Economic Diplomacy: Dimensions and Implications

By:
Jacqueline A. Okoth
R50/70583/2007

This Research Project has been submitted in fulfillment of the degree of
Master of Arts in International Studies

2012
Declaration

This project is my original work and has not been submitted for a degree in any other institution, college or University.

Signature: Okoth, Jacqueline A. Date: 10/11/2012

This project has been submitted for examination with my approval as the appointed University Supervisor.

Signature: Dr. Gerrishom Ikiara Date: 10/11/2012
Dedication

To my father
Acknowledgement

All thanks and praise to God Almighty who makes all things beautiful in His time. His great favour upon my life made a way for me despite the peculiar and difficult circumstances surrounding the completion of this study. His love and showers of mercy gave me life and strength when all hope was gone. I am a testimony that God gives wisdom and understanding; that He is concerned about every detail of our daily life. This study is a miracle; from its inception and to its completion. To God be all the Glory.

My sincere appreciation to my supervisor, Dr. Ikiara, whose patience, dedication and understanding made it possible and manageable to work under the difficult situation created by long distance. Your wise counsel and professionalism helped me coordinate my scattered ideas and develop them with more focus and direction.

To Caro, who bridged the gap of long distance, sacrificing to always ensure timely delivery of the drafts to my supervisor, I am humbled by your selflessness and sacrifice. Your prayers, friendship and encouragement rescued me from the brink of giving up.

To all family and friends that prayed for me and encouraged me along the way; to all the colleagues and friends that willingly directed to sources of information; I may not mention everyone by name, but I sincerely appreciate you. This study has been possible due to your generous support. God richly bless you.
Abstract

The traditional role played by the diplomatic personnel has been expanded to include new demanding roles and activities, among them, economic diplomacy. This growing interest in economic diplomacy does not always meet with the expected understanding and preparedness. This study looks at the broad dimensions of economic diplomacy as well as the practical and policy implications for strategy in the conduct of economic diplomacy.

Both realism and liberalism have been used as approaches to a better understanding of this subject; realism on the one hand, embodied in the pursuit of national economic interests and states as actors amid competition; and, liberalism on the other hand, embodied in domestic and international cooperation, partnerships and participation of non-state actors. Desktop research was complimented by participant observation in order to collate the relevant information and thus highlight some of the aspects of economic diplomacy.

The study calls for a multidisciplinary approach in order to effectively maximize on economic gains. This is vital due to the diverse nature of economic opportunities and avenues for economic diplomacy in the search for economic growth and economic development of a country. Economic diplomacy takes into consideration various development needs as well as interests touching on national economic development and economic growth. This means, therefore, that economic diplomacy is much broader than international trade, much more involving and tied very much to the everyday conduct of diplomatic activities.

The challenge is to understand what inclusive economic diplomacy entails, the interests at stake, the actors involved, the domestic and international influences and how
these factors interact in the pursuit of economic growth and economic development. In this regard, effective economic diplomacy would be determined by the strategies implemented in the conduct of external economic relations. It would also embrace a synergy of actors, interests, interactions and decision-making processes at domestic level and international levels.
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CHAPTER ONE

1.0 INTRODUCTION

Today's world is characterized by globalization and interconnectedness, with the element of economics being an important determinant of international affairs and relations between states. States interact and cooperate with a view of achieving and perpetuating their own national interests. Those interests include the pursuit of economic growth and stability, cultural and political liberation, state security and the general development of the nation.\(^1\) To remain relevant in a dynamic international arena, states must develop appropriate strategies in the conduct of economic diplomacy. Strategies in this context would require knowledge and understanding of what economic interests are at stake, what opportunities and avenues are available to meet those needs and which players are involved.

Kishan Rana, defines economic diplomacy as the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important.\(^2\) This means, therefore, that economic diplomacy is much broader than international trade, much more involving and tied very much to the everyday conduct of diplomatic activities. It is also characterized by multiple actors and multiple levels for the conduct of economic diplomacy. Economic diplomacy equally involves greater dimensions of economics and complex, often competing, national interests and actors.

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\(^1\) Hillary Kyengo, Bargaining National Interest in the East African Community: The Case of Kenya, p.25

A clear understanding of what economic diplomacy entails is necessary for effectiveness and success. The first step to achieving an adequate diplomacy is to conceptualize it. This study explores the broad range of aspects involved in the conduct of economic diplomacy in different arenas and the economic interests that are pursued directly or indirectly, including the potential waiting to be explored in various countries. The study looks at the different actors and their relationships before examining the aspect of policy and practical innovative measures necessary to realize synergy, cooperation and effectiveness.

1.1 Statement of the problem

The task of maximizing gains in a rapidly changing domestic and international environment due to globalization poses a challenge to the actors of diplomacy and international relations. Now more than ever, diplomats and other state and non-state actors are expected to conduct economic diplomacy, a complex and demanding role in a world characterized by globalization and increasing economic interdependence. To remain effective and relevant in a dynamic international arena, these actors must employ appropriate strategies in the conduct of economic diplomacy.

Developing appropriate strategies calls for innovation and an inclusive approach in the conduct of economic diplomacy in order to effectively maximize on gains. The bottom-line is to deliver results which translate to sustainable economic development and economic growth. Strategy in this sense would take a multidisciplinary approach which takes into account both commercial and non-commercial aspects and develops capacity to meet the challenge of the need to think like an economist but act like a diplomat. Such a multidisciplinary approach sometimes proves to be a challenging task for practicing diplomats. This daunting task eludes most actors expected to deliver results in the conduct of economic diplomacy. When one is ill prepared, the tendency is to concentrate on one aspect of the economy with the effect that others remain neglected. In order to be effective in the conduct of economic diplomacy, one needs to develop a clear understanding of what is involved.

The diplomatic negotiation processes and challenges have over the years been comprehensively elaborated in studies and trainings in international studies. Economic diplomacy, however, remains an elusive subject that is not well understood yet a clear understanding of dimensions and implications of economic diplomacy is necessary for creativity, effectiveness and successful synergies. In an attempt to open up the subject, a number of studies
on economic diplomacy have been carried out with emphasis on the commercial aspects of trade and investment. However, this approach presents a limited view of the economy and to the continued creative use of diplomatic means in pursuit of economic interests. This study raises the question whether there are more economic opportunities and avenues for economic diplomacy in the search for economic growth and economic development of a country. What does economic diplomacy entail? Is economic diplomacy all about trade and investment? This study will explore the broad dimensions of economic diplomacy to develop a better understanding of and conceptualize the subject.

1.2 Objectives of the research

The general objective of this study is to develop an understanding of economic diplomacy. The questions seeking answers are: What does economic diplomacy entail? Which interests are at stake? Which are the avenues and opportunities for the conduct of economic diplomacy? What knowledge and skills are necessary? Who are the actors? What does it mean for the synergy of players, states and the international community?

The specific objectives of the study, therefore, are:

- To identify the broad dimensions of economic diplomacy
- To determine the practical and policy implications for economic diplomacy

1.3 Justification of the research problem

In the wake of Kenya’s growing interest in economic diplomacy, a research on dimensions and implications of economic diplomacy is essential as it offers a platform to develop an understanding for a proactive and an inclusive approach to economic diplomacy.
which is necessary for effectiveness and maximization of the existing synergies. Economic diplomacy ideally entails the promotion of national economic interests with the goal of ensuring economic growth and stability. The task of maximizing gains and delivering results in the face of globalization and economic interrelatedness poses a challenge to the actors of economic diplomacy. The challenge is to understand what inclusive economic diplomacy entails, the interests at stake, the actors involved, the domestic and international influences and how these factors interact in the pursuit of economic growth and economic development.

Whereas previous studies on economic diplomacy have mainly concentrated on the commercial aspects of economic diplomacy, this study offers the opportunity to understand the broad dimensions of economic diplomacy as well as the practical and policy implications for strategy in the conduct of economic diplomacy. The study is also important as it provides a knowledge base to conceptualize economic diplomacy for a general understanding of the subject for the practicing diplomats, policy makers, private and public economic actors and students of international business and international relations and/or studies, while opening doors for further research and academic work on economics of diplomacy. The study is equally important on a practical level as it also offers an implied overview of elements that may guide the development of policy and performance targets for the Ministry of Foreign Affairs and other related Ministerial Departments and Agencies in the proactive promotion of economic development under Vision 2030, Kenya’s economic blueprint. It will also guide the Foreign Ministry and training institutions in ensuring diplomats are equipped with the necessary knowledge and skills for the complex and demanding role of economic diplomacy.
1.4 Literature Review

This section features review of literature on some of the studies carried out by academicians and practitioners in the field of economic diplomacy in the recent past. The review will focus on books, academic papers and articles in journals in the field of economic diplomacy. The literature is assessed with regard to how far the element of economic diplomacy has been explored beyond the traditional commercial dimension.

This study draws a lot of inspiration from the work of Saner and Yiu (2003) who discuss the mutations of economic diplomacy in a post-modern environment. They argue that traditional state-to-state diplomacy is being fragmented and made more complex due to the participation in international economic relations of a growing number of non-state actors and an increasing number of other government ministries. Saner and Yiu observe that non-state actors like business diplomats and transnational economic NGO diplomats, with their multitude of trans-border alliances, and pressure groups have added to the traditional domain of economic diplomacy a "supra-territorial relations" component thereby partially undermining the sovereignty of states in conducting international economic relations. Their assertion on the proliferation of actors, particularly non-state actors clearly indicates a change in status quo with regard to economic diplomacy. This change of status quo calls for a dynamic understanding of dimensions and implications of economic diplomacy.

One other aspect that is of interest for this study pointed out by Saner and Yiu is that, faced with globalization and competition for foreign direct investment as well as with the growing influence of international economic standard setting organizations (WTO, ITU, ILO etc), many countries have come to expect that diplomats specialized in economic diplomacy and commercial diplomacy more effectively serve their national interests in the economic and

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4 Saner and Yiu (2003), *International Economic Diplomacy: Mutations in Post-Modern Times*
business spheres. The authors suggest that Ministries of Foreign Affairs need to expand their institutional capabilities in dealing with non-state actors and other government ministries and learn to manage the multiple boundaries of today’s complex economic and political realities.

Another work of interest to this study is the second edition of the book: *The New Economic Diplomacy: Decision-making and negotiation in international economic relations* which explores how states conduct their external economic relations in the 21st century: how they make decisions domestically; how they negotiate internationally; and how these processes interact. It documents the transformation of economic diplomacy in the 1990s and early 2000s in response to the end of the Cold War, the advance of globalization and the growing influence of non-state actors like private business and civil society. This edition further reflects the impact of the campaign against terrorism, the war in Iraq and the rise of major developing countries like China and India.

As pointed out in a study carried out by Barston, development issues are at the forefront of foreign policies of many newer states. In this regard, he argues that diplomacy is directed to securing international finance, problems arising from scheduling of loans, restrictions on key exports, promotion of regional cooperation and relations with major foreign corporations. This approach of economic diplomacy leans heavily on the financial and commercial aspects.

This commercial dimension is also emphasized in other studies which suggest that there should be some mechanism for forging a workable and meaningful partnership with the private sector for further promotion of trade, tourism and private sector investment in the country. Whatever may be the contents of economic diplomacy with changing situations both at home and

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abroad, its underlying objective remains the same as one of strengthening and expanding economic relations with friendly countries and international institutions in areas of trade, tourism, private investment, technical and economic cooperation for promotion of national interests.

Investigating how economic diplomacy can be used to generate and increase economic security, Peter Van Bergeijk and Selwyn Moons, set out to define economic diplomacy, uncover some of the historical roots and discuss empirical findings on the trade-conflict-cooperation relationships. Their study also looks at the impact of the process of globalisation and its relevance for economic diplomacy and commercial policy, investigating whether the scope and efficacy of public activities have been influenced by the assumed reduction of distance as a barrier to trade. Focusing on new dimensions of and recent trends in economic diplomacy, Van Bergeijk and Moons pay special attention to the emergence of new actors in the global game and analyse how this alters the rules of the game. Their study equally examines the requirements of economic security and discusses the issue of energy security. In the literature reviewed, this study of energy is perhaps the first attempt to evaluate an opportunity for economic diplomacy beyond the surface trade and investment.

In an article on Economic Diplomacy, Clara Ponsati takes a different outlook on economic diplomacy. She studies bilateral conflicts, and thereby presents the role of economic diplomacy as that of dispute settlement in commercial engagements. The conflict in question is in the form of a war of attrition and intervention is modeled as the possibility that the stakeholder "aids" the agreement with transfers to the contenders. The study by Ponsati characterizes the optimal policy when the stakeholder limits its intervention to a unilateral commitment to

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Compensate the contenders if the conflict is resolved, and shows that if contenders must be treated equally after agreement, then the optimal policy cannot eliminate the delay in resolving the conflict. Ponsati asserts that intervention is only advisable when the stakes are high enough. The study by Ponsati models economic diplomacy as a three-player game with the stakeholder actively involved in the negotiation where transfers are discussed simultaneously with a settlement for the conflict. Ponsati notes that provided none of the parties involved is too impatient, diplomacy benefits the third party in all conflicts. Though this view presents a different picture of economic diplomacy, the focus is still on the traditional commercial diplomacy.

The important role of diplomacy is highlighted from a different perspective by Paul Sharp, who asserts that people engaged in international relations/international studies (IR/IS) should study more diplomacy, especially since diplomacy is reviving in the aftermath of the Cold War. Paul Sharp argues that, in methodological and theoretical terms, diplomacy has fallen afoul of the old arguments between diplomatic historians and IR/IS theorists. In prescriptive terms, it has fallen foul of critical perspectives on states, their practices, and their rationales. He further argues that the advocates of diplomacy and its study have also contributed to its isolation by presenting it as an exclusive and mysterious practice. This last point explains why diplomacy is, most often, not well understood. It further enhances the need for a better understanding of economic diplomacy, as this study will endeavor to develop.

What is the solution in the search for a better understanding of this subject? Paul Sharp asserts that there is still an opportunity to bring the study of diplomacy to center stage in international relations/international studies and to revive the flagging conversations among its

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subfields. In this argument, Sharp observes that perspectives that focus on the construction of ambiguous identities offer a way of reinterpreting diplomacy, providing a richer account than positivist approaches. He further observes that in terms of representation of constructed identities, diplomacy transcends the modern state system and constitutes that which is particular to the kinds of human relations in which International relations/international studies is interested.

