

THE IMPACT OF ECONOMIC DIPLOMACY ON FOREIGN TRADE. EMPIRICAL EVIDENCE FOR THE EUROPEAN COUNTRIES

Cătălina BRATOSIN-VASILACHE*, Liviu-George MAHA**

Abstract

Lately, economic diplomacy has been gaining attention in the empirical studies, many of them focusing on the contribution of the diplomatic service and emphasizing the relevance of diplomatic relations in boosting trade. Thus, quantitative research design, mostly based on the gravity model of international trade, is being applied in analyzing the impact of economic diplomacy on international trade or foreign direct investments. This paper aims to present a comprehensive perspective of the empirical studies that consider economic diplomacy as one of the determinants of foreign trade in the European countries. The findings of this paper suggest that economic diplomacy, through activities carried by diplomatic representations abroad, such as embassies, consulates and export promotion agencies, has a positive impact on foreign trade.

Keywords: economic diplomacy, foreign trade, exports, gravity model, economic growth

Introduction

After the end of the Cold War, Samuel Huntington stated that in a world where a military confrontation between the great powers is unlikely, economic power will play a key role in determining the supremacy or subordination of states (Huntington, 1993). The changes that have taken place in the global economic structure, influenced by technological developments, have had an undeniable impact on the understanding of international policies, power and diplomacy (Strange, 1992). D. Lee and B. Hocking claim that global economic evolutions have allowed focusing the attention on analyzing matters of economic, social and political interdependency, as well as issues regarding the interconnection of state and non-state actors in the international system (Lee and Hocking, 2010).

* Cătălina BRATOSIN-VASILACHE is PhD Student at the Alexandru Ioan Cuza University of Iași, Romania, e-mail: catalina.vasilache@ymail.com.

** Liviu-George MAHA is Professor at Alexandru Ioan Cuza University of Iași, Romania, e-mail: mlg@uaic.ro.

Traditionally, the main objectives of diplomacy have focused on political cooperation and maintaining security and peace. However, the recent transformations of the global society, including the economic aspects, have led to an increase of the importance of international economic relations in diplomacy and have also created the premises for new forms of diplomacy, such as economic diplomacy. At the same time, governments have realized the importance of using the instruments and methods of diplomacy, and especially economic diplomacy, to enhance the economic growth and development of their states.

Defining economic diplomacy is a complex process, because it is not limited only to fulfilling economic or trade objectives, but it also involves accomplishing major national interest objectives, of political, strategic and economic nature, with states establishing strategies in the field of economic diplomacy in order to ensure economic well-being and security. Economic diplomacy is a part and a means of foreign policy which concentrates on using political and economic instruments in the decision-making process (Veenstra *et al.*, 2010). Berridge and James also consider economic diplomacy as an instrument for implementing foreign policy, which serves to fulfill economic objectives (Berridge and James, 2003). Thus, the role of economic diplomacy can be divided into two levels of implementation: macroeconomic and microeconomic. At the microeconomic level, economic diplomacy implies supporting particular companies, following individual actions of economic agents, while at the macroeconomic level it consists of actions targeting the development and protection of national interests in resolving problems regarding the integration of the national economy in the world economy, focusing on the interaction between national economic systems (Șerban, 2010).

The purpose of this study is to present the current understanding of economic diplomacy's impact on foreign trade. The motivation in choosing this topic is represented by the actuality of the subject in the European context, economic diplomacy being one of the main components of the European states and non-state actors' foreign policy. Accordingly, the study will pursue the following objectives: presenting conceptual delimitations on economic diplomacy, presenting the objectives of European states' economic diplomacy and exhibiting the empirical studies following the impact of economic diplomacy on foreign trade.

1. The concept of economic diplomacy

The increase of the importance of foreign trade has had a major influence on diplomacy, leading to a series of changes in the development of diplomatic practices and in the specialization of diplomacy. The diplomatic doctrine has always treated the connection between diplomacy and trade with the utmost importance, considering that the Venetian diplomatic service, one of the first diplomatic services in the world, focused mainly on commercial issues (Nicolson, 1942).

Traditionally, the economic diplomacy concept focused only on commercial actions, regularly conducted by consuls, as representatives of their states, bearing in mind that initial economic diplomacy had a commercial focus. Nonetheless,

following the end of the Cold War, countries started developing a new type of international cooperation, centered on supporting the world's general progress, helping to eliminate poverty and raising the global wellbeing, causing commercial diplomacy to evolve and encapsulate elements such as trade policy, trade diplomacy, economic security, business diplomacy, thus setting up economic diplomacy. Even if the term economic diplomacy is frequently used interchangeably with the term commercial diplomacy, most of the studies consider commercial diplomacy to be a subset of economic diplomacy (Visser, 2017).

