Chapter-I

International Trade and Business Diplomacy:
A Conceptual Framework
Introduction

The world is changing fundamentally at the dawn of the new millennium. The twentieth century has been defined in large part by its technologies as the industrial age matured and the information age blossomed. The early hope that electricity, motion pictures, and radio would improve communication across cultural and national boundaries is echoed today by the Internet and the new digital technologies. Unlike the mass media that they are challenging, these new technologies are diffuse, profoundly democratic, and highly resistant to central control. Linear, hierarchical command-and-control systems are being subverted by complex social and economic networks. The cherished values - freedom, individualism, and opportunity - are reinforced by the new technologies. It is an opportunity for reassessing any nation’s international engagement policy.

Integration and disintegration, nationalism and globalism are simultaneous but divergent trends that underlie the transformation of contemporary world politics. They portend very different futures, however. In one scenario, sovereignty is at bay as the globalisation of markets and culture transcends the boundaries of the contemporary geopolitical world and erodes the meaning of national identity. In the other, nations and states sometimes compete with one another, although their goals are essentially the same: to attain or retain the trappings of independence from and control over the homogenizing forces now sweeping the world.

In the growing interdependent world, there is a free flow of ideas and images via different borders. Openness is crowding out secrecy and exclusivity. Capitals and technologies move swiftly and unimpeded across a global network of governments, corporations and non-governmental organisations. In this

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world of instantaneous information traditional diplomacy struggles to sustain its relevance.

1.1 Diplomacy: As a Technique of Modern Day International Relations

1.1.1 Definition

Diplomacy, considered as a technique of state action, is essentially a process whereby communications from one government go directly into the decision-making apparatus of another. It is the one direct technique of state action, in that it exerts its diplomatic power on the crucial personnel of the other government or governments. If the operational purpose of policy is to secure the agreement of other states to national designs, it is only by diplomatic means that such assent can be formally registered and communicated. In this sense, diplomacy is the central technique of foreign policy.

Diplomatic theorists insist that precision is a key element in the conduct of international affairs. It is ironic therefore that the word ‘diplomacy’ is monstrously imprecise. It has several meanings, or groups of meanings, interrelated but distinct. At its most comprehensive, it can mean the content of foreign affairs as a whole, arising from the etymology of the world ‘diploma’, a folded paper or letter of recommendation, or a document, and hence the content of the document.

"Modern usage... generally employs the word ‘diplomacy’ in two basic senses. First is the policy sense, as when one speaks of approving a nation's diplomacy, meaning the foreign policies, which governs its relations with other

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nations. The second refers to the carrying out of foreign policy: that is the actual conduct of these relations".  

The definition of diplomacy has evolved over the last decades. However, the main features of diplomacy as postulated by Satow in 1917 still hold. He stated: "Diplomacy is the application of intelligence and tact to the conduct of official relations between the governments of independent states, or more briefly the conduct of business between States by peaceful means". Diplomacy should restrain from sowing discord between states and build confidence between them. The goal is to build and sustain positive and constructive relations. More recently, Sharp defines Post-War diplomacy as characterised by "increasing institutionalised multilateralism aimed at stronger international order either by improving cooperation between states or transcending the need for it".

‘Diplomacy’ Sir Harold Nicholson wrote could be used from one moment to the next to mean such varied things as

- a synonym for foreign policy
- another term for ‘negotiation’
- the ‘processes and machinery’ for conducting negotiation
- a specific branch of foreign service or
- an abstract personal “quality or gift”.

Nicholson suggested that “diplomacy is the management of international relations by negotiation”.

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The inextricable mix of substance and process is one of the foremost characteristics of diplomacy in any of the meanings described above. Diplomacy is both a full-fledged technique in its own right and the instrument by which other techniques are often transmitted. A state can act diplomatically in a purely political context, using only the methods and resources of the diplomatic instrument, or it may implement economic, psychological or even military action by diplomatic maneuvering. Although the operating requirements of pure diplomacy and what we might call 'mixed' diplomacy differ to some extent, their fundamental rationale remains essentially the same.

1.1.2 Diplomacy: Nature and Functions

Diplomacy is the vehicle through which nation states 'talk' to each other. The actual procedures of diplomacy are many, ranging from such highly formal devices as notes, aides-memoirs, and communiqué to more informal and almost casual conversations. By these diplomatic means a nation state transmits its position on an issue to another state and receives the other states response.

There are several distinct functions of diplomacy which of these the working diplomat may be called upon to perform depends on the nature of the policy his government is following. Diplomacy is a technique of

- of coercion
- of persuasion
- of adjustment
- for reaching an agreement.

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10 Lerche, Jr. C. and Said, A., op.cit,no.3, pp.78-88
12 Lerche, Jr. and Said, op.cit.,no.3,p.9
The essentials of the diplomatic art have been well known for centuries, and the actual practices of its masters furnish us with clear guidelines.

Diplomats perform tasks requiring specific skills and competencies. These tasks include giving policy inputs to help shape foreign policy; organising and managing international conferences; conducting bilateral, multilateral and plurilateral negotiations; and collecting and analyzing information from a variety of government and non-government sources. Political diplomats have to comply with protocol, procedures, and etiquette based on international practice and norms appropriate to local culture. They have to know national and international and host country laws and regulations and must manage their own mission as well as their relationship between their own government and the host government.13

"The practice of diplomacy is not in fact very different from the practice of sound business, in that it relies for its efficacy upon the establishment of confidence and credit. Experienced diplomats are traditionally suspicious of what is called 'brilliant diplomacy' or 'diplomatic triumphs', since they are well aware that these feats of ingenuity are apt to leave resentment and suspicion behind".14

Diplomacy continues to evolve and so does the role of today's political diplomat. Listing the above responsibilities gives executives and management researchers a keen impression of the intricate complexity of the political diplomat's task. It also helps delineate similarities between the role of a business diplomat and that of a political diplomat. Both are capable of influencing others, shaping policies, interacting with counterparts of different cultural and professional backgrounds, acting at home in multiple cultural

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14 Harold Nicholson, op.cit.no.8, pp.13-14.
environments, and most of all, balancing the delicate tension of multiple interests and loyalties.  

1.1.3 Diplomacy: Changing Paradigm

One of the major characteristics of diplomacy is that it is a child of its time. Like any other discipline, diplomacy is an evolving concept. The outbreak of the Great War in 1914 was a major hallmark in the field of diplomacy. There evolved a recognizable pattern of diplomacy in Europe now generally regarded as the ‘Old Diplomacy’, to distinguish it from the ‘New Diplomacy’ ushered in at the end of the Great War, and associated in particular with the name of President Woodrow Wilson of the United States.

1.1.3.1 Old versus New Diplomacy

Sir Harold Nicholson, listed the five main characteristics of the ‘Old Diplomacy’ as follows: the Prime importance of Europe, the leading influence of the Great Powers, which had wider interests, ‘more money and more guns’; the common responsibility of the Great Powers for the conduct of the small powers, including the preservation of peace between them, the existence in every European country of a professional diplomatic service on a more or less identical model, and the rule that negotiation must be continuous and confidential.

