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Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies

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Summary

This article introduces both a conceptual and an analytical framework of economic diplomacy so as to contribute to sounder understanding of economic diplomacy's activities, tools and goals. While the state is not regarded as the only player, or as a coherent entity, it is assumed that the state is the *primary* actor in economic diplomacy. The conceptual framework discerns five strands of economic diplomacy, which involve tools and purposes that are relatively more commercial/economic or political in character and are thereby closer to the 'business end' or 'power-play end' of economic diplomacy. The analytical framework identifies four essential dimensions of economic diplomacy within which historically contingent change may occur: the context; tools; theatres; and processes. Interaction between these dimensions takes place in multiple ways. Building on the insights provided by these frameworks, the article analyses the foci, assumptions and methodologies of the research fields that are concerned with economic diplomacy, and discusses the strategic and ideological considerations that underpin it.

Keywords

economic diplomacy, commercial diplomacy, economic statecraft, trade diplomacy, official development assistance (ODA), political culture

Introduction

The term 'economic diplomacy' appears regularly in scholarly papers and official documents. Even so, relatively few coherent attempts have been made to develop sounder understanding of the meaning and scope of the concept.¹ Both academics

*) The author would like to thank several colleagues and two anonymous reviewers for their useful comments on earlier drafts of this article.

¹) Notable exceptions are David A. Baldwin, *Economic Statecraft* (Princeton NY: Princeton University Press, 1985); Nicholas Bayne and Stephen Woolcock, *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations* (Hampshire: Ashgate, 2007 [2003]); and Jean-Marc F. Blanchard and Norrin M. Ripsman, 'A Political Theory of Economic Statecraft', *Foreign Policy Analysis*, vol. 4, no. 4, 2008, pp. 374-398.

and practitioners are talking at cross purposes. That this may cause unwarranted confusion is illustrated by a letter to the Dutch Parliament by (former) Minister for Foreign Affairs of the Netherlands, Maxime Verhagen.² In the letter, Verhagen states his intention to give economic diplomacy a more central place in Dutch foreign policy, arguing that research has shown that ‘economic diplomacy increases prosperity by 100 to 200 million Euros a year’ and suggesting that economic diplomacy more broadly has a welfare-enhancing effect. These assertions are misleading, however. The definition of economic diplomacy that is used in the cost-benefit analysis to which Verhagen refers³ is limited to outgoing trade missions with a cabinet member — which are only one of many instruments of economic diplomacy.

Clearly, there is a need for improved understanding of economic diplomacy’s activities, tools and goals. This article contributes to this debate, and proposes a conceptual and an analytical framework of economic diplomacy. The reasons for this are threefold. First, the distinction between economic diplomacy and related concepts is imperative in order to bring order in the definitional chaos. What differentiates economic diplomacy from economic statecraft, economic security, trade diplomacy, commercial diplomacy and financial diplomacy — and how do these concepts relate? Second, a better conceptualization of economic diplomacy is useful in order to address practical questions, such as how to deal with the artificial distinction between the public and private sectors.⁴ Finally, improved understanding of both the theory and practice of economic diplomacy grows in importance because of shifting power balances. Latecomer countries — including Asian, post-colonial and transition states — are strengthening their role and influence in global politics and economics in a system that has long been dominated by Western countries. Confronted with the viscosity of global governance and international political and financial institutions, the governments of these emerging countries primarily use economic tools and commercial relations to strengthen their position in international politics.

The proposed (re)definition of economic diplomacy adds to the existing literature by spurring a meaningful reorganization of the diversity of institutional

² Minister van buitenlandse zaken M.J.M. Verhagen [Minister for Foreign Affairs M.J.M. Verhagen], *Kamerbrief inzake Nederlandse vertegenwoordigingen in het buitenland [Letter to Parliament concerning Dutch Representations Abroad]*, 4 November 2009, available online at www.minbuza.nl/nl/Actueel/Kamerstukken/.

³ Marcel van den Berg, Michiel de Nooij, Harry Garretsen and Henri L.F. de Groot, *MKBA financieel buitenlandinstrumentarium [Social Cost-benefit Analysis of Financial Tools in Relations with Other Countries]* (Amsterdam: SEO Economisch Onderzoek, 2008).

⁴ While politics and economics can hardly be separated, an analytical distinction between the two sometimes needs to be made in order to make the complex reality intelligible and workable. For example, governments generally distinguish between a ministry of foreign affairs and a ministry of the economy (or the like) — while some countries have experimented with a ministry of foreign affairs and trade, with mixed results — and in academia a distinction is traditionally made between the research fields of political science and economics, which have relatively recently been complemented by the field of (international) political economy, as will be discussed later.

frameworks in the fields of diplomacy, economic studies and security in general.⁵ The conceptual and analytical frameworks that are proposed here must therefore be judged by their purpose — that is, to bring order and meaning to a mass of phenomena that would remain disconnected and unintelligible without them. The fundamental questions are, first, what is meant by ‘economic’ in economic diplomacy? That is, are we talking about economic goals (such as enhancing economic prosperity), economic tools (including using deprivation of access to products and funds as political leverage) or economic motives (for example, promoting one’s own industry)? Second, what is meant by ‘diplomacy’? How is diplomacy different from policy, or what distinguishes economic diplomacy from foreign economic policy? Answers to these questions are sought through review and analysis of the available literature in the fields of international relations (IR), economics, international political economics (IPE), and diplomatic studies.

While the majority of the literature discussed in this article is of relatively recent origin and by Anglo-Saxon authors, it should be emphasized that the concept and practice of economic diplomacy has been treated elsewhere and at earlier times. Limitations of time and space are the sole reasons for the narrow focus that is adopted here.

This article is divided into four main sections. The first revisits how innovations in various research fields facilitated more refined enquiry into economic diplomacy, and reflects on historical patterns in economic diplomacy. The second section develops a broad definition of economic diplomacy and introduces a conceptual and an analytical framework, which identify (respectively) specific strands and dimensions of economic diplomacy that are practised by governments. Using these frameworks, the third section looks at the foci and assumptions of the research fields that have contributed to the study of economic diplomacy: mainly IR, economics and IPE, and diplomatic studies. The fourth section addresses the logic of economic diplomacy — that is, the strategic and ideological considerations that underpin it. Finally, the article concludes with observations on why unpacking the notion of economic diplomacy is imperative, not only to elucidate both academic and policy debates, but also to develop a sophisticated forward-looking strategy that is required at this time of shifting power balances.

New Theories and Concepts

The linkage between economics and politics in practice, and — more specifically — the use of economic instruments for political purposes, can be dated back to ancient times.⁶ From the beginning, diplomacy was about war and trade issues,

⁵ For a discussion of economics and security in a narrower sense (largely involving defence, terrorism and conflict), see Alyson J.K. Bailes and Isabel Frommelt (eds.), *Business and Security: Public — Private Sector Relationships in a New Security Environment* (Oxford: Oxford University Press, 2004).

⁶ This also goes for the linkage between economics and security, and between trade and conflict, which

and the history of consular relations also shows how trade interests loomed large in international relations. Reference to the use of sanctions can be found, for instance, in *The History of the Peloponnesian War* by Thucydides, who mentions a trade boycott imposed by Athens against Sparta's ally Megara.⁷ Also, the number of representatives of merchants in the main harbour cities in Southern Europe increased in the wake of expanding international trade in Europe in medieval times,⁸ when the *Lex Mercatoria* (literally, merchant law) regulated commercial dealings. This is a case of practice preceding theory; the concept predating its label. That being said, the overlap and interrelationship between economics and politics became the subject of serious (empirical) analysis only in the early second half of the twentieth century.

Writing in the early post-Second World War period, scholars such as Jacob Viner, Albert O. Hirschman and Quincy Wright were frontrunners in the study of how politics and economics relate. Hans Morgenthau succinctly argued that:

It is necessary to distinguish between, say, economic policies that are undertaken for their own sake and economic policies that are the instruments of a political policy — a policy, that is, whose economic purpose is but the means to the end of controlling the policies of another nation. [...] The distinction is of great practical importance, and the failure to make it has led to much confusion in policy and public opinion.⁹

Confronted with substantial changes in the international order, IR scholars mainly in the United States and (to a lesser extent) Europe developed new concepts and theories that sought to integrate politics and economics more explicitly. The 1970s marked the start of ground-breaking thinking in several sub-fields of international relations studies. Looking back, these innovations can be seen to have facilitated a more refined enquiry into economic diplomacy — a research field that gathered renewed interest from the 1990s. While political scientists working in the fields of IR, IPE and diplomatic studies became increasingly involved in economic diplomacy themes (both explicitly and implicitly — addressing the subject with and without using the label), economists gradually developed more sophisticated empirical studies that strengthened quantitative enquiries into economic diplomacy. As will be shown, this did not result in real

are closely related. Useful literature reviews of these respective fields are found in Michael Mastanduno, 'Economics and Security in Statecraft and Scholarship', *International Organization*, vol. 52, no. 4, autumn 1998, pp. 825-854; and Peter A.G. van Bergeijk, *Economic Diplomacy and the Geography of International Trade* (Cheltenham: Edward Elgar, 2009), ch. 2.

⁷ Thucydides, *The History of the Peloponnesian War*, translated by Richard Crawley (New York: Modern Library, 1951), pp. 78-83; cited in Brendan Taylor, *American Sanctions in the Asia-Pacific* (London: Routledge, 2009), p. 14.

⁸ Maaike Heijmans and Jan Melissen, 'MFAs and the Rising Challenge of Consular Affairs', in Kishan S. Rana and Jovan Kurbalija, *Foreign Ministries* (Malta and Geneva: DiploFoundation, 2007), p. 195.

⁹ Hans J. Morgenthau, *Politics among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1968 [1948]), pp. 28-29.

interaction between the two epistemic communities, even though the breakdown of the artificial distinction between the scholarly fields of politics and economics narrowed.

