

Impact of Digitalization on Economic Diplomacy: Mega-Trends and opportunities

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Abstract

The accelerated process of innovation and diffusion of digital technologies over the last decades has greatly impacted all areas of society, becoming one of the most significant socio-economic phenomena of the contemporary world, transforming the way things are done, businesses are developed, or diplomatic goals are achieved. Economic diplomacy has been transformed in numerous ways, with new tools, actors and processes being involved, and with an ongoing increase of awareness in its opportunities as well as potential risks. The purpose of this paper is to highlight the impact digitalization has on economic diplomacy under the pressure of digitalization and the related “products” of the digital world (such as Big Data), and to identify, in perspective, the mega-trends and opportunities that shape economic diplomacy in the digital age.

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1. Introduction and aim of the research

The new paradigm in which traditional diplomacy performs its core functions (negotiation, representation, and communication) is notably influenced by the application of new communication technologies. The academic literature has even coined out new terminology in order to capture the way these technologies have impacted the diplomatic field, terms such as e-diplomacy, digital diplomacy, or cyber diplomacy becoming familiar to the public in general, these adjectives and prefixes creating some confusion as well. Still, some experts and members of Ministries of Foreign Affairs (MFAs) prefer to use the syntagm “diplomacy in the digital age” (Hocking and Melissen, 2015) as it implies that the conduct of diplomacy has remained the same even though it is now practiced in a new digital environment (Digital Diplomacy Blog, 2017). Basically, diplomacy in the digital age refers to “new methods and modes of conducting diplomacy with the help of

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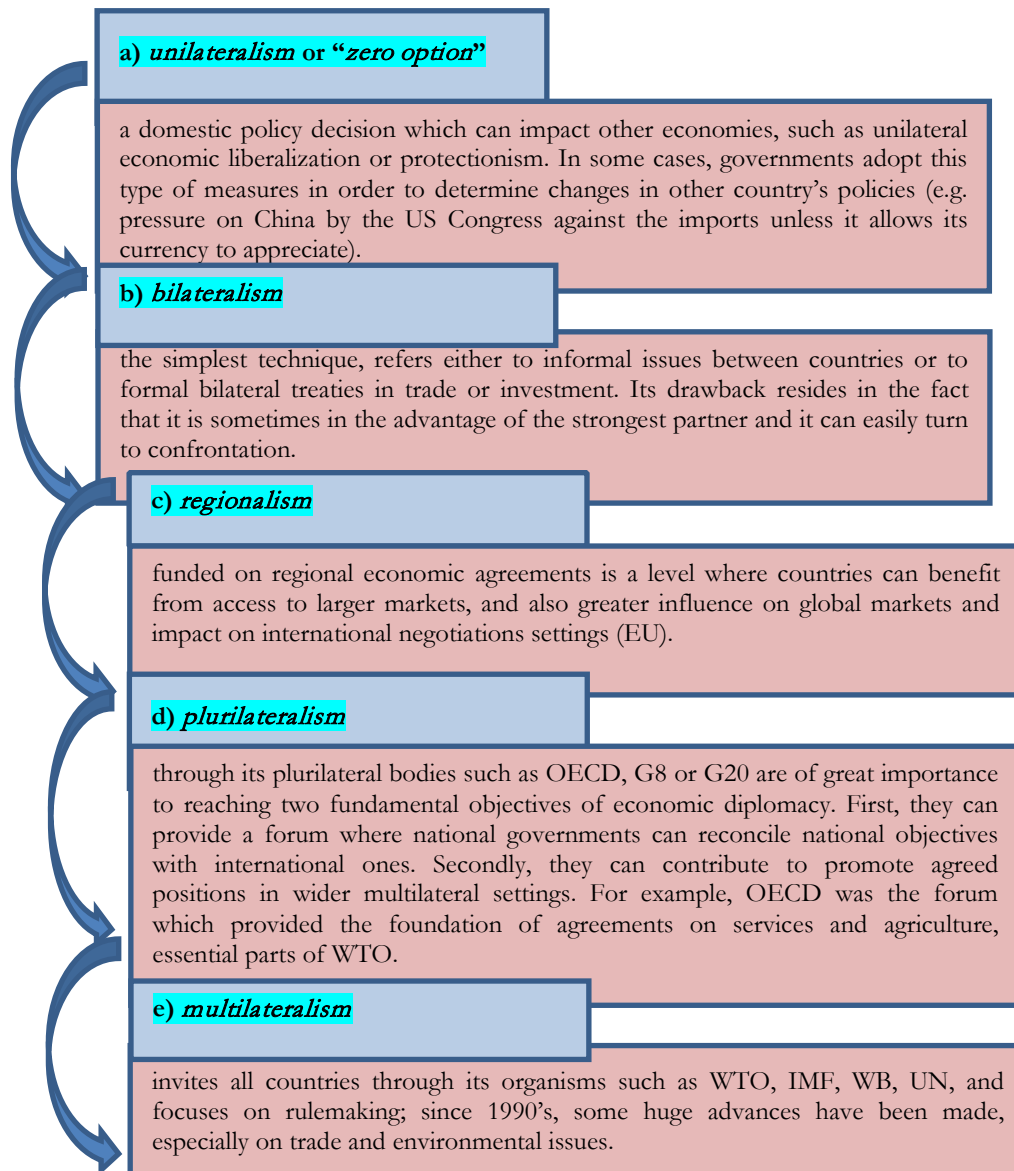
the Internet and ICTs and describes their impact on contemporary diplomatic practices” (Diplo Foundation, 2020). The same approach and definition can be applied to economic diplomacy (one of the main forms of diplomacy) since technology has transformed the way it is practiced in numerous ways by adding new tools, actors and processes. The aim of this paper is to highlight the way economic diplomacy is transformed under the pressure of digitalization and the related “products” of the digital world (such as big data) and to identify how the digital trend impacts economic diplomacy.

