

Diplomacy in East Asia

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Economic Diplomacy of East Asia

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Introduction to the Economic Diplomacy

- The post -World War II order is undergoing profound changes with globalisation and the emergence of new economic powers.
- The economy has gradually taken over as the main driver of political influence and global now transcend the old national or regional divides.

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Definition and General Background

- In the absence of a standard definition, it is generally agreed that economic diplomacy can be defined in a number of different ways.

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Economic Diplomacy

- Economic diplomacy can be defined as
 - “the use of political means as leverage in international negotiations with the aim of enhancing national economic prosperity, and the use of economic leverage to increase the political stability of a nation.”
- Economic statecraft and economic diplomacy involve using diplomatic skills with economic tools to advance a country’s economic, political and strategic goals.

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Global Reach of the ED

- The term economic diplomacy implies the use abroad , by a state, of a wide spectrum of economic tools to secure its national interest;
 - the involvement of a range of actors
 - civil society, public and private sector
 - and an array of issues
 - security, natural resources like water, climate, energy, trade, growth, migration, investment, development, influence and negotiation

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Different Definition of ED

- three strands, each one wider in scope, that are common to all definitions of economic diplomacy:
 - 1) facilitating access to foreign markets for national business
 - 2) attracting foreign direct investment (FDI) to a national territory ;
and
 - 3) Influencing international rules to serve the national interest.

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Goal of ED

- the goal can be as narrow as boosting economic growth or as broad as developing geo-political influence and a diplomatic network .
- Definitions also include the notions of rewards and sanctions.
- Economic instruments have clearly become a major tool of political diplomacy and foreign influence, as illustrated by the economic sanctions imposed on Cuba, Iran and Russia.

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Importance of ED

- Globalisation and shifting power balances between the West and other countries, particularly those in the Asia-Pacific region, are creating new incentives for governments everywhere to rethink the balance between their different national interests.
- In addition, pressing global issues, such as climate change and scarcity of natural resources (for example, water, energy and minerals) are growing challenges for governments And Economic Diplomacy is central to all these issues

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Diplomatic Studies and ED

- According to Maaïke Okano - Heijmans
 - From the diplomatic studies perspective and argues that the concept and practice of economic diplomacy is becoming more comprehensive, covering at least three types of diplomatic activity:
 - trade and investment promotion (commercial diplomacy);
 - negotiations on economic agreements (trade diplomacy); and
 - development cooperation.

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A Comprehensive Approach to ED

- In recent years governments have strengthened the economic aspects of foreign policy.
- For many developed countries in the West
 - more attention to national economic interests is a sensible response to increased competition from emerging economies, growing financial constraints, and demands for transparency, accountability and result-driven policies at home.
- For the governments of developing countries
 - economic diplomacy is primarily a means to build a coherent economic approach to foreign policy, while simultaneously converting their growing economic muscle into political leverage

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A Comprehensive Approach to ED

- For rising powers, ‘great power economic diplomacy’
 - is a means to realise power transition and reshape the global order (Zhang, 2014)

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Diplomatic Studies and ED

- seen from a diplomatic studies perspective, economic diplomacy serves both economic and politico-strategic goals.
- Thus a comprehensive definition of economic diplomacy would see it as an **umbrella** term that refers
 - To the use of political means as leverage in international negotiations with the aim of **enhancing national economic prosperity**,
 - The use of economic leverage to **increase a country's political stability**.

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Aspects of Economic Diplomacy

- In economic diplomacy, broadly conceived, economic/commercial interests and political interests reinforce one another and should be seen in tandem.
- Economic diplomacy is thus an umbrella term, involving several strands that may be more economic or more political in purpose
 - commercial diplomacy
 - that is, generic and sector/company-specific trade and investment promotion
 - trade diplomacy
 - negotiations between two or more countries that support economic transactions and trade and/or investment agreements

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Aspects of Economic Diplomacy

- politically-motivated attempts to influence others
- either through positive engagement
 - the premier example being development or economic cooperation
- by less benign means
 - such as sanctions.
- Activities range considerably
 - **trade and investment promotion**
 - including through economic missions and intelligence sharing and negotiations on economic and financial agreements
 - To **inducements**
 - development assistance
 - **coercive measures**
 - economic sanctions.

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Economic – Business Diplomacy

- Economic diplomacy is distinct from business diplomacy in that a public sector agent – a government agency, an official or a political figure – is the principal actor
- While the private sector is either actively or passively involved, businesses or their representatives are not the focus of analysis.
- An economist's approach to economic diplomacy is also distinctive for its focus on quantitative cost–benefit analyses that adopt an economic logic to identify where and when economic diplomacy works.

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Importance of ED

- More generally, developed and developing countries note the growing importance of economic and financial diplomacy and the challenge of ‘state capitalism’.
- This is hardly surprising as governments in latecomer countries commonly play an important role in industries that are operated by the private sector; for example, in sectors such as water management, energy, agriculture and harbour development.
- For all countries, the growing challenges of security and stability are another reason to invest in economic diplomacy.

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Importance of ED

- Building closer ties or partnerships with some countries and not with others denotes not mere diplomatic signalling but constitutes real attempts to avoid isolation, create coalitions and to improve stability
 - for example, the bilateral relationship of China and Japan and their respective relations to neighbouring countries in the Asia- Pacific, which both regional powers seek to court.
 - Both Beijing and Tokyo employ a variety of economic diplomacy instruments
 - including comprehensive economic partnership agreements and development cooperation projects, in an attempt to strengthen their relative position towards the other.
 - A similar game is being played by the EU and Russia in their bilateral relationship and neighbourhood region.

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Diplomatic Studies

- Within diplomatic studies, economic diplomacy is distinguished from other forms of diplomacy in two ways
 - First, MFAs are not necessarily leading the decision-making processes
 - Economic diplomacy also involves various ‘line ministries’ such as those involved in economic affairs, agriculture and infrastructure, as well as development cooperation and climate change.
 - The second distinguishing feature of economic diplomacy
 - is its significant link with private sector bodies.
- This is a natural result of the fact that the direct beneficiaries of economic diplomacy are, to a significant degree, non-government agencies
 - small and medium-sized enterprises as well as big business.

