. companies, using opportunities but taking risks sometimes too, building quality network as crucial for being efficient. The country G diplomat specified clear deficits of economic diplomacy by saying that it needs to be more dynamic and structured in order to meet the demands of the private sector. Bearing in mind a fact that six out of seven answers affirmed the need for constant change of economic diplomacy that comes as a consequence of geopolitical and economic trends, it is obvious that the fourth auxiliary hypothesis was confirmed.

#### V.6.2. Services provided and activities performed by the Embassy

- *According to the practice, which activities in the area of economic (commercial) diplomacy proved to be the most efficient tool in achieving specific economic goals, i.e. economic growth, stronger trade, FDI attraction, export promotion etc.?*

Diplomats from five out of seven countries were quite concrete since they clearly identified activities that they consider as the most efficient for achieving various economic goals. The country B officer named economic missions consisted of high state officials and business community representatives and specialised trade fairs as activities with good results and long term effect but interestingly also pointed out that initiative has to come from companies themselves while the embassy's and government's role can be regarded only as subsidiary. The country A officer put stress on two activities also, namely direct contacts and meetings with chamber of commerce, state officials, companies on the one hand and events like conferences and round tables on the other hand. Two diplomats (country D and E) emphasised the B2B meetings between local and their country's entrepreneurs as one of the most efficient economic diplomacy activities. The country F officer identified seminars at the regional level, spreading of promotion materials and business missions as the most relevant activities. Only one representative (country C) did not specify concrete activities but mentioned generally those

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<sup>331</sup> That was quite an interesting answer and opinion. Personally, I consider this process to be two-way which means that global economic and politic trends do influence economic diplomacy activities but one must admit also that proactive economic diplomacy from the economically strongest countries does indeed have impact and creates certain trends on global level.



related to the FDI and trade exchange area as activities with the most visible results. The remaining representative (country G) was the only one that left blank this question i.e. did not want to or could not answer it.

- *Which activities/services that you provide/perform are the most time consuming and complicated?*

Answers to this question were quite diversified because they obviously put stress on different activities/ services and do not have the same administrative and/or financial capacity to perform/ provide them. Nevertheless, diplomats from six countries named their services/ activities while only one officer (country E) did not actually respond to this question. Therefore, the country A indicated preparation of economic analyses and translation as the most complicated and time consuming tasks while the country G representative indicated export promotion activities and trade intelligence as such. Furthermore, the country B officer considered gathering of specific information, reporting on economic issues and organisation of networking events as the toughest in their portfolio. The country C and D representatives pointed out market researches as the most complicated and time consuming activity or better say service with the addition of trouble shooting indicated only by the country D officer. Last but not the least, diplomat from the country F mentioned preparation of individual B2B agendas for participants in the multisector missions as the answer to this question.

- *Describing it in percentage, how would you assess: a) the work you perform under the instructions from your country (government), b) the work that you initiate on your own and c) the work that you undertake after you receive a formal request directly from a private company?*

The respondents provided answers divided into three abovementioned categories as it follows:

- Country A: 40%- 40%- 20%,
- Country B: 20%- 40%- 40%,
- Country C: not available,
- Country D: 40%- 20%- 40%,
- Country E: not available,

- Country F: 20%- 30%- 50%,
- Country G: 60%- 10%- 30%.

### V.6.3. Croatia's *doing business* climate

- *How would you describe overall doing business climate in Croatia?*

Generally speaking, respondents were divided on this question since some of them considered Croatian doing business climate as positive and certain diplomats described it as negative.<sup>332</sup> The country E officer firstly noticed improvements that have been achieved in the last few years, most notably with regard to government's measures and reforms that facilitated doing business for SME's. Nevertheless, there exists much room for improvement, especially in relation to permits and tax rates for entrepreneurs. The country D representative briefly answered that it is good, but that it could be better while the country B diplomat established that it is good in general, without unsurmountable problems since the EU membership provides quality regulatory framework. On the other hand, high level of bureaucracy and no transparency in procedures were specified especially with regard to the regional and local level, high indebtedness of economic players and long payment delays. The country A representative shortly asserted that the climate is good, especially for the EU member states. Diplomats from countries C and F were quite negative with the former establishing that it could and should be much better and the latter that it is still very difficult, irrespectively of the EU membership and the fact that the crisis is way behind. The country G respondent provided interesting answer by indicating that Croatia is a moderate and specific market that requires quite some time from foreigners to really understand the mentality of doing business here.

- *Do you consider as satisfactory the economic cooperation between your country and Croatia and do you think there exists significant space for improvement of economic relations between your country and Croatia?*

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<sup>332</sup> Bearing in mind the answers received and the practical knowledge I have from dealing with it on a daily basis at the CCE, I would definitely say that there exists considerable room for improvement of doing business climate. Lower taxes, less bureaucracy, more efficient state administration, better EU funds absorption are certainly some of issues that need to be tackled as soon as possible if any significant improvement is to be accomplished.

With regard to this question, embassy representatives responded almost as one. More or less, they all considered that there exists significant room for improvement of bilateral economic ties. The country G replied by saying that cooperation is not satisfactory and that two countries have great potential to develop their economic and trade ties. The country D responded in similar manner by saying that they are not satisfied with the ongoing cooperation with considerable room for improvement available especially with the help of free trade agreement between that country and the EU. The country C officer answered pretty much the same since the cooperation between two countries was assessed as not significant and indicated existence of much room for improvement of those. Diplomat from the country A refused to determine whether cooperation between two countries is satisfactory but instead stated that their concrete goal or better say figures with regard to trade. Also, this officer added that there exists great potential that has not been exploited up until now. Moreover, the country E representative indicated that country's long distance from Croatia as barrier, which makes it automatically as non-priority market. Hence, there always exists considerable room for improvement of economic relations between two countries. The country F officer was in certain way neutral and typically diplomatic since the straightforward answer was not provided. Instead, this country diplomat established that figures can always increase and that relations between two countries have developed continuously. The country B representative responded by indicating that country's position as one of significant investors in Croatia, mostly in production. Nevertheless, diplomat from this country emphasized that there definitely exists space for improvement in bilateral trade.

- *Which concrete obstacles would you indicate as crucial shortcomings preventing better economic cooperation between your country and Croatia?*

Respondents were very concrete when speaking of this question, i.e. obstacles that prevent better economic cooperation between their respective countries and Croatia. Six of them openly named negative features and only one (the country D officer) did not provide any answer to this question. That clearly suggests the existence of real shortcomings and problems that should be addressed and resolved if improvement in bilateral economic relations are to be accomplished. Hence, the country A diplomat indicated sanctions as the crucial shortcoming while the country G representative specified lack of correct information about both markets and the small size of Croatian market. The latter was mentioned also as a deficit by the country C officer who also added the overall business environment as a problem. On the other hand, the country B

representative emphasized that Croatia might not be well known enough as the potential investment destination. With regard to trade, this diplomat said high price of that country's products that are usually top of the range certainly is the limiting factor preventing better exchange figures. The country E representative asserted that Croatia traditionally inclines towards Europe and for that reason still needs to discover the potential of Latin American market. Importantly, this country has developed new trade strategy which states that every market is important meaning that even the small markets like Croatia can find their place in this country's economic diplomacy activities. The country F representative provided probably the most interesting and quite indicative answer by saying that Croatian often tend to think that they know everything, which certainly is not true. Support for such an assertion this diplomat finds in fact that Croatia failed to use considerable amount of financial resources from the EU funds.

## **VI. ECONOMIC DIPLOMACY OF THE REPUBLIC OF CROATIA**

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This chapter will be divided into several separate parts with each of them dealing with its own issues although highly interconnected among each other. Firstly, economy of the Republic of Croatia will be addressed as a basis for further discussion on its economic diplomacy. Secondly, the current economic diplomacy model be assessed with all its advantages, shortcomings and results achieved so far. Thirdly, results of scientific research will be presented wherein broad range of questions and issues relating to economic diplomacy will be analysed, both with regard to the economic diplomacy as a discipline and from Croatia's point of view. Fourth, based on what has been presented previously in this chapter, concrete proposals and recommendations on Croatia's future economic diplomacy model will be laid down. That will be done so since it will be shown quite clearly that Croatian economic diplomacy did not succeed so far in acting as national economy and country promotion generator but has potential to be one in the future if and when necessary reforms and changes implemented.

### **VI.1. Croatian economy**

#### **VI.1.1. Competitiveness**

After the longest and deepest recession, Croatia lags behind countries that had more or less the same economic past, more precisely, they went through the transitional period from a planned to a market economy and today they are full members of the EU. The length and depth of this crisis and the lag behind these states are directly related to the weak competitiveness of the Croatian economy which has even deteriorated in the last decade. World Economic Forum (WEF) measures the competitiveness of most countries of the world on a yearly basis and publishes the Global Competitiveness Index (GCI). The Global Competitiveness Report of the World Economic Forum was first published in 1979 and as such is recognized as the world's leading competitiveness comparison. Drafting of the Global Competitiveness Index includes a complex methodology, based on surveys conducted with relevant entities in each country and statistical data. In the latest report produced for 2017/2018 period, 12 775 respondents (business executives) from 137 countries took part in this survey. Although there exist certain criticisms claiming that this index does not provide a completely objective insight, it is interesting to

observe it with regard to its dynamics in time and to compare various countries' progress and decline. Therefore, certain aspects and categories of Croatia's competitiveness, especially in comparison to abovementioned states, will be displayed and commented here.<sup>333</sup>

In relation to the abovementioned, the Croatian Chamber of Economy analysed thoroughly the WEF's facts and figures published in annual GCI reports. According to it, the competitiveness of the Croatian economy measured by the Global Competitiveness Index according to the latest report (2017/18) was ranked 74<sup>th</sup> out of 137 countries. In comparison to the previous year, Croatia's absolute position remained identical, but the relative position (comparing the number of countries covered by research this year which encompassed one country less than last year) was even more unfavourable, which means that Croatia currently lies a bit deeper in half of the worse ranked countries. At the same time, all EU member states from Central and Eastern Europe (here will be referred to as EU10<sup>334</sup>) were better ranked than Croatia (the best Estonia, and the worst Romania) and were all among 50 % of the best ranked countries of the world. Graph 1 shows the relative ranking of Croatia and EU10 countries in the past ten years. Croatia spends almost all the time in the half of worse ranked countries. Actually, last time Croatia spent a year among the better half was exactly ten years ago (relative rank 46). Table 21 shows that Croatia alongside Czech Republic and Estonia changed its relative position in the smallest range. This only confirms former's state negative trend while the latter two states are on the opposite side of this group meaning that they constantly remain on the top as two best countries in this group and among the best quarter of countries in the world. Besides that, only Croatia alongside Slovakia and Slovenia had a worse ranking in 2017/2018 report than they did ten years ago in 2008/ 2009 which is shown in Table 20. As far as my country is concerned, it is quite important to observe Graph 2 displaying the advancement of competitiveness (in relation to Croatia) of countries that were worse ranked than Croatia in 2008, namely Hungary, Romania and Bulgaria. That is particularly obvious in case of Bulgaria, which in 2008 had the worst rank of all EU10 countries and worse than Croatia as well, however now is better than Latvia, Slovakia, Hungary and Romania and Croatia as well. Bulgaria has better ranking than Croatia for the past eight years. Relative progress of these countries in relation to Croatia is a consequence not only of their absolute progress, but also of the deteriorated rank of Croatia itself. Hence, Croatia ranking has deteriorated sharply during the first years of the economic

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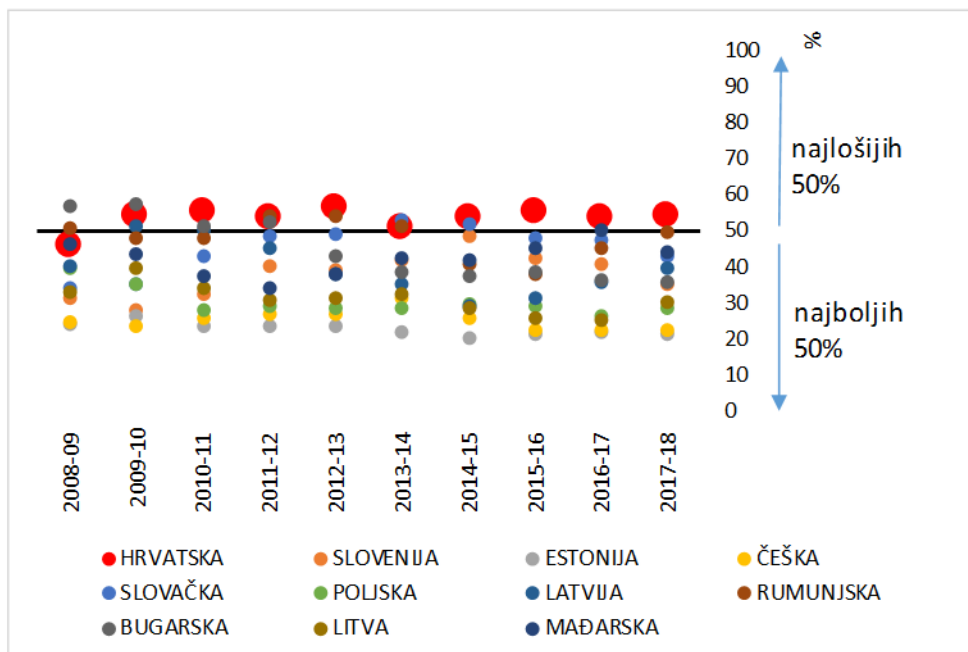
<sup>333</sup> Hrvatska gospodarska komora, Sektor za financijske institucije, poslovne informacije i ekonomske analize: *Odnos konkurentnosti Hrvatske i zemalja EU10*, Zagreb, Intergrafika TTŽ, 2018, p. 5.

<sup>334</sup> Hungary (Mađarska), Poland (Poljska), Czech Republic (Češka), Slovakia (Slovačka), Lithuania (Litva), Latvia (Latvija), Estonia (Estonija), Romania (Rumunjska), Bulgaria (Bugarska) and Slovenia (Slovenija).

crisis (2009 and 2010), after which it has stagnated at that lower level for the next seven years. Romania competitiveness did not improve like in Bulgarian case but it has been ranked better than Croatia in eight out of ten years assessed. Hungarian competitiveness boomed in period 2008-2011 which was followed by a trend of slight decrease. Nevertheless, during past ten years Hungary had a considerably better ranking than Croatia.<sup>335</sup>

### Graph 1: Relative rankings of Croatia and EU10 countries

Graf 1: Relativni rangovi zemalja EU10 i Hrvatske



Izvor: izvještaji Svjetskog gospodarskog foruma, obrada HGK

Napomena: Relativni rang znači postotak od ukupnog broja zemalja koje sudjeluju u istraživanju

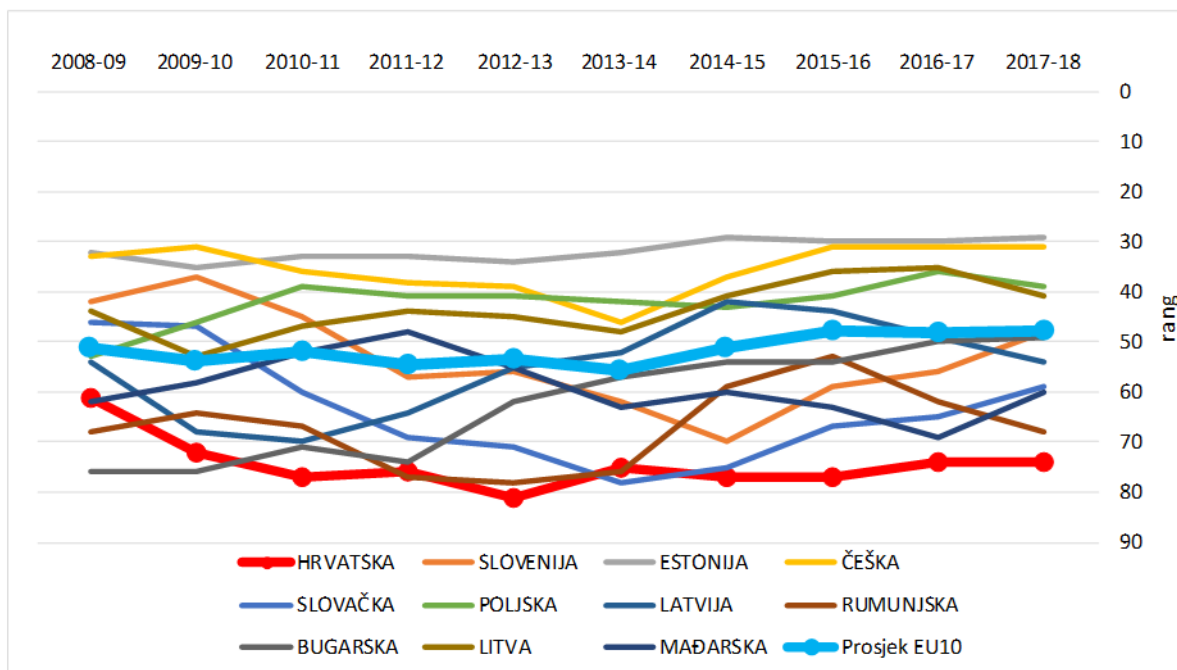
Source: The World Economic Forum Reports, processed by the Croatian Chamber of Economy (see footnote 333, p. 6)

Note: Relative ranking indicates percentage out of total number of countries that were participating in the research

<sup>335</sup> Hrvatska gospodarska komora, Sektor za financijske institucije, poslovne informacije i ekonomske analize: *Odnos konkurentnosti Hrvatske i zemalja EU10*, Zagreb, Intergrafika TTŽ, 2018, p. 6-9.

**Graph 2: Rankings of Croatia and EU10 countries from 2008 to 2018**

**Graf 2: Rangovi zemalja EU10 i Hrvatske od 2008. do 2018. godine**



Izvor: izvješća WEF-a, obrada HGK

Source: the World Economic Forum Reports, processed by the Croatian Chamber of Economy (see footnote 333, p. 7)

**Table 20: Rankings of Croatia and EU10 countries from 2008 to 2018**

**Tablica 1: Rangovi zemalja EU10 i Hrvatske od 2008. do 2018. godine**

Izveštaj WEF-a	RANGOVI											ZAOSTAJANJE RANGA HRVATSKE PREMA RANGU EU10 (BROJ MJESTA)	
	HRVATSKA	SLOVENIJA	ESTONIJA	ČEŠKA	SLOVAČKA	POLJSKA	LATVIJA	RUMUNJSKA	BUGARSKA	LITVA	MAĐARSKA		Prosjek EU10
2017-18 (rang među 137 zemalja)	74	48	29	31	59	39	54	68	49	41	60	48	+26
2016-17 (rang među 138 zemalja)	74	56	30	31	65	36	49	62	50	35	69	48	+26
2015-16 (rang među 140 zemalja)	77	59	30	31	67	41	44	53	54	36	63	48	+29
2014-15 (rang među 144 zemlje)	77	70	29	37	75	43	42	59	54	41	60	51	+26
2013-14 (rang među 148 zemalja)	75	62	32	46	78	42	52	76	57	48	63	56	+19
2012-13 (rang među 144 zemlje)	81	56	34	39	71	41	55	78	62	45	55	54	+27
2011-12 (rang među 142 zemlje)	76	57	33	38	69	41	64	77	74	44	48	55	+21
2010-11 (rang među 139 zemalja)	77	45	33	36	60	39	70	67	71	47	52	52	+25
2009-10 (rang među 133 zemlje)	72	37	35	31	47	46	68	64	76	53	58	52	+20
2008-09 (rang među 134 zemlje)	61	42	32	33	46	53	54	68	76	44	62	51	+10

Izvor: izvješća WEF-a, obrada HGK



Source: the World Economic Forum Reports, processed by the Croatian Chamber of Economy (see footnote 333, p. 7)

**Table 21: Relative ranking (percentage out of total number of countries included)**

**Tablica 2: Relativni rangovi (postotak od ukupnog broja zemalja)**

Izveštaj 2008./2009.		Izveštaj 2017./2018.		Razlika u relativnim rangovima 2017./18. i 2008./09. (broj mjesta), negativna razlika=poboljšanje pozicije		Raspon u relativnim rangovima u zadnjih deset godina (broj mjesta)	
Država	Rang	Država	Rang	Država	Razlika	Država	Razlika
ESTONIJA	24	ESTONIJA	21	BUGARSKA	-21	LATVIJA	22
ČEŠKA	25	ČEŠKA	23	POLJSKA	-12	BUGARSKA	21
SLOVENIJA	31	POLJSKA	28	<b>Prosjek EU10</b>	-3	SLOVENIJA	21
LITVA	33	LITVA	30	LITVA	-3	SLOVAČKA	18
SLOVAČKA	34	<b>Prosjek EU10</b>	<b>35</b>	ESTONIJA	-3	RUMUNJSKA	16
<b>Prosjek EU10</b>	<b>38</b>	SLOVENIJA	35	MAĐARSKA	-2	MAĐARSKA	16
POLJSKA	40	BUGARSKA	36	ČEŠKA	-2	LITVA	14
LATVIJA	40	LATVIJA	39	RUMUNJSKA	-1	POLJSKA	13
<b>HRVATSKA</b>	<b>46</b>	SLOVAČKA	43	LATVIJA	-1	<b>HRVATSKA</b>	<b>11</b>
MAĐARSKA	46	MAĐARSKA	44	SLOVENIJA	4	ČEŠKA	9
RUMUNJSKA	51	RUMUNJSKA	50	<b>HRVATSKA</b>	<b>8</b>	ESTONIJA	6
BUGARSKA	57	<b>HRVATSKA</b>	<b>54</b>	SLOVAČKA	9	<b>Prosjek EU10</b>	6

Izvor: WEF, obrada HGK

Source: the World Economic Forum Reports, processed by the Croatian Chamber of Economy (see footnote 333, p. 9)

For the fourth consecutive year, the WEF assessed Croatia in 2018 as the least competitive EU country from Central and Eastern Europe. What comes as even more worrying from the current poor relative position is the static nature of Croatian competitiveness over the last seven years, which has deepened the lag behind the EU10 average. Accordingly, ten years ago Croatia lagged behind the EU10 average for 10 places while Bulgaria, Romania and Hungary were worse ranked than Croatia. The situation has changed and now Croatia lags behind for 26 places and is worse ranked than any of the EU10 countries. Furthermore, one should definitely bear in mind the examples of Romania and Bulgaria that have overtaken Croatia when competitiveness is at stake, and at the same time have become the EU10 states with the most dynamic economic growth. Such facts are clear evidence of correlation between the improved competitiveness (GCI) and economic growth (GDP). Over the period of ten years there are no major changes in the specific areas, namely pillars of competitiveness that are rated as the best (technology readiness and infrastructure) or the worst (labour market efficiency, commodities market efficiency and innovations). Nevertheless, it is worth noting that Croatia as a single country was ranked in the 2017/2018 report as the worst compared to the EU10 countries in five areas

(innovation, institutions, macroeconomic environment, labour market efficiency and commodities market efficiency). In addition, insufficiently efficient state administration, complexity of tax legislation, corruption and instability of government's measures are indicated in the same report as the most significant obstacles that hamper rise of competitiveness. It follows from abovementioned that the current position of Croatia compared with that of the EU10 countries requires the need for higher economic growth rates, which are achievable in the context of greater progress as regards the competitiveness of its economy, which is conditioned by structural reforms. Structural reforms are essentially measures that change the structure of the economy, the institutional and regulatory framework in which companies and people work. They are designed to ensure that the economy is more able to accomplish its growth potential in a balanced and long-term manner. By removing the barriers to efficient and fair production of goods and services, these reforms should enable increase of productivity, investment and employment.<sup>336</sup> It is also really important that the growth is balanced, which means that categories such as social justice and social inclusion are also seriously taken into account. Hence, structural reforms are an efficient tool to increase productivity, competitiveness and ultimately economic growth rate that is now significantly lower than before the aforementioned economic and financial crisis. This stands for the EU10 countries but even more for Croatia since there exists a real danger that without those reforms the gap between the potential economic growth rate of Croatia and the EU10 will deepen.<sup>337</sup>

### VI.1.2. Trade

According to provisional data announced in March 2018 (see Graph 3 and Table 22) by the Croatian Bureau of Statistics (CBS)<sup>338</sup>, total exports from January to December 2017 amounted to HRK 104.3 billion, while imports amounted to HRK 162.7 billion. Also, the foreign trade deficit reached HRK 58.3 billion, while the coverage of exports with imports was 64.1 %. As a result, exports increased by 12.5 % and imports by 9.6 % compared to 2016. Expressed in

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<sup>336</sup> Speaking of business environment, structural reforms in the form of legislation that enables both flexible and secure labour market (known as „flexicurity“), simple tax system and less bureaucracy are needed. On the other hand, households can also benefit in the form of better and cheaper products which automatically means enhanced consumption. Additionally, it is wise to put emphasis on specific areas, like those that encourage innovation in key industrial sectors.

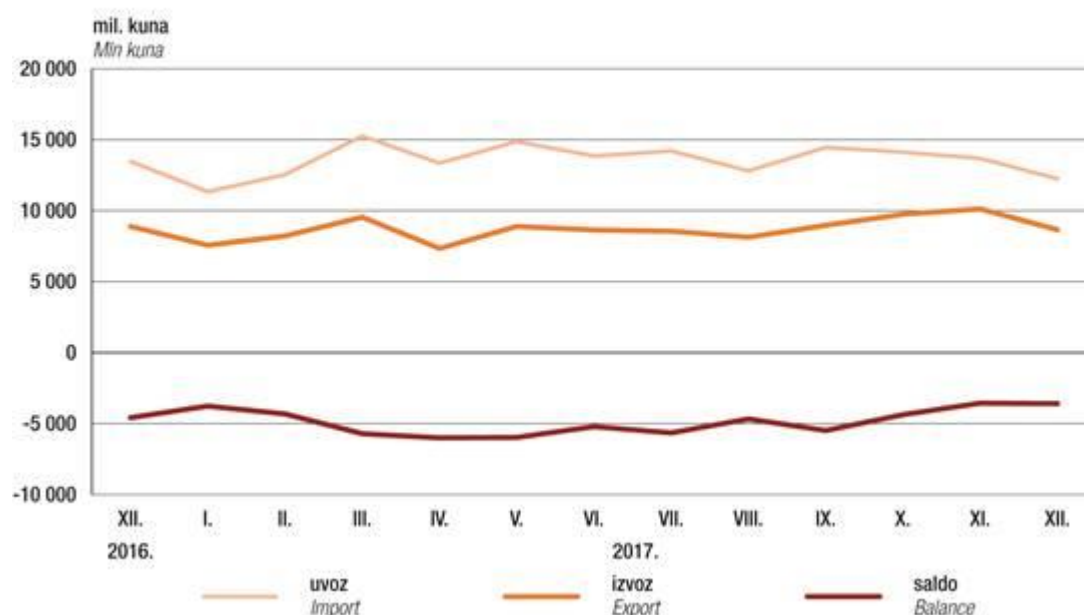
<sup>337</sup> Hrvatska gospodarska komora, Sektor za financijske institucije, poslovne informacije i ekonomske analize: *Odnos konkurentnosti Hrvatske i zemalja EU10*, Zagreb, Intergrafika TTŽ, 2018, p. 16-20.

<sup>338</sup> Croatian Bureau of Statistics' first release on foreign trade from 08 March 2018. Available at: [https://www.dzs.hr/Hrv\\_Eng/publication/2017/04-02-01\\_12\\_2017.htm](https://www.dzs.hr/Hrv_Eng/publication/2017/04-02-01_12_2017.htm) (accessed 20/04/2018)

Euros, Croatian goods export grew by 13.5 % last year, amounting to EUR 13.98 billion, and import by 10.6 % amounting to EUR 21.8 billion. Foreign trade deficit amounted to EUR 7.82 billion. The processing industry, which accounts for 89 % of goods export, last year exported goods to foreign markets in the amount of EUR 12.44 billion, or 13.7 % more than a year earlier. However, it must be said that 87.1 % of import relates to the import of the processing industry, which grew by 9.7 % up to EUR 18.9 billion. Within the processing industry, the largest export value of EUR 1.17 billion was accomplished in the pharmaceutical industry, recording a 30 % growth compared to 2016. The food industry exported goods for EUR 1.08 billion or 0.1 % more than in 2016, while exports of refined petroleum products recorded growth of 41.3 % that amounts EUR 1.02 billion. At the same time, the highest import of EUR 2.04 billion is recorded in the food industry or rise of 9.5 % compared to the previous year. Import of machinery and appliances increased 7.7 %, up to EUR 1.75 billion, while imports of chemicals and chemical products rose 8.4 %, up to EUR 1.65 billion. More detailed and specific data listed according to the Croatian National Classification of Activities (NKD 2007) and Standard International Trade Classification (SITC) are laid down in Tables 23 and 24.