Research methodology: The paper is an exploratory research, based on investigative techniques which imply the collection and selection of the relevant literature in the field (scientific journals, documents, online resources) and the analysis and interpretation of the collected material (focus on ideas, concepts, insights). It is a fundamental and qualitative research which attends to capturing the way digitalization impacts economic diplomacy, revealing some mega-trends and opportunities of the digital age.

2. Economic diplomacy: definition and characteristics

Economic diplomacy is a relatively recent concept, with a definition that is difficult to pin down with precision. The general perspective states that economic diplomacy is concerned with international economic issues conducted by governments and its (inter)national networks through a set of practices and strategies aimed at promoting international trade and investment (Moon and Van Bergijk, 2017). According to Rana (2007), economic diplomacy is “the process through which countries tackle the outside world, to maximize their national gain in all fields of activity including trade, investment, and other forms of economically beneficial exchanges where they enjoy comparative advantage”. Traditionally, the participants engaged in economic diplomacy were the governmental actors charged with economic responsibilities who operated at international level (heads of governments, ministers, parliaments, national agencies). Over the last decades, a variety of non-state actors became participants, all of them shaping and influencing governmental policies, and being active players at different levels of influence, such as companies, financial institutions, NGOs or international organizations. The object of economic diplomacy is closely connected to the foreign policy goals of a state. From promoting trade and investments to networking, from providing financial aid for development to setting up multilateral institutions that enhance global trade, from applying economic sanctions to impose trade barriers, economic diplomacy has taken a complex and vital role in promoting a country’s foreign economic interests.

Economic diplomacy can be exerted at **multiple levels** which reflect a specific interest or approach needed to be solved or applied. According to Bayne and Woolcock (2017), these levels provide a major frame for the concept of economic diplomacy:



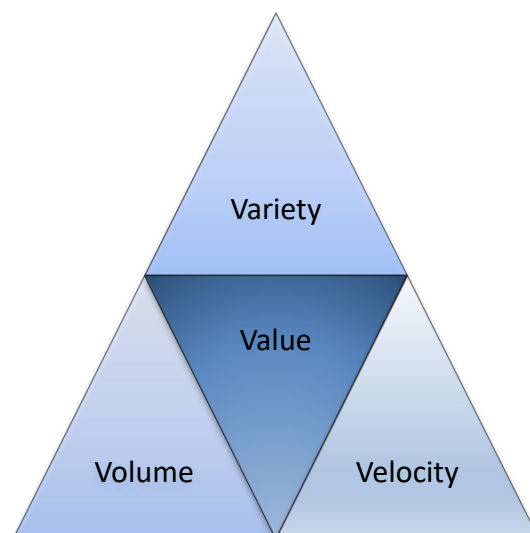
Beyond its traditional complexity generated by the numerous actors, instruments, and levels of operation, economic diplomacy is now facing some new challenges shaped by the transformations and transitions of the current society, transformations carried out by technology and developments in the ICT industry, the so-called the “4th industrial revolution” or the information revolution. We live in a digital world, and all its features have an impact on how economic diplomacy will be conducted in the new world shaped by technology, artificial intelligence (AI), robots, or the blockchain system. Digitalization is a long-term process that, at an elementary level, impacts working routines, norms, and procedures, up to special events, such as conferences and summits.

3. Impact of digitalization on economic diplomacy

There is no doubt that the digital revolution has significantly impacted the international community, with a profound influence on the practice of modern economic diplomacy. The digital transformation does not involve only the development of technologies and devices, but is mainly concerned with the integration of data into everything we do, from business workflows to personal streams of life (IDC, 2018). This new commodity has become the world’s most valuable resource, with data becoming “the oil of the digital era” (The Economist, 2017). Much of today’s economic activity relies on data and this trend is increasing, as industries and businesses around the world use data to transform their processes, to reach new markets, to streamline operations, to improve customer experience, to monetize raw and analyzed data, or to find new sources of competitive advantage. Even more, consumers are progressively involved in the digital world, relying on the online environment to run almost every aspect of their lives. More than 5 billion consumers interact with data every day, and by 2025 about 75% of the world population will be involved in the digital world. The global datasphere, “a measure of all new data that is captured, created and replicated in any given year across the globe”, will grow from 33 zettabytes in 2018 to 175 zettabytes by 2025 (IDC, 2018). In this context, information and data can be used as instruments to make economic diplomacy more efficient, effective, and inclusive.

