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Economic Diplomacy Mechanism: World Experience and Ukraine

CONSTANTINE FLISSAK⁹

Abstract: In a globalized world the line between foreign and domestic policy is fading, and a number of internal problems of the country can be successfully resolved at the level of international cooperation. In the context of globalization not only improvement of traditional instruments and means of international cooperation is necessary. But it is necessary to search for new forms, practices, and institutions of the international partnership that would adequately meet the changes and development of foreign trade and economic relations and would form a mechanism for the effective solution of constantly arising problems. The system of such tools and means is named as economic diplomacy, the role and importance of which in recent years has increased significantly. Successful examples of the use of economic diplomacy can be found in the activity of China, Russia, some of EU countries. Interesting is the experience of Ukraine, which during the years of its independence has sequentially changed several models of economic diplomacy. The experience of many countries in the world shows that only in the presence of effective and relevant economic diplomacy a state can count on high macroeconomic outcomes and gain high position in the geo-economic processes and in the system of international division of labour. In such circumstances, it is important to develop within the bodies of state administration specialized separate entity, which would be entrusted with the functions characteristic of the practical side of economic diplomacy.

Keywords: Economic diplomacy • Globalization • Economic and financial crisis • Foreign trade activities • Foreign trade

Introduction

The growth of production efficiency, the use of new technologies, and deeper specialization of individual countries have led not only to the globalization of the world economy, but also to the search for new and improvement of existing tools and mechanisms providing the interests of both individual producers and countries in general. The twenty-first century has brought a new level to economic diplomacy, for a long time included to instruments of protection and promotion of national economic interests at the international and global level, but recently started to be considered as a separate direction of modern scientific knowledge.

Additional scientific and applied interest to its studies is due to the growth of the contradictions that arise among countries and intergovernmental integration organizations, and which, by their influence retard the development of both political and economic relations between the subjects of international relations. Moreover, some of such contradictions are quite possible to be resolved by appropriate and timely application of tools and mechanisms of economic diplomacy.

Taking into account the problems faced by Ukraine in 2014-2015, and necessity much effort to solve them, including in the area of economic diplomacy, considerable scientific interest is the study of progressive international practices and its comparison with the Ukrainian realities to explore opportunities to improve and implement solutions positively proven in other states.

In addition, the successful and effective implementation of programmes of socio-economic development of Ukraine is possible, given to the real potential of its participation in the integration processes

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in the world economy and gradual approximation to the progressive social and economic standards. Required are providing maximal usage of export potential, formation of investment attractiveness for foreign capital, effective international cooperation for minimizing the impact of the both external and internal crisis, skillful and professional advocacy of the state interests in international relations. Of particular relevance here is gaining increasing the quality level of economic diplomacy, which should take into account the new challenges of globalization and to minimize their negative impact on the socio-economic processes in the country.

Literature review

A study of specialized issues and problems of economic diplomacy is taking attention to both domestic and foreign scientists whose field of interest is the use of diplomatic means in protecting the interests of their country in promoting goods and services at foreign markets, attracting foreign capital, settling international dispute and avoiding problem situations.

Reasons for considering economic diplomacy as a separate research direction were laid by Guy Carron de la Carrière, (France). Two main approaches were formed in further studies. Representatives of the first (mainly of the Anglo-Saxon school, like N. Bain, S. Woolcock) argue that this problem should be considered purely from the point of view of political support and development of economic decisions. The alternative view, according to which economic diplomacy is an activity aimed at supporting and promoting national economic interests abroad, is now widespread in many countries of the world. Representatives of this point of view are professors V.A.Vergun, O.M.Sharov, Z.P.Lutzysyn (Ukraine), T.V.Zonova, A.E.Likhachev, D.A.Degtyarev, A.A.Mardashev (Russian Federation), P.Baranaj, N.Filini (Slovakia), E.Molendovski, V.Polan (Poland), I.Mavlanov (Uzbekistan), P.Jonák, I.Němec, M.Častek, R.Špizar (the Czech Republic).

