

**DISCUSSION PAPERS IN DIPLOMACY**

***Commercial Diplomacy and International  
Business***

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Netherlands Institute of International Relations 'Clingendael'

ISSN 1569-2981

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## **ABSTRACT**

Commercial diplomacy is a significant factor in the on-going process of globalization, yet there is a shortage of empirical research on this activity. This paper reports the results of an empirical study conducted among diplomats and managers. It identifies three dominant types of commercial diplomats: civil servant, generalist and business promoter. The paper shows how commercial diplomacy contributes to the promotion of international trade and corporate partnership, to the resolution of business conflicts and the marketing of a country as a location for foreign investments, R&D activities or tourist destination and “made-in”. It presents the current trends in commercial diplomacy, examines the determinants of its value chain and service fees and makes a number of suggestions on how to improve performance given the growing willingness of governments to emphasize the business promotion approach.

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## COMMERCIAL DIPLOMACY AND INTERNATIONAL BUSINESS

*Michel Kostecki and Olivier Naray*

### ***Introduction***

Commercial diplomacy plays a significant role in global trade, investments and R&D activities, yet has remained virtually unexplored as a factor of international business development. This paper examines the issue from a managerial perspective. The emphasis is on the value chain of commercial diplomacy and on leading management issues such as service profile, its positioning, client-provider gap, management style, organizational matrix, as well as service fees, motivation, the evidence concerning improved performance and best practice. Empirical data has been collected through in-depth interviews, a panel of experts and questionnaire-based research.

### ***Commercial Diplomacy***

Diplomacy is usually described as the main instrument of foreign policy enabling the management of external relations of a state by communication with foreign authorities and publics, as well as through the process of negotiations and networking. Diplomatic activities may take place on the international level (bilateral, regional or multilateral) or within the host state (for example, relations with government departments, civil servants, parliament, NGOs, business organizations, corporations and so on). Commercial diplomacy is a government service to the business community, which aims at the development of socially beneficial international business ventures. Commercial diplomats perform their main activities in the host country and are usually staff members of a diplomatic mission or a trade promotion organization (TPO) / investment promotion agency (IPA). The term commercial diplomat in this paper stands for all different denominations that commercial diplomats might officially receive such as ‘commercial counselor’, ‘commercial attaché’, ‘trade representative’, ‘commercial representative’ and so on.

The term *commercial diplomacy* is frequently used to cover two somewhat different types of activities: (i) activities relating to trade policy-making (for example, multilateral trade negotiations, trade consultations and dispute

settlement) and (ii) business-support activities (Curzon 1965, Saner & Yiu 2003). The first category is also referred to as *trade diplomacy* and is designed to influence foreign government policy and regulatory decisions that affect global trade and investment. This paper deals with the second form of diplomacy and opts for the use of the term *commercial diplomacy* for the following reasons. First, the term *commercial diplomacy* is commonly employed within numerous foreign services and in the literature to describe business support functions performed by the members of diplomatic missions, their staff and the related agencies. Second, the alternative term *business diplomacy* is ambiguous since it is often used in reference to corporate activities widely known as public relations, public affairs or corporate-government affairs. Finally, the term *commerce* is broad enough to cover not only issues related to trade but also those related to investment, tourism or intellectual property. With globalization and greater government attention paid to corporate performance, job creation, and research and development (R&D), the role of commercial diplomacy tends to change. Table 1 below presents the main features of commercial diplomacy viewed as a service and briefly describes their managerial implications.

**Table 1**  
***The Nature of Commercial Diplomacy Services and their Managerial Implications***

<i>The Nature of Commercial Diplomacy</i>	<i>Managerial Implications</i>
1. Service	Performance – being intangible – is difficult to evaluate. It is highly dependent on the skills and motivation of the providing individual and/or team and on the quality of the relationship between the commercial diplomats and their beneficiary.
2. Government service	Government providers and business beneficiaries are involved in creating value to fulfill social expectations concerning business relations between the home and the host country. Government services, strongly influenced by politics and bureaucracy, often suffer from inefficiencies.
	The commercial diplomacy's service has to fit

3. Diplomatic service	into the context of the home country's foreign policy, its export promotion programs and wider economic policy objectives. The resulting subordination to several forms of authority may bring confusion and reduce accountability. Moreover, diplomats are frequently criticized for their limited understanding of business, lack of entrepreneurship and abuse of the diplomat's power for personal benefit or that of their cronies.
4. Public service	The business beneficiary does not pay for certain commercial diplomacy (public) services, which means that 'ownership' may be a critical issue in determining what the content and quality of the service should be and how it should be evaluated.
5. Commercial service	The business beneficiaries pay for certain other services, which raises the issue of what is the rationale for having the services provided by diplomatic missions rather than private consultants, intermediaries or self-help business organizations.
6. Networking service	A service in which the value is largely created through relationships that give access to new information not publicly available and forge business contacts is particularly intangible and difficult to assess. The skills, standing and the right motivation of the individuals involved in such activity is a [condition] <i>sine qua non</i> of success.

The spectrum of actors in commercial diplomacy ranges from (i) the high-policy level (head of state, prime minister, minister or a member of parliament) to (ii) ambassador and the lower level of specialized diplomatic envoy known as trade representative, commercial attaché, or commercial diplomat. The activities of the latter take place within a network of specialized, government-sponsored organizations charged with trade promotion or attracting foreign direct investments such as the TPOs or IPAs. It is this particular form of commercial diplomacy that is the focus of this paper.

### *Review of the Literature*

There are relatively few academic publications on commercial diplomacy and there is an even greater shortage of management science studies of the issue. Useful reviews of the status and functions of the commercial diplomat are offered by Carron de la Carrière (1998), Rana (2001), Saner & Yiu (2003), and Kopp (2004). Rana's study is an experience-based account by a former diplomat. These publications offer useful descriptions of the commercial diplomat's functions and numerous conceptual insights but are based on scarce empirical evidence.

Commercial diplomacy is also dealt with in a number of studies providing multi-faceted analyses of particular foreign services. A French study group (Commissariat du Plan, 1994) addresses commercial diplomacy in the context of competitive intelligence and business intelligence. A paper by Garten et al. (1998) considers the role of US commercial diplomats in Asia in the mid-1990s and evaluates its benefits for the US Administration and business community. A study by Potter (2004) concentrates on the Canadian experience and focuses on the added value of the commercial diplomat's functions. Quantitative evidence contained in the study by Rose (2005) suggests that export development is encouraged by diplomatic representations abroad. Using a cross-section of data covering twenty-two large exporters and two hundred import destinations, the author shows that bilateral exports rise by approximately 6-10 per cent for each additional consulate abroad.

Commercial diplomacy is perceived as an integral part of a trade promotion program in a study by Rothkopf (1998). The study evaluates the program's beneficiaries and deals with the controversies surrounding the benefit-sharing within the business community. Finally, commercial diplomacy is marginally addressed in a number of broader publications dealing with export promotion (e.g. Hibbert 1990, Kotler et al 1997). The Hibbert model suggests that the role of the 'commercial representation abroad' depends on the home country's institutional settings and organizational constraints and, in particular, on the relative position of the TPO, ministry of commerce and ministry of foreign affairs in the organizational matrix.

There is a tendency for diplomatic missions to undertake more and more technical and specialized business-assistance functions (Rose 2005, Rana 2001) and diplomatic staff are increasingly required to engage in partner search, promotion of investments and technology transfer or business

advocacy (Kostecki, 2005). The trend is encouraged by developments in Information Technology (IT) and low-cost transportation which naturally shift many specialized policy matters away from host country-based diplomats and towards experts located in the capitals of their home countries.