The concept of economic diplomacy has a noticeable interdisciplinary character, comprising of elements typically used in domains such as economics, business studies, international relations, economic policy or public diplomacy. A study on economic diplomacy stated that this type of diplomacy has evolved constantly, creating stronger ties over the years among international actors, in accordance with human development (Vlădoiu, 2017).

Literature has yet to identify such a unanimously accepted definition of the concept of economic diplomacy, for it has different meanings taking into consideration factors such as: objectives - economic diplomacy was defined as the activity aimed at promoting trade, promoting investment, attracting technology and support for development (Rana, 2000), the pursuit of economic security within an anarchic international system (Lee and Hocking, 2010), business promotion and facilitation activities conducted by diplomatic actors (Ruel and Visser, 2012), government service to business community aiming the development of the socially beneficial international ventures (Kostecki and Naray, 2007); interests promoted - the use of political influence by states, in order to achieve economic interests in international markets; parties involved - the activity undertaken by the representatives of the ministries responsible for relations with multilateral bodies in the field of economy and international trade (Perez-Castejon, 2013).

At the same time, literature consists of opinions stating that, on the one hand, economic diplomacy is considered to be part of a state's decision-making process (example: commercial bilateral and multilateral negotiations) without including investments and foreign trade promotion (Woolcock and Bayne, 2013), and on the other hand, according to experts in international economic policy, the term can also be attributed to promoting activities (Bergeijk and Moons, 2017).

In addition, Woolcock and Bayne (2013) considered that in the field of economic diplomacy governments try to reunite three types of tensions: those between politics and economics, between international and domestic pressures, and those between government and other actors, presenting it as a form of diplomacy that involved the use of all economic instruments for protecting national interests. When referring to its actors, Ruffini defines economic diplomacy as the connection between the actors involved in commercial activities or foreign investments and diplomats, the latter acting as representatives of their states on the international stage and responsible for implementing their countries' foreign policies (Ruffini, 2016).

Another key element in economic diplomacy studies is its multilateral approach. In 2020, for example, Chatterjee drew attention to the differences between

bilateral and multilateral economic diplomacy. According to him, the main objective of economic diplomacy on a national, bilateral level, is to settle agreements that strengthen foreign policy relations and benefit both states involved, while at an international, multilateral level, economic diplomacy should aim at developing regulations of general interest, whether in the form of conventions, resolutions or declarations. The tactics and strategies within the two types of diplomacy are different. While bilateral economic diplomacy aims to protect the national economic interest by identifying common benefits, multilateral economic diplomacy aims to obtain benefits for the entire existing community.

Although economic diplomacy has been an instrument of foreign relations before the appearance of state institutions responsible for foreign policy and diplomacy, it can be seen in the scientific literature that, at the academic level, economic diplomacy has recently begun to display interest in the study of international relations (Okano-Hejimens, 2011). There are few research studies concerning economic diplomacy and whether it is effective, literature consisting mostly of frameworks related to exports promotion (Visser, 2017).

At the European level, research studies on economic diplomacy are reduced, from a quantitative point of view, and the few existing ones are mainly theoretical. According to the authors I. Peternel and M. Gress empirical studies at European level lack a comprehensive approach in assessing the performance of economic diplomacy. The two authors consider that the existing gaps in the scientific literature on economic diplomacy are partly due to the fact that this type of diplomacy is a new phenomenon, even for the European states (Peternel and Gress, 2020).

However, in the scientific literature there is a steady increase in interest regarding economic diplomacy. P. Sousa considers that this increase is determined by factors such as: the growing importance of economy in foreign affairs, the globalization process, the gradual elimination of borders and the permanent development of international relations (Sousa, 2019). The theory is also confirmed by S. Scholvin and M. Wigell, who added that the diminishing possibilities of initiating direct military confrontations between the great powers have opened new horizons for international cooperation (Scholvin and Wigell, 2019).

According to L. Yueh, diplomacy will face a new series of challenges, given the global economic evolutions, the rigidities between USA and China, adverse reactions to globalization, so using the means of economic diplomacy, states should focus on finding a balance between commercial openness and strategic objectives of foreign policy (Yueh, 2020). Nonetheless, the Covid-19 pandemic represents an example of the variety and unpredictability of the problems certain states could face and which requires a mobilization of diplomatic resources and coordination of all their efforts, including in the fields of science and politics (Chohan, 2021). Another example which is difficult to anticipate and also represents a new challenge for economic diplomacy, is given by the current Russian Federation – Ukraine situation, economic sanctions against the Russian Federation bearing effects upon other European countries and determining a rise of the importance of economic diplomacy in foreign policy and in bilateral and multilateral relations.

2. Economic diplomacy at the European level

After the fall of the USSR, companies from Western states entered Eastern markets and new diplomatic ties were born, while the older relationships were renewed. At the same time, countries invested in building new diplomatic relationships, but there were a few considerable differences, caused by the level of investment, since some governments chose to invest more than the others. France, for example, was one the active countries, opening 15 new embassies in Eastern Europe in less than 10 years, while some countries chose to open only small diplomatic representations, like consulates (Afman and Maurel, 2007).