At the same time, through the emergence of new challenges of globalization, a number of questions of modern economic diplomacy require further analysis and development of measures of appropriate response to changing global realities.

The aim of this article is to examine the new challenges facing economic diplomacy under the influence of globalization and the global financial and economic crisis, to analyze the experiences of some countries, which, using various tools of economic diplomacy, were able to counteract the negative trends and to ensure proper maintenance of foreign economic relations, to draw attention to the peculiarities of manifestation of the specified influence in Ukraine and problems that require changes in the system of national economic diplomacy.

Basic Results of the Research

In recent years the world economy has undergone powerful impact of the financial and economic crisis caused by a serious gap in mortgage lending, excessive allocation of consumer loans, saturation of the consumer market, and relocation of production to countries with cheap labour. All these factors caused by the deindustrialization of the U.S. and Europe were followed by rising unemployment and speculative transactions on the real estate market. The second stage of the financial crisis became especially sharp in the second half of 2011 and in early 2012 within the EU and mainly within the Eurozone. It was characterized by such processes as: excessive growth of budget deficits in some countries, excessive growth of the public debt, insolvencies, wasting the funds of international financial organizations on social benefits and long-term social tensions in several countries. As a consequence, the ideology of economic liberalism (*laissez-faire* in the solution of problems of national companies to ensure free competition), that prevails in the EU, is threatened by revision, and many EU countries can face considerable loss of economic sovereignty.

The global economic crisis has led to major transformations in the sphere of international economic and political relations, significant changes in the strategies of development of the modern international economic system in the medium and long term, and the dynamics of globalization forces has received new vectors. On the one hand in recent years its characteristic manifestations are further increase of competition and attempt of the major players in the global economy to reallocate spheres of influence and markets. First of all it concerns the markets of finished products to markets of raw materials, especially energy resources

and materials. At the same time to hold the old and conquer new markets or individual segments not only trade and economic instruments (acquisitions and mergers of large commercial and industrial structures), but also political activities and, in some cases, even military means are increasingly used. On the other hand, international cooperation obtains further development, which turns competitors into partners and, to a certain extent, helps to resolve the conflict of interests on the international markets. Contributing to it is the creation of new international organizations of global or regional level, such as the Shanghai cooperation organization.

Because of these events Ukraine is facing a number of difficult questions about the future strategy in forming new areas of foreign policy; minimizing internal risks for foreign partners and external risks for Ukrainian exporters and members of the international cooperative formations. There are remaining actuality issues of implementation of the integration aspirations of Ukraine and steady protecting of its economic interests.

In this situation, it is fair to say that in a globalized world the line between foreign and domestic policy is fading, and a number of internal problems of the country can be successfully resolved at the level of international cooperation.

In the context of globalization it is necessary not only to improve traditional instruments and means of international cooperation. But it is necessary to find new forms, practices, and institutions of the international partnership that would adequately meet the changes of foreign trade and economic relations and would form a mechanism for the effective solution of the problems that constantly arise. The system of such tools and means is named as economic diplomacy, the role and importance of which has increased significantly in recent years.

Modern challenges and economic components of globalization have led to the economization of foreign policy, resulting in the need for increased activity of foreign missions in the area of promotion outside the country's economic interests of the national business. For example Donna Lee was ascribed to the duties of the American ambassador to do everything possible to resolve those legal provisions of the host country, which prevent the promotion of American business to the markets of this country (Lee, 1999). The UK is adapting its foreign policy to the new economic realities of the globalizing world. Its priority was formed by Lord Palmerstone: "it is the business of government to open and secure the road for the merchant" (Hague, 2011). And British Prime Minister D. Cameron said: "I don't just want you to be political ambassadors for Britain. I want you to be economic ambassadors too" (Cameron, 2012).

Globalization has put a number of new challenges before economic diplomacy due to the complexity of the functioning of the world market, and addressing numerous internal problems of individual countries has become a common interest of players in this market. The intervention of international institutions is beginning to essentially influence decisions on the national economic level and their transformation (e.g. stabilization actions against individual countries of the Eurozone or the dependence of the pension system or the level of tariffs for housing and communal services and gas tariffs for the population in Ukraine from decisions of the IMF or the World Bank).