The ‘Old Diplomacy’ was political secret, elitist and professionally directed in nature. It was ideologically neutral. It was oriented to patterns of trade and influence. It was ready to resort to war as a method of achieving its objectives. The ‘New Diplomacy’ has none of the prevailing characteristics of the ‘Old Diplomacy’ described above ‘Classical Diplomacy’ assumes that

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16 The famous “fourteen points” in Woodrow Wilson’s address to Congress, 8 January 1918.
17 Nicholson, 1954, op cit, no.8, and pp: 76-78.
sovereign states control international relations. However, faced with
 technologies that empower contradictory impulses of fragmentation and
integration and generate instant and often uncontrolled unmediated problems,
diplomacy in the twenty-first century must overturn its culture of secrecy and its
penchant for exclusivity. The concerns of ‘New Diplomacy’ go far beyond
traditional political questions. Economic concerns and their social
implications dominate it. It is absorbed in democracy and human rights, both
individual and collective. It is populist rather than elitist. It is a matter of
intense public interest and debate.

To redefine the modern diplomacy for the 21st Century, the important
functions should be (a) the accumulation and analysis of information; (b)
negotiation; and (c) the promotion of national interests – including "trade,
finance, politics, culture, and tourism" (d) preventive diplomacy and crisis
management, (e) facilitation of commerce, (f) promoting human rights, and (g)
safeguarding the global environment.

1.2 International Dynamics: Impact on Contemporary Diplomacy

From the point of view of the management of international relations, one
can best analyse the changes, which have come about during the twentieth
century and the impact, which these have had on the way in which nations
interact with one another. Perhaps the most helpful way is to think in terms of a
series of ‘invasions’ of the political foreground, whereby traditional activities,
as epitomised by the ‘Old Diplomacy’, were overtaken by the developments of
the modern world to which the ‘New Diplomacy’ is a response.

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18 Marshall, Peter, op. cit. no.4, pp.7-21.
19 DIA Interview with Julia Chang Bloch from http://www.csis.org/ics/dia/intbloch.html
20 ibid., 10
The 'new entrants' into the field of diplomacy, though logically distinct, are interdependent and overlapping. The fundamental forces that has brought changes in the contemporary diplomacy are the following:

- **Revolution in the information technology**

  The prime mover of change is information technology when Gutenberg shattered the old order by mechanizing printing five centuries ago, the democratization of literacy and knowledge irresistibly followed. As the millennium ends, the microchip is again revolutionizing information gathering and transmission and will bring even more profound changes in the next century. The critical elements are the international networks created by computers and electronic connectivity. Exponential growth in computing power and plummeting international telecommunications costs are having profound consequences for finance, business, education, medicine, civil society and government. Nations once connected by foreign ministries and traders are now linked through millions of individuals by fiber optics, satellite wireless, and cable in a complex network without central control. The network will become the central nervous systems of international relations.\(^{21}\)

- **Globalisation of trade and business**

  Globalisation of trade and business has erased national boundaries from the laws of supply and demand. More than a billion dollars a day are exchanged in international money markets with little or no state intervention. The growing interdependence and interpretation of economies and the increasing degree of government responsibility of economic management has come to dominate the content of international affairs.\(^{22}\)

- **Public concern and involvement**

\(^{21}\) CSIS, op.cit.no.2,p.
\(^{22}\) Marshall, op.cit.no,4,p.11
The public dimension is becoming the central element of the new diplomacy and a critical influence on foreign policy. Public opinion has become both a key concern and a key asset in the conduct of foreign policy. The public dimension includes not only public opinion, which has long been recognised as essential but also public consultation, involvement and action.

- **Complex issues that transcend national boundaries**

The complex issues, especially how to handle threats to the civil society, economy and environment. The dominant issues of the coming age include democracy, human rights; weapons of mass destruction, terrorism, drugs, and global crime, environmental concerns; population, refugees and migration; disease and famine. These collective threats transcend national boundaries and needs for proper diplomatic attention to the issues.

- **The “Multiplicity of Actors” in the International Affairs**

The process of conducting international relations have increased enormously in number and it is no longer essentially confined, as in the days of the ‘old diplomacy’, to sovereigns, ministers and professional diplomats. There is the ‘multiplicity of actors’ invasion into the field of the diplomacy. Diplomacy would have been a growth industry on those grounds alone. But the transition to the ‘New’ diplomacy has been accompanied by a very great growth of public interest in, and involvement with, international relations. The actors are not only far greater in number, but also of a far greater variety, including politicians, lobbies, the media and non-governmental organisations of all kinds. Once, moreover, the concept of international relations ceases to be confined to inter-governmental activity, but is widened to include the sum total of the impact of one country on another, or indeed of one civilisation upon another,\(^{23}\) the growth in the number of actors is even greater. The multiplicity must

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include exporters, and even tourists, the activities of all of who may have a bearing on the management of international relations.

All these above invasions into the field of diplomacy are significant individually but it is their combined impact, which transformed international relations. They are a most powerful mix of substance and process. They have enormously widened the content of international affairs. They have greatly complicated the conduct of foreign policy. As for the apparatus for the management of international relations, diplomacy has come to resemble a business enterprise, where as in earlier times under the ‘Old Diplomacy’, it may have seemed to be more of an art. By the same token the manner in which relations are conducted has undergone profound transformation.

1.3 Focussing on Globalisation of Trade and Business

The good part of nineteenth century as well as the early part of twentieth century saw the apogee of laissez-faire, the economic expression of which was minimal government involvement in the management of the economy, with a corresponding lack of emphasis on economic matters in the conduct of international relations. The practice seemed to be something of a graceful political exercise, slow to respond to the rapid and intensive changes in economic activity, not only within countries but also between there looking after a century later, it has been different. Economic and commercial factors force their attention on government at every turn.

As it is noted earlier, integration and globalism has brought divergent trends that underlie the considerable change of contemporary international relations. Globalisation may be defined as “the intensification of economic, political, social and cultural relations across borders”.24 In the age of globalism,

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cross-border business (trade and investment) is an evolving system, which is fraught with confusion, conflict and competition at national borders. Nevertheless, the struggle in this twenty-first century will be dynamic, pervasive and the struggle for harmony continues. A critical characteristic of these cross-border interactions is that they "are not originated by national governments". Indeed, governments increasingly are challenged by transforming trends in which borders are becoming transparent.\textsuperscript{25}

The economic side of globalisation stands at the center stage of the entire globalisation process. It is found in "that loose combination of free-trade agreements, the internet, and the integration of product as well as financial markets that is erasing borders and uniting the world into a single, lucrative, but brutally competitive, market place".\textsuperscript{26}

The causes and consequences of globalisation extend beyond economies, though globalisation stems from the onrush of economic and ecological forces that demand integration and uniformity and that mesmerise the world with fast food, fast computers - pressing nations into one commercially homogeneous global network: one world tied together by technology ecology, communications and commerce.\textsuperscript{27} Globalisation implies "nothing less than a redistribution of global economic power which will increasingly translate into a redistribution of political power".\textsuperscript{28}


This global business system is the support system that overarches nation-states and their national economies and harmonizes business methods, rules, and processes that permit greater flows of wealth across borders. Because national borders do not always coincide with economic borders this system is a growing movement toward a linkage of the economies.