Changing contexts and different eras may cause dynamism in the understanding of a subject thought to have once been well grasped. This aspect is brought out by Nicholas Bayne\textsuperscript{11}, who observes that economic diplomacy is an elusive subject. He argues that new questions are always coming to the surface and the context can change abruptly. Bayne further argues that the year 1999 began with the world financial system still in turmoil, after the Asian, Russian and Brazilian crises, but the trading system looking robust. Twelve months later, the financial system had calmed down, while the trading system was reeling from the disastrous WTO meeting in Seattle. The terrorist attacks on 11 September 2001 as well as the spiraling piracy attacks off African coastline on the Indian Ocean raise fresh questions about the likely direction of economic diplomacy.

This view on changing contexts is also supported by Bayne \textit{et al}\textsuperscript{12} who point out that in the post World War II period, economic diplomacy has been dominated by governments and, within them, by permanent officials and was shaped by constraints of the Cold War. They assert that after the end of the Cold War and the advance of globalization, there are far more non-government players; ministers and heads of government are active alongside their officials; and a single economic system covers the entire world. Economic diplomacy is seen to be concerned

\textsuperscript{11} Nicholas Bayne in Nicholas Bayne, Stephen Woolcock, Colin Budd(2003), \textit{The new economic diplomacy: decision-making and negotiation in international economic relations}, Ashgate Publishing, Ltd
\textsuperscript{12} Nicholas Bayne, Stephen Woolcock, Colin Budd(2003), \textit{The new economic diplomacy: decision-making and negotiation in international economic relations}, Ashgate Publishing, Ltd, p.3
not only with measures taken at the border, but increasingly operates ‘within the frontier’. Cold War political impulses are being replaced by worries about globalization and war against terrorism.

The focus of the work of Bayne et al\textsuperscript{13}, is geared towards studying how states conduct their international economic relations at the start of the 21\textsuperscript{st} Century: how they make decisions domestically; how they negotiate with each other internationally; and how these two processes interact. It is noted that while states are at the centre of this study, it also includes non-state actors, whose influence on decision-making is growing. In general, the book is about the methods and processes of decision-making and negotiation, i.e. about economic diplomacy, rather than about the content of policy. It is not intended to be a manual for negotiators, but rather to explain why governments (and other actors in economic diplomacy) behave the way they do. Bayne et al assert that economic diplomacy is not just a subject for academic study, rather, it is an activity pursued by state and non-state actors in the real world of today.

Another aspect on economic diplomacy, as Bayne et al\textsuperscript{14} assert, is that economic diplomacy is about process rather than structure. They observe that academic studies in International Political Economy (IPE) normally focus on the structural factors that shape economic relations between states, such as the influence within the main political causes of evolving structure of the international economy, and the implications of this structure for national policy choice. They also observe that associated studies of international business take firms as the focus of attention, rather than government, although government policy obviously affects international business. With these two observations in mind, Bayne et al embark on a different kind of study concerned with process, i.e. with decision-making processes in

\textsuperscript{13} Bayne, Woolcock and Budd, (2003) The New Economic Diplomacy, p.3

\textsuperscript{14} Bayne Nicholas Bayne, Stephen Woolcock, Colin Budd(2003), The new economic diplomacy: decision-making and negotiation in international economic relations, Ashgate Publishing, Ltd. p.4
governments and international institutions. They argue that the main importance of process over power structures in determining policy choice will vary. When there are major differences in economic power and influence, these are likely to be the shaping factor in any policy outcome, but when power relations are more balanced, the process of negotiation is likely to be more important.

Quoting what Professor John Odell points out in his book *Negotiating the World Economy* (Odell 2000), that outcomes vary between cases when structural features are the same, which suggests that process is important, Bayne et al conclude that a study of decision-making processes in international economic relations fills a gap in the field. They make three assertions in their study: first, economic diplomacy is about process. Second, economic diplomacy is becoming more important. Third, governments need to be efficient and pursue the aims of enhancing economic welfare in a global economy.

In an article on South Africa's Economic Diplomacy, Muller\(^5\) raises questions such as: 'Is South African "economic" diplomacy primarily "economic"?' and 'how altruistic in intention are the diplomatic efforts currently being undertaken by South Africa?' These questions flow from the interplay between the premise that economic diplomacy seeks to serve economic interests through diplomatic means, and the pronouncements made by South African decision makers that point to a broader, more altruistic agenda being pursued. In exploring the political and economic elements of current South African economic diplomacy, Muller highlights some pertinent aspects of South Africa's foreign and economic policies and broadly sketches South African economic diplomacy with focus on the post-1994 period. Muller's study concludes that current South African economic diplomacy serves both economic and political interests and that it is deployed

in an extremely complex environment in which it is virtually impossible to disentangle the economic from the political and the altruistic from self-interest.

Coolsaet\textsuperscript{16} asserts that economic diplomacy is no new contemporary phenomenon. Since early days, securing economic interests has always been one of the twin core tasks of diplomacy, alongside military or security diplomacy. According to Coolsaet, economic and military diplomacy can be viewed as two linked DNA-chains, alternating gaining prominence to the apparent detriment of the other, with the latter evidently not disappearing but temporarily taking a back seat. Coolsaet notes that in the 1990s, economic diplomacy gained the upper hand as pointed out in a 1998 survey that ministries of foreign affairs all other the world were somewhat suddenly rediscovering the importance of economic diplomacy. Coolsaet observes that diplomats of many countries made no secret of the fact that their prime task was to look after the commercial interests of the state they represent. Ministries of foreign affairs (together or in competition with other departments) showed a remarkable aggressiveness with regard to bilateral commercial activities.

Coolsaet further observes that economic diplomacy in the 1990s can easily be compared in intensity and in scope with the late nineteenth and early twentieth centuries' commercial diplomacy. According to the study, when seen through a historical prism, the reasons behind this recurrence appear quite easy to grasp. Coolsaet argues that economic diplomacy takes prominence when acceleration in globalization is accompanied by an absence of agreed rules of conduct and the emergence of new items on the trade agenda as a result of an industrial revolution. The consequence thereof is that, not only do new opportunities and challenges abound but also threats abound.

In examining strategies to deal with these opportunities, challenges and threats, Coolsaet observes that in precarious and highly competitive international environment, firms turn to their governments for support. Governments, it is pointed out, have no choice but to further their companies' interests, otherwise other firms would benefit. In addition, Coolsaet further points out that an intensive economic diplomacy results, thereby strengthening the role of the state notwithstanding all the assumptions of its near demise due to globalization - be it at the end of the nineteenth or at the end of the twentieth century. The writer says that 'to put in simple terms, when the rules of international trade game are changing, it is all hands on deck, a red-alert phase for economic diplomacy - that lasts until new rules are agreed upon by the world's most significant players'.

In a study carried out by Lee and Hudson\textsuperscript{17}, it is noted that in a growing number of countries, diplomatic systems are being overhauled so that the commercial activities of diplomatic services have been centralized, the commercial activities of diplomats have been extended, and business interests have been formally integrated within diplomatic systems. Lee and Hudson argue that these changes result directly from the tendency of governments to reorganize, and in many cases merge, their trade and foreign ministries, as well as the strategy of building formal business-government links within diplomatic institutions. They further argue that while none of these features is unfamiliar to previous diplomatic systems, what is exceptional is the relative neglect of the commercial aspects of diplomacy within diplomatic studies. The aforementioned bring to light some of the strategies that may need to be adopted in light of economic diplomacy.

According to Lee and Hudson, the missing attention to the commercial and business elements of diplomacy in traditional theories of diplomacy leads to situations where attempts to analyze contemporary changes to diplomatic organization and practice lack a suitable conceptual and analytical framework. Highlighting the significance of a political economy approach to diplomacy, and equally engaging with orthodox approaches to diplomacy, Lee and Hudson set out to develop some analytical and conceptual tools to better identify, explain and understand changes in diplomatic systems as well as the increased influence of private interests in diplomatic practice.

In a different study by Mercier, commercial diplomacy is considered an elusive concept that is often confused with economic diplomacy. The study clarifies that the work done by the government to promote both exports and inward investments summarizes what commercial diplomacy is all about. Mercier also notes that Governments play a major role but they do not act alone and the private sector is intimately involved in commercial diplomatic activities. It is further noted in the study that if both export and inward investment promotion are individually well-documented, few attempts have been made to consider them together. Mercier underscores the relevance of such a research noting that in the era of globalization, the two activities are becoming increasingly interlinked. Mercier cites the fact that the practices and processes adopted by the USA, Canada and the UK to pursue commercial diplomacy are often similar — be it the use of trade missions or trade fairs, the pricing services, cross-fertilization, or the use of information and telecommunication technologies. The research carried out by Mercier identifies the differences in structures, mandates, and practices, and it explores possible reasons that explain them.

18 Mercier, A.(2007) Commercial Diplomacy in Advanced Industrial States: Canada, the UK and the US. In Discussion Papers in Diplomacy, Netherlands Institute of International Relations Clingeadale
One of the study that gives an indication of a possible wider scope of economic diplomacy is that by Kishan Rana. According to Rana, economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important. Rana notes that economic diplomacy is no longer the monopoly of state entities and that the official agents- the foreign and economic ministries, the diplomatic and commercial service, plus their promotional agencies- now engage in dynamic partnerships with an array of non-state actors. Rana argues that such domestic collaboration is a sine qua non for effective external outreach; abroad in mirror fashion, the actions similarly address a wide field of foreign stakeholders.

Following the review of the literature of economic diplomacy, and without claiming to have done an exhaustive literature review on the subject of economic diplomacy, it is noted that the authors generally agree on the relevance of economic diplomacy in today's world; the multiplicity of players and fields; and the fact that in order to remain relevant in the dynamic international and domestic environment, understanding economic diplomacy is a necessary requirement. It is however noted that the tendency is to concentrate on the commercial aspects although economic diplomacy is interdisciplinary and much broader than just commercial and financial in nature even though these play a major role.

This study on Economic Diplomacy: Dimensions and Implications has the main objective of developing a better understanding of the dimensions of economic diplomacy. The broad and interdisciplinary aspects will be identified in this respect.

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1.5 Theoretical Framework

States interact and cooperate with a view of achieving and perpetuating their own national interests. Those interests include the pursuit of economic growth and stability, cultural and political liberation, state security and the general development of the nation. The pursuit of national economic interests by states can be conceived within two broad theoretical perspectives: realism and liberalism.

Economic diplomacy will remain relevant in today's world international engagement in as much as there remains an intentional pursuit of national interests in response to the needs of economic development. Realists stress the role of national interests in determining states' behavior. The bottom line for engaging in economic diplomacy is to deliver results that translate to welfare, sustainable economic development and growth. B. Russett and H. Starr argue that 'any government will pursue such interests in what power politics theorists see as the anarchic world of each against all'. They further argue that within any given nation-state, different individuals, groups and classes have different interests.

Realism mainly focuses on state security and power above all else. Early realists such as E.H. Carr, Daniel Bernhard and Hans Morgenthau argued that states are self-interested, power seeking rational actors, who seek to maximize their security and chances of survival. Any cooperation between States is explained as functional in order to maximize each individual State's security (as opposed to more idealistic reasons). Many realists saw World War II as the vindication of their theory. The issue of power, influence or authority has always been the

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centre of international relations, but today it is not reflected anymore in the obsessive arming
tendency during the Cold War. The present dominant expression of power is economical.\textsuperscript{24}

Realists view the state as the major player in economic diplomacy. J.M. Grecio highlights
three basic assumptions of realism. First, states are the major actors in world affairs. Second, the
international environment severely penalizes states if they fail to protect their interests or if they
pursue objectives beyond their means; hence they are sensitive to costs and behave as rational
unitary agents. Third, international anarchy is the principle force conditioning the external
preference and actions of states\textsuperscript{25}. Grecio further points out that on the basis of these
assumptions, realists have developed two major propositions concerning international
cooperation. First, realists argue that states are preoccupied with their security and power; by
consequence, states are predisposed towards conflict and competition, and they often fail to
cooperate even when they have common interests. Second, realists claim that international
institutions can mitigate the inhibitor effects of anarchy on the willingness of states to cooperate
only marginally.

On another note, Grecio observes that liberals argue that states do not see each other as
enemies but as partners needed to secure comfort for their citizens\textsuperscript{26}. Liberals challenge realist
pessimism that international institutions are unable to mitigate anarchy’s constraining effect on
inter-state cooperation. Liberalists claim that in a world of multiple issues imperfectly linked, in
which coalitions are formed trans-nationally and trans-governmentally, the potential role of
international institutions in political bargaining is greatly increased.

\textsuperscript{24} Ursacescu Minodora, The Economic Diplomacy in the Context of Globalization and Informational Economy, p.694
\textsuperscript{25} Grecio, J.M. (1990), Cooperation among Nations: Europe, America, and non-tariff Barriers to Trade, pp.3-4
\textsuperscript{26} Grecio, J.M. (1990), Cooperation among Nations: Europe, America, and non-tariff Barriers to Trade, pp. 7
Stein observes that realists and liberals also presume self-interested, purposive and calculated behavior. Stein points out that in realism, the presumption appears in the formulation that states respond rationally to the challenges posed by the anarchic environment in which they must compete and struggle. In liberalism, it comes with the view that actors rationally pursue their self-interest. Where realists and liberals diverge is in their beliefs about the nature of states’ interests. While the former see these interests as incompatible, the latter perceive them to be essentially harmonious.

Grecio further observes that neoliberals claim that states in anarchy are rational egoists whereas realists assert in contrast that states are defensive positionalists. Neoliberals argue that states can find cooperation in mixed interest situations difficult to achieve primarily because of fears of cheating, and they suggest that management of the cheating problems opens the way to successful joint action. Realists argue that states are inhibited about cooperation in such situations because of fears about cheating and, in addition, and in greater or less measure, because of fears about relative achievements of gains. For realists, if the problem either of cheating or of relative gains arises but is not resolved, cooperation is likely to fail.

On this note, an example will be used to illustrate this point. The recent announcement by the Government of the United Kingdom that it was withdrawing funding from a number of United Nation Agencies as well as some countries where there was some bilateral arrangement for funding presents an important example for economic diplomacy and the realists’ view that if the problem either of cheating or of relative gains arises but is not resolved, cooperation is likely to fail. The move results from a bilateral and multilateral aid review exercise by the department for international development (DFID). For the United Kingdom, the reason given for

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27 Stein, A. A (1993), Why Nations Cooperate: Circumstances and Choice in International Relations, p.10
28 JSTOR: The journal of Politics, Vol. 54, No.1 (Feb., 1992), pp. 322-325
29 Grecio, J.M. (1990), Cooperation among Nations: Europe, America, and non-tariff Barriers to Trade, p. 10
withdrawing funding and membership from some of the UN Agencies is that these agencies did
not meet its development objectives.