While the Cold War division continued to define the contours of international relations studies, the consequences of globalization and new economic challenges — including the oil shocks, the collapse of the Bretton Woods system and the emergence of non-Western economies (first of all, Japan) — necessitated a more comprehensive framework of analysis. International economic relations were broadened to include the political sphere, thereby creating the current IR focus on IPE that generated research on international economics, internationalization and globalization. Furthermore, political scientists sought to relate domestic politics and international relations. The so-called ‘two-level games’ or ‘double-edged diplomacy’ of Robert Putnam *et al.* called for analysis of the combined impact of domestic and international forces in international bargaining. This concept has been much developed since its introduction in 1988.¹⁰ In many ways, the domestic level provides insight into the underpinnings of the power bases and the constitutive process of economic diplomacy, and thereby in the behaviour that results from it. Negotiations among groups of domestic actors thus serve to help us understand the (foreign) policy-making process and the economic diplomacy strategy of governments.

In the post-war period, economists also developed models that were meant to perform cost-benefit analyses of various economic diplomacy instruments through statistical analysis of data sets. Early studies of the trade — conflict relationship focused on the welfare-enhancing effects of international trade, such as the trade-stimulating effect of geographical distance, colonial ties, and (shared) language and currency. Of major importance to the development of research in this field

¹⁰ Putnam’s two-level games approach presents a framework for analysing the combined impact of international and domestic factors in international bargaining (level I and level II, respectively), wherein the central government functions as a transmission belt between domestic politics and international affairs. Scholars like Jeffrey Knopf and Susan Strange have subsequently attempted to address the role and function of other (domestic) groups entering directly into the (international) negotiation arena. See Robert D. Putnam, ‘Diplomacy and Domestic Politics: The Logic of Two-level Games’, *International Organization*, vol. 42, no. 3, 1988, pp. 427-460; and Peter B. Evans, Harold K. Jacobson and Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley CA: University of California Press, 1993). For an applied analysis, see for example Saori N. Katada and Mireya Solís, ‘Domestic Sources of Japanese Foreign Policy Activism: Loss Avoidance and Demand Coherence’, *International Relations of the Asia-Pacific*, vol. 10, 2010, pp. 129-157. For a critical review of Putnam’s theory in the EU context, see Rebecca Adler-Nissen, ‘Late Sovereign Democracy’, *The Hague Journal of Diplomacy*, vol. 4, no. 2, 2009, pp. 121-141.

While negotiations within the Level-II game as such are not a subject of study in economic diplomacy, they should not be underestimated. After all, an inward-looking emphasis on domestic stability (political, macroeconomic) is a requirement for an outward-looking (internationalizing) strategy. See Etel Solingen, ‘East Asian Regional Institutions: Characteristics, Sources, Distinctiveness’, in T.J. Pempel (ed.), *Remapping East Asia: The Construction of a Region* (Ithaca, NY: Cornell University Press, 2005), p. 44.

was the work of Jan Tinbergen, who first introduced the gravity model of trade.¹¹ His model became used by the next generation of economists in empirical analyses of the (material) benefits of active political involvement in international trade. This includes the welfare-enhancing effect of certain modes of diplomacy — such as summitry — and diplomatic representation in general. Complementing the gravity approach, other techniques to study trade intensities have also been developed.¹²

Introducing the concept of ‘triangular diplomacy’, Susan Strange *et al.* called attention to the fact that states must now also negotiate with foreign firms, and that multinational firms themselves increasingly have to become more statesman-like.¹³ At the same time, multinational firms appear to have become less powerful since the 1980s, and especially in this new millennium.¹⁴ While certain industries have an indispensable role in tackling global challenges, including climate change, other multinational corporations have fewer issues to negotiate with governments, and more actors are competing for attention on the domestic level.¹⁵ David Baldwin contributed greatly to the field of IPE with his study on economic statecraft, which he defined as ‘governmental influence attempts relying primarily on resources which have a reasonable semblance of a market price in terms of money.’¹⁶ Notably, the central actor in his analysis is the state. Linking economics and conflict, Solomon Polachek developed the concept of economic security. He argued that increases in trade and investment reduce the likelihood of conflict.

While contributing greatly to the debate on what comprises economic statecraft and economic security, the questions of when policies towards these ends are successful and how these concepts inform practical negotiations are left unanswered in the works of Strange, Baldwin and Polachek. Political scientists and economists alike have attempted to overcome these shortcomings. Jean-Marc

¹¹ Jan Tinbergen, *Shaping the World Economy: Suggestions for an International Economic Policy* (New York: Twentieth Century Fund, 1962).

¹² For example, Roemer investigates trade patterns using area and sector intensities. He finds that ‘trade intensities in the Western world cannot be explained solely by economic factors, but must result in part from causes that are in the narrow sense not economic’. See John E. Roemer, ‘The Effect of Sphere of Influence and Economic Distance on the Commodity Composition of Trade in Manufactures’, *Review of Economics and Statistics*, vol. 59, no. 3, 1977, pp. 318-327. See also Van Bergeijk, *Economic Diplomacy and the Geography of International Trade*, p. 41.

¹³ J. Stopford, S. Strange and J. Henley, *Rival States, Rival Firms: Competition for World Market Shares*, Cambridge Studies in International Relations no. 18 (New York: Cambridge University Press, 1991).

¹⁴ Geoffrey Jones, *The Evolution of International Business* (London: Routledge, 1996). This subject is also addressed in Alex E. Fernández and Barbara Hogenboom (eds.), *Big Business and Economic Development* (London and New York: Routledge, 2007).

¹⁵ Whether the influential power of internationally operating companies increases or remains more or less the same obviously varies not only between industries, but also between countries and regions. Examples of the more powerful internationally operating companies are state-owned enterprises and funds, as well as banks.

¹⁶ Baldwin, *Economic Statecraft*, pp. 13-14. The overlap and distinction between economic diplomacy, economic statecraft and economic security are discussed in more detail in the next paragraph.

Blanchard and Norrin Ripsman, for example, developed a political model to theorize economic statecraft that calls attention to the importance of the domestic political arrangements of the target as well as the sender state, and the international political variables that can alter the political costs of facing the target state.¹⁷ Peter van Bergeijk produced an elaborate review of the various models that empirically test the (material) benefits of active political involvement in international trade. While the study and analysis of the interrelationship between international politics and economics gains ground on both ends, the subject is studied very differently by political scientists and economists. This may explain the virtual lack of interaction and mutual learning between the two.

Cycles of Economic Diplomacy

To say that economic diplomacy received little attention in IR studies until recently is, of course, not to argue that it is a new phenomenon. As noted earlier, economic diplomacy was a tool in foreign relations long before the establishment of the institutions that have become part and parcel of foreign policy and diplomacy practised by states today. Governments' (relative) attention for economic diplomacy tends to be cyclical, however, and relates to power shifts domestically as well as in the world order. At the national level, new governments typically launch fresh initiatives at an early stage of their time in power.¹⁸ The commercial and trade dimensions of economic diplomacy tend to be prominent in clear-cut and direct policies. At a later stage — heading towards elections — politics become increasingly prominent and strategic issues a greater concern. One should be cautious of generalizations, however, as domestic policies are substantially dependent on macroeconomic conditions and political culture. This brings us to the global cycle of economic diplomacy, which suggests that economic diplomacy takes prominence when acceleration in globalization is accompanied by an absence of agreed rules of conduct.¹⁹ That is to say, governments are more likely to employ economic tools in the pursuit of foreign-policy interests when the legitimacy and power of existing structures of international cooperation decrease.

Changes at the global level have a significant impact on long-term trends in economic diplomacy. Three factors are crucial to understand how policy-makers

¹⁷ While the comprehensive model is to be developed in a forthcoming book, a sub-set of the model is presented in Blanchard and Ripsman, 'A Political Theory of Economic Statecraft', pp. 374-398.

¹⁸ Matthew Goodman, 'When the Twain Meet: US Economic Diplomacy towards Asia', in Bayne and Woolcock, *The New Economic Diplomacy*, pp. 190-191. More recent examples include Japan, where the Democratic Party of Japan-led government presented its 'New Growth Strategy' three months after coming to power, and the United Kingdom, where the first major speech by newly appointed Prime Minister David Cameron addressed 'the first priority of [t]his government: transforming our economy'.

¹⁹ Rik Coolsaet, *Historical Patterns in Economic Diplomacy: From Protectionism to Globalization*, International Studies Association Convention, 2001, p. 9, available online at <http://isanet.ccit.arizona.edu/archive/coolset.html>, accessed 30 July 2008.

(and scholars alike) have treated the relationship between economics and security: the international distribution of material capabilities; the international strategic environment; and the position of the dominant world power in international economic competition.²⁰ Applying this to the case of the United States, for example, Mastanduno argues that when the international economic position of the United States is strong, foreign economic policy complements national security policy. When it is weak(er), foreign policy is used for particularistic or national interests.

The profound reconfiguration of the international order that is currently under way explains why economic diplomacy is gaining in importance once again. China is returning to the international stage and poses increased challenges to the hegemony of the United States and the world order that was built by the trans-Atlantic powers after 1945. Barring unforeseen circumstances, Washington will increasingly have to make room at the negotiating table — even if it remains the most powerful actor on the international stage in the decades to come. Adding to the growing importance of economic diplomacy is the fact that the challengers are latecomers in an international system with institutions that are largely dominated by Western countries. These states have fundamentally different ideas about the relationship between the private and public sectors, and follow an approach to foreign policy that emphasizes economic tools as well as political tools for economic purposes. Thus, the shift in the global balance of power encourages governments all over the world to reassess their national and foreign policies — including on the politico-economic front — and interests in international institutions. In the newly emerging multi-polar system, which historically has been more unstable than bipolar or even uni-polar systems,²¹ economic diplomacy is a useful means by which to pursue national interests through peaceful means. The upgrading by the Obama administration of the strategic and economic dialogue with China that was initiated by former US President George W. Bush in 2006 may also be seen in this context. Meanwhile, the European Union has greater difficulty in successfully employing its economic clout in political negotiations with powerful third countries, as it largely fails to interconnect political and economic policy at the Union level.