Cross-border business is about interaction with foreigners. They belong to another nation, speak unknown languages, use different currencies, socialise differently and their politics, laws and governments differ. However international business does not exist freely across borders. As shown in figure 1.1 below, private businesses experience complexity at the borders of other countries in the form of cultural differences, conflicting trade theories, competing development theories and opposing political policies.

**Figure 1.1 Complexity at the Border**

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New trade and investment rules are negotiated at increasing pace, causing global businesses to change strategies rapidly. "Nation-States continue to spring to life or disappear over the time. Some grow rapidly while others stagnate. Supranational organisations such as the World Trade Organisation (WTO), the World Bank, and the International Monetary Fund (IMF) are involved and add to the complexity. Therefore, international business cannot be studied in isolation; it must be understood in its relationship with the world political system. Despite this complexity and diversity, economic transfer is taking place at increasingly greater volumes and is given credit for the flourishing of world economic development.

1.3.1 Global Harmonization System

To provide harmonious support for global business, a system of supranational and supra-regional organisations has evolved. Nevertheless, it does function and is operational in a relatively efficient way. Harmonization is the process of defining in peaceful, cooperative negotiations a common set of rules and procedures so that international trade and investment would be progressive and without conflict.

The single harmonising system can be studied from the figure 1.2 below. It shows supra-national and supra-regional organisations and bilateral arrangements as umbrellas overarching a box containing a web of private global business such as multinational corporations and private trading companies.

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30 Ibid. p.19.
Figure 1.2

Global Harmonisation System

SUPRA-NATIONAL
MULTILATERALS
- United Nations
- World Trade Organisation
- World Bank
- International Monetary System

SUPRA-REGIONAL
MULTILATERALS
- NAFTA
- European Union
- LAFTA/SAFTA

BILATERAL TREATIES
- USA-China
- USA-Canada

GLOBAL BUSINESS WEB
- Private Multinationals
- Trading Companies
- Import/Export Management Companies
The harmonization support system, a supra-national/regional environment that transcends 'every nations' political and social limits and its thrust towards harmony is continuous and evolving. This system which overlays nation-state boundaries and permits cross-border trade and investment to take place is also synergistic, that is, the whole is greater than its parts. Not all nations are full-fledged members - some are only partial members and a few continue to stay on an inward, protectionist course. Nevertheless, each year, the global business system becomes more formalised and trusted and all nations benefit from the system. In addition to the large supra-national support organisations like WTO, World Bank, United Nations and International Monetary Fund, there are number of smaller regional alliances, treaties and unions both public and private that draw the interchange of global business into a more cooperative and coordinated sphere.

As the modern nation-state is becoming progressively more integrated into the world economy, it is also assuming increasing social responsibilities toward its people. Its importance as an administrative unit is clearly on the rise. As Theodore Geiger points out, there is among the rich countries "a long-term trend toward increasingly comprehensive and active management of their economic systems. The purposes are to assure that resources will grow at an adequate rate, that they will be allocated to meet the expanding diversity of high-priority national objectives and that there will be neither significant unemployment, on the one hand, nor excessive inflation on the other... In addition to their previous activities, governments now seem to provide minimum incomes and equal opportunities to all, assure rising standards of education and health, protect and improve the physical environment, rebuild the cities, foster and finance the advancement of knowledge and in a growing variety of otherways, better the quality of life for an increasing population".  

This assumption of new functions and responsibilities by governments reflects an evolving set of values and an expanding social consciousness within modern societies\textsuperscript{32}.

The freedom of action of an individual government to discharge these responsibilities to its citizenry is sometimes hindered by increasing interdependence, but it is important to recognize that the capacity of a national government to improve the well-being of its people is now directly dependent on its access to technology, energy supplies and raw materials from abroad and to foreign markets for the products it produces most efficiently.

Indeed, international economic integration has two important advantages, one essentially economic and the other essentially political. In economic terms it promotes more rational, more efficient use of the earth’s resources. The political plus is that it enhances the prospects for reducing international conflict. Both of these have far-reaching social consequences, linking improvements in the quality of life to the creation of a unified global economy\textsuperscript{33}.

\textbf{1.4 Increasing Role of Trade and Business Diplomacy}

Trade is a major vehicle through which the global interdependence is actualised. It has been a powerful engine of growth for the world economy. The countries, which followed market-driven strategies such as using exports to fuel domestic economic growth, were able to achieve impressive growth rates in domestic output, and corresponding improvement in wages and the standards of living. The foreign policy of a nation now faces new challenges posed by the increasing globalisation, automation and customisation of production\textsuperscript{34}.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{32} Ibid.
\item \textsuperscript{33} \textit{Ibid.}:184
\item \textsuperscript{34} Feketekuty, Geza "Economic Policy and Commercial Diplomacy in the Era of Globalisation" from \texttt{http://www.branq.com/ctcdl/frames/korea.html} p.1
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The globalisation of production and the new industrial revolution have transformed the economic landscape over the past few years and the economic performance of countries in the future will very much depend on how well their leaders understand the implications for their domestic and foreign economic policies. The progressive application of new computer and telecommunications technology has changed both the nature and the organisation of the production process. The new industrial revolution is automating manufacturing, clerical and managerial work; increasing customization of mass-produced goods; and globalising the production process.

1.4.1 Implications on government policy:

Globalisation and the new industrial revolution have changed the requirements for success, and by extension the parameters of a successful government development strategy in a number of ways. First, since there is less inherent advantage in large, hierarchical corporations, policies that foster or support large organisations at the expense of small enterprises are likely to be counter productive. Empirical evidence has shown that the most successful regional development strategies are ones that encourage the active interaction among a significant number of firms, with a high degree of mobility by both capital and labor among such firms. This is particularly shown by the work of Michael Porter, and well illustrated by Silicon Valley.

Protection and other forms of industrial policy that seek to pick and support winners have become even less successful strategies than in the past. The increased shortening of product life-cycles leaves protected firms little time to emulate and catch up with technology leaders, and leaves even the most

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35 Ibid., p. 2
36 Ibid., p. 3
astute governments too little time to make informed decisions. The wheels of bureaucracy grind much too slowly for the fast-paced markets of today, and the opportunity to fail is as important as the opportunity to succeed in this environment, something governments find difficult to accept when tax payers' funds are at stake.

Third, globalisation increases the economic benefits of regulatory reform. Detailed and intrusive regulations are likely to prevent firms from making the flexible and timely decisions required to stay ahead of global markets. By pursuing regulatory reform, a government can reduce the barriers to the entry of new competitors, and facilitate the ability of existing firms to adopt whatever product designs, production techniques, and organisational structures yield the most economically efficient output.

There is an increased convergence between domestic and foreign regulatory approaches, and the resulting challenges for the management of commercial relations with other countries on one hand and the management of public opinion and domestic political decision making processes on the other hand.

In creating globally integrated production systems, the new industrial revolution is creating a mismatch between the scope of decisionmaking by governments on one hand and corporations on the other hand on issues of critical importance to efficient production decisions. This creates new tensions between national, democratic political decision-making processes, and global, market-driven, corporate decision-making processes. National governments cannot be passive observers, and must adopt an active approach to managing both the domestic political process and the commercial relationship with other governments.

37 Ibid, p.4
With respect to the management of the domestic political process, there are five things a government can do to help reduce the tension between the requirements of domestic politics on the one hand and the requirements of good foreign economic policy on the other hand.