One of the main challenges posed by the globalized world is the gradual loss of the state monopoly on power function caused by emergence and rapid development of other influential institutions, those of transnational companies and non-governmental organizations. If not legally, but de-facto there is erosion of the internal sovereignty of individual states (Humenyuk, 2008). For national economic systems included in the supranational integration formation external solutions become defining for the further functioning of their financial and economic mechanisms. One of the bright examples is the decision of the European Commission and other EU institutions on financial questions in Cyprus in 2013.

In such circumstances, the priority of economic diplomacy becomes the maximum adoption of measures for the effective functioning of the national economy with taking into consideration the requirements of the world market. The new challenges of globalization facing economic diplomacy should include the dissemination of genetically modified foods, which may threaten the health and lives of consumers (standardization and certification of products for compliance, quality and origin). The demand of the time is urgent need to advance economic diplomacy as a joint activity of the state, business and non-governmental organizations on the implementation of national economic interests on the world market at a qualitatively new level. The main strategic objectives of economic diplomacy in the competitive globalized world economy in the context of improving the efficiency of foreign economic activity are the following (Verhun, 2010):

- ensuring the most favourable conditions for the participation of the national economy in the international division of labour, its integration into the global system of world economic relations;
- political support for domestic businesses operating abroad and ensuring access to existing and potential markets;
- providing full-scale trade, investment, financial and credit relations with other countries, active cooperation with international organizations;
- coordination of foreign economic activity of the government, overcoming the fragmentation of foreign economic activity due to the significant growth of its subjects, active involvement of the foreign economic activity of state and private structures.

Thus, it is necessary to distinguish between political and economic objectives of economic diplomacy. To political goals, the achievement of which is assigned to economic diplomacy, we attribute:

- 1) minimization of losses and maximization of benefits using the advantages of integration in a globalized economy;
- 2) active participation in the creating an effective and fair international trade and economic regime for the world community;
- 3) establishment and maintenance of permanent contacts between the partner countries;
- 4) informing and explaining the official position of its government in the host country;
- 5) preparing and conducting negotiations of and on behalf of its state for the purpose of harmonization of interests of the parties and reaching mutually advantageous agreements;
- 6) efforts to minimize the risks and threats that may affect the nature of two- and three- sided interstate relations.

Among economic goals of economic diplomacy are the follows:

- 1) effective positioning of the state in the system of international economic relations;
- 2) strengthening the position of local entrepreneurs in perspective industries of the world economy;
- 3) diversification and deepening of the country's participation in the international division of labour;
- 4) harmonious use of the mechanisms of bilateral and multilateral cooperation, with the aim of promoting goods, services and capital on world markets;
- 5) protection and promotion of interests of subjects of entrepreneurial activity of their state, as well as promoting stable development of strategic sectors of the economy.

World practice shows that the diplomatic service is trying to respond adequately to the challenges of globalization. For Ukrainian diplomacy the actions of economic diplomats from our main foreign trade partners – the European Union, Russia, China, and Turkey – can be an example here. There is a considerable interest on the application of tools of economic diplomacy in three groups of countries: the first – those which have managed to find the most effective answers to modern globalization challenges in conditions of global financial and economic crisis, the second – those that have main share of foreign trade turnover of Ukraine, and the third – those which invested the largest amount of direct investment in the Ukrainian economy.

In this context, we cannot ignore China, which, despite the global crisis, demonstrated economic growth: the growth rates of production in the country during 2005-2008 were 11.9%, in 2009 – 9.2%, in 2010 – 10.4%, in 2011 – 9.3%, in 2012 – 7.7%, in 2013 – 7.6% (World Economic Situation and Prospects, 2012 and UNCTAD Handbook of Statistics, 2014). The dynamics of exports and foreign trade of People's Republic of China (PRC) in general are also affected. In 2010 the volume of Chinese exports increased 71 times compared to the level of 1983, the foreign trade turnover – almost 87 times, and China's share in world exports over the period 1980-2013 increased from 0.9% to 14.6% (UNCTAD Handbook of Statistics, 2014).

