

# The Involvement of Diplomatic Missions in Facilitating the International Expansion of Companies

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## Abstract

*One of the main objectives of diplomatic activities is aimed at fulfilling economic interests and adjusting to global developments, placing economic diplomacy as a key priority of foreign policy. As of late, there has been a growing interest regarding the diplomatic representations, as actors of economic diplomacy, and the role they hold in increasing foreign trade, attracting foreign direct investments or expanding the presence of companies on foreign markets. Decision makers and academic representatives call attention to the benefits that economic diplomacy, through the activity employed by diplomatic missions, can bring to the field of economic international relations. Therefore, the purpose of this article is to underline the contribution of diplomatic representations in the growth of national companies in the international markets, based on the qualitative and quantitative research studies on the subject of economic diplomacy.*

*Keywords: economic diplomacy, diplomatic representations, foreign trade, foreign direct investments, international markets.*

*JEL classifications: F14, F50*

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## 1. Introduction

Traditionally, the focus of diplomacy has been on the political segment, firstly aiming at preserving a state of peace between nations, while the importance of the economic factor has been underestimated, including in the scientific literature. Although the economic dimension was always a part of diplomacy, it was not treated separately, but as an integrated part of the entire mechanism of diplomacy. In the relevant studies on diplomacy, realist and neorealist approaches were especially focused on the political objectives at state level, underestimating the importance of the economic element. However, lately, instruments from fields such as political economy and business have been used to underline the role of the economic dimension of diplomacy (Lee, Hocking, 2010).

Currently, we can observe that the intensity of the multilateral relations between states and individuals is constantly growing, leading to a higher number of commercial opportunities, this being one of the reasons of the increasing interest towards economic diplomacy (Yakop and Van Bergeijk, 2009). This opinion is also supported by Woolcock and Bayne (2013), these two authors emphasizing that the

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focus is switching to economic diplomacy, being given the growing relevance of the international economic relations. Consequently, in order to exhaustively benefit from the capabilities of economic diplomacy, there is a need to acknowledge the means, methods and instruments of this type of diplomacy and its impact on state and non-state actors.

The economic diplomatic activities represent a two-dimensional ensemble – bilateral and multilateral, where the bilateral side is enforced by the internal bodies (ministries of foreign affairs, ministries of economic affairs etc.) and external ones (diplomatic missions: embassies, consulates etc.), while the multilateral approach is connected to international actors, such as multinational institutions and organizations. In this study we will focus on the economic diplomatic activity of the external bodies, namely diplomatic missions. Consequently, the purpose of this paper is to foreground the role of diplomatic missions as actors of economic diplomacy and to provide an enhanced comprehension of the influence they hold in the internationalization process of companies and their growth on foreign markets. The paper aims to offer support for academic and practitioners, in order to improve comprehension of the function played by economic diplomacy and its actors in the current international environment.

The economic dimension of diplomacy has started to gain attention in the theoretical and empirical scientific literature and although scientific literature on this matter remains scarce, possibly due to its confidential character (Cooper et. al., 2013; Narray and Bezencon, 2017), it can be noticed that there is a rising interest on this topic. This is the reason why, this paper can also be relevant for the existing literature, by presenting the current knowledge on this topic, as the study of economic diplomacy, especially the ones focusing on its impact, is still evolving.

## **2. Research methodology**

In regard to the research methodology employed, the study represents a literature review of the qualitative and quantitative studies on the subject of economic diplomacy and its impact, with the purpose of bringing together research on this topic and highlighting the importance of diplomatic missions, in business promotion abroad and facilitating access of national businesses on foreign markets.

In order to reduce bias, to provide reliable findings, the research has turned to multiple databases of peer-reviewed articles, namely DOAJ, Scopus, Web of Science, Science Direct etc. In the research process, keywords such as: economic diplomacy, commercial diplomacy, diplomatic missions, diplomatic representations, embassies, consulates, export promotion agencies or import promotion agencies have been used. These keywords, that have played a key role in finding the articles on this topic, were established based on the previous research studies on the matter.

Although the volume of empirical research has increased over the last decades, it remains modest in comparison to other fields of study. Nevertheless, in this paper we tried to narrow the review, mostly to the empirical studies written after 2005.

### 3. Review of the scientific literature

Economic diplomacy has evolved continuously, especially after the Cold War era. Shortly after the fall of the USSR, in her study regarding states and markets, Strange (1994), underlines her understanding that the diplomatic dimension of the relation between states and multinational companies has a higher impact than the bilateral diplomacy between two states. Unequivocally, progressively, globalization has made the task of diplomacy more difficult, expanding the field of activity, responsibilities, opportunities and threats, as well as the number of actors involved, whether state or non-state (Bayne, 2017), such as national or multinational companies.

Sovereign states are represented abroad through diplomatic missions, also referred to as diplomatic representations, which operate within embassies and consulates. According to Rana (2007), the promotion of trade and investment represent two of the fundamental functions of the economic activities. The tasks performed by diplomats and embassy employees cover diverse fields, but the promotion of trade and investment from and to foreign countries is seen as an activity undertaken exclusively by diplomats, embassies and consulates (Afman and Maurel, 2007; Van Bergeijk et. al. 2011).

At the same time, the consular activity, such as processing visas, passports or any kind of civil documents, as well as offering support to its citizens, can also be relevant for the good running and development of companies, simultaneously contributing to the achievement and promotion of the national economic interests (Berridge and James, 2001; Serban, 2009).