One of the characteristics of the current era is the intensity of multidimensional relations between states and individuals globally, which creates many trade opportunities in emerging markets, and this economic potential is one of the reasons for the growing interest in economic diplomacy among researchers and decision makers (Bergeijk and Yakop, 2009). This theory is also supported by S. Woolcock and N. Bayne, the two authors considering that the increasing importance of economic diplomacy is determined by the rising relevance of international economic relations, in detriment to political and security relations, while globalization has reduced the capacity of states or groups of interests in modeling results individually (Woolcock and Bayne, 2013). Currently, states are trying to find efficient and innovative solutions to support their national business environment, promoting their products more and more intensely in foreign markets and investing in human capital, thus obtaining a new model of business environment, based on knowledge and information (Vlădoiu, 2017).

When considering the case of European states, there is a difference in both the way in which the concept of economic diplomacy is implemented and the objectives that each state seeks to achieve. Even if the main goals of economic diplomacy are aimed at increasing exports and attracting foreign investments, in the case of some European countries, there are certain peculiarities specific to each state.

Therefore, in Spain for example, according to the Ministry of Foreign Affairs¹, economic diplomacy is implemented in collaboration with the Spanish government and its main purposes are to defend and promote Spain's economic interests overseas and to provide support for the internationalization of its economy and businesses. Its main objectives are to promote an open economy with the aim of increasing exports, foreign investments, tourism and facilitating better access to financing. Economic diplomacy is one of Spain's main tools of foreign policy and represents a political objective in order to protect Spain's economic interests and its companies abroad. Portugal's economic diplomacy strategy focuses, on the one hand on promoting trade and foreign investment, and on the other hand on identifying opportunities of foreign investment in Portugal, assisting Portuguese companies in the internalization process. The Ministry of Foreign Affairs of Portugal plays a key role in the

¹ Ministry of Foreign Affairs of Spain, 2022 (retrieved from <https://www.exteriores.gob.es/en/PoliticaExterior/Paginas/DiplomaciaEconomica.aspx>).

Portuguese export promotion efforts (Pacheco and Matos, 2021). The Croatian government established the following main purposes of economic diplomacy: assisting Croatian exports, protecting the interests of Croatian entrepreneurs in foreign countries and attracting foreign investments, Ministry of Foreign and European Affairs being the leading actor of the Croatian economic diplomacy (Peternel and Gress, 2020). Ukraine has a relatively young institutional mechanism for economic diplomacy (Raneta and Kunychka, 2015), with the following tasks: to promote exports, to attract foreign investments, to develop and promote Ukrainian tourism, Ukraine's representations abroad being considered "the ambassadors of Ukrainian businesses abroad". The United Kingdom concentrated its efforts on attracting foreign direct investments, scientific and technological skills and underlining the role of public relations in the field of business support.

At the same time, in Germany, even if the government does not explicitly use the concept of economic diplomacy and instead uses the term of external economic policy, the aims are to help companies in accessing international markets and improving business conditions.

For the French Ministry for Europe and Foreign Affairs (2022), economic diplomacy represents a political priority, and besides supporting exports and attracting foreign investments, it has a series of objectives aimed at shaping the international regulatory framework in accordance with France's economic interests and to promote French businesses. In the meantime, the Ministry of Foreign Affairs of the Netherlands² established the following goals of its economic diplomacy: promoting international trade, strengthening the economic law at an international level, concentrating on societal responsibilities, promoting policies that strengthen the competitiveness of the national and EU market, promoting international business while supporting the national businesses. Dutch economic diplomacy includes business support offices, embassies, consulates and foreign bilateral Chambers of Commerce, that offer stimulating activities and individual guidance for companies that want to enhance trading with the host countries (Creusen and Lejour, 2011). According to the current government program, in Romania, the objectives of economic diplomacy are to attract foreign investments and identify investment opportunities for Romanian companies, as well as to stimulate trade. Also, one of Romania's economic diplomacy's fundamental purposes is consolidating Romania's profile as a pillar of political and economic stability in the region and a preferred destination for investments.

The effects of economic diplomacy on foreign trade, as well as the effectiveness of economic diplomacy, are conditioned both by the objectives pursued by each European government and by a number of factors, such as effective cooperation among governmental and non-governmental institutions, quality of work by supporting institutions responsible for promoting exports and foreign direct

² Ministry of Foreign Affairs of Netherlands, 2022 (retrieved from <https://www.government.nl/ministries/ministry-of-foreign-affairs>).

investment, and finally the quality and structure of the networks of representations abroad, which serve as provision points for entrepreneurs (Vlădoiu, 2017).