Towards a Better Understanding of Economic Diplomacy

Many different concepts are used in the research fields that contribute to the study of economic diplomacy. The interrelationships, overlaps and distinctions between these concepts are often unclear. The same can be said of the various

²⁰ Mastanduno, 'Economics and Security in Statecraft and Scholarship', pp. 825-854.

²¹ *Global Trends 2025: The National Intelligence Council's 2025 Project*, p. 29, available online at http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf.

concepts' meanings — let alone their position within the broad realm of foreign policy and international economic policy. This goes for economic diplomacy as well as for economic statecraft, economic security, trade diplomacy, commercial diplomacy and financial diplomacy.²² While the term 'economic diplomacy' is most frequently left undefined, those who use 'economic statecraft' or 'commercial diplomacy' tend not to consider the distinction between these two (and other) alternatives. This situation is a handicap for academics *and* practitioners and politicians.²³ More order is needed if research on economic diplomacy is to move decisively into a more mature phase.

In his seminal book on economic statecraft, Baldwin asserted that '[w]hereas economic statecraft is defined in terms of means, alternative concepts are usually defined in terms of actual or intended effects of a policy or in terms of the process by which the policy was made.'²⁴ This article agrees that economic diplomacy is primarily about processes and practices while economic statecraft is primarily about structures. Contrary to Baldwin, however, economic diplomacy is here defined in terms of means — like economic statecraft. Furthermore, while most studies of economic statecraft focus their attention on coercive instruments such as sanctions and boycotts, economic diplomacy is thought to involve also the employment of economic instruments in non-coercive ways.²⁵ In its broadest sense, economic diplomacy is considered as the narrow stem of a funnel through which all expressions of the interrelationship between IPE and diplomatic studies are channelled.

A major issue in the study of economic diplomacy originates in the study of diplomacy at large, and concerns the extent to which economic diplomacy is tied to the state or, alternatively, involves a broader range of private and other

²² This challenge is by no means confined to *economic* diplomacy; it can be argued that studies of diplomacy more generally also largely fail to address the difference between diplomacy and statecraft.

²³ This is illustrated by the opening paragraph of this article, as well as by discussions at the international conference on economic diplomacy that took place at the Clingendael Institute in October 2009. For the conference proceedings, see online at <http://www.clingendael.nl/cdsp/events/20091015/>.

²⁴ Other alternative concepts are foreign economic policy, international economic policy, economic leverage, economic sanctions, economic warfare and economic coercion. See Baldwin, *Economic Statecraft*, pp. 33-40.

²⁵ See, for example, Taylor, *American Sanctions*; Blanchard and Ripsman, 'A Political Theory of Economic Statecraft'. An exception to this rule is Kelton, who uses economic statecraft in an analysis of preferential trade agreements, in an apparent attempt to bolster the strategic, politico-military angle of the study; see Maryanne Kelton, 'US Economic Statecraft in Asia', *International Relations of the Asia-Pacific*, vol. 8, no. 2, 2008, pp. 149-174.

Mastanduno tries to overcome the 'narrow' application of economic statecraft to coercive sanctions, and distinguishes between negative sanctions and positive sanctions (inducements). He notes that 'more often than not, policy-makers treat economic sanctions as part of a package of foreign policy measures. Nonetheless, scholarly analysis thus far has not addressed systematically the *interaction* of sanctions and other instruments of statecraft'. This article answers his call, but uses 'economic diplomacy' rather than 'economic statecraft' as the umbrella term. See Michael Mastanduno, 'Economic Statecraft, Interdependence and National Security: Agendas for Research', *Security Studies*, vol. 9, nos. 1 and 2, 1999, pp. 288-316 (quoted on p. 299).

(non-governmental) actors.²⁶ This is another important point that distinguishes economic diplomacy from economic statecraft, which generally considers actions taken unilaterally by the state and — in its initial form as set forth by Baldwin — does not address the domestic context.²⁷ The most thorough attempt made to date to analyse economic diplomacy from an IR and diplomatic perspective, by Nicholas Bayne and Stephan Woolcock, addresses this same issue. The authors argue that in economic diplomacy, governments try to reconcile three types of tensions: (1) the tension between politics and economics; (2) the tension between international and domestic pressures; and (3) the tension between government and other actors, such as private business and NGOs.²⁸ While economic diplomacy may be largely concerned with actions taken by the state, it also considers the dynamic environment in which the state operates. Economic diplomacy thus cannot be seen as separate from the domestic context (of both the sender and the receiving state) and the activities of the state as influenced by other actors, such as private business and other interest groups.

Building a Conceptual Framework

Taking these insights into account, the state is here not regarded as the only player, nor as a coherent entity. It *is* assumed, however, that the state is the *primary* actor in economic diplomacy. Understood in such a state-centric realist framework, economic diplomacy has been defined as the pursuit of economic security within an anarchic system.²⁹ If economic security is thought to comprise the economic prosperity and political stability of a nation,³⁰ it follows that economic diplomacy pursued by a government involves a variety of instruments that are relatively more economic or more political in character. In other words, economic diplomacy involves a ‘business end’ and a ‘power-play end’, and all tools (in mirror view: expressions) of economic diplomacy can be placed somewhere in between these two extremes. Fig. 1 illustrates this. At the ‘power-play end’ are instruments which generally involve actions and negotiations that are primarily political in character, such as sanctions (and the lifting thereof). The primary drivers behind these activities are the strategic goals of a government, and the

²⁶ Donna Lee and Brian Hocking, ‘Economic Diplomacy’, in Robert A. Denemark (ed.), *International Studies Encyclopedia Online* (Oxford: Blackwell, 2010; Blackwell Reference Online, 18 March 2010).

²⁷ Some scholars of economic statecraft have recently incorporated the domestic interest groups in the target and/or sender state in their research. See, for example, Blanchard and Ripsman, ‘A Political Theory’; and Taylor, *American Sanctions*. In certain cases the emphasis on process rather than means begs the question of whether the term ‘economic diplomacy’ instead of ‘economic statecraft’ would not more accurately reflect the subject that is discussed.

²⁸ Bayne and Woolcock, *The New Economic Diplomacy*, ch. 1.

²⁹ Lee and Hocking, ‘Economic Diplomacy’.

³⁰ On the close link between security and prosperity, and the advance of national interests, see also Harry W. Kopp, *Commercial Diplomacy and the National Interest* (Washington, DC: American Academy of Diplomacy / Business Council for International Understanding, 2004), especially p. 1.

underlying cost-benefit calculations follow a political logic. Activities aim primarily to contribute to a stable international environment and are often referred to as economic statecraft. At the 'business end' of economic diplomacy are found the cooperative efforts by government and business that aim to achieve commercial objectives that advance national interests,³¹ including trade and investment promotion (commercial diplomacy). Here, cost-benefit calculations primarily follow an economic logic, and maximizing business opportunities is the primary driver behind activities. In between these ends are activities that may be more or less economic or political, such as economic or development aid (and aid suspension), bilateral and multilateral negotiations on trade agreements (trade diplomacy), and financial and monetary policy/negotiations (financial diplomacy).³² Differences notwithstanding, it should be emphasized that the distinction between the different strands is fluid and that strands may overlap — implying that economic diplomacy is not a linear, but more of a network concept.

The two ends of the spectre are also implicit in the definition of well-known scholars in diplomatic studies, Geoff R. Berridge and Alan James, who defined economic diplomacy as (1) diplomacy concerned with economic policy questions; and (2) diplomacy that employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.³³ While the latter part of this definition is about economic tools that are used for political purposes, the former part is about political tools — while the objectives remain unspecified. The definition adopted here tries to overcome this weakness. Thus, *economic diplomacy is understood as the use of political means as leverage in international negotiations, with the aim of enhancing national economic prosperity, and the use of economic leverage to increase the political stability of the nation.* Paraphrasing Gilpin,³⁴ the essence of economic diplomacy is to interrupt, employ and direct commercial and political intercourse.

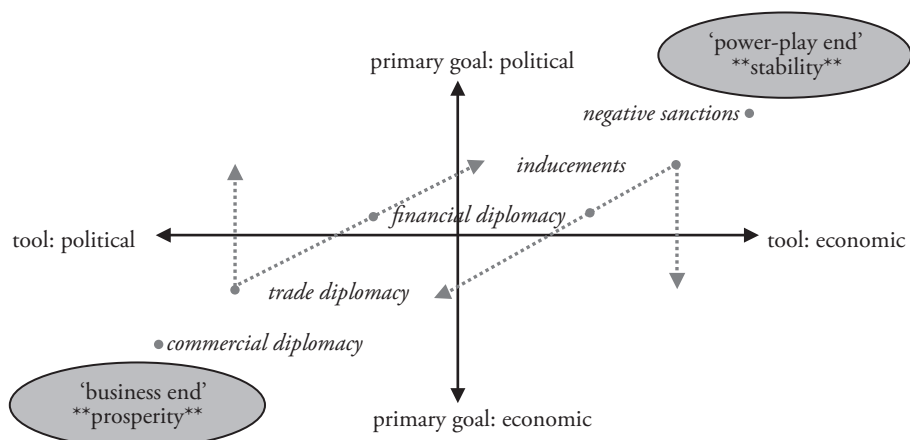
Most expressions of economic diplomacy involve multiple goals and can, in principle, be classified under more than one category. Generally, however, one

³¹ This follows Kopp, *Commercial Diplomacy and the National Interest*. It should be noted, however, that the distinction between official development assistance (ODA) and other commercial activities in which the government is involved is more explicit here.

³² This latter sub-field is growing in importance and requires much more research in order to discern better the means and intentions involved.