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Diplomatic Studies

- Importantly, the goals sought by these two beneficiaries – government entities on the one hand, and the private sector on the other – differ substantially.
 - While private sector entities principally aim for economic merit
 - most governments and for that matter non-governmental agencies and civil society organisations, strive for so-called global **public goods**, such as robust institutions to manage climate change, scarce natural resources (water and energy, for example) and international stability

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The Nexus Between Commerce, Trade And Development

- As governments are actively re-emphasising economic diplomacy in their foreign policy, there is a common trend towards developing stronger linkages between three strands of economic diplomacy:
 - trade diplomacy, commercial diplomacy and development cooperation.
 - These economic diplomacy tools are employed most regularly in times of relative peace, that is, when there is no need to resort to more extreme instruments such as sanctions or, worse still, declarations of war.
 - Commercial diplomacy, trade diplomacy and development cooperation were largely separated until the 1990s, when the more developed countries in the West largely dominated global political and economic affairs.

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Economic – commercial Dipl.

- Of the various economic diplomacy strands, commercial diplomacy probably has the broadest consensus and the most developed body of literature.
- Economic diplomacy is sometimes even equated with commercial diplomacy, particularly by those who have a dominantly economic take on the subject.

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Trade and Investment Promotion

- both the general level and more specifically, via business advocacy – is a task that all governments perform in some way.
- In general terms, the three key activities are:
 - **providing** (market and technology) intelligence;
 - **offering** concrete hands-on assistance, including with trade questions, market access issues and trade missions;
 - **providing partner search** and networking support
 - These tasks can be performed by specialised trade and investment support offices at home and/or by embassies or other representations abroad.
 - The location of important new markets and production bases thus guides government decisions to focus activities on a certain country or region, as do the depth and breadth of economic relations and the involvement of the other country's government in the market. In other words, the more substantial the links between the public and private sectors in a particular country, the greater the incentive for others to invest in commercial diplomacy in relations with that country.

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Development Cooperation

- Development cooperation can be an expression of economic diplomacy in two rather distinct, although not mutually exclusive ways, when seen from the perspective of the country providing such assistance.
 - First, it can be employed with the primary aim to promote more political objectives such as good governance, democracy or human rights.
 - This approach has been adopted by European countries:
 - their activities have often been commissioned to non-governmental agencies and geographically focused on the African continent.
 - Another approach, which is more readily adopted by non-Western and new players in the field, largely emphasises economic objectives.
 - The rhetoric is one of adding to the economic strength of the recipient and providing assistance, by linking assistance to trade and investment.
 - To emphasise the mutual gains, this is commonly labelled economic cooperation rather than development assistance/aid.

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Figure 45.1 The trinity in economic diplomacy

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Trade Diplomacy

- Trade diplomacy has become a popular policy instrument for governments since the 1990s.
- This conforms with the argument that governments are more likely to employ economic tools for political and foreign policy purposes during periods of systemic change.
- The scare of economic crises in various parts of the world prompted countries to work together in different ways, and the failure of the multilateral trade negotiations in the World Trade Organization (WTO)

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Trade Diplomacy

- Trade diplomacy thereby shifted focus from unilateral liberalisation backed up by WTO commitments to preferential liberalisation through bilateral and (inter) regional free trade agreements.
 - The motivations to engage in such talks are not just economic ones such as trade liberalisation, preferential market access and trade diversion.
 - Rather, and increasingly so, they involve a variety of economic, political, legal and geostrategic considerations.
- Negotiations have come to involve issues of norm setting, rivalry for influence, strengthening of partnerships, and resource allocation.
 - Hence, the concept of trade *diplomacy*, rather than trade *policy*.
- This politicisation of trade diplomacy has been most apparent in the Asia-Pacific, where negotiations on trade, investment and financial agreements play a major role in the competition for influence
- While the European Union, on behalf of its member states, remains largely committed to economic goals, aiming for economically ‘high-quality’ and ‘deep’ agreements, its latest strategy document of October 2015 also evidences a shift in this direction

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Trade Diplomacy

- As strategies and practice evolve in all three strands of economic diplomacy, linkages between the various fields are multiplying.
- The conflation of trade and investment promotion (commercial diplomacy) and development cooperation has been characteristic of many non-Western players and is now becoming increasingly apparent including in countries like Denmark and Australia.
- But development issues also increasingly feature in trade agreements, which come to involve much more than economic issues alone.
- **Economic partnership agreements**, for example, have been conceived – next to free trade agreements – as a way to move beyond issues of trade alone, and may also involve cooperation in the field of energy and environment, science and technology, trade and investment promotion and tourism.

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Interdisciplinarity

- Many different concepts are used in the research fields that contribute to the study of economic diplomacy.
- This goes for economic diplomacy as well as for economic statecraft, economic security, trade diplomacy, commercial diplomacy and financial diplomacy.

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Theory of ED

- economic diplomacy is primarily about processes and practices,
- economic diplomacy is defined in terms of means like economic statecraft.
- Different from the rather narrow focus of most studies of economic statecraft on coercive instruments such as sanctions and boycotts, economic diplomacy is thought to involve also the employment of economic instruments in non-coercive ways

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Economic Statecraft

- A major issue in the study of economic diplomacy originates in the study of diplomacy
 - concerns the extent to which economic diplomacy is tied to the state or, alternatively, involves a broader range of private and other (non-governmental) actors.
 - This is another important point that distinguishes economic diplomacy from economic statecraft
 - which generally considers actions taken unilaterally by the state and—in its initial form as set forth
 - Baldwin states that it does not address the domestic context.

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ED and International Relations

- The most thorough attempt made to date to analyse economic diplomacy from an IR and diplomatic perspective, by Nicholas Bayne and Stephen Woolcock
 - The authors argue that in economic diplomacy, governments try to reconcile three types of tensions
 - (1) the tension between politics and economics
 - (2) the tension between international and domestic pressures; and
 - (3) the tension between government and other actors, such as private business and NGOs

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ED and International Relations

- Economic diplomacy may be largely concerned with actions taken by the state, it also considers the dynamic environment in which the state operates.
- **Economic diplomacy thus cannot be seen as separate from the domestic context**
 - (of both the sender and the receiving state) and the activities of the state as influenced by other actors, such as private business and other interest groups.

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Building a Conceptual Framework

- Taking these insights into account, the state is may not be regarded as the only player, nor as a coherent entity.
 - It may be assumed, however, that the state is the primary actor in economic diplomacy.
 - Understood in such a state-centric realist framework, economic diplomacy has been defined as the pursuit of economic security within an anarchic system.