According to Stein\(^3\), despite the different conclusions about cooperative or conflictual
nature of international politics, realism and liberalism share core assumptions. He observes that
both realists and liberals recognize that there is no system of global laws universally accepted as
legitimate and binding and enforceable by a central administration with power and authority. In
addition, both view states as relevant actors in world politics. Stein points out that realism is
often dubbed as states-as-actors model of international politics whereas liberalism, on the other
hand, focuses not only on nation-states but also on non-state actors such as individuals and firms.

Stein also points out that the similarity between modern liberalism and realism is evinced
by the connections both perspectives have to the ideas and methods of economics. Arguing that
international relations involve both cooperation and conflict, evincing more cooperation than
realists admit and more conflict than liberals recognize, he asserts that realist assumptions are
consistent with international cooperation and liberal assumptions with international conflict.

For the purpose of this study, the application of both theories will take into consideration
economic diplomacy as “the process through which countries tackle the outside world, to
maximize their national gain in all the fields of activity including trade, investment and other
forms of economically beneficial exchanges, where they enjoy comparative advantage; it has
bilateral, regional and multilateral dimensions, each of which is important”\(^3\). The pursuit of
these interests will be understood to be under the purview of the elements raised above in both
theoretical perspectives of liberalism and realism. On the one hand, domestic and international
cooperation, partnerships and participation of non-state actors will embody liberalism in

\(^{30}\) Stein, A.A (1993), Why Nations Cooperate: Circumstances and Choice in International Relations, pp.8-12
\(^{31}\) Kishan Rana (2007), Economic diplomacy: the experience of developing countries, in: The new economic
diplomacy: decision-making and negotiation in international economic relations / N. Bayne; S. Woolcock [eds.]. -
2nd ed. - Aldershot: Ashgate: p. 201
1.6 Hypotheses

1. Opportunities for economic diplomacy are not always commercial in nature.

2. Economic diplomacy is a wholesome undertaking which combines trade, investment and their resultant direct and indirect impacts on welfare and development.

1.7 Methodology

The information in this study was obtained through desktop research. The exercise mostly relied on secondary data gathered from studies undertaken in the last decade by academicians as well as documented experiences of practitioners in the diplomatic field with regard to the activities, actors and broad practices in economic diplomacy. The task was to collate the existing knowledge as contained in the findings of the different studies to present an enriched knowledge base of the dimensions and implications of economic diplomacy.

Journals, online publications, articles, reports and resources were considered valued sources to analyze and collate the knowledge available on the activities, actors and broad practices with regard to economic diplomacy. The data obtained was then used to elicit and highlight the practices that are generally universal and not uniquely tied to any particular region in the globe. The selection of material is guided by the availability of relevant resources based on research studies and documented experiences of practicing and former diplomats. In addition, in order to complement the secondary data obtained from the desk research, some of the
information was also derived from participant observation within a multilateral setting from the year 2010 to 2012.32

Kenya’s economic blueprint, Vision 2030 was used to guide the search for opportunities for multilateral development cooperation under the umbrella of economic diplomacy, to illustrate what can apply to Kenya at the multilateral level. The goals of the Vision 2030 were identified as economic interests, drawing a parallel between the interests and the different multilateral settings that provide opportunities to meet those needs one way or another. The mandates and programs of six international organizations based in Vienna setting were examined to identify activities that imply an opportunity and can be considered to fit under economic diplomacy.

The information obtained on the dimensions and opportunities was then used to determine the practical and policy implications of economic diplomacy.

32 The multilateral setting in this case is Vienna, Austria, which hosts one of the four UN headquarters and other international organizations.
1.8 Chapter Outline

This study is organized in five chapters. Chapter one introduces the topic of the research study, covering the broad area of study, the statement of the problem, objectives, justification, literature review, theoretical framework, hypotheses and methodology of the study.

The second chapter defines economic diplomacy and gives an overview of its broad dimensions, highlighting the actors and examples of economic diplomacy as exercised at different levels.

In the third chapter, the study explores potential opportunities for Kenya’s economic diplomacy at the multilateral level, in line with Vision 2030.

The fourth chapter analyses the practical and policy implications of economic diplomacy including the requisite skills and knowledge, training needs and coordination required for effective economic diplomacy.

The fifth chapter gives conclusions of the study.
CHAPTER TWO

2.0 UNDERSTANDING ECONOMIC DIPLOMACY

In this chapter, the study looks at the broad dimension of economic diplomacy, covering its aspects and identifying the actors and examples of economic diplomacy as exercised at different levels. To understand economic diplomacy, a broad overview of the dimensions of economic diplomacy is necessary. These aspects include the scope, players, opportunities, role of the diplomat, e-diplomacy tools, stakeholder interests and domestic policies, public opinion, media, legal issues, national economic interest. In the following sections, the study will highlight various aspects as an overview and basic introduction to economic diplomacy.

2.1 Defining economic diplomacy

If diplomacy is considered as the propagation of a State’s foreign policy, and foreign policy as the promotion of national interests, then economic diplomacy should ideally entail the promotion of national economic interests. However, influences on foreign policy stem from the domestic policies and pressures from non-state actors within that state, and the national interests are promoted by both state and non-state actors.

The task of maximizing gains in the face of globalization and economic interrelatedness poses a challenge to the actors of diplomacy and international relations. The international environment is constantly changing and the issues of domestic and global concern are consequently dynamic in nature and not static. There is also a rise in the number of international organizations and forums to address growing economic needs, coupled with an increase of the actors involved. In order to remain relevant in a dynamic international arena, states must develop
appropriate strategies in the conduct of economic diplomacy. With the dividing line between domestic and foreign policy narrowing and becoming more blurred and coupled with the multiplicity of actors, the conduct of economic diplomacy calls for innovation and a multidisciplinary approach in order to effectively maximize on gains. This entails the need to think like an economist but act like a diplomat, a complex and demanding role for practicing diplomats. This daunting task eludes most actors expected to deliver results in the conduct of economic diplomacy.

What is economic diplomacy? Quite a number of studies have attempted to define economic diplomacy with different results. To some, it is defined as 'the method by which states conduct their external economic relations. It embraces how they make decisions domestically, how they negotiate internationally and how the two processes interact.'33 This definition takes a state-centric view of actors in the field of economic diplomacy with a focus on the decision-making and negotiations.

To others, economic diplomacy is 'the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important'.34 This view of economic diplomacy gives a different dimension by giving a break-down of some of the elements of economic diplomacy by introducing the commercial aspects of the subject, that is, trade and investment, as well as different levels for the conduct of economic diplomacy.

'Economic diplomacy is traditionally defined as the decision-making, policy-making and advocating of the sending state-business interests. Economic diplomacy requires application of

33 Nicholas Bayne.....
technical expertise that analyzes the effects of a country's (receiving state) economic situation on its political climate and on the sending State's economic interests. The sending state and receiving state, foreign business leaders as well as government decision-makers work together on some of the most cutting-edge issues in foreign policy, such as technology, the environment, and HIV/AIDS, as well as in the more traditional areas of trade and finance. Versatility, flexibility, sound judgment and strong business skills are all needed in the execution of Economic Diplomacy.  

Another practical definition of economic diplomacy is that it is "essentially a process of mainstreaming economic dimension into our foreign policy perspective with the objective of further promotion of our economic interests with the cooperation of the outside world through well informed negotiation. Those who are involved in such negotiations should, therefore, be well-informed."

Two definitions by 'Berridge and James (2003), on economic diplomacy provide a different perspective on economic diplomacy. One, that "economic diplomacy is concerned with economic policy questions, including the work of delegations to conferences sponsored by bodies such as the WTO" and two, "diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective". These definitions in effect bring out the aspect of both positive and negative perspectives of diplomacy respectively.

To further understand economic diplomacy, a broad overview of the dimensions of economic diplomacy is necessary. These aspects include the scope, players (state, non-state, business, media, diaspora, international, domestic), opportunities, role of the diplomat, e-diplomacy tools, stakeholder interests and domestic policies (factors influencing, variables and
non-variables), public opinion, media, legal issues, national economic interest. In the following sections, the study will highlight these aspects.

2.2 Dimensions of economic diplomacy

Economic diplomacy is a plural set of practices, largely aimed at advancing the home country’s external economic interests. Economic diplomacy includes the promotion of trade and investments, management of aid and other financial flows, tourism promotion and the management of all the regulatory issues that affect a country’s external economic policy; it is handled by the foreign ministry and the economic ministries, and involves contributions by non-state actors. In general, economic diplomacy involves country promotion activities, marketing, negotiating, public awareness, media campaigns, lobbying, advocacy, policy-making among other activities.

The conduct of economic diplomacy takes into account different dimensions. The dimensions are as wide as the different needs and interests for economic growth and development of any country. These are commercial, policy, legal, economic, institutional, media and public opinion. These are pronounced, not only at the domestic but also international level, with an equal amount of challenges to be faced both at bilateral and multilateral level.

In the policy dimension, the focus is on the policy measures, impact on domestic policy, disputes over policy prescriptions, stakeholders, interests and influence as well as the political arena. In addition to protecting property rights and enforcing contracts, foreign investors also want to earn profits on their investments and presumably also take into account whether the economy is on a path for growth and prosperity. The degree to which the economy expands depends on whether the government can give credible assurances that it will uphold the rule of

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38 Rana, K. and Chatterjee, B. Introduction: The Role of Embassies in Economic Diplomacy: India’s experience p.3
law and protect property rights. The problem investors confront is that current government policies conducive to economic growth may not last, as future politicians may be tempted to change the course for personal or political gain that harms business interests. Outright corruption is a concern but so are the possibilities that government will impose high business taxes to finance social welfare initiatives or strictly regulate business operations to satisfy populist demands.39 Where societies and governments have succeeded in putting growth-enhancing policies into place, aid has provided useful support. The combination of good policies and aid creates a productive environment to private investment and growth.’40

Two obvious scenarios face the policy developers and implementers: one is the domestic front and the other is the international front characterized by bilateral and multilateral engagements. The multilateral setting takes into consideration the regional economic cooperation, regional groups and international organizations and systems. A state acts based on its domestic and international obligations. For instance, as a state party to the United Nations Convention Against Corruption (UNCAC), Kenya is bound by the obligations under the Convention and hence has to proactively make every effort to fight against corruption. This captures the fact that the influences and impacts of the policy decisions can be traced to those that are within the borders of a state as well as those that are beyond the borders of the same state in question.

The commercial aspects of economic diplomacy are more obvious. This explains the traditional focus on trade and investment as these elements are straightforward and measurable to say the least. The focus is on leveraging competitiveness in any commercial undertaking based on revenue, costs, market opportunities, market share of products and services as well as growth

39 International Studies Quarterly, Vol. 56, Issue 1
Most often than not, this has commonly been referred to as commercial diplomacy. It involves exports and other foreign exchange earners like foreign direct investments. It also involves treaty making and influencing decision-making at economic based international organizations such as Bretton Woods Institutions and the World Trade Organization among others.

Beyond the surface of international trade and foreign direct investment, other sections of the economy are also taken into consideration in economic diplomacy. There are economic aspects to pay attention to, including among others the creation of employment. These can be looked at using a top-down or bottom-up approach. For instance, how many jobs will be created by an identified foreign direct investment? Alternatively, in seeking to create a thousand jobs, which foreign direct investment would be appropriate to target? How will the employment or lack of employment affect emigration? Brain drain and brain gain are aspects that also require consideration.

Income levels and distribution are known to affect consumption and the demand for goods and services. For instance, higher disposable income increases demand for higher quality of goods and services. Demand in turn affects supply, prompting an increase in production to satisfy the changing nature of consumption. An example is in the area of housing, where individuals with a higher disposable income may opt for home ownership as opposed to paying rent, thus raising the demand for housing units and mortgage facilities for construction. Scarcity or oversupply will affect the prices. Using comparative advantage, production costs can be significantly reduce production costs, create competitive prices that translate to income from profits and job security. These create wider taxable brackets translating to revenue collection for the state operations and provision of services to the citizenry. Targeting any one or combination of these economic aspects in economic diplomacy will have spillover effects in the economy.
Under the legal dimension, there is the need to consider active participation in drafting, developing, interpreting and implementing elements touching on domestic laws, international agreements, legal interpretations and treaties. This may be at domestic, bilateral and multilateral levels. Protecting the economy from impacts of any of legal obligation from the aforementioned ideally constitutes economic diplomacy. Now more than ever, economic diplomacy is required in every forum tackling the agenda of climate change. They should not be left to the environmentalists alone as decisions will definitely impact on the industrial development activities. The climate change forums also shape the understanding and future orientation of sustainable development. Hence, participation in such forums should include key players and stakeholders from different sectors of the economy. The economic diplomat becomes very valuable representative in such instances; however, due to the proliferation of climate change forums and the numerous sectors affected by this agenda item, it may be impossible to efficiently cover all the forums without sufficient backup and support.

Decision-making processes are also important elements in economic diplomacy. Navigating the numerous institutions and processes at domestic and international level may present challenges and opportunities depending on the skills of the economic diplomat. Dealing with bureaucratic conflicts and bottlenecks characterize the institutional dimension that one has to contend with in the conduct of economic diplomacy.

There is also the public opinion and alongside the media to contend with either as foe or friend, in particular as pertains to the potential role in decisions, media coverage and challenges they present or face in economic diplomacy. By strategically using public diplomacy, economic diplomats can effectively use the media to influence public opinion to understand and support the external economic policies of a state.
In addition to the above, economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. Another dimension is where economic diplomacy employs economic resources, either as rewards or sanctions in pursuit of a particular foreign policy objective. Economic sanctions can be slapped on states that have defied decisions and resolutions of the United Nations Security Council.

Kishan Rana, a well known diplomat, identifies four pillars\(^4\) of economic work. The first pillar is trade promotion, with prime but not exclusive focus on exports. The second is investment promotion, mainly focused on inward investments, but not excluding the home country’s outbound investments, where appropriate. The third is attracting suitable technologies, plus technology “harvesting”. The fourth pillar is management of economic aid, which is important for most developing countries as a “recipient”, and as a “donor” for developed nations. He further notes that there is also the larger task of country promotion, which supports all the above, and blends into image building, as well as tourism promotion. Rana also points out the enhancement of the country image country as one of the essential tasks of diplomacy that underpins and relates to a wide range of external activities.

Contemporary economic diplomacy is thus broader in scope than the commercial work of the past. As indicated in the above list of activities, the tasks go beyond trade, and encompass fairly new activities that now are part and parcel of the work agenda of embassies and foreign ministries. “This was not the case more than a decade ago. Now the foreign Missions and foreign Ministries are tasked with investment mobilization, tourism promotion and management of the country image. Each of these three is relevant to diplomacy, as concrete activity that official

representatives today undertake in external relation building and each of them provides feedback into other elements of the diplomatic process. This is a demonstration of expanded and integrated diplomacy.  