In addition to efficient domestic economic policy, economic diplomacy played a significant role in stable dynamic development of the PRC economy (Mardashev, 2009). First, there is need to specify that in the PRC under this term (*Jīngjì wàijīāo* (economic diplomacy)) is often referred not only to the use of classical diplomacy to promote economic development of the country, but also the use of foreign trade, financial and investment policy to achieve diplomatic goals of the country. It should be noted that the new globalization challenges give reasons to prioritize the economic diplomacy of China, among which are:

- ensuring production needs in natural resources of the economy of the country;
- the need of import cover of energy resource deficit;
- promotion of acquisition of high technology;

- effective participation of China in global trade regime;
- settlement of the problem of "protection of trade" and protectionism in trade, and also in relation to intended use of technical barriers to competition issues;
- adaptation of the Chinese standards to the new world standards of quality and safety of food and non-food products;
- adoption of measures to attract foreign investment in the Chinese economy and promotion of Chinese investment outside the country;
- assistance in obtaining and granting economic and technical assistance to China (as a prerequisite to further promote foreign economic interests and export expansion of China in the world);
- optimization of China's participation in the international division of labour and ensuring effective use of national labour force (due to an active policy to attract foreign investment in the country and Chinese investment abroad);
- finding and implementing opportunities for the use of Chinese currency in external payments.

Today, China is building its active policy on the use of mechanisms of economic diplomacy, guided by the principle, which is typical of Oriental philosophy: "relations with neighbours are a priority, the ones with developing countries are important, the ones with leading countries have key character, the approach is multilateral" (Samartsev, 2014). From this point of view the further research interest is active modification of instruments and mechanisms of developing relations between China and its partners based on the specifics of the latter. Thus, having the ability and the ambition level of a superpower, China does not impose typical models of behaviour on its partners and avoids the use of tools of economic partnership as a means of coercion, demonstrating the implementation of the principle of Confucian ethics - "the harmony of diverse and dissimilar".

Such balanced position allows China to facilitate access to world markets, technologies, necessary resources, and also reduces possible opposition on the part of potential competitors, possibly almost all economies of the world nowadays. Another result of the balanced and sustained economic diplomacy for China is the work on overcoming internal problems (Xinjiang and Tibet) and changing attitudes to China from hostile partnerships (primarily the ASEAN countries (Malaysia, Thailand, Philippines, Singapore, Brunei, Indonesia), which established diplomatic relations with China relatively recently.

Fast dynamics of globalization and integration of economies into the world economy require improving the mechanisms of international economic cooperation and searching for new forms and methods to ensure effective economic partnership. On this occasion the Polish experts note a steady increase in the demand for efficient operation of economic diplomacy, which in its present form was formed as a part of economization of the diplomatic service of Poland in 2006. At the same time economic units, which consist of two segments: the economic department and the department of trade facilitation and investment, were established in the embassies of Poland. These units are formed through the use of positive (we need to accentuate - this is Polish experts' point of view) experience of Ukraine, Russia and Belarus (Rośnie popyt na dyplomację ekonomiczną, 2009).

These departments received three main tasks from the Ministry of Foreign Affairs and the Ministry of Economy of Poland:

- 1) to support and assist to the Polish economy;
- 2) to support and promote the export potential and lobbying of Polish economic interests in the economic and political environment of partners;
- 3) to promote economic interests of Poland at international forums and in international institutions.

To implement these tasks it was necessary to specify the functional responsibilities and define the sectors of responsibility. In particular, the economic department of an Embassy competently performs:

- assessment of the current macroeconomic situation of the partner country;
- analysis of the dynamics and structure of material production, supply and demand;
- informing about the level of inflation and the price situation on the market;
- monitoring foreign trade turnover;
- monitoring the situation on the labour market;
- monitoring structure, dynamics and trends of foreign investment flows;
- assessment of the situation in the regions, in the field and in the largest cities and industrial centers;
- analysis of exchange rate policy and the situation in the banking and financial sector.