### Graph 3: Croatian foreign trade in goods (December 2016-December 2017)

G-1. ROBNA RAZMJENA S INOZEMSTVOM OD PROSINCA 2016. DO PROSINCA 2017.  
FOREIGN TRADE IN GOODS, DECEMBER 2016 – DECEMBER 2017



Source: Croatian Bureau of Statistics (see footnote 338)

**Table 22: Croatian foreign trade in goods**

	Izvoz Export			Uvoz Import			Saldo robne razmjene Balance of foreign trade in goods			Pokrivenost uvoza izvozom, % Coverage of import by export, %
	tis. kuna Thousand kuna	tis. eura Thousand euros	tis. USD Thousand US \$	tis. kuna Thousand kuna	tis. eura Thousand euros	tis. USD Thousand US \$	tis. kuna Thousand kuna	tis. eura Thousand euros	tis. USD Thousand US \$	
2016.										
I.	5 851 583	766 052	835 789	9 747 786	1 276 322	1 392 313	-3 896 203	-510 271	-556 524	60,0
II.	7 131 274	931 235	1 016 671	11 649 235	1 521 298	1 660 532	-4 517 962	-590 063	-643 861	61,2
III.	7 579 918	994 560	1 092 008	12 711 122	1 667 851	1 825 980	-5 131 204	-673 291	-733 973	59,6
IV.	7 242 389	962 615	1 088 723	12 852 998	1 708 611	1 935 430	-5 610 609	-745 996	-846 707	56,3
V.	7 920 959	1 058 315	1 204 189	12 766 930	1 706 199	1 941 565	-4 845 972	-647 884	-737 376	62,0
VI.	7 866 262	1 051 042	1 175 753	12 754 746	1 704 411	1 903 840	-4 888 484	-653 370	-728 087	61,7
VII.	7 613 704	1 012 886	1 134 359	12 388 749	1 647 875	1 841 173	-4 775 045	-634 989	-706 813	61,5
VIII.	6 985 385	933 912	1 033 774	11 891 257	1 589 930	1 761 939	-4 905 872	-656 017	-728 165	58,7
IX.	8 363 531	1 118 114	1 251 321	13 003 068	1 738 390	1 942 959	-4 639 536	-620 276	-691 639	64,3
X.	8 407 861	1 119 485	1 255 812	12 242 059	1 629 927	1 820 820	-3 834 198	-510 442	-565 008	68,7
XI.	8 910 048	1 188 062	1 303 002	12 993 077	1 732 419	1 899 516	-4 083 029	-544 357	-596 514	68,6
XII.	8 890 304	1 180 292	1 256 133	13 473 514	1 788 634	1 903 798	-4 583 211	-608 342	-647 665	66,0
I. – XII.	92 763 217	12 316 569	13 647 534	148 474 542	19 711 866	21 829 865	-55 711 324	-7 395 297	-8 182 331	62,5
2017.										
I.	7 562 674	1 002 006	1 047 425	11 330 187	1 500 103	1 569 974	-3 767 513	-498 096	-522 549	66,7
II.	8 217 124	1 096 581	1 172 849	12 538 096	1 675 264	1 792 192	-4 320 971	-578 683	-619 343	65,5
III.	9 540 265	1 283 039	1 368 663	15 252 723	2 052 188	2 193 071	-5 712 458	-769 150	-824 408	62,5
IV.	7 337 451	987 462	1 057 981	13 340 648	1 794 098	1 919 420	-6 003 197	-806 635	-861 439	55,0
V.	8 890 104	1 192 204	1 294 793	14 863 151	1 991 987	2 168 512	-5 973 047	-799 782	-873 719	59,8
VI.	8 634 338	1 163 915	1 301 728	13 848 365	1 867 260	2 088 711	-5 214 028	-703 344	-786 983	62,3
VII.	8 552 325	1 154 456	1 306 050	14 206 262	1 917 716	2 175 820	-5 653 938	-763 260	-869 771	60,2
VIII.	8 128 128	1 096 929	1 278 508	12 801 840	1 727 841	2 019 298	-4 673 713	-630 912	-740 790	63,5
IX.	8 965 465	1 211 124	1 433 991	14 455 435	1 952 455	2 314 004	-5 489 970	-741 331	-880 013	62,0
X.	9 744 296	1 301 282	1 544 466	14 116 834	1 884 419	2 231 726	-4 372 537	-583 137	-687 260	69,0
XI.	10 119 977	1 347 551	1 573 077	13 680 290	1 821 302	2 123 126	-3 560 313	-473 750	-550 049	74,0
XII.	8 655 869	1 146 603	1 352 955	12 247 315	1 622 933	1 916 793	-3 591 446	-476 330	-563 838	70,7
I. – XII.	104 348 016	13 983 154	15 732 485	162 681 147	21 807 564	24 512 647	-58 333 131	-7 824 410	-8 780 162	64,1

Source: Croatian Bureau of Statistics (see footnote 338)

**Table 23: Croatian export and import, according to National Classification of Activities (NKD)**

		Izvoz Export			Uvoz Import			Total
		tis. eura Thousand euros		indeksi Indices I. – XII. 2017. I. – XII. 2016.	tis. eura Thousand euros		indeksi Indices I. – XII. 2017. I. – XII. 2016.	
		I. – XII. 2016.	I. – XII. 2017.		I. – XII. 2016.	I. – XII. 2017.		
	Ukupno	12 316 569	13 983 154	113,5	19 711 866	21 807 564	110,6	Total
A	Poljoprivreda, šumarstvo i ribarstvo	591 755	660 476	111,6	550 179	628 633	114,3	A Agriculture, forestry and fishing
B	Rudarstvo i vadenje	92 406	90 144	97,6	1 115 679	1 401 470	125,6	B Mining and quarrying
C	Prerađivačka industrija	10 948 885	12 444 681	113,7	17 316 007	18 997 147	109,7	C Manufacturing
10	Proizvodnja prehrambenih proizvoda	1 077 378	1 078 498	100,1	1 861 155	2 037 244	109,5	10 Manufacture of food products

11	Proizvodnja pića	149 067	153 399	102,9	174 203	199 729	114,7	11	<i>Manufacture of beverages</i>
12	Proizvodnja duhanskih proizvoda	42 097	89 603	212,8	61 626	75 104	121,9	12	<i>Manufacture of tobacco products</i>
13	Proizvodnja tekstila	155 819	167 036	107,2	411 555	439 204	106,7	13	<i>Manufacture of textiles</i>
14	Proizvodnja odjeće	642 964	679 901	105,7	922 533	989 932	107,3	14	<i>Manufacture of wearing apparel</i>
15	Proizvodnja kože i srodnih proizvoda	394 338	436 575	110,7	624 776	643 131	102,9	15	<i>Manufacture of leather and related products</i>
16	Prerada drva i proizvoda od drva i pluta, osim namještaja; proizvodnja proizvoda od slame i pletarskih materijala	583 308	644 104	110,4	256 178	301 761	117,8	16	<i>Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</i>
17	Proizvodnja papira i proizvoda od papira	214 431	241 352	112,6	458 370	484 632	105,7	17	<i>Manufacture of paper and paper products</i>
18	Tiskanje i umnožavanje snimljenih zapisa	1 904	1 749	91,9	3 054	2 698	88,4	18	<i>Printing and reproduction of recorded media</i>
19	Proizvodnja koksa i rafiniranih naftnih proizvoda	722 322	1 020 408	141,3	748 455	918 602	122,7	19	<i>Manufacture of coke and refined petroleum products</i>
20	Proizvodnja kemikalija i kemijskih proizvoda	643 122	725 324	112,8	1 520 189	1 647 529	108,4	20	<i>Manufacture of chemicals and chemical products</i>
21	Proizvodnja osnovnih farmaceutskih proizvoda i farmaceutskih pripravaka	897 522	1 166 354	130,0	1 245 454	1 127 793	90,6	21	<i>Manufacture of basic pharmaceutical products and pharmaceutical preparations</i>
22	Proizvodnja proizvoda od gume i plastike	363 832	397 602	109,3	822 111	892 019	108,5	22	<i>Manufacture of rubber and plastic products</i>
23	Proizvodnja ostalih nemetalnih mineralnih proizvoda	419 856	451 526	107,5	345 498	391 894	113,4	23	<i>Manufacture of other non-metallic mineral products</i>
24	Proizvodnja metala	280 004	394 766	141,0	1 035 924	1 220 700	117,8	24	<i>Manufacture of basic metals</i>
25	Proizvodnja gotovih metalnih proizvoda, osim strojeva i opreme	935 143	950 373	101,6	743 985	805 741	108,3	25	<i>Manufacture of fabricated metal products, except machinery and equipment</i>
26	Proizvodnja računala te elektroničkih i optičkih proizvoda	439 024	460 786	105,0	1 206 479	1 312 662	108,8	26	<i>Manufacture of computer, electronic and optical products</i>
27	Proizvodnja električne opreme	865 885	939 153	108,5	909 733	1 012 394	111,3	27	<i>Manufacture of electrical equipment</i>
28	Proizvodnja strojeva i uređaja, d. n.	896 178	976 025	108,9	1 624 232	1 749 933	107,7	28	<i>Manufacture of machinery and equipment n. e. c.</i>
29	Proizvodnja motornih vozila, prikolica i poluprikolica	453 941	537 923	118,5	1 366 241	1 549 836	113,4	29	<i>Manufacture of motor vehicles, trailers and semi-trailers</i>
30	Proizvodnja ostalih prijevoznih sredstava	293 098	386 972	132,0	244 135	257 632	105,5	30	<i>Manufacture of other transport equipment</i>
31	Proizvodnja namještaja	346 987	327 761	94,5	276 264	306 096	110,8	31	<i>Manufacture of furniture</i>
32	Ostala prerađivačka industrija	130 665	217 490	166,4	453 858	630 880	139,0	32	<i>Other manufacturing</i>

D	Opskrba električnom energijom, plinom, parom i klimatizacija	371 516	416 163	112,0	605 315	634 500	104,8	D	Electricity, gas, steam and air conditioning supply
E	Opskrba vodom; uklanjanje otpadnih voda, gospodarenje otpadom te djelatnosti sanacije okoliša	220 983	280 975	127,1	52 777	65 855	124,8	E	Water supply; sewerage, waste management and remediation activities
J	Informacije i komunikacije	63 636	64 559	101,5	66 624	76 403	114,7	J	Information and communication
M	Stručne, znanstvene i tehničke djelatnosti	3	31	1)	202	105	51,7	M	Professional, scientific and technical activities
R	Umjetnost, zabava i rekreacija	308	355	115,1	240	345	143,6	R	Arts, entertainment and recreation
	Neraspoređeno	27 077	25 770	95,2	4 843	3 106	64,1		Not classified

Source: Croatian Bureau of Statistics (see footnote 338)

**Table 24: Croatian export and import, according to Standard International Trade Classification (SITC) sections**

tis. eura  
Thousand euros

	Izvoz Export			Uvoz Import			
	I. – XII. 2016.	I. – XII. 2017.	indeksi Indices I. – XII. 2017. I. – XII. 2016.	I. – XII. 2016.	I. – XII. 2017.	indeksi Indices I. – XII. 2017. I. – XII. 2016.	
Ukupno	12 316 569	13 983 154	113,5	19 711 866	21 807 564	110,6	Total
0 Hrana i žive životinje	1 377 204	1 394 676	101,3	2 195 078	2 405 256	109,6	0 Food and live animals
1 Pića i duhan	194 065	250 453	129,1	233 013	297 810	127,8	1 Beverages and tobacco
2 Sirove materije, osim goriva	917 003	1 067 993	116,5	334 333	391 639	117,1	2 Crude materials, except fuels
3 Mineralna goriva i maziva	1 164 974	1 488 860	127,8	2 424 634	2 914 680	120,2	3 Mineral fuels and lubricants
4 Životinjska i biljna ulja i masti	49 816	60 255	121,0	98 518	99 079	100,6	4 Animal and vegetable oils and fats
5 Kemijski proizvodi	1 631 778	1 990 391	122,0	3 011 908	3 031 642	100,7	5 Chemical products
6 Proizvodi svrstani prema materijalu	1 927 503	2 262 054	117,4	3 512 494	3 903 050	111,1	6 Manufactured goods classified chiefly by material
7 Strojevi i prijevozna sredstva	2 897 128	3 249 791	112,2	5 050 525	5 554 540	110,0	7 Machinery and transport equipment
8 Razni gotovi proizvodi	2 084 223	2 159 492	103,6	2 839 151	3 192 708	112,5	8 Miscellaneous manufactured articles
9 Proizvodi i transakcije, d. n.	45 798	33 421	73,0	7 369	14 052	190,7	9 Commodities and transactions, n. e. s.
Neraspoređeno	27 077	25 770	95,2	4 843	3 106	64,1	Not classified

Source: Croatian Bureau of Statistics (see footnote 338)

The CBS data, as it is indicated below in Table 25, demonstrate that EU member states are still the most important market for Croatian goods, since 64.8 % of goods export and 78 % of goods import for 2017 relate to the Single European Market. Export to the EU member states amounted to EUR 9.06 billion or 10.7 % more than in 2016, while imports amounted to EUR 17 billion or 11.7 % more than a year earlier. The most important individual foreign trade partners of Croatia remain Italy, Germany and Slovenia. Export to Italy rose by 12.8 % or EUR 1.9 billion at the end of 2017, while goods exported to Germany amounted to EUR 1.72 billion or 18.5 % more than year before, while exports to Slovenia dropped 2,4 %, to EUR 1.5 billion. At the same time, import from Germany grew 8,4 % and amounted to EUR 3.4 billion. Import from Italy increased by 13.2 % up to EUR 2.82 billion, and from Slovenia by 8.5 % up to EUR 2.34 billion. Significant growth of trade in goods in 2017 was recorded also with the CEFTA (Central European Free Trade Agreement) countries. Export to those countries increased by 21.1 % up to EUR 2.4 billion, and imports by 15.8 % up to EUR 1.35 billion. The highest value of goods was exported to Bosnia and Herzegovina, amounting to EUR 1.37 billion or 22.1 % more, while at the same time the largest import was also from this country, more precisely EUR 685.2 million or 19.5 % more. Next among those countries is Serbia where we exported slightly more than EUR 670 million, which is an annual growth of 28.5 %, while import from that country increased by 15.5 %, up to EUR 575 million.<sup>339</sup>

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<sup>339</sup> In addition to the statistical data that describe current Croatia's economic position, it might be very useful also to take a closer look at my country's track record with regard to EU Funds absorption. High absorption or success story in this area indicates that a country possesses administrative capacity, i.e. efficient administration, with Poland as a perfect example. Quite often, EU Funds proved to be a perfect tool for many goals such as economic growth, competitiveness, SME's internationalisation, transport infrastructure, social cohesion, consumer protection, higher standard of living, etc. Unfortunately, Croatia seems to lag behind some other EU member states also in this area and therefore needs to adopt serious administrative reforms that will enable better results in the near future especially since the current financial envelope comes to its end in 2020 and the new one will arise having somewhat different priorities and way of functioning. For detailed description of Croatia' position as regards the EU Funds see the official European Commission website dealing with statistical data on EU Funds (<https://cohesiondata.ec.europa.eu/>) and our Ministry of Regional Development and EU Funds website dedicated to Croatia' EU Funds absorption (<https://strukturnifondovi.hr/financijski-pregled-eu-fondova/>).

**Table 25: Croatian export and import to the EU, EFTA and CEFTA countries**

tis. eura  
Thousand euros

	Izvoz Export			Uvoz Import			
	I. – XII. 2016.	I. – XII. 2017.	indeksi Indices I. – XII. 2017. I. – XII. 2016.	I. – XII. 2016.	I. – XII. 2017.	indeksi Indices I. – XII. 2017. I. – XII. 2016.	
Ukupno	12 316 569	13 983 154	113,5	19 711 866	21 807 564	110,6	<i>Total</i>
Zemlje Europske unije	8 183 133	9 059 468	110,7	15 223 635	17 004 430	111,7	<i>EU countries</i>
Austrija	789 201	875 412	110,9	1 571 156	1 649 612	105,0	<i>Austria</i>
Belgija	131 219	240 409	183,2	371 112	467 297	125,9	<i>Belgium</i>
Bugarska	69 471	75 384	108,5	168 241	134 908	80,2	<i>Bulgaria</i>
Čipar	14 373	51 371	357,4	8 852	6 182	69,8	<i>Cyprus</i>
Češka	176 945	247 246	139,7	414 426	468 404	113,0	<i>Czech Republic</i>
Danska	37 040	45 276	122,2	132 570	198 540	149,8	<i>Denmark</i>
Estonija	10 905	14 242	130,6	4 116	4 067	98,8	<i>Estonia</i>
Finska	21 342	32 045	150,1	34 241	32 834	95,9	<i>Finland</i>
Francuska	289 490	361 870	125,0	478 004	535 441	112,0	<i>France</i>
Grčka	52 773	59 873	113,5	97 470	84 607	86,8	<i>Greece</i>
Irska	34 085	43 509	127,6	57 478	61 129	106,4	<i>Ireland</i>
<b>Italija</b>	<b>1 685 275</b>	<b>1 901 822</b>	<b>112,8</b>	<b>2 486 988</b>	<b>2 816 043</b>	<b>113,2</b>	<b><i>Italy</i></b>
Letonija	14 441	12 837	88,9	7 375	9 244	125,3	<i>Latvia</i>
Litva	32 504	26 635	81,9	23 457	25 841	110,2	<i>Lithuania</i>
Luksenburg	6 498	33 607	517,2	12 295	13 249	107,8	<i>Luxembourg</i>
Mađarska	472 362	465 528	98,6	1 402 434	1 651 063	117,7	<i>Hungary</i>
Malta	27 272	71 213	261,1	7 314	4 986	68,2	<i>Malta</i>
Nizozemska	323 030	165 763	51,3	773 763	844 357	109,1	<i>Netherlands</i>
<b>Njemačka</b>	<b>1 453 388</b>	<b>1 722 090</b>	<b>118,5</b>	<b>3 177 132</b>	<b>3 445 394</b>	<b>108,4</b>	<b><i>Germany</i></b>
Poljska	167 428	199 465	119,1	602 766	760 861	126,2	<i>Poland</i>
Portugal	50 892	57 935	113,8	24 167	27 410	113,4	<i>Portugal</i>
Rumunjska	109 992	150 051	136,4	150 652	178 362	118,4	<i>Romania</i>
Slovačka	176 065	162 794	92,5	323 061	401 088	124,2	<i>Slovakia</i>
<b>Slovenija</b>	<b>1 539 474</b>	<b>1 501 958</b>	<b>97,6</b>	<b>2 153 104</b>	<b>2 336 445</b>	<b>108,5</b>	<b><i>Slovenia</i></b>
Španjolska	198 460	216 748	109,2	398 214	456 826	114,7	<i>Spain</i>
Švedska	125 019	113 519	90,8	130 963	126 583	96,7	<i>Sweden</i>
Ujedinjena Kraljevina	173 421	209 551	120,8	212 122	263 624	124,3	<i>United Kingdom</i>
Neraspoređeno	766	1 318	172,0	161	34	21,3	<i>Not classified</i>
Zemlje Efte	191 507	227 886	119,0	188 306	193 956	103,0	<i>EFTA countries</i>
Island	2 827	2 265	80,1	565	1 264	223,9	<i>Iceland</i>
Lihtenštajn	1 846	1 260	68,3	53	57	107,1	<i>Liechtenstein</i>
Norveška	55 910	66 682	119,3	20 312	20 698	101,9	<i>Norway</i>
Švicarska	130 924	157 678	120,4	167 377	171 937	102,7	<i>Switzerland</i>
Zemlje Cefta	2 018 795	2 444 496	121,1	1 167 240	1 351 081	115,8	<i>CEFTA countries</i>
Albanija	46 539	55 301	118,8	4 895	6 175	126,1	<i>Albania</i>
Bosna i Hercegovina	1 119 980	1 367 669	122,1	573 326	685 174	119,5	<i>Bosnia and Herzegovina</i>
Crna Gora	139 957	167 343	119,6	4 750	5 105	107,5	<i>Montenegro</i>
Kosovo	65 700	61 752	94,0	2 336	1 763	75,5	<i>Kosovo</i>
Makedonija	121 575	120 190	98,9	81 998	75 638	92,2	<i>Macedonia, FYR</i>
Moldavija	3 612	2 153	59,6	2 102	2 168	103,1	<i>Moldova</i>
Srbija	521 432	670 089	128,5	497 833	575 058	115,5	<i>Serbia</i>

Source: Croatian Bureau of Statistics (see footnote 338)



## VI.2. Croatian Economic Diplomacy Model

When speaking of economic diplomacy of the Republic of Croatia, it must be said that three different phases of its development might be distinguished in the period from declaring independence in 1991 up until 2018.<sup>340</sup>

First phase covers time from 1991 until 2000 when Croatia acceded the WTO. During this period, several governments were focused on Croatia's imposing strongly in international arena especially bearing in mind the Homeland War during which we endured tough times both politically and economically. Such state of play asked for best possible position in international community and it is no surprise that all energy was employed in this direction. The IMF membership was achieved in 1992 while Croatia became the member of the International Bank for Reconstruction and Development (IBRD) in 1993. After the war activities ended in 1995<sup>341</sup> diplomacy was mainly focused on connecting Croatia with the global financial system. In 1997, Croatia was awarded with the credit rating and the Croatian National Bank (CNB) was admitted to the Bank of International Settlements membership.

Second phase is dedicated to period between 2000 and 2013 when Croatia became a full member of the EU. After six and a half years of negotiation, Croatia entered the WTO which enabled our country to conclude numerous bilateral and multilateral agreements on free trade. In addition, it is important to state that within this period Croatia went through numerous substantial and institutional changes and options that were created and discontinued which only made situation in economic diplomacy even worse or better say Croatia's economic diplomacy lacked efficiency and consequently results.<sup>342</sup>

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<sup>340</sup> For more detailed description of all three phases see: Arbeiter, J., Boromisa, A.M., Bučar, M., Četković, J., Jaćimović D., Lakić, S., Ležaić, A. R., Rajković, M., Tišma, S., Udovič, B., Žarković, M.: *Gospodarska diplomacija između potreba gospodarstva i interesa država: Hrvatska, Slovenija i Crna Gora*, Zagreb, Alineja, 2017.

<sup>341</sup> Sovereignty and control over the whole territory was accomplished only in 1997 after Podunavlje region was completely reintegrated via peace agreement signed under the UN supervision.

<sup>342</sup> In this period, every change of government resulted in change of direction when economic diplomacy is in question. Therefore, Croatia's economic diplomacy did not play significant role in recovery from global financial crisis. Moreover, budget cuts that were introduced meant less financial resources. For instance, middle ranked diplomats (economic counsellors) were replaced with the lowest ranked diplomats (commercial attachés). Last but certainly not the least, many institutions were established and/or discontinued and final result of such *modus operandi* was system of economic diplomacy that was dysfunctional and confusing without continuity and clear vision of what and how should be accomplished through the means of economic diplomacy. Consequently, business community in Croatia remained more or less alone in trying to improve their own and Croatia's economic status.

Third phase of Croatia's economic diplomacy started with the country's full EU membership. It was marked with another reform of economic diplomacy system and change towards unified model meaning that the Ministry of Foreign and European Affairs occupied the central role. Not only its own activities but also coordination and management of other stakeholders' actions are within this ministry's scope of work in order to avoid considerable overlapping that was the case for so many years. This centralisation was intended in order to provide clear vision with unified and simplified decision-making process, less costs and more efficiency.<sup>343</sup> The new structure brought cancelation of commercial *attachés* and transfer of power towards ambassadors who took all the responsibility for the area of economic diplomacy meaning that they need not only political and diplomatic high skills but also competencies and experience from the business sector.<sup>344</sup> However, as the time passed by, competition between the Croatian MFEA and other institutions remained as it put almost all the focus on export promotion whereas other areas such as investments attraction, scientific cooperation, tourism promotion and general promotion of business community interests remained not only within its scope but also of other institutions at the same time.<sup>345</sup>

Another novelty in the economic diplomacy model was introduced in 2013, i.e. the Commission for the Internationalisation of Croatian Economy was established that had three main tasks:<sup>346</sup>

- based on cooperation among governmental institutions and consultations with business community, the Commission identifies key determinants of strengthening export and fostering Croatian companies entrance on foreign markets, suggests implementing measures and supervises their execution,
- coordinates plans and activities of all the governmental bodies involved in export promotion and presenting investment projects abroad,

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<sup>343</sup> Although certain improvements must be acknowledged, I think we can agree that this model too is far from being efficient or even close to some models implemented by other countries who have a lot of success in the area of economic diplomacy. Current figures of Croatia's competitiveness or comparison with other similar countries speaks for themselves and country's inefficient economic diplomacy (see footnotes 333, 338 and 339). Croatian companies simply did not get sufficient support from different ministries and public institutions and therefore quite often expressed their dissatisfaction with the Croatian economic diplomacy system. More details and data on this issue will be provided further in this dissertation as I conducted scientific research-survey among Croatian companies.

<sup>344</sup> Ministry of Foreign and European Affairs also developed new websites for economic diplomacy (<http://gd.mvep.hr/>) and export promotion (<https://izvoz.gov.hr/>).

<sup>345</sup> Ministry of Economy, Entrepreneurship and Crafts, Ministry of Tourism, Croatian National Tourist Board, Agency for Investments and Competitiveness, Croatian Chamber of Economy.

<sup>346</sup> Žirovčić, D.: *Gospodarska diplomacija- izabrani nacionalni modeli*. Zagreb, Jesenski i Turk, 2016, p. 222.

- proposes legal and other solutions to the Council of the Commission that foster and alleviate export promotion.

The Commission coordinator was the deputy minister of foreign and European affairs and the members of the Commission came in the form of representatives from 19 different institutions. The Council of the Commission was consisted of the first vice-president of government (also minister of foreign and European affairs), vice-president of government (also minister of regional development and EU funds), minister of finance, minister of economy, minister of entrepreneurship and crafts and minister of agriculture. This Council produced strategic guidelines for the Commission and considered the Commission's proposals and solutions in the area of export and attraction of FDI's and eventually forwarded them to the government.<sup>347</sup> Nevertheless, although there exists no formal trace of its discontinuation, outdated information that are publicly available clearly suggest that the Commission for the Internationalisation actually ceased to operate as the integral part of Croatia's economic diplomacy model.

Concurrently with the economic recovery (slow though), that came after many years of crisis many activities were initiated and stakeholders activated. In relation to that, the Croatian Chamber of Economy (CCE) whose role was significantly diminished by state institutions up until 2015 (partially justifiably and partially unduly) decided to open additional 7 representative offices (besides Moscow and Bruxelles)<sup>348</sup> abroad for which it received formal government's decision that approves it. Hence, the CCE opened office in Shanghai in November 2017 while offices in Belgrade, Sarajevo and branch office in Mostar were opened in April 2018. All these offices are intended to assist, promote and provide support to Croatian companies that already do business on specially targeted and significant foreign markets but also to alleviate it for those who intend to do it. Additionally, offices should provide all the necessary assistance, information and contacts that potential foreign partners might need for doing business and/or investing in Croatia. It is important to mention that the Chamber adopted its new Strategy at the end of 2016 wherein there stands as one of top priorities an ambitious long- term plan for spreading a network of around 20-25 representative office around the world. All offices should

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<sup>347</sup> *Ibid*, p. 222-223.

<sup>348</sup> Shanghai, Belgrade, Sarajevo, Milano, Munich, Vienna, Istanbul. Several others (Paris, London, New York, Sao Paolo, Tokyo) are also planned in long term but it remains to be seen whether they will be actually established.

be financed by the CCE itself and not by the government while a certain part of their activities should be covered from the EU funds through several projects.<sup>349</sup>

One of the crucial points of the existing economic diplomacy and its plan for the near future at least is close cooperation between the Croatian MFEA and the CCE as two main pillars of Croatia's economic internationalisation. Accordingly, these two institutions signed a cooperation agreement in May 2017, which should provide quality basis for cooperation in many areas, with the CCE representative offices being one of the focal points. In any case, they should be accommodated in and cooperate closely with embassies and consulates in every place where such mission and chance for cooperation exists. Such synergy should provide new and concrete services to companies<sup>350</sup>, assure key benefits to the business community and therefore constitute a modern economic diplomacy model that is right up next to those of the most successful countries when economic diplomacy is in question.<sup>351</sup> So far, we may only conclude that in the past 25 years Croatian economic diplomacy model included (too) many non-coordinated actors with overlapping duties and activities. Bearing that in mind, it is more than obvious that such state of affairs did not provide (much) assistance to Croatian companies and economy. Therefore, radical public administration reform deems as necessary prerequisite for economic diplomacy (among many other areas) improvement and better economic results.

### **VI.3. Scientific Research- survey on economic diplomacy among Croatia's business community representatives**

As already mentioned earlier in the previous chapter, I conducted another scientific research with Croatian business community in July 2018. It was performed in the form of survey wherein significant number of companies or better say entrepreneurs took part and considerably

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<sup>349</sup> Arbeiter, J., Boromisa, A.M., Bučar, M., Četković, J., Jačimović D., Lakić, S., Ležaić, A. R., Rajković, M., Tišma, S., Udovič, B., Žarković, M.: *Gospodarska diplomacija između potreba gospodarstva i interesa država: Hrvatska, Slovenija i Crna Gora*, Zagreb, Alineja, 2017, p. 131-132.

<sup>350</sup> Up until now, no formal document has been presented that contains new and concrete measures that should be provided to companies in order to bolster and alleviate their entrance and/or activities on these foreign markets.

<sup>351</sup> Since I work at the CCE now and I used to work at the MFEA, I am very well aware of the state of affairs in both institutions. Hence, one must admit that both of them need organisational, substantial and technical reform and upgrade if they are to reach the intended goals. They do not possess administrative, financial and technical capacity to accomplish what is needed. In addition, they need to listen to and involve much more the business community which possesses expertise and experience but also know all the obstacles they face in practice when doing business both in Croatia and abroad.

contributed in analysing, forming opinion and establishing conclusions that relate to the main and auxiliary hypotheses of this dissertation. Description and discussion of specific results and indicators that are important for this dissertation will be displayed here while the complete survey will find its place at the end of this dissertation, as an appendix. Final remarks that form connection between this research and hypotheses will be written as the integral part of this dissertation's conclusion.<sup>352</sup>

Survey was divided into several sections or better say topics. One of them relates to data that describe companies themselves. As far as participating companies are concerned, 95 overall took part in it, micro/ small businesses represented with 40 %, middle enterprises taking 44 % and big companies having 15 %.