This paper concentrates on the role of commercial diplomacy in international business. Its objective is: (i) to assist managers and government in considering how to better use and improve commercial diplomacy and (ii) to provide researchers with a foundation for future systematic investigation. With reference to the latter objective we devised a model that explains the commercial diplomat's role in the process of business internationalization. This is based on the observation that the value added of commercial diplomacy is dependent on a set of variables specified in the path diagram shown in Appendix 2 and discussed in the main body of this paper.

### ***Quantitative Importance***

The scope and quality of commercial diplomacy depend on the number of people doing the job. Thus the first question asked concerned the number of commercial diplomats working abroad and of local professional staff assisting them. Questionnaire-based responses by ministries from twelve countries provided the data included in Table 2.

**Table 2**  
**Number of Commercial Diplomats by Country of Origin**

Country of Origin	Share of World Trade (in%)	Number of Commercial Diplomacy Units Abroad	Staff of Commercial Diplomacy Units Abroad
Germany	10.0	220	
United States	9.6	150	
Japan	6.3	80	780
China	5.8	50 (1)	
France	5.2	156	
United Kingdom	4.1	200	1500
Canada	3.6	100	585
South Korea	2.6	141	
Sweden	1.3	40 (2)	235
Switzerland	1.3	140 (3)	
Brazil	1.0	57	193
Poland	0.7	77	

*Notes: (1) Estimate. (2) Corresponds to commercial diplomats integrated in TPO offices abroad since the embassy does not perform export promotion; (3) Comprises 15 Swiss Business Hubs (TPO), which are not counted in our estimates.*

*Source: Trade data refer to the 2003 WTO statistics. Numbers in column 3 and 4 are based on questionnaire research.*

It is estimated that the total number of commercial diplomats across the world is no fewer than 20,000 and that the costs of commercial diplomacy operations – including salaries plus social charges and the operating costs related to the performance of commercial diplomacy functions – exceed half a billion US dollars per year (Appendix 3). Those figures do not comprise diplomatic envoys, such as ambassadors, who engage in commercial diplomacy in addition to their other main tasks and the non-diplomatic staff of various TPOs and business organizations which perform commercial diplomacy-related functions.

### *The Value Chain*

Commercial diplomacy is a value-creating activity. By value is meant the utility combination of benefits delivered to the beneficiaries minus the cost of those benefits to business and government (Porter, 1980). The commercial diplomacy's services may be thus presented as a value chain disaggregated into strategically relevant activities as shown in Figure 1. Two types of activities are distinguished: (i) primary activities (relating to trade and FDIs, research and technology, tourism and business advocacy) and (ii) support activities which provide the inputs needed for the primary activities to occur (intelligence, networking, involvement in the 'made-in' image campaigns, support for business negotiations, contract implementation and problem-solving).

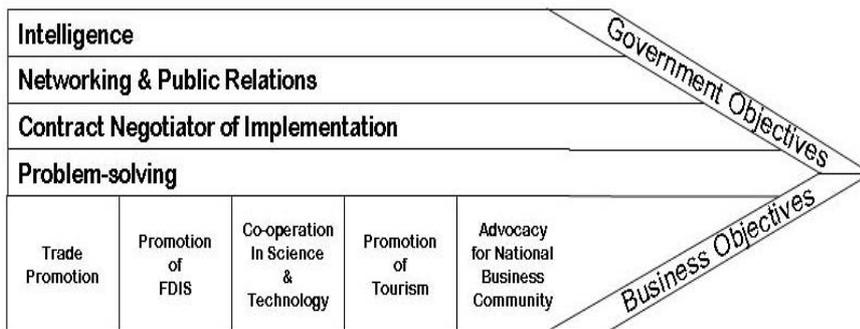
The primary activities of a commercial diplomat are essentially marketing-related. When asked to define his job, an experienced commercial diplomat from New Zealand described it as 'managing the relationship between sellers and buyers'.<sup>1</sup> Trade promotion covers such duties as involvement in trade fairs, exhibitions, trade missions, conferences or seminars and 'made-in' promotion campaigns. Commercial diplomats also become involved in the promotion of tourism and other services such as banking or education. In doing so, they often co-operate with TPOs / IPAs or bilateral chambers of commerce. Commercial diplomats often have a double mandate as TPO / IPA directors and as commercial counselors of the embassy. In countries such as South Korea, Taiwan or Japan, commercial diplomacy is delegated to the TPO's foreign offices and therefore the director of the branch in the host country is the 'commercial diplomat' in our understanding.

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1) In what follows, direct quotations from interviews have been italicised.

**Figure 1**

**Value Chain of Commercial Diplomacy**



The attraction of FDI is a growing activity because they stimulate the home country’s economic growth and employment in priority sectors or regions, as well as complementing co-operation in science and technology. Advocacy in favor of the national business community means the commercial diplomat’s involvement in public affairs for the benefit of national companies and business associations in their dealings with the host country government, parliament or main public (Kostecki, 2005). It also signifies that commercial diplomats react to host country proposals for regulations and international trade agreements.

The main support activity of commercial diplomacy is intelligence, which includes information search and dealing with business enquiries from the home and host country firms. A Central American commercial diplomat considers that ‘about 95% of clients do not ask for elaborate services but mainly for basic information on legal issues, political situation, etc’. A typical question might be: ‘is there a market for product X in country Z?’ Such simple activities mainly provide benefits for SMEs rather than larger firms. In Switzerland, economic reports of embassies follow standards set by Seco (belonging to the ministry of economy) and are prepared in co-operation with bilateral chambers of commerce. ‘In small embassies the basic service may be even assumed by such chambers’.

Intelligence from commercial diplomats most frequently concerns reporting on opportunities resulting from calls for tenders, development projects or the needs of leading industrial customers, information on changes in regulations affecting exporters and so on. Information-gathering is

progressively changing its character due to the improved transparency brought about by the WTO and Internet based information systems such as the EU centralized database <http://ec.europa.eu>. 'Trade promotion experts invite commercial diplomats to suggest business solutions instead of providing information'. Reporting becomes more business specific. 'One finds today business information on the Internet and in the Financial Times. Companies hate reports; reports should be short and to the point'. As a consequence, commercial diplomats may focus more on searching out more specific information on 'real-life' issues. Such 'tailor-made' information is often presented in confidential reports. 'The ambassador receives all the information and decides with whom to share it. Staff distribute the information accordingly thereafter'.

An illustrative list of comments on business-support functions of commercial diplomats is set out below:

- Business is conducted by companies but governments may open doors (Australian industrialist).
- We introduce business people but we stop there. Doing business is not our responsibility (commercial diplomat, South America).
- It (commercial diplomacy) is largely about personal relationships and networking (commercial diplomat, Anglo-Saxon country).
- Commercial Diplomacy is essentially about selling consulting services. Companies should be charged for it. (Trade promotion expert).
- Mostly manufacturing SMEs used trade promotion services. We deal with a number of Fortune 500 companies mainly to provide advocacy services. (commercial diplomat, Anglo-Saxon country).
- A trade representative needs time to become a player and to be taken seriously; at least 18 months (former commercial diplomat from New Zealand).
- Our ambassadors and commercial diplomats are in regular contacts with multinational corporations in order to encourage them to invest in our country (commercial diplomat from Central Europe).
- Commercial diplomatic services are particularly useful for newcomers to a given market or for SMEs with no experience in exporting (business person from France).