Moreover, the way economic diplomacy offices are organized can differ, but typically economic offices operate from within the diplomatic mission. The effectiveness depends on the responsibilities of the diplomat, because an economic diplomat might have other tasks besides the economic ones, for example, political duties. Another relevant element is the way economic diplomacy is being implemented. For instance, usually, the commercial services offered by the embassies are free of charge, but recently this approach started to be questioned and some commercial diplomatic systems started charging for their services. The commercial diplomatic representations of Ireland, Switzerland and France for example, charge for a range of commercial diplomatic services, while other countries offer the same services at no extra cost (Kostecki and Naray, 2007).

3. Empirical evidence for the European countries

The first research studies on the impact economic diplomacy holds on foreign trade and foreign direct investments were conducted in the 1980s. According to authors such as Moons and van Bergeijk, early studies on economic diplomacy (Pollins, 1989; Bergeijk, 1992) consisted of cross-sectional analyses of the bilateral relation from a political perspective and focused on diplomatic cooperation between countries. In comparison to recent research studies regarding economic diplomacy, past studies presented a series of shortcomings, caused by the lack of data and limited by the technology available at the time.

At the same time, emerging studies on economic diplomacy often analyzed both the positive and the negative character of diplomatic interactions, such as the suspension or closure of certain diplomatic missions, applying sanctions.

Studies conducted between 1980 and 2000 have confirmed the existence of a positive relationship between foreign trade, investment and interstate cooperation. Although after the dissolution of the Soviet Block there was a decrease in the academic interest towards economic diplomacy, after 2005 this subject returned among scientific research and started gaining attention among empirical studies (Moons and Bergeijk, 2017). Thus, in the last two decades, authors of empirical studies have been focusing on the contribution of the diplomatic service and have emphasized the relevance of diplomatic relations in boosting trade.

Recent literature tends to focus in particular on positive elements, such as the current network of representations, agencies, official visits and not on the effects caused by the closure or suspension of their activity. The results are varied and distinct, depending on the states under examination, the nature of the activities specific to the economic diplomacy under analysis, and the time frame.

Diplomatic representations are listed in the scientific literature as tools of economic diplomacy, and in recent years there has been an increasing interest regarding their role in boosting foreign trade, generally identifying positive correlations between these entities and trade. Currently, in order to identify the

causal link between diplomatic missions and foreign trade, the studies focus mainly on the role of embassies, consulates, external offices / export promotion agencies, as well as official visits, trade missions or members of the delegations.

Bergeijk has identified 3 types of methodologies used for the quantitative study of economic diplomacy: the gravitational model – used for analyzing the effects at a macroeconomic level, case studies on certain companies (microeconomic level) and meta-analysis of scientific articles. Despite the small number of empirical studies on the impact of economic diplomacy on macroeconomic performance, the scientific literature includes authors such as Andrew Rose, Selwyn Moons and Peter A. G. van Bergeijk.

Most quantitative research analyzing economic diplomacy and its effects on foreign trade apply the gravity model, this often being used in quantifying the impact of commercial and/or economic diplomacy on international trade. Inspired by Newton's law of gravitation, the classic gravity model is based on the theory of J. Tingerben that trade between two countries is directly proportional to the economic dimension (population, gross domestic products/ GDP) and inversely proportional to the distance between them. Tingerben also considered political factors, like the colonial ties, and he concluded that political factors are a relevant element in international trade.

Thus, the classic gravity model used in the international trade analysis can be extended with additional variables of cultural (using the same language), political (colonial relationships between countries) or geographical nature (common border). In addition to this, economic diplomacy is viewed as a relevant variable of the gravity model, due to its importance in reducing barriers and facilitating international trade and foreign direct investments. At the same time, although in recent years the impact that distance between countries holds on trade has diminished (Ghemawat, 2001), distance remains a relevant factor in international trade.

Andrew Rose has initiated and stimulated research on economic diplomacy using the conventional bilateral gravity model of trade in order to analyze the impact of the foreign service on exports. Rose (2005) tries to find an answer to the question regarding the presence of foreign representations being systematically linked to a country's level of exports, using the number of embassies, consulates, and official foreign missions that the exporter has in the importer country as a variable of economic diplomacy. The author estimates the effects that foreign services have on exports, also allowing other determinants of trade, using other variables of the foreign trade, such as distance between countries, population, gross domestic product per capita, and whether the countries share a land border. In his paper, the coefficients were estimated through five different approaches: ordinary least squares (OLS), adding exporter fixed effects, then importer fixed effects, and then exporter and importer fixed effects, likewise explaining reverse causation between the exports and the diplomatic representation, using a series of instrumental variables. The instrumental variables used for the potential reverse causality were the proven oil reserves, the number of Zagat's guides, the number of Conde Nast destinations, the number of Lonely Planet guides and the number of Economist city guides. On this

matter, the conclusion was that accounting for reverse causality doesn't change the results of his research.