Resources are not evenly distributed throughout the world. One country may have an abundance of land; another may have a skilled labor force, capital, oil, mineral deposits, cheap unskilled labor and a tropical climate and other factors possessed by different countries in varying amounts. Trade across international boundaries is generally based on the comparative advantages that countries have in supplying particular products. The underdeveloped countries complete their development planning by importing machinery and raw materials from developed countries. Foreign aid and loans from developed countries sustain development projects because in most instances, the internal sources are not sufficient. In this regard, economic diplomacy can be used to improve social and cultural ties. It is can also be used to stimulate economic development.

International trade has been considered the most effective device to strengthen international peace. It also improves social and cultural ties. More and more countries are economically interdependent and hence they avoid the breakout of war, either within themselves or in their neighborhoods. The wars in Iraq and Afghanistan demonstrate that building infrastructure, developing open markets, and securing transparent contracts are critical to ending conflict.

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43 Saleemi and Bitange (2007) Economics Simplified, p422
46 Phlipot, C. Economic Diplomacy: Views of a practitioner, pg. 197
Defined as a distinct part of diplomacy, economic diplomacy regards the actions referring to the state external politics, the external investments and the negotiation with different countries or international organizations. At the same time it refers to the enterprises functioning at national international level, promoting their economic interests. The major scope of economic diplomacy is to contribute to the national economic development. The main function of economic diplomacy consists in searching economic objectives with diplomatic measures, based not on economical instruments.\(^{47}\)

The pursuit of economic development and growth development features some interrelated, overlapping interests and at times competing roles for the actors and stakeholders.

'Economics is most closely connected with the other social sciences like political science, history, sociology and ethics among others. The problems of these sciences affect the economic condition of any country. The economic factors also affect the political, social and historical situations and moral values of any country.'\(^{48}\) Economic interests at domestic level would, for example, feature development and expansion of trade, energy, industry, food security, labour, aid/funds, development, health, environment, peace and security.

Undertakings of economic diplomacy take into consideration various development needs as well as interests touching on national economic development and economic growth. The needs and interests are centered on the holistic and multi-disciplinary context of human development - the development of greater quality of life for the populace. For instance, economic diplomacy in the face of millennium development goals (MDGs) entails activities aimed at demystifying the concepts of the development goals, reducing inequalities, enhancing dignity, increasing participation of non-state actors, advocating appropriateness of interventions and decisions,

\(^{47}\) Minodora, U, The Economic Diplomacy in the Context of Globalization and Informational Economy, p.695

\(^{48}\) Saleemi and Bitange (2007) Economics simplified, p4
ensuring sustainability, promoting capacity building, management of migration and remittances and the application of a rights-based approach.

In safeguarding the economic and development interests of their respective constituencies, postmodern diplomats need to fulfill a set of basic objectives and tasks. In summary, these are: transnational business development, foreign direct investment and economic multilateralism, socio-economic/ ecological development; negotiating economic global economic governance architecture; setting standards at multilateral organizations; managing multi-stakeholder coalitions and alliances; shaping socio-economic/ecological development policies among others.

In light of the above, effective economic diplomacy refers to global situations able to assure sustainable economic development. The results of economic diplomacy ought to translate to fulfilling the needs and interests through strategies and action leading to international development, evidenced by foreign aid, governance, healthcare, education, poverty reduction, gender equality, disaster preparedness, infrastructure, economics, human rights, environment and associated issues. It is also important to note that international development is composed of institutions and policies that arose after the Second World War. These institutions focus on alleviating poverty and improving living conditions in developing countries.

2.3 Actors in Economic Diplomacy

The state has for a long time remained the main actor in international relations. However, in the face of globalization and increased economic interrelatedness, limited human and institutional resources limit effective participation in global economic activities and arenas. The emergence of alternative diplomatic actors within and outside the state is the reality on the

ground. In addition, these new diplomatic actors often work independently from the ministries of foreign affairs. An increasingly multi-actor participation in diplomacy, foreign economic relations and public affairs remains the prevailing situation. The current international scenario is characterized by increased participation of non-state actors, working either alone or in partnership with the state actors. This picture is also true for economic diplomacy as many actors, both state and non-state are involved.

2.3.1 State actors

Foreign relations are still largely in the domain of governments and diplomatic activities are carried out largely by the ministries of foreign affairs. The rising interest in economic diplomacy has also meant that foreign ministries have to actively engage in economic diplomacy. Some have transformed their role from being solely responsible for foreign economic policy to becoming the overarching coordinator of inter-ministerial foreign economic policy formulation. The diplomatic missions abroad are now expected to carry undertake economic diplomacy in their day-to-day activities.

It is worth noting here that the foreign ministries are no longer enjoying the monopoly of diplomatic activities. It is also important to note that in economic diplomacy, the foreign ministries can neither control the growing multiple actors nor exercise monopoly of handling foreign economic affairs. It is now common to find that apart from the ministries of foreign affairs, government agencies and departments are taking the lead role with respect to government representation and participation in international conferences, state-to-state exchanges or policy dialogue with their counterparts. The government departments and agencies that have economic mandates, such as international trade, agriculture, industry and finance, as well as central banks

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Saner and Yiu, (2003), International Economic Diplomacy: Mutations in Post-Modern Times p.4
operate internationally and are players in economic diplomacy though they do not describe them as such. They represent a proliferation of channels of government representation, communication, information gathering and negotiation.\textsuperscript{51} For instance, delegations to WTO forums are mostly comprised of representatives from the ministry of trade. By taking up a coordinating role in the face of these realities, the ministries of foreign affairs take on a consultative role which allows the specialized ministries to participate in formulation of negotiation positions while at the same time leaving the foreign ministry diplomats formally in charge of national delegations at international economic meetings.

Heads of state and government, ministers and members of the national assembly are also engaged in economic diplomacy. They undertake official bilateral visits accompanied by businessmen and investors from their capitals to interact with counterparts in the receiving country. Their statements are laden with invitations to visit and invest in their countries and promotion of some of the major export products. They are equally involved when delegations from multilateral organizations visit the country and negotiations have to be undertaken which require difficult domestic political decisions on economic policy.\textsuperscript{52}

2.3.2 Non-state actors

Non-state actors pave the way for establishment of diplomatic relations because with the impact of globalization and the ease of movement, non-state actors, especially traders and investors have established economic partnerships and some are very significant in their operations. In most cases, the traders and investors penetrate some international frontiers way before diplomatic relations with that state is ever established. This also happens in the case

\textsuperscript{51} Pigman, G. (2005), Making room at the negotiating table: the growth of diplomacy between nation-state governments and non-state economic entities in \textit{Diplomacy and Statecraft}, Vol.16, p.392

\textsuperscript{52} Pigman, G. (2005), Making room at the negotiating table: the growth of diplomacy between nation-state governments and non-state economic entities in \textit{Diplomacy and Statecraft}, Vol.16, p393
where there is an issue of recognition (as in Kosovo and others) because the non-state actors are not limited by international politics linked to state recognition. Further, non-state actors such as non-governmental organizations engaged in economic activities internationally are also players in economic diplomacy. Businesses and investors are also actors in the process of economic diplomacy, especially when contacts between them and governments are initiated or facilitated by diplomats.

One of the unexpected and increasingly important non-state actor in economic diplomacy is the Diaspora. The whole world is waking up to the harness great potential that is waiting to be exploited as evidenced by the volumes of remittances from the Diaspora which at times seems to exceed the portions of national budgets. The philanthropy of the Diaspora has most certainly led to different levels of economic developments in the regions and communities where the impact of the remittances is felt. This new phenomena has caused states to take notice and quite a number of states are now engaged in strategizing on how to tap into the great resource that is the Diaspora, by engaging in Diaspora diplomacy, establishing public-private partnerships for investments and other development agenda, raising the profile of the Diaspora and engaging the Diaspora in contributing to pressuring governments to change regulations, laws policies and politics that are considered unfavorable.

The media is also one important player in economic diplomacy since it plays an important role in public diplomacy, shaping public opinion and creating international perceptions of the domestic political and security situation, policies, opportunities and potentials of a state. The media and more so the internet is increasingly used as to bridge distance in the wake of globalization and as a tool for learning, trade, commerce, marketing and e-conferences. Online courses are more common than in earlier decades. Social media is also gaining rapid recognition and is bringing together more non-state actors from around the globe. Multinational companies,
private corporations, activists and lobby groups have embraced the social media and are reaching out to growing numbers of users, both with and without the knowledge of state actors. Transnational non-governmental organizations are increasingly active in the international policy arena and are making use of their information gathering capacity and sophisticated policy analysis capabilities and are demand their rights for supra-territorial representation. This challenges the foreign ministries' ability to coordinate national economic policy at international forums.

Non-state actors in the international arena, ranging from non-governmental organizations (NGOs) to multilateral economic institutions and organs of global governance are also gaining importance in economic diplomacy. These entities have two dimensions of operation, they operate both as venues to facilitate diplomacy between governments and also as diplomatic actors in themselves. The United Nations and its specialized agencies, the regional and international organizations are negotiating with governments on their roles and obligations in addition to issues of technology transfer, economic partnerships, financing, sustainable development as well as shaping of policies. The fact is that the role of non-state actors continues to gain prominence in economic diplomacy, thereby necessitating a situation where there is a corresponding all-important increase in public-private partnerships for international cooperation. An example of this situation is the use of airline carriers to promote destination packages as part of tourism promotion; or multinational companies partnering with the national governments to promote development projects in health care provision as part of their corporate social responsibilities.

An overview of the actors in economic diplomacy is shown in the table below:
<table>
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<tr>
<th>Table I: Actors in Economic Diplomacy</th>
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<tbody>
<tr>
<td><strong>Participatory level</strong></td>
</tr>
</tbody>
</table>
| Domestic/ National Level | State  
Parliament  
Foreign Ministry  
Foreign Missions  
Regulatory bodies  
Multinationals  
departments and agencies  
Private sector  
NGOs/ Civil society  
Private companies  
Government departments and agencies  
Training institutes  
Media | Foreign policy |
| Bilateral level | States  
Parliament  
Missions abroad  
Private companies and businesses  
NGOs/ Civil societies  
Media  
Chambers of commerce  
UN and its agencies  
Transnational companies  
Financial institutions  
Diaspora | Public-private partnerships  
Negotiations |
| Regional level | States  
Missions abroad  
RECS  
Customs unions  
Monetary unions  
Media  
Chambers of commerce  
UN and its agencies  
Multinational corporations  
Financial institutions | Bargaining as a bloc |
| Global level | States  
Foreign Ministries  
Missions abroad  
Government officials  
Ministers  
Mission abroad  
International Organisations  
Multinational corporations  
The UN and its agencies  
I/NGOs | Bargaining as a bloc |
2.4 Arenas for economic diplomacy

2.4.1 Bilateral

The bilateral engagements have long been well understood and the opportunities have been ongoing based on the ability of the parties to set an appointment, which more often than not is not a problem. The opportunities for bilateral engagement also present themselves as one-on-one meetings, round tables with participants from both parties, high-level exchange visits by Heads of State and Government, Foreign Ministers as well as other State representatives.

Informal gatherings are also becoming quite popular in striking deals especially where a foreign diplomatic mission invites some of the government dignitaries to their ‘national functions’ such as commemoration of national events among others, and use that opportunity to discuss with the dignitaries what would have been discussed in a formal appointment which either was not possible earlier or even denied. Private corporations and multinational companies are also in competition for the level and number of government officials to honor their invitations and grace their functions. This not only earns them recognition but also raises their profile in the eye of the public, helping them in one way or another to win the much needed confidence of the public. Other informal gatherings involve sporting and cultural activities that bring together the prominent and relevant stakeholders.
2.4.2 Multilateral

The international community is full of multilateral arenas for the conduct of economic diplomacy. In fact, there seems to be a proliferation of international organizations to the point that both state and non-state actors might need to consider carefully their relevance in addition to the effectiveness and benefits of their membership to some of the institutions. All these institutions compete for membership and resources besides the need to be relevant to the present day society as well as seeking to remain significantly important for posterity. An example is the mushrooming of international organizations and initiatives dealing with energy and renewable energy issues, some of them ranging from the International Energy Agency to the International Renewable Energy Agency among others.

The United Nations is an association of states or intergovernmental organizations, pledged to maintain international political, economic, social, cultural and humanitarian problems. Contributions from member states constitute the main source of funds. These are in accordance with a scale specified by the Assembly, and determined by the country's share of the world economy and ability to pay, in the range of 2.2% - 0.001%. The organization is prohibited by law from borrowing from commercial institutions.

'After World War II, the victorious powers established multilateral economic institutions known as the Bretton Woods Institutions to facilitate management and administration of monetary relations, economic development and international trade. These institutions were created in such a way that the interests of the states that contributed the most to the organization's capital would have the greatest influence over the organization's collective policy

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54 Barry Turner, (2010), The Statesman's Year Book: The politics, cultures and economies of the world, Palgrave Macmillan. pg3
making."\textsuperscript{55} The United Nations system operational Programmes and Funds - social and economic development, aim at achieving a better life for people everywhere is a major part of the United Nations system of organisations.\textsuperscript{56} In addition, the economic and social council (ECOSOC) is responsible under the General Assembly for coordinating international economic, social, cultural, educational, health and related matters.\textsuperscript{57}

There are numerous multilateral arenas for the pursuit of agenda and strategy with regard to the millennium development goals (MDGs). Within the setting of the United Nations there are over twenty (20) UN Partners on MDGs, sometimes working in harmony or in competition with each other. These are: (UNDP) United Nations Development Programme; Millennium Campaign; (UNDESA) UN Department of Economic and Social Affairs; World Bank; (UNICEF) UN Children's Fund; (UNEP) UN Environment Programme; (UNFPA) UN Population Fund; (WHO) World Health Organization; IMF International Monetary Fund; (UN-HABITAT) UN Human Settlements Programme; (FAO) Food and Agriculture Organization; (IFAD) International Fund for Agricultural Development; (ILO) International Labour Organization; ITU International Telecommunications Union; (UNAIDS) Joint UN Programme on HIV/AIDS; (UNCTAD) UN Conference on Trade and Development; (UNDG) UN Development Group; (UNESCO) UN Educational, Scientific and Cultural Organization; (UNHCR) UN Refugee Agency; (UNIDO) UN Industrial Development Organization; UN Women; UN Entity for Gender Equality and the Empowerment of Women; (OHCHR) Office of the High Commissioner for Human Rights; (UNRWA) UN Relief and Works Agency for Palestine Refugees in the Near East; WFP World Food Programme; (WMO) World

\textsuperscript{56} Barry Turner, (2010), The Statesman's Year Book: The politics, cultures and economies of the world, Palgrave Macmillan .p10
\textsuperscript{57} Barry Turner, (2010), The Statesman's Year Book: The politics, cultures and economies of the world, Palgrave Macmillan .p5
Meteorological Organization; WTO World Trade Organization; (UNWTO) World Tourism Organization; (UNOSDP) UN Office on Sport for Development and Peace.