Networking is needed to bring together high tech start-ups with venture capitalists or other partners. Public relations are strategic for FDI promotion and may involve ambassador's contacts with CEOs of large companies and

attendance at business fora in the host country. Assistance in ‘match making’ is particularly frequent for the commercial diplomats from the UK, Brazil, Canada, China and Switzerland. Such activities refer both to trade issues and foreign direct investments. In the latter case the partner search may be also conducted on behalf of a particular region in the home country (Blili and Sermet, 2006).

Support for national firms involved in negotiations with the authorities or corporations from the host country are an important form of support by commercial diplomacy services, which favor a hands-on approach to business. A commercial diplomat’s public relations activities essentially aim at maintaining good contacts with business leaders and authorities and cover advocacy efforts aimed at the protection of the home country’s business interests in public hearings or consultations in the host country’s legislative process. The representatives of some Anglo-Saxon countries suggest that such activities are particularly frequent in the case of Fortune 500 companies. As noted by a former ambassador ‘hierarchy may be very important. The trade representative is not always received, when alone, by managers of large corporations and the Ambassador has to go along as well to gain access to top management’. In the UK, Australia, Canada and the European Union commercial diplomats are only too well aware of the important influence that an ambassador’s contacts may have for promoting foreign direct investments. As an Australian businessman puts it, ‘certain investments would have never taken place without a close contact between our ambassador and a CEO of a major foreign company’.

The commercial diplomats also act as advisers in contract negotiations, provide support for problem-solving in business or in corporate-government relations, and become involved in dispute settlement cases. The problem-solving activities frequently refer to the protection of intellectual property rights (Kostecki, 2006), tax issues, assistance to national companies which have suffered losses and wish to obtain compensation as well as various forms of support provided as diplomatic protection. Many of these kinds of problems are discussed during periodic bilateral consultations with government of the host country. Support for problem-solving is well illustrated by Asian commercial diplomats’ efforts to deal with the European health authorities ‘when a food product suffered from export ban to Europe’s market’. Commercial diplomats also assist in the finding of a ‘‘friendly’’ solution without judicial procedures when business conflicts arise’.

Table 3 presents some quantitative indicators of the relative importance of the various functions in terms of work load and time allocation by the commercial diplomat’s staff. Business intelligence and participation in trade

fairs and other trade promotion events tend to account for the major share of commercial diplomacy activities. With the notable exception of Germany and the UK, responding to requests for information on the part of the home and host country companies accounts for an average of 43 per cent of a commercial diplomat's time. A UK diplomat considers that the traditional intelligence function of a commercial diplomat is decreasing due to easier e-data access and improved transparency in business. Another significant activity is the involvement in trade fairs, trade missions and other trade promotion events which take, on average, more than 23 per cent of the time of the commercial diplomacy units. There are, however, notable deviations from this pattern. Germany, China and Brazil place significant emphasis on relations with the host country government rather than on dealing with enquiries for information. According to an Anglo-Saxon commercial diplomat, 'traditional trade work decreases to the advantage of promotion of services, science and technology and investments'. A similar tendency is confirmed by commercial diplomat interviewees from Japan and Canada.

The United States focuses on trade promotion activities (FDI issues being left to particular states), whereas the United Kingdom concentrates its efforts on the attraction of foreign direct investments, as well as scientific and technological skills and underlines the importance of public relations (especially at the ambassador level) in business support. Particularly intimate links between high level diplomacy and commercial diplomacy exist in the British Foreign Service where 'even the ambassador deals approximately 30% of his time with trade and investment issues'. Almost all commercial diplomats dealing with promotion of FDIs wish they had more time for that activity since it is increasing in importance to the national economy.

**Table 3**  
**Allocation of Commercial Diplomat Time between Various Business-support Activities (as a percentage of the questioned commercial diplomat's total work time)**

Commercial diplomat's Home Country	Trade Fairs	Promotion of FDI's	Government Relations	Business Intelligence & Partner Search	Support in Business Negotiations	Support in Business Disputes	Tourism
Germany	5	30	65	-	-	-	
United States	60			40			
Japan	20	70		10			
China	15	10	40	25		10	
France	10	10	15	60		5	
United Kingdom							
Canada	30	20		50		Ambassador	
South Korea	25	25		50			
Sweden	30			50	10	10	
Switzerland	10			40	40	10	
Austria	30			50		20	
Brazil			60-70				
Poland	25	13	12	50			
Hungary	20	25	25	25		5	
Venezuela	10	10	20	60			
Ireland	10			50	40	10	
El Salvador	50			50			
Portugal *	20 (est.)	15		20 (est.)	20 (est.)		25

Notes: questionnaire-based research.

\*60 per cent for all export promotion activities, the allocation '3 times 20%' (trade fairs, intelligence and support) is an estimate.

What determines the weight of the various commercial diplomacy activities? Here a number of variables are at play, variables which are both exogenous and endogenous to the national service of commercial diplomacy. The exogenous variables include: host country characteristics such as market size and potential, the location of a particular centre of gravity (if any), business style and governance, home country characteristics (such as the level of economic development, mobility of managers, IT use and attitudes towards business), and the nature of bilateral relations between the home and the host country.

The next two sections deal with the exogenous variables while endogenous variables are considered at a later stage.

### ***Host Country Characteristics***

The host country's market size and market potential is the most significant determinant of the investment in commercial diplomacy. Indeed, target countries with large and rapidly growing markets, such as Brazil, China, India, Russia or Eastern Central Europe tend to attract more commercial diplomacy activities than countries with small markets and limited growth.

Such markets are to be found largely in culturally distant countries where market penetration is a progressive process of learning by doing. 'Established companies need commercial diplomacy services particularly in new markets' (Swedish Manager). The recent experience with the Swiss Business Hub (SBH) suggests that 'business support is perhaps less urgently needed in neighboring countries than in major distant markets'. Several European and US managers refer to cultural problems in China, Japan or other Asian countries and recognize that 'commercial diplomacy may facilitate interaction'. The market-entry function of commercial diplomacy is particularly critical for small and medium-sized enterprises that are newcomers to a particular region.

The gravity centre is also, at times, important. No one may truly encourage their national financial industry without being present in London, New York or Singapore. Specialized trade fairs which, take place in certain locations may also require commercial diplomacy presence. For example, the Basel watch exhibition in Switzerland is essential for many foreign watch producers whilst for textiles and clothing numerous promotion activities are centered in Paris, Milan or London. The commercial diplomats from textile-exporting nations have to be there.

Various polity variables such as an unreliable legal environment, the inability to obtain satisfaction in courts or widespread corruption in the host country affect the nature of commercial diplomacy. Such an environment gears commercial diplomacy activities towards assisting the national firms that have been injured by acts contrary to law, the slow process of jurisdiction and so on. If such problems cannot be solved through normal channels,

commercial diplomats may be instrumental in exercising diplomatic protection.<sup>2</sup>

The relative importance of various commercial diplomat's activities depends on the host country's business regime. The business regime is defined by the rules and processes which guide the country's business relations. The role of a commercial diplomat's support in corporate-government relations tends to be particularly critical when local government or the governmental elite play a role due to state-trading, public ownership, production subsidies, or informal influence over local business. The business regime is clearly influenced by culture and tradition. The greater are the differences, the less reassuring it is for a newcomer to enter a market and the more important the commercial diplomat's role in providing business support, at least at the initial stage.