The final conclusions of Rose's research stated that the presence of a foreign diplomatic mission is positively correlated with exports, and that opening a new consulate can lead to an increase by 6-10% in foreign trade. The results are statistically significant, plausible from an economic point of view, varying depending on the exporter and appear to be nonlinear – the first foreign mission, usually the embassy, having a greater impact than the subsequent ones, like an additional consulate, for example. Rose's study covers 22 countries, 12 of which are European.

Following Rose's study, different variations of the conventional gravity model of trade have been used to quantify the impact of economic diplomacy. These studies analyze either groups of states, similar to the model Rose used, or countries individually, in one single research. With regard to economic diplomacy indicators, studies have focused predominantly on the role of embassies, consulates, foreign offices or export promotion agencies, along with the official and state visits, commercial missions or visits by members of the representative offices, in an attempt to identify a causal link between diplomatic missions and foreign trade.

In addition to the number of embassies and consulates (as per Rose's model), empirical studies on economic diplomacy have identified variables such as export promotion agencies. In order to stimulate trade, export promotion agencies have been set up in several countries, with the objective of providing support for facilitating exports, providing information on the represented state or trade regulations of the host state.

According to Lederman *et al.*, export promotion agencies have an important role in providing exporters knowledge about the products demanded in different export markets and in helping the potential exporter in finding the perfect markets for their goods (Lederman *et al.*, 2006).

In most empirical studies that analyze the impact of economic representations on exports, the issue of reverse causality, or endogeneity, is also addressed. The cause of this matter lies in the fact that taking the decision to open a foreign diplomatic representation might be related to the economic relationship between the two countries and to the existing volume of exports. In order to address this matter, the authors measured the geo-political importance of a country or the desirability of living in the states that are being investigated.

Research studies focusing on the impact of regional agencies of a particular country emphasize that they contribute to the increase of exports. Gil *et al.* (2007), using the gravity model, study the effects of regional promotion agencies on exports (in Euros), using data covering exports from 17 Spanish regions to 188 commercial partners between 1995-2003. The Spanish regional governments have an extensive network of offices around the world, in order to provide support for companies that intend to trade and invest in foreign markets. As an indicator of the economic diplomacy, the authors use the number of Spanish embassies and consulates along with the number of export promotion agencies of different Spanish regions

(Andalusia, Aragon, Basque Country, Catalonia, Murcia, Valencia) in partner states, in order to evaluate the influence of diplomatic missions in trade with 188 commercial partners. The authors also use other variables specific to foreign trade, such as gross domestic product/ GDP, the distance between the Spanish region and the commercial partner, EU membership or European Free Trade Agreement, the existence of a common border, if the region or commercial partner is island-based or has a sea front. The conclusions state that regional agencies contribute to an increase in exports (even after considering potential issues regarding endogeneity) and that the impact is greater than the one that embassies and consulates have on exports. The authors also conduct a disaggregated analysis, revealing that the effect is not uniformly distributed across the Spanish regions that were analyzed in their research study.

A similar study on Portugal states that the impact of commercial promotion offices is superior to the one by embassies and consulates and that there is a positive connection between the presence of foreign offices and exports (Fernandes and Forte, 2022). On the other hand, the study of Pacheco and Matos regarding Portugal's exports emphasizes that economic diplomacy has an impact in countries with low and medium incomes, that usually present formal and informal barriers to exports.

Thus, opening a diplomatic mission in developing countries can have a more beneficial influence compared to developed countries. This opinion is held by Yakop and van Bergeijk (2009) and, according to them, when analyzing OECD member states, diplomatic representations are not a relevant factor in stimulating foreign trade.

In order to analyze the role of permanent foreign diplomatic representations in post-transition trade patterns, Afman and Maurel (2007) conducted a study regarding the effect of diplomatic representations for the states located in Central and Eastern Europe. The results stated that the foreign missions, such as embassies and consulates, contribute to enhancing the trade volume, and opening a new embassy in an emerging market in Eastern Europe is equivalent to an ad valorem tariff reduction of 2-12%. They perform a panel data analysis concerning the recently opened diplomatic representations in Eastern Europe since the fall of the USSR.

There are also studies focusing on the effects that bilateral diplomatic activities, such as state or official visits³ have on the foreign trade. Nitsch (2005) is one of the authors that studies the impact of state and official visits on international trade, using data on diplomatic activities of the state leaders of France, Germany and the USA, during the 1948-2003 period. The findings of his study indicate that visits are associated with higher exports - between 8 and 10%. Moreover, the author states

³ According to Nitsch V., the conceptual differences between state and official visits are insignificant, especially because they treat the formal, protocol spectrum, but the concept has distinct meanings, including at the state level. While in France the concept of state visits became known with the presidency of Francois Mitterrand, formerly known as official visits, in Germany only visits by the president are state visits (although sometimes in the press, even the chancellor's visits are listed as being state visits, these being in fact official visits).

that visits conducted by the German chancellors, Helmut Kohl and Gerhard Schröder were accompanied by higher exports, and also the impact of visits may differ amongst the heads of state.