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Building a Conceptual Framework

- Economic security is thought to comprise the economic prosperity and political stability of a nation
 - it follows that economic diplomacy pursued by a government involves a variety of instruments that are relatively more economic or more political in character.
 - In other words, economic diplomacy involves a ‘business end’ and a ‘power-play end’,
 - all tools (in mirror view: expressions) of economic diplomacy can be placed somewhere in between these two extremes. What is more, the two ends of the spectre can be directly related to the two main determinants of the balance of national interests—that is, economic prosperity on the one hand and political stability and national security on the other hand. This also reflects the idea that economic power involves different forms of power.

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Economic Power

- Thomas Berger, ‘[e]conomic power is one of the most basic and important sources of soft power’, but, ‘to the extent that it supports military power [. . .], it is [also] very much a form of hard power’.

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Instruments

- At the ‘power-play end’ are economic diplomacy instruments which generally involve actions and negotiations that are primarily political in character, such as sanctions (and the lifting thereof).
 - the primary drivers behind these activities are the strategic goals of a government, and the underlying cost-benefit calculations follow a political logic.
 - Activities aim primarily to contribute to a stable international environment and are often referred to as economic statecraft.
 - At the ‘business end’ of economic diplomacy are found the cooperative efforts by government and business that aim to achieve commercial objectives that advance national interests, including trade and investment promotion (commercial diplomacy).
 - Here, cost-benefit calculations primarily follow an economic logic, and maximizing business opportunities is the primary driver behind activities.

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Instruments

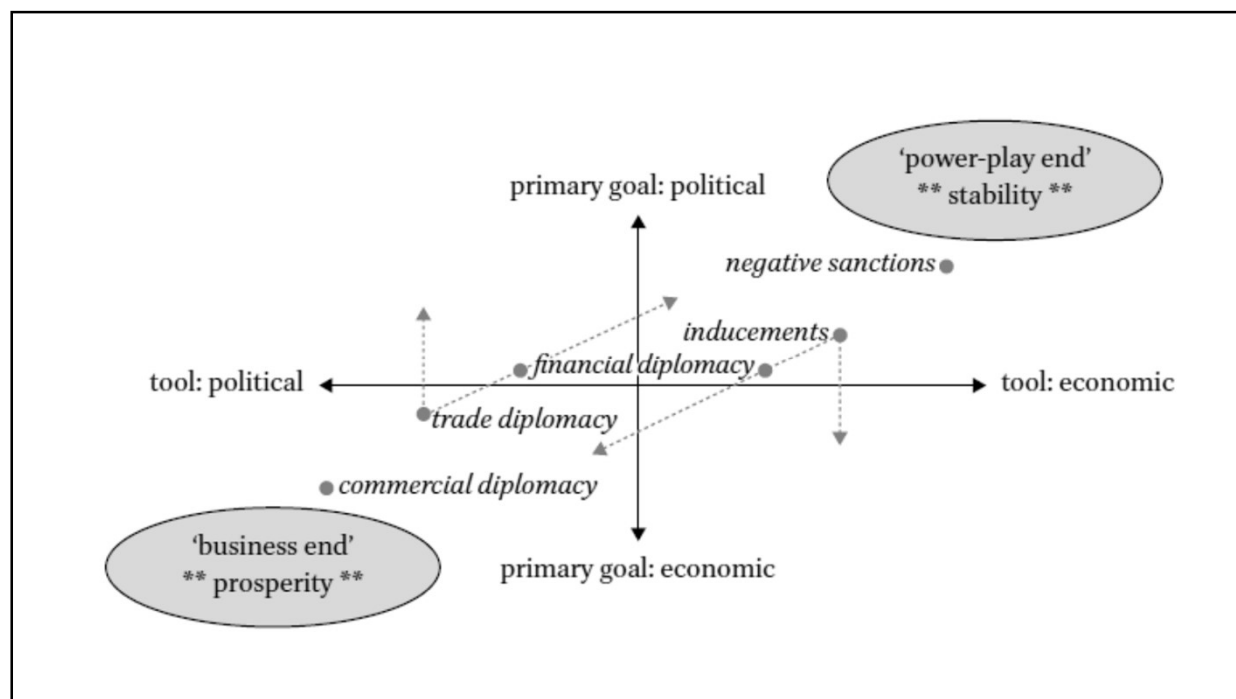
- In between these ends are activities that may be more or less economic or political, such as economic or development assistance (and suspension of these activities),
- bilateral and multilateral negotiations on trade agreements (trade diplomacy),
- financial and monetary policy/negotiations (financial diplomacy).
- Differences notwithstanding, it should be emphasized that the distinction between the different strands is fluid and that strands may overlap—implying that economic diplomacy is not a linear, but more of a network concept.

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Definition of ED

- Geoff R. Berridge and Alan James, who defined economic diplomacy as
 - (1) diplomacy concerned with economic policy questions; and
 - (2) diplomacy that employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.
- While the latter part of this definition is about economic tools that are used for political purposes, the former part is about political tools—while the objectives remain unspecified.
 - Economic diplomacy is understood as the use of political means as leverage in international negotiations, with the aim of enhancing national economic prosperity and the use of economic leverage to increase the political stability of the nation.
- Gilpin, the essence of economic diplomacy is to interrupt, employ and direct commercial and political intercourse.

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ED and Goals

- Most expressions of economic diplomacy involve multiple goals and can, in principle, be classified under more than one category.
 - Sanctions primarily serve political and strategic goals
 - while export promotion aims to strengthen one's own industry and, thus, primarily serves the nation's economic prosperity.
- The primary goal of aid and trade negotiations is relatively more dependent on the specific circumstances of a case and tends to vary more between countries and across time.

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Development Aid

- For example, while development aid from European countries and the United States is on the whole more political in character and purpose (aiming to promote good governance, democracy and human rights)
- Asian countries use such funds primarily to spur the economic strength of the aid recipient *and* the aid provider, through trade and investment.

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Development Aid

- Japan, China and India prefer to speak of economic cooperation rather than of development aid.
- In a similar vein, trade negotiations can be more or less political in character.
- Here the roles are reversed, compared to the aid example
 - while trade diplomacy is often more political in the **Asian context**—where trade and financial agreements play a role in the competition for influence in the region—
 - European countries more often have commercial objectives and enhanced cost-effectiveness in mind when negotiating bilateral or regional trade agreements nowadays.

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How to study ED?

- While the more economic expressions of economic diplomacy can be researched relatively better by applying economic models to extensive data sets
- more political expressions are commonly studied through case studies.