The multilateral system is generally perceived as an essential part of the international architecture for sustainable poverty reduction. Indeed, many multilateral organizations are valued partners for developing country governments, civil society and the private sector. This is because these organizations mobilize large-scale funding, bring specialist expertise, support innovation, play pivotal leadership roles with other donors, have the mandates and legitimacy to help to deal with conflict situations, and provide a platform for action in every country in the world. Many are a critically important complement to the operations of bilateral donors such as DFID.58

2.4.3 Other arenas

Technological advancement in the communication sector has created a seamless virtual world at the touch of a button with multiple players from around the globe, both state and non-state actors, big and small. The information superhighway provides various opportunities for the quick and discerning. This explains in part the rise in the number of actors embracing e-diplomacy, e-commerce, e-governance, e-learning, e-conferencing, yet without a leader or any organized control or governance centre as is seen in the international multilateral organizations.

The emergence of communication networks built around internet communications has made it easier for all sorts of non-state actors, ranging from global firms to non-governmental organizations to interact with multilateral institutions directly, by-passing the state actors that would have previously represented civil society interests before these institutions.59 As the realists view it, this is a recipe for anarchy and continued struggle for power. However, this can

58 Multilateral Aid Review, DfID p.17
59 Pigman, G. (2005), Making room at the negotiating table: the growth of diplomacy between nation-state governments and non-state economic entities in Diplomacy and Statecraft, Vol.16, p396
also be an opportunity for greater gains and collaboration in economic diplomacy because the digital arena is limitless, borderless, timeless and basically has far less control, of course to the chagrin of state actors. The rise in cybercrimes and terrorist activities calls for more vigilant, skilled and well informed economic diplomats.

2.5 Application of economic diplomacy

The application of economic diplomacy is best described 'by the economic issues that provide its content.' In the conduct of economic diplomacy, the state and non-state actors of economic diplomacy perform multiple activities and influences within the domestic, bilateral and multilateral settings. The activities are interlinked and overlap in some instances. This calls for innovation and a multidisciplinary approach in order to effectively deliver results. To illustrate the multiplicity of activities and interrelatedness, table 2.1 shows a summarized overview of the activities, actors and levels of engagement in economic diplomacy.

Table 2.1: Economic Diplomacy in practice

<table>
<thead>
<tr>
<th>Activities</th>
<th>Level of engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
</tr>
<tr>
<td>Promotion of trade (imports/exports)</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Promotion of investments (inward and outward)</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Promotion of tourism</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Management of economic aid</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Promotion of the country as a brand, i.e. image</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Management of financial flows, e.g. foreign exchange</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Negotiating agreements</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Setting standards at multilateral organizations</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Diaspora engagement</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Protecting domestic economic activities from international competition</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Economic sanctions and rewards</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Establishing public-private partnerships</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Monitoring and reporting on economic policies in foreign countries</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Management of treaties and international obligations</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Advocacy</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Economic networking</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Mainstreaming economic interests into foreign policy</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Forestall possible conflicts</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Sustain credibility and legitimacy</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Regulatory management</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Development cooperation</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Resource mobilization</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Identifying and attracting appropriate technology</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Fighting international economic crime</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Institutional and human capacity building</td>
<td>♦ ♦</td>
</tr>
<tr>
<td>Public awareness campaigns</td>
<td>♦ ♦</td>
</tr>
</tbody>
</table>

Notes: ♦ state actors ♦♦ non-state actors

Table 2.1 is a summary of combination of findings derived both from observation and the reference materials accessed during the conduct of this study. The summarized presentation of data is part of the effort to collate the existing knowledge as contained in the findings of the different studies to present an enriched knowledge base of the dimensions and implications of economic diplomacy.
The above list does not signify that the roles are only carried out by the different actors as indicated but indicates generally what mostly carries the day in modern day economic diplomacy. It also demonstrates the implied demands placed on the diplomatic missions abroad at any given time.

The application of economic diplomacy is further illustrated by a case study of the UK and impact of its economic diplomacy based on aid effectiveness. A different scenario further illustrating the potential and outlining the opportunities for economic diplomacy for Kenya will be the focus of the next chapter.

2.5.1 Case study on the United Kingdom’s decision on aid effectiveness

The United Kingdom Government recently undertook an aid review to ensure UK gets maximum value for its aid money. In 2010 institutions that shared around £3 billion from the UK aid budget were analyzed in a drive to direct money at organizations considered only the most effective organizations. This included an assessment of the relevance of each body to the UK’s objectives on poverty reduction and their ability to deliver results on the ground. Organizations that demonstrated value for money and the greatest impact on poverty could receive a cash boost whereas those that failed to meet the tough criteria could have their funding reduced or stopped altogether.

Approximately half of the UK’s aid budget is spent through international bodies, like the UN and World Bank, many of which are considered crucial UK’s fight against poverty. In 2010 the UK Coalition Government decided to provide 0.7 per cent of Gross National Income as aid from 2013, providing an opportunity to transform the lives of millions of poor people around the

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62 Unless stated otherwise, the material under this subheading (2.5.1) is basically a short version sourced and adapted from the DfID Multilateral Aid Review (2011) report. The material, as derived from the report, presents the background, the interests at stake and the focus of the review exercise.
The responsibility of the UK Government is to extract the greatest possible value for money from the development budget, as a duty both to the British taxpayer and to the people UK is helping to pull themselves out of poverty.

This applies not only to the bilateral aid budget for developing countries, but also to the money given through the multilateral organizations that work on its behalf. Forty-three different multilateral bodies were critically examined. The review focused on the organizations’ aims and objectives and how effective they are in achieving them and delivering results. The review will definitely be used to guide future British aid investment. It also assesses the value for money provided by each organization against the aims the Coalition Government has set out for UK’s own development efforts. Some of the multilateral organizations considered as giving greatest impact on the ground for the poor with value for money for UK aid included UNICEF, the Global Alliance for Vaccines and Immunizations and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

The UK took a strong stand making it clear that the city would not tolerate waste, inefficiency or a failure to focus on poverty reduction. It turned out that some organizations do not provide full value for money, whether due to high levels of bureaucracy, overlaps with other agencies, high costs or a failure to deploy enough staff into the field. There was also concern that many multilateral organizations fail to provide hard evidence to show money is being used effectively.

The assessment framework focused on critical role in meeting development objectives at country level; attention to cross-cutting issues, that is fragile states, gender equality and environmental sustainability; focus on the poor countries; contribution to results – reaching the poorest, delivery against objectives; strategic performance management; financial resource management; cost and value conscious; partnership behaviour enabling country-led approach;
transparency and accountability; and, likelihood of positive change, to promote reform. These components were analyzed against the contribution to UK development objectives and organizational strengths.

The assessment framework included criteria which relate directly to the focus and impact of an organization on the UK’s development and humanitarian objectives – such as whether or not they are playing a critical role in line with their mandate, what this means in terms of results achieved on the ground, their focus on girls and women, their ability to work in fragile states, their attention to climate change and environmental sustainability, and their focus on poor countries. These criteria were grouped together into an index called “Contribution to UK development objectives”.

The framework also included criteria which relate to the organizations’ behaviors and values that drive the very best performance – such as transparency, whether or not cost and value consciousness and ambition for results are driving forces in the organization, whether there are sound management and accountability systems, whether the organizations work well in partnership with others and whether or not financial resource management systems and instruments help to maximize impact. These were grouped together into an index called “Organizational strengths”. Value for money for UK aid was assessed on the basis of performance against both indices. So, for example, organizations with a strong overall performance against both indices were judged to offer very good value for money for UK aid, while those with a weak or unsatisfactory performance against both indices were deemed to offer poor value for money.

As important as this assessment of value for money was, the review was also significant as the first attempt by the UK to systematically examine strengths and weaknesses across the multilateral system. First, it provides the evidence basis for the UK to work with the multilateral
organizations and other partners to develop a focused reform agenda which, if implemented, will make a real difference to the lives of poor people. Second, by identifying areas of weakness, as well as strength, across the whole multilateral system, it gives added impetus to reform efforts, as well as a sound basis for monitoring progress.

The review confirmed that the multilateral system is a critical complement to what the UK government can do alone. Together the multilateral organizations mobilize large-scale funding, bring specialist expertise, support innovation, play pivotal leadership roles with other donors, have the mandates and legitimacy to help to deal with conflict situations, and provide a platform for action in every country in the world. Multilateral organizations – particularly those assessed as offering very good value for money for UK aid such as UNICEF, the GAVI Alliance and the Global Fund to Fight AIDS, Tuberculosis and Malaria – are saving poor people’s lives and increasing their life chances.

But the review also found that the system is complex and fragmented, with overlapping mandates and co-ordination problems. There was not enough evidence of multilaterals consistently delivering results on the ground, particularly in fragile states. Too many organizations lack a clear strategic direction, and systems to get the right staff in post at the right time, and ensure that management and staff are focused on achieving results and held to account for this. Most multilaterals are not paying sufficient attention to driving down costs or achieving value for money. Most multilaterals are not concentrating enough on gender issues. There is still much room for improvement for the multilaterals as a group on transparency and accountability. Poor partnership working between multilateral organizations is considered as one of the factors undermining the effectiveness of the system.
2.5.1.1 Effects

By carrying out the multilateral aid review, the UK was engaging in economic diplomacy to safeguard its resources while meeting its development objectives and priorities. As has been elaborated in point 2.5.1., the Multilateral Aid Review was commissioned to assess the value for money for UK aid of funding through multilateral organizations. The results of the exercise provide some important information to guide future decisions with regard to economic diplomacy in this regard. At the end of the exercise, forty-three organizations had been assessed. Nine were deemed to offer very good value for money, sixteen to offer good value for money, nine to offer adequate value for money, and nine to offer poor value for money for UK aid. The organizations covered by the review ranged from multilateral development banks to UN specialized agencies, and from development finance institutions to humanitarian organisations.

Spillover effects of the review and resultant decisions were spread across both bilateral and multilateral levels. Different actors voiced their different reactions. Reactions came from multilateral organizations, regional blocks and members of the affected organisations. First, there was the spirited effort urging the UK to reconsider the decision. Secondly, the affected organizations’ prepared responses to counter the allegations and claims of the multilateral aid review with respect to the assessment on their relevance and delivery of member states’ expectations.

One of the UN organizations greatly affected by this aid review is the United Nations Industrial Development Organization (UNIDO). The results of the review were not in favour of

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63 DfID Multilateral Aid Review Report 2011. The responses by some of the organisations which were evaluated have been uploaded on the DfID website at http://www.dfid.gov.uk/

64 The responses by some of the organisations which were evaluated have been uploaded on the DfID website at http://www.dfid.gov.uk/What-we-do/Who-we-work-with/Multilateral-agencies/Multilateral-organisations-responses-to-the-Multilateral-Aid-Review-/
the continued UK contributions. As a result, the UK announced its intention to withdraw membership from the Organization. It is important to note that UK assessed contribution to UNIDO amounted to 9% of the regular budget, a significant amount to such an Organization. Consequently, the Director-General was engaged in shuttle diplomacy to negotiate with the UK government at bilateral level to reconsider the decision. The remaining Members States refused to shoulder the burden of a departing important member state through increased country assessed contributions and worked to ensure that the UNIDO budget was prepared with this in mind. The budget cuts will eventually affect the programme delivery. Among the ideas that were floated as a proposal during informal consultations was that UNIDO Secretariat should reconsider the status of the UK nationals employed within the Organization as well as business linkages with UK companies, as a cost saving measure.

The UK decision to withdraw its membership from the Organization comes at a time when the world is still feeling the after effects of the global financial crisis and economic meltdown. The Industrial Development Board at its 39th Session decided to establish an informal working group on the future, including programmes and resources, of UNIDO. Since UNIDO was created with the intention of promoting industrial development in developing countries, this turn of events has brought regional and sub-regional groups on the negotiating table. The Group of 77 and China brings together the developing countries, adding a voice to the sub-regional groups in Africa, Asia and Latin America.

Acknowledging that the multilateral system has unique reach, relevance and respect in helping to tackle global poverty, the UK considers using the evidence provided by the review, to steer the reforms needed to build on the strengths of the multilateral system, and address its

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weaknesses. The UK decision has also given Member States the opportunity to rethink UN reforms and system wide cohesion. The situation has further given rise to a number of questions and individual Member States at national level may be forced to carry out an assessment of the cost-effectiveness of their membership and participation in international organizations. Some more questions are worth serious consideration. Does UNIDO meet the needs of the Members States? Who sets the agenda and determines the projects to be undertaken in developing countries? Whose needs and interests are given priority? What happens after the exit of an important member? Is Membership to UN and UN Agencies necessary? Is the UN losing focus? Do all have a determined interest in furthering the cause of development albeit limited or scarce resource? These questions will largely remain unanswered because of the complexity of the actors, expectations, interests as well as political and economic interdependencies.
CHAPTER THREE

3.0 OPPORTUNITIES FOR KENYA'S ECONOMIC DIPLOMACY

The previous chapter provided a general overview of economic diplomacy, outlining the broad dimensions, actors, arenas and applications of economic diplomacy. Here the study highlights the potential for economic diplomacy by identifying the different opportunities within the multilateral system in Vienna, Austria. The focus of this chapter is neither about the methods employed nor the kinds of negotiations previously/currently undertaken with regard to economic diplomacy. Opportunities are identified by studying the mandates, objectives and activities of the identified international organizations, in line with the economic interests as outlined in Kenya's Vision 2030.

3.1 Economic interests under Kenya's Vision 2030

The overarching vision of Kenya economic blueprint, Vision 2030 is to transform Kenya to a globally competitive and prosperous nation with a high quality of life by year 2030. This attainment of the vision is matched by strategy as well as plans and implementation. The economic, social and political pillars of Kenya Vision 2030 are anchored on micro and macroeconomic stability, continuity in governance reforms, enhanced equity and wealth creation opportunities for the poor, infrastructure, energy, land reforms, human resources development, public sector reforms, security as well as science, technology and innovation.