Information and advisory work of the division for the promotion of trade and investment in the embassy are focused primarily on product manufacturers, exporters, importers and investors. It covers the following subjects:

- information also about the tax system and about legal conditions for doing business in the market of the partner, including specifics for limited liability companies, joint stock companies, individuals;
- reporting on conditions of activity in the sphere of foreign trade, technical specifications, sanitary, veterinary and other requirements;
- monitoring and reporting about customs tariffs;
- providing information about the goods, export or import of which are restricted by quotas or require a license;
- providing recommendations on the selection of a partner for cooperation;
- the adoption of measures to comply with the requirements of transparency in the questions of the regulation of payments by importers of goods, implementation of preventive action to avoid the consideration of cases in courts concerning the Polish subjects of foreign economic activity abroad, prevention the practice of extortion and bribery in executive bodies and other institutions involved in the host countries;
- providing information about fairs, exhibitions, conferences and business seminars;
- informing about the availability of support from the diplomatic mission.

The effectiveness of organization of economic diplomacy of Poland can be stated on the basis of objective indicators, which include the volume of foreign trade of the country and its place in the system of international division of labour. So, if in 1990 Poland (according to UNCTAD) belonged to 0.4% of world exports and 0.3% of world imports; in 2013 the state almost doubled the value of these indicators up to 1.1% of export and 1.1% import (UNCTAD, 2014). In absolute terms, the growth looks even brighter - 12.5 times the growth of export and 11.6 - of import. Of course, this result in quite intense competition and dynamic development of almost all major market participants is the result of a whole complex of actions, which include rational and circumspect economic reforms, consistent integration policy, modernization of the national economy, etc. And, as the more in-depth study of this question shows, each of these actions required effective cooperation with foreign partners, which would not have been possible without the active use of the tools and mechanisms of economic diplomacy.

The main focuses of the economic departments of embassies are concentrated mainly on promoting the interests of Poland to markets of the European Union. From side of the latter is expected relevant sales activity. is possible The high level of specialization and professionalism of specialists made problem solving by the economic diplomacy of Poland possible. As noted by Polish experts on economic diplomacy, "universal model of a diplomat is not only suitable, but harmful; now we need such recruitment, which would ensure effective implementation of the tasks. Necessary are not people with the mindset of the nineteenth century, but the professionals to like economists, financiers, lawyers" (Rośnie popyt na dyplomację ekonomiczną, 2009). With this approach in mind, sufficiently powerful economic units were formed in the diplomatic missions of Poland. For example, among 42 diplomats in the Embassy of Poland in Germany 14 specialists (33% from all diplomatic personnel of the Embassy) are employed in the economic department. In the Embassy of Poland in Ukraine among 28 diplomats 8 are engaged in economic problems (28%). In the embassies of the United States groups on questions and tasks of economics, finance, public finance, energy, industry, agriculture, employment work on the permanent basis. Particularly at the U.S. Embassy in Ukraine among 90 diplomats 22 officers (the fourth part of the diplomatic staff of the Embassy) are engaged in these problems (Diplomatic Corps, 2008).

Personnel potential of the Ukrainian economic diplomacy is much weaker both quantitatively and organizationally. For example, in the Embassy of Ukraine in Poland among the 30 diplomats only 4 are working on economic issues and in the Embassy and General Consulates of Ukraine in Germany among 33 diplomats only 4 are representative persons on economic issues (3 – in Berlin and 1 – in Hamburg). For comparison, in the economic division of the Embassy of Russian Federation in Germany 70 specialists are employed.

The question of the optimal structure of the departments of the economic diplomacy is not new in Ukraine. This problem was discussed by both Ukrainian (A.Flissak, 2005; O.Sharov, 2007) and foreign authors (A.Torkunov, 2004; E. Molendowski, W. Polan, 2007; N.Bayne, S. Woolcock, 2007). Its relevance

has increased significantly under the influence of the new challenges of globalization and financial crisis. However, different countries reacted differently to the need to implement change in the organization of economic diplomacy. Some of them, such as Poland, took the positive experience of Ukraine into account. They have expanded and increased economic component in the structure of their embassies. Others, we can name Ukraine as an example, decided to save money and because of the long dispute between the Ministry of Economic Development and Trade (the main coordinator and promoter of economic interests of the country abroad) and the Ministry of Foreign Affairs, sacrificed the Ukrainian economic diplomacy to the political structure.