First, whenever possible, the government's economic policy should be driven from the point of view of economic efficiency, and the government should explain fully why such a policy is in the economic interest of its people. A few well chosen, key economic figures, should be used in this context to demonstrate empirically the advantage of the proposed policy. For example, the United States has used numbers showing the higher wages earned by workers in export industries to great effect, as well as figures showing that deregulation resulted in lower prices in various sectors.

Second, the government needs to be fully transparent in its negotiations with other governments, being as objective as possible and avoiding excessive hyperbole about the requests by foreign governments.

Three, it is extremely important for the government to identify, facilitate and encourage the formation of domestic political coalitions in support of what the government believes to be a good foreign trade policy. A government cannot be a passive bystander, merely fending off pressures from interests that are opposed and accepting spontaneously generated support from other groups.

Fourth, the government must seek to involve key opinion leaders, corporate decision makers, and NGO executives in the process by appointing them to advisory committees, keeping them fully informed each step in the process, and where possible exposing them to foreign negotiators. It is seen

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38 *ibid,*
that, members of the various private sector advisory committees in some countries have been the most effective advocates for negotiating outcomes where they were properly included in the process.

So, international trade and business can be a doorway to bonds of mutual trust and benefit that strengthen the whole global family. However recognising the constraints that globalised trade places on government Erik Peterson writes: “The fact is that global economic and financial integration is fundamentally altering the menu of prerogatives and options available to policy-makers, and new approaches to managing that altered equation need to be weighed carefully”.39 The increasing trend toward economic (and to a lesser extent political) integration has also created an atmosphere in which diplomacy seems to be the most effective way to influence events in international relations.40

1.4.2 The management of international trade and business relations

The first requirement for the efficient management of international trade and business relations is to train and deploy a competent group of experts who are familiar with the substantive issues involved, can discuss issues competently in English or when necessary other foreign languages, and are comfortable interacting with world class experts from other countries.

Second, it is always best to explain domestic policy decisions in as much candor as possible, rather than to obfuscate the issue, to deny the problem exists, or to be defensive.


Third, active participation in international economic organisations provides extensive opportunities to learn from other officials about their successes and failures with particular policy approaches, to identify problems in a timely way and to work out solutions through a process of accommodation, and to use objective analytical reports produced by the economic organisations involved to help shape domestic opinion about what constitutes good policy from an economic point of view.\textsuperscript{41}

The government's role as mediator, moderator and facilitator is critical because of the accelerating consequences of national policies. Diplomacy, as manifest through several departments and agencies, has a major advocacy role in insisting on a level playing field for country's business. To a greater extent, diplomacy also has an advisory and promotional role in developing world. Governments should perform with excellence recognising the changing needs of the business community of the nation. Even the business community also needs to play a very different role and needs to be garnered as a partner, as a voice, as a support group for the foreign services.

1.4.3 Intersection between International Diplomacy and Global Trade & Business

"From its beginnings, ...diplomacy has been especially concerned with trade back to the earliest diplomatic records which still survive."\textsuperscript{42}

Diplomacy is often involved with business affairs; it may seem at first sight that diplomatic activity has a great affinity with the activity of

\textsuperscript{41} Feketekuty, op.cit.; no.34, p.5
\textsuperscript{42} Watson, Adam Diplomacy: The Dialogue Between States, London: Eyre and Methunian Ltd.1982, pp.176-194
businessmen. The idea is particularly widespread in certain circles of developed countries.

The experienced American diplomat Charles Thayer says that, "diplomatic negotiations are fundamentally different from business negotiations".44

"In the first place, business, like the law, is conducted within the framework of a regulated system with self-enforcing powers. The law of contracts regulates business to a large extent. Even international business deals generally provide for arbitration in the court of one or the other contracting party. Diplomacy has been defined as 'commerce in mutual benefit' or 'harmonizing of interests'. Only as long as mutual benefits accrue or harmony prevails is there any real assurance that the agreements will be fulfilled."45

Professional boundaries between business and diplomacy have gradually become blurred, especially after the Cold War. States champion economic development and trade relations in today's global economy, which is increasingly interconnected and interdependent. Foreign service, government, business, and universities need each other's special expertise to be effective in the global market place. Nonetheless, most global companies do not share this realisation.

While the foreign services of most Organisation for Economic Co-operation and Development (OECD) countries make great efforts to teach diplomats about business, few global companies try to understand the world of

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43 Jose Calvet De Magalhaes The Pure Concept of Diplomacy, translated by Bernardo Futscher Pereira London: Westport, 1988, p.77
45 Ibid.
46 Saner and Sondergaard, op. cit; no. 15, p. 83.
international relations and diplomacy. Fewer still train their managers in diplomacy and international relations. Instead, global companies prefer to hire professional diplomats on an ad hoc basis. They are expected to provide the company with contacts or use their experience to help the company manage difficult relations with foreign government officials. Instead of outsourcing, global companies could use an in-sourcing approach to be more competitive and smarter than their competitors\(^47\). Some of the major multi-national companies (MNCs) have found that outsourcing business diplomacy management as a response to the non-business challenges was not enough. Instead, global companies need to seriously build up their own diplomatic competency.

Global companies need diplomatic skills chief executive officers (CEOs) of multi-national companies to carry out an increasingly large number of diplomatic missions along with their regular business operations. Traditionally, expatriate managers were expected to handle these diplomatic assignments as part of their job portfolio. However, with increasingly vocal and self-assured host country governments and interest groups, and with the proliferation of information provided over the Internet by NGOs, trade and business diplomacy can no longer be left to former ambassadors serving as temporary business diplomats for a global company\(^48\).

Global companies need to anticipate environmental conflicts, communicate effectively with nonbusiness interest and pressure groups, influence the decisions of foreign governments, maintain and cultivate constructive relations with external constituencies, and negotiate on behalf of the company in foreign countries with non-business groups. All these


\(^{48}\) Sander and Sondergaard, op.cit, no.15, p.84
competencies are too important to be left to advisers from the Foreign Service alone. Global companies need to acquire diplomatic know-how that goes beyond what is normally expected of public affairs offices. In particular, global companies need to be able to forecast, plan, and manage international issues; cope with multiple crises; influence and work with intergovernmental organisations; and know how to operate appropriately within diverse cultural and societal environments.49

Managing a multitude of business and non-business stakeholders at the international level requires diplomatic skills to safeguard a multinational company's reputation capital50 and to seize business opportunities embedded in non-business environments. Examples include influencing standards, utilizing trade rules, and negotiating with governments and intergovernmental organisations.

There should be value-added service from the government with reference to the process of disseminating information. The governments in different countries should bring up the web sites with updated information of the relevant government departments and agencies. It should cover market analysis; real time reporting of key developments which will give the companies an insight on market dynamics and a competitive edge in markets.

The upshot is that if the new diplomacy implies a reengineering of structures to meet these objectives, it implies a near wholesale restructuring of


the skill sets of the individuals involved, the services they offer, the priorities attached to such services among competing responsibilities, and the totality of their interface with business.\(^52\).

For any nation in this 21\(^{st}\) century, it is of great importance to have a coherent and anticipatory national strategy to address the new global economy—one that could address more fully the intersection between diplomacy and business. Before determining the shape of diplomacy in this new millennium, we need to know what such diplomacy seeks to achieve.