As the country makes progress to middle-income status through these development plans, it is expected to have met its millennium development goals (MDGs). Vision 2030 spells out the action plan to achieve the MDGs. The MDGs are internationally agreed goals for socio-

66 The material presented in point 3.1 is derived from http://www.vision2030.go.ke/index.php/pillars
economic development with emphasis on: elimination of extreme poverty and hunger; universal primary education; gender equality; reduction in child mortality; improvement of maternal health; lower incidences of HIV/AIDS and major diseases; environmental sustainability; and better partnerships with the international development partners.

The Vision has four main pillars. The economic pillar seeks to improve the prosperity of all regions of the country and all Kenyans by achieving and maintaining a sustainable economic growth of at least 10% per annum from 2012 and beyond. Six priority sectors that make up 57% of Kenya’s GDP and provide for nearly half of the country’s total formal employment were targeted under the Medium Term Plan 2008-2030. These are tourism, agriculture, wholesale and retail trade, manufacturing; IT enabled services (BPOs) and financial services.

The social pillar is all about investing in the people in order to ensure a just and cohesive society enjoying equitable social development in a clean and secure environment. To improve the quality of life for all Kenyans, the Vision targets a cross-section of human and social welfare projects and programmes in education and training, health, environment, housing and urbanization, youth and sports as well as gender, children and social development.

The political pillar envisions an issues-based, people centered, result-oriented and accountable democratic political system. Anchored on the transformation of Kenya’s political governance, the pillar’s strategic areas are the rule of law (Kenya Constitution), electoral and political processes, democracy and public service delivery, transparency and accountability, security, peace-building and conflict management.

The fourth pillar of enablers and macro are the foundations of the Vision, and are about deploying world class infrastructure facilities and services. The other three pillars are anchored on macroeconomic stability; continuity in government reforms, enhanced equity and wealth creation opportunities for the poor. Some eight (8) key sectors form the foundation of society for
socio-political and economic growth. They feature cross-cutting infrastructural development, public sector reforms and macroeconomic stability. These are macroeconomic stability for long-term development, science technology and innovation, land reform, human resources development, security and public sector reforms.

The economic strategy entails adding value to services and products whereas the social and political strategies involve investing in the people and moving to the future as one nation respectively. These strategies call for the collaboration, coordination and partnerships between state and non-state actors, that is, the government, private sector, civil society and other relevant stakeholders. During the life of the vision, strategies and plans will be adjusted every 5 years in order to effectively respond to the changing global, regional and local environment. The Vision is being delivered over many horizons, each with defined goals and flagship projects. The pursuit of international cooperation and public-private partnerships to meet the goals of the Vision 2030 requires the participation of both state and non-state actors at both bilateral and multilateral arenas.

3.2 The multilateral system in Vienna

As already discussed in the previous chapter, the United Nations is an association of States or intergovernmental organizations that have pledged to maintain international political, economic, social, cultural and humanitarian problems. Concerted efforts and pooled resources have over the years made this possible. This explains why there are over twenty (20) UN partners on MDGs, giving Kenya the immense opportunity to pursue her goals within and through these partners for the achievement of the Vision 2030.

The multilateral environment in Vienna is just one among the numerous spread around the globe. Austria hosts the third UN station and other international organizations with different
opportunities and areas of focus. These organizations include United Nations Office on Drugs and Crime (UNODC), International Atomic Energy Agency (IAEA), United Nations Commission on International Trade Law (UNCITRAL), United Nations Industrial Development Organization (UNIDO), Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), United Nations Office for Outer Space Affairs (UNOOSA) and the OPEC Fund for International Development (OFID). These organisations offer different opportunities for economic diplomacy as will be illustrated shortly.

The following section presents an overview of the mandates, objectives and activities of the different organizations which in turn give a clue to the available opportunities for Kenya within the multilateral system. One glaring reality is that none of these opportunities are commercial, well at least not on the surface. Emphasis, in line with the economic interests as outlined in Kenya’s Vision 2030, is on the potential to be explored for development cooperation within the different organizations.

3.2.1 International Atomic Energy Agency (IAEA)

The International Atomic Energy Agency (IAEA) was established in 1957 by the United Nations General Assembly as a specialized body in the field of nuclear energy with the mandate of: developing international safety standards and nuclear security norms; verification of the peaceful use of nuclear materials; and ensuring the fulfillment of non-proliferation commitments. The Agency is a multidisciplinary organization. The Statutory objective is “to seek to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity throughout the world” by addressing in a balanced manner the global challenges related to nuclear technology, including energy security, human health and food security, water resources.

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57 Summary of the majority of the information as obtained from www.iaea.org
management, nuclear safety and security, and non-proliferation. Of most importance to developing countries is the Agency’s mandate on enhancing Science and Technology and assisting member states in developing infrastructural requirements and energy assessments that support decision making and capacity building. In recent years, the Agency’s work has taken on some urgent added dimensions, among them: counter measures against the threat of nuclear terrorism, combating cancer in developing countries as well as ensuring food security.

The Agency facilitates the exchange of nuclear information and knowledge, builds capacity, and transfers technology to its Member States, mainly through its technical cooperation programme. Upon request, the Agency facilitates the use of nuclear science and associated technologies to meet the socioeconomic needs of Member States. As a member of the International Atomic Energy Agency (IAEA), Kenya pursues peaceful uses of nuclear energy by pursuing technical cooperation to ensure the benefits allocation of a reasonable share of the available technical assistance for nuclear science applications. For instance, the current Kenya Country Cooperation Framework (2011-2016) has seven (7) priority areas as including: human health (support for radiology for cancer diagnostics and management in Kenyatta National Hospital, Kisumu and Eldoret), agricultural production and livestock development, industrial applications techniques, energy (nuclear electricity project), water and irrigation (isotope mapping of ground water resources in the Country), radiation safety waste management (aimed at developing a national regulatory and radiation protection infrastructure) as well human and institutional capacity building/development. For instance, Kenya is currently pursuing an ambitious project to develop nuclear power for electricity generation, among the national energy development strategies, in order to help meet the energy demands of the drivers of

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58 IAEA Annual Report 2011, pg 1
59 IAEA Annual Report 2011, pg 1
60 IAEA Annual Report 2011, pg 1
61 IAEA Annual Report 2011, pg 1
industrialization under the Vision 2030. This will not only improve energy access and increase production but will significantly reduce production costs attributed to high costs of the scarce energy supply.

3.2.2 United Nations Office for Outer Space Affairs (UNOOSA)

The use of space science has evolved from communication satellites to space travel, resource mapping, disaster preparedness, security intelligence and weather forecasting. As such, there is increased recognition of the value and contribution of space technology-based and geo-spatial information for global, regional and national policy-making, programming as well as project operations related to sustainable development and use of natural resources in the 21st century. A lot of human activity can be undertaken in the use of space based systems (communications and navigation) and applications of space based data (resource mapping, disaster preparedness, intelligence and weather forecasting). These opportunities can be pursued through the UN Office for Outer Space Affairs (UNOOSA) and the UN Committee on the Peaceful Uses of Outer Space (COPUOS). The shifting emphasis from scientific exploration of outer space to the practical applications of space technology has resulted to the promotion of international cooperation in the uses of space technology for economic and social development.

UNOOSA programmes are designed to disseminate information and provide training in the practical applications of space technology. The UNOOSA and COPUOS forums bring together security experts from the defense forces as well as scientific experts, offering platforms for networking and exchange of information on best practices, latest trends and technologies in space science and applications. Continued pursuit of capacity building and strategic partnerships on outer space activities will not only prepare the Kenyan populace to undertake an active role in

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72 Information sourced from [www.unoosa.unvienna.org](http://www.unoosa.unvienna.org)
space-related activities but could also see the eventual practical participation in space through the
launch of satellites. Ensuring the relevant legislation is in place and the establishment of a
coordinating mechanism for space activities within the domestic front can guarantee success in
such an undertaking.

3.2.3 United Nations Office on Drugs and Crime (UNODC)

The UN Office on Drugs and Crime (UNODC) established in 1997 assists
Member States in their efforts to fight transnational organized crime in all its dimensions
including illicit drugs, terrorism, human trafficking, money laundering, corruption and
cybercrime. It also assists Member States in redoubling the efforts to counter the world drug
problem and to take concerted action against international terrorism. UNODC helps countries
link their drug control approaches to development policies and strategies. For example, through
alternative development farmers are provided with an economically viable, legal alternative to
growing coca bush, opium poppy or cannabis plant. In this way, UNODC works to reduce the
cultivation of illicit crops through a variety of development-oriented poverty reduction and rural
development strategies, including agricultural-based initiatives that lie at the heart of much of
UNODC’s operational activity at the national, regional, sub-regional and international levels.

Through field-based technical cooperation projects, UNODC enhances the capacity of
Member States to counteract illicit drugs, crime and terrorism. In addition, through the normative
function UNODC also assists States to ratify and implement relevant treaties and develop
domestic legislation on drugs, crime and terrorism. UNODC research and analytical
programme works to increase knowledge and understanding of drugs and crime issues. It also

Sources from www.unodc.org
Sources from www.unodc.org
Sources from www.unodc.org
Sources from www.unodc.org
provides the evidence base for policy and operational decisions through statistics and other relevant evidence based data.\textsuperscript{7}

To safeguard the Kenyan economy from international problems related to drugs and crime, Kenya can take advantage of the forums under UNODC for benchmarking, networking, peer review as well as seek technical cooperation and technical assistance for human and institutional capacity building. The forums also present an opportunity to work with the international community to find solutions for emerging threats and trends.

In UNODC, technical assistance is availed to a country upon request. UNODC in this regard, and upon request, could offer technical assistance to Kenya to compliment ongoing Government efforts in institutional capacity building and reforms for the judiciary, the police and prisons as well as countermeasures against transnational organized crime including corruption, piracy as well as human and drug trafficking.

\textbf{3.2.4 United Nations Industrial Development Organization (UNIDO)}

UNIDO is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability in developing countries.\textsuperscript{78} The current focus is on four pillars, that is, green industry, agro-industry, energy and technology. The support offered to developing countries is geared towards reducing poverty through productive activities, improving their capacity to trade and gain access to international markets, and through energy access for the poor as well as promoting energy efficiency and renewable energy to fight climate change. UNIDO produces and disseminates knowledge relating to industrial development. The intensive research and analysis on matters

\textsuperscript{7} Sources from www.unodc.org
\textsuperscript{78} The main source of information in this section 3.2.4. is derived from www.unido.org, unless mentioned otherwise.
touching on industry make it relevant for policy advice and technical cooperation activities.

'In its green industry initiative, launched in 2009, UNIDO adopted a two-pronged strategy to create an industrial system that neither depletes the world of its natural resources nor burdens it with pollution. On the one hand, it helps existing industries, regardless of their sector, size or location, to green their operations, processes and products and on the other it helps countries to create new green industries by stimulating the development and creation of industries that deliver environmental goods and services.'\textsuperscript{79} Under the green industry initiative, UNIDO technical cooperation and global forum activities are directed towards assisting policymakers, industry and the international community to adopt best available techniques (BAT) and best environmental practices (BEP) for energy efficiency, resource productivity and climate change mitigation through effective market-based tools, mechanisms and partnerships.

UNIDO helps Member States overcome the irreconcilable challenges of providing a livelihood for their growing populations while at the same time fighting against depletion of the world's resources, the destruction of the environment and irreversible climate change.\textsuperscript{80} This is done through supporting efforts to access efficient, clean, environmentally-friendly and sustainable forms of energy for industries. An example is the effort to phase out ozone depleting substances in refrigerators. This support is in addition to the thematic focus of UNIDO environment and energy programme, which are: resource-efficient and low-carbon industrial production, clean energy access for productive use and capacity-building for the implementation of multilateral environmental agreements.\textsuperscript{81} Thus, it gives an advantageous support package to meet economic and environmental goals simultaneously.

\textsuperscript{79} UNIDO Annual Report 2011 p77
\textsuperscript{80} UNIDO Annual Report 2011 p84
\textsuperscript{81} UNIDO Annual Report 2011 p77
UNIDO is also an important partner and one of the largest providers of trade-related development services. It offers customer-focused advice and integrated technical assistance in the areas of competitiveness, trade policies, industrial modernization and upgrading, compliance with trade standards, testing methods and metrology. These are vital in leveraging competitiveness for greater gains in the highly competitive globalized world. In addition, through the regional programmes of the African Productive Capacity Initiative (APCI), UNIDO is set to enhance integration of the regional economic communities for increased market access, remove barriers to trade and help the beneficiary countries to diversify their export base. This will contribute to reducing trade impediments, promoting the harmonization of industrial, trade and technology policies and helping to ensure conformity and compliance with industrial standards and environmental norms.

Value chain and supply chain management is an important area where UNIDO plays an important role. Capacity-building and technical assistance for value-chain and supply-chain management in the agricultural sector represents one useful activity worth taking advantage of. UNIDO initiatives help to build capabilities to increase supply capacity, quality, competitiveness and conformity with importer-mandated product standards. The expertise can be used to further enhance production and agribusiness throughout the value chain in food and cash crops, livestock and fish farming ventures in Kenya. Further, the enterprises can benefit from the services of UNIDO to develop regional value chains and link with global supply chains to access international markets for their products.

UNIDO has thus established itself as a valuable partner playing a multidimensional role. It continues to offer a comprehensive range of services customized for developing countries and transition economies, ranging from industrial policy advice to entrepreneurship and small and medium enterprise (SME) development, and from technology diffusion to sustainable production.
and the provision of rural energy for productive uses among other activities. UNIDO in cooperation with its partners also designs and implements programmes to support sustainable industrial development efforts. Industrial development is a recipe for employment creation and productive activities for poverty eradication. In addition, UNIDO is a forum for various actors in the public and private sectors, civil society organizations and the policy-making community to establish dialogue and develop partnerships.

UNIDO can continue to be a valuable partner for Kenya in the search for industrialization by the year 2030 as it offers many opportunities for development cooperation in the sector of industrial development. In addition, making use of the already available expertise and material from UNIDO’s intensive research in the industrial sector will go a long way in designing programmes and policies that will enhance the industrial sector and promote sustainable industrial development in the country beyond the life of Vision 2030. In doing so, the different sectors of the economy will benefit from the spillover effects, thus promoting economic development and growth.

3.2.5 Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO)

The Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO) is mandated to promote and ensure implementation of the Comprehensive Nuclear-Test-Ban Treaty and the build-up of the verification regime so that it is operational when the Treaty enters into force. The Treaty bans nuclear explosions.82

Kenya has ratified the Treaty and can continue to reap benefits including technical assistance. Kenya has a seismic station at Kilimambogo (PS24) and an infrasound station at Karura (IS32) and has established a National Data Centre (NDC) linked by satellite to the

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82 Sourced from www.ctbto.org
International Data Centre (IDC) in Vienna for accessing IMS data and IDC products. The software and equipment for use in these stations, coupled with the openings for training of experts, institutional and human capacity building will assure Kenya of the relevant expertise to monitor seismological data and provide early warning in case of earthquakes, tremors and nuclear threats.