### ***Commercial Diplomacy and the Home Country***

Commercial diplomats often refer to the image problem of their economy abroad as an issue of true concern. Particularly for developing economies, the 'made-in' image, which relies on stereotypes, is difficult to modify. Commercial diplomats are involved in 'made-in' promotion, tourist campaigns, and meetings with potential investors to explain policy reforms that attract foreign business. For example, Venezuela's commercial diplomat noted that very little is known in Europe about her country's business community, including the country's leading energy sector and the role it plays in OPEC. Another commercial diplomat from a transition economy based in Europe noted that 'his main challenge is to give his national business an image of a credible trading partner'. Even in the case of Japan one of the commercial diplomat's tasks 'is to maintain "Japan Brand" i.e. the image of quality and precision of the Japanese products'. For a Canadian commercial diplomat his country suffers from an out-dated image since it is 'identified mainly as an exporter of commodities and not of high tech. Canada also stands in the US shadow as a trading partner'.

Commercial diplomats provide support for visits of the home country business people and politicians to the host country and offer assistance to encourage the participation of business people in various fairs, exhibitions,

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2) This is the act by which a State, espousing the cause of its subject as the injured party, intervenes in its own name when it feels that a rule of international law has been violated.

calls for tender and so on. In the case of certain developing countries such assistance may also comprise arranging for visas or temporary work permits.

The government approach towards business varies considerably between countries and strongly influences commercial diplomacy. In Switzerland and the United States, where government intervention has been traditionally low, exporting firms have fewer expectations regarding export promotion than firms coming from countries where government traditionally has been more present, as in Canada or Scandinavian countries. There are also substantial differences in the propensity of business to maintain contacts with national embassies when doing business abroad. For certain nationalities it is normal to contact host country diplomats, whilst others tend to act alone. A European businessman noted that 'the Swiss doing business abroad don't go to their embassies. They do this only when and if they have a major problem. Swiss businesses are used to dealing with challenges alone and do not feel the need to be watched by government'. French business people 'automatically go to the embassy once abroad, just to say "we are here" and meet and get to know the embassy staff'. The reason for this disparity might include such factors as managerial expectations concerning what can be obtained from a commercial diplomat, perception of the role of the state in business development, and cultural considerations. Every country and culture has its habits in business-government interaction and commercial diplomacy is not immune to that tradition.

The environment for bilateral business is another factor shaping the commercial diplomat's role. The commercial diplomat's activities depend on the climate of bilateral relations influenced by history, perhaps a colonial past, political proximity, the importance of the aid program, military alliances, and so on. A commercial diplomat's job may be facilitated by bilateral agreements (for example, on tax or FDI matters) and/or participation in common regional groupings such as a free trade area or customs union. As noted by an experienced diplomat 'the increasing interest in investments partly reflects a lack of a multilateral agreement on the matter which creates more work for commercial diplomats'. There is evidence that the EU commercial diplomats operating in other European countries have considerably modified their duties as regional integration has progressed over the years. Within EU countries, for instance, the classical export promotion tasks of the embassy have become obsolete, since trade barriers do not exist anymore and market information is passed via the Internet.

In the case of small countries or non-mature trade relationships, commercial diplomats are sometimes involved in setting up a bilateral chamber of commerce. On the other hand, when trade relations are mature

commercial diplomats tend to rely on inputs provided by bilateral chambers and operate in a symbiotic relationship with them. For example, some Anglo-Saxon commercial diplomats stress that they draw on the expertise of local bilateral chambers of commerce, and that their 'links with such chambers are generally informal and mutually useful'. Nevertheless, the role of certain bilateral chambers is not free of ambiguity. As noted by another commercial diplomat from a small European country, 'the chamber is usually a place where businesses meet in the foreign country to network with each other and to make deals and it is not clear why they should offer support to newcomers who are likely to become their competitor's.

There is a trend to close down small embassies and to reinforce larger multilateral embassies at the UN and elsewhere. Such developments modify the role that commercial diplomats may play for the private sector. For example, 'the meetings of the World Economic Forum in Davos, facilitate advocacy conducted against the background of multilateral economic negotiations', and can be considered the new arenas for commercial diplomacy. Certain authors talk about a modern form of multilateral commercial diplomacy where a direct interaction between ambassadors, politicians, business leaders and NGOs creates a new dynamic against which multilateral economic negotiations are conducted (Naray, 2001).

Increased mobility and the Internet obviously affect the way in which commercial diplomats work. 'Speed brings dramatic change. In the past one month used to be a normal time, now one has to act immediately, within a few days or a week'. Location is another issue. 'Today's commercial diplomat can work for a part of a continent from a business capital, for instance from Warsaw for central-eastern Europe. A commercial diplomat does not even really need an office anymore: a mobile phone and a lap-top PC should be enough for a traveling commercial diplomat to meet his clients'. The commercial diplomat's work is increasingly done where the business is, on the spot.

### ***Rationales for Commercial Diplomacy***

Commercial diplomacy, being a government service, is accused of certain shortcomings (for details see Table 1). In certain cases such 'criticism may be encountered because of the stereotypes regarding government agencies'. In others, it is a reaction to an unsatisfactory experience, exemplified in the list below:

- ‘(There is) no need for commercial diplomats: they only take advantage of diplomatic privileges; one cannot measure their performance in export promotion at all’(confidential source).
- ‘Exporters do not use the same language as diplomats’ (an export promotion expert).
- ‘A diplomat’s social life is often very unproductive’ (an export promotion expert).
- ‘Diplomats are most of the time generalists and do not understand business concerns’.
- ‘Commercial attachés are bureaucratic and ineffective’ (an Australian businessman).
- ‘Diplomats are most of the time overloaded with issues other than trade and investment so they have no time to do their job correctly as trade representatives and do not have the sense of priority to assist business people’.
- ‘Commercial diplomats will only help their private friends and will therefore encourage corruption within the diplomatic service’ (confidential source).
- ‘There is no need for commercial diplomats in a free market economy. Buyers and sellers can meet without their assistance’ (confidential source).

Since many commercial diplomat activities may be well performed by private firms or associations that are free of such shortcomings, the rationale for maintaining commercial diplomats abroad has to be considered. There are several reasons why being part of public administration may have advantages over private representation of business interests abroad:

**Economic intelligence:** intelligence is better gathered thanks to the embassy’s contacts. Moreover, diplomatic immunity encourages commercial diplomats to take risks in intelligence activities since *legati iure gentium sancti sunt* (diplomats are untouchable under international law).

**Visibility in the mass media:** a diplomat – especially an ambassador – attracts greater attention from journalists than a business person; they may stage promotion events at relatively low cost.

**Access to decision-makers:** high ranking diplomats have better access to the chief executive officers (CEO) of large corporations, policy-makers, bureaucracies and elites in the host country.

**Credibility:** diplomats enjoy more credibility when making promises and commitments during their efforts to attract foreign investors than private actors. They have greater weight when dealing with the host country's public administration and state-owned enterprises.

**Economies of scale and scope:** centralizing support to a national business community abroad permits the benefits of economies of scale and scope which diminish the cost of the promotion efforts that no private organization could reach.

**Instrument of government policy:** commercial diplomacy appears to be an essential component of state-sponsored export promotion activities. In certain cases it is motivated by the conviction that the state has a role to play as a business facilitator and a catalyst of entrepreneurship. In others, it is based on the assumption that certain objectives of business promotion abroad can be best accomplished by the commercial diplomats due to the synergies between government and business organizations.

### ***Beneficiaries of Commercial Diplomacy***

The main users of the commercial diplomat's services varies depending on the countries and circumstances concerned. The client characteristics which influence the nature of commercial diplomacy services are: (i) the fit with the filtering criteria established by the home country government and (ii) the readiness to pay for the service. Most commercial diplomacy services focus on SMEs. To put it in the words of a South American commercial attaché, 'large companies don't need us'. US commercial diplomats also consider that their services are 'mainly used by manufacturing SMEs; more than 93,000 such US firms used the services in 2004'. Other Anglo-Saxon commercial diplomats state they assist both SMEs and larger corporations but the profile of the support differs between the two categories. While in the case of big business the emphasis is on public relations involving the host country government and private sector personalities, the services offered to SMEs are more technical and diversified and less relationship-based.