With regard to studies that only use the number of employees in diplomatic missions as an indicator of economic diplomacy, results confirm that a higher number of diplomats has a positive influence on exports, but the effects are not always statistically significant. For example, in their article, Raneta and Kunychka (2015), analyzed the volume of exports between Ukraine and 198 partner states in the 2007-2013 period, identifying a positive relationship between the number of diplomats and Ukrainian exports. The Ukrainian authors acknowledged that an increase of 10% of the diplomatic staff leads to a 4.2-7.4% increase of exports, and that the impact of embassies in stimulating exports is superior to the one of general or honorary consulates.

On the other hand, Peternel and Gress aimed to reveal the effectiveness of Croatian economic diplomacy, analyzing Croatian exports to 81 states, during the 2012-2016 period. Also using the gravity model of international trade, their study confirms the existence of a positive relation between Croatian exports, determinants of foreign trade (GDP and the distance between countries) and the staff employed in the diplomatic representation. Although the results indicate that there is a positive relationship between the number of economic diplomats and exports, the sensitivity analysis revealed that the number of diplomats in combination with other variables such as GDP and distance, is not statistically significant.

Another study on Croatian economic diplomacy, in which the empirical VARFIMA model was applied, based on fractionally integrated data, indicates a positive effect of economic diplomacy on long-term macroeconomic performance. In order to observe the impact of Croatian economic diplomacy on the most important macroeconomic indicators, Skare *et al.* applied the maximum likelihood estimation method. In this case, the macroeconomic indicators analyzed were industrial production, exports, foreign exchange, inflation, unemployment and labor costs. The Economic Diplomacy Index (proxy for the level of economic diplomacy) was designed as an average index of the following diplomatic activities: investments, lists of implemented laws, ordinances, and other regulations on Croatian economic diplomacy from 1995 to 2018 (Skare *et al.*, 2020).

A small number of studies assess the role of economic diplomacy from the perspectives of private companies (Visser, 2017). According to Assche and Warin, the existence of economic diplomacy is justified by the difficulties that companies encounter in collecting information regarding market conditions and business opportunities in foreign markets, rivalry and competition causing these companies to hesitate in sharing known information about foreign markets with their domestic competitors (Assche and Warin, 2019).

A study at the microeconomic level that analyzes data of international trade transactions of the Dutch firms during the 2002-2008 period, to determine the impact of the presence of foreign diplomatic representation in 50 destination states, reveals that support offices and foreign trade missions have an impact on not only

stimulating trade but also on new exporters entering the market. The impact is greater especially when destination countries are middle income countries (Creusen and Lejour, 2011). Another study concerning the activity of Dutch embassies and consulates, by Ruel and Zuidema (2012), underlined that the most effective are the diplomatic representations that value having a well-organized economic diplomacy.

Moons and van Bergeijk (2017) conducted a meta-analysis of quantitative research on the macroeconomic impact of economic diplomacy on international trade flows, namely foreign trade and foreign direct investment. The studies investigate the impact of one or more instruments specific to economic diplomacy, using control variables such as distance between trading partners, market size, common borders, common language or preferential economic agreements. The two authors point out that, on average, studies analyzing the activity of embassies and consulates yield more significant results than the ones concerning official visits, trade missions, export promotion agencies or other elements of the diplomatic relationship. However, the efficiency of embassies, consulates and export promotion agencies also depends on the level of development of trading partners.

The findings of the empirical scientific literature on the impact of foreign missions are favorable in relation to economic diplomacy (Visser, 2017). Also, it can be seen that the econometric results targeting embassies are more significant than those concerning consulates, while honorary consulates² usually do not contribute to the intensification of foreign trade (Veenstra *et al.*, 2010).

Conclusions

The globalization process has produced permanent changes in the field of international economic relations, causing an increase of the role economic diplomacy holds in international economic policy and inter-state relations.

In the context of the new challenges, such as the COVID-19 pandemic and the current situation between the Russian Federation and Ukraine, economic diplomacy is faced with the need to adapt rapidly to the new nature of international economic relations, as it also plays a relevant role in mitigating the impact of such challenges.

The implications of this paper suggest that economic diplomacy is an important mechanism for the European countries, and although there is a difference in both the way economic diplomacy is implemented and in the objectives that each country seeks to achieve, the main purposes of economic diplomacy across European countries are related to trade, governments using means specific to economic diplomacy in order to increase trade. Therefore, in the recent years, in the empirical scientific literature, the interest regarding the role of diplomatic representations in increasing trade also has amplified. In order to identify the impact that diplomatic missions have on foreign trade, the studies on economic diplomacy focus mainly on the role of embassies, consulates, external offices / export promotion agencies, as well as official visits, trade missions or members of the delegations. Regarding the

² In Rose's study, he also explicitly mentions the exclusion of honorary consulates.

quantitative research designs on the topic of economic diplomacy, these are mostly based on the gravity model of international trade. The study conducted by Andrew Rose has had a significant impact and has encouraged further analyses on the effects of diplomatic missions on foreign trade, thus providing an econometric model often applied in future studies. At the same time, Rose raised a relevant issue, which is kept in focus in empirical studies, represented by reverse causality, or the problem of endogeneity and the appropriate variables to obtaining correct results.