Moreover, the trade and economic missions in the embassies of Ukraine abroad were liquidated on April 8, 2010 on the initiative of the Ministry of Foreign Affairs (The Decree of the President of Ukraine № 522/2010). Despite the instructions of the President of Ukraine, instead of them so far full-fledged economic departments with specialists with needed qualification have not been created. The Ministry of Foreign Affairs of Ukraine, as the practice reconfirmed in recent years, cannot fully provide this strategic area of work, neither functionally (promotion of economic interests of subjects of foreign economic activity, especially at the micro level is not even foreseen by the Regulations about the MFA of Ukraine) nor professionally or organizationally (The Decree of the President of Ukraine № 381/2011).

As a consequence, problematic issues in inter-state relations with its partners in various fields of the export business and investment cooperation through the lack of necessary information, analysis, staff, financial resources, slowness, and low qualifications sometimes emerge in Ukraine. For example, we can judge the quality of information support of Ukrainian business and the spread of the Ukrainian offers on market of neighbouring Russia by the following episode: as of the end of 2013 the last update of the Internet site of the Ukrainian Embassy in the Russian Federation in part of information about exhibitions in Ukraine was made in 2006.

In 2015, the situation with informational support has not changed: on the websites of the embassies of Ukraine in other states the content is about economic contacts between two countries that are limited by information-analytical references on the development of trade and investment contacts over the past 5-10 years. While there is no any information about planned activities in Ukraine, it is impossible to find data about prospective partners from among the representatives of domestic business. Under such conditions it is wrong to associate the efficiency of foreign economic activity of the state and the presence of the diplomatic staff abroad or its quantity. Thus, the quality of the economic diplomacy becomes the main problem.

As the language of the economy is numbers, let's look at latest results of Ukrainian foreign economic activity. In January, 2015 Ukraine lost 31.2% of its export and 33.4% of its import compared to January, 2014. And it would be wrong to place all the reasons of such decrease on political or military problems only. Numerous economic mistakes were made too. We consider that they are in the economic diplomacy in particular (Foreign trade of Ukraine in goods, 2015).

In addition to active participation in solving the above problems caused by globalization and the global financial-economic crisis, the Ukrainian economic diplomacy should also influence the decision of the strategic issues of cooperation with the countries of the Customs Union and the formation of a free trade zone both in the CIS and EU.

To save export, to conquer new positions in foreign markets and to expand export as a factor of GDP growth, in the context of the crisis in the world and in the EU, in particular, the search for new partners and development of mechanisms for the effective regulation and control of foreign economic relations from macro to micro level become especially actual.

Conclusions

In the twenty-first century the practice of organization of world economy and international economic relations suggests that economic diplomacy become their integral element. And it is necessary to emphasize the fact that economic rather than political goals and objectives play the main roles in this activity.

The experience of many countries in the world (such as countries of the European Union, People's Republic of China, the Russian Federation) shows that only in the presence of effective and relevant economic diplomacy the state can count on high macroeconomic outcomes and gain high positions in the

geo-economic processes and in the system of international division of labour. In such circumstances, it is important to develop a specialized separate unit within the bodies of state administration, which would be entrusted with the functions characteristic of the practical side of economic diplomacy.

As the analysis of existing practices shows the lack of state orders for the model of foreign economic activity and weak state initiative to actualize effective models for Ukrainian economic diplomacy and create a modern legislative framework for its successful implementation.

Considering the fact that globalization is the main driving force behind the development of economic diplomacy and it significantly affects international competition, Ukraine should implement the important steps to promote and protect its national interests on the world market in modern conditions. In this context, the model of economic diplomacy should contain mechanisms to settle both organizational and personnel issues, to ensure proper promotion and lobbying of foreign economic activity abroad.

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