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Table 1. Items included in Tools and Expressions.

Commercial diplomacy	Trade diplomacy	Financial diplomacy	Inducements	Sanctions
trade promotion	bilateral FTAs, EPAs	currency swap agreements	bilateral assistance: grants, loans	embargo (exports; state)
investment promotion	multilateral: WTO	exchange-rate policy	debt relief	boycott (imports; individuals)
business advocacy	(anti-dumping) tariffs	buying/selling of government bonds	humanitarian aid	suspension of assistance and aid
tourism promotion	export or import licences	freezing assets	granting access to technology	capital controls
promotion of socially responsible investing	import or export quotas, trade and investment barriers	withholding dues or payments	granting membership of international organization	blacklist

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Economic Diplomacy

- Each strand of economic diplomacy involves a wide variety of activities and expressions
- Countries are more successful in economic diplomacy if they increase the number of activities, conceive of new ways to conduct economic diplomacy, or terminate activities that have proven unsuccessful.
- Porter states, that economic diplomacy is more than the sum of a country's activities.

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Economic Diplomacy

- The multitude of activation ties within the different economic diplomacy strands form an interdependent system or network of activities.
- For example, imposing an embargo or suspending aid reduces opportunities for trade and investment, while granting a country membership to an international financial institution may increase commercial opportunities in/with the target country.
- To be successful in economic diplomacy, any government must resolve such trade-offs in accordance with the perceived balance of national interests and its foreign policy strategy at large.
- Careful management of linkages and continuous investigation of existing and potential economic diplomacy activities are thus of utmost importance.

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Tools of Economic Diplomacy

- Economic diplomacy is the use of the full spectrum economic tools of a state to achieve its national interests.
- The scope of economic diplomacy can encompass the all of the main international economic activities of a state including, but not limited to, policy decisions designed to influence exports, imports, investments, lending, aid, free trade agreements,

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Tools of Economic Diplomacy

- Economic diplomacy is concerned with economic policy issues, e.g. work of delegations at standard setting organizations such as World Trade Organization (WTO).
- Economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them.
- Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.
- This is sometimes called "economic statecraft"

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Tools of Economic Diplomacy

- Direct
 - Government export loans
 - Export subsidies
- Indirect
 - Bilateral treaties
 - Multilateral treaties
 - Contact of officials
 - Expo

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Tools of Economic Diplomacy

- Positive
 - Mentioned above
- Negative
 - Sanctions
 - Embargoes

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Business Diplomacy

- Globalization has a major impact on how multinational national corporations (MNCs) are organized nowadays.
- Statistics from the United Nations Conference on Trade and Development (UNCTAD) show that the number of Foreign Direct Investments (FDIs) has risen in the last 30 years
- Doing business internationally requires MNCs to deal with various local requirements, national laws, and international agreements, negotiated by different international groups such as the International Labour Organization (ILO) and the World Trade Organization (WTO)
- MNCs need the capability to cope with complex interactions with multiple stakeholders such as foreign government representatives and non-governmental organizations (NGOs).

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Business Diplomacy

- Despite today's globalized economy, it is still governments that play an important role in providing access to business opportunities
- (Boddeyn and Brewer, 1994; Hillman et al., 1999). Indeed, Luo (2001)
 - states that, 'from an MNC's perspective, its foreign operations increasingly depend on educational, technological, and industrial infrastructures built by host governments'
- Especially in emerging or recently emerged economies, governments are key stakeholders in the economy, and without their support operating successfully in these economies is almost impossible.
- MNCs that are able to get this support, and as a result access these opportunities, will enjoy a greater competitive advantage
- In order to operate successfully in the long term, MNCs need legitimacy:
 - 'a generalized perception or assumption that the actions of an entity are desired, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions'
 - For this, MNCs should negotiate and make compromises with local governments, while simultaneously taking into account the wishes and demands of the international and national NGOs that oversee international firms in conducting business

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Business Diplomacy

- Saner et al. (2000) explain which developments have caused these complexities.
 - First of all, the public has become more critical and demanding towards corporate governance.
 - Second, emerging markets such as Indonesia, China, Russia, India, Turkey, and Brazil will entail challenges that MNCs need to take into account, such as weak institutional settings, cultural aspects, and strong government roles
 - The third development concerns the emergence of a variety of NGOs and communities. Saner et al. emphasize that environmental standards and working conditions should be taken into account in order to prevent conflicts that can damage an MNC's image.
- Ruël (2013) adds an explanation of what might have caused the complexities MNCs face in today's business environment. He argues that developed markets are frequently entered by developing market MNCs. This has fueled fear among businesses and governments in developed economies.
- This increased competition heightens the necessity for firms to build upon positive relationships in foreign business environments, even in developed, 'easy to access' markets.
- Second, governments, MNCs, and NGOs need to collaborate in order to cope with global challenges such as reducing poverty, climate change, and building sustainable economies. In order to survive in this complex and rapid changing business environment, international businesses need to engage in business diplomacy

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Business Diplomacy

- Business diplomacy and corporate diplomacy as describing the same concept.
- Business diplomacy as a concept is relatively new in the literature
- At the end of the twentieth century, it began to be dealt with at an academic level.
 - One of the first references originates from the early 1990s in an International Relations publication by Strange (1992).
 - She recognized the increasing importance of firms and market forces in world politics and described new, emerging forms of diplomacy.
 - **Strange (1996) claims that governments are losing authority and impact, despite paradoxically that the number of government rules and regulations in different aspects of societies has increased.**
 - Markets are dominating and the role of large and international firms is so significant that governments are competing to have them within their national borders. As a consequence firms have entered the diplomatic arena as an actor.

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New Actors in Diplomacy

- New actors entered the diplomatic arena such as supranational organizations (e.g. the European Union), or multilateral organizations (United Nations, World Trade Organization, IMF, World Bank), non-governmental organizations (Amnesty International, Human Rights Watch, The Red Cross), and last but not least large international businesses such as oil companies, financial companies, technology companies and many others.
- Due to their size, impact, or public support, they have become diplomatic actors in their own right (Ruël, 2013).
- In this context, Heine (2008) observes a shift from the 'club model' of diplomacy, where diplomats mostly meet with host country government officials, to a 'network model' of diplomacy, with a much larger body of and a more diverse set of players with whom diplomats have to engage, among others representatives from companies.
 - This view implies a broader definition of diplomacy than the 'cold-war' one.
- Melissen (2005) includes citizens and civil society in foreign countries as well in the definition of diplomacy
 - Central to the question of what diplomacy actually is are the aspects representation and communication.