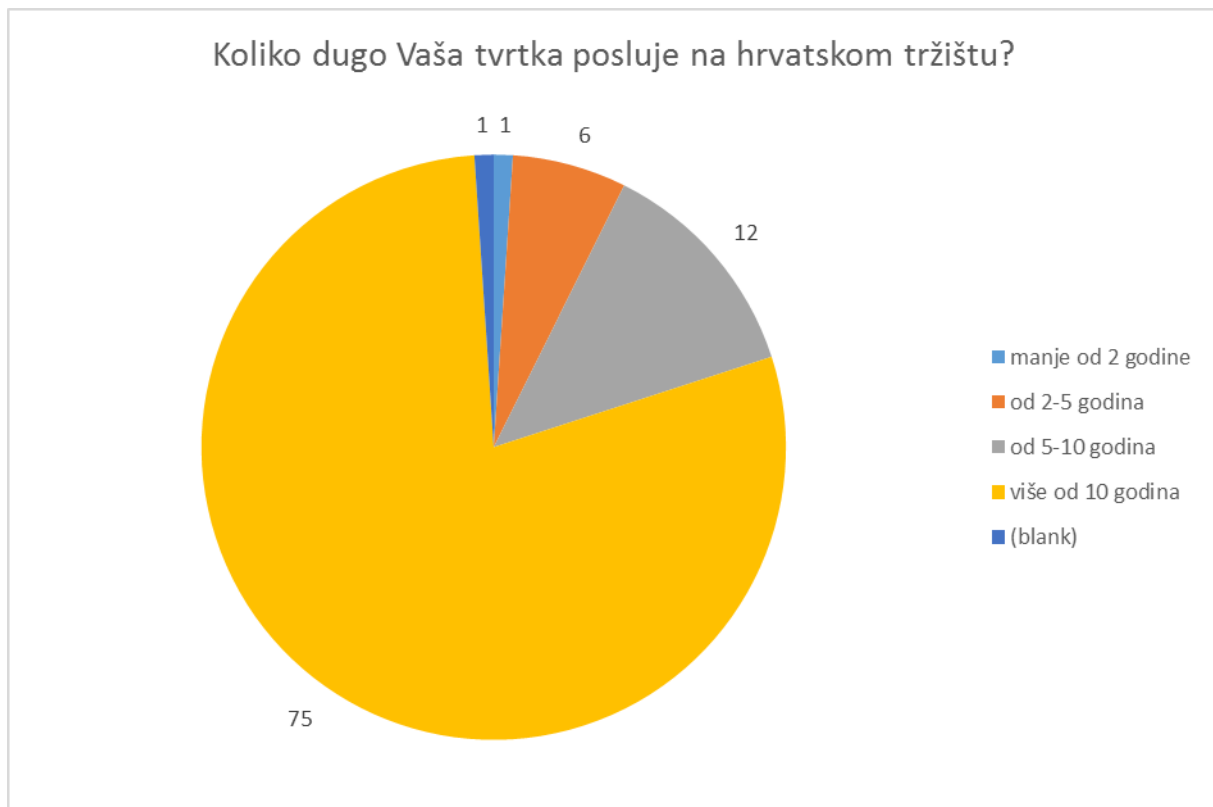
Companies generating most of their revenues in processing industry were by far the largest group (43 companies) represented among numerous sectors or more precisely classified activities. The second most numerous was the retail trade and wholesale trade group represented with 9 companies and the third coming from the agriculture, forestry and fishery sector (7 companies).

When period of their business activities is in question, 75 companies (79 %) already did business in Croatia for more than 10 years, 12 companies (13 %) did so from 5 to 10 years, 6 companies (6 %) are active from 2-5 years, solely one company (1 %) existed less than 2 years and another one did not respond to this question (Graph 4).

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<sup>352</sup> All data and statistics from the survey (graphs and tables) will be displayed in authentic form, i.e. in Croatian language as the survey itself originally was conducted in Croatian. Naturally, text related to it, i.e. description and discussion will be written in English. Also, it must be emphasized that certain questions within the survey were not answered by all 95 respondents.

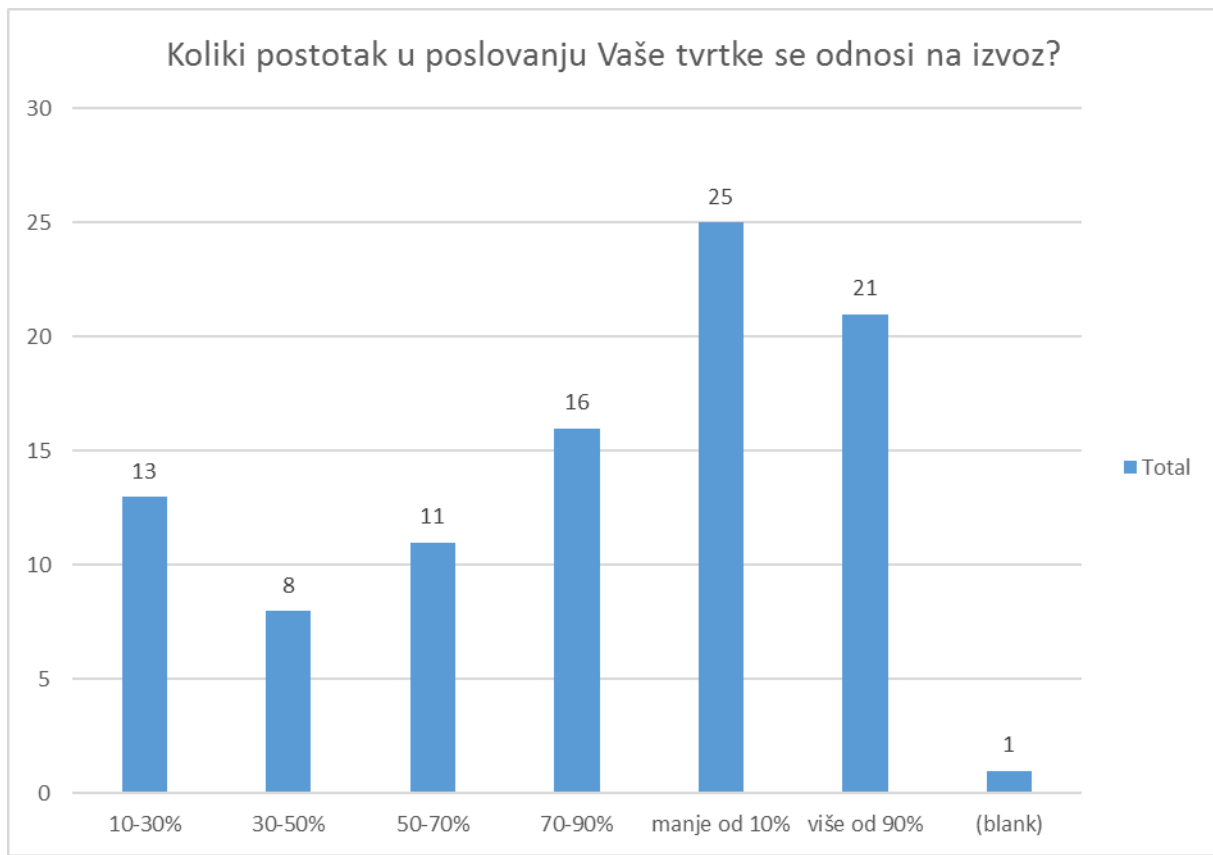
#### Graph 4: Period of companies' business activities in Croatia



Source: Author

Share of export in companies' activities is another category related to companies profile and results were quite interesting since two groups with highest number of companies representing them were those that have the highest (more than 90 % of company's activities concern export) and the lowest (less than 10 % of activities pertain to export) portion of export in their company's business activities. The former group is represented with 21 companies and the latter with 25 companies. Moreover, 16 companies answered that export counts for 70-90 % of their business, 13 companies opted for 10-30 %, 11 companies chose 50-70 % and 8 companies said that export share is somewhere between 30-50 % (Graph 5).

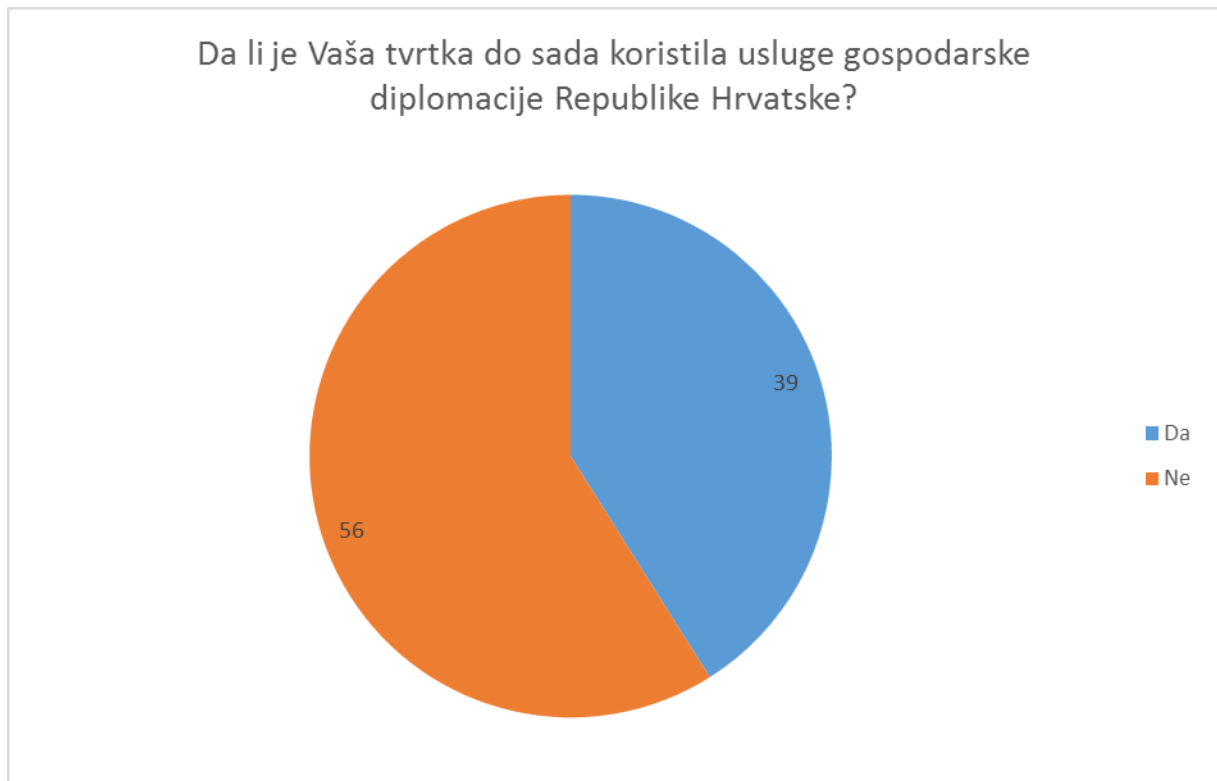
**Graph 5: Share of export in companies' business activities**



Source: Author

In addition, respondents were asked a very simple question that is however very important, namely if they ever used any of economic diplomacy services (Graph 6). Numbers were quite frankly disappointing and worrying since only 41 % or 39 companies ever made use of any of economic diplomacy services while 56 companies or 59 % of them never afforded themselves such a service. Such state of affairs cannot be tolerated or treated as acceptable and should in any case be changed as soon as possible.

**Graph 6: Percentage of companies, i.e. entrepreneurs that made use of economic diplomacy services/ activities**



Source: Author

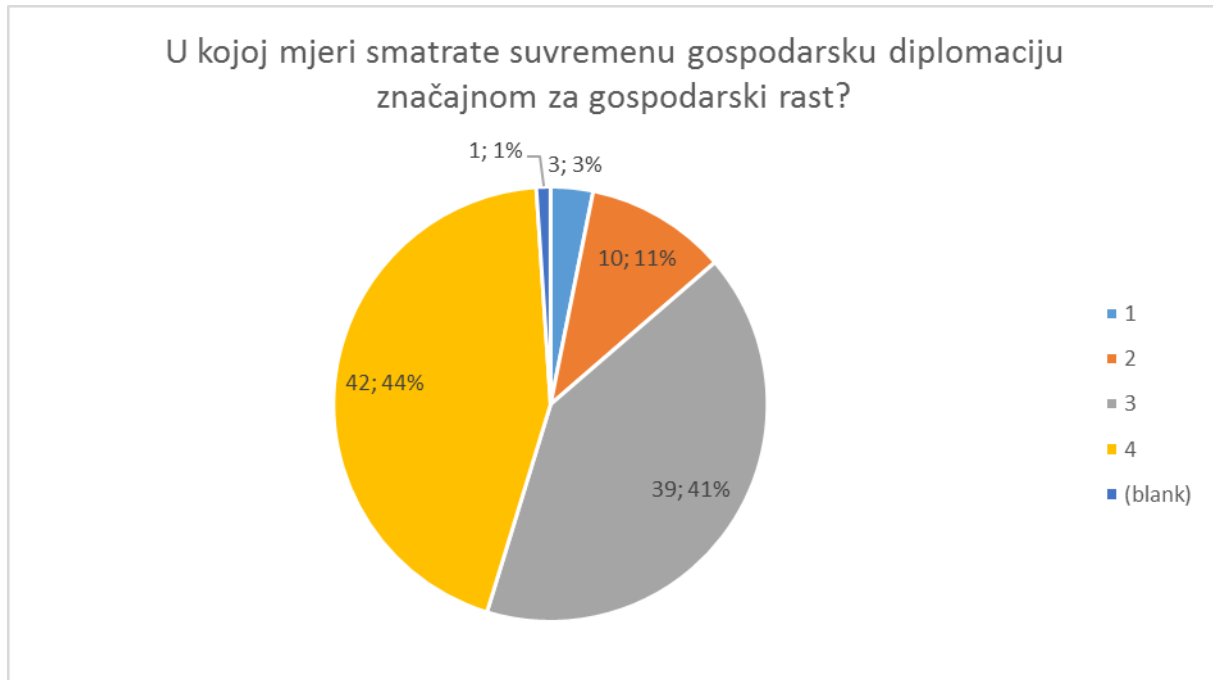
Further questions were dedicated to the economic diplomacy, both its international and national dimension. Those questions were asked in order to obtain opinion and recommendations from the business community on economic diplomacy as a concept, its relevance and potential.

In relation to the fundamental and first auxiliary hypothesis of this dissertation, respondents were asked whether they consider economic diplomacy as having a positive impact on economic growth, i.e. to what extent they regard economic diplomacy as relevant when economic growth is at stake (Graph 7). In line with that, they were offered four options, namely 1- absolutely irrelevant/ needless, 2- relatively irrelevant, 3- relatively relevant and 4- extremely important/ necessary. According to the answers received, assertion set out in the hypothesis was confirmed since companies identified economic diplomacy as significant activity if growth is in question with vast majority of companies (85 %) divided between those who consider it as 4- extremely important/ necessary (44 %) and those who consider it as 3- relatively relevant getting (41 %). Minority of companies who think this discipline is insignificant reached 14 %;



11 % of them considering it as 2- relatively irrelevant and only 3 % of them as 1- absolutely irrelevant/ needless. Solely 1 % of respondents did not choose any of the offered options.

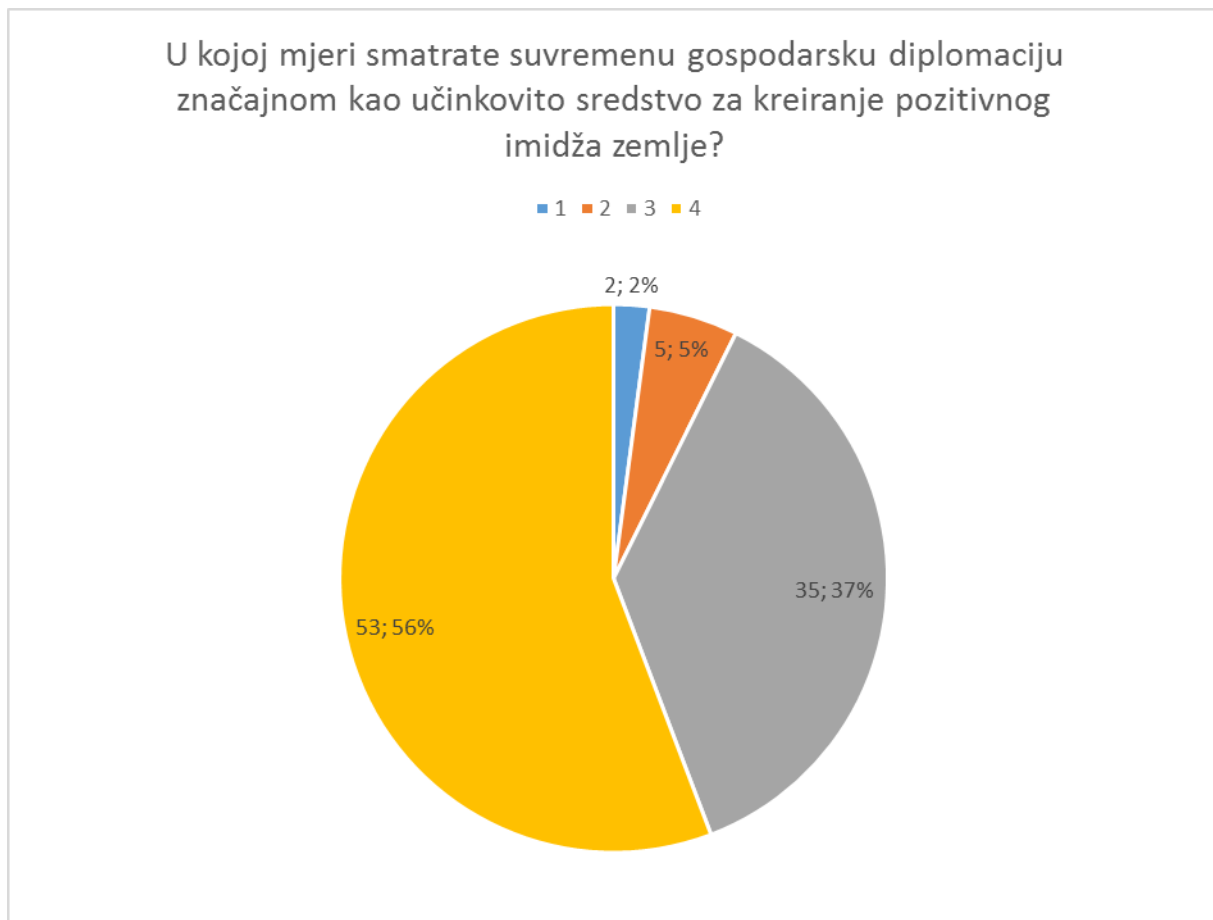
### Graph 7: Relevance of economic diplomacy for economic growth



Source: Author

Next question also refers to the fundamental and first auxiliary hypothesis of the dissertation by trying to establish whether economic diplomacy positively affects a country's image, i.e. to what extent it could be regarded as an efficient tool for the creation of country's positive image (Graph 8). Options offered were the same as in the previous one and entrepreneurs responded similarly although not the same. Huge majority was in favour of considering economic diplomacy as important and efficient tool in positive image creation which only came as a confirmation of the claim set out in the hypothesis; 56 % of them opting for 4- extremely important/ necessary option and 37 % of them supporting it as 3- relatively relevant. Consequently, only 7 % of companies deems economic diplomacy as irrelevant in positive image creation; 5 % of respondents think it is 2- relatively irrelevant and 2 % of them regards it as 1- absolutely irrelevant/ needless.

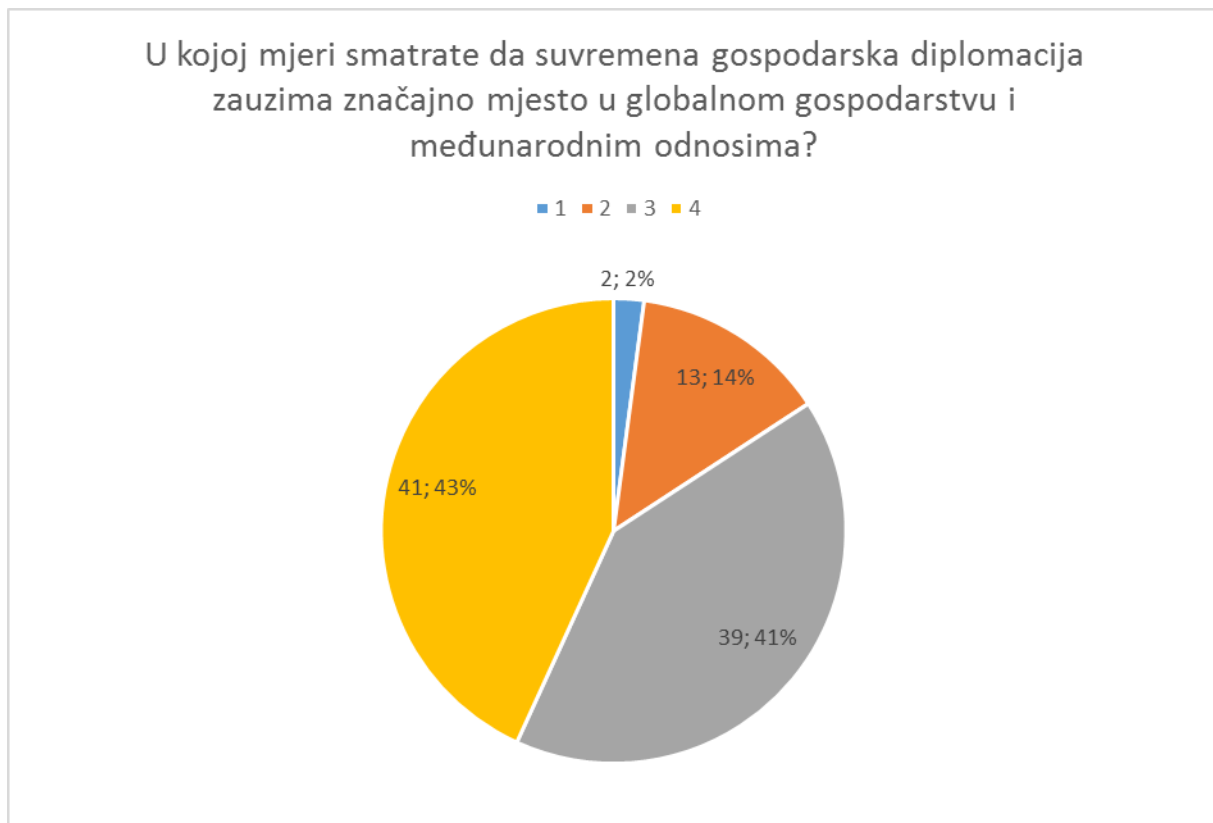
### Graph 8: Economic diplomacy role in positive image creation



Source: Author

Last question related to the economic diplomacy as a general concept asked entrepreneurs to determine to what extent they consider economic diplomacy as having an important role in global economy and international relations (Graph 9). Just like in the previous two questions and with them related hypotheses, respondents acknowledged predominantly the second auxiliary hypothesis and confirmed the relevance of economic diplomacy on international level by considering it as 4- extremely important/ necessary (43 % or 41 companies) and 3- relatively relevant (41 % or 39 companies) with only 13 companies (14 %) deeming it as 2- relatively irrelevant and 2 of them (2 %) as 1- absolutely irrelevant/ needless.

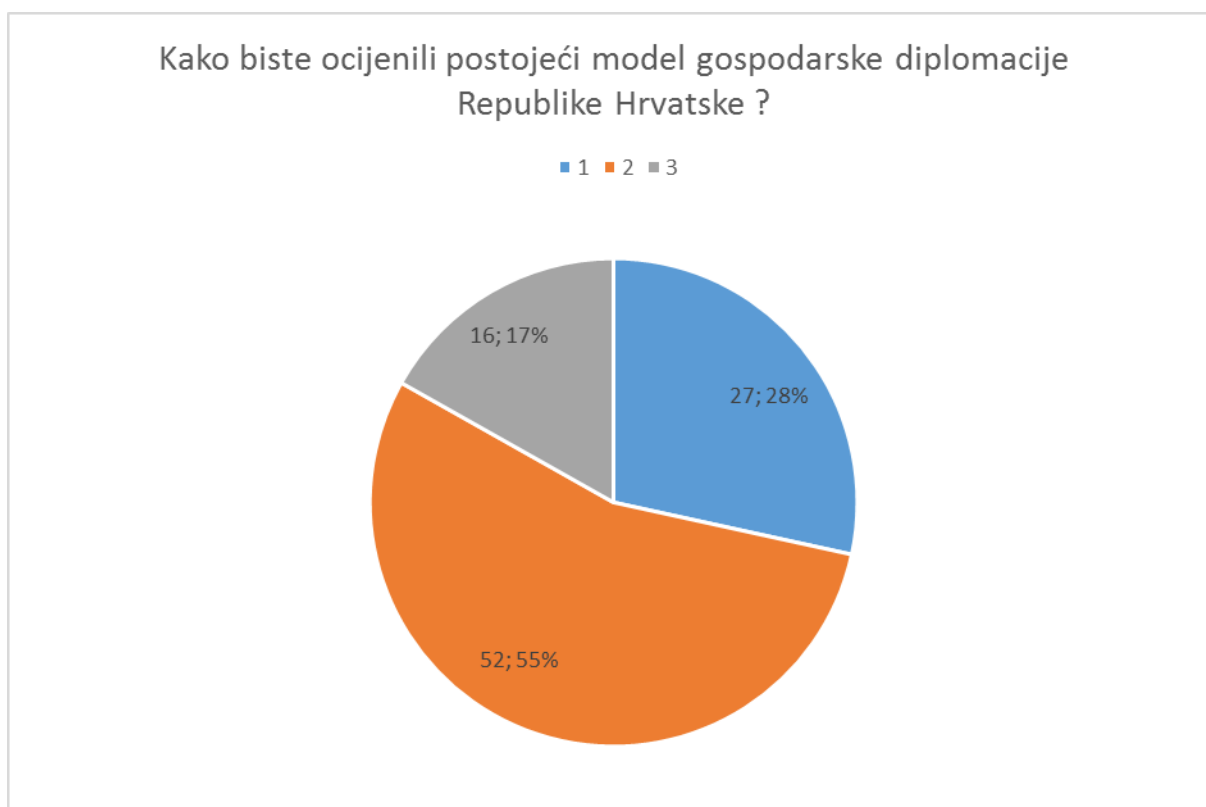
### Graph 9: Economic diplomacy relevance in global economy and international relations



Source: Author

The following questions were devoted to the economic diplomacy of the Republic of Croatia. Like in the previous group of questions, answers to the following ones will give strong indication but here with regard to the fifth auxiliary hypothesis that is dedicated to Croatian economic diplomacy. First of them intended to get assessment of the current Croatian economic diplomacy model (Graph 10) by providing entrepreneurs with the following options: 1- extremely unsuccessful, 2- relatively unsuccessful, 3- relatively successful and 4- extremely successful. Answers only confirmed what has been said previously in this dissertation and what the business community has been repeatedly saying for many years. Current Croatian model of economic diplomacy can only be described as unsuccessful and inadequate. More than a quarter of respondents (27 companies or 28 %) deem it as 1- extremely unsuccessful while more than half of them (52 of them or 55 %) think that it is 2- relatively unsuccessful. This model was assessed as 3- relatively successful by only 16 companies which count for 17 %. Exactly none of them chose the option 4- extremely successful.

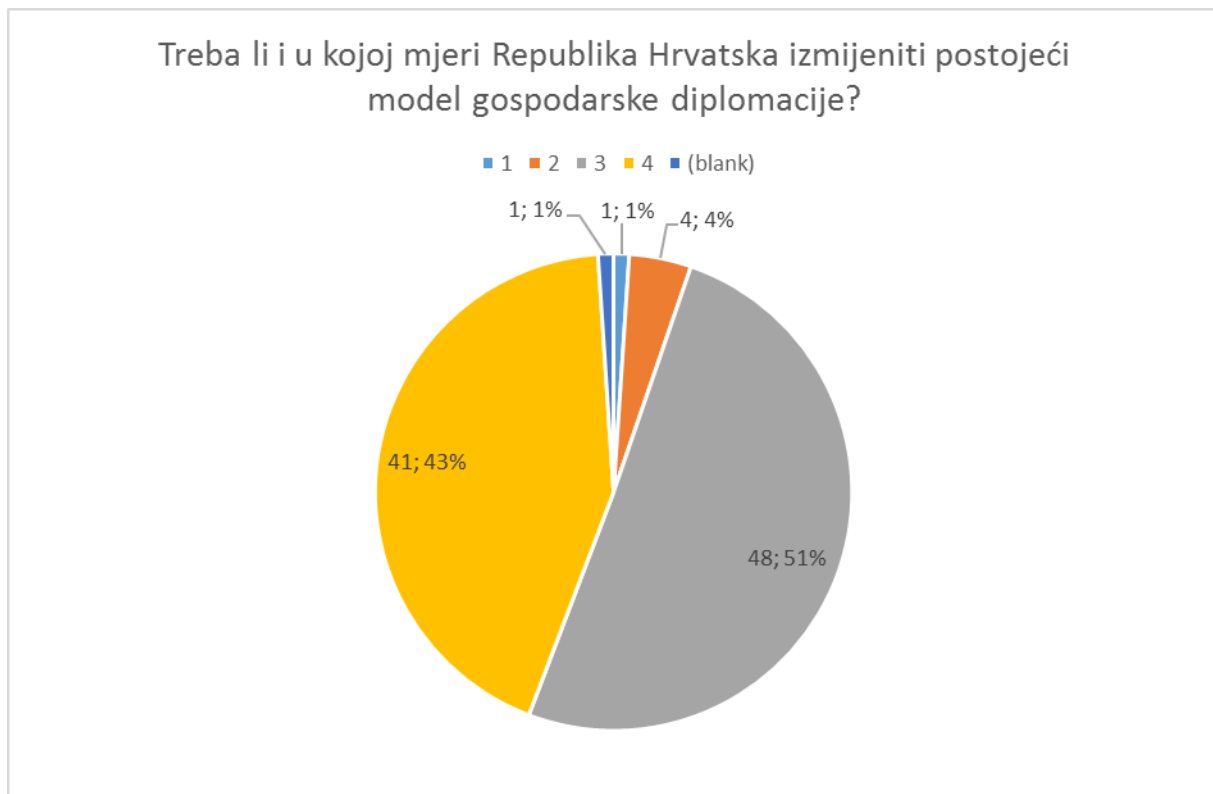
### Graph 10: Assessment of the current Croatian economic diplomacy model



Source: Author

When asked whether and to what extent Croatia needs to modify its model, i. e. structure and organisation of its economic diplomacy, representatives of business community responded in line with the logic from previous question (Graph 11). They were offered four options, namely 1- current model should not be modified, 2- current model should be slightly modified, 3- current model should be significantly modified and, 4- current model should be dismissed and the completely new one adopted. Call for dismissal of the current model and adoption of the new one was approved by 43 % (41 company); substantive and significant changes of the current model were approved by more than half of respondents (48 companies or 51 %); slight modification of the current model was supported by 4 companies or 4 % while the current state of affairs was backed only by 1 % of respondents (1 company). One company did not choose any of the offered options. Based on what companies as competent stakeholders and players directly affected by economic diplomacy stated here, it is more than obvious that considerable or better say radical changes in Croatia's economic diplomacy model are needed, as soon as possible.