A particular set of problems concerns the filtering criteria that are used to allocate the commercial diplomat's services between the various firms. The issue is particularly important for the commercial diplomacy services offered free of charge and where the diplomats are sometimes accused of 'servicing

their friends' or providing support to business in unjustified cases. Most commercial diplomats maintain they use government-imposed filtering criteria to ensure that their efforts are targeted at the right businesses. Within the SME category UK commercial diplomats operating in developed countries 'prioritize service firms and high tech start-ups'. In most cases special attention is paid to newcomers and to the priority business, that is to the areas of business which have been targeted by the government as being particularly promising in terms of job creation, regional development or R&D.

A Europe-based commercial diplomat from South America stresses that, in her country, many small entrepreneurs try to initiate new ventures abroad. This is encouraged by domestic unemployment, the prestige attached to international activities and the desire to innovate. Unfortunately, most such initiatives are not well prepared. 'We are not able to assist everybody especially when the people concerned lack education and experience and expect us to do their exporting job. Priority is given to those that have the best chances to succeed'. The criteria is a paraphrase of the old marketing rule that 'nothing succeeds like success' but it is doubtful whether it can be objectively applied given the *ad hoc* filtering practice in the commercial diplomat's office itself.

In the US, 'filtering and pre-advising, i.e. eliminating the companies that are not "export ready", essentially takes place at home, via export assistance'. A commercial diplomat from Latin America complains about the extent of 'waste' in his country's diplomacy resulting from a poor filtering system. In the judgment of an experienced commercial diplomat, 'we are not able to respond to every request ... only those who satisfy the criteria should be assisted. For example, our exporters of meat and poultry use our embassy in their dealings with the local sanitary authorities or to initiate a new business project'. Commenting on the prioritization of her clients, a South American commercial diplomat notes: 'we serve those companies in the host country that want to import our products. Secondly, we provide services to our exporters who are serious and wish to export to our host country market'.

In many instances embassies do not charge for their commercial services but this approach is being increasingly questioned. In the opinion of most interviewees, clients should be charged 'for the service'. 'They' should be charged 'not to maximize revenue but for prestige and to ensure service quality'. Others believe that commercial diplomats should charge, at least for some of their services and offer them to those who are willing to pay. 'If a company believes in its product and in its internationalization strategy it will pay'. Many commercial diplomacy systems already follow this practice. 'It is the principle of the US commercial diplomacy to charge for services such as

market research and involvement in trade fairs'. The Irish, Swiss and French commercial diplomats 'charge for a range of commercial diplomacy services' especially when 'the requests are demanding'. In particular, 'services such as market research and other forms of consulting are provided against a fee'.

Such an approach, says an experienced commercial diplomat, prevents commercial diplomats from 'helping their private friends and encouraging corruption'. Charging for commercial diplomacy services – even if only to cover a fraction of the expense – might also reduce the ineffective allocation of public funds. As noted by a trade promotion expert: 'the best exporters do not use the service and providing the service to the worst exporters is a waste of time and resources'.

The level of the fees charged depends on the circumstances and the country concerned. 'Fees vary from country to country between 140 and 160 dollars/hour (2006 data) to 450 euro/half a day'. Many commercial diplomacy services are sub-contracted if an embassy does not have the resources to carry them out and the market determines the fee level. A commercial diplomat from Europe noted that 'embassies have no time for market research' and services are frequently sub-contracted.

Measurement of performance, although difficult, is important. There is a rising conviction that commercial diplomats should have their performance evaluated both by business managers and by government. Performance can be measured by industry's feedback, the number of clients, client loyalty and the revenue generated. The indices might also include: service fees earned, export growth by the commercial diplomat's clients, a listing of business transactions (or problems) concluded (or solved) with the commercial diplomat's assistance, business' view of the commercial diplomat's relevance, analysis of compliments and complaints by beneficiaries, the degree of respect for government rules or filtering criteria, the commercial diplomat's contribution to the fulfillment of government objectives and so on. Quality management certification might also be used to enhance performance.

In most cases, commercial diplomats state that they have no shortage of customers to serve. Requests for assistance originate from both home and host country companies, business organizations and professional associations whilst commercial diplomats manage their network of relations to obtain data, gain influence, offer services and charge fees. Priority is given to 'home business firms' willing to enter the host country's market. The best source of new clients for commercial diplomats is referrals. Some Anglo-Saxon commercial diplomats say they use referrals to acquire new companies. Japan's JETRO (Japan External Trade Organization) employs the cases of successful activities in its PR campaign among Japanese firms both 'to attract

quality clients and to build positive image in the business community'. Most offices collect the opinions of the companies served to evaluate performance, gain recognition and to put in place the necessary corrective measures.

### ***Style of Commercial Diplomacy***

Our research has shown striking differences in style and approaches to commercial diplomacy among countries. Three basic types of commercial diplomats can be suggested: (i) business promoter, (ii) civil servant and (iii) generalist commercial diplomat.

A **business promoter** may be described as a business-oriented, pro-active commercial diplomat that seeks the satisfaction of companies served (rather than that of the ministry). Their major role is to provide the consultancy-like services requested by business firms. Knowing business, they are close to managers, have a solid technical know-how and entrepreneurial approach. Usually located in the economic capital of a host country, possibly with branches in the main industrial regions, they have a hands-on vision of support activities. Most of the consultancy services they offer are provided against payment. To put it in the words of an Irish expert, the most successful commercial diplomats 'are those who work mainly for the clients'.

A **civil servant** commercial diplomat has a behavior pattern of an employee in the ministry of trade. These commercial diplomats tend to be reactive rather than pro-active and keep their distance from business deals (an arms-length approach). A civil servant commercial diplomat typically emphasizes policy implementation rather than business support and is more responsive to government instructions than client needs. Their strength is to provide a link between business and the ministry rather than to stimulate business operations.

A **generalist** commercial diplomat is a career diplomat assuming business support functions on an *ad hoc* basis or in addition to other diplomatic duties. Typically, they tend to be less technical than the two former types. However, they may offer good contacts (especially at ambassador level) and place commercial diplomacy activities within a broader context of the foreign aid programs and national diplomacy.

No doubt, the commercial diplomat's place within the organizational matrix influences their style and motivation. The commercial diplomat's predominant subordination to (i) foreign affairs favors their diplomatic functions, (ii) subordination to the trade ministry encourages their role of a civil servant and (iii) their strong links with TPOs emphasize their role of a business promoter.

There are divergent views on the extent to which commercial diplomats should become involved in hands-on business operations. 'A commercial diplomat may be useful but he cannot substitute himself for a business firm in international market. Managers should themselves do what is needed to succeed', comments a Brazilian diplomat. 'Commercial diplomacy should be export policy-focused rather than focused on providing support to specific individual firms'. The commercial diplomat should assist a larger range of companies rather than provide business-support to individual firms. The commercial diplomats from the United States, the UK, Korea, Japan and Canada opt for a more company-specific approach even though the latter may be carefully selected according to government criteria. In the case of Switzerland many hands-on commercial diplomat functions 'have been delegated to the Swiss TPO which maintains more than a dozen of Swiss Business Hubs (SBH) in major markets that are staffed by Ministry of Trade and Ministry of Foreign Affairs diplomats alike'. Thus the Swiss diplomats operating from the SBHs tend to perform more hands-on business activities than those located in the Swiss embassies.

Table 4 summarizes the essential features of the particular styles of commercial diplomacy and suggests how the countries considered might be associated with various styles of commercial diplomacy.