“Big Data” is an umbrella term that refers to the large amount of digital data that is continually generated by the world population, and which has an estimated increase of 40% annually. It is characterized by the “3 Vs”: **volume**, **variety** and **velocity**; a fourth V could stand for **value** (Figure no.1), since one can acknowledge the potential that Big Data might have in development (UN, 2013).

Figure 1



Source: United Nations Report, 2013

Big Data and trade

Since statistics and data traditionally underpinned decisions related to trade and investment, big data offers new possibilities and provide new applications to monitor and assess trade flows, especially in the area of e-money, e-banking, and e-commerce. Being built on a pre-acquired data experience, big data can measure, apart from money flows, economic growth or price levels, consumer trends and preferences using social media or Google trends. Some governmental agencies and international organizations have already started to analyze how big data could help promote trade. For example, the Asia-Pacific Economic Cooperation (APEC) launched in 2016 the Advancing Big Data Application in Trade project in order to “explore the possibilities and benefits of a data-driven method for improving cooperation and information sharing in the field of international trade” (Jacobson et. al., 2018).

Big Data and economic development

Big Data can boost developmental projects with its ability to track patterns and monitor progress over time and space. Besides the traditional statistical analysis, big data can help “uncover hidden patterns, unknown correlations and other useful information” (UN, 2013) to reveal trends, shifts, behaviors that can spur economic development. For example, the UN Global Pulse initiative is applying data mining to social causes, using “Big Data for Development” (the identification

of sources relevant to the policy and planning of development programmes), and the World Economic Forum is also studying “Data Driven Development” (to show how big data might be used to address the challenges of sustainable development) (Hocking and Melissen, 2015). If properly selected and analyzed, Big Data can help decision-makers in development policies in 3 principal ways: *early warning* (through early detection of anomalies, which can direct proper reaction, especially in times of crisis), *real-time awareness* (through a precise representation of reality, Big Data can help design and target necessary programs and policies), and *real-time feedback* (adjustments can be made in real-time through proper monitoring of programs and policies) (UN, 2013).

Negotiation

Easy access to information and the removal of physical barriers in the process of decision-making have led to the creation of virtual global structures that share information and advice, take decision and share responsibility of implementing them; although this happened in the past as well, the internet streamlined the process and flattened the hierarchies, allowing fewer people to work faster from distinct geographical areas (Westcott, 2008). In many multilateral settings, information and data are used to inform negotiation tactics and strategies; one example of multilateral trade negotiation which included data flows being the Trans-Pacific Partnership (Jacobson et. al, 2018).

4. Economic diplomacy in perspective: mega-trends

Although Big Data can provide insights that are otherwise difficult to access with traditional tools, it is unlikely that it will fundamentally change the practice of economic diplomacy. Rather, it will supplement qualitative evaluation and knowledge for better decision-makings in the economic sphere. Economic diplomats are facing the challenge to adapt to this rapidly changing environment, which highlights the importance of developing digital skills, strategic visions, and networking abilities in order to make full use of the opportunities the ICT offers if they are to remain effective.

By transforming the way economic diplomacy is practiced in the digital age, modern technologies can lay the groundwork for new economic opportunities, can stimulate new thinking and innovative practices along with the constant alertness in relation to its negative side that might hinder diplomatic processes and economic relations. According to Bjola (2018), there are two opposing *mega-trends* that should be taken into consideration when analyzing the transforming potential of new technologies on diplomacy. The first *mega-trend* actively encourages the digital adoption (driven by the technological disruption, on the one hand, and the need of the MFAs to thrive in an increasingly competitive environment, on the

other hand). Technology applies significant pressure on MFAs to integrate digital tools in their activity and to maximize their role in economic diplomacy. The second *mega-trend* works in the opposite direction, by holding resistance to digital technologies as the costs of “going digital” might exceed its benefits (e.g., the use of bots for disinformation or propaganda, or robo-trolling for content promotion).

Conclusions

There is no doubt that the digital revolution has had a profound influence on the practice of modern diplomacy, without changing its fundamental functions, but mainly its texture, constantly challenging diplomats and the other actors involved to adjust in order to be successful and competitive in the new digital landscape. The digital transformation does not involve only the development of technologies and devices, but it also implies the integration of these data flows into the diplomatic processes and strategies. The new commodity of the digital world is data which offers new insights and new applications to monitor and assess trade and investment, development, financial aid, migration, and underpins the negotiation and decision-making processes. In the digital era, it is mandatory for the economic diplomats to learn and understand the digital “language” and beware of its limitations and challenges. Moreover, technology exerts a significant pressure on MFAs to integrate digital tools into their activities and to maximize their role in economic diplomacy in order to achieve their main objective, respectively promoting the country’s foreign economic interests. Therefore, the future of economic diplomacy lies within the ability of MFAs to harness the opportunities generated by technological disruption, while defending itself against the potential drawbacks that its early success might create.

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