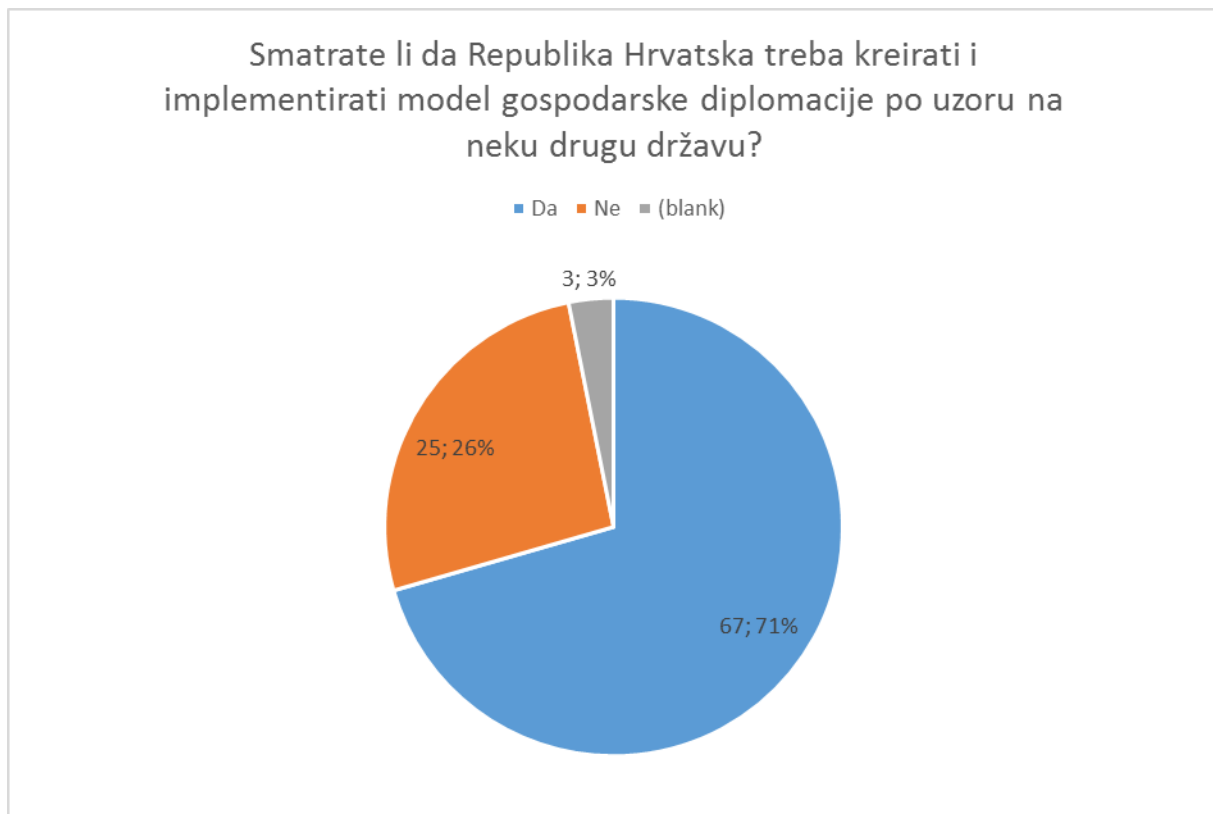
**Graph 11: Need for modification of the current Croatian economic diplomacy model**



Source: Author

Taking into account a fact that numerous countries applied successful and efficient economic diplomacy models, respondents were asked whether Croatia should create and implement a structure that would be very similar to the other country's model (Graph 12). Only 26 % of entrepreneurs (25 of them) think that Croatia should not borrow other country's economic diplomacy system while 71 % or 67 companies supported the idea of switching to someone else's model. Three companies (3 %) did not express their opinion on this topic.

**Graph 12: Croatia's acceptance of other country's economic diplomacy model**



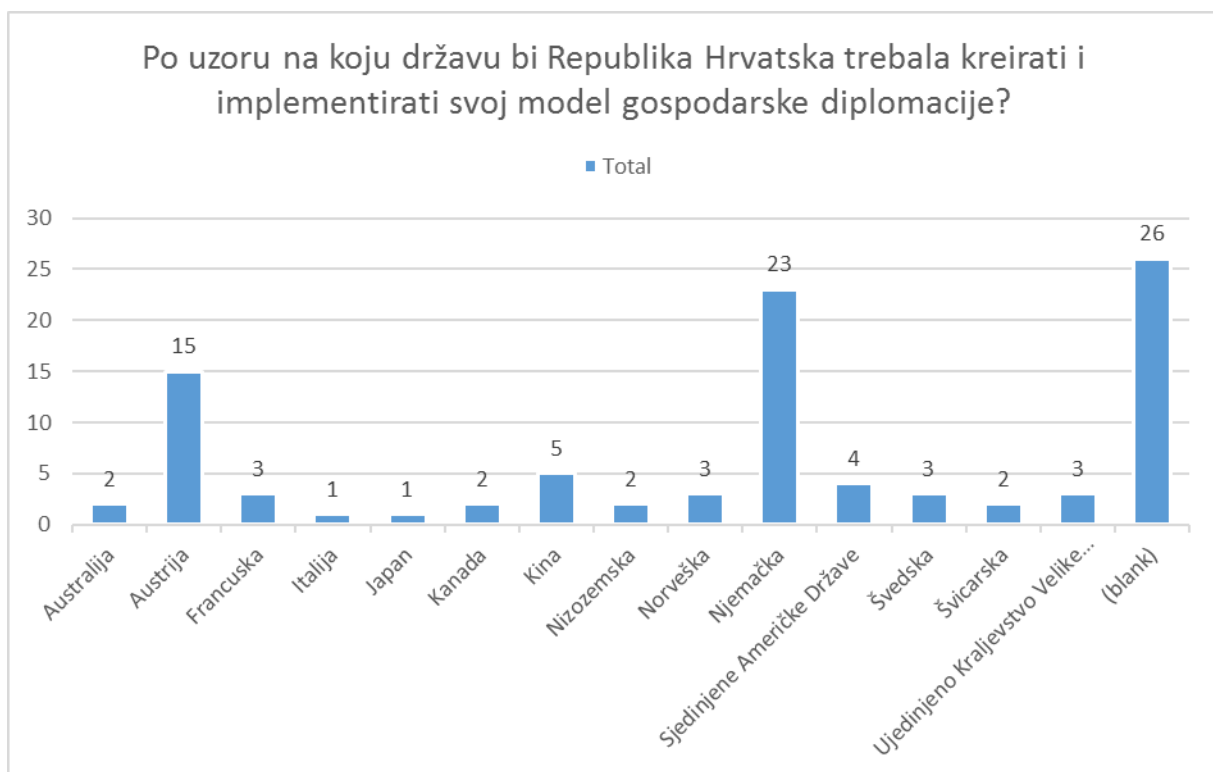
Source: Author

Before moving to concrete countries acting as role models for future Croatian economic diplomacy model, it deems very important to assert that three previous answers (presented in Graphs 10, 11 and 12) obviously endorsed the fifth auxiliary hypothesis since the large majority of companies' representatives expressed the three following sentiments, namely dissatisfaction with the current Croatian model, need for substantive changes in Croatia's economic diplomacy organisational structure and great tendency to develop and apply the economic diplomacy model that is in line with the one of another country.

Thereafter, respondents could identify country which they consider as the best role model for future Croatian economic diplomacy structure (Graph 13). They were left to choose between 15 countries with more or less successful and efficient economic diplomacy model, namely Australia, Austria, Brazil, Canada, China, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, UK, USA. Interestingly, highest number of respondents (26 companies) could not tell which country's model would suit Croatia best and left blank this question. This suggests that large proportion of our entrepreneurs still do not have sufficient knowledge on

other countries' economic diplomacy models and the way they operate in practice. Germany was chosen by 23 of them while Austria was opted by 15 of them. All other offered countries received support from less than 5 entrepreneurs with the exception of China (5 companies). This clearly indicates that Croatian business community appreciates much the German and Austrian structure of economic diplomacy which themselves possess certain similarities although they are clearly not the same with size of country, population and economy also representing great differences among them.<sup>353</sup> Moreover, both of these countries are among the most important economic partners of Croatia which means that Croatian companies have excellent experience with their German and Austrian counterparts.

**Graph 13: Economic diplomacy role model countries**



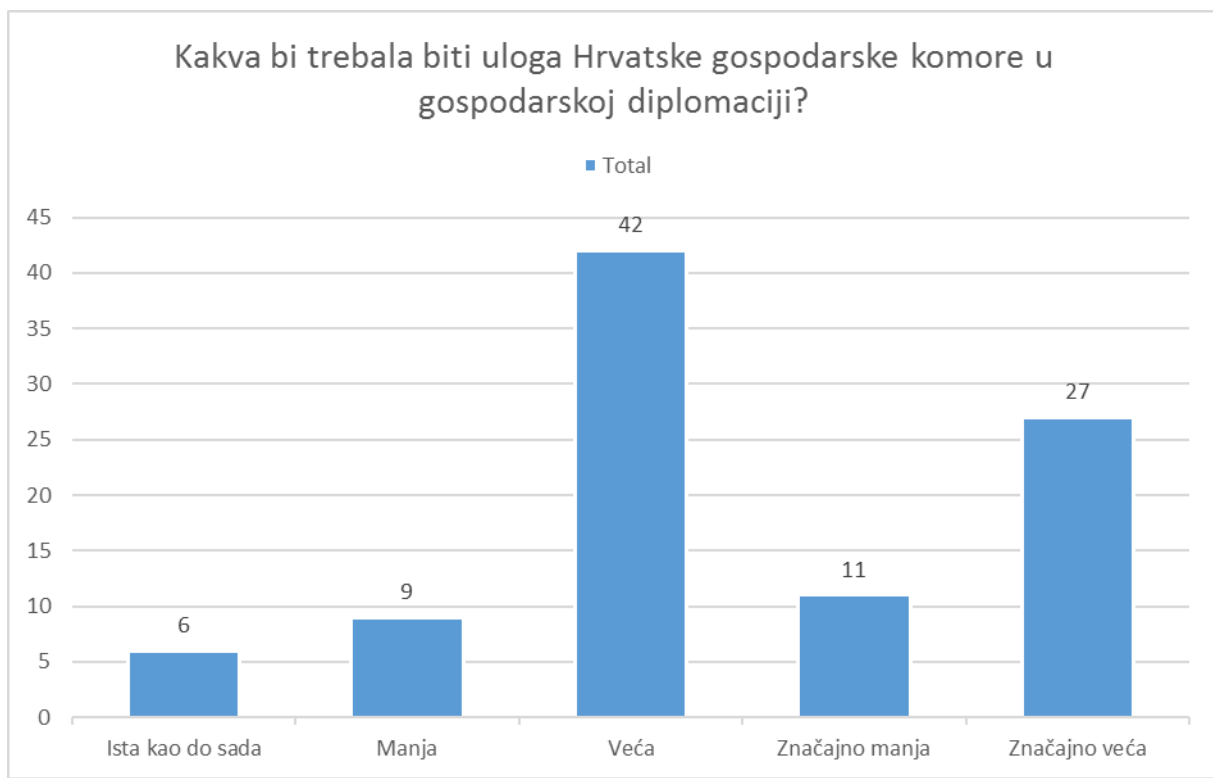
Source: Author

Since I work at the Croatian Chamber of Economy, it was of my great interest to test the pulse of business community when the role of this institution is at stake. Hence, companies were asked what should be the CCE's role in Croatian economic diplomacy model (Graph 14). The following five options were offered to them, i.e. significantly less important, less important,

<sup>353</sup> Both German and Austrian economies and economic diplomacy models were discussed in detail previously in this dissertation.

same as now, more important, significantly more important. Entrepreneurs predominantly indicated their wish for greater Chamber's involvement since 42 of them declared that this institution needs a more important role and 27 of them asked that the CCE has a significantly more important role. The same status was supported by only 6 companies while the less important role was deemed as an appropriate by 9 of them. Finally, 11 companies opted for even further decrease of this institution's involvement as they called for significantly less important role.

**Graph 14: Croatian Chamber of Economy role in economic diplomacy**



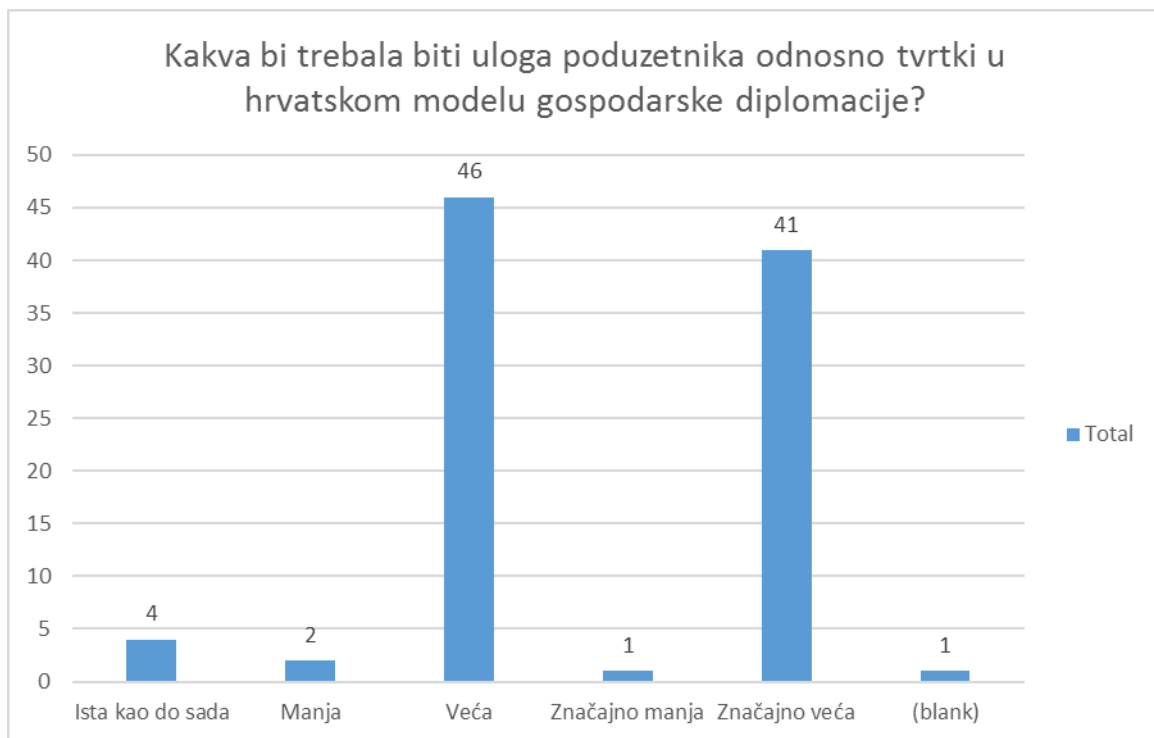
Source: Author

Last but not the least important question referring to the Croatian economic diplomacy model deals with the role of business community or better say their representatives (Graph 15). Therefore, respondents were asked what should be the role of entrepreneurs, i.e. companies in the Croatian economic diplomacy model. Options offered were exactly the same as in the previous question. The more important role for companies was chosen by 46 companies and the significantly more important role by 41 of them. Therefore, we might freely conclude that business community in Croatia is very much not satisfied with the current situation. They expect and call for considerably more involvement of companies who might diminish bureaucratic



way of functioning and bring much needed contacts, know-how, experience, ideas, creativeness, strategic thinking etc. Only 2 respondents thought that entrepreneurs should less important role and solely 1 of them wanted significantly less important role for companies in Croatian economic diplomacy. One respondent did not opt for any of the offered answers.

**Graph 15: Role of companies, i.e. entrepreneurs in Croatia’s economic diplomacy**



Source: Author

#### **VI.4. Recommendations for the new economic diplomacy model**

Since it has been presented and explained in detail above, it may freely be asserted that Croatia’s economic diplomacy model cannot be regarded as successful or efficient. Numerous economic indicators that have been presented alongside with the answers and opinion obtained from the Croatian business community within survey clearly suggest that serious changes are necessary, as soon as possible.

However, higher figures and efficiency in economic diplomacy that has been inefficient and unsuccessful for almost a quarter of century cannot be repaired or improved easily. It is important to say that it is not only economic diplomacy system or structure that needs to be

modified. The process of significant economic growth and sustainable development is complex and economic diplomacy organisation is only one part of this comprehensive task. The state administration as a whole needs a new arrangement, modern *modus operandi* that can be accomplished only if reforms in the following areas are implemented:

- less bureaucracy,
- less administrative burden,
- extinction of corruption (emphasis on local and regional level),
- lesser number of towns and communities,
- lower taxes,
- legal certainty,
- non-complicated legislative framework,
- concrete demographic strategy and measures,
- long-term strategy for industry and agriculture revival,
- responsible and visionary management of all economic resources and state owned companies.

Simultaneously with abovementioned reforms, the new economic diplomacy model should be discussed, created and implemented. In other words, Croatia needs to strengthen its economy and companies coincidentally with modification of the approach when export promotion and foreign investments attraction are at stake.

Speaking of economic diplomacy structure, it is more than obvious that Croatia needs to change its current model and find a new, modern one that will be most importantly proactive and aggressive. The representatives of Croatian business community that participated in the survey whose results were presented above or better say companies who possess the status of end users of economic diplomacy services and activities most definitely confirmed the dissatisfaction with what and how it has been performed so far.

What is even more important, they clearly indicated that substantive change is desirable. That change definitely should include one trend that was recognized and accepted many years or even decades ago in the most developed countries. That trend is greater involvement of different stakeholders, both when creation and implementation of economic diplomacy strategy and measures are in question.

Croatian ministry of foreign and European affairs did not achieve results it wished to when it took over few years ago as the leading state body for economic diplomacy. Reasons for that are various but the one most obvious lies in the fact that most of the people working at that ministry are simply not qualified for efficient performance of tasks in this area. They do not possess sufficient skills, experience, information, databases and networking in the world of business. Although these facts are more than obvious, they are not even now trained to enhance their capacities and expertise. Without these professional qualifications, it is impossible to reach serious positive results. Situation with other ministries is more or less the same.

That is exactly why I mentioned above that the whole state administration system needs to be reformed radically. Only then, ministry of foreign and European affairs and/or other Croatian state institutions will be properly capacitated to actively participate and contribute. Essentially, it is crucial to change and provide the high quality substance instead of wasting time with the form. The formal name of institution or the number of institutions who are in charge of economic diplomacy are much lesser problems than the fact that Croatia does not possess sufficient number of experts within its state administration or the real know-how in this important area. Being totally aware of these problems, I deliberately chose to write this type of recommendations, which are directly connected to the core of problem, i.e. the content of economic diplomacy.

Those experts do exist and they operate mostly in private sector and/or at the universities but were never really attracted to work in state institutions which is understandable to some extent since financial conditions in their companies or faculties are considerably better. However, it is a disappointing fact that they openly offered their assistance and knowledge on many occasions but were never really awarded with the government's partners status since their ideas and recommendations were not taken into consideration seriously.

Numerous Croatian governments did not seize the opportunity to create concrete programmes, projects and measures that clearly follow the needs of Croatian companies or foreign ones that intend to invest in Croatia. The only thing that was actually done was hyper production of documents, action plans or strategies whose quality was at least questionable and were not implemented in the end.

Croatia has modified the formal structure or organisation of economic diplomacy model several times in the past 25 years. Unfortunately, none of these changes accomplished the desired

effects. Institutions, bodies and associations who are outside the state or governmental framework did not take part in this policy creation and implementation, at least not as an equal partner which was profoundly wrong if we are aware of the fact that they possess considerable expertise and resources in economic issues and do have daily contact with the business community. Consequently, that must be changed in the future and all active stakeholders of Croatian economy must form an integral part of the new economic diplomacy organisation. By saying that, I mean not only that these bodies should be formally included in the structure but their status must be equal to the one of governmental bodies and their concrete ideas, recommendations and projects must be taken seriously into consideration and then implemented.

Furthermore, state institutions responsible for the economic diplomacy must be much closer to the business community, more responsive and sensitive to the needs of companies especially bearing in mind the fast-changing economic and geopolitical trends at global and regional level. Serious number of companies have enormous expertise and experience on the one hand but also on a daily basis, they encounter many obstacles in Croatia and abroad. Therefore, communication between these two sides must be improved significantly in the sense that the governmental sector should listen to what the business community has to say or ask.

Speaking of expertise, it must be noted that the assessment of Croatia's economic diplomacy efficiency will be considered as proper and fair only if and when diplomats, who are in charge of economic diplomacy activities and services, will get scrutinized by the business community. The latter are or least should be the direct (or indirect) beneficiaries and for that reason are entitled to evaluate the state officials who should assist and foster their businesses. All those that are not regarded as satisfactory and efficient by the company representatives should not form part of the Croatian economic diplomacy structure.

It is a fact that many states have found the right path and produced some great economic results owing it largely to the efficient economic diplomacy. Croatia should not be ashamed of importing and implementing certain positive features from abroad that proved to be successful. Nevertheless, the complete model of economic diplomacy from any other country could not and should not be copy-pasted because every state is specific for its economic, political and social factors that influence also their type of economic diplomacy model as it was shown earlier in this dissertation.

## VII. CONCLUSION

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In order to conclude this doctoral dissertation it deems necessary to wrap up what has been performed and presented here so far.

Introductory part summarized the dissertation as a whole by briefly addressing the concept of economic diplomacy and some of its interesting features. In addition, certain significant ideas and developments that were established by some of the most prominent authors in the area of economic diplomacy were indicated also.

In order to perceive correctly the idea behind this doctoral dissertation or better say its title, introduction included the aim and hypotheses (main and auxiliary) which were designated, laid down and explained in clear manner.

Furthermore, materials , methodology and plan of the research were set out in order to provide a simple view on the content, concrete chapters and structure. There it was stated that this dissertation contains three different components, i.e. theoretical, analytical-comparative and empirical with each of them carrying its own portion of importance.

Moreover, two scientific researches (interview and survey), that were specified and described in detail later, were introduced and assessed as crucial parts of this PhD dissertation as they directly relate to hypotheses and deal with their confirmation. The relevance of both interview (*via e-mail*) and (on-line) survey was displayed as it was clearly explained why exactly these scientific methods were chosen and performed among two groups (high-ranking diplomats and company representatives) of significant economic diplomacy stakeholders but also what concrete feedback and value they brought to this doctoral dissertation.

Bearing in mind the actual contribution of the doctoral dissertation, concrete results of it were specified which eventually aimed at confirming the high-profile and ever growing status of economic diplomacy within international relations.

Additionally, introduction was used to clarify two important issues and avoid any misunderstanding; first, the character of this dissertation which was undoubtedly written from the diplomatic point of view that has its foundation in the scientific area of international relations and not in the economic one and second, the scope of this dissertation which is both international since it deals with theoretical implications of economic diplomacy concept, various national economic diplomacy models and the effectiveness of the economic diplomacy

itself but also national as it provides the comprehensive assessment of the state of affairs when Croatia's economic diplomacy is at stake.

The author's opinion was and still is that Croatia's economic diplomacy did not fulfil the expectations so far and therefore could not be regarded as a modern and an efficient one<sup>354</sup> which, contrary to that, is the case in significant number of developed countries as it was displayed clearly in this dissertation. Exactly for that reason, the title of this dissertation contains the small but very important word "as" which clearly indicated that economic diplomacy could still not be regarded as an instrument of Croatia's progress and promotion but definitely could and more importantly, should hold such a status. Otherwise, the title would not read "Economic diplomacy as an instrument of progress and promotion of the Republic of Croatia" but instead "Economic diplomacy- an efficient instrument of progress and promotion of the Republic of Croatia".

Second chapter turned its attention to two major topics, namely definition of diplomacy and diplomacy's historical development. As regards the former, several very-well known definitions developed through time by some of the authorities in this area were listed while in relation to the latter, text was divided into two major units, i.e. international and Croatian diplomacy. Within the international part, several historically important states or entities (Rome, Italian city states, Roman Catholic Church, Greece etc.) and events (Treaty of Westphalia, Vienna Congress, WWI, WWII, Cold War etc.) were displayed alongside with their considerable achievements that made them so influential and recognized when diplomacy's development and specific contributions are assessed. As far as Croatian diplomacy is concerned, three periods were identified as key for the development, more precisely Croatian medieval era diplomacy, Dubrovnik Republic diplomacy and modern-day Croatian diplomacy. Each of them had its own priorities but what is important is the fact that all three of them had (more or less) success and accomplished their goals that enabled Croatia to exist and develop through that specific period.

Development of economic diplomacy, its definitions, conflicts and significant theories were addressed within the third chapter. Issues like stakeholders involved (state and non-state actors, diplomats and non-diplomats, business community and civil society) or range of activities executed were assessed while four stages (promotion of trade, networking, country promotion

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<sup>354</sup> Although admittedly economic diplomacy as such is of course not the only instrument at disposal to countries aiming at progress and promotion.

and regulatory), through which economic diplomacy is performed, were specified and explained.

Furthermore, two branches of the economic diplomacy as a whole, i.e. economic diplomacy in a narrow sense or trade diplomacy on the one hand and commercial diplomacy on the other hand, were very thoroughly presented and assessed alongside with their numerous characteristics and specificities.

It was established that although different and therefore separate disciplines and their respective activities, one should not make a mistake and say that these two have nothing in common or that one is more important than the other as some claimed. On the contrary, economic diplomacy in a narrow sense and commercial diplomacy are inextricably connected in many ways since there exists a considerable grey area with overlapping activities. For that reason these two cannot be separated in total but instead constitute economic diplomacy as a whole. To support these assertions, tables and figures with explanations were provided which confirm such a stance. Consequently, certain comprehensive definitions of economic diplomacy were indicated.

In addition, three types of tensions that exist within economic diplomacy were laid down as important features of economic diplomacy, namely conflict between politics and economy, international and internal pressures and governments and non-governmental sector. Those tensions occupy significant place in the area of economic diplomacy and as such have considerable influence in economic diplomacy design already for decades.

Last part of this chapter was dedicated to theories that surround economic diplomacy and try to explain many relations and events that are connected with economic diplomacy and ongoing in international arena and global economy. Hence, three specific groups of theories, i.e. systemic theories, doctrines of international trade and domestic theories, were listed and presented with their main features.

The theme that found its place in fourth chapter was the economic diplomacy models, both as far as theoretical framework and certain countries' organisational structure are in question.

The former part of chapter pointed out two important divisions. The first, dealing with five basic models (unified, partially unified, third agency, competition and renunciation) and the second, elaborating on economic diplomacy typology that contains four key orientations or

better say directions (traditional, niche-focused, evolving and innovative). Since focus throughout this doctoral dissertation was certainly more on commercial diplomacy rather than trade diplomacy, several tables that present and explain divisions among various models were displayed in order to provide a clear overview of available strategies and their respective activities that are used by specific countries. In relation to that, three types of commercial diplomats (business promoter, civil servant and generalist) were singled out. Such division clearly reflects different approaches and activities that are undertaken by countries in the area of economic diplomacy.

The latter part of the chapter dealt with specific countries, more precisely eight of them (United Kingdom, the Netherlands, Denmark, Germany, Austria, Portugal, Lithuania and Estonia) which were carefully chosen based on various criteria explained previously in the text. In line with that, national economy of every country including the most important statistics was presented and assessed. Subsequently, the text included detailed description and analysis of their national economic diplomacy models including the organisational structure and concrete measures and activities implemented.

Since it is not a state but instead a regional organisation *sui generis* that admittedly holds quite an important role politically and economically on global level, separate analysis of EU's economy, statistics and economic diplomacy's organisational structure was presented especially bearing in mind several crisis that struck this entity in the past few years. Now it is more than obvious that the EU found itself at crossroads with many questions (economic discrepancies among member states, approach towards migrant crisis, attitude as regards the Euro and austerity measures, relations with the USA, Russia and China etc.) in front and no answers found. Therefore, it deems necessary to discuss and implement a new political and economic organisational arrangement which will prove to be satisfactory not only for the Union's better efficiency but also beneficial for those member states who do not agree with the current course of action in many areas taken by the Bruxelles, or better say the European Commission.

Fifth chapter elaborated on extremely important issue, i.e. economic diplomacy effectiveness. As such, it assesses this important characteristic almost exclusively from a diplomat's point of view with emphasis put on parameters and categories that are relevant for the scientific area of international relations. Accordingly, specific and very clear parameters are laid down which quite precisely determine whether certain country's economic diplomacy can be considered as



successful and efficient or not. Nevertheless, since this doctoral dissertation does not stem from the area of economy, but from the abovementioned international relations (and diplomacy) area, this chapter logically does not provide assessment from the econometric perspective; instead, it possesses only certain econometric data which barely serve as supportive evidence to what has been asserted from the diplomatic perspective.

Economic diplomacy, if effective, tends to be beneficial both to the public and private sector. Trends like job creation, higher tax incomes, economic growth are considered as economic and political positives caused, *inter alia*, by economic diplomacy and its activities which in the end improves the country's image and attractiveness abroad.

Economic diplomacy effectiveness can be measured and seen in many ways with higher export and international trade as direct benefits that relate to companies as beneficiaries who took part in government's export promotion programmes. Economic growth, high development and long term prosperity are regarded as indirect and final goals of economic diplomacy<sup>355</sup>, which if fulfilled, bring benefit to the government and the country as a whole.