### ***Skills and Experience***

Depending on the role attributed to them and their place in the organizational matrix, commercial diplomats tend to have different educational backgrounds and professional experience. Business providers are expected not only to have business training and education but also direct experience in the private sector. In Ireland, the most successful commercial diplomats are those with a business background and at least five years experience in senior management, if possible in marketing.

**Table 4**  
**Dominant Feature of a Typical Commercial Diplomat by Country**

Type of Commercial Diplomat	Business promoter	Civil Servant	Generalist
Approach	Commercial issues are understood mainly as business issues.	Commercial issues are seen as an integral part of international relations.	Commercial issues are perceived in a broader diplomatic and political perspective.
Leading concern	Focus on client satisfaction.	Focus on satisfaction of the Ministry of Trade.	Focus on satisfaction of the Ministry of Foreign Affairs.
Country ranking according to the commercial diplomat type	Ireland Canada United States Sweden Finland New Zealand Austria Portugal UK Switzerland Hungary Japan Korea	Germany Poland China Cuba	Brazil El Salvador Venezuela

*Note: Country name shifted to the right signifies that the commercial diplomat style is a hybrid involving certain aspects described in the next column. The results are based on thirty five in-depth interviews with commercial diplomats, government officials, experts and managers. For the methodology of the classification see Appendix 4.*

It has been also suggested that after several years of diplomatic service commercial diplomats should return to the private sector so as not to lose touch with the world of business. For example, in Ireland, 'it is most useful if commercial diplomats go back to private sector after 3 to 4 years' in diplomatic activity.

A civil servant commercial diplomat typically has trade ministry rather than business experience. They often have some economic or commercial school training but little direct business know-how. For example in Poland or Germany the counselors tend to have a background in economics but very limited first-hand business experience. In the Swiss foreign service *most attachés are generalists learning on the spot*. For local market expertise Swiss Business Hubs (SBH) hire local assistants or subcontract to local consultants. A generalist diplomat also rarely has direct business experience or business education and tends to learn by doing. The commercial diplomat type is often interested in policy issues which may facilitate their work with other ministries and in dealing with trade regulation and advocacy. Clearly, the basic business-support function is not very popular with that type of commercial diplomat. Countries like Japan or Korea encourage their commercial diplomats 'to remain for a longer period of time in the same posting to ensure good local contacts and expertise'.

### ***Organizational Matrix***

An important determinant of the nature of commercial diplomacy is the organizational matrix: the commercial diplomat's behavior varies depending on whether they are primarily integrated within the country's foreign service, trade ministry or a TPO / IPA (investment promotion agency). The most frequent rank of a commercial diplomacy office is one based on a dual supervision involving foreign affairs and the trade sector (represented by ministry of trade or TPO). Several examples may illustrate the diversity involved.

Australia, Canada and Sweden combine foreign affairs and trade in a single ministry and maintain a separate commercial diplomacy service distinct from their diplomatic service, though the heads of the diplomatic missions are responsible for both activities. UK Trade and Investment (UKTI) is subordinated both to Foreign Office and the Department of Trade and Industry. The UK trade representatives are career diplomats but commercial activities take the lion's share of UK diplomatic resources. In the case of the UK Rana (2001) talks of a matrix of 'part unification' since the two ministries

have created two special units in the Foreign Office to handle trade and investments by a unified diplomatic service.

The US commercial service is a part of the Department of Commerce but it also reports to ambassadors and, through them, to the Department of State. The dependence on the Department of State was considerably reduced in the 1980s and, in the view of a US commercial diplomat, it worked out well, stimulating both entrepreneurial and business-like attitudes. The US trade representative works in close co-operation with Global Trade Promotion (a TPO belonging to the Department of Commerce) but it also co-ordinates its activities with another twelve trade promotion agencies on the federal level. The greatest proportion of the staff in the US commercial service is formed by people with business training and experience.

In the Hungarian system TPO/IPA directors, who are in charge of trade and investment promotion, tend to have diplomatic status, and report both to the ministry of economy and to the ministry of foreign affairs. Hungary's ambassadors often 'assume important commercial functions especially to attract FDIs'. In the Polish foreign service too a commercial diplomat has two superiors: the ministry of foreign affairs and the ministry of economy. In Chinese embassies the office for economic and commercial affairs reports to 'the ministry of commerce but it also works with the relevant ambassadors'. The French *Mission économique* stationed abroad reports both to the ministry of foreign affairs and to the ministry of trade.

A different model of organizational structure for commercial diplomacy is that adopted by Japan and South Korea. Commercial diplomats of the two countries are essentially civil servants working for JETRO and KOTRA (Korea Trade Investment Promotion Agency) respectively. The commercial diplomats report, in the first instance, to the ministry of commerce but work in close collaboration with their ambassadors and the ministry of foreign affairs in high policy-related matters. In Germany and China the ministry of foreign affairs is not directly involved in commercial diplomacy and the activity is the responsibility of another ministry.

The problem with a two-headed structure is that it results in tensions affecting the commercial diplomat's operations: turf disputes based on overlapping mandates, confusing messages coming out of various government agencies, distorted motivation of commercial staffs that have to satisfy too many publics. This ambiguity of rank has at times created problems in the commercial diplomats' relations with their ambassadors. As expressed by an experienced commercial diplomat 'the best strategy is to avoid my ambassador in order to escape the "kiss of death" therefore a silent relationship with ambassador is a good relationship'. On the other hand, the

relationship with the ambassador may be essential in the business-focused foreign services where the head of the diplomatic mission may assume important commercial diplomat functions such as lobbying and public relations.

The French solution of dealing with bureaucracy and ambiguous hierarchy is to have the economic missions certified ISO 9001; they are thus expected to follow the ISO 9001 procedures and are supposed to be controlled on a regular basis by their clients. Also, it is useful to build good relationships with other commercial diplomats (in the host country). The relationship should be informal and personal: 'It is OK to ask for data if one is not competing'.

Our research confirms Hibbert's (1990a) suggestion that the differences in the organizational structure have implications for the objectives and professional style of commercial diplomats. Those commercial diplomats that are strongly integrated into foreign affairs tend to be more policy-oriented, less business-focused and more reluctant to follow a 'hands-on' approach in business support. To put it in the words of a Brazilian commercial diplomat who is part of the country's foreign service, 'we may introduce the fiancée but we don't get involved in the terms of the engagement. We might get involved if there are problems but there is no regular follow-up. Companies keep us informed if they wish but there is no responsibility on our part'. In contrast trade-oriented commercial diplomats such as the Koreans or Japanese focus on products rather than general policy objectives. For example, Korean commercial diplomats concentrate on electronic products and spend most of their time working with specific companies rather than implementing broader export promotion objectives. The hands-on approach is also favored by JETRO in Japan.

Separating steering from rowing (Osborne and Gaebler, 1993) is probably the most promising approach. As noted by Drucker (1977), successful organizations separate top management from operations, so as to allow top management to concentrate on strategic decision making. Business promotion policy-making and in the field commercial diplomacy should be run by separate staffs each with their own mission and goals.

### ***The Client-Provider Gap in Commercial Diplomacy***

There is a striking gap between what business needs and what is offered by commercial diplomacy. When summarizing the situation in Table 5 we focus on the cases of the generalist and civil servant commercial diplomat where the gap is the most visible.

It may be easily seen that what business people want is commercial diplomats of the ‘business promoter’ type. This means a more business-orientated and hands-on approach, more experienced personnel and a more pro-active entrepreneurial vision in guiding the commercial diplomat’s activities. commercial diplomats are expected by business to engage more actively in business advocacy and to contribute to deal-making. It is the conviction of most of our interviewees that such demands on the part of the business community will force important reforms in commercial diplomacy systems.