³³ Geoff R. Berridge (with Alan James), *Dictionary of Diplomacy* (Basingstoke: Palgrave-Macmillan, 2nd edition, 2003), p. 91. Various instruments can be used to perform economic diplomacy actively. Most commonly referred to in this regard are economic aid or 'carrots' and economic sanctions or 'sticks'. Bayne and Woolcock argue that economic diplomacy is concerned with the (decision-making) processes rather than structures, and with international economic issues. In economic diplomacy, governments try to reconcile three types of tensions: between politics and economics; between international and domestic pressures; and between government and other actors. See Bayne and Woolcock, *The New Economic Diplomacy*, ch. 1.

³⁴ With reference to Hirschman's earlier work, Gilpin argued that 'the essence of economic power, or at least one form of it, is the capacity to interrupt commercial intercourse'; see Robert Gilpin, *The Political Economy of International Relations* (Princeton NJ: Princeton University Press, 1987), p. 76.



Source: author's compilation.

Fig. 1. Strands of economic diplomacy (Western countries).

can make a reasonable judgement as to what category best characterizes the *primary* goal or basis of a particular expression of economic diplomacy. Few would dispute, for example, that sanctions primarily serve political and strategic goals, while export promotion aims to strengthen one's own industry and, thus, primarily serves the nation's economic prosperity. The primary goal of aid and trade negotiations is relatively more dependent on the specific circumstances of a case and tends to vary more between countries. This fluidity is illustrated by the arrows in Fig. 1. For example, while development aid from European countries and the United States is on the whole more political in character and purpose (aiming to promote good governance, democracy and human rights),³⁵ Asian countries use such funds primarily to spur the economic strength of the aid recipient *and* the aid provider, through trade and investment. In this context, it is telling that Japan, China and India prefer to speak of economic cooperation rather than of development aid. In a similar vein, trade negotiations can be more or less political in character. Here the roles are reversed, compared to the aid example: while trade diplomacy is often more political in the Asian context — where trade and financial agreements play a role in the competition for influence in the region — European countries more often have commercial objectives and enhanced cost-effectiveness in mind when negotiating bilateral or regional trade agreements. The classification presented in Fig. 1 is thus particularly representative of Western countries, and would have to be adjusted slightly if it was to represent other (groups of)

³⁵ Moral drivers of ODA policy — or the high political symbolism of such a policy — may also influence a government's approach to development aid. Such drivers partly explain the emphasis in ODA policy, especially of Western countries, on political rather than commercial goals. See also the practitioner's perspective of Arjan de Haan, A. de Haan, 'Development Cooperation as Economic Diplomacy', *The Hague Journal of Diplomacy*, vol. 6, nos. 1-2 2011, pp. 203-217, this issue.

countries or regions, especially in Asia and the Middle East.³⁶ Again, the dotted lines in Fig. 1 represent such variations between countries.

The different strands also inform the methodology of study — especially whether certain expressions within a specific strand can be studied through quantitative or qualitative analysis. While the more economic expressions of economic diplomacy can be researched relatively better by applying economic models to extensive data sets, more political expressions are commonly studied through case studies. That being said, the distinction is obviously not as neat as suggested by this simplification of reality, and some exceptions and a variety of studies operating on the borders of the two can be found. The proposed conceptual framework may also be useful in this respect, for it facilitates the research of economic diplomacy by illuminating the various angles from which international economic and foreign policy can be studied and analysed.³⁷

Each strand of economic diplomacy involves a wide variety of activities and expressions, as Table 1 illustrates. Countries are more successful in economic diplomacy if they increase the number of activities, conceive of new ways to conduct economic diplomacy, or terminate activities that have proven unsuccessful. But, to paraphrase Porter, economic diplomacy is more than the sum of a country's activities.³⁸ The multitude of activities within the different economic diplomacy strands form an interdependent system or network of activities. These activities are connected by linkages, which occur when the way in which one activity is performed affects the cost or effectiveness of other activities. It follows that linkages create trade-offs in performing different activities that must be optimized. For example, imposing an embargo or suspending aid reduces opportunities for trade and investment, while granting a country membership to an international financial institution may increase commercial opportunities in/with

³⁶ For more on this see Maaïke Okano-Heijmans, 'Power Shift: Economic Realism and Economic Diplomacy on the Rise', in Enrico Fels, Jan-Frederik Kremer and Kathrina Harmat (eds.), *Power in the 21st century — International Security and International Political Economy in a Changing World* (forthcoming, 2011).

³⁷ A review of the literature reveals that the primarily economic and commercial expressions studied by economists, categorized on the 'business end' of economic diplomacy, are studied through quantitative, empirical analysis relatively more often. The growing availability of statistical data in these fields makes for an increasing body of literature on this front. The more that politics is involved, the more difficult 'objective' analysis of economic diplomacy becomes. Strategic interests pursued through economic means such as ODA and sanctions can be subjected to quantitative analysis to the extent that statistics are available on the levels of assistance and the impact of sanctions on trade.

³⁸ This section draws on Porter's analysis of the competitive advantage of firms in global industries, which suggests that the complex environment of interlinked economic diplomacy activities of a country may be likened to the series of primary and support activities that make up the operations of a firm. While firms seek competitive advantage in an industry or industry segment by being more efficient or creating better value (resulting in lower costs or differentiation, respectively) than competitors, countries seek success in economic diplomacy by using political tools to enhance economic prosperity and by employing commercial instruments to achieve and maintain political stability. See Michael E. Porter, *The Competitive Advantage of Nations* (London: Palgrave, 1998).

Table 1. Items Included in Tools and Expressions

<i>Commercial diplomacy</i>	<i>Trade diplomacy</i>	<i>Financial diplomacy</i>	<i>Inducements</i>	<i>Sanctions</i>
trade promotion	bilateral: FTAs, EPAs	currency swap agreements	bilateral aid: grants, loans	embargo (exports; state)
investment promotion	multilateral: WTO	Exchange-rate policy	debt relief	boycott (imports; individuals)
business advocacy	(anti-dumping) tariffs	buying/selling of government bonds	humanitarian aid	aid suspension
tourism promotion	export or import licenses	freezing assets	granting access to technology	capital controls
promotion of socially responsible investing	import or export quotas, trade and investment barriers	withholding dues or payments	granting membership of international organization	blacklist
	← (un)favourable taxation →			
	← opening/closing of diplomatic representation →			
	← summits and high-level visits →			

Source: author's compilation

the target country. To be successful in economic diplomacy, any government must resolve such trade-offs in accordance with the balance of national interests³⁹ and its foreign policy strategy at large. Careful management of linkages and continuous investigation of existing and potential economic diplomacy activities are thus of utmost importance.

Building an Analytical Framework

The conceptual framework helps us to distinguish various strands of economic diplomacy and to begin to understand the relationship between, and diversity of tools within, those strands. This is one important step in untangling the pieces of the economic diplomacy puzzle. The next challenge is to identify essential dimensions of economic diplomacy, within which historically contingent change may occur. Four key elements of economic diplomacy are proposed: the context; tools; theatres; and process. These dimensions spell out the analytical angles that altogether provide a complete understanding of a country's economic diplomacy — that is, how economic diplomacy is embedded in the pursuit of a balance of (national) interests. Fig. 2 shows how the concepts (at the three angles,

³⁹⁾ Substituting 'the national interest' for 'a balance of interests' has triple significance: (1) it indicates that one particular balance is struck from among several options; (2) it indicates human agency; and (3) it includes the possibility of human fallibility and the prospect of course corrections. See Ramesh Thakur, 'A Balance of Interests', in Andrew F. Cooper, Jorge Heine and Ramesh Thakur (eds.), *The Oxford Handbook of Modern Diplomacy* (Oxford: Oxford University Press, forthcoming 2012).

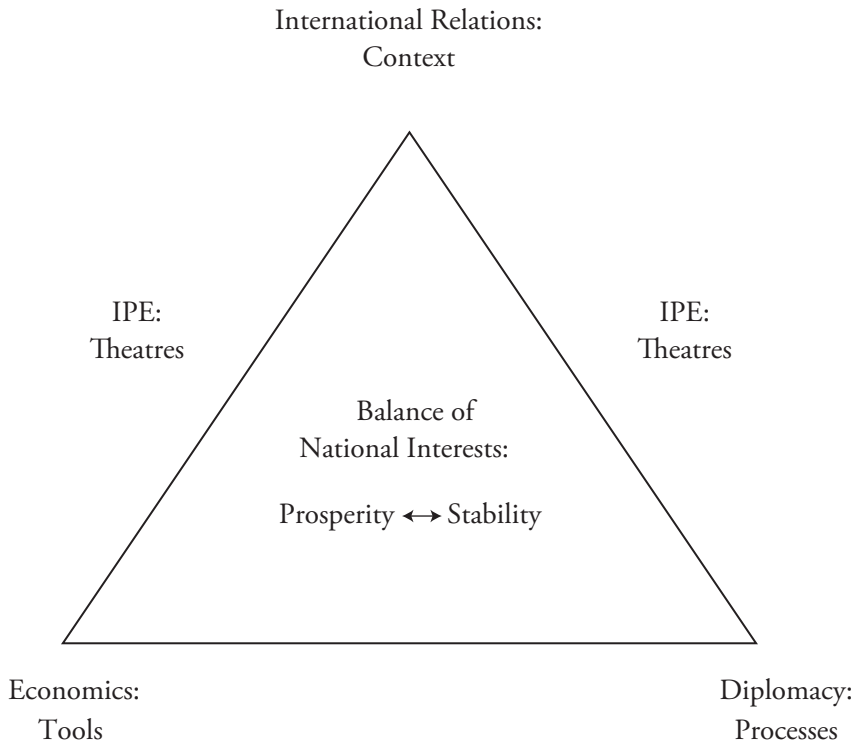


Fig. 2. Analytical framework for study on economic diplomacy.

Source: author's compilation.

the side and the core of this triangular analytical framework) are separate, yet interdependent.