It is established that economic diplomacy effectiveness depends highly on the character and quality of services provided and activities that form part of one country's economic diplomacy.

In order to be regarded as efficient, economic diplomacy must provide added value to companies as its users. In connection with that, it is extremely important to determine exactly how that added value can be accomplished. In order to do it correctly, one must identify and analyse parameters (foreign post resources, companies' preparedness and host country's institutional environment) that might prove to have the decisive role.

Additionally, in order to enhance economic diplomacy effectiveness, few recommendations have been suggested. First, government should consider prioritising business networks of foreign post; second, businesses who tend to have economic diplomacy beneficiary status, should have more say in in the process and; third, governments should engage economic diplomats who possess know-how in few areas and not only in business community or state administration.

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<sup>355</sup> Naturally, those goals can be accomplished *via* numerous governmental instruments and measures whereat economic diplomacy is only one of them and definitely not the only or even the most important one.

Monitoring process forms integral part of economic diplomacy effectiveness. In line with that, countries have adopted their particular modes of doing it. Companies' or better say customers' satisfaction being examined via survey serves as one of the most frequently used monitoring methods, especially in situations when companies pay fees for certain services received and need value for money in return. Moreover, activity indicators like annual number of contacts achieved and publications issued or time spent per client company clearly demonstrate how quality monitoring is carried out. Accordingly, Denmark's monitoring system that measures effectiveness through four key performance indicators was displayed; namely income target (fee paid and time spent per client), value creation (growth in company's economic activities), global public affairs (special services provided by diplomatic institution) and outreach (number of contacts in a year).

Speaking of economic diplomacy effectiveness, another issue draws certain amount of attention, namely SME's internationalisation since this process implemented through various strategies in countries around the world serves as good example of whether specific measures, aimed at fostering host country's companies doing business abroad, can be considered as successful or not.

It may be asserted that few separate components constitute the SME' internationalisation process as a whole. First of them are barriers that slow down this process and prevent it from being efficiently implemented. In that sense, four key barriers were identified, i.e. limitations in working capital for exports financing, restricted information for potential markets identification and analysis, inability to contact potential clients abroad and lack of know-how in management. Besides these, more detailed display of barriers, discovered in various studies, were shown in tables.

Second component related to the SME's internationalisation are the actual drivers that motivate this process. As in the case of barriers, four motives were singled out as the main drivers, namely growth motive, "know-how" motive, networking/ social connections and domestic/regional market motives. Other numerous drivers that propel internationalisation among specific countries were displayed in table.

Third constitutive component refers to the approach that is undertaken in order to implement internationalisation process. In relation with that, three main courses of action or strategies have

been established; more precisely, import/export, strategic alliances/joint ventures and foreign direct investments with each of them carrying their own benefits and challenges.

Last but not the least important part of internationalisation process deals with the role of government. Irrespectively of the great number of stakeholders and activities implemented, it is extremely difficult if possible at all to detect universally efficient concrete measures since numerous factors determine which action might be successful in a specific country or better say market. Nevertheless, the following areas and related recommendations which alleviate SME's internationalisation were indicated and explained earlier in the text; positive environment towards internationalisation, provision of information on international trade and business, stimulation of provision of quality business support services, education reform, creation of cross sector and cross border networks, financial support and assistance, reduction of administrative burden, stimulation of trade and investment and strengthening of the legal framework.

The final part of this chapter was dedicated to the first of two scientific researches, namely an interview conducted in July 2018 *via* e-mail with the highly ranked diplomatic representatives of seven embassies stationed in Zagreb.

This interview contained four different groups of questions dealing with distinct areas of economic diplomacy; the role and influence of economic diplomacy, embassy's organisational structure, activities carried out and services provided by the embassy and business climate in Croatia, i.e. economic ties between that specific country and Croatia.

Larger part of the interview's questions and answers were earlier presented and elaborated while the complete interview with some of the interviewed diplomats will be attached to this doctoral dissertation as an appendix.

The crucial part of this interview is its correlation to the fundamental and four auxiliary hypotheses which were tested with first five questions of the interview. Consequently, respondents confirmed through their answers the fundamental hypothesis (*“Modern economic diplomacy has positive impact on the national economy and country promotion.”*), first auxiliary hypothesis (*“Economic diplomacy has become an effective instrument for contributing to national economic progress and creating positive image of a country.”*), third auxiliary hypothesis (*“Internal and international factors influence the choice of optimal models of economic diplomacy which clearly indicate the trend of involving an increased number of*

*stakeholders.*”) and fourth auxiliary hypothesis ( *“As a result of rapid geopolitical and economic trends, economic diplomacy needs to be changed and adapted to these phenomena in order to be effective.*”). However, second auxiliary hypothesis (*“Economic diplomacy occupies a significant place in the global economy and international relations.*”) did not receive clear confirmation but was not denied either since three out seven diplomats were in favour of such an assertion. One foreign representative provided blur answer that neither confirmed nor denied such a statement and another one did not refer to the present economic diplomacy role but instead predicted that it will have a great role in the future. Only one foreign high official obviously denied economic diplomacy’s significant role by saying that this discipline is still adjusting to the ever-changing circumstances and available tools within the international relations arena while one diplomat refused to provide any answer as regards this issue.

Last chapter of this doctoral dissertation related to Croatia and as such it assessed many aspects including its current economic situation, international trade and economic diplomacy model. Most of all, last part of the chapter encompasses the second scientific research, i.e. (on-line) survey conducted among the Croatian business community representatives whereby many important issues were touched upon including those directly related to the main and auxiliary hypotheses.

First part of the chapter analysed the Croatian economy competitiveness wherein numerous figures and statistics from credible studies only confirmed this country’s not so good economic status that has deteriorated mostly in the past ten years only to start slow recovery at the end of 2015 and beginning of 2016. Compared to the rest of “new” EU member states (not to mention “old” ones) which, by the way went through the similar post-communism and privatisation process (with the exception of war), Croatia’ ranking (the worst among the new EU 10 countries in most of categories) clearly manifests wrong and inefficient economic policy that has been implemented for 25 years already. Therefore, radical and swift structural reforms are an absolute necessity especially in the light of growing number of Croatians leaving the country in search of better quality of life. This trend poses direct threat for the future of country and nation since it bears not only negative demographic consequences but also serious socio-economic and political ones.

Croatian foreign trade occupied the second part of this chapter with thorough statistics presented that provide detailed overview of trade between Croatia and foreign countries over the past few years in almost every economic sector. Therefore, this data contain Croatia’s

strongest trade partners and economic sectors, which deliver best results but also indicate economic trends that are obvious in the past few years and might serve as good basis for prediction of events which could arrive in the forthcoming period. However, it must be noted that, just like in the case of global trade, all predictions must be taken with serious amount of discretion taking into account all events that occurred in 2018 and those that might occur in the course of 2019. Deteriorated economic relations and reinvented tariffs among the strongest players in world trade, namely USA, China and EU or latest negative economic developments in Eurozone, Italy's recession, Germany's slow GDP growth, *Brexit* etc. should be treated at least as signs of warning which should be addressed immediately because they might have serious political and economic repercussions on global, regional and national level. These developments alongside the sanctions against Russia and Iran, economic crisis in Turkey or worsened political situation in the Middle East and Venezuela or some other crisis areas might provide firm basis for many sudden and negative (economic) trends that could occur globally in the near future. Consequently, such state of affairs would certainly have serious negative impact on Croatia and its foreign trade.

With regard to the Croatian economic diplomacy organisational structure, it has been firmly established (and confirmed previously with figures) in the third part of this chapter that models applied for the past 25 years were inefficient since Croatia did not achieve results or reached potential it could have even if the Homeland war as aggravating circumstance is taken into account. Although formally many organisational changes were implemented, great majority of them did not bring substantial improvements or better say fulfilled economic diplomacy's purpose of assisting business community, propelling progress and promotion, fostering Croatia's economy etc.

Most significant part of this chapter was the second scientific research of this doctoral dissertation, carried out through the means of (on-line) survey among Croatian companies' representatives. Importantly, several questions and answers from the survey directly relate to the main and auxiliary hypotheses and provide confirmation of those.

As in the case of interview with diplomats posted in Zagreb, earlier was presented large part of the survey that refers to the hypotheses of this doctoral dissertation while the complete survey will find its place as an appendix. Large number of Croatian business community representatives took part in this survey and responded to questions thereby strongly affirming the fundamental hypothesis ("*Modern economic diplomacy has positive impact on the national*

*economy and country promotion.”), first auxiliary hypothesis (“Economic diplomacy has become an effective instrument for contributing to national economic progress and creating positive image of a country.”), second auxiliary hypothesis (“Economic diplomacy occupies a significant place in the global economy and international relations.”) and fifth auxiliary hypothesis (“The Republic of Croatia needs to adopt and implement a new model of economic diplomacy due to global political and economic trends and the situation in the national economy.”).*

Based on the interview and survey results, concrete recommendations were put forward at the end of this chapter as regards the future of Croatia’s economic diplomacy. Instead of changes that refer only to the name or institutional framework that is in charge of economic diplomacy, comprehensive and substantial changes of the broad system that includes numerous state and private stakeholders were set forth.

At the very end of this doctoral dissertation, it deems right to send a final message. It is undeniable fact and reality that economic diplomacy gained huge importance in international relations over the past few decades. As such, it represents a discipline that plays important and occasionally even crucial role in securing sustainable development, progress and promotion of the most developed countries all over the world. Considering all the facts and circumstances, especially geopolitical and economic trends that are changing faster than ever, economic diplomacy’s significance could only grow further. Just like those trends, economic diplomacy too is subject to changes, as it needs to adapt constantly in order to stay efficient. In contrast to what it looked like and functioned in the past, now more and more stakeholders both from the state and private sector have become (almost) equal partners of ministries of foreign affairs and constitute an integral part of economic diplomacy organisational structure.

Unfortunately, Croatia so far did not seize this opportunity and failed in following abovementioned trends, which could have enabled much better economic figures but more importantly higher quality of life and stronger position in the international arena. Therefore, it is the last moment to step up and implement comprehensive and substantive reforms (not only with regard to economic diplomacy) that will enable us within the reasonable period to be right behind the most successful countries in the world. Otherwise, country will only fall deeper in multiple (political, economic, social, demographic) crisis that might have severe and irretrievable consequences for the country and nation.

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## IX. SAŽETAK

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Prijevod naslova doktorskog rada: „*Gospodarska diplomacija kao instrument napretka i promidžbe Republike Hrvatske*“

Svaka država ima vlastiti model gospodarske diplomacije koji odgovara odnosno prilagođen je primarno razini gospodarske razvijenosti ali isto tako i političkom sustavu, zakonodavstvu, kulturnom i civilizacijskom nasljeđu i tradiciji te socijalnom modelu koji pripadajuća zemlja primjenjuje. Sukladno postojećoj literaturi uvriježenoj u području gospodarske diplomacije te praksi koju pojedine države primjenjuju, može se slobodno ustvrditi kako postoji pet modela gospodarske diplomacije koji su međunarodno priznati (unificirani model, djelomično unificirani model, model treće agencije, model natjecanja, model prepuštanja) pri čemu je bitno istaknuti kako brojne države koriste modificirani oblik nekog od modela ili kombinaciju više njih što u konačnici najbolje odgovara specifičnostima i razvijenosti pojedinih zemalja.

Nadalje, u ovoj disertaciji bit će prezentirano kako strategije gospodarske diplomacije poznaju četiri pristupa: tradicionalni, sektorski usmjeren, razvojni te inovativni. Razlike među spomenutim modelima se očituju u načinu na koji države pristupaju vanjskom upravljanju gospodarstvom, koje institucije upravljaju različitim politikama, ulogi koju imaju dionici izvan sustava državne uprave, koje tijelo odnosno institucija je zadužena za promociju izvoza i trgovine te privlačenje inozemnih investicija i drugo.

Neovisno o modelu za koji se određena država odlučila, nekoliko ključnih elemenata određuju uspjeh gospodarske diplomacije. To su: uključivanje više dionika u kreiranje i implementaciju gospodarske diplomacije, integracija ili usklađivanje struktura za vanjske poslove i vanjske gospodarske odnose, veći naglasak na povećanju izvoza i privlačenju inozemnih investicija kao dva ključna prioriteta, kvalitetan regulatorni i zakonodavni okvir koji je neophodan za stvaranje željenih uvjeta koji će olakšati promicanje izvoza i trgovine te privlačenje investicija kao i veća učinkovitost provedbenih mjera.

Neosporna jest činjenica da je u globaliziranom svijetu i ekonomiji značaj gospodarske diplomacije veći nego ikad prije i to s tendencijom daljnjeg rasta imajući na umu brojne i brze promjene na geopolitičkoj karti svijeta. Optimalan način za utvrditi koliki je zapravo značaj i utjecaj gospodarske diplomacije jest kroz provjeru učinaka koje gospodarska diplomacija ima na gospodarstvo i promociju države. Na taj način moguće je precizno odrediti da li je

gospodarska diplomacija putem aktivnosti koje poduzima i usluga koje pruža zaista djelotvorna odnosno da li i u kojoj mjeri korist od nje imaju tvrtke tj. poslovna zajednica a samim time i država. Upravo s tim ciljem autor je proveo znanstveno istraživanje u formi intervju-a s predstavnicima diplomatskog zbora u Hrvatskoj tj. visoko rangiranim diplomatima, a čiji rezultati će biti ovdje prezentirani.

Što se tiče Republike Hrvatske, više je nego jasno kako od proglašenja samostalnosti i neovisnosti nije niti približno praćen gore spomenuti globalni trend rasta uloge gospodarske diplomacije a samim time niti postignuti rezultati nisu na zadovoljavajućoj razini. Ipak, valja priznati kako je gospodarska slika u Republici Hrvatskoj u posljednje dvije godine ipak nešto bolja nego što je to bio slučaj u razdoblju od 2008. do 2016. godine. Shodno tome, pitanje koje se samo po sebi nameće jest da li je i koliko tim rezultatima doprinijela gospodarska diplomacija.

Ova doktorska disertacija analizirat će gospodarsku sliku Hrvatske prema parametrima značajnim za gospodarsku diplomaciju ali i ocijeniti postojeći nacionalni model odnosno organizacijsku strukturu gospodarske diplomacije. Ključni dio doktorske disertacije vezan uz Republiku Hrvatsku odnosi se na znanstveno istraživanje odnosno anketu koju je autor proveo među korisnicima usluga gospodarske diplomacije odnosno predstavnicima hrvatske poslovne zajednice, a temeljem čijih rezultata će biti moguće donijeti konkretne zaključke i ocjene kako o samoj gospodarskoj diplomaciji kao disciplini, tako i o postojećem hrvatskom modelu, njegovim značajkama i nedostacima. Na kraju, bit će iznesene jasne i konkretne preporuke glede potrebe za promjenama odnosno nužnosti uvođenja i primjene novog modela gospodarske diplomacije u Republici Hrvatskoj.

Ključne riječi: gospodarska diplomacija; nacionalni modeli; djelotvornost; napredak; promidžba; Republika Hrvatska.

## SUMMARY

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Every country has its own model of economic diplomacy that corresponds or is adapted primarily to the level of economic development but also to the political system, legislation, cultural and civilizational heritage and tradition and the social model applied by the specific country. In accordance with the existing literature in the area of economic diplomacy and the practice exercised by countries, it may be asserted that there exist five standard models internationally recognized (unified model, partially unified model, the model of the third agency, competition model, abandonment model). Nevertheless, in practice many countries use a modified form of a certain model or a combination of several of them, which in consequence suits most appropriately characteristics and development level of each country.

In addition, it will be presented in this dissertation that the strategy of economic diplomacy recognized four different approaches, namely traditional, niche-focused, evolving and innovative. These differences are reflected in the way the country deals with external management of economy, which bodies manage different policies, the role played by stakeholders outside the state administration, which body is responsible for the export and trade promotion and foreign investments attraction etc.

Regardless of the model that particular country decided to adopt and apply, several key elements determine the success and efficiency of economic diplomacy. These are the following: the inclusion of more stakeholders in the creation and implementation of economic diplomacy, integration or alignment of the foreign affairs and foreign economic relations structure, greater accent on the increase of exports and foreign investment attraction as the two top priorities, quality regulatory and legislative framework necessary for the creation of much-wanted conditions when the promotion of export and trade and the attraction of foreign investments are at stake and last but not the least, highly efficient implementing measures.

It is the indisputable fact that in the globalised world and economy the importance of economic diplomacy is greater than ever before with the tendency of further growth, especially bearing in mind numerous and rapid changes on the geopolitical map of the world. The optimal way to determine the extent of economic diplomacy's relevance and influence is by checking the effects that economic diplomacy has on the economy and the promotion of the state. In that way, it is possible to determine precisely whether economic diplomacy through the activities performed and services provided is really effective or better say whether and to what extent that

proves to be beneficial for companies, i.e. the business community, and the country as a whole. With this aim in mind, the author has conducted a scientific research in the form of interviews with representatives of the diplomatic corps in Croatia, i.e. highly ranked diplomats, whose results will be presented here.

As far as the Republic of Croatia is concerned, it is more than clear that since the proclamation of independence, the above-mentioned global trend of ever greater role of economic diplomacy has not been followed, and thus the results achieved are not at a satisfactory level. Nevertheless, it should be acknowledged that the economic position of Croatia has improved in the last two years compared to how it was in the period from 2008 to 2016. Consequently, the question that is implied automatically is whether and to what extent have these results arrived owing it to economic diplomacy.

This doctoral dissertation will analyse Croatia's economic position in accordance with parameters that are important for economic diplomacy and also evaluate the existing national model or organizational structure of economic diplomacy. A key part of the doctoral dissertation with regard to the Republic of Croatia refers to the scientific research in the form of survey that was conducted by the author with recipients of the economic diplomacy services, i.e. representatives of the Croatian business community. Based on results obtained, it will become possible not only to present concrete conclusions and assessment of the economic diplomacy as a discipline but also to do that in relation to the existing Croatian model, its specific features and disadvantages. Finally, clear and concrete recommendations will be presented as regards the need for change and the necessity to introduce and apply a new model of economic diplomacy in the Republic of Croatia.

Key words: economic diplomacy; national models; effectiveness; progress; promotion; Republic of Croatia.

## **X. APPENDICES**

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### **APPENDIX 1 LIST OF ABBREVIATIONS**

ACFCI- Assembly of French Chambers of Commerce and Industry

AD- *Anno Domini*

AfD- *Alternative für Deutschland*

AHK- *Auslandshandelskammers*

AICEP- *Agência para o Investimento e Comércio Externo de Portugal*

BAFA- *Bundesamt für Wirtschaft und Ausfuhrkontrolle*

BC- Before Christ

BIS- (UK) Department for Business Innovation and Skills

BMWi- *Bundesministerium für Wirtschaft und Energie*

BRIC- Brazil, Russia, India and China

B2B- Business to Business

CBS- Croatian Bureau of Statistics

CCE- Croatian Chamber of Economy

CCIP- Paris Chamber of Commerce and Industry

CCIP- *Câmara de Comércio e Indústria Portuguesa*

CDU- *Christlich Demokratische Union*

CEIE- *Conselho Estratégico para a Internacionalização da Economia*

CEO- Chief Executive Officer

CEFTA- Central European Free Trade Agreement

CETA- Comprehensive Economic and Trade Agreement

CGEA- Commissioners' Group on External Action

CNB- Croatian National Bank

CSU- *Christlich-Soziale Union*

DExEU- (UK) Department for Exiting the European Union

DG- Directorate General

DIHK- *Deutscher Industrie und Handelskammertag*

DIT- (UK) Department for International Trade

EC- European Commission

ECB- European Central Bank

ECCI- Estonian Chamber of Commerce and Industry

EE- Enterprise Estonia

EEAS- European External Action Service

EFSI- European Fund for Strategic Investments

EIB- European Investment Bank

EMU- Economic and Monetary Union

EPA- Economic Partnership Agreements

EU- European Union

EUR- Euro

EU10- Ten Central and Eastern European countries that acceded EU in 2004 and 2007



FCO- (UK) Foreign and Commonwealth Office

FDI- Foreign Direct Investment

FTA- Free Trade Agreements

GATT- General Agreement on Tariffs and Trade

GCI- Global Competitiveness Index

GDP- Gross Domestic Product

GTAI- Germany Trade & Invest

G-20- Group of Twenty

G-77- Group of 77 developing countries

HRK- Croatian kuna (currency)

IAPMEI- *Agência para a Competitividade e Inovação*

IBRD- International Bank for Reconstruction and Development

ICT- Information and Communications Technology

IMF- International Monetary Fund

IPR- Intellectual Property Rights

KPI- Key Performance Indicators

LNG- Liquefied Natural Gas

MEACP- (Dutch) Ministry for Economic Affairs and Climate Policy

MFA- Ministry of Foreign Affairs

MFEA- (Croatian) Ministry of Foreign and European Affairs

NATO- North Atlantic Treaty Organisation

NEA- Netherlands Enterprise Agency

NBSO- Netherlands Business Support Offices

NIEO- New International Economic Order

NKD- Croatian National Classification of Activities

OECD- Organisation for Economic Co-operation and Development

PPP- Public Private Partnerships

R & D- Research and Development

SITC- Standard International Trade Classification

SME- Small and Medium Enterprises

SPD- *Sozialdemokratische Partei Deutschlands*

TPO- Trade Promotion Organisations

TTIP- Transatlantic Trade and Investment Partnership

UK- United Kingdom

UKTI- United Kingdom Trade and Investment

UN- United Nations

USA- United States of America

USSR- Union of Soviet Socialist Republics

WB- World Bank

WEF- World Economic Forum

WKÖ- *Wirtschaftskammern Österreichs*

WTO- World Trade Organisation

WWI- World War 1

WWII- World War 2

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Table 21: Relative ranking (percentage out of total number of countries included)

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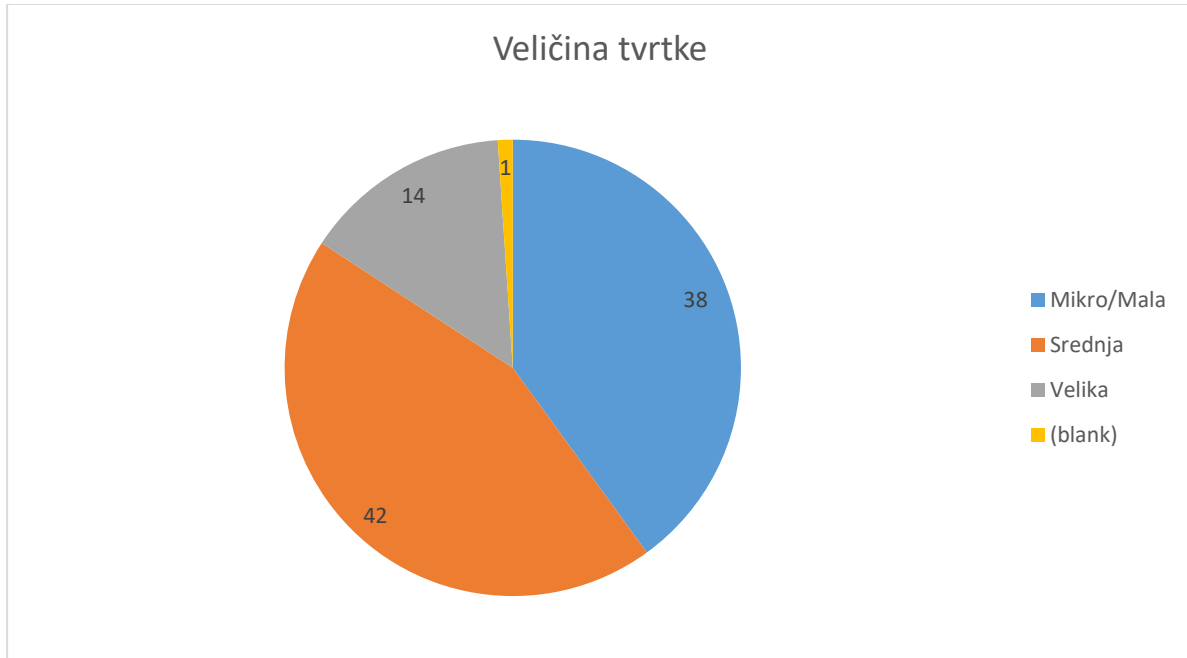
Table 23: Croatian export and import, according to National Classification of Activities (NKD)

Table 24: Croatian export and import, according to Standard International Trade Classification (SITC) sections

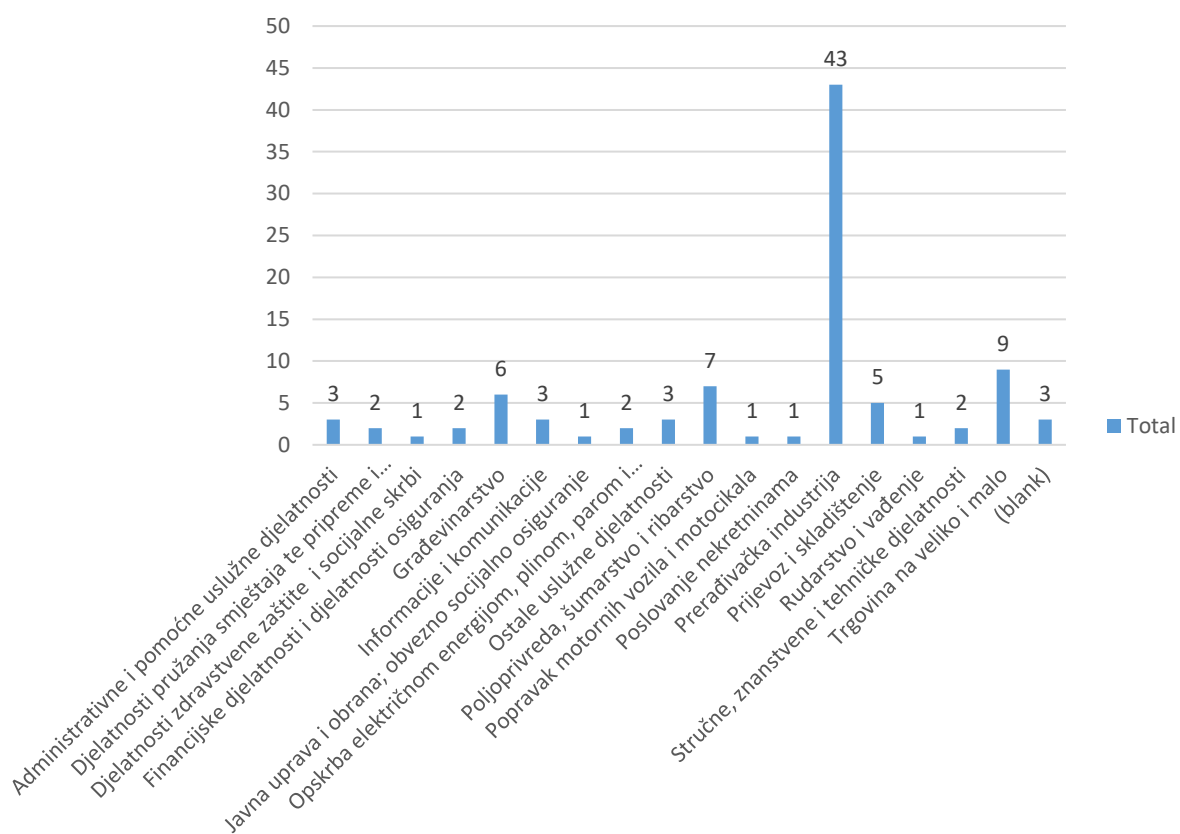
Table 25: Croatian export and import to the EU, EFTA and CEFTA countries