To quote Peter Drucker\(^53\):

*Managed trade is a delusion of grandeur. Outright protectionism can only do harm, but simply trying to thwart protectionism is not enough. What is needed is a deliberate and active—indeed, aggressive—policy...*

*New York Times* columnist Tom Friedman describes\(^54\) it this way:

*Whichever country has the most stable government, the most efficient economy, and the most educated labour force gets rewarded force with investment capital. Those countries that don't get their houses in order are left as roadskill on the global investment highway.*

In thinking through the new challenges to diplomacy, and in particular about the challenges to the countries in the new global economy, there is a need to restructure the diplomatic process of a nation. In order to position any nation for the 21\(^{st}\) century economy, it needs to put its internal house in order,

\(^{51}\) Peterson, Erik R. "The Intersection between Diplomacy and Commerce" from [http://www.csis.org/ics/dia/pm3erp.html](http://www.csis.org/ics/dia/pm3erp.html) p.7

\(^{52}\) Ibid., p.7

\(^{53}\) Ibid.

\(^{54}\) Ibid.8
reconfigure its external policies to reflect the importance of overseas markets, and hone its capacity to pursue well conceived and longer-range objectives.

1.5 International Trade and Business Diplomacy

International business diplomacy can be a positive, mutually beneficial proposition for all the parties. The role of business diplomacy in addition to trade promotion is to level the playing field, negotiate international agreements, and monitor compliance.\(^{55}\)

The subject of international business diplomacy has gained in importance over the last two decades. According to one study in this field states, there are four general types of developments which accounted for this growing importance, and these developments will continue to be of importance over the coming decade:

- changes in international relations (development of strong nationalistic feelings anticolonialism, etc.);
- economic ideologies (economic independence larger control of industries by the host government and indigenous groups);
- international competition; and
- a new cadre of personnel\(^{56}\).

According to another major study\(^{57}\) there are three propositions of a fairly general character of fundamental importance for the study of increasing role of business diplomacy in international relations.

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\(^{55}\) CSIS, Panel Report, op. cit, no. 2, p. 10.
The first proposition is that many diverse developments in international politics and international business have common roots, they are the result in large part of the same structural changes in the economy and society of the world. That’s because international business is not an isolated phenomenon but an integral part of the social and political fabric of international life.

The second is that, partly in consequence of these same structural changes, there has been a fundamental change in the nature of diplomacy, so that governments must now bargain not only with other governments but also with enterprises, while enterprises now bargain both with governments and with other enterprises. A corollary of this proposition is that the nature of the competition between states has also changed so that macroeconomics management and industrial policies may often be as, or even more, important for governments than their conventional foreign policies, as conventionally conceived.

The third conclusion follows from the above and concerns the significance of multinational enterprises - as actors influencing the future course of transnational relations.

International business, when conducted with social and environmental consciousness, can be a major force for positive change in large transnational systems and in government thinking58.

1.5.1 Objectives of International Business Diplomacy

Fundamental changes have taken place over the last decades in how international business is conducted. Global companies can no longer maintain

58 ibid;52
an arm's length relationship with foreign host governments since their drive toward greater local presence has significantly expanded their exposure to local conditions. The companies are expected to abide by multiple sets of national laws and multilateral agreements set down by such international organisations as the World Trade Organisation (WTO) and the International Labour Organisation (ILO). Negotiating and renegotiating with local authorities and making compromises and adaptations are some of the tasks to be handled through business diplomacy.

Not to be underestimated is the growing assertiveness of the local and international NGOs in setting local and global agendas. Global companies have to remain sensitive to their demands and expectations and intervene at the appropriate moment to dissipate potentially damaging confrontations. Global companies also need to take advantage of the more open global economy and newly gained access to previously protected markets. Business diplomacy will create new business opportunities through the skillful use of international treaties and agreements. Global companies need to proactively influence government officials and international bodies in order to seize new business opportunities around the world.

1.6 International Business Diplomacy: A Conceptual Framework

It is useful to examine international business diplomacy because terms of operations are highly influenced by attempts of international companies and governments to improve their own positions vis-a-vis one another.

1.6.1 Governmental versus Company Strength

A. The operating terms of International Companies

- Are influenced by governments of home and host countries policies.
• Shift as governmental priorities shift and the relative strengths of parties evolve.

The relative strengths were shown to be affected by such factors as competitive change, the resources that parties have at their disposal validating public opinion and joint efforts with other parties.\(^{59}\)

B. Hierarchical View of Governmental Authority

• Compliance occurs when the regulation do not unduly constrain a company’s desired mode of operations when benefits are sufficiently attractive in spite of regulations, and when companies feel they cannot practically change the regulations.

• Circumvention occurs when companies use loopholes, legal or illegal, to bypass regulations they find unacceptable.

• Multinational enterprises and host countries have mutually useful assets.

• Bargaining school theory states the negotiated terms for a foreign investor’s operations depend on how much the investor, and host country need each other’s assets.

• There are vast differences in the bargaining strength among countries, industries, and companies.

• Alternative sources for acquiring resources affect company and country bargaining strengths.

1.6.1.1 Country Bargaining Strength

The biggest bargaining strengths for countries are

• Large Markets

• Political Stability

On a national basis, countries such as the United States, Canada and Germany make few concessions to foreign investors; they are large recipients of investment without having to make special arrangements. If incentives are used to attract foreign investors, they are most appealing when they fit closely with the company’s strategy and when the company believed the government would fulfill its promises.

1.6.1.2 Company Bargaining Strength

Although companies have a variety of assets that they can contribute to their foreign operations, some assets have traditionally put them into better bargaining positions than others. Company bargaining assets include

- Technology
- Product differentiation
- Ability to export output
- Local product diversity

However, the amount of capital needed to setup operations has not usually been affected investors’ bargaining power because,

- a large investment may be examined much more closely than a small one because of its potential impact on the economy.
- The host-country government may be more likely to borrow funds externally to invest in large enterprises.

The ability to contribute large amount of capital improves future bargaining strengths of companies.

Joint Company activities are used by countries to strengthen national capabilities relative to strong foreign competitors and

- to spread risk
- to deal more strongly with governments.

1.6.1.3 Home-Country Needs
Like the host government, the home-country government is interested

- in achieving certain economic objectives of its own (such as tax receipts and full employment) and may give incentives to or place constraints on the foreign expansion of its firms in order to gain what it sees as its due share of the rewards from transactions.

- in direct political interests with the host government.

1.6.1.4 Other External Pressures

The complementary nature of the assets that international firms and countries control would seem, at first, to dictate a mutual interest in finding means to ensure that mutual benefits are developed. While there are pressures to do this, there are other constraints as well, particularly on governmental decision makers, who may have to act in ways not in the best interest of their country. These external pressures may come from local companies, political opponent's etc.

- Decision makers in business and government must consider opinions of other affected groups.

- Home-country governments may respond to their local pressure groups in ways that impact relationships with other governments, causing unexpected repercussions for multinational enterprises.  

1.6.2 Negotiations in International Business

Negotiations in International business deals with the general field of government - business relations with its primary focus on the business negotiations between foreign investors and host government.