To conclude, the findings of the study reveal that through activities carried out by diplomatic representations abroad, such as embassies, consulates and export promotion agencies, economic diplomacy has a positive impact on foreign trade, but that impact is influenced by the level of development of each country and also heavily relies on the level of the diplomatic representation.

The limitations of this research are as a result of the small number of empirical articles analyzed and the impossibility of covering and extending the analysis to several or all European countries, which is mainly due to gaps in the scientific literature on economic diplomacy.

References

- Afman, E. and Maurel, M. (2007), Diplomatic Relations and Trade Reorientation in transition countries, *The gravity model in international trade*, 278 (retrieved from https://www.researchgate.net/publication/242385115_Diplomatic_Relations_and_Trade_Reorientation_in_Transition_Countries).
- Assche, A. and Warin, T. (2019), Global Value Chains and Economic Diplomacy, *AIB Insights*, 19(1). <https://doi.org/10.46697/001c.16817>
- Bergeijk, P. and Moons, S. (2017), Does economic diplomacy work? A meta-analysis of its impact on trade and investment, *The World Economy*, 40(2). <https://doi.org/10.1111/twec.12392>
- Berridge, G.R. and James, A. (2003), *A Dictionary of Diplomacy*, New York: Palgrave Macmillan.
- Yakop, M. and Bergeijk, P. (2009), *The weight of economic and commercial diplomacy*, Working Paper no. 478, International Institute of Social Studies, University Rotterdam, The Hague (retrieved from <https://ideas.repec.org/p/ems/euriss/18715.html>).
- Chohan, U. (2021), *Economic Diplomacy – A review*, Social Science Research Network, Working Paper ID: EC007UC, 2021, CASS Working Papers on Economics & National Affairs. <https://doi.org/10.2139/ssrn.3762042>
- Creusen, H. and Lejour, A. (2011), *Uncertainty and the export decisions of Dutch firms*, CPB Discussion Paper, No. 69, FIW Working Paper series, Vienna (retrieved from https://econpapers.repec.org/paper/wsrwpaper/y_3a2011_3ai_3a069.htm).
- Fernandes, A. and Forte, R. (2022), The impact of economic diplomacy on exports: The Portuguese case, *International Journal*, 77(2), pp. 216–247. <https://doi.org/10.1177/00207020221135382>

- Gil S., Llorca R. and Serrano J. A. M., (2007) *Measuring the impact of regional export promotion: The Spanish case*, Papers in Regional Science, Wiley Blackwell, vol. 87(1), pp. 139-146. <https://doi.org/10.1111/j.1435-5957.2007.00155.x>
- Ghemawat, P. (2001), *Distance still matters. The hard reality of global expansion*, Harvard Business Review, USA.
- Huntington, S. (1993), Why International Primacy Matters, *International Security*, 17(4), pp. 6-83.
- Kostecki, M. and Naray, O. (2007), *Discussion papers in diplomacy. Commercial Diplomacy and International Business*, Netherlands Institute of International Relations Clingendael (retrieved from https://www.clingendael.org/sites/default/files/2016-02/20070400_cdsp_diplomacy_kostecki_naray.pdf)
- Lee, D. and Hocking, B. (2010), *Economic Diplomacy* in: Robert A. Denemark (ed.), *The International Studies Encyclopedia*, Wiley Blackwell, Vol. II, pp. 1216-1227.
- Lederman, D., Olarreaga, M. and Payton, L. (2006), *Export Promotion Agencies: What Works and What Doesn't*, CEPR Discussion Paper, World Bank Policy Research Working Paper 4044, (retrieved from https://www.researchgate.net/publication/23550046_Export_Promotion_Agencies_What_Works_and_What_Doesn't).
- Lederman, D., Olarreaga, M. and Payton, L. (2016), *Export Promotion Agencies: Do they work?*, *Journal of Development Economics*, 91(2), pp. 257-265. <https://doi.org/10.1016/j.jdeveco.2009.09.003>
- Ministry of Foreign and European Affairs of France, 2022 (retrieved from <https://www.diplomatie.gouv.fr/en/french-foreign-policy/economic-diplomacy-foreign-trade/news/article/economic-diplomacy>).
- Ministry of Foreign Affairs of Romania, 2022 (retrieved from <https://www.mae.ro/node/1418/1>).
- Nicolson, H. (1942), *Diplomacy*, Oxford University Press, pp. 162-166.
- Nitsch, V. (2005), *State visits and international trade*, CESifo Working Paper, No. 1582. <http://doi.org/10.2139/ssrn.854867>
- Okano-Hejijmans, M. (2011), Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, *IPE and Diplomatic Studies*, *The Hague Journal of Diplomacy*, 6(1-2), pp. 7-36. <http://doi.org/10.1163/187119111X566742>
- Pacheco, L. M. and Matos, Pereira, A. (2021), Foreign presence and export performance: The role of portuguese commercial diplomacy, *The International Trade Journal*, 36(2), pp. 147-169. <https://doi.org/10.1080/08853908.2021.1907262>
- Peternel, I. and Gress, M. (2020), Economic diplomacy: concept for prosperity in Croatia, *Economic Research - Ekonomska Istrazivanja Informa UK limited*, 34(1), pp. 109-121. <https://doi.org/10.1080/1331677X.2020.1774788>
- Pollins, M. B. (1989), Does trade still follow the flag?, *The American Political Science Review*, 83(2), pp. 465-480. <https://doi.org/10.2307/1962400>
- Rana, K. (2000), *Inside diplomacy*, Manas Publications, New Delhi.
- Raneta, L. and Kunychka, M. (2015), Does diplomacy promote international trade? The case of Ukraine, *International relationships Prague*, 50(1), p. 5 (retrieved from