### APPENDIX 3 RESULTS OF SURVEY CONDUCTED AMONG CROATIAN COMPANIES' REPRESENTATIVES

#### SVE TVRTKE

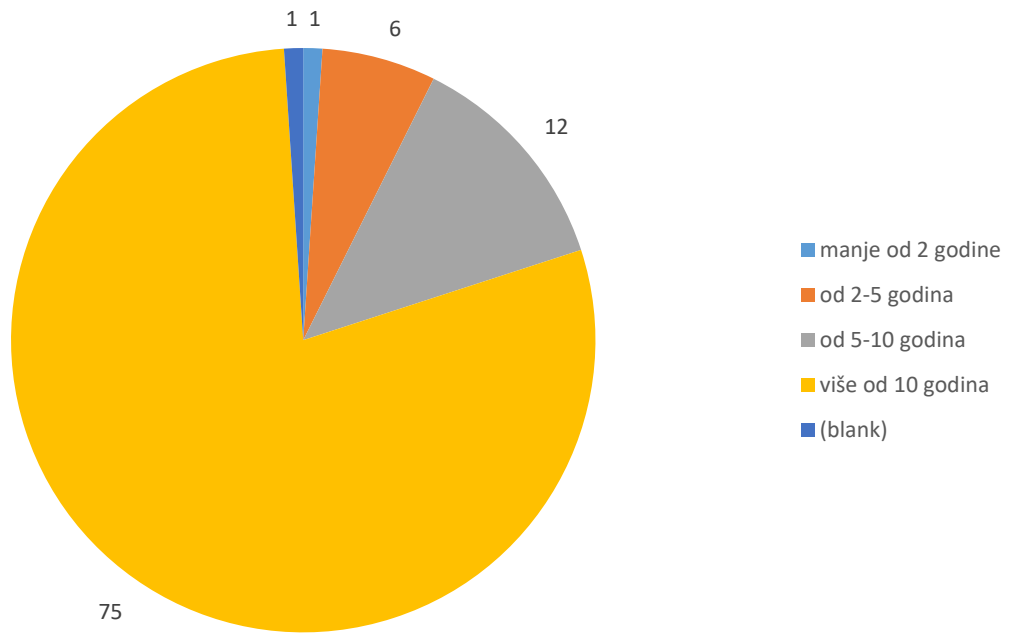


## Tvrtke po djelatnostma

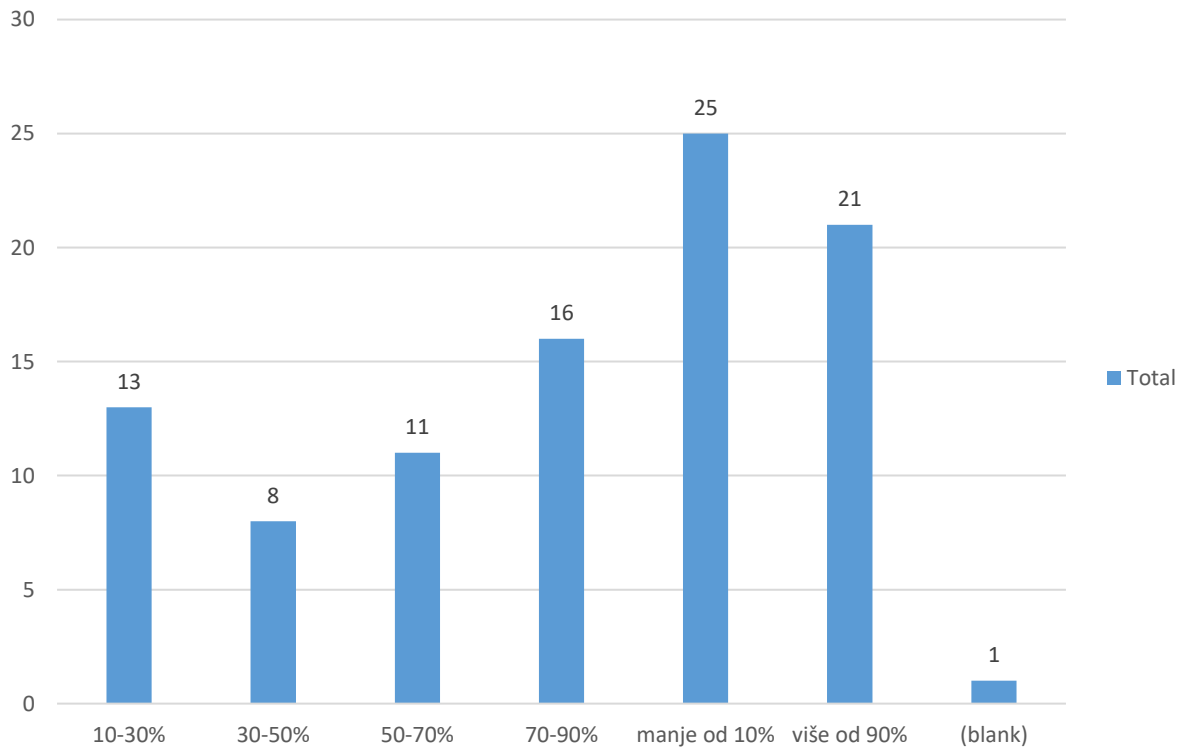


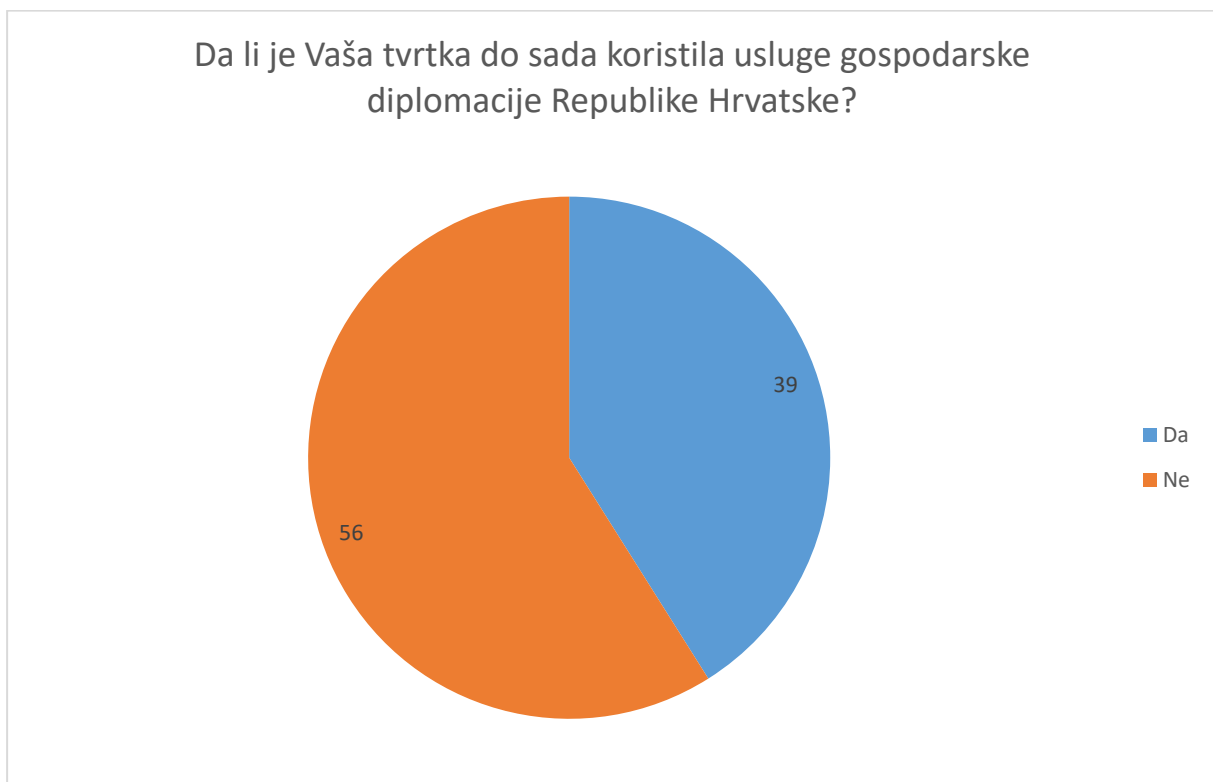


### Koliko dugo Vaša tvrtka posluje na hrvatskom tržištu?

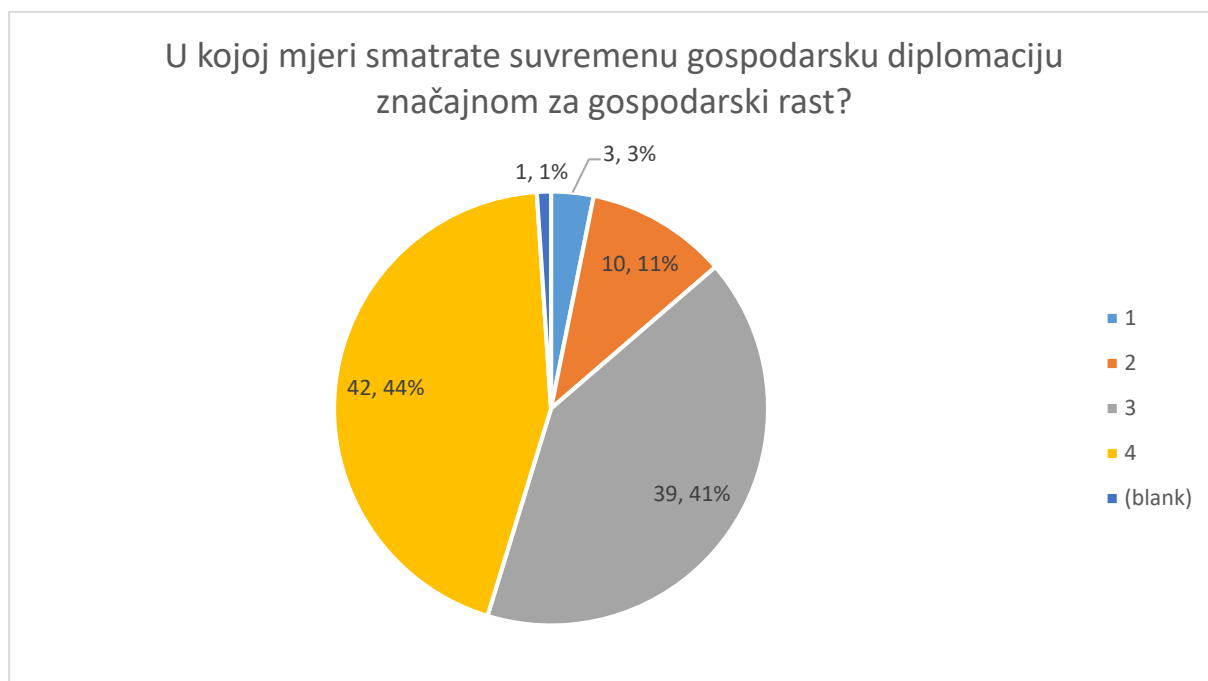


### Koliki postotak u poslovanju Vaše tvrtke se odnosi na izvoz?





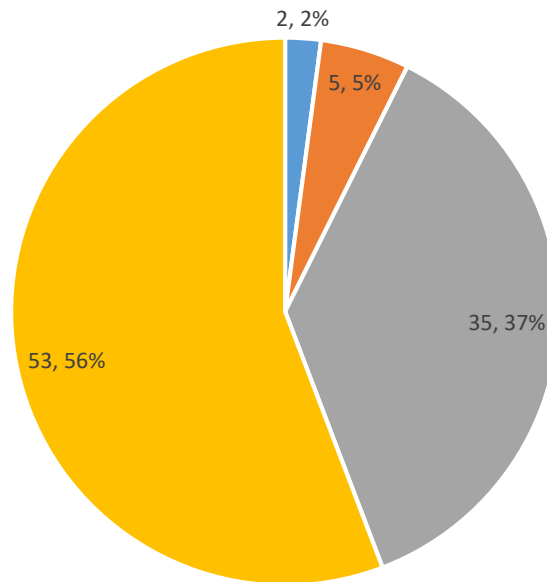
U kojoj mjeri smatrate suvremenu gospodarsku diplomaciju važnom za gospodarski rast? (1-potpuno nevažna/suvišna, 2- razmjerno nevažna, 3-razmjerno važna, 4-iznimno važna/neophodna)



U kojoj mjeri smatrate suvremenu gospodarsku diplomaciju važnom kao učinkovito sredstvo za kreiranje pozitivnog imidža države? (1-potpuno nevažna/ suvišna, 2-razmjerno nevažna, 3-razmjerno važna, 4-iznimno važna/neophodna)

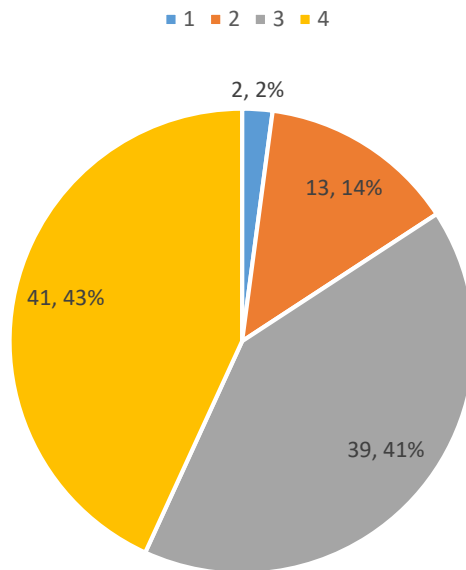
U kojoj mjeri smatrate suvremenu gospodarsku diplomaciju značajnom kao učinkovito sredstvo za kreiranje pozitivnog imidža zemlje?

■ 1 ■ 2 ■ 3 ■ 4



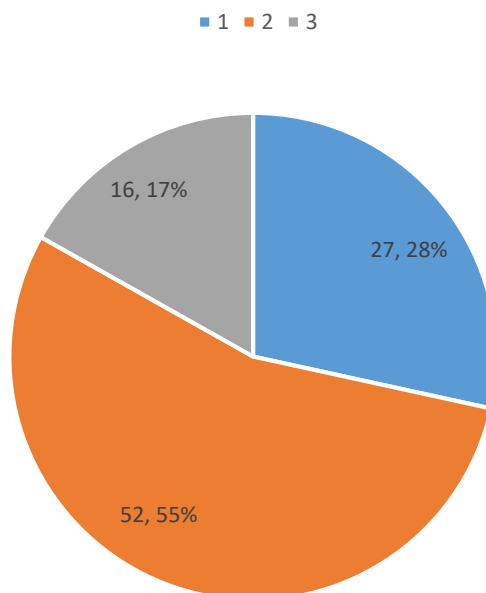
U kojoj mjeri smatrate da suvremena gospodarska diplomacija zauzima važno mjesto u globalnom gospodarstvu i međunarodnim odnosima? (1-potpuno nevažno/ suvišno, 2-razmjerno nevažno, 3-razmjerno važno, 4-iznimno važno/ neophodno)

U kojoj mjeri smatrate da suvremena gospodarska diplomacija zauzima značajno mjesto u globalnom gospodarstvu i međunarodnim odnosima?



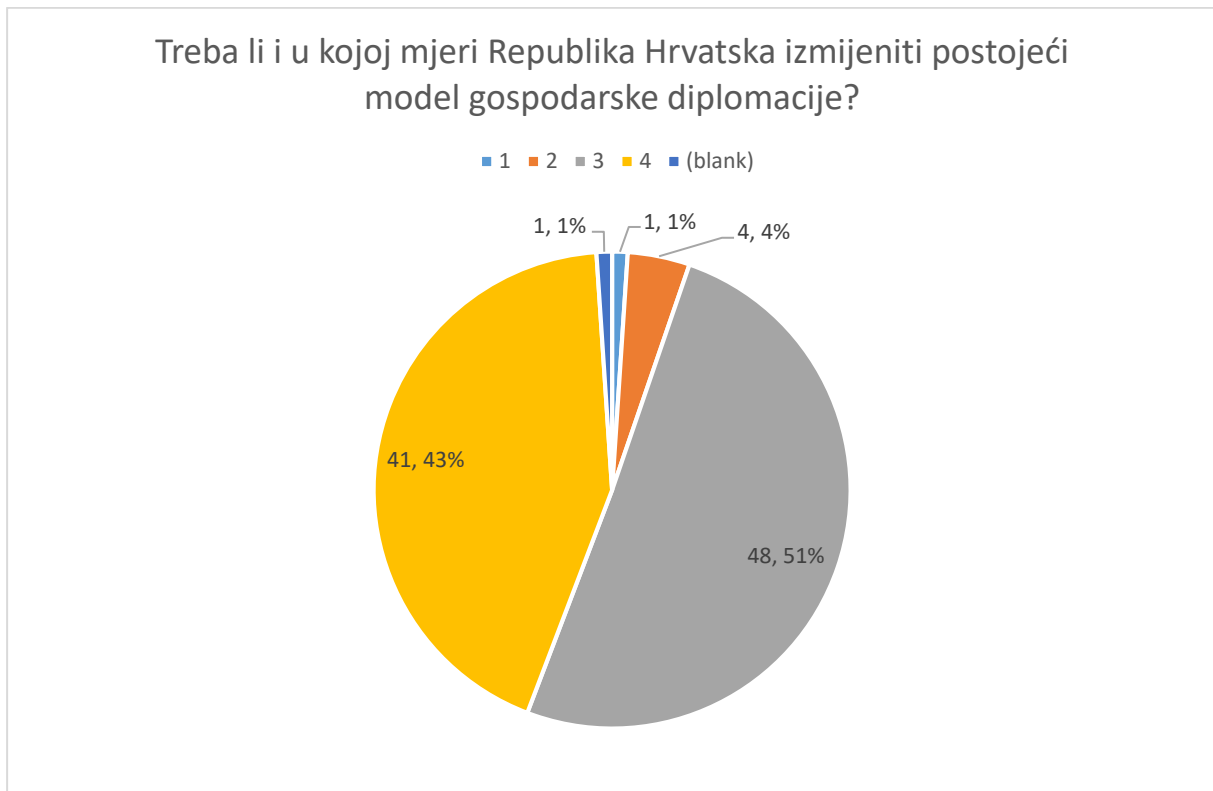
ostojeći model gospodarske diplomacije Republike Hrvatske okarakterizirali biste kao: 1-iznimno neuspješan, 2- razmjerno neuspješan, 3- razmjerno uspješan, 4- iznimno uspješan ?

Kako biste ocijenili postojeći model gospodarske diplomacije Republike Hrvatske ?

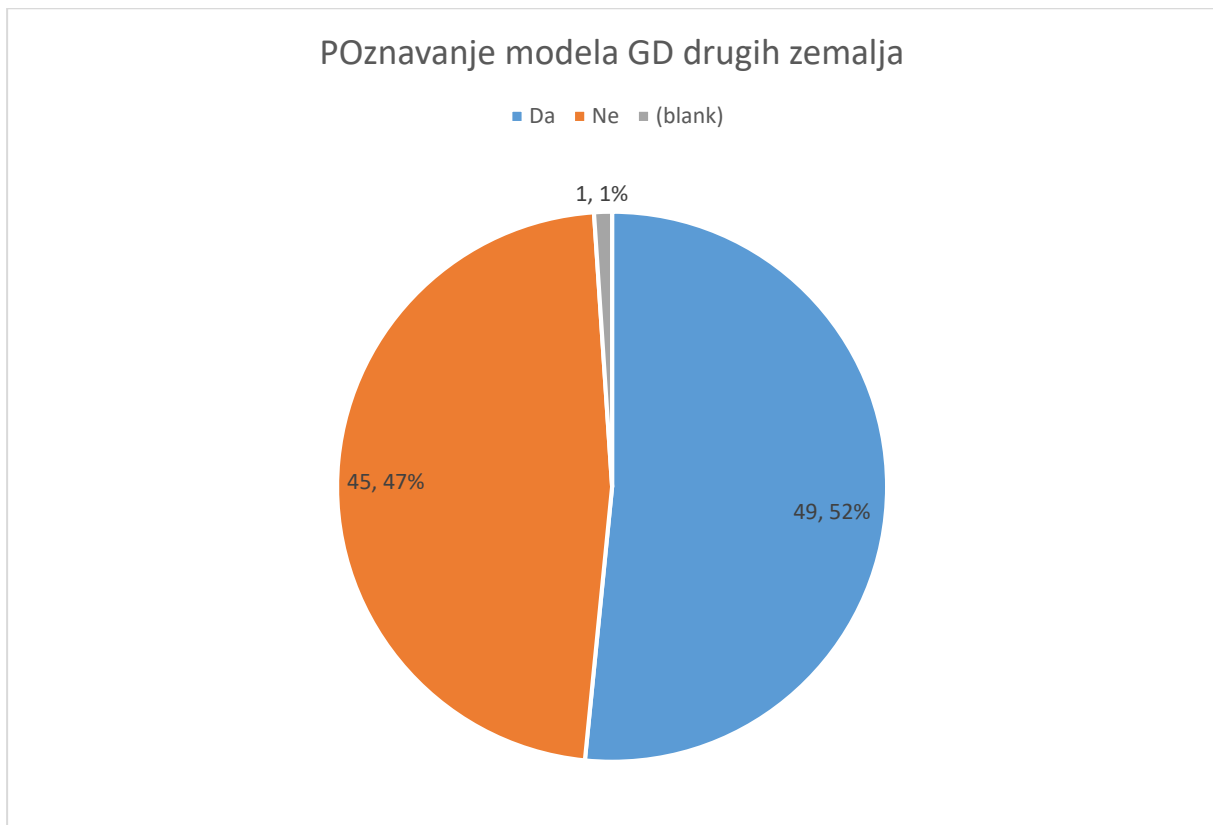


Treba li Republika Hrvatska i u kojoj mjeri izmijeniti postojeći model odnosno strukturu i organizaciju gospodarske diplomacije? (1- ne treba mijenjati postojeći model; 2- treba neznatno izmijeniti

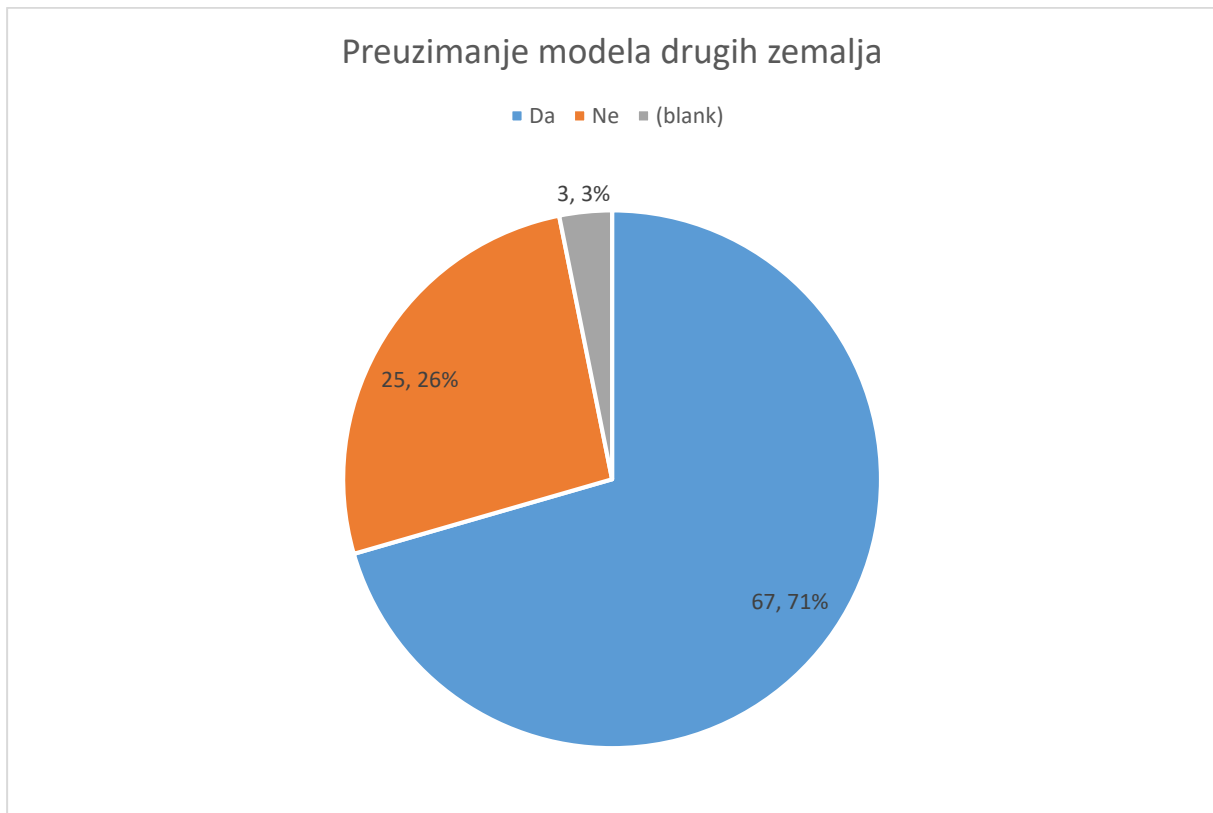
postojeći model; 3- treba značajno izmijeniti postojeći model; 4- treba odbaciti postojeći model i usvojiti potpuno novi model)



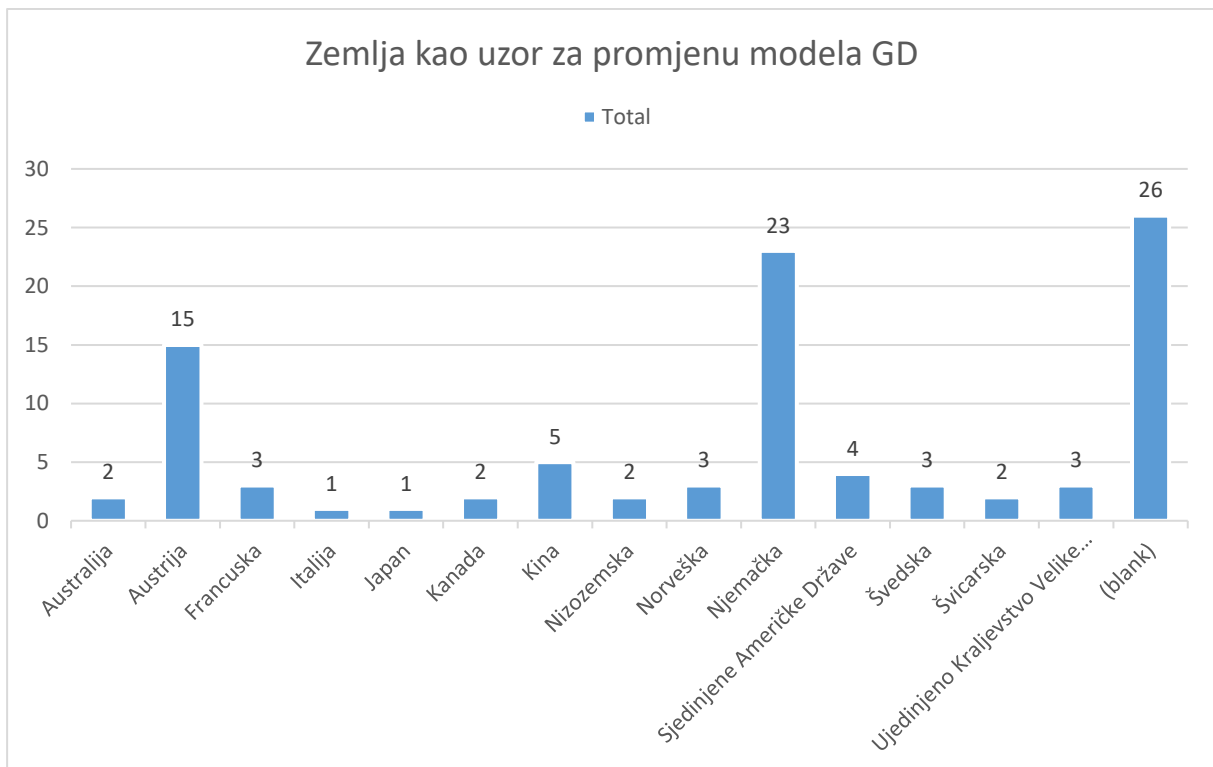
Jeste li upoznati s modelima gospodarske diplomacije drugih država?



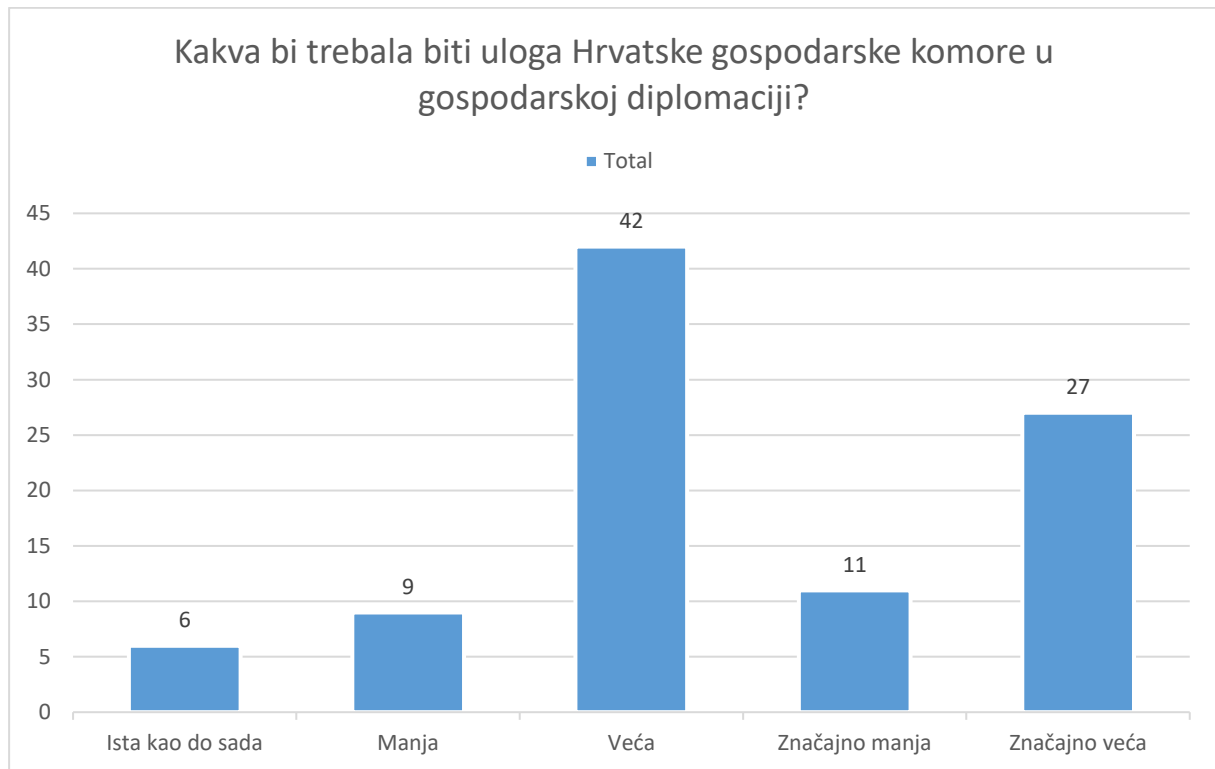
Smatrate li da Republika Hrvatska treba kreirati i implementirati model gospodarske diplomacije po uzoru na neku drugu državu?