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Business Diplomacy

- Overall, in the literature, the terms ‘business diplomacy’ and ‘corporate diplomacy’ are not generally recognized and only a limited number of scholars have applied these terms.
- According to Saner et al. (2000)
 - ‘business diplomacy management involves influencing economic and social actors to create and seize new business opportunities; working with rule-making international bodies whose decisions affect international business; forestalling potential conflicts with stakeholders and minimizing political risks; and using multiple international forums and media channels to safeguard corporate image and reputation’
- In accordance, Saner and Yiu (2005) state
 - ‘Business diplomacy pertains to the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, governments, political parties, media and other representatives of civil societies) and external constituencies’
- As a final example, Macnamara (2011)
 - states that ‘corporate diplomacy would require corporations to engage in ongoing dialogue with publics guided by specific principles and with mechanisms in place to balance power, amortize conflicts, facilitate negotiation, and maintain relationships even in the face of outright disagreement’ (p. 321).

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- What at least seems central to these definitions of business diplomacy and corporate diplomacy is the acknowledgment of a **stakeholder perspective of companies rather than a shareholder perspective.**

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Diplomatic Actors And Organisation

- Although the state is by no means the only actor in economic diplomacy, it remains the most central one.
- Vast differences exist, however, in the extent to which governments are active in the field of economic diplomacy, as well as in how the interlinkages between politics and economics are strategised and institutionalised.
- Differences also exist between countries and regions.
- A common characteristic of governments of many Asian countries, for example, is the fact that they strategically allocate resources to spur growth of a vastly diverse private sector at home and abroad.
- This may be the largest difference compared with countries in the Middle East and Russia, where state-owned natural resource industries dominate the private sector – making for a narrow, state-led economic diplomacy focused on the energy sector.
- Variations between Asian states, in turn, lie in whether the strong role of the state is organised in formal ways – such as in China, Vietnam and Singapore – or more informally – as in Japan, South Korea and Indonesia (Okano-Heijmans, 2012: 275–7).

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- MFAs and the network of overseas representation are one characteristic feature that has assumed particular significance within this system.
 - But they operate in an increasingly complex network that manages foreign affairs.
 - Other ministries and semi-governmental agencies involved in the field of economic diplomacy include those in charge of trade and economic affairs, agriculture, infrastructure, as well as development cooperation and climate change.
 - No matter the level of development or the politico-economic culture of a country, all share the continuous challenge of optimising extremely complex decision-making processes in economic diplomacy.

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- A more recent trend concerns the merging of the offices responsible for foreign affairs, trade and development.
 - In Australia the conservative government, when led by Prime Minister Tony Abbott, amalgamated the Australian Agency for International Development (AusAID) with the Department of Foreign Affairs and Trade (DFAT).
- In the Netherlands and Denmark,
 - the MFA took up responsibility for development cooperation years ago, foreign trade was added in recent years.
- The government therefore increasingly needs to consider the voice of domestic stakeholders engaged in development in international trade negotiations.
- A similar process of institutionalising links between commerce, trade and development in foreign affairs
 - For Example in Canada the foreign affairs and trade had amalgamated decades ago, and development was added in 2014.

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- While the above illustrates the challenges of managing interests and responsibilities between ministries, economic diplomacy obviously involves many more actors than representatives of nation-state governments alone.
- Economic diplomacy involves government-to-government relations, but is increasingly also about the build-up of government-to-business networks and the

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ECONOMIC DIPLOMACY TOWARDS THE FUTURE

- Side-effect of the global and financial crisis that started at the end of the 2000s
 - is that it discredited Western standards for other countries.
 - Instead, a more comprehensive approach that pragmatically links trade, investment and development for economic and strategic purposes is gaining ground.
- This trend is reinforced by the growing power and influence of China, as well as India, Brazil
 - European countries on a new economic diplomacy that emphasises national economic interests.
 - The redistribution of global power in the twenty-first century is also having an impact on economic diplomacy in the field of economic governance

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- First, the trend is towards more bilateral and regional economic diplomacy, at the expense of multilateralism.
 - Trade negotiations, for example, are moving away from the truly multilateral talks under the auspices of the WTO and resulting in a strengthening of competitive multilateralism.
 - Separately, EU countries are becoming partners and competitors in commercial diplomacy.
 - A second change that the evolution of economic diplomacy is having on economic governance concerns the emergence of new governance structures, at least partly at the expense of existing ones.
 - New governance structures established in 2014 include the New Development Bank, initiated by the BRICS-countries, and the China-led Asian Infrastructure and Investment Bank.
 - Although these institutions still face major practical and strategic challenges, they are probably the two most prominent examples of what may be new multilateral economic diplomacy in the making.

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Sanctions

- Sanctions are part and parcel of international diplomacy, a tool for coercing target governments into particular avenues of response.
 - In most cases, the use of sanctions presupposes the sender country's willingness to interfere in the decision making process of another sovereign government, but in a measured way that supplements diplomatic reproach without the immediate introduction of military force

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Sanctions

- Sanctions are “domestic” measures and/or penalties applied by one country on another with the purpose of controlling, prohibiting or restricting financial or trade activity of persons, entities and governments in order to achieve policy objectives.

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Differences

- TRADE RESTRICTIONS = ECONOMIC PROTECTIONISM
- TRADE SANCTIONS = ECONOMIC PENALTIES

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Sanctions and Embargoes

- **Economic sanctions** are commercial and financial penalties applied by one or more countries against a targeted self-governing state, group, or individual
- Economic sanctions may include various forms of trade barriers, tariffs, and restrictions on financial transactions
- An embargo is similar, but usually implies a more severe sanction. Economic sanctions generally aim to change the behavior of elites in the target country. However, the efficacy of sanctions is debatable and sanctions can have unintended consequences

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Embargoes

- An embargo is the partial or complete prohibition of commerce and trade with a particular country/state or a group of countries.
- Embargoes are considered strong diplomatic measures imposed in an effort, by the imposing country, to elicit a given national-interest result from the country on which it is imposed.
- Embargoes are generally considered legal barriers to trade, not to be confused with blockades, which are often considered to be acts of war

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Drawback of Embargoes

- Embargo can be an opportunity to some countries to develop faster a self-sufficiency.