The term “negotiation” can be described as follows:

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60 International Trade and Business Diplomacy from the website www.cba.uri.edu
"... two elements must normally be present for negotiation to take place, there must be both common interests and issues of conflict. Without Common interest there is nothing to negotiate for, and without conflict there is nothing to negotiate about."  

Moreover, negotiation can be defined in either a narrow or a broad sense. A relatively narrow definition is the following:

"Negotiation is a process in which explicit proposals are put forward ostensibly with the purpose of reaching agreement on an exchange or on the realisation of a common interest where conflicting interests are present... It is the confrontation of explicit proposals that distinguishes negotiation... from tacit bargaining and other types of conflict behaviour."  

In addition to explicit proposals, each negotiating party makes other moves - those of tacit bargaining - to strengthen its position and weaken that of the opponent, or to influence the outcome in various other ways.

Negotiation does not necessarily lead to explicit agreement on all points; in fact, agreement may be reached only on some of the explicit proposals being negotiated. Even then agreements vary widely in their degree of specificity and in the extent of disagreement which is left unsettled.

"Negotiation may change the position of the parties and their mutual relations in many... ways. The outcome may include, for example, tacit understanding between the parties, a clarification of the points of disagreement, a reorientation of national objectives, new commitments to third parties (allies, domestic groups, or world opinion), and propaganda effects.

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62 Ibid. p.15.
Many of these results may outweigh in importance whatever explicit agreement is arrived at.”

International business negotiations are used as a means of deciding the terms by which a company may function or terminate operations in a foreign country. Terms for operations are often decided in international business negotiations. These negotiations were only used for direct investments; recently they have been extended to licensing agreements, debt repayment, and large-scale exports.

The negotiation process often leads to multi-tiered bargaining.

1.6.2.1 Bargaining Process

A. Accepting Zones

Bargaining tokens are provisions that one side or the other is willing either to give up entirely or to compromise on in a negotiation. These bargaining tokens are used to by each side to claim that each is giving up something for compromise and are used as face-saving devices. The outcome of foreign negotiations will depend partly on other recent negotiations or events, which serve as models.

In the bargaining process, agreement occurs only if there are overlapping acceptance zones. Even after an agreement is met, whether the maximum concessions have been extracted from the parties remains uncertain.

B. Range of Provisions

International business negotiations take longer and involve many unheard of provisions than domestic negotiations. Governments also vary widely in their attitudes toward foreign investors so negotiating agendas vary widely. The unique characteristic of international versus domestic business

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63 Ibid.
64 Daniels and Radebaugh, op.cit; no.59, p.471.
negotiations are influenced by a wide diversity of environments that require changing perspectives which determine the selection of appropriate tactics and strategies of negotiations to be adopted. Specific groups in different environments have their own concept of what is "right", "reasonable" or "appropriate" in negotiations; each group also has its own expectations of the likely response of an opposing group to an issue, event or mood determined by its "self reference criterion". Host countries also offer both direct and indirect incentives to multinational enterprises (MNEs).

However, when companies negotiate to gain concessions, some of the problems the provisions may bring are

- Companies may face more domestic labour problems because of claims that they are exporting jobs in order to gain access to cheap labour.
- The output from the foreign facility may be subject to claims of dumping because of the subsidies given by the host government.
- It may be more difficult to evaluate management performance in the subsidised operations.

Companies also agree to performance requirements in negotiations aimed at improving the countries economic and non-economic objectives.

C. Renegotiations

Agreements evolve after the operations begin; the company position is usually, but not always, stronger before entry. The erosion of the Multinational Enterprises (MNEs) bargain strength as countries gain assets from them is known as the theory of obsolescing bargain. A company that is aware of the changing needs of the economy can maintain or even improve its bargaining strength by offering the infusion of additional resources. At the same time, a

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host country may restrain from pushing too hard on established companies for fear this will make the country look bad for the investors.

D. Behavioural Characteristics Affecting Outcome

In business negotiations involving people from different countries, there is a strong possibility of misunderstandings due to cross-country cultural variances as well as possible languages differences. Misunderstanding may result from differences in

a) Nationalism
b) Professions
c) Languages.

1.6.3 Cultural Factors

Some cultural differences among negotiators are evident:

- Some negotiations are decision-makers, some are not;
- Some take a pragmatic view; others take a holistic view;
- Some use gifts and flattery;
- Some expressions do not translate well.

The importance of cultural factors may change during renegotiations because the parties already know each other.

1.6.4 Culturally Responsive Strategies

People will not always act according to the norms in their country. Therefore, it is useful to determine at the start whether you will adjust to your counterpart, have your counterpart adjust to you, or follow some form of hybrid adjustment.

1.6.5 Professional Conflict

Business and governmental negotiators may mistrust each other and may not understand each other’s objectives due to historic animosity or to the different status of their professional positions. This viewpoint discrepancy has
been evident as many lower developing countries (LDCs) have attempted to sell state-owned enterprises (SOEs) to foreign investors.

1.6.5 Termination of Negotiations

For a variety of reasons, one or both parties may wish to terminate serious consideration of proposals. The method of cessation may be extremely important as it may affect the negotiators’ positions vis-a-vis their superiors and the future transactions between the given country and firm, the company in other parts of the world, and the country with other foreign firms since termination is an admission of failure to achieve the objectives originally set forth negotiators of organisations are prone to place blame publicly on others in order to save face themselves66. It is equally important that, negotiators should find some means to reinstitute future contacts.

1.6.6 Preparation for Negotiations

Role-playing is a valuable technique for training negotiators for projects requiring approval of a foreign government. By practicing their own roles and those of government’s negotiator and researching the culture and history of the country to determine its attitudes toward foreign companies, business executives may be much better able to anticipate responses and plan their own actions.

Simulation can be used to anticipate others’ approach, but it is hard to simulate stress situations. Choice of negotiators also depends on

- Importance of the deal
- The function involved.

1.6.7 Evolution of Negotiations and Diplomacy in the Internationalization Process

Multinational enterprises need to engage in international business negotiations and diplomacy increases with their international commitment\(^{67}\). MNCs tend to first move to countries similar to their own, so the first international forays are not as complex. However, there is a still a need for diplomacy in these early states.

- countries may still require complex barter or offset arrangements
- similar cultures may have subtle differences that hamper negotiations.

1.6.3 Home-Country Involvement in Asset Production

1.6.3.1 Historical Background

In the nineteenth century and in the good part of twentieth century the home country ensured through military force and coercion that prompt, adequate, and effective compensation would be received for investors in cases of expropriation, a concept known as the international standard of fair dealing\(^{68}\). The host countries had little to say about this standard. However, the concept of non-intervention has been strengthened by a series of United Nations (UN) resolutions.

In the past, dependency theory was also prevalent. According to which the LDCs had practically no power as host countries when dealing with multinational enterprises. This theory leaders and political parties still keep this view.

1.6.3.2 The Use of Bilateral Agreements


Bilateral agreements improve climates for their investments abroad by the industrial countries. These agreements generally provide for home-country insurance to investors to cover their losses from expropriation, civil war, and currency devaluation or control and to exporters to cover losses from nonpayment in a convertible currency.

1.6.3.3 Home Country Aid as a Weapon

Home countries may improve terms for their investors using aid as a weapon. They can do it either by suspending aid to countries that nationalise property or by offering aid in exchange for better investor treatment.