- <https://www.proquest.com/openview/c784b26fdf3975b3f5a5883f9f7534cd/1?pq-origsite=gscholar&cbl=2027431>).
- Rose, A. (2005), *The foreign service and foreign trade: Embassies as export promotion*, Working Paper, National Bureau of Economic Research, Cambridge SUA. <https://doi.org/10.3386/w11111>
- Ruffini, P. (2016), International Trade and Foreign Affairs - Some Reflections on Economic Diplomacy, *Journal of International Logistics and Trade*, 14(1), pp. 3-28. <https://doi.org/10.24006/jilt.2016.14.1.001>
- Sanchez Perez-Castejon, P. (2013), *Commercial Diplomacy in the center of Spanish economic diplomacy*, Escorialense Legal and Economic Yearbook.
- Scholvin, S. and Wigell, M. (2019), *Geo-economic power politics. An introduction* in: Wigell, M., Scholvin, S. and Aaltola, M. (eds), *Geo-Economics and Power Politics in the 21st Century, The Revival of Economic Statecraft*, New York: Routledge.
- Skare, M., Radosevic, D. and Radolovic, S. (2020), Measuring the macroeconomic impact of economic diplomacy using VARFIMA model for Croatia 1990-2018, *Economics & Sociology*, 13(3), pp. 230-243. <https://doi.org/10.14254/2071-789X.2020/13-3/14>
- Sousa, P. (2019), The economic diplomacy on the contemporary Portuguese foreign policy: conceptual and theoretical problems, *International Relations*, pp. 47-61. <https://doi.org/10.23906/ri2019.61a05>
- Strange, S. (1992), *States, firms and diplomacy*, International Affairs, Royal Institute of International Affairs, 68(1), pp. 1-15. <https://doi.org/10.2307/2620458>
- Șerban, R. (2010), *Economic European Diplomacy*, Economic Forum, Bucharest.
- Tinbergen, J. (1962), *Shaping the world economy: Suggestions for an international economic policy*, Twentieth Century Fund.
- Vlădoiu, N. (2017), *Economic diplomacy – genotype of commercial diplomacy*, Bucharest.
- Veenstra, M.L., Yakop, M. and Bergeijk, P. (2010), *Economic diplomacy, the level of development and trade*, Discussion Papers in Diplomacy, No. 119, Netherlands Institute of International Relations Clingendael (retrieved from <https://www.clingendael.org/publication/economic-diplomacy-level-development-and-trade>).
- Visser, R. (2017), *The role of commercial diplomacy in relation to international trade*, Doctoral dissertation, Deakin University (retrieved from <https://hdl.handle.net/10536/DRO/DU:30103433>).
- Woolcock, S. and Bayne, N. (2013), Economic Diplomacy in: Cooper, A. Heine, J. and Thakur R., *The Oxford Handbook of Modern Diplomacy*, Oxford University Press, United Kingdom. <https://doi.org/10.1093/oxfordhb/9780199588862.013.0022>
- Yueh, L. (2020), *Economic Diplomacy in the 21st Century: Principles and Challenges*, LSE Strategic Updates (retrieved from <https://www.lse.ac.uk/ideas/publications/updates/economic-diplomacy-in-the-21st-century-principles-and-challenges>).
- Zuidema, L. and Ruel, H. (2012), *Commercial Diplomacy and International Business: A Conceptual and Empirical Exploration*, *Advanced Series in Management*, 9, Emerald Group Publishing Limited, Bingley. [https://doi.org/10.1108/S1877-6361\(2012\)0000009014](https://doi.org/10.1108/S1877-6361(2012)0000009014)