***Table 5***  
***The Client-Provider Gap in Commercial Diplomacy***

	Commercial Diplomacy Offers	Companies Needs
Partner search	<ul style="list-style-type: none"> <li>- Standard lists of importers and distributors and information from the Internet web pages.</li> <li>- Relatively slow reaction to enquiries.</li> <li>- Too little sense of the market and knowledge of how it is moving.</li> <li>- No pro-active partner search.</li> </ul>	<ul style="list-style-type: none"> <li>- Insight knowledge of the importer /distributor and potential clients and ‘ranking’ of the priority targets.</li> <li>- Rapid responses to enquiries.</li> <li>- Pragmatic evaluation of who needs the product and how it should be adapted.</li> </ul>
Market information search	<ul style="list-style-type: none"> <li>- Emphasis on macro-economic statistics and reports.</li> <li>- General information on trade barriers and agreements.</li> </ul>	<ul style="list-style-type: none"> <li>- Sector specific brief notes listing tender opportunities and other attractive projects.</li> <li>- ‘Real life’ analysis of market access and potential threats.</li> <li>- Sense of decision-making affecting development of the regulatory environment.</li> </ul>
Investment facilitation	<ul style="list-style-type: none"> <li>- Promotion of a country’s image on the level of host government</li> </ul>	<ul style="list-style-type: none"> <li>- Guidance on what type of attractive conditions</li> </ul>

	<p>authorities and large MNEs to build trust and a good reputation (public diplomacy) for inward FDI.</p>	<p>can be truly obtained in the case of investment. How does it compare to what is offered elsewhere.</p> <ul style="list-style-type: none"> <li>- Commitment, credible promises of support on the part of the authorities.</li> </ul>
Trade fairs	<ul style="list-style-type: none"> <li>- National stand to present the country.</li> <li>- Support for national companies that participate in the fair.</li> <li>- General patronage of the diplomatic mission (ambassador's visits, etc).</li> </ul>	<ul style="list-style-type: none"> <li>- Find distributors or partners for joint ventures prospect new customers.</li> <li>- Targeted approach and follow-up. A fair makes sense only as an element in a broader strategy, otherwise it is waste of resources</li> </ul>
Contract negotiation	<ul style="list-style-type: none"> <li>- Introduction of potential partners but no involvement in contract negotiations or providing technical support.</li> </ul>	<ul style="list-style-type: none"> <li>- Preparing the ground for negotiations, involvement in organizing technical support locally (e.g. legal advice, tax expertise, bank contacts).</li> <li>- Public relations to ensure that the national company is perceived as a credible partner.</li> </ul>
Problem-solving and trade disputes	<ul style="list-style-type: none"> <li>- Lists of local lawyers.</li> </ul>	<ul style="list-style-type: none"> <li>- Expression of concern to the local authorities when needed. Pro-active attitude in problem-solving.</li> </ul>

Source: Based on forty in-depth interviews with commercial diplomats, government officials, experts and managers.

### ***Conclusions and Recommendations***

Commercial diplomacy continues to play a leading role in international business development; there are some 20,000 commercial diplomats and their staff across the world and no fewer than 500 million US dollars are spent on such activities annually. The value chain analysis indicates that among the primary activities of commercial diplomacy the most important are trade promotion and – for a cluster of economies strongly prioritizing foreign direct investments – FDI-related functions. Among the secondary activities most time is spent by the commercial diplomats on information search and analysis and on responding to requests for information made by companies.

The coverage and nature of the commercial diplomat activities has been evolving over the last two decades in response to shifting government priorities, technological change and developments in the trading system. The change in coverage signifies, in particular, an increasingly active attitude of governments and their commercial diplomats in attracting FDIs. It also means a growing role in the promotion of research and development (R&D), country image or country branding ('made-in') and tourism.

E-business and e-government have redefined the *modus operandi* of commercial diplomacy and the added value of its various secondary activities. Since certain types of information (e.g. on tariffs and import regulations, legislative proposals or calls for tender) are easily available from public sources through the Internet, more emphasis is being put on discovering 'hidden' information, as well as on public relations, business advocacy and support in deal-making or contract implementation. This trend is particularly pronounced in servicing the larger business companies while more classic commercial diplomacy services dominate in the support of SMEs.

The rise of neo-liberalism and market-orientation over the last two decades has reinforced the pressure towards business-promoting commercial diplomacy, which requires commercial diplomat's proximity to companies and greater emphasis on business support, rather than civil servant or foreign policy functions. This in turn also brings pressures to reduce the client-provider gap in commercial diplomacy and more attention is now being paid to business development rather than policy or regulatory issues. The business promoter type of commercial diplomat is gaining in popularity and this shift has important implications for human resource management, organizational structure and the use of the modern techniques of performance enhancement. To be effective, a commercial diplomat needs extensive managerial experience, as well as interpersonal skills and contacts. This is more easily said than done because people with excellent relational skills in business are

usually reluctant to accept public service salaries or bureaucratic constraints. One option is to hire business persons on a temporary (3-5 year) basis and to let them go back to the private sector after an *intermezzo*. In such circumstances it may be possible to attract highly skilled individuals through a result-based motivation and reward system (e.g. participation in the service fee), diplomatic status, flexible terms of reference which fit into their carrier objectives, emphasis on the social role of the commercial diplomat's function (the charm of benevolence) and the opportunity to gain experience in government and new markets.

In terms of the organizational structure, what is probably needed is a hybrid arrangement which combines a quasi entrepreneurial freedom with supervision by the head of a diplomatic mission to ensure consistency with foreign policy goals including export and investment promotion policies in particular. The extent to which the commercial diplomat should contribute to political affairs such as business-government projects in the areas of technical assistance, review of inter-governmental trade agreements, dispute settlement and so on has to be reviewed. This often signifies a shift away from a structure dominated by the ministry of foreign affairs or ministry of trade towards a TPO-lead network comprising the ministries but – at the same time – empowering the commercial diplomat to perform according to well-defined and measurable criteria. The correct choice of evaluation and motivation is a key issue since, if it fails to reward an effective service, it will probably reward failure.

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## ***Appendix 1***

### ***Data Collection and Research Methodology***

Research methods and procedures followed recommended guidelines for theory development in behaviorist research (Deshpande 1983, Zaltman, LeMasters, and Heffring 1982). We began by collecting data through panel discussions and through 44 progressively structured, in-depth interviews. The interview transcripts were then analyzed to reveal broader patterns. As opposed to the hypothetico-deductive approach – where an a priori theory is superimposed on the available information – in grounded theory development, patterns are expected to emerge from the empirical research. The interview questions referred to issues such as (i) the nature of the commercial diplomacy service, (ii) the status and place of the commercial diplomat in the organization structure of their foreign service, (iii) the value chain of commercial diplomacy in various national foreign services, (iv) the commercial diplomat's relationship with their clients and other members of the network, (v) the managerial styles and performance evaluation of commercial diplomats, (vi) leading issues in management of commercial diplomacy, (vii) critical challenges and (viii) suggestions for improvements. In addition, a series of questionnaires was administered to foreign and trade ministries of selected trading nations to collect information about the number of commercial diplomats, their staff, status and their main activities.