Each research field in which economic diplomacy is studied is largely representative of one dimension of the analytical framework, although this distinction is also not as neat as the simplified model may seem to suggest.⁴⁰ The environment in which (a specific strand of) economic diplomacy is pursued is understood best through an IR approach to economic diplomacy. For example, it is mainly IR scholars who inform us about different levels that define the *context* in which economic diplomacy is exercised — namely, the interplay (respectively) between the domestic and international sphere, and between politics and economics. Such analysis provides little insight, however, into the variety and efficacy of instruments that can be used, where certain activities take place, or the ways and motivations of agents who practise economic diplomacy — that is, on the relationships themselves. For this, it is useful to look at analyses from the economics, IPE and

⁴⁰ One is tempted to believe that the three elements may even be connected to the familiar triad in IR approaches: realism (context); liberalism (tools); and constructivism (process). This facilitates analytical eclecticism at yet a different level, but is beyond the scope of this article's discussion.

diplomatic studies traditions, respectively. The interest of economists in the effectiveness of activities generally results in a focus on the *tools* of economic diplomacy — that is, what instruments do governments use and do they bring about the intended effect? IPE is largely concerned with structures and institutions in international relations, which facilitates an assessment of the *theatres* (negotiating fora, such as international institutions) relevant to economic diplomacy. Work by scholars from this field can be placed somewhere in between IR and economics, or IR and diplomatic studies. The former includes studies that are concerned with how one or more strands of economic diplomacy are practised by a country or group of countries, while the latter involves research on the interplay between public and private actors, in specific countries or strands of economic diplomacy. The more practical *processes* by which economic diplomacy is constructed and practised are addressed primarily by scholars of diplomatic studies. This includes analysis of how negotiations proceed in different modes and environments (such as in summits, regional diplomacy, and bilateral and multilateral economic or monetary institutions), which tactics are used towards what strategic ends, as well as the motivations and the interests of the actors involved. Other (sub-)fields where studies on economic diplomacy can be found are international law, business studies and foreign-policy analysis. These are included here in the fields of IR, economics and diplomatic studies respectively.

Economic diplomacy actors are subject or object of analysis in each of the four fields. Since diplomatic behaviour is embedded in both international and domestic structures and norms, the ongoing process in which ideas and culture play a central role influences the mode of economic diplomacy that is practised by a government. Although the state is the primary actor and thereby at the core of this process, many other actors have a say in (what eventually becomes) foreign and economic policy. Domestic politicians and economic interest groups — including multinational corporations — exert the largest effective influence on (the formulation of) economic diplomacy. To understand a country's economic diplomacy thus requires an understanding of evolving schemes of thought, identities and actions that move governments, domestic politicians, economic and other interest groups — as well as the relative power balance among these actors. Diverging social realities of policy-making influence the extent to which actors are successful in shaping the parameters of a government's economic diplomacy. Such differences are most apparent in comparisons between regions — such as European, Asian and Middle Eastern countries — but can also be found within regions.⁴¹

⁴¹ For an analysis of how these dynamics work out within East Asia, for example, see Kurt W. Radtke, 'Security in Chinese, Korean and Japanese Philosophy and Ethics', in Hans Günter Brauch *et al.* (eds.), *Globalization and Environmental Challenges: Reconceptualizing Security in the 21st Century*, Hexagon Series on Human and Environmental Security and Peace, vol. 3 (Berlin, Heidelberg and New York: Springer, 2008).

A question that needs to be addressed next is: how do these analytical lenses relate? This is of importance if one is to make the most of analytical eclecticism, which regards existing research traditions fluidly and is willing to borrow selectively from each to construct accounts that travel across the sides of the triangle.⁴² Interaction takes place in multiple ways. Policy-makers select the economic tools and theatres that are most appropriate to pursue (perceived) national interests, in consideration of the country's unique position in the world and their judgement of how power can be exerted or projected optimally. The context thus shapes the judgement of agents about how their interest can be advanced most effectively. Moreover, the assessment of how this context is constructed informs policy-makers' choices of the instruments by which, and the places where, to promote a balance of interests.

The use of certain instruments and ongoing negotiations will, in the medium to long term, alter the context in which agents operate. The four lenses are thus not only interrelated, but also complementary. This implies that economic diplomacy is most effective when based on inclusive strategic thinking that considers analysis of all four concepts and their interactions. Put differently, the questions of 'when' (context), 'what' (instruments), 'where' (theatres) and 'how' (process) inform the question of 'why' economic diplomacy exists as a strategy by which states pursue national interests, comprising economic prosperity and political stability.

Clearly, each angle (and concept) of the analytical framework incorporates many sub-themes. These are too extensive and too complex to be dealt with comprehensively in any one study. Indeed, most available studies focus on a certain contextual element, one or more tools or theatres, or a specific element of the processes of economic diplomacy by one or more states. The analytical framework provides the larger picture in which these studies may be placed and thereby facilitates comparative research.

Four Fields of Literature

A review of the literature is presented to substantiate the underlying assertion that — exceptions notwithstanding — researchers from certain fields largely tend to focus on specific dimensions and strands of economic diplomacy. In itself, this finding may be hardly surprising since, for example, IR scholars are primarily

⁴²⁾ The approach adopted here differs from Katzenstein and Sil in the sense that three out of four research traditions/dimensions are here positioned at the corners of the triangle, while Katzenstein and Sil place them along the sides. The underlying logic is not fundamentally different, however, as the characterization introduced here represents a relative rather than an absolute focus. See Peter J. Katzenstein and Rudra Sil, 'Rethinking Asian Security: A Case for Analytical Eclecticism', in J.J. Suh, Peter J. Katzenstein and Allen Carlson (eds.), *Rethinking Security in East Asia: Identity, Power and Efficiency* (Stanford, CA: Stanford University Press, 2004), p. 17.

interested in the power-play end, while economists are mostly engaged with the 'business' of economic diplomacy. Again, this is not to deny that exceptions obviously do exist, as do scholars who operate on the borders of various research fields.

The literature is categorized here by the strand(s) and dimensions that it discusses, often with a focus on a particular country, group of countries or region(s). A functional approach is adopted, meaning that the classification of writings follows from their content rather than the author's training or affiliation. The analytical framework of economic diplomacy helps to position a particular case in its wider context and, thereby, to judge the comprehensiveness of economic diplomacy policies of the given case. After all, in most instances (case) studies can be regarded as specific examples of a more general category of events rather than as unique historical phenomena.⁴³ The conceptual framework is used as yet another way to position a case within the broad economic diplomacy field, and to untangle the relationship between various studies, which in turn may also help in identifying the strand(s) of economic diplomacy that are taken up in a study. This strand is not necessarily made explicit by the original author — and, where explicitly stated, may differ from the interpretation of the various concepts here.

Economic Diplomacy in International Relations

Economic diplomacy studied through an IR lens is primarily concerned with high politics and issues related to national security, where national interests are primarily defined in terms of (inter)national stability. When considered in the broader field of economic diplomacy, this strand of research is characterized by an interest in power elements rather than policy and process. Illustrative is Baldwin's introduction to his study on economic statecraft, which reads that it 'is a study of economics as an instrument of politics'.⁴⁴ The high politics or power-play element explains why political scientists who study the interrelationship between international politics and economics regularly employ the term 'economic statecraft', or tend to discuss the subject without linking it to any concept at all. In the former case, the focus is often on sanctions — negative or positive — while research of the latter kind tends to address the relationship between foreign policy on the one hand and trade or investment on the other.

Three research foci can be distinguished in IR scholarship on economic diplomacy. The first concerns conceptual analysis that aims to improve general understanding of the interrelationship between international economic relations and foreign and military policy. This includes books and articles on economic power

⁴³ Baldwin, *Economic Statecraft*, p. 25.

⁴⁴ Baldwin, *Economic Statecraft*, p. 3. See also P. Hanson, *Western Economic Statecraft in East — West Relations: Embargoes, Sanctions, Linkage, Economic Warfare and Détente* (London: Royal Institute of International Affairs, 1988).

(Knorr), economic statecraft (Baldwin), economics and security (Mastanduno; and Sandler and Hartly), historical patterns in economic diplomacy (Coolsaet) and the political theory of economic statecraft (Blanchard and Ripsman).⁴⁵

The second category comprises case studies that discuss the economic diplomacy practice of particular (groups of) countries or specific economic diplomacy expressions. This includes analysis of Japan's development aid (Arase), EU sanctions (Portela), 'normative trade policy' (Orbie), Chinese investment in North Korea (Kim), the United States in the Cold War period (Kunz) and Myanmar's foreign trade and its political consequences (Alamgir).⁴⁶ Within this category, the body of research on financial and monetary expressions of economic diplomacy in particular is growing. This includes conceptual work (Steil and Hinds), and work on currency issues — exchange-rate policies and currency wars — as well as changes in financial institutions (the International Monetary Fund and the World Bank) that result from the rise of emerging economies. Country case studies include those on the United States (O'Hara; and Tsokhas), China (Drezner) and Japan (Hook *et al.*).⁴⁷

The final category of economic diplomacy research from an IR perspective, which is slightly distinct from the others but nevertheless included here because of its international focus, deals with legal issues — that is, international law. This includes work on legal institutions governing international trade (Hudec; and Reich) and on commercial law, originating in the *Lex Mercatoria* (Sealy and Hooley).⁴⁸

⁴⁵ Klaus Knorr, *The Power of Nations: The Political Economy of International Relations* (New York: Basic Books, 1975); Baldwin, *Economic Statecraft*; Mastanduno, 'Economic Statecraft, Interdependence and National Security', pp. 288-316; Todd Sandler and Keith Hartly (eds.), *Handbook of Defense Economics: Defense in a Globalized World (Volume 2)* (Amsterdam: Elsevier, 2007); Coolsaet, *Historical Patterns in Economic Diplomacy*; and Blanchard and Ripsman, 'A Political Theory of Economic Statecraft', pp. 374-398.