The volume of empirical research studies that analyse the impact of economic diplomacy is not far-reaching, however, we can divide them into two categories: studies that focus on macro data and studies focusing on micro data. Yakop and Van Bergeijk (2009) for example, add that literature reveals the role of diplomatic missions in providing a superior and comprehensive level of knowledge on exports and international trade, while authors Moons & De Boer (2014), emphasise that this type of diplomacy is a method used by states in order to develop their business interests overseas.

Generally, studies focusing on macro data, have identified that there is an impact of diplomatic missions on foreign trade (ex. Rose, 2005; Nitsch, 2005; Moons and De Boer 2014; Raneta and Kunnychka, 2015; Maharani 2015; Peternel and Gress, 2020) or foreign direct investments (Morrisset, 2003; Harding and Javorcik, 2011). Analysing the impact of embassies, consulates and foreign missions on exports,

Rose (2005) highlights the important task of ambassadors, commercial attachés and other members of the diplomatic mission in expanding international trade. Thus, his study has revealed that there is a significant impact of diplomatic missions on exports. Afman and Maurel (2007), also underlined that diplomatic missions can determine an increase of exports. Diplomatic missions are also involved in organising trade missions, assisting business delegations and organising trade fairs. Focusing particularly on the effect of the state visits on trade, Nitsch (2005) shares the same understanding that diplomatic missions have an impact on foreign trade, while the study of Head and Ries (2010) on the trade missions of Canada reveals that the impact is not significant. Nevertheless, for the member countries of OECD, the effect is not as relevant as for the other states (Afman and Maurel, 2007; Yakop and Van Bergeijk, 2009), especially the ones that present a higher number of trade barriers.

The studies that focus on the microeconomic data also reveal that there is an impact of economic diplomacy on the number of exporting companies, but this is particularly in countries qualified as developing economies (ex. Creusen and Lejour, 2011, Ferguson and Forslid, 2021).

Analysing micro data, respectively, the impact that the activity of diplomatic missions of Sweden have on Swedish and Norwegian companies, Ferguson and Forslid (2019) observed not only a decrease in trade restrictions regarding accessing new markets, but also that establishing a new embassy can lead to an expanding in the number of exporters by 4-6%. Referring to the decrease in exports barriers, the study of Pacheco and Matos (2021) highlights that the impact occurs in the case of low- and middle-income states, that generally present a higher number of trade restrictions.

A study conducted on Dutch companies, by Creusen and Lejour (2011) also revealed that in the case of middle-income states, the number of export companies in a new market can be increased by their foreign offices and trade missions.

Analysing the microeconomic research, Van Bergeijk and Moons (2018) also concluded that studies that focus on micro data underline the existence of an influence of economic diplomacy.

Empirical research studies have also focused their attention on the export promotion agencies and investments agencies, actors that play a key role in the contemporary economic diplomacy and have a closer relationship with companies. Public or private, or in some states public-private partnerships, these organizations also have an impact on exports and on attracting foreign direct investments (Lederman et. al. 2006; Gil et. al., 2007; Hayakawa et. al., 2011; Volpe Martincus and Sztajerowska, 2019).

Diplomats, as members of the diplomatic missions, are the current representatives of states abroad and have the quality of "entrepreneurial ambassadors", who promote the external interests of the state they represent at a global level (Rana, 2017). Economic diplomats are the official representatives of their states in charge of economic tasks, including maintaining contacts with representatives of the state of residence, international organizations, business or academic environment, for the purpose of promoting the interests of the represented country, facilitating the negotiation of commercial agreements, identifying financial assistance, mediating conflicts etc. The activity of an economic diplomat can also shape economic policies according to the interests of the represented state and in informing the decision-making factors of the host country (Vlădoiu, 2017). Woolcock (2011) also points up their role in supporting national companies in expanding their activity on a new market, by providing useful information about their country of residence and the particularities of those markets. This kind of insight can also help companies to adapt their strategies to the market conditions.

Rana (2017) draws attention to the potential risks that may arise from a close relationship between diplomats and the business environment. Therefore, given their role in facilitating the cooperation between the business environment of the state he is representing and the one abroad, where his post is assigned, members of diplomatic missions could be tempted to obtain some personal benefits, however this point of view emphasizes once more the relevant position of the diplomatic representation in the international economic relations.

#### **4. Conclusions**

Although the economic dimension has always been a part of diplomacy, it was not until the last decades that it started to achieve the deserved attention of the decision makers, practitioners or academic representatives.

Diplomatic missions play a crucial role in promoting national economic interests abroad, facilitating the access of companies on foreign markets, organizing trade fairs or supporting national businesses. Their representatives, the diplomatic staff, carry a meaningful function because they hold useful knowledge regarding the business legislation or regulations of the host state, connections with the local authorities and companies, and they can gather and offer valuable information that can be useful for those companies that want to access a specific market.

Undoubtedly, according to empirical and theoretical research studies, economic diplomacy through its diplomatic representations (embassies, consulates or other foreign offices) has the appropriate means to assist national companies in accessing and developing on foreign markets. However, the level of this impact depends on

certain factors, likewise the stage of development of the analysed state, as well as the number of trade restrictions or OECD membership.

Moreover, diplomats, as representatives of the diplomatic missions, possess knowledge of the economic and political environment, the legal system and the financial system of both countries, the represented state and the host state, and these assets can be crucial and could be leveraged by the companies that either already do business in more than one country or are seeking to develop their activity, seeking new opportunities in foreign markets.

To conclude, nowadays, the role of diplomatic missions is constantly increasing, as they represent not only a link between two states, but also a link between two companies located in different countries. As a result, diplomacy is developing into a broader concept, not only limited to its traditional objective, namely the political bilateral cooperation between two states, but also serving as a valuable resource for facilitating the international expansion of companies.

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