1.6.4 Multilateral Settlements

When international firms or home governments are unable to reach agreement with a host country, they may agree to have a third party settle the dispute. In cases of trade disputes, the international chamber of commerce in Paris, the Swedish Chamber of Commerce, and specialized commodity associations in London are asked to intervene and assist the parties. Government to government disputes are largely the domain of the multilateral organisation like World Trade Organisation (WTO).

1.6.5 Multinational Agreements: Protection of Intellectual Property Rights

In the recent years, one of the key businesses - government and government-to-government conflicts has involved intellectual property rights, sometimes referred to as intangible assets. Some of the most valuable intangible assets that businesses have are patents, trademarks, and copyrights. Improper Protection of these assets could lead to limited profitability by the parties that invested in developing the intangible. Intellectual Property Rights (IPRs) associated with both industrial property and artistic property. Given the different attitudes countries have toward property rights, adequate international protection of firm’s intangibles can only come about through international co-
operation. International treaties and agreements help safeguard patents, trademarks and copyrights.

1.6.5.1 Patents

The first major attempt to achieve cross-national co-operation was the Paris Convention of 1883. This convention gave rise to the International Bureau for the Protection of Industrial Property Rights (BIRPI) and involved the protection of patents, trademarks, and other property rights. The major provisions of the Paris convention are

- a nation would grant to foreigners who are members of the Convention the same status accorded to its own citizens in the protection of property rights.
- a registration in one country has a grace period of protection before filing in other member countries.

The three most other important cross-national patent agreements are the Patent Cooperation Treaty (PCT) of the World Intellectual Property Organisation (WIPO), the European Patent Convention (EPC) and the EEC Patent Convention. The PCT and EPC allow firms to make a uniform patent search and application, which is then passed on to all signatory countries. Patent-infringement battles are both costly and complex as well as time consuming. This major problem is due to the rapid development of technology and different patent rules and regulations in different countries at the international level.

1.6.5.2 Trademarks

Brand names play an important role for the companies. If a trademark does not protect the brand names, then other companies may produce under the

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69 Ryan and Bonham-Yeaman, 1982, pp.63-66
same brand name. Even if the names have a trademark, they may become
generic and thus enter the public domain.

Trademark Registration Treaty, commonly known, as the Vienna
Convention is the international agreement for protecting the trademark. A
country may not require the use of a trademark, as a prerequisite to obtain
registration until three years after is international registration. Once the
trademark has been registered, each country must accept it or give grounds for
refusal within a specified time frame.

1.6.5.3 Copyrights

Most large publishing and recording companies have extensive foreign
interests and can be influenced easily by foreign competition. Without
copyright laws, foreign producers could feasibly copy a book, software CD-
ROM or tape and distribute it at cut-rate prices. The Universal Copyright
Convention honours the copyright laws of their signatory countries.

1.6.5.4 Piracy

Not all countries are members of various conventions to protect IPRs;
some that are enforce the agreements haphazardly or impose small penalties.
Piracy known as the production without the consent of the company holding the
patent, trademarks, or copyright. Piracy has occurred for several reasons

- Cashing is on well known trademarks is tempting.
- Technology allows copyrighted material to be easily duplicated.
- Some countries offer little protection for certain products.
- Many people see nothing morally wrong in buying counterfeit goods.
- Often shady or dangerous merchandise is substituted for the original
goods.
Various manufacturers' associations have sprung up worldwide to deal collectively with piracy.

Some companies are using technology to identify the genuine product; others are warning the public of imitations.

1.6.6 Role of Public Affairs

The collective attitudes toward multinational enterprise activities are clarified by a number of organisations. These attitudes are usually fairly vague and involve voluntary compliance.

1.6.6.1 Code of Conduct

The MNEs are regulated by the code of conduct. First widespread attempt to regulate the Foreign Direct Investment (FDI) on a multilateral basis was done by the League of Nations. The Center on Transnational Corporation created at the United Nations in 1975 considered the adoption of several codes of conduct for MNE activities. There are a number of codes dealing with specific practices or specific areas of the world. The codes are voluntary and adoption does not guarantee enforcement. In 1995, the United States issued a voluntary code for foreign operations of U.S. companies.

1.6.6.2 Company Approaches to Public Relations

MNEs strongly believe that by acting as a good corporate citizen abroad they will remove local animosities and concern that might affect their short or long-term competitive ability. Because of conflicting pressures from different groups, someone can almost always accuse an MNE of bad behaviour. The international firm has to understand the relative power of competing groups served by the firm, management may at least be able to emphasise practices that

70 Source: www.cba.uri.edu

71 Ibid.
benefit most of the groups that are in a position to help or hurt the firm in a substantial way\textsuperscript{72}.

Most often, companies' public relations efforts are defensive in response to public criticism. Firms should organise means to increase the number of local supporters and dampen potential criticism. Many MNEs use advocacy publicity at home and abroad in an aggressive effort to win support for their international activities\textsuperscript{73}.

Companies publicise good-citizenship activities, pointing out when

- Business conduct satisfied social objectives
- Non business functions help society

Companies can mitigate criticism by either by considering what is important to people in the host country or by having the parent company managers continue an existing policy.

1.6.6.3 Allies Through Participation

The MNE may foster local participation designed both to reduce the image of foreigners and to develop local proponents whose personal objectives may be fulfilled by the foreign investors continued operations. The MNE can do this by following measures:

- Ownership sharing
- Avoiding direct confrontation
- Local management
- Local research and development

However, good corporate citizenship and the attendant publicity may not be enough to guarantee the continued conduct of business activity. The

\textsuperscript{72} Daniels and Radelbaugh, op.cit;no.59 p.473
\textsuperscript{73} Sethi, Prakash, “Advocacy Advertising and the Multinational Corporation”, Columbia Journal of World Business, Fall 1977, pp.32-46
company's external affairs department has to identify problems areas in advance to forestall adverse actions and establish policies to prevent or minimise losses, such as decreasing new-parent obligations, selling ownership to local governments or private investors, and shifting into less visible types of local enterprises.

1.6.7 Ethical Dilemmas and Social Responsibility

There are ethical concerns regarding governmental assistance to home-country MNE's.  

1.6.7.1 Data Collection and Dissemination

For example, at the end of the cold war, the U.S., CIA indicated that it was considering the collection and analysis of more business-economic data that would be shared with U.S. companies.

1.6.7.2 The Protection of Intangible Assets

The ethical challenge is that assure that companies continue to develop needed products and get paid adequately for there and, at the same time, to assure that poor people can gain access to them.

The relationships of MNEs, home governments and host governments involve constantly shifting coalition. The three parties would always like to have maximum independence. However, each is limited by resources and actions taken by the others.

1.7 International Business Diplomacy Management

Most globally active companies know that the context of international business involves economic, political-military, social, and cultural factors interacting at the organisational, industrial, national, international, and global

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74 Source: www.cba.uri.edu
levels\textsuperscript{75}. They also know that business success in foreign markets is determined by non-business factors as the quality and intensity of international relations, the legal stringency of multilateral conventions and agreements, and the power of governments and political decision makers. In France, the United Kingdom and the U.S., traditional practice has involved cross-fertilization between business, government, the foreign service, and the academics, and making sure that knowledge acquired in any of these fields is diffused across professional boundaries.