⁴⁶ David Arase (ed.), *Japanese Aid in the New Millennium* (London: Routledge, 2005); Clara Portela, *European Union Sanctions and Foreign Policy: When and Why do they Work?* (Abingdon: Routledge, 2010); Jan Orbie (ed.), *Europe's Global Role: External Policies of the European Union* (Aldershot: Ashgate, 2008); Kim Jae Cheol, 'The Political Economy of Chinese Investment in North Korea', *Asian Survey*, vol. 46, no. 6, November/December 2006, pp. 898-916; Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: Free Press, 1997); Jalal Alamgir, 'Myanmar's Foreign Trade and Its Political Consequences', *Asian Survey*, vol. 46, no. 6, 2008, pp. 977-996.

⁴⁷ Benn Steil and Manuel Hinds, *Money, Markets and Sovereignty* (New Haven, CT and London: Yale University Press, 2009); Glen O'Hara, 'The Limits of US Power: Transatlantic Financial Diplomacy under the Johnson and Wilson Administrations, October 1964-November 1968', *Contemporary European History*, vol. 12, 2003, pp. 257-278; J. Kosmas Tsokhas, 'Anglo-American Economic Entente and Australian Financial Diplomacy', *Diplomacy and Statecraft*, vol. 5, no. 3, November 1994, pp. 620-641; Daniel W. Drezner, 'Bad Debts: Assessing China's Financial Influence in Great Power Politics', *International Security*, vol. 34, no. 2, 2009, pp. 7-45; Glenn D. Hook, Julie Gilson, Christopher W. Hughes and Hugo Dobson, 'Japan and the East Asian Financial Crisis: Patterns, Motivations and Instrumentalization of Japanese Regional Economic Diplomacy', *European Journal of East Asian Studies*, vol. 1, no. 2, 2002, pp. 177-197. See also the practitioner's piece by Bayne, N. Bayne, 'The Diplomacy of the Financial Crisis in Context', *The Hague Journal of Diplomacy*, vol. 6, nos. 1-2, 2011, pp. 187-201, this issue.

⁴⁸ Robert E. Hudec, *Enforcing International Trade Law: The Evolution of the Modern GATT Legal System* (Salem MA: Butterworth Legal Publishers, 1993); Arie Reich, 'From Diplomacy to Law: The Juridicization

Economists' Perspectives on Economic Diplomacy

In contrast to IR perspectives, the economic approach to economic diplomacy is grounded in an understanding of national interests as defined in economic terms. It is concerned with all of the ways by which governments deliberately and directly intervene in the market, whether the economic (trade and investment) or financial fields. The focus here is on economic diplomacy as a tool to enhance economic prosperity, and the leading question is whether specific economic diplomacy tools are cost-efficient in the sense that they have a welfare-enhancing effect. Political aims may be considered, but are by and large not (as) explicit — let alone the focus of attention. Most studies in this field employ (a mixture of) the term(s) 'economic diplomacy', 'commercial diplomacy' and 'trade diplomacy', while 'economic statecraft' is hardly employed.⁴⁹

Economic diplomacy of the primarily economic realm can be divided into three categories. The first concerns studies on the effects of specific economic diplomacy activities on international trade. Such analysis employs economic and econometric models — often the gravity model of trade, but also the social welfare function, bilateral trade model, elasticities and market shares, or a combination of these — for cost-benefit analysis of one or more tools of economic diplomacy. This includes studies on embassies as export promoters (Rose), state visits (Nitsch) and a variety of financial tools to promote one's own business abroad (Van den Berg *et al.*).⁵⁰ A second category of research of economic diplomacy from an economic perspective employs macroeconomic and micro-data studies for an economics-based interpretation of larger conceptual questions, such as on the relationship between trade and conflict or cooperation (Polachek) and general aspects of trade uncertainty (Van Bergeijk).⁵¹ The third category of research, which is slightly distinct from the above two but included here because of its link to international economics, tackles economic diplomacy from a business studies' perspective. It addresses the complex political environments in which internationally operating companies conduct business from these firms' point of view. Such research deals, for example, with the effectiveness of so-called 'business

of International Trade Relations', *Northwestern Journal of International Law and Business*, vol. 17, no. 2/3, 1997, pp. 775-849; and Len S. Sealy and Richard J.A. Hooley, *Commercial Law: Text, Cases and Materials* (New York: Oxford University Press, 2009).

⁴⁹⁾ As mentioned earlier, Kelton is the exception to this rule (see footnote 25).

⁵⁰⁾ See Andrew K. Rose, 'The Foreign Service and Foreign Trade: Embassies as Export Promotion', *The World Economy*, vol. 30, no. 1, 2005, pp. 22-38; Volker Nitsch, *State Visits and International Trade*, CESifo Working Paper no. 1582 (Munich: CESifo Group, 2005); and Van den Berg *et al.*, *MKBA financieel buitenlandinstrumentarium*.

⁵¹⁾ Solomon W. Polachek, 'Conflict and Trade: An Economics Approach to Political International Interactions', *Peace Economics, Peace Science and Public Policy*, vol. 5, no. 2, spring 1999; Solomon W. Polachek, 'Why Democracies Cooperate More and Fight Less: The Relationship Between International Trade and Cooperation', *Review of International Economics*, vol. 5, no. 3, 1997, pp. 295-309; and Van Bergeijk, *Economic Diplomacy and the Geography of International Trade*.

diplomacy management' (Saner *et al.*), the export-related expertise of manufacturing firms and the gap between governmental export-promotion efforts and private sector needs (Kotabe and Czinkota).⁵²

Economic Diplomacy and International Political Economy

International Political Economy is primarily concerned with the ways in which political forces shape the systems through which economic interactions are expressed, and, conversely, the effects that economic interactions have upon political structures and outcomes. More than the other research traditions, the work of IPE scholars on economic diplomacy thus involves a mix of foreign policy objectives and commercial tools, and commercial objectives and political tools in a certain environment where economic diplomacy is shaped or practised.

The literature in this field can be divided into studies that focus on — what has been labelled here as — trade diplomacy and commercial diplomacy (positioned on the IR-economics side of the analytical triangle) and conceptual work (positioned on the IR-diplomacy side). The former is about economic diplomacy that focuses on trade liberalization and domestic forces, and employs trade statistics not combined with econometric models. Examples are studies on Japan's foreign economic policy (Solís and Urata), trade diplomacy (Drysdale; and Pekkanen, Solís and Katada) and East Asian regionalism (Ravenhill).⁵³ Applied work on commercial diplomacy by IPE scholars includes studies of government programmes involving trade finance, trade facilitation, trade advocacy (Stremlau) and trade missions, or a combination of these (Garten, Zoellick and Shinn).⁵⁴ Last but not least, the more conceptual work in this research tradition includes work on state–firm diplomacy and firm–firm diplomacy (Strange), and commercial diplomacy (Rothkopf; and Kopp).⁵⁵ To the extent that the edited book by

⁵² Raymond Saner, Lichia Yiu, and Mikael Sondergaard, 'Business Diplomacy Management: A Core Competency for Global Companies', *Academy of Management Executive*, vol. 14, no. 1, 2000, pp. 80-92; and Masaaki Kotabe and Michael R. Czinkota, 'State Government Promotion of Manufacturing Exports: A Gap Analysis', *Journal of International Business Studies*, vol. 23, no. 4, 1992, pp. 637-658.

⁵³ Mireya Solís and Shujiro Urata, 'Japan's New Foreign Economic Policy: A Shift Towards a Strategic and Activist Model?', *Asian Economic Policy*, vol. 2, no. 2, December 2007, pp. 227-245; Peter Drysdale, 'Japan's Trade Diplomacy: Yesterday, Today, Tomorrow', *Pacific Economic Paper*, no. 178, Australia – Japan Research Centre, 1989; Saaida M. Pekkanen, Mireya Solís and Saori N. Katada, 'Trading Gains for Control: International Trade Forums and Japanese Economic Diplomacy', *International Studies Quarterly*, vol. 51, December 2007, pp. 945-970; and John Ravenhill, 'The "New East Asian Regionalism": A Political Domino Effect', *Review of International Political Economy*, vol. 17, no. 2, pp. 178-208.

⁵⁴ John Stremlau, 'Clinton's dollar diplomacy', *Foreign Policy*, no. 97, winter 1995, pp. 18-35; and Jeffrey Garten, Robert Zoellick and James Shinn, *Riding the Tigers: American Commercial Diplomacy in Asia* (New York: Council on Foreign Relations, 1998).

⁵⁵ Susan Strange, 'States, Firms and Diplomacy', *International Affairs*, vol. 68, no. 1, January 1992, pp. 1-15; David J. Rothkopf, 'Beyond Manic Mercantilism', in R.J. Albright *et al.*, *US Commercial Diplomacy*, background papers from the Study Group on American Commercial Diplomacy in Asia (New York: Council on Foreign Relations, 1998); and Kopp, *Commercial Diplomacy and the National Interest*.

Bayne and Woolcock focuses on trade, investment and finance negotiations, it may also be included in this category.⁵⁶

Diplomacy and Negotiation: Foreign Policy and National Interests

Starting from the 1980s, diplomacy and international negotiation (the latter also included in Putnam's analysis) became subjects of serious scholarly attention. The main trigger for this was the characterization of diplomacy as an institution that contributes to order in international society, next to the balance of power, international law, war and the great powers.⁵⁷ Paralleling developments in structural IR analysis starting in the 1970s, significant steps were made in the study of actors, interests and processes in international relations. Constructivism was posited next to (neo-)realist and (neo-)liberal theories of IR. Different strands of this school call attention to various elements of the 'social reality' of international relations — such as goals, threats, cultures and identities — as social constructs of actors. These insights can be seen to have contributed also to the study of diplomacy by academics and practitioners. As diplomatic studies matured, so enquiries into economic diplomacy from this particular perspective grew. Studies of economic diplomacy by scholars from the diplomatic studies tradition share an emphasis on the procedural rather than structural aspects of economic diplomacy. Obviously, no study of economic diplomacy can neglect this angle, but these studies stand out for their relative emphasis on actors and on processes.