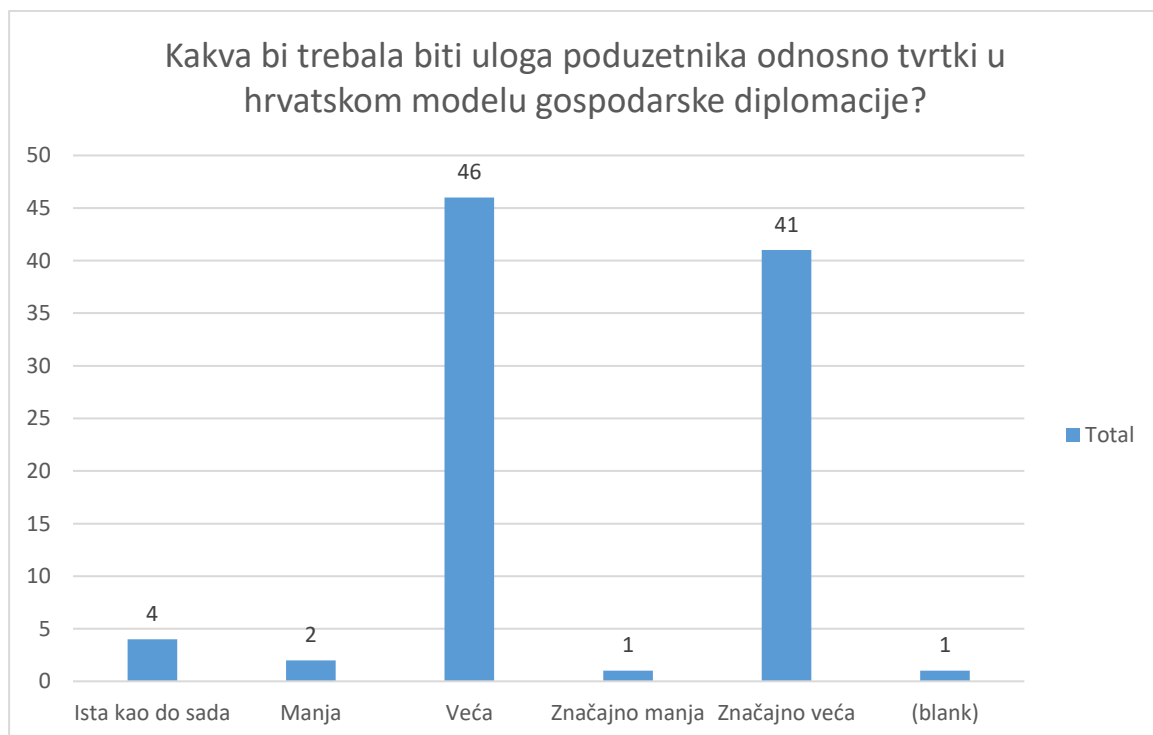
Po uzoru na koju državu bi Republika Hrvatska trebala kreirati i implementirati svoju gospodarsku diplomaciju?



Prema Vašem mišljenju, uloga Hrvatske gospodarske komore u gospodarskoj diplomaciji Republike Hrvatske trebala bi biti:

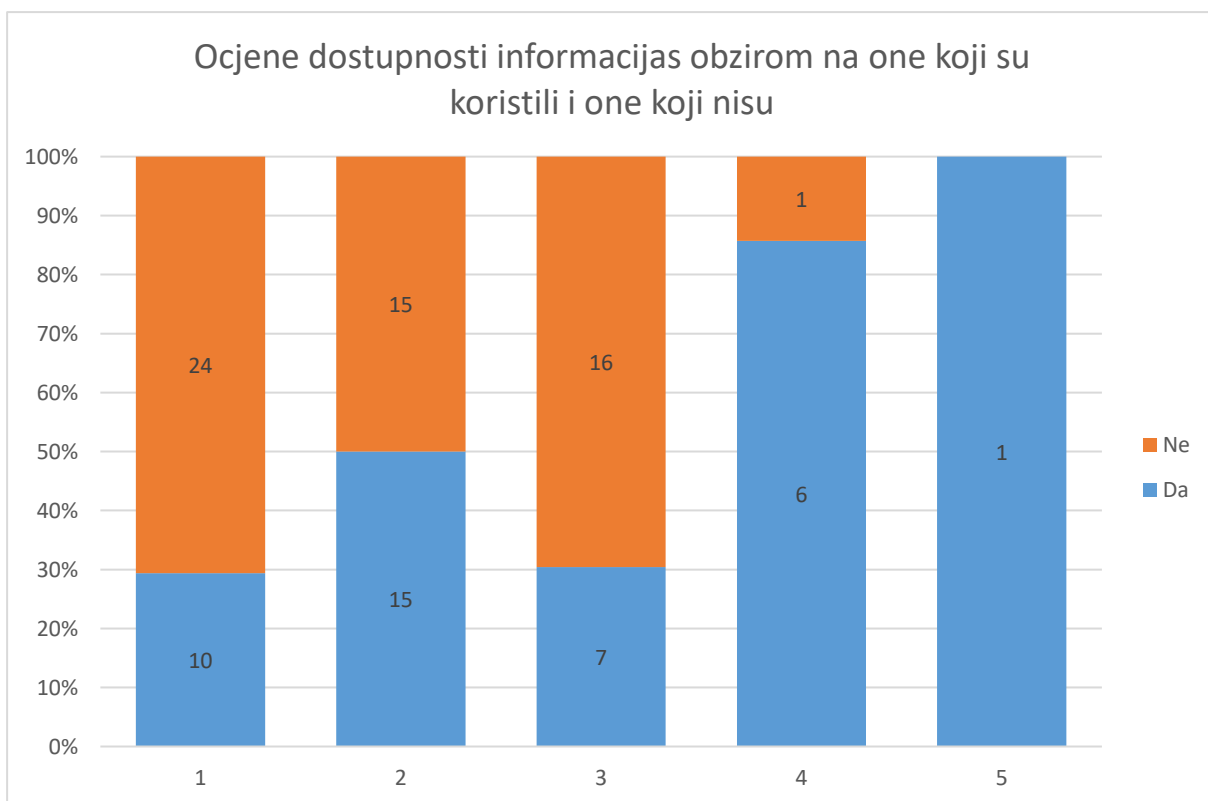
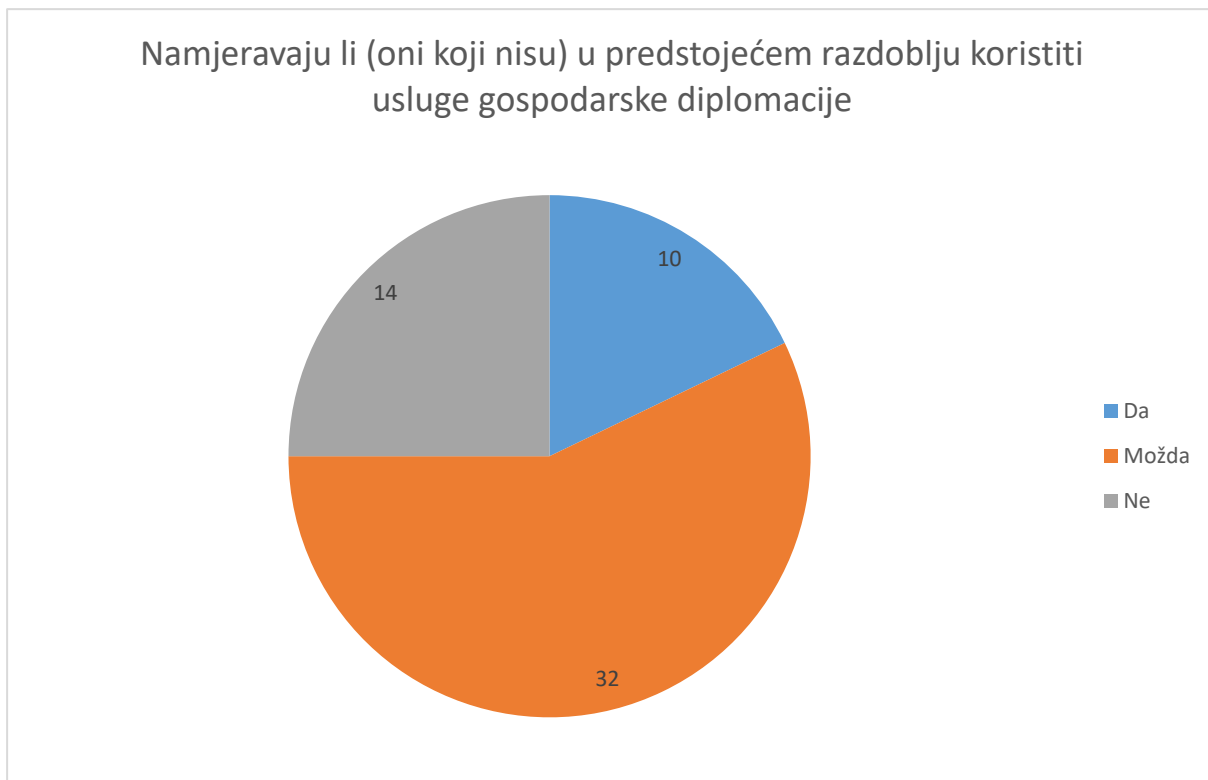


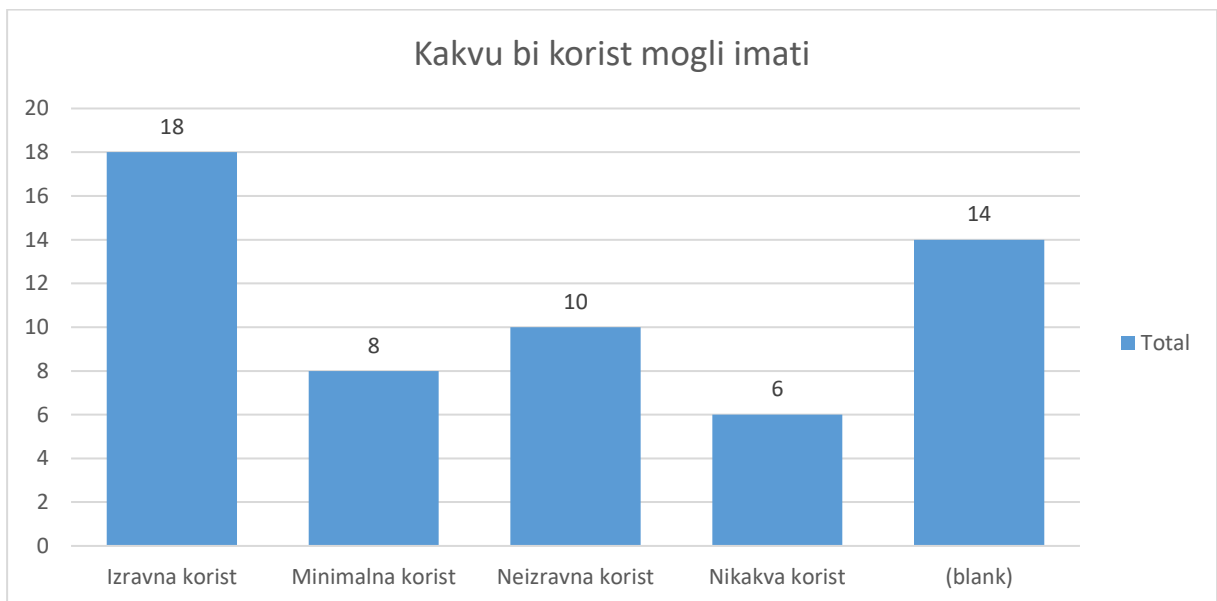
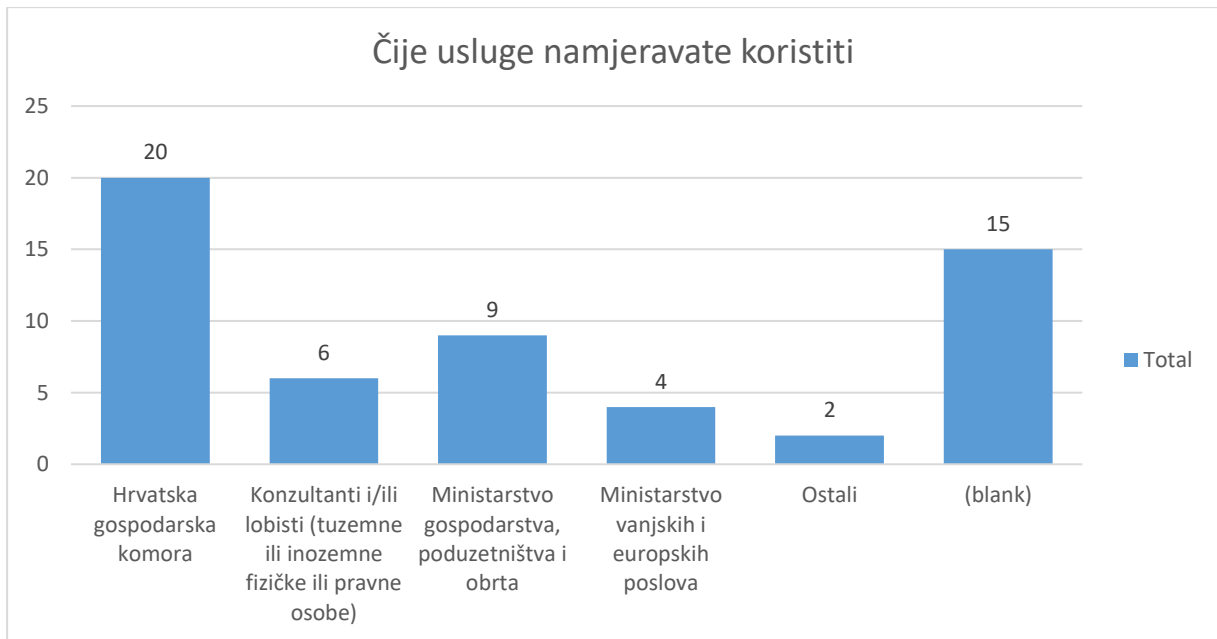
Prema Vašem mišljenju, uloga poduzetnika odnosno tvrtki u gospodarskoj diplomaciji Republike Hrvatske trebala bi biti:

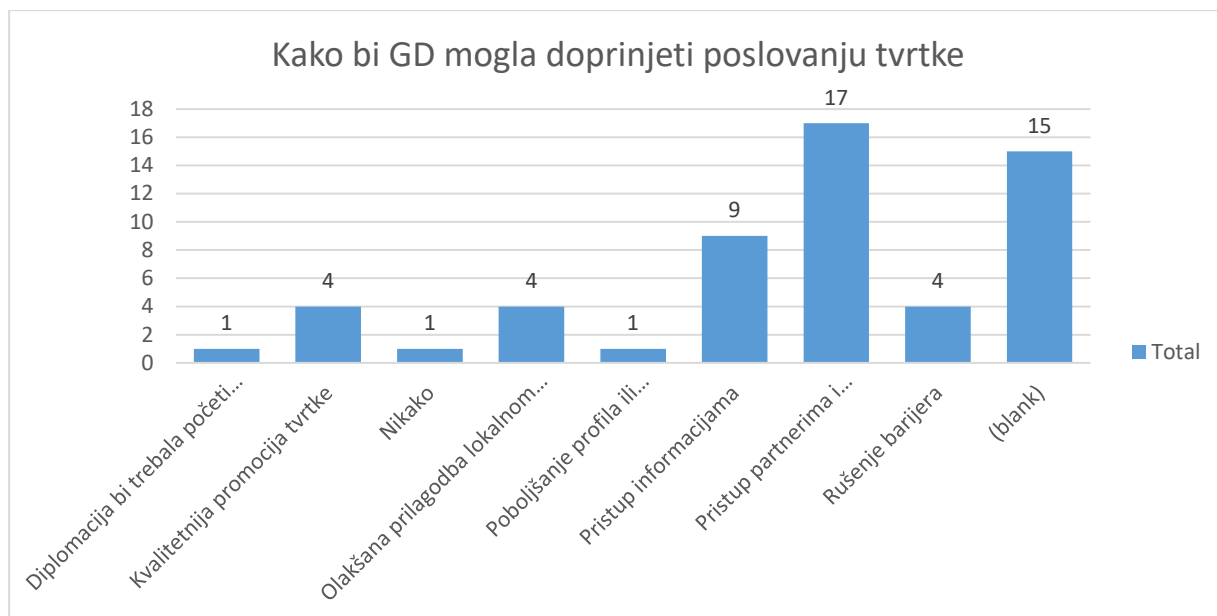




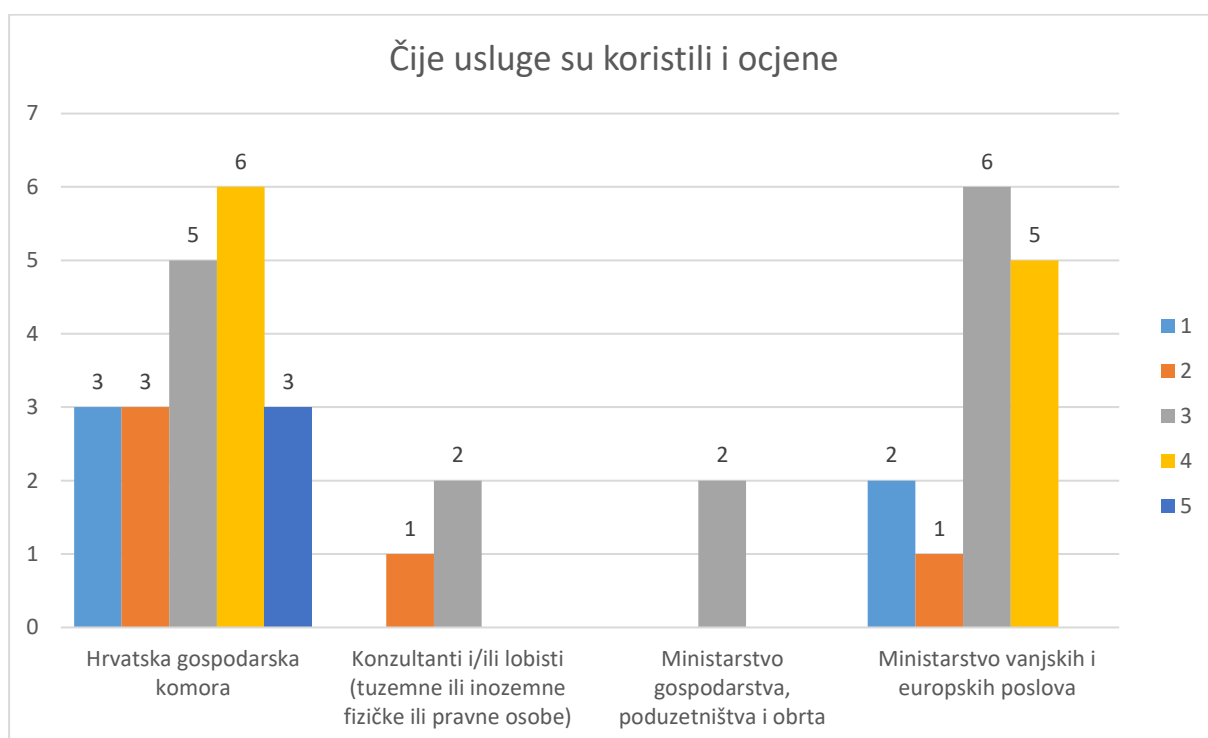
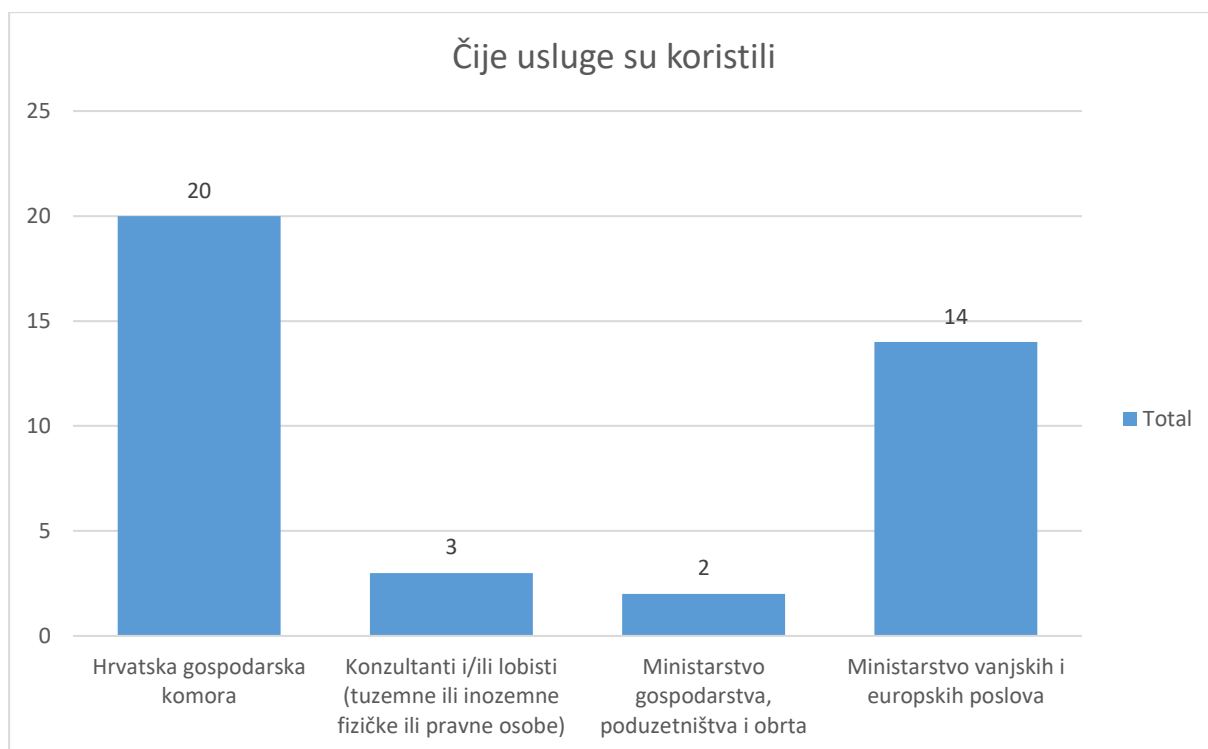
### ONI KOJI NISU KORISTILI USLUGE

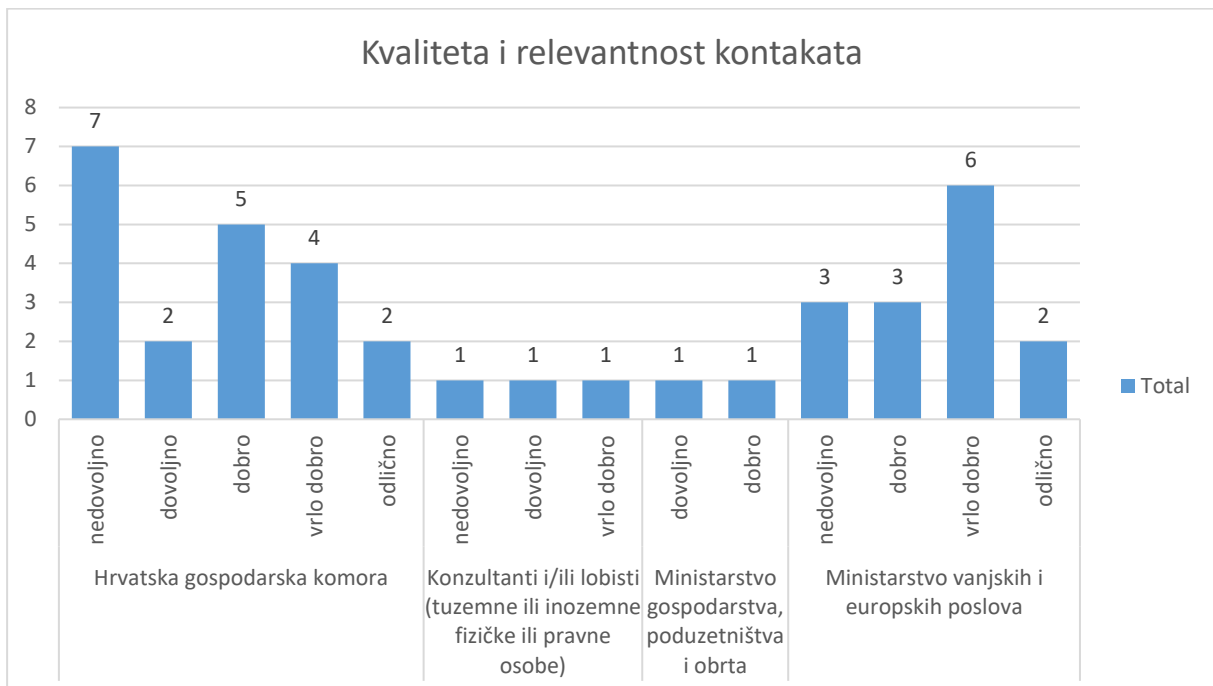
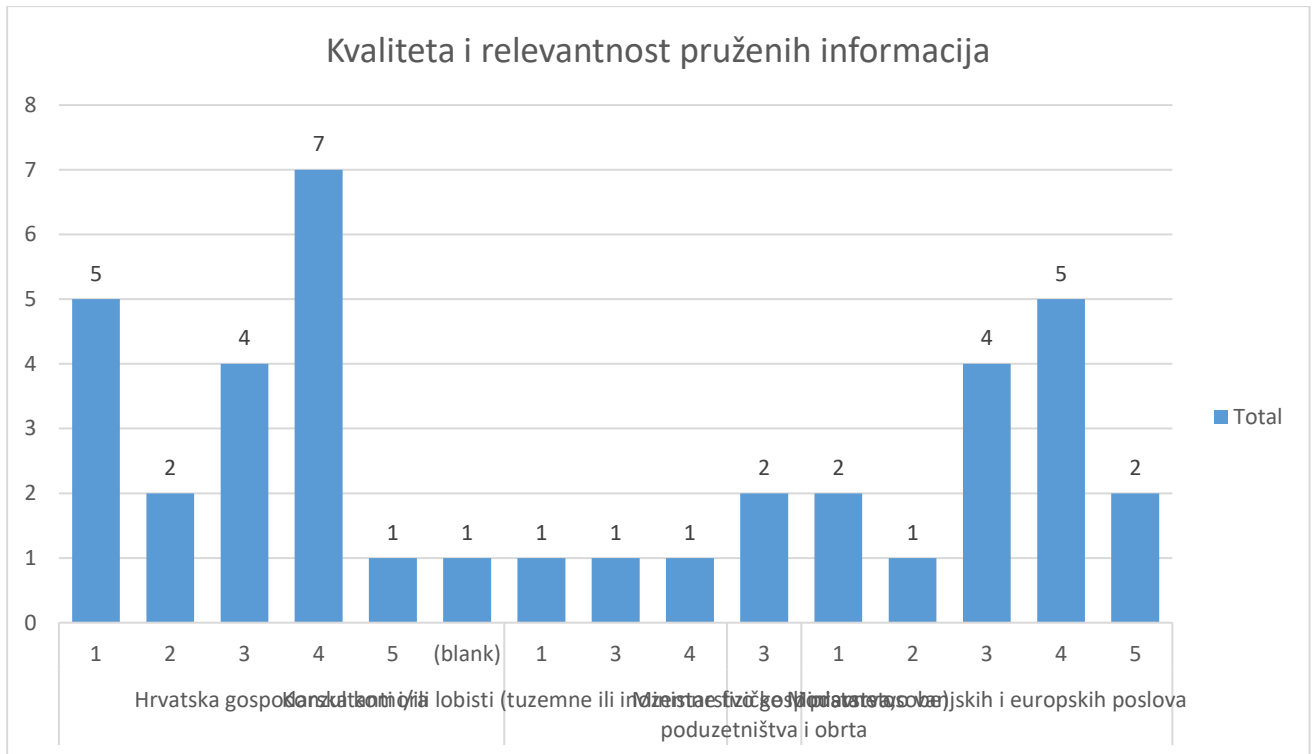