Global companies can improve their effectiveness by setting up a business diplomacy management function and by developing and utilizing competent business diplomacy managers. Global companies must succeed in the business they are in and at the same time show competence in managing multiple stakeholders at home and abroad. While it is of key importance to have the right products and service at the right price and time, global companies might not be able to deal successfully with obstacles outside their direct sphere of control. Facing such challenges, global companies require business competencies in which most managers have no background and training. The competencies needed to deal with foreign country interests, multiple domestic and foreign pressure groups, or international conflict demand that global companies acquire organisational competency in business diplomacy management. This competency would build bridges between core businesses and the complex political environments within which global firms conduct business. In fact, many of the attributes of business diplomacy are those of a political diplomat\textsuperscript{76}.

Business diplomacy management therefore involves influencing economic and social actors to create and seize new business opportunities; working with


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rule-making international bodies whose decisions affect international business; forestalling potential conflicts with stakeholders and minimizing political risks; and using multiple international forums and media channels to safeguard corporate image and reputation.

1.7.1 Dimensions of International Business Diplomacy Management

Business diplomacy managers need to be competent at international, national, community, and firm levels. At the firm level, they help define business strategy and policies in relation to stakeholder expectations, conduct bilateral and multilateral negotiations, coordinate international public relations campaigns, and collect and analyze pertinent information emanating from host countries and international communities. Internationally, competent business diplomats lobby with finesse, are gracious hosts, and know how to comply with protocol according to local customs and practices. They are able to develop local connections and relationships and manage the multiple and sometimes conflictual interfaces. They need to be active at important international forums to influence the agenda and public opinion. When dealing with stakeholder groups, business diplomats are called in to mediate potential or on-going conflicts of an economic, social, environmental, or political nature. More importantly, business diplomats scan the environment and identify potential conflict areas with the stakeholders before implementing a project.

1.7.2 New Competencies, New Roles

Globalisation offers business opportunities to companies around the world. However, growing internationalization has become increasingly complex. Managing effectively the interface between multiple business units

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76 Saner and Sondergaard, op.cit;no.15,p.86
77 ibid,
and their respective host-country governments requires business competencies
that go well beyond the basic skills range of today's transnational manager.

There is the need for the development of a new competency-business
diplomacy management and a new organisational role-business diplomacy
manager\textsuperscript{78}. Global managers need to be competent in business diplomacy, and
successfully represent the wider interests of a global company to international
organisations, non-governmental organisations, communities, the media, and
multiple host governments. Business diplomacy managers, in contrast to
lobbying firms and public affairs functions, offer a better synergy of business
interests, corporate values, and the management interface with external
constituencies and lobbying groups.

Business diplomacy managers straddle both worlds of business and
diplomacy making a global company more proactive and less prone to crises.
The synergy between business and diplomacy requires the full attention of
global companies today.

Global companies can better implement their global strategies and
preserve their reputational capital by ensuring an adequate supply of diplomatic
know-how. This could be done through in-house training and development and
through setting up a business diplomacy management office under the direct
supervision of the CEO. In addition, close links to the heads of business units
and the heads of a global company's many foreign subsidiaries need to be
established. An interactive business diplomacy information system also needs
to be installed to build up an internal knowledge base. Lastly, to ensure a more
proactive stance in handling non-business stakeholders, working relations

\textsuperscript{78} ibid., p. 91
should also he set up to coordinate dialogues between the business diplomacy management office and the strategic planning unit of global companies.

1.8 International Trade and Business Diplomacy: Future Prospects

The end of the cold war has brought possible changes in the interstate-business diplomacy. In the cold war period, governments had been prone to influence business activities because of political-militancy objectives, sometimes protecting their national companies so that they would gain spheres of influence abroad and sometimes withholding support for fear that a neutral nation might otherwise be prone to lend more support to the other bloc. But political schisms are not yet a thing of the past, and thus managers must continue to contend with cross-national animosities when planning their own international expansion strategies.

National economic rivalries with new alignments may well replace some of the political-military rivalries of the recent past. For example, a new economic rivalry between European Union and North American Trade may become as intense as the old political rivalry between the two blocs of cold-war period. Companies may thus be no less subjected to having to satisfy national interests in their operations. During the short term, it appears that most countries will welcome foreign firms' operations or at least take a laissez-faire attitude toward them because of a belief that, on balance, they serve their national economic interests. But there are likely to be many exceptions. One involves some countries, which have traditionally not welcomed wholly owned foreign operations. Another involves the privatisation of the state-owned enterprises, for which buyers' must negotiate on much more than the price.

Still another exceptions involve the countries transforming from centrally planned to market economies, where negotiations are apt to be very long and complex. Furthermore, historically there have been broad swings in
the host-country attitudes toward foreign ownership. The present welcome to FDI could easily reverse, particularly if governments feel that their own constituencies are not receiving a just share of global economic benefits. Regardless of the direction of swings in national policies, companies are likely to face ever more sophisticated government officials when they negotiate their operating terms abroad.\footnote{Daniels and Radelbaugh, op.cit.,no.59, p.474.}

Companies headquartered in different countries will continue to become more entwined through joint ventures, licensing, contract buying and other arrangements. Many of these companies will likewise continue to depend more on sales and production outside their home countries, while simultaneously bringing in more shareholders and top managers from abroad. These activities may strengthen their positions vis-a-vis governments as a whole, but they may weaken their positions with their home-governmental officials, who no longer see them as representing a national interest.

Government-to-government co-operation to deal with international firms is apt to more slowly, at least on a global scale. There are simply too many divergent interests among countries, which tend to divide them on different issues based on economic development levels, product-specific interests, and regional viewpoints. One such issue is the protection of intangibles, which pits the interests of industrial countries that create most of the patents, trade-makers, and copyrights against the interests of many LDCs that do not want to pay for their use. In such instances, there are more linkages to other areas in overall economic policy, such as the cessation of trade preferences for countries that do not protect intangible property rights. We may see more attempts by small groups of countries to band together to unify or coordinate policies toward international firms; such as by countries operating in trading blocs.
In the recent years, Sino-U.S. bilateral trade and investment relation is increasingly attracting attention from different specters of the global society. The two countries bilateral economic relations have taken twists and turns have shown amazing changes in the past years. It will be a researchers delight to study this bilateral relationship alongwith the lines of international business diplomacy framework as discussed above.

China’s growing economic competitiveness with the United States market has surged with its economic reform and “open door” policy of 1978 and have attracted a substantial foreign investment and strengthened China’s export policy. In response to this, the American business community has rapidly expanded operations in China. More than 150 of the fortune 500 companies have already approached the vast Chinese market directly, almost all major U.S. banks land securities houses have developed their own business dealing in China. The United States is now the second largest trading partner after Hong Kong. Their bilateral trade and United States’ direct investment in China is also increasing substantially.

Nevertheless, political and economic factors still constrain trade between the United States and China. The two governments differ broadly over human rights, nuclear proliferation, Taiwan, Tibet issue. Inspite of the above constraints along with the growing trade imbalances with China, United States’ persistent effort to have a major stake of the large liberalised Chinese market makes an important case for the study of international business diplomacy. The following chapters will look into the related aspects of the Sino-U.S. diplomacy in trade and investment.

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