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Negatives of Sanctions

- Economic sanctions are used as a tool of foreign policy by many governments.
- Economic sanctions are usually imposed by a larger country upon a smaller country for one of two reasons.
 - That there is a threat to the security of the former nation or that country treats its citizens unfairly.
 - They can be used as a coercive measure for achieving particular policy goals related to trade or for humanitarian violations.
 - Economic sanctions are used as an alternative weapon instead of going to war to achieve desired outcomes.
- Some policy analysts believe imposing trade restrictions only serves to hurt ordinary people.

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Effectivity of Sanctions

- Researchers debate the effectiveness of economic sanctions in their ability to achieve their stated purpose. Hufbauer et al. claimed that in their studies 34 percent of the cases were successful

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The rise of economic issues in diplomacy

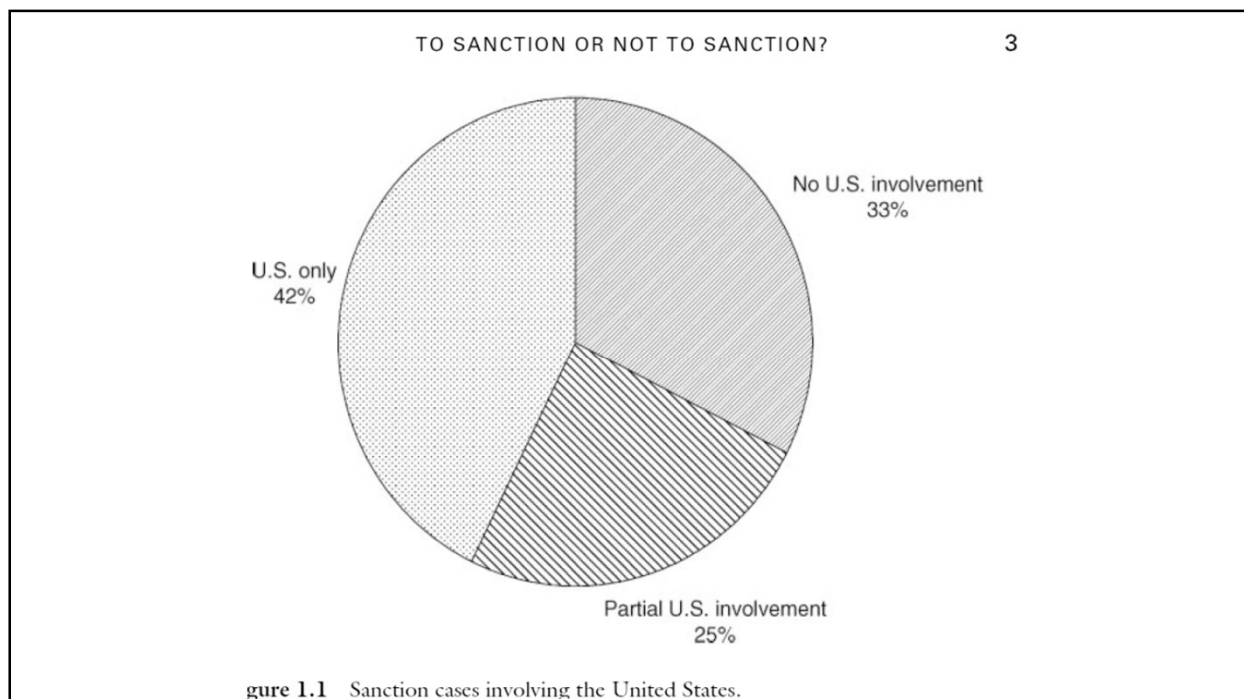
- The concept of economic diplomacy has gradually emerged over the past 50 years, as the economy has become the main driver of political influence.
- The post -second -world -war order, which started with the Marshall Plan and the European economic project based on the European Steel and Coal Community, was clearly economic.
- Thus, the major world economies conducted their diplomacy with the focus on their economic, trade and private sector interests. This has possibly led to major reorganisations of their administrations.

73

Sanctions

- Economic sanctions, wherein economies use trade and financial ties with other nations as diplomatic instruments, are not always used as proactive moves or reactions to international deviance and are relatively new as devices of international conflict resolution.

74



75

Sanctions

- Sanctions are ultimately macroeconomic phenomena, and their effects should be analyzed and forecasted as such.
- Scholars have become more concerned about the economic harm caused by these policies, especially the target socioeconomic groups upon whom potential damage is borne.
- Sanction effectiveness is a large issue in the academic literature and popular media, where many claim sanctions are ineffective.
 - Why continue to impose sanctions?
 - The simple answer lies in the parsimony of other options: more negotiations, placation, or war, regardless of whether the military option is initially debated or not.
 - Sanction use is likely to increase over time; this text attempts to expand our understanding of these policies' political economy.

76

Definition of Economic Sanctions

- An economic sanction is a country's discriminatory economic restriction of either trade or credit flows with another country in an attempt to affect or reverse current policy in the sanctioned nation.
- The target is the sanctioned country pursuing political policies deemed deviant by other countries. Senders choose themselves by initiating economic restrictions against this target nation.
- Sanctions involve economic weapons to wage a nonmilitary campaign, extending the diplomatic process beyond verbal negotiations.
- Third parties also exist, as the final cast members, and their involvement level depends on how they react to the sender's initial policy.
- Some help the sender and others help the target, all depending on the potential profits of those choices. There is much debate about the importance of third parties and there is no consensus on whether multilateral sanctions or the existence of sanction busting, third-party nations make any difference in policy efficacy.

77

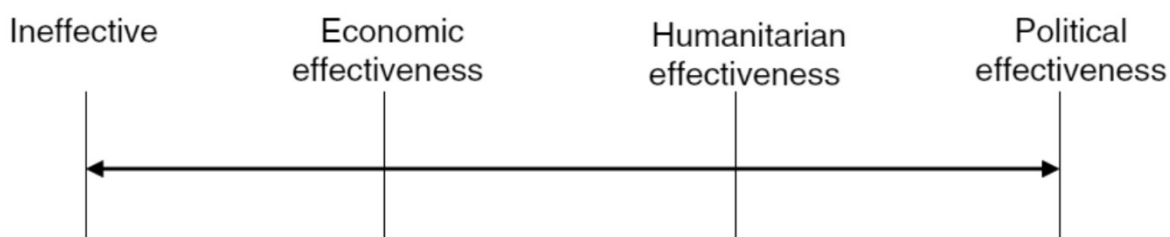


Figure 1.2 Sanction effectiveness continuum.