Analysis within this research tradition broadly involves three categories. The first is conceptual analysis that focuses on economic diplomacy at large (Lee and Hocking; and Bayne and Woolcock) or on a specific strand, such as commercial diplomacy (Lee and Hudson; and Kostecki and Naray).⁵⁸ Other categories have a narrower focus and discuss, respectively, various aspects of negotiations and one or more actors. The former includes modelling of international economic negotiations, with a focus on strategies and incorporating markets (Odell) and multilateral economic diplomacy at the Kennedy Round of the General Agreement on Tariffs and Trade (GATT) (Lee).⁵⁹ Economic diplomacy is pursued by governments but shaped by a range of domestic state and non-state actors. Analysis of actors in economic diplomacy include studies on the international chamber of

⁵⁶ Bayne and Woolcock, *The New Economic Diplomacy*.

⁵⁷ Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (Hampshire and New York: Palgrave, 2002 [1977]).

⁵⁸ Lee and Hocking, 'Economic Diplomacy'; Bayne and Woolcock, *The New Economic Diplomacy*; Donna Lee and David Hudson, 'The Old and New Significance of Political Economy in Diplomacy', *Review of International Studies*, vol. 30, no. 3, July 2004, pp. 343-360; M. Kostecki and O. Naray, *Commercial Diplomacy and International Business*, Clingendael Discussion Paper in Diplomacy no. 107 (The Hague: Clingendael Institute, 2007).

⁵⁹ John S. Odell, *Negotiating the World Economy* (Ithaca NY: Cornell University Press, 2000); and Donna Lee, 'Endgame at the Kennedy Round: A Case Study of Multilateral Economic Diplomacy', *Diplomacy & Statecraft*, vol. 12, no. 3, September 2001, pp. 115-138.

commerce (Kelly), business in UK diplomacy (Lee), Indian economic diplomacy from a diplomat's perspective (Rana), and state and non-state actors — such as non-governmental organizations and consumer groups (Woolcock; and Saner and Yiu).⁶⁰ Also worth mentioning is the literature on diplomacy that includes (a brief) discussion of commercial and economic issues (Hamilton and Langhorne; Marshall; Barston; and Pigman), for this provides insight into the role of economic diplomacy within diplomatic practice at large.⁶¹

The edited book by Bayne and Woolcock entitled *The New Economic Diplomacy* provides the most elaborate analysis of economic diplomacy to date, both theoretically as well as empirically. This warrants a short elaboration into how the underlying study relates to that book's findings. Two observations should be made in this respect. First, whereas Woolcock (in his individual chapter) implicitly posits economic diplomacy as forming part of IPE,⁶² the two are explicitly distinguished here. The reason for this is that while the ontological starting point of economic diplomacy and IPE is much the same, the epistemology of the two research fields differs fundamentally. That is to say, scholars of IPE and economic diplomacy look at the same reality, but use different coloured glasses and therefore see (or focus on) a different reality. Looking at the World Trade Organization, for example, an IPE scholar may take an interest in the workings of the institution within the world trade system, while an economic diplomacy scholar would consider why and how a government negotiates a deal on tariff reductions, as well as how negotiations form part of the broader context of diplomatic practice. Rather than viewing one field as part of the other, the two are thus posited at the same level under the same IR umbrella. This article further differs from Bayne and Woolcock in that it distinguishes between economic diplomacy on the one hand and economic statecraft and commercial, trade or 'dollar' diplomacy on the other. The former is understood as the umbrella term, while the latter terms

⁶⁰ Dominique Kelly, *The International Chamber of Commerce as a Diplomatic Actor* (Leicester: Centre for the Study of Diplomacy, University of Leicester, July 2000); Donna Lee, 'The Growing Influence of Business in UK Diplomacy', *International Studies Perspectives*, vol. 5, no. 1, 2004; Kishan S. Rana, *Bilateral Diplomacy* (New Delhi: Manas Publications, 2002); Stephen Woolcock, 'State and Non-state Actors', in Bayne and Woolcock, *The New Economic Diplomacy* (note that this subject is addressed in two separate chapters in the 2007 edition); and R. Saner and L. Yiu, *International Economic Diplomacy: Mutations in Post-modern Times*, Clingendael Discussion Paper in Diplomacy no. 84 (The Hague, Clingendael Institute, January 2003).

⁶¹ Keith Hamilton and Richard Langhorne, *The Practice of Diplomacy: Its Evolution, Theory and Administration* (London and New York: Routledge, 1995); Peter Marshal, *Positive Diplomacy* (Basingstoke: St. Martin's Press, 1997); R.P. Barston, *Modern Diplomacy* (London: Pearson, 2006 [1988]); and Geoffrey Allen Pigman, *Contemporary Diplomacy: Representation and Communication in a Globalized World* (Cambridge: Polity Press, 2010).

⁶² Woolcock states that 'It is [the] focus on process rather than the structure of power or interests shaping any given outcome that distinguishes the study of economic diplomacy from *the rest of* international political economy' (emphasis added). See Stephen Woolcock, 'Theoretical Analysis of Economic Diplomacy', in Bayne and Woolcock, *The New Economic Diplomacy*, p. 25.

are considered as 'power-play end' and 'business end' derivatives of economic diplomacy, respectively.

Unwarranted Intervention or a Necessary Evil?

A government or any other economic diplomacy actor's views on the rightfulness and usefulness of economic diplomacy in practice depends partly upon one's ideas about the separation of the public and private spheres — which is, in turn, commonly influenced by a country's level of development. In an attempt to bridge the theory–practice divide, this section addresses the key considerations that shape the standpoints of government and other actors.

Political culture and historical consciousness have a significant impact on the way that economic diplomacy is framed, both at the national and practical levels. In turn, diplomacy is directly related to the way in which a state goes about projecting its ideology and strategic interests. Few may disagree that diplomacy requires deterring power, good judgement and opportunity,⁶³ but ideas on what this means for diplomatic practice differ substantially between countries and regions. States or state-like entities that prefer or rely (out of necessity) on non-military means to exert international power generally follow an approach that emphasizes economic tools and tend to use positive incentives rather than pressure — or 'carrots' instead of 'sticks'. Motivations for taking a particular approach differ widely. In the case of the European Union, for example, the fact that economic integration has proceeded much quicker and gone much further than politico-military integration is an explanatory factor, while Japan's relative emphasis on economic diplomacy is explained, at least in part, by its formal renunciation of military means for offensive purposes.⁶⁴

For advocates of free trade and proponents of a strict separation of politics and economics (including many economists, especially in Western countries), economic diplomacy in all its different forms is little more than an undesirable, market-distorting government intervention. According to this view, economic diplomacy benefits the powerful rather than the powerless, is unnecessary (private business and free markets would do), encourages big government and corruption, and may conflict with the promotion of human rights and non-proliferation.⁶⁵ In various ways, it is argued, economic diplomacy distorts the 'level playing field' and can hardly be successful in correcting (perceived) market failures. Indeed, economic diplomacy by definition prioritizes (at times narrow) domestic economic

⁶³ Hitoshi Tanaka and Soichiro Tahara, *Kokka to Gaikō [The State and Diplomacy]* (Tokyo: Kōdansha, 2005).

⁶⁴ For more on the case of Europe, see for example Orbie, *Europe's Global Role*, especially pp. 12-17. For Japan, see Makoto Iokibe (ed.), *The Diplomatic History of Postwar Japan* (New York: Routledge, 2010).

⁶⁵ For a more detailed discussion of this in the context of commercial diplomacy, see Garten *et al.*, *Riding the Tigers*, pp. 3-4.

interests and intervenes in markets for political and strategic purposes. This is inevitable if economic resources are employed in pursuit of foreign policy objectives. To balance economic and political objectives is no easy task for any government. Moreover, whether a policy is deemed legitimate or not touches upon practical and normative concerns. Policies that constitute justifiable government intervention (in general or on a specific occasion) for one party can be regarded by others as undesirable protectionism. The 'Buy American' clause in the economic recovery package of the Obama government, the negative response of the Chinese government to calls to allow its currency to appreciate and (large parts of) the European Common Agricultural Policy are but a few examples of this.

The main underpinning of economists' enquiries into economic diplomacy is the desire to come to an effective cost-benefit analysis from a welfare-theoretic point of view. Insights gained accordingly serve as a guide to the considerations of politicians and government officials who engage in economic diplomacy. Noticing that *a priori* the market is most efficient without government intervention, it is from this perspective 'quite understandable that economists are very suspicious about commercial policy and economic diplomacy'.⁶⁶ After all, government intervention could divert rather than create trade, firms in principle should be able to cope with (international) market pressures on their own, and consumer interests may be armed by intervention. The argument continues that intervention is thus only justified when a market failure exists or when this intervention generates more benefits than costs. However, even to those who adopt this relatively narrow, economic perspective on the conduct of foreign relations, economic diplomacy is not in all ways trade-distorting, since benefits may arise at the macroeconomic level — through the impact of trade on GDP and/or its growth rate — and at the microeconomic level.⁶⁷

Few scholars, however, limit their analysis of foreign policy to economic factors alone. So while economic diplomacy may constitute unwarranted government intervention from a purely economic perspective, political scientists with a (neo-) realist inclination would be prone to argue that economic diplomacy is, on balance, a necessary evil. From this viewpoint, economic diplomacy is just one of many tools that governments use to strengthen the economic, political and security capacities of their country, in a world dominated by the power struggles of nation-states. Private and other non-governmental actors gain in importance, and compete with and complement the role of the state. The sometimes blurry boundaries between public and private actors of a growing number of (newly developing) countries — with state-owned enterprises and sovereign wealth funds — and the idea that governments may have a growing role in protecting private companies

⁶⁶ Van Bergeijk, *Economic Diplomacy and the Geography of International Trade*, p. 70.

⁶⁷ See, for example, Van Bergeijk, *Economic Diplomacy and the Geography of International Trade*, pp. 70-71.

from corporate espionage by foreign actors has led governments of some industrialized countries to reconsider the relationship between the state and the market.⁶⁸ Moreover, the Asian financial crisis of the late 1990s and the global financial and economic crisis of recent years have shown that even the most liberal governments intervene when supposedly free markets malfunction and threaten to disrupt the social order.