In-depth face-to-face interviews proved to be a useful tool for the model development and testing of our research hypothesis. They were supplemented by two telephone interviews with business leaders and a panel discussion. The research team was encouraged to emphasize lateral thinking and insights rather than the mechanical sorting of ideas. Interviewed commercial diplomats, businessmen and experts were selected by a research panel involving the authors and one senior diplomat. The sampling was conducted in a manner so as to cover the major types of commercial diplomacy from developed, developing and transition economies, a variety of business sectors and type of expertise. The interviews were conducted with 22 commercial diplomats originating from Australia, Bolivia, Brazil, Canada, China, Cuba, El Salvador, Finland, France, Hungary, Ireland, Japan, Korea, New Zealand, Poland, Portugal, Switzerland, Sweden, the United Kingdom and the United States. The 16 business people interviewed represented companies from Australia, Austria, Belgium, France, Hungary, Poland, Sweden, Switzerland, the United States and two business associations from Austria (*Wirtschaftskammer*) and Switzerland (OSEC). The six independent experts in

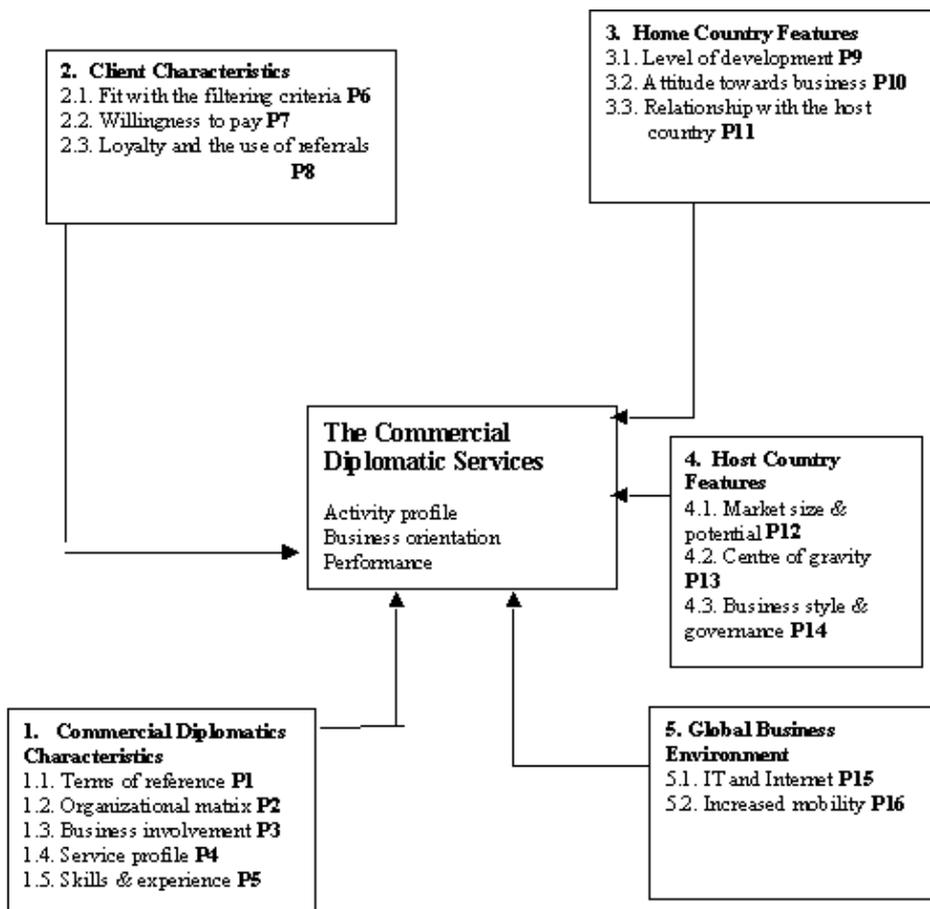
commercial diplomacy were from Canada, Hungary, Switzerland, the United States and two international organizations. The panel discussions took place during an ITC expert meeting on commercial diplomacy in Geneva in December 8-10, 2004. Additionally, 30 questionnaires addressed to central administrations of foreign services in a chosen group of countries were sent out by e-mail and fax; 12 valid and useable answers were received from the set of countries listed in Table 3.

We always tried to interview with a progressively more and more defined focus. The initial formulation of the research question was considered as tentative and the question shifted considerably as our qualitative research progressed. The interviewees were promised confidentiality to reduce their self-censorship. The initial design of our theory-building research was inspired by literature on commercial diplomacy, export promotion and the marketing of a country as a place for foreign direct investments and R&D activities.

The interview data was analyzed to reveal broader patterns. The data enabled us to develop a systematic classification of the major business functions of commercial diplomats and to estimate their time allocation between the various activities. The Ishikawa framework was used to gain insights into the problems raised and to evaluate the relative importance of the various concerns.

## Appendix 2

### What Determines the Service of Commercial Diplomacy (CD)?



### ***Propositions of the Model***

P1: A commercial diplomat may act as (i) business promoter (ii) civil servant or (iii) generalist diplomat.

P2: The CD's subordination to (i) Foreign Affairs favors their diplomatic functions, to (ii) Trade Ministry encourages civil servant approach and strong links with (iii) TPOs favor business promoter style of commercial diplomacy.

P3: The relative importance of various secondary CD activities depends on government priorities and business willingness to pay for the service rendered.

P4: The CD's hands-on involvement in business promotion depends on organizational structure, culture and the system of CD recruitment, motivation, control and reward.

P5: The greater the CD hands-on involvement in business support, the more attention is paid to the CD's business experience and effective links with the business community.

P6: CD may offer commercial services (which are paid for) and public services (offered free of charge). Public services are offered most frequently – in accordance with governments' filtering criteria – to SMEs, newcomers, priority sectors and firms which are 'ready for international business'.

P7: Commercial CD services are offered to companies that are willing to pay for them.

P8: CDs rely largely on referrals and loyalty to ensure their client base.

P9: CDs from developing countries are particularly concerned by the image of their country's 'made-in' and business community.

P10: Business-friendly governments tend to favor CD services which emphasize business promotion.

P11: The lack of a reliable set of rules for business between the host and the home country creates additional challenges for commercial diplomacy (e.g. taxation or FDI agreements or visa arrangements).

P12: CD activities tend to be particularly developed in large and potentially attractive markets.

P13: The relative importance of various primary CD activities depends on the host country's importance as centre of gravity for that type of business (e.g. banking centre, fashion centre, specialized R&D cluster).

P14: With the convergence of business regimes in the home and the host country, the problem-solving function of commercial diplomacy tends to diminish.

P15: With the improved access to information through IT technology the CD has increasingly put emphasis on relationship-based intelligence and business support.

P16: Improved mobility and communication imply that numerous traditional CD functions are increasingly assumed directly by the business people concerned.

### *Appendix 3*

#### *Estimating Quantitative Dimension of Commercial Diplomacy*

The data obtained relate to the six largest trading nations and six smaller economies. The countries – which account for about half of the world trade – maintain 1,356 commercial diplomacy offices abroad. The data suggest that, on average, there are some 7.5 staff per office and that the countries considered might account for about 10,500 permanent commercial diplomacy staff located in the host countries. The total commercial diplomacy staff for all trading nations may be expected, thus, to be in the range of 20,000 full-time commercial diplomacy employees, assuming a normal distribution of the commercial diplomacy activities. An estimate of \$ 250,000 is used – after consultations with three experts – to account for a salary of a diplomatic envoy, their relocation grants (plus related expenses) and the operational costs related to performing the commercial diplomacy duties abroad.

#### *Appendix 4*

##### *Methodology used for Table 5: Country Classification of the Dominant Commercial Diplomacy Styles*

The classification of countries comprised in Table 5 was suggested by a panel of three researchers. When coding differences between two independent evaluators could not be resolved (one case), one of the authors acted as arbitrator to finalize the classification.