78

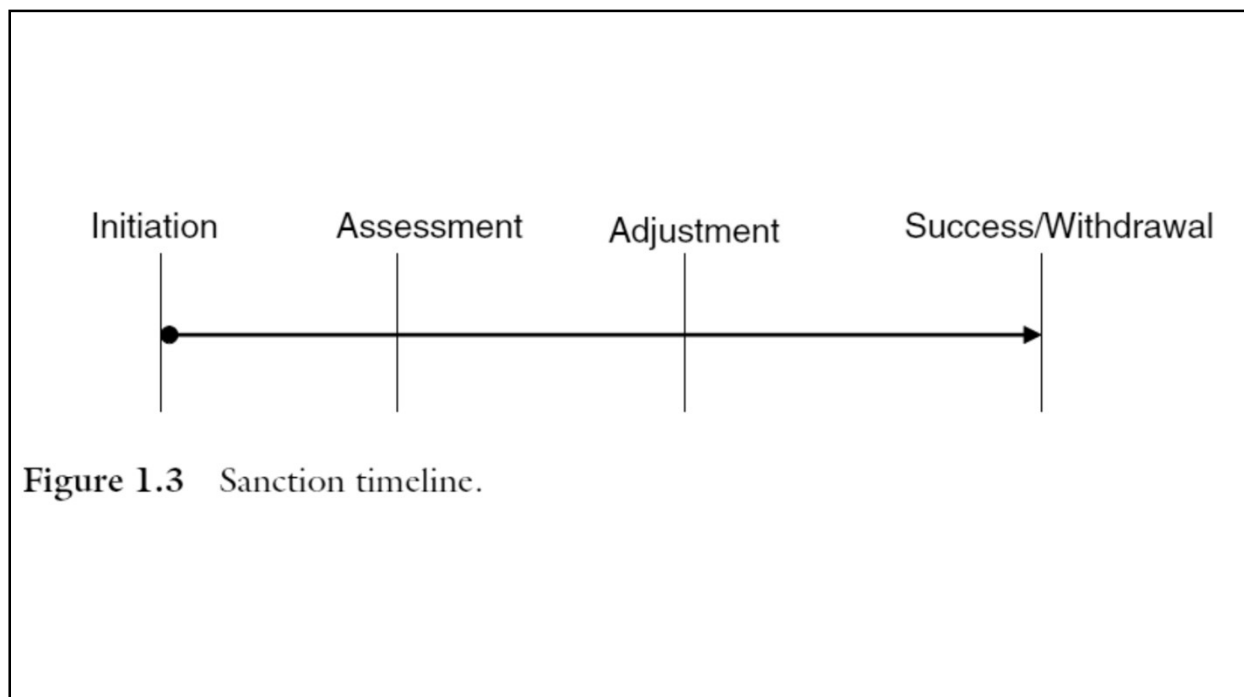


Figure 1.3 Sanction timeline.

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Sanctions

- Sender nations must have economic connections with the target to sanction effectively.
- Market economics shows that international trade free of market barriers begets economic gains from comparative advantage and specialization.
- Political economy is a simple tangent of international economics in this sense: **using trade and financial barriers as a political weapon is meant to undermine target gains from trade to force political gains for the sanction sender**

80

Sanctions

- Sanctions are used to exploit one specific similarity between sovereign nations, regardless of any differences: citizens need to eat. Exploiting the target's necessity for certain goods is economic warfare, where trade restrictions are used in lieu of military weapons.

81

Sanctions

- Sanctions—defined as mostly economic but also political and military penalties introduced to alter political and/or military behavior—are employed by the United States to discourage the proliferation of weapons of mass destruction and ballistic missiles, bolster human rights, end terrorism, thwart drug trafficking, discourage armed aggression, promote market access, protect the environment, and replace governments.

82

Sanctions

- To accomplish foreign policy ends, sanctions take the form of arms embargoes, foreign assistance reductions and cut-offs, export and import limitations, asset freezes, tariff increases, revocation of most favored nation (MFN) trade status, negative votes in international financial institutions, withdrawal of diplomatic relations, visa denials, cancellation of air links, and prohibitions on credit, financing, and investment.

83

Sanctions

- Sanctions are not direct substitutes for war but for other diplomatic tools, whereas war is the end of diplomacy. Fundamentally, a sanction is nothing more than a quota or a quantity restriction on the amount of goods, services, or financing flowing between two nations

84

Sanctions

- A typical sanction places restrictions (ranging from 0 to 100 percent) on exchange between the sanction-sender and the sanction-a nations.
- A typical protection policy places quantity restrictions, quotas, restrictive taxes—tariffs, or both tariffs and quotas, on exchange between the protective nation and other nations.
- Other protective policies, such as national preferences laws, may be regarded as having some tariff or quota analogue

85

Sanctions

- Galtung outlined seven “dimensions” for classifying sanctions, which have been a driving force in this literature and are paraphrased here:
 1. Sanctions either reward (are positive) or punish (are negative);
 2. Sanctions are aimed at individuals or the collective;
 3. Sanctions are imposed due to internal or external actions by the target;
 4. Sanctions are unilateral, multilateral or universal;
 5. Sanctions are general or selective;
 6. Sanctions are total or partial; and
 7. Sanctions restrict a mix of the target’s trade, financing, communications, and diplomatic relations.

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Basic Sanctions Theory

- Economic sanctions are just that: economic
- In less capitalist and democratic societies, that profit may be absorbed by an autocratic amoeba of bureaucracy and market frictions.
- Thus, sanction effects may be superficial to governments, harsh on its population, but must ultimately change the target's politics to be both credible and effective.

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Sanctions

- We view these policies from the sender's perspective generally, rather than the target economy.
 - Because of the economic connections between the two nations, and the fact that the sender is initiating the policies, using this vantage point should minimize confusion.
 - For example, the target's *export* market with the sender (the sender's import market with the target) reacts to the sender's *import* sanctions.
 - Analogously, the target's *import* market with the sender reacts to the sender's *export* sanctions.
 - We begin with import sanctions, which are akin to classic trade barriers, restricting sender goods and services inflows from the target.