Through the Capacity Development Initiative (CDI), the Preparatory Commission offers specialized training courses using e-learning. The training and education activities are vital for human and institutional capacity building in order to develop the necessary capacity in the technical, scientific, legal and political aspects of the Treaty and its verification regime. These range from operating the different technologies, to analyzing data from the data centres, providing monitoring and early warning mechanisms. The training courses and e-learning activities equally provide opportunities for the wider community to participate in strengthening and effectively implementing the Treaty and its multilaterally established verification regime. Implementing the Treaty will assure international security in a world free from the threat of destruction and the resultant impact on the economy.

3.2.6 OPEC Fund for International Development (OFID)

OPEC Fund for International Development (OFID), established in 1976, is the development cooperation Arm of the Organisation of Petroleum Exporting Countries (OPEC). Since its inception as a collective channel of aid to developing countries, OFID has provided over US$13 billion in concessional development financing to 129 developing countries around the world, with priority given to the poorest amongst them. Grants and public sector and private

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83 Sourced from www.ctbto.org
84 Sourced from www.ctbto.org
85 Information sourced from OFID website at www.ofid.org
sector loans characterize the financial assistance that is extended to these countries for
humanitarian emergency relief, food aid, development projects and programmes, balance of
payments support and trade financing respectively. The support is extended either directly to the
public and/or private sectors or indirectly through other development institutions whose work
benefits developing countries.

OFID cooperates with developing country partners and the international donor
community to stimulate economic growth and alleviate poverty. OFID’s work is people-
centered, focusing on projects that meet basic needs - such as food, energy, clean water and
sanitation, healthcare and education – with the aim of encouraging self-reliance and inspiring
hope for the future. This naturally falls within the interests in Vision 2030 for Kenya’s social
and economic advancement.

An educated populace is an asset to the economy of any country, hence the continued
focus on human and institutional capacity building. Education and training programmes are
supported by OFID via funding ‘for the construction, modernization and expansion of schools,
colleges and universities; the provision of technical and vocational training;’ annual
scholarships as well as the strengthening of national education systems.

In summary, OFID financing is provided ‘to build essential infrastructure, strengthen
social services delivery and promote productivity, competitiveness and trade.’ Kenya can take
advantage of the resources availed by OFID to finance national development projects. At the
same time, the private sector can be sensitized in order to make use of the OFID private sector
facility which is available upon request.

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86 Source: www.ofid.org
87 Sourced from http://www.ofid.org
88 Source: http://www.ofid.org
CHAPTER FOUR

4.0 IMPLICATIONS OF ECONOMIC DIPLOMACY

The previous chapter gave an overview of opportunities for economic diplomacy within the multilateral setting in Vienna, Austria. In view of the broad dimensions identified, this chapter focuses on the practical and policy implications for strategy in the effective conduct of economic diplomacy. It also focuses on requisite skills and knowledge, training needs, policy and coordination necessary for effective economic diplomacy with regard to practicing diplomats.

What are some of the practical and policy implications for effective economic diplomacy? At the outset, it is important to note that economic diplomacy poses challenges at individual and institutional levels for foreign ministries and their personnel. It is also important to appreciate that economic diplomacy remains an elusive subject in the search for economic growth and economic development of a country. Effective economic diplomacy, therefore, would be determined by the strategies implemented in the conduct of external economic relations. It would also embrace synergy of actors, interests, processes of decision-making at domestic level, how they negotiate internationally and how the two processes interact.

4.1 Policy and institutional arrangements

Dr. Shreetha asserts that economic diplomacy is an integral part of foreign policy and essentially an extension of domestic policies and priorities. He points out that 'unless the appropriate government policies related to trade, tourism, foreign investment, official development assistance, employment and other economic policies are well in place, no instruments and mechanisms of economic diplomacy, however sound and efficient, can deliver
the expected results. The instruments and mechanisms are only the means for implementation of
the government policies both at home and abroad.\textsuperscript{89} For instance, where societies and
governments have succeeded in putting growth enhancing policies into place, aid has provided
useful support. The combination of good policies and aid has created a productive environment
for private investment and growth.\textsuperscript{90} This is what has happened with Kenya’s economic
diplomacy under Vision 2030.

One major aspect to take into consideration would be to clearly define the national
interests with the priority areas clearly spelt out. For instance, Kenya’s economic blue print, the
Vision 2030 points out areas of focus and what needs to be achieved therein. It clearly spells out
what should be the focus when interacting with potential public private partners and other
stakeholders. The key is a clear, well informed understanding the issues, the bottom-line and
working towards the national interest, delivering results for the betterment of the lives of the
people translated through wealth and welfare. This calls for cooperation, information sharing,
coordination and synergies so that each actor is operating from the same page on the issues at
hand. The challenge is to understand what inclusive economic diplomacy entails, the interests at
stake, the actors involved, the domestic and international influences and how these factors
interact in the pursuit of economic growth and economic development.

The other aspect that should be determined at an early stage is the process of decision-
making. Faced with a proliferation of both state and non-state actors, the ministries of foreign
affairs need to appreciate the increased participation of these alternative diplomatic actors. In so
doing, the ministries of foreign affairs are able to develop strategies as the coordinator of inter-
ministerial foreign economic policy formulation. Ministries of foreign affairs can take a leading

\textsuperscript{89} Dr. Badri Prasad Shrestha, (September 2005), Enhancing Economic Diplomacy (for trade, investment and
employment), Economic Policy Network, Policy Paper 10

\textsuperscript{90} Dollar, D., Easterly, W.W., The Search for the Key: Aid, investment and Policies in Africa, Journal of African
role in facilitating the consultations intended for the formulation of country positions or negotiating positions. A possible approach would be to create a specific section within the ministry which would deal specifically with the economic diplomacy of the country. The section should be mandated to coordinate the inter-ministerial coordination mechanism, open collaboration with the private sector and other non-state actors, set out plans for the attainment of the national interests, guide in the representation of the country in negotiations and other forums already stated in the previous chapter as well as coordinate delegations to bilateral and multilateral forums. Coordination with other actors including parliament, local governmental authorities, NGOs, businesses, universities and other stakeholders is also essential. National consultation covers: other divisions/sections within the ministry/department/agency; other ministries/departments concerned with the topic of the conference and which could provide information; ministries/departments/agencies likely to play a role in implementing or following up on the outcomes of the conference; relevant NGOs; private sector and state-owned enterprises; universities/academia.

The ideal, which is rarely achieved without the stifling effects of excessively centralized control, is that all government agencies and all levels of government should be working in harmonious mutual support. In effective governments, the ministry with prime responsibility will be aware that the other agencies of the same government may have also have responsibilities

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that give them an interest in any particular conference. For instance Ministry of Trade normally
takes the lead in multilateral trade negotiations.94

To effectively consolidate national foreign economic policy, the structures of foreign
affairs and external economic management would need to be integrated or harmonized. This is
not an easy task and there is the challenge of facing resistance, suspicion, ‘competition’ and the
struggle for power from different actors and stakeholders. The virtual globalization taking the
world by storm also brings with it new challenges as this virtual world is vulnerable to anarchy
and abuse. There is also the added challenge of actors emerging from within and outside the state
who often act independently from the ministry of foreign affairs. Networking, transparency and
inclusive approaches in economic diplomacy will reduce the mistrust and power struggles that
characterize such scenarios. Performance that delivers results for welfare, economic development
and economic growth hinges on effective domestic policy coordination. Coordinating the
different economic interests represented by the different actors at both domestic and international
levels is not only important but a prerequisite for effective economic diplomacy.

4.2 Strategic partnerships and alliances

International relations involve both cooperation and conflicts, evincing more international
cooperation and international conflicts consistent with the liberal and realist assumptions
respectively. The multiplicity of interests, actors, opportunities as well as conflicts, makes it
imperative to seek more partnerships and cooperation as isolation in this field would only be
self-damaging. These partnerships are important for cooperation, as outlined by liberalists,
because limited human and institutional resources remain is a challenge to effective participation

p20
in global trade and investment. As in diplomacy and international relations, strategic partnerships
with both state and non-state actors are necessary in economic diplomacy.

Economic engagement abroad involves more than the ministries of foreign affairs,
commerce and industry. The business units of the country, associations of industry and chambers
of commerce, the financial sector, business schools and think tanks, the tourism industry and a
host of domestic actors that both the stakeholders and prime movers are involved in economic
diplomacy. The state agencies need to take initiatives to create viable, innovative public-private
partnerships. Some countries have proactively reached out to these non-state actors and have co-opted them for the advancement of economic interests abroad, through formal and informal
mechanisms. Examples are: advisory groups composed of businessmen to guide external
outreach and mobilization of foreign direct investment; official bilateral joint commission that
are actually driven by associations of business and industry; joint eminent person groups and
CEO panels to brainstorm on new opportunities; think tanks and scholars working with business
leaders to advise on free trade negotiations. The countries that pursue inclusive home
partnerships also tend to work well with non-state actors in foreign countries. These aspects
constitute some of the key ingredients for synergies and effective economic diplomacy.

Without the appropriate policies in place, the non-state actors are limited in how far they
can carry out economic diplomacy and contribute towards the attainment of the national interest,
which is the general well-being of the populace. For example, the Kenya’s energy policy on
feed-in tariffs and liberalization of the power supply in the country provides a conducive
environment for domestic and foreign direct investment. This is one opportunity for enhancing
public-private partnerships. Economic diplomacy in this case features attracting investors to the

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93 Kishan Rana (2007), Economic diplomacy: the experience of developing countries, in The new economic
diplomacy: decision-making and negotiation in international economic relations / N. Bayne; S. Woolcock [eds.]
sector for the benefit of increased affordable and reliable energy access for all; ensuring information campaigns on the opportunities available for investment in the energy sector; promoting the policy to be adopted by more players and mediating in conflict.

The media can either be an asset or a liability to a state in regard to economic diplomacy. The media plays an important role in public diplomacy, shaping public opinion and creating international perceptions of the domestic situation and capabilities of a state. As such, media should not be ignored but should be engaged, trained and informed as well. Responsible reporting is necessary and should be encouraged right through the training in journalism and communication. The impact of news or features carried in print and audiovisual media can either make or break a seemingly lucrative deal for the state. Cases have been reported of states issuing travel advisories to their nationals after sections of media reports reportedly carried news of ‘volatile’ domestic situations in a country, thus adversely affecting tourism which is an important sector of the economy. Knowledge of the national interest should also be imparted to and through the media. Social media is also taking the world by storm as can be seen by recent revolutions in the Arab world. In this regard, social media can be embraced for e-diplomacy, especially to reach out to the Diaspora for investment opportunities and positive engagements involving promotion activities.

The multilateral system is an interesting area to study as it combines bilateral, regional and multilateral aspects therein. One aspect that can be considered is the proliferation of multilateral settings that provide an increasingly relevant opportunity to pursue economic interests around the globe. Beyond the WTO and UNCTAD, more international organisations have direct or indirect mandates that offer opportunities to benefit from economic development. The multilateral system also presents an immense opportunity to pursue economic interests in partnership with a wide spectrum of players and potential partners. It is fair to say that in the
current global environment, the greatest chance of success in any given field of development cooperation is the result of pooled resources.⁹⁶

A practical example of pooled resources is the Delivering as One (DaO) initiative which allows the United Nations family to deliver its services in a coordinated manner through a consolidated presence in each country. With one programme and one budgetary framework, the initiative gives an enhanced role to the United Nations Resident Coordinator, while building on the strengths and comparative advantages of participating organizations. One of the benefits is the avoidance of duplication and eventually a reduction of transaction costs, leaving more resources available to support partner countries in the achievement of their development goals. Eight countries are currently part of the initiative: Albania, Cape Verde, Mozambique, Pakistan, Rwanda, United Republic of Tanzania, Uruguay and Viet Nam. In addition, some 40 countries have voluntarily adopted the DaO approach.⁹⁷

Regional alliances are common and useful when negotiating as a bloc. Example is the ongoing EAC-EU negotiation on the economic partnership agreements (EPAs). Strategically ensuring representation in some of these forums and actively participating to influence decisions and policies within international organizations should be prioritized. The biggest constraint could be limited manpower and resources. In such an instance, public-private partnerships can be explored with the aim to attain this goal. For instance, the ministry of trade and its subsidiary agencies can be encouraged to nominate and/or sponsor delegations to conferences and workshops; provide guidance on positions to take during negotiations as well as implement projects touching on their respective domain of competence.

⁹⁶ UNIDO annual report 2011 p1
⁹⁷ UNIDO annual report 2011 p5
In multilateral settings, most delegations spend a large amount of their time in informal consultations, and the reason that many governments send sizeable delegations is to increase the delegation's ability to participate in informal consultations. Informal processes are more time-consuming and often more important. The biggest limitation on the ability of small delegations to influence the outcome of conferences is their shortage of people to participate in informal consultations. To increase their effectiveness, they should focus on ways to compensate for that limitation by focusing narrowly on a limited number of objectives and working cooperatively with other delegations, both to be informed and to advance their objectives.98

International relations involve both cooperation and conflicts, evincing more international cooperation and international conflicts consistent with the liberal and realist assumptions respectively. The multiplicity of interests, actors, opportunities as well as conflicts, makes it imperative to seek more partnerships and cooperation as isolation in this field would only be self-damaging. These partnerships are important for cooperation, as outlined by liberalists, because limited human and institutional resources remain is a challenge to effective participation in global trade and investment. A coordinating point is however necessary so that all actor operate from the same page and have a similar understanding of the national interest and domestic policies operating within the country. Whereas the foreign ministries ought to remain the focal point on matters of foreign policy, diplomacy and international relations, strategic partnerships with both state and non-state actors are necessary in economic diplomacy.

4.3 Competency development

In order to ensure effective human resources in economic diplomacy, it is important to ensure that the practicing diplomats are well equipped with the requisite knowledge and skills. It is important to develop an efficient diplomatic activity with the results translating to improved welfare, economic development and prosperity. As seen in the previous chapter, the conduct of economic diplomacy takes into account different dimensions. Navigating the commercial, policy, economic, institutional, legal issues as well as public opinion in the conduct of economic diplomacy calls for skills and knowledge that is acquired over time, either through training or practical experience gained in the field. Economic diplomacy requires not only resilience and alertness but also dynamism and flexibility in order to reap the maximum benefits for one’s country/for the national interest. This is in addition to the complex and demanding role of practicing diplomats who face the daunting task to think like an economist but act like a diplomat in their day-to-day activities.