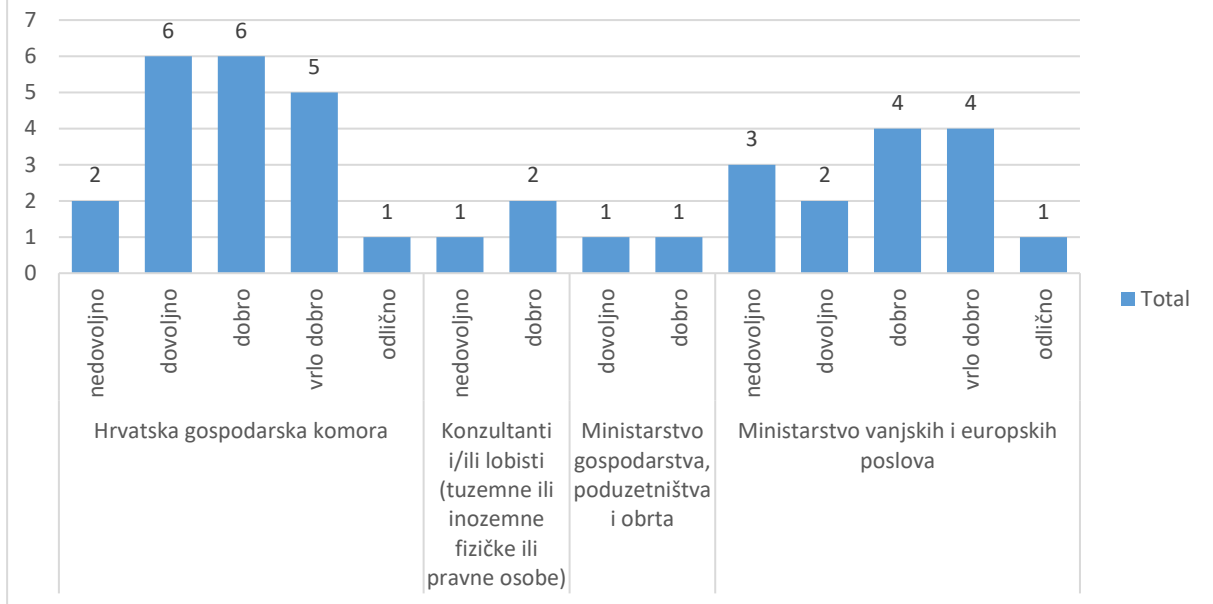


## ONI KOJI SU KORISTILI USLUGE GOSPODARSKE DIPLOMACIJE

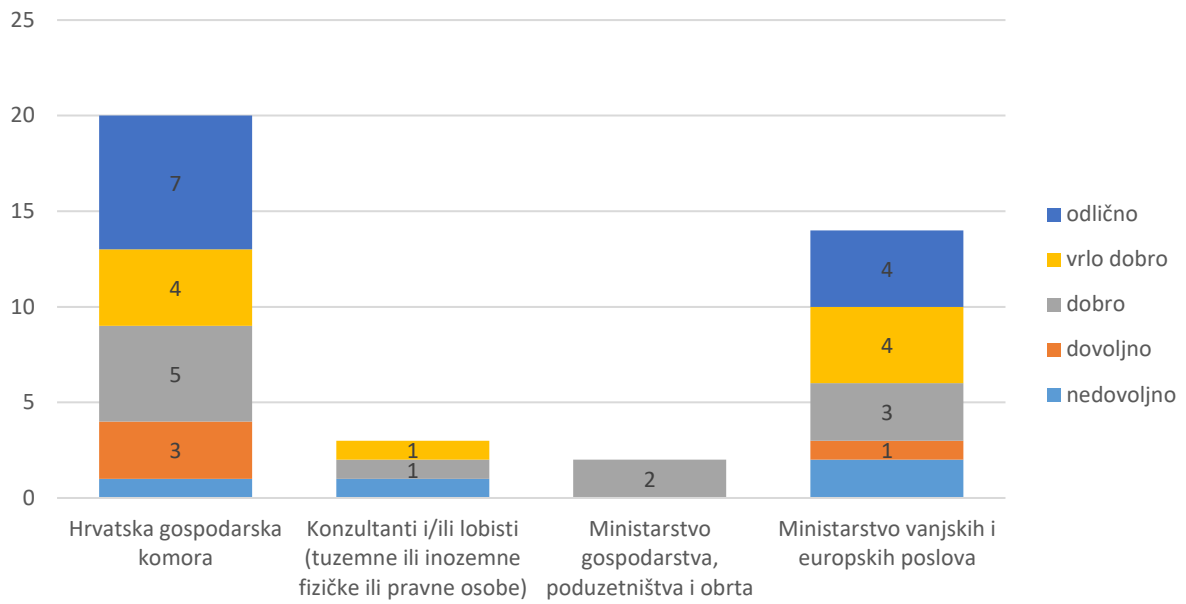




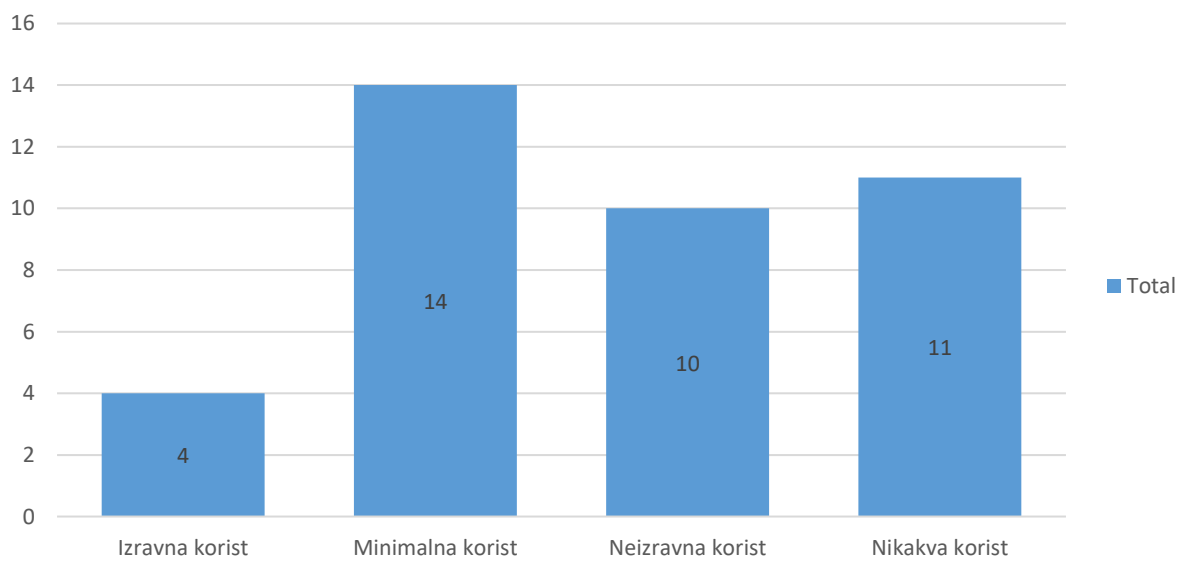
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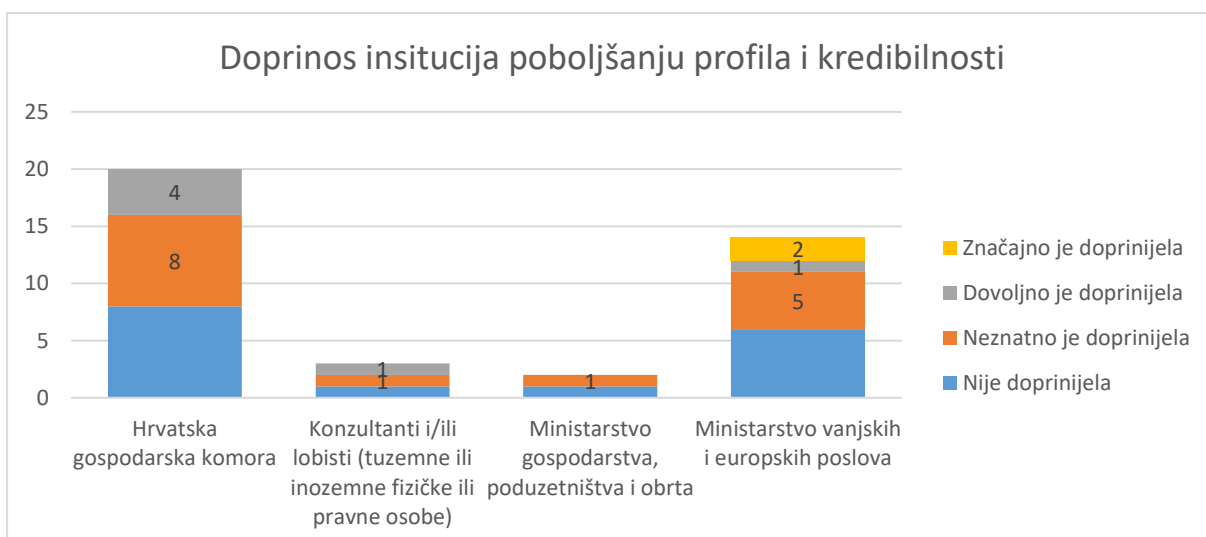
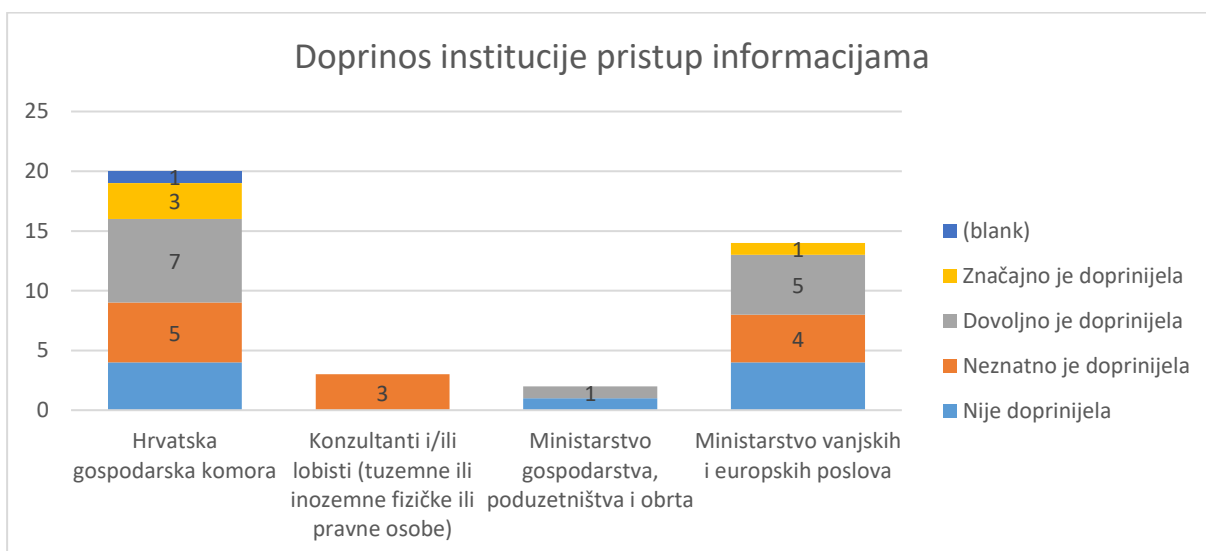
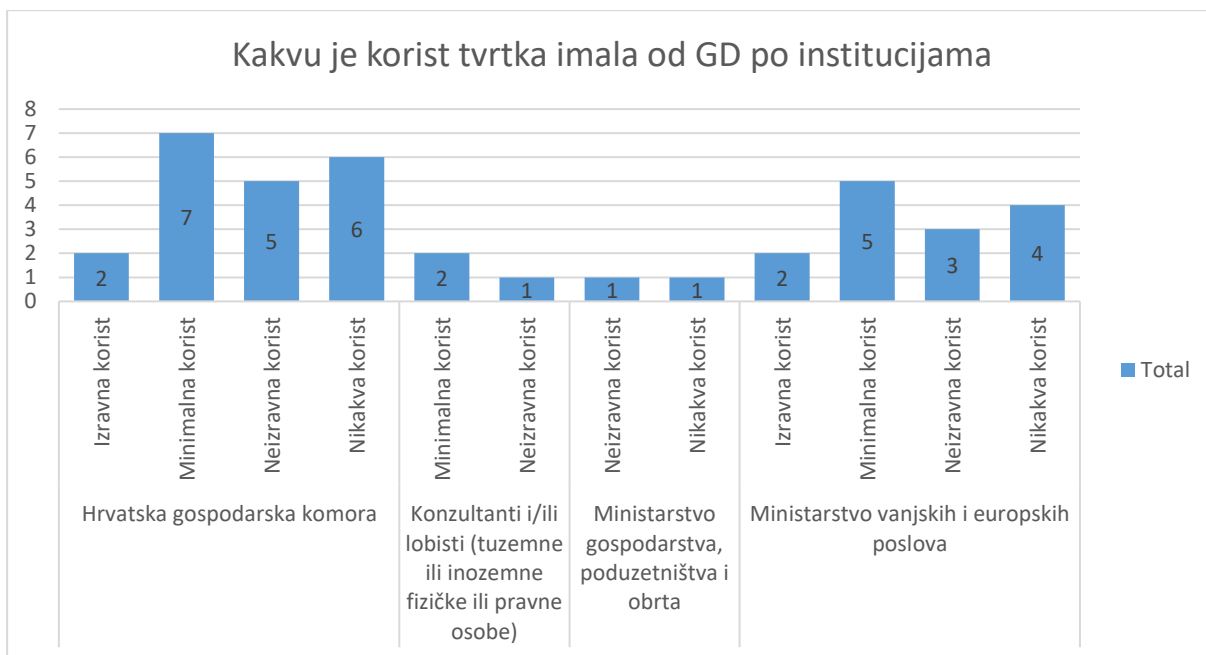


### Profesionalizam i korektnost u komunikaciji



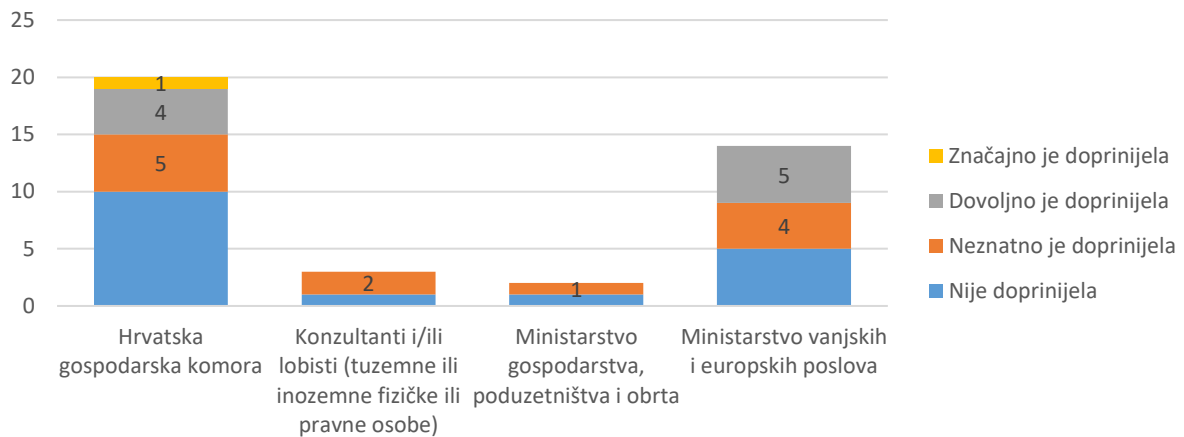
### Korist tvrki od gospodarske diplomacije



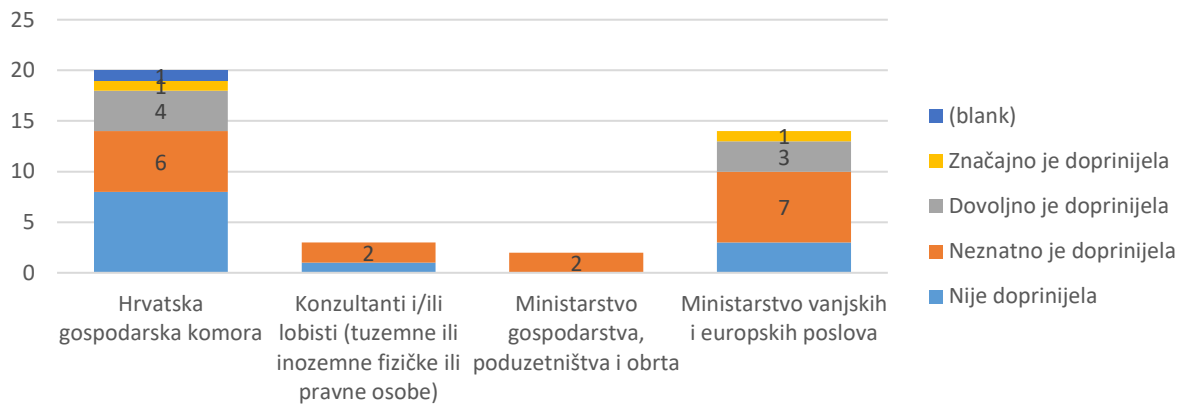




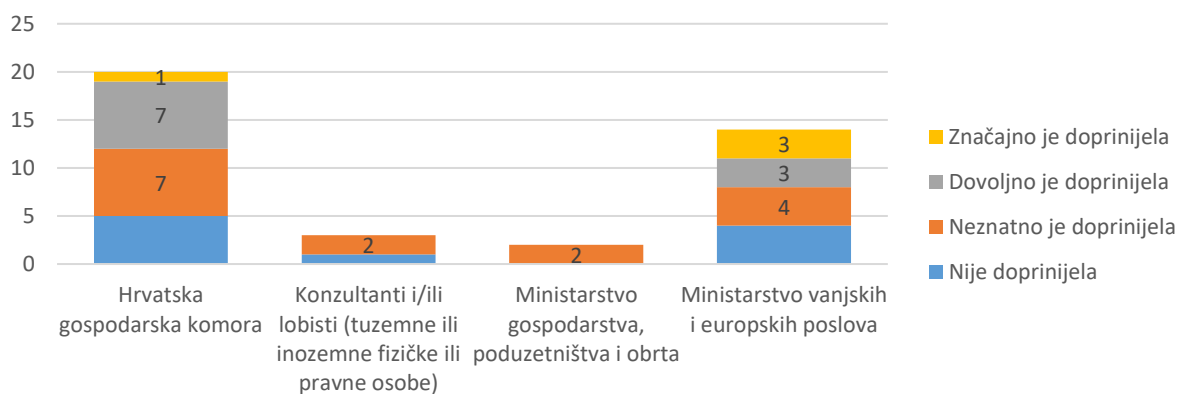
### Na koji način je institucija pridonjela rušenju barijera



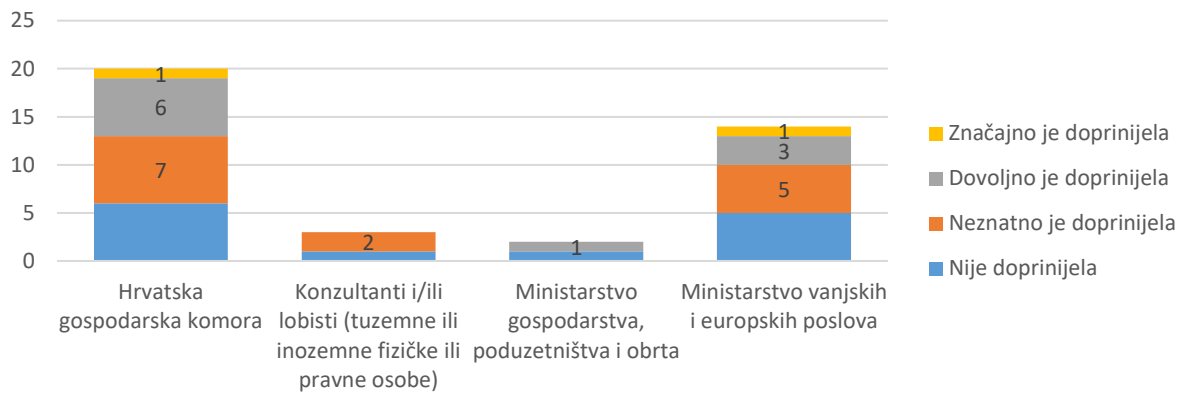
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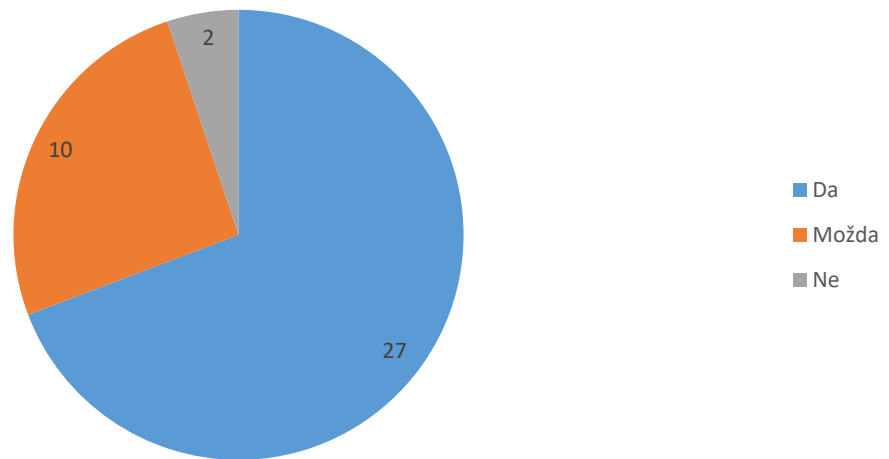
### Na koji način je institucija pridonjela pristupu parnetima i institucijama

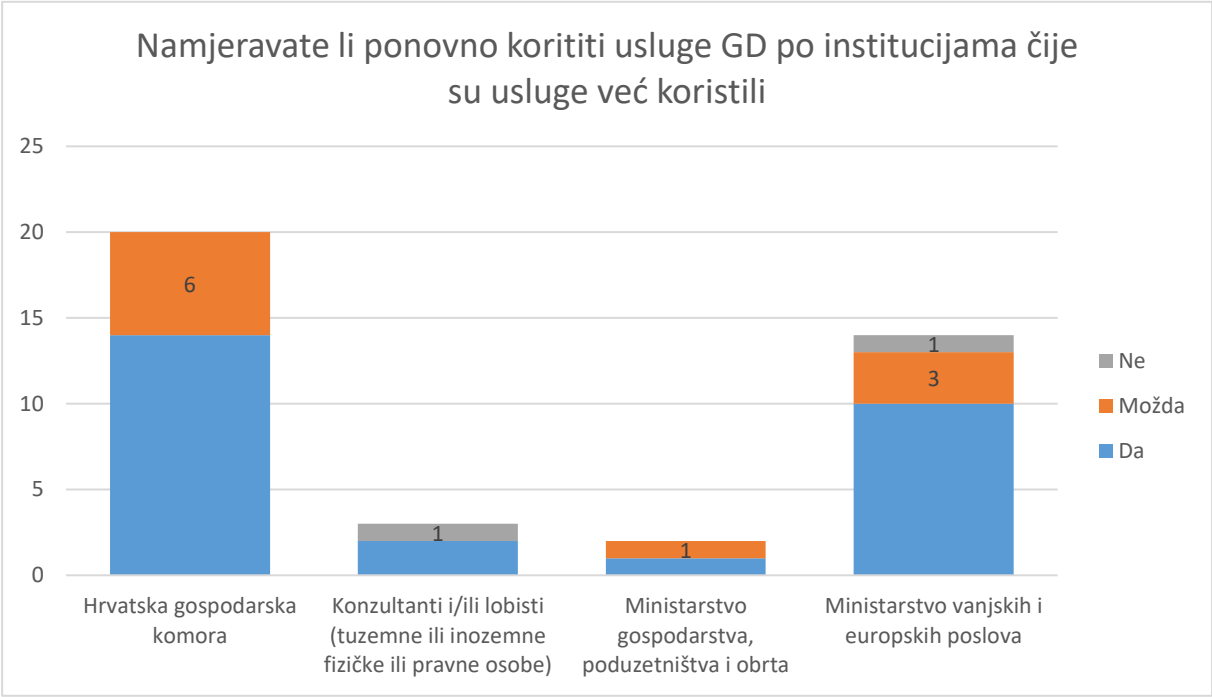


### Na koji način je institucija pridonjela kvalitetnijoj promociji tvrtke



### Namjeravate li ponovno koristiti usluge GD





**APPENDIX 4 INTERVIEW VIA E-MAIL WITH THE SWISS DIPLOMATIC REPRESENTATIVE**

**UNIVERSITY OF ZADAR AND LIBERTAS INTERNATIONAL UNIVERSITY**

**JOINT UNIVERSITY DOCTORAL PROGRAMME INTERNATIONAL RELATIONS**

**CANDIDATE: MARKO BABIĆ**

**INTERVIEW VIA E-MAIL WITH THE SWISS DIPLOMATIC REPRESENTATIVE IN THE REPUBLIC OF CROATIA RELATED TO ECONOMIC DIPLOMACY**

**Language: English**

**Interview conducted in written form via e-mail**

**Group A-** *questions on the role and influence of the economic (commercial) diplomacy*

1. Based on concrete statistics and present working experience, do you consider contemporary economic (commercial) diplomacy as actually having positive impact on national economic growth and your country's promotion?

*Answer: Yes. However, economic (commercial) diplomacy is a very large field, covering regulatory questions, framework conditions, market access, location promotion, but also support to individual companies if they need it.*

2. In your opinion, did economic (commercial) diplomacy (and to what extent) as integral part of government's foreign policy become efficient tool for accomplishing economic goals and creating positive image of your country?

*Answer: Yes. In Switzerland, special emphasis is put to its position as one of the world's most competitive and innovative economies.*

3. Do you think that present day's economic (commercial) diplomacy has a quite significant role in global economy and international relations?

Answer: Yes, it is even increasingly important.

4. Bearing in mind a fact that various internal (national) and external (international) factors and trends influence country's decision on which economic (commercial) diplomacy model and structure will it adopt, which other state and private stakeholders besides ministries of foreign affairs (foreign office, state department) do you consider important for creation and implementation of the economic (commercial) diplomacy?

Answer:

- Very important is to have the Ministry of Economy involved (in Switzerland, it is even in the lead).
- Authorities in charge of promoting research and innovation can also play an important role (in Switzerland, it's the State Secretariat for Education, Research and Innovation SERI).
- Many Countries in addition have specialized agencies mandated by the Government to promote economic and commercial exchanges (in Switzerland: Switzerland Global Enterprise S-GE).
- Bilateral Chambers of Commerce and industry associations are also important players.

5. Because of the rapid geopolitical and economic changes and different trends, how should economic (commercial) diplomacy follow those processes and transform itself too in order to be constantly efficient?

Answer: It's always advisable to have a clear focus on priorities (on a countries strengths) and to be of added value for clients (i.e. economic actors, concrete companies). Pointing at opportunities but also at risks,

knowing the local context, open doors, building on a good network are essential in this regards.

**Group B-** *questions on the organisation and structure of the Embassy*

6. Does the Embassy have a separate economic department and how many officers within the Embassy deal with economic (commercial) affairs?

**Answer:** Only one local person (100%), plus part of the Ambassador's job description.

7. In terms of size, how would you describe Embassy's budget and number of officers dealing with economic (commercial) matters and do you find them sufficient to act efficiently and perform successfully all the tasks in this area?

**Answer:** We have only one economic advisor (see answer to question no. 6). However, we work in close cooperation with the Swiss Croatian Business Association in Zagreb and with relevant Ministries and Organizations in Switzerland. Of course it would be good to have more human resources, however, we can achieve good results with what we have and by seeing us as part of a network.

8. Economic (commercial) diplomacy activities within the Embassy are performed exclusively by the ministry of foreign affairs (foreign office, state department) personnel or these activities are performed completely/partially by staff hired from your country's other institutions/organisations and/or by the local staff?

**Answer:** There is only one locally employed economic advisor working at the Embassy.

9. In terms of education, language, working experience, could you indicate formal requirements needed for working on economic (commercial) activities at the Embassy and does the Embassy provide its personnel with continuous training

in economic (commercial) matters (if yes in which concrete areas)?

**Answer:** Formal requirements are certainly university education (but not necessarily as an economist), as well as language proficiency in Croatian, English as well as in at least one official Swiss language (German, French or Italian). Training is provided on the job, by participation in specialized events both in Croatia and in Switzerland.

**Group C-** *questions on economic (commercial) diplomacy services provided and activities performed by the Embassy*

10. According to the practice, which activities in the area of economic (commercial) diplomacy proved to be the most efficient tool in achieving specific economic goals, i.e. economic growth, stronger trade, FDI attraction, export promotion etc.?

**Answer:** Economic missions (ministers or high officials accompanied by business representatives), participation in specialized trade fairs can have good results and a long-term impact. However, interest and initiative has to come from the business side and role of the Embassy or the Authorities is subsidiary.

11. Which activities/services that you provide/perform are the most time consuming and complicated?

**Answer:** Gathering of specific information, reporting on economic issues, organization of networking events

12. Describing it in percentage, how would you assess: a) the work you perform under the instructions from your country (government), b) the work that you initiate on your own and c) the work that you undertake after you receive a formal request directly from a private company?

**Answer:**

a) = 20%

b) = 40%

c) = 40%

13. Do you think that sufficient number of your country's private companies benefit from the economic (commercial) services/activities provided by the Embassy and do you think that private companies should have more influence in creation and implementation of Embassy's economic (commercial) services/activities?

Answer: Our support is always tailor-made and the situation of each company is unique. More general support and advice is given by organizations directly in Switzerland, in particular Switzerland Global Enterprise (S-GE).

14. According to your regular contacts with companies, do they consider Embassy's services/activities as satisfactory and efficient and which concrete objections they indicate most often?

Answer: We believe that companies are generally satisfied with their contacts with the Embassy.

15. Based on results and numbers that arrive as a consequence of your work and activities you perform, would you consider your Embassy as successful and efficient in the area of economic (commercial) diplomacy and if so to what extent?

Answer: Considering the relatively limited means at our disposal, in particular compared with other countries of similar size and economic importance, we believe that we can successfully provide basic support in the area of economic (commercial) diplomacy.

**Group D-** *questions on Croatia's doing business climate*

16. How would you describe overall *doing business* climate in Croatia?



Answer: Generally speaking it's good. There are no unsurmountable problems. EU-membership provides a good regulatory framework known to all. Most complaints are related to a rather high level of bureaucracy and in some cases intransparent procedures especially on the local level. Problematic for the business climate is also the high degree of indebtedness of economic actors and long payment delays.

17. Do you consider as satisfactory the economic cooperation between your country and Croatia and do you think there exists significant space for improvement of economic relations between your country and Croatia?

Answer: Switzeland is the 11<sup>th</sup> largest investor in Croatia. Swiss investment is very diversified and mostly in the real economy (production), bringing technical know-how and qualified jobs. However, there is definitively room for improvement on the trade side.

18. Which economic sectors do you consider as the most successful in terms of cooperation between your country and Croatia and where do you see opportunities that were not used so far?

Answer: Croatia is interesting as a destination for outplacement of industrial production (lower salary costs, availability of manpower). It is also incresingly interesting for IT-based business.

19. Which concrete obstacles would you indicate as crucial shortcomings preventing better economic cooperation between your country and Croatia?

Answer: Croatia is perhaps still not enough well known as an interesting place to invest (not on the radar of potential investors). In the trade area, price sensitivity is certainly a factor limiting trade exchanges (Swiss products tend to be top of the range).

20. Do you think that Croatia needs a comprehensive reform (economic, taxation, legislation, judiciary etc.) in order to become a more interesting and reliable economic partner?

Answer: Yes. Any reform in these fields will strengthen Croatia's economy and have beneficial effects for its attractiveness as a trade or investment partner.

**EUROPEAN  
CURRICULUM  
VITAE  
FORMAT**

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Odvjetnik (*Hanžeković & Partneri*)

listopad 2012- listopad 2013 **DIU Međunarodno sveučilište**  
zamjenik Glavnog tajnika Sveučilišta

listopad 2013- listopad 2014 **Hrvatska agencija za malo gospodarstvo, inovacije i investicije- HAMAG-BICRO**  
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listopad 2014- **Hrvatska gospodarska komora (HGK)**  
Voditelj Odjela za EU  
Pomoćnik direktora Sektora za međunarodne poslove i EU

Dodatne funkcije **Upravno vijeće Instituta za razvoj i međunarodne odnose**

lipanj 2016- lipanj 2018 -član  
**Odbor za europske poslove Hrvatskog sabora**

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Pisanje	Odlično
Govor	Odlično
	<b>Njemački jezik</b>
Čitanje	Odlično
Pisanje	Odlično
Govor	Vrlo dobro
	<b>Talijanski jezik</b>
Čitanje	Odlično
Pisanje	Odlično
Govor	Vrlo dobro
	<b>Francuski jezik</b>
Čitanje	Odlično
Pisanje	Vrlo dobro
Govor	Dobro