Should governments not engage in economic diplomacy at all? This rhetorical question is of little meaning, if it is accepted that governments are ultimately responsible for national interests and the well-being of their citizens. Cynics might say that a world without economic diplomacy is as desirable and unlikely as a world without war or competition between states and peoples. The more useful way to address the issue may be to accept that economic diplomacy is a reality of the world in which we live, and that understanding of the concept should be enhanced in order to recognize, control and optimize its expressions and outcomes. Discussion on the sometimes conflicting interests of human rights and trade, and the self-serving dimension of economic assistance, for example, are better understood when addressed in the open, instead of negated.

Acceptance of economic diplomacy as a tool of foreign policy is not unconditional and raises many pertinent questions. Most would agree that the promotion of national interests to the extent that it undermines international political, economic and financial agreements and institutions is undesirable. Even here, however, differences in ideology and levels of development make for different standards and modes of economic diplomacy.⁶⁹ Are tariffs and subsidies acceptable to protect weak domestic businesses? Can foreign assistance be used as leverage in competing for business opportunities? Are economic sanctions an acceptable way to influence foreign governments even when they hurt innocent citizens in the target country? Is discrimination of certain (state-owned) foreign investors acceptable — in general or in specific sectors? There are clearly no clear-cut answers to these questions, which involve moral as well as practical considerations. The choices that governments (and different actors within government) make in addressing these questions profoundly influence the interaction between these

⁶⁸ See, for example, 'EU-Kommissar Tajani: "Der Schutz unseres Wissens ist unverzichtbar"', *Handelsblatt* (online), 27 December 2011. The *World Investment Report 2010* notes that 'A dichotomy in investment policy trends is emerging. It is characterized by simultaneous moves to further investment liberalization and promotion on the one hand, and to increase investment regulation in pursuit of public policy objectives on the other'; see *World Investment Report 2010: Overview* (UNCTAD/WIR/2010), p. ix and pp. 18-23, 22 July 2010, available online at www.unctad.org.

⁶⁹ This is directly related to how one perceives the legitimacy of existing agreements and institutions. For example, Chang convincingly argues that virtually all of today's developed countries did not practice free trade when they were developing countries themselves; see Ha-Joon Chang, *Kicking Away the Ladder: The "Real" History of Free Trade*, FPIF Special Report, December 2003. Mahbubani argues that '[t]he iconization of democracy — an unquestionably virtuous idea — became an ideological crusade that insisted democracy could be exported to any society everywhere in the world, regardless of its stage of political development'; see Kishore Mahbubani, *The New Asian Hemisphere* (New York: PublicAffairs, 2008), p. 6.

actors at the national and international levels. And there can be little doubt that as an increasing number of countries with political and economic systems that are fundamentally different from the West enter the diplomatic stage, differences between countries will become more explicit and conflicts increasingly likely. As an expression of this, references to ‘currency wars’, ‘trade wars’ and ‘economic warfare’ are already increasingly heard.⁷⁰

Goals and Effectiveness

These almost philosophical reflections bring the discussion to another important question, namely whether economic diplomacy is generally successful and provides value for money. An answer to this question requires choices concerning the measurement of success: should success be regarded in economic terms, or in political or even strategic terms? And how can standards be defined for any of these, if incentives are often inexplicit and in most cases involve primary, secondary and tertiary motives?⁷¹ Adding to this complexity is the equally important and difficult question of whether to look at immediate effects or at the long(er) term. It is clearly a thorny task to count the measure of success in other than economic terms — and even that is difficult since statistics are often not readily available, and when they do exist they are often not easily comparable between countries. In certain cases — mostly instances of commercial and trade diplomacy — the returns of economic diplomacy *can* be quantitatively measured. The evaluation of effective or desirable economic diplomacy of economists’ analysis is then derived from cost-benefit analysis that is based on financial and material, rather than political, considerations.

When economic diplomacy is pursued primarily for strategic reasons, it is even harder to measure effectiveness with statistical data or in ‘dollar terms’. The question that needs to be answered is whether policy has been successful in achieving broad foreign policy goals or transmitting values. If success is regarded in terms of increases in power, an important distinction is that of effects on power *in* trade (the capacity to defend one’s own interests in international commercial negotiations) and power *through* trade (the ability to employ trade as the backbone of power to influence more broadly).⁷² A rare example of a policy-maker making this latter consideration explicit is US Trade Representative Robert Zoellick’s statement that the US targets free-trade-agreement partners based on criteria including strategic concerns, seeking ‘cooperation — or better — on foreign policy and

⁷⁰ See, for example, ‘Tensions Rise in Currency Wars’, *Financial Times*, 9 January 2011; ‘Trade War Looming, Warns Brazil’, *Financial Times*, 10 January 2011; and ‘China Link Probed in Renault “Economic Warfare” Scandal’, *Reuters UK*, 7 January 2011.

⁷¹ One may, of course, question to what extent measurement is an academic or a practical issue of concern to governments.

⁷² S. Meunier and K. Nicolaïdis, ‘The European Union as Trade Power’, in S. Meunier and K. Nicolaïdis, *International Relations and the European Union* (Princeton NJ: Princeton University Press, 2005).

security issues'.⁷³ Such 'linkage politics' was revived after the terrorist attacks in 2001 as the United States endeavoured to bolster its position in the international system.⁷⁴ Importantly, however, policies and attempts to influence do not always succeed, while success in using economic techniques is not always due to the economic bases of power.⁷⁵ Complicating matters further is the tendency of observers to treat the capabilities of states (power resources) as if they were property rather than relational concepts.⁷⁶

Conclusions

Economic diplomacy is a foreign policy practice *and* strategy that is based on the premise that economic/commercial interests and political interests reinforce one another and should thus be seen in tandem. At stake are broad national interests that include political and strategic as well as economic dimensions. Differentiation is required between policy expressions and between tools and purposes to bring order and meaning to the mass of phenomena that economic diplomacy encompasses. These distinctions and syntheses have largely remained under-explained, however, in earlier fragmented studies that address one or a few particular element(s) of the whole. Starting from the premise that better understanding of such links is vital to explain the complex processes that economic diplomacy involves, this article has proposed a conceptual and an analytical framework to further study in this burgeoning field. The frameworks can be viewed as a menu from which specific hypotheses can be derived and tested in individual cases. Furthermore, they map out which factors researchers and practitioners ought to consider, and propose how these factors are logically connected within the model. In this way, improved understanding of the whole should facilitate academic and practical discussions of what are the more and less important factors in a particular case or situation.

⁷³ Inside US Trade, 'Zoellick says FTA candidates must support US foreign policy', 16 May 2003, p. 7, quoted in Kelton, 'US Economic Statecraft in Asia'. For another example of how free-trade agreements and political goals may relate, see Emilie M. Hafner-Burton, 'Trading Human Rights: How Preferential Trade Agreements Influence Government Repression', *International Organization*, vol. 59, 2005, pp. 593-629.

⁷⁴ Kelton, 'US Economic Statecraft in Asia'.

⁷⁵ Baldwin, *Economic Statecraft*, pp. 23-24. For example, while levers, policy and weapons are property concepts, leverage, power and war are (the corresponding) relational concepts.

⁷⁶ That is, statesmen are often described as 'employing' or 'using' their capabilities as if these were possessions of one state — while in fact policy instruments should be treated as the properties of a single state and thus discussed without implying anything whatsoever about the probable effectiveness of an attempt to influence by employing a particular instrument. These observations remain valid even more than two decades after Baldwin first presented them.

The conceptual framework of economic diplomacy facilitates distinction between diverging strands — and thereby between broad categories of perspectives from which economic diplomacy can be studied. A ‘business end’ and a ‘power-play end’ are distinguished and policy expressions are positioned along two axes, which represent the tools and goals of activities. Certain overlap notwithstanding, policies can thereby be grouped based on a reasonable judgement as to what constitutes the *primary* goal or basis of a certain expression of economic diplomacy. The different categories also inform the methodology of study and the extent to which a specific expression of economic diplomacy can be qualitatively analysed.

Governments pursue economic diplomacy with the aim of promoting overall economic prosperity and political stability. The primary analytical perspective of economic diplomacy is thus foreign policy, which is concerned with (decision-making) *processes* and the employment of political-economic *instruments* in international negotiations in specific *theatres*, and defined by the global, regional and bilateral *context*. The analytical framework presented here helps to elucidate these four dimensions and the many linkages among them. To be successful, any government must resolve trade-offs between different economic diplomacy activities in accordance with the balance of national interests. Crucial in this respect are careful management of linkages and continuous investigation of existing and potential economic diplomacy activities.

The underlying effort of reflecting on the theory and practice, as well as challenges and opportunities, of economic diplomacy can also be seen to contribute to the improved policy response of any government that operates in today’s changing environment of shifting balances in global power. Earlier research has shown that economic diplomacy takes a more prominent place in foreign policy during periods when international society seems to be in flux. Thus, considering the emergence of new centres of economic and political power, and the decline in the relative importance of the transatlantic powers, it is no surprise that economic diplomacy has been gaining in importance in recent years. The newness of the present day lies in the fact that variations in countries’ domestic political cultures and ideologies, as well as levels of development (particularly between the established powers and the challengers), are now bigger than at almost any time in history. We are thus in for a turbulent period, in which criticisms of perceived misuse of economic diplomacy will arise more frequently.

The patterns described here support many of the theories that have been developed to explain the links between economics and politics, public and private, and domestic and international occurrences. But they also elucidate many (new) puzzles. Here lies an important task for scholarship: to evaluate and explain policies of the past that may inform the future of economic diplomacy theory and practice. If successful in doing so, economic diplomacy students and practitioners

may be able to make a humble contribution to proving history wrong, by emphasizing the feasibility of a *peaceful* remake of the world order.

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