Knowledge is power and access to information has been known to be an invaluable empowering tool. The increase in technological advancement and internet access means e-learning is now a reality and diplomats should be encouraged to take up e-learning, not only to train on aspects of economic diplomacy but also to keep abreast with the rapid changes consistent in the dynamic international environment through e-diplomacy. The advantage of such modes of e-learning is that they are not cost-intensive and diplomats do not have to leave work to study. They study while they work, thus saving on man-hours at their places of work while building on skills and knowledge at the same time, for enhanced performance. The Diplo Foundation\(^99\) offers many such opportunities of study through e-learning.

\(^{99}\) Diplo emerged from a project to introduce information and communication technology (ICT) tools to the practice of diplomacy, initiated in 1993 at the Mediterranean Academy of Diplomatic Studies in Malta. In November 2002,
Studies for diplomatic and international relations as well as other related international studies could focus more on the opportunities for economic diplomacy, perhaps even have a course specifically designed for economic diplomacy. Kishan Rana suggests that ministries of foreign affairs and diplomatic training institutes could consider giving focused emphasis to basic economics during induction training for new entrants as well as concentrating on practical economics, basic economic concepts, national and international, in these and midcareer training programmes. He further proposes that in addition, ministries could consider expanding outplacement or internship programmes for foreign service officials to be exposed to work in economic ministries (trade, finance, industry, petroleum, energy, or others), and with apex business bodies like national business chambers, economic think-tanks, public sector enterprises or private corporations. Rana further suggests bringing in outside expertise into the foreign ministries as economic advisors and economic policy analysts. He, however, notes on the downside that diplomatic services traditionally resists ‘lateral entry’ and selection seldom favour induction of such experts on even a limited contract basis, and argues that ministries need to bite the bullet when in-service expertise of requisite quality is not available. He further advises foreign ministries to ensure that multilateral economics, be it World Trade Organization issues, antidumping actions, or regional trade agreements, is mastered at all levels, for practical application both at home and abroad.

The goal of competency development should be to endow the diplomatic service with real competence in economics, both in relation to bilateral and multilateral diplomacy, spread across different levels of seniority, so that ministry of foreign affairs officials effectively carry out economics-dominated assignments, at home and abroad. Building in-house expertise for

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Diplo was established as an independent non-profit foundation by the governments of Malta and Switzerland.

diplomatic services is a long-term asset for the diplomatic service. The objective should not just focus on accessing economic expertise in isolation, but to integrate it with other facets of diplomacy, producing interconnections, trade-offs, and leverage.\textsuperscript{101}

Personal initiatives on competency development can take the form of learning how to use economic data to identify national economic interests, analyzing the challenges and opportunities in order to get to the core of all the elements of an issue. It can also involve influencing policy outcomes through written documents and effective oral presentations. On average, the practicing diplomats should aim to be able to communicate the message, analyze the issues, submit proposal for developing policy, negotiate agreements, resolve disputes and negotiate the agenda of economic diplomacy. In doing these and more, the practicing diplomats will be strategically placing themselves in a position to become authorities in economic diplomacy.

The bottom line of economic interest is wealth and welfare for the citizens. In carrying out economic diplomacy, the actors require the ability to identify and prioritize the economic needs and interest. Protecting domestic economic activities from international competition calls for actors the ability to identify permissible interpretations of applicable laws and regulations and the extent to which such alternative interpretations would enable the reduction or elimination of economic problems. They also require the ability to influence decision-making, whether as policy makers or as other stakeholders within the economic environment. Capacity to analyze domestic policy issues as well as analyze the political challenge in building political consensus on policy issues affecting the economy is a plus for the actor in economic diplomacy, whether public or private, state or non-state.

In general, the understanding of economic diplomacy ideally should take into consideration the scope, players (state, non-state, business, media, diaspora, international, domestic), opportunities, role of the diplomat, diplomatic and e-diplomacy tools, stakeholder interests and domestic policies (factors influencing, variables and non-variables), public opinion, media, legal issues, national economic interest. Knowledge of these aspects is not automatic nor is it acquired all at once. This spells the need for continuous training and learning throughout the service, not just for new entrants but also for those already in the service. Some of the required competencies for economic diplomacy are illustrated in the table 4.1 below. A parallel is drawn against business and diplomatic education.
### Table 4.1: Competency requirements for economic diplomacy

<table>
<thead>
<tr>
<th>Business school education</th>
<th>Education at diplomatic academies</th>
<th>Competencies for modern diplomatic environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>General management</td>
<td>History of diplomacy</td>
<td>• Knowledge of diplomatic instruments</td>
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<tr>
<td></td>
<td></td>
<td>• Capacities in influencing of diplomatic</td>
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<td></td>
<td></td>
<td>process</td>
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<tr>
<td>Strategic management</td>
<td>treaty making</td>
<td>• Knowledge of key international business</td>
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<td></td>
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<td>related legal standards</td>
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<td></td>
<td></td>
<td>• Capacities in influencing standard setting</td>
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<td></td>
<td></td>
<td>at key international organizations (WTO,</td>
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<td></td>
<td></td>
<td>ILO, UNEP, WIPO, OECD)</td>
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<tr>
<td>Managerial accounting</td>
<td>International law</td>
<td>• Knowledge of the functioning of international</td>
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<td></td>
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<td>law and arbitration</td>
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<td></td>
<td></td>
<td>• Knowledge of the impact of “corporate</td>
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<td></td>
<td></td>
<td>reporting to stakeholders”</td>
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<tr>
<td>Financial management</td>
<td>International economics</td>
<td>• Knowledge of the history and logic of non-</td>
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<td></td>
<td></td>
<td>US economic theories and practices</td>
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<td></td>
<td></td>
<td>• Knowledge of the influence of international</td>
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<td></td>
<td></td>
<td>financial institutions (IMF, WB, Paris</td>
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<td></td>
<td></td>
<td>Club, London Club, US FRB, BIS)</td>
</tr>
<tr>
<td>Human resource</td>
<td>International and supranational</td>
<td>• Knowledge of the structure and decision-</td>
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<tr>
<td>management</td>
<td>Organisations</td>
<td>making process of supranational</td>
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<td></td>
<td></td>
<td>organizations (UN, EU, NAFTA, ASEAN etc)</td>
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<tr>
<td></td>
<td></td>
<td>• Capacity to influence these supranational</td>
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<td></td>
<td></td>
<td>organizations through direct or indirect</td>
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<tr>
<td></td>
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<td>means</td>
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<tr>
<td>Marketing</td>
<td>Regional and country studies</td>
<td>• Knowledge of the interplay between</td>
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<td></td>
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<td>economics, politics and culture by region</td>
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<td>or country</td>
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<td>• Capacity to promote a proactive perspective</td>
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<td>in the region regarding</td>
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<td></td>
<td>business diplomacy</td>
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<td>International management</td>
<td>Theory of international relations</td>
<td>• Knowledge of the decision-making process</td>
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<tr>
<td></td>
<td>and contemporary history</td>
<td>of key countries (domestic and foreign)</td>
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<td></td>
<td></td>
<td>• Capacity in conducting political risk</td>
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<td>analysis regarding key stakeholders of</td>
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<td></td>
<td></td>
<td>the investment project</td>
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<tr>
<td>Operations management</td>
<td>Managing delegations, embassies</td>
<td>• Knowledge of the mechanisms of international</td>
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<tr>
<td></td>
<td>and</td>
<td>crisis management and</td>
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</tbody>
</table>

102 The contents of this table 4.1 are sourced and adapted from Saner and Yiu, (2003) International Economic Diplomacy: Mutations in Post-Modern Times, p.32 and adjusted to fit within the context of this section of the study.
| consulates                  | corresponding role of government and diplomacy  
|                           | • Capacity to intervene on behalf of the company |
| Information management    | Interaction with media                           
|                           | • Mastering public speaking and media (key note speeches, TV interviews, press conference, etc)  
|                           | • Managing a business diplomacy information system which supports strategic planning regarding stakeholder management |
| Organizational behaviour and change | Negotiation skills (bilateral, multilateral, plurilateral)  
|                           | • Managing and influencing international negotiations (bilateral, multilateral, plurilateral) |
| Quantitative methods      | Diplomatic behaviour and protocol  
|                           | Contemporary history                           
|                           | • Mastering diplomatic practices and protocol  
|                           | • Mastering analytic tools, e.g. stakeholder analysis, scorecard on stakeholder satisfaction, scenario planning, etc |

The above list is not exhaustive. It creates a basis for training and competency development for practicing diplomats. This knowledge should further be complimented with multicultural sensitivity, knowledge of international relations and diplomacy, mastery of political negotiations, political entrepreneurship competence and skills for handling media.

What happens to all the knowledge and skills acquired through training, capacity building and experience when the individuals are no longer in service? Establishing mentoring programmes is one option that should be explored. In addition, capturing and documenting knowledge and experiences of economic diplomacy players could serve as a system to manage knowledge management and institutionalize good working methods and practices. These could eventually provide practical working guidelines and best practices. The question is whether those involved will document the knowledge voluntarily and continuously or this exercise will be conducted occasionally by a second or a third party.
To conclude this section, it is important to re-emphasize that the task of maximizing gains in the face of globalization and economic interrelatedness poses a challenge to the actors of diplomacy and international relations. The international environment is constantly changing and the issues of domestic and global concern are consequently dynamic in nature and not static. The dynamic nature of the global trends continue to increase the role of economics in international relations and at the same time increase the difficulty of wielding the economic instrument. The virtual globalization taking the world by storm also brings with it new challenges as this virtual world is vulnerable to anarchy and abuse. There is also a rise in the number of opportunities within the proliferation of international organizations and forums to address growing economic needs, coupled with an increase of the actors involved. In order to remain relevant in a dynamic international arena, states must develop appropriate strategies in the conduct of economic diplomacy. The challenge is to understand what inclusive economic diplomacy entails, the interests at stake, the actors involved, the domestic and international influences and how these factors interact in the pursuit of economic growth and economic development.
CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study set out to develop an understanding of economic diplomacy in its broad sense. The study provided an overview of its broad dimensions, highlighting the actors and examples of economic diplomacy as exercised at different levels. It has also provided insights on the potential for economic diplomacy by identifying the different opportunities within the multilateral system in Vienna, Austria. The opportunities were identified by studying the mandates, objectives and activities of the different international organisations, in line with the economic interests as outlined in Kenya’s Vision 2030. In addition, the study has provided insights into the practical and policy implications of economic diplomacy including the requisite skills and knowledge, training needs and coordination required for effective economic diplomacy.

It has clearly emerged that opportunities for economic diplomacy are not necessarily commercial in nature. In view of the broad dimensions identified and the practical and policy implications for strategy in the effective conduct of economic diplomacy, economic diplomacy has emerged as an undertaking which takes into consideration all aspects of the economy. As has been seen in the study, economic diplomacy is a wholesome undertaking which combines trade and investment and their resultant impact on welfare and development, whether direct or indirect. Undertakings of economic diplomacy take into consideration various development needs as well as interests touching on national economic development and economic growth. This means, therefore, that economic diplomacy is much broader than international trade, much more involving and tied very much to the everyday conduct of diplomatic activities. The
challenge is to understand what inclusive economic diplomacy entails, the interests at stake, the actors involved, the domestic and international influences and how these factors interact in the pursuit of economic growth and economic development.

These findings are evidence that the traditional role played by the diplomatic personnel has been expanded to include new demanding roles and activities. Focused on conceptualizing economic diplomacy by studying its broad dimensions and implications, the study has succeeded in developing a knowledge base on the requisite skills and knowledge, the training needs as well as the policy and coordination necessary for effective economic diplomacy. Further, it points to the fact that the conduct of economic diplomacy calls for innovation, adaptation and a multidisciplinary approach in order to effectively maximize on gains.

Among other emerging issues is that public-private partnerships continue to gain importance in economic diplomacy for international cooperation and the role of non-state actors continues to gain prominence. International relations involve both cooperation and conflicts, evincing more international cooperation and international conflicts consistent with the liberal and realist assumptions respectively.\(^{103}\) The multiplicity of interests, actors, opportunities as well as conflicts, makes it imperative to seek more partnerships and cooperation as isolation in this field would only be self-damaging.

Reiterating the multidisciplinary and multidimensional nature of economic diplomacy as has been seen by this study, it is worthy to emphasize that performance that delivers results for welfare, economic development and economic growth hinges on effective domestic policy and coordination. Whereas the foreign ministries ought to remain the focal point on matters of foreign policy, diplomacy and international relations, strategic partnerships with both state and 

\(^{103}\) Stein, A.A (1993), Why Nations Cooperate: Circumstances and Choice in International Relations, pp.8-12
non-state actors are necessary in economic diplomacy. These partnerships are important for cooperation, as outlined by liberalists, because limited human and institutional resources remain a challenge to effective participation in the global economy.

Economic diplomacy will remain relevant in today's world international engagement in as much as there remains an intentional pursuit of national interests in response to the needs of economic development. The bottom line for engaging in economic diplomacy is to deliver results that translate to welfare, sustainable economic development and growth. The first step to achieving an adequate diplomacy is to conceptualize it.\textsuperscript{104} The same applies to economic diplomacy. It is by having the capacity to identify the opportunities that the actors of economic diplomacy can be effective and reap the maximum benefits in pursuit of economic interests.

The dynamism of the global trends will continue to increase the role of economics in international relations and at the same time increase the difficulty of wielding the economic instrument. The virtual globalization taking the world by storm also brings with it new challenges as this virtual world is vulnerable to anarchy and abuse. Consequently, a sound knowledge-base and understanding of the dimensions, opportunities and implications of economic diplomacy is an invaluable asset for effective strategies for an inclusive approach leading to successful synergies.

5.2 Recommendations

In the wake of Kenya’s growing interest in economic diplomacy, it is by developing capacity to identify the diverse nature of economic opportunities that the country can effectively reap the maximum benefits in pursuit of economic interests and goals. In this regard, the Foreign Ministry could cooperate with training institutions to equip diplomats with the necessary knowledge and skills for the complex and demanding role of economic diplomacy. This can be done either by designing programs specifically targeting economic diplomacy or partnering with institutions for capacity building.

Developing and strengthening strategic partnerships is also recommended. In addition, promotion of research and development in the area of economic diplomacy could be a useful strategy not only to inform policy decisions but also to proactively impact the bilateral and multilateral engagements.

In conclusion, it would be interesting to see the dimensions and implications of economic diplomacy as identified in this study taken up for further research on how Kenya has fared in economic diplomacy at the multilateral level.
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