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The Conclusion of Sanctions

- Brookings Institute published an analyses and states
 - A number of conclusions can be drawn from recent American use of economic sanctions for foreign policy purposes:

89

The Conclusion of Sanctions

- *Sanctions alone are unlikely to achieve desired results if the aims are large or time is short.*
 - Sanctions—even when comprehensive and enjoying almost universal international backing for nearly six months—failed to get Saddam Hussein to withdraw from Kuwait. In the end, it took Operation Desert Storm.
 - Other sanctions have also fallen short. The Iranian regime continues to support terrorism, oppose the Middle East peace process, and press ahead with its nuclear weapons program.
 - Fidel Castro is still in place atop a largely authoritarian political and economic system. India and Pakistan were not deterred from testing nuclear weapons by the threat of draconian penalties. Libya has refused to produce the two individuals accused of the destruction of Pan Am 103.
 - Sanctions could not persuade Haiti's junta to honor the results of an election. Nor could they dissuade Serbia and others to call off their military aggression. And China continues to export sensitive technologies to selected countries and remains a society where human rights are violated.

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The Conclusion of Sanctions

- *Unilateral sanctions are rarely effective.*
 - In a global economy, unilateral sanctions tend to impose greater costs on American firms than on the target, which can usually find substitute sources of supply and financing.

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The Conclusion of Sanctions

- **Secondary sanctions can make matters worse.**
 - Trying to compel others to join a sanctions effort by threatening secondary sanctions against third parties unwilling to sanction the target can cause serious harm to a variety of U.S. foreign policy interests.
 - This is what happened when sanctions were introduced against overseas firms who violated the terms of U.S. legislation affecting Cuba, Iran, and Libya. This threat may have had some deterrent effect on the willingness of certain individuals to enter into proscribed business activities, but at the price of increasing anti-American sentiment, stimulating challenges within the World Trade Organization, and drawing attention away from the provocative behavior of the target governments.

92

The Conclusion of Sanctions

- **Sanctions are blunt instruments that often produce unintended and undesirable consequences.**
 - Sanctions increased the economic distress on Haiti, triggering a dangerous and expensive exodus of people from Haiti to the United States.
 - Military sanctions against Pakistan increased its reliance on a nuclear option, both because the sanctions cut off Islamabad's access to U.S. weaponry and by weakening Pakistani confidence in American reliability.
 - More generally, sanctions can have the perverse effect of bolstering authoritarian, statist societies.
 - By creating scarcity, they enable governments to better control distribution of goods. The danger is both moral, in that innocents are affected, as well as practical, in that sanctions that harm the population at large can bring about undesired effects that include bolstering the regime, triggering large scale emigration, and retarding the emergence of a middle class and civil society.

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The Conclusion of Sanctions

- **Sanctions can be expensive for American business, farmers, and workers.**
 - There is a tendency to overlook or underestimate the direct cost of sanctions, perhaps because their costs do not show up in U.S. government budget tables.
 - Sanctions do, however, affect the economy by reducing revenues of U.S. companies and individuals. Moreover, even this cost is difficult to measure because it needs to reflect not simply lost sales but also forfeited opportunities.
 - Sanctions cost U.S. companies billions of dollars a year in lost sales and returns on investment—and cost many thousands of workers their jobs.

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The Conclusion of Sanctions

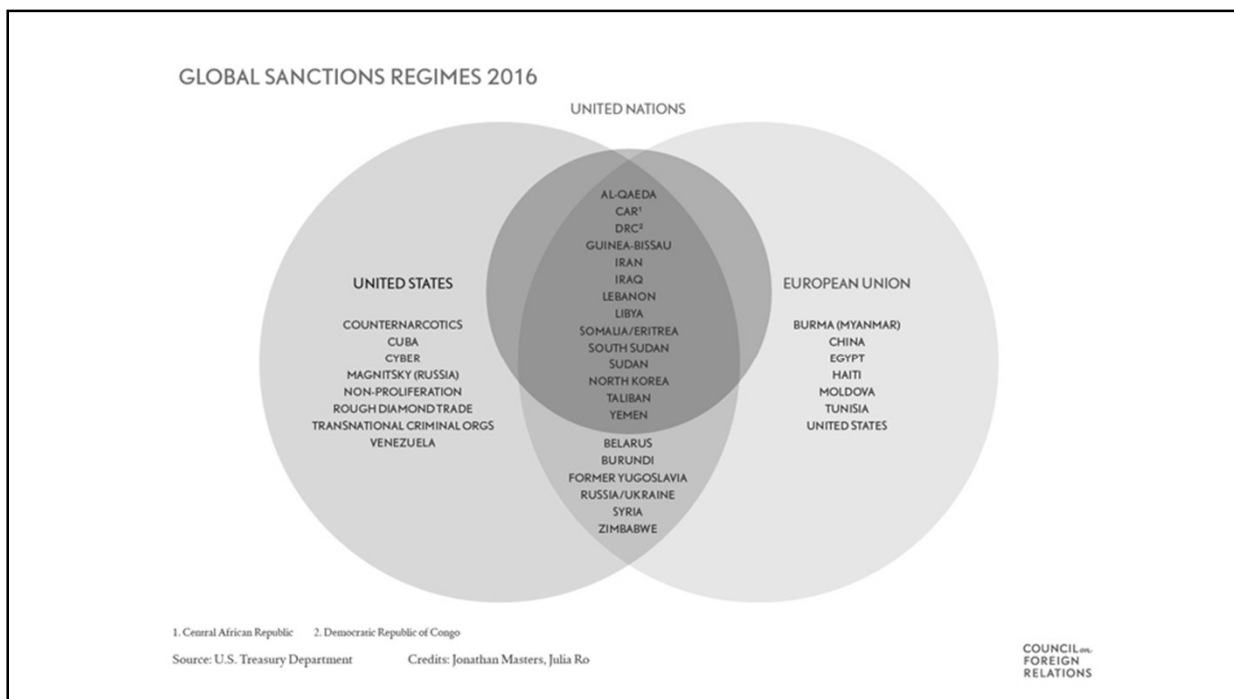
- **Sanctions tend to be easier to introduce than to lift. It is almost always more difficult to change the status quo than to continue with it.**
 - It is often difficult or impossible to build a consensus for rescinding a sanction, even if there has been some progress on the matter of concern, if the sanction has been shown to be feckless or counterproductive, or if other interests can be shown to suffer as a result.
 - This is likely to become the case with India and Pakistan, where U.S. sanctions introduced in the wake of the May 1998 nuclear tests will frustrate attempts to influence their behavior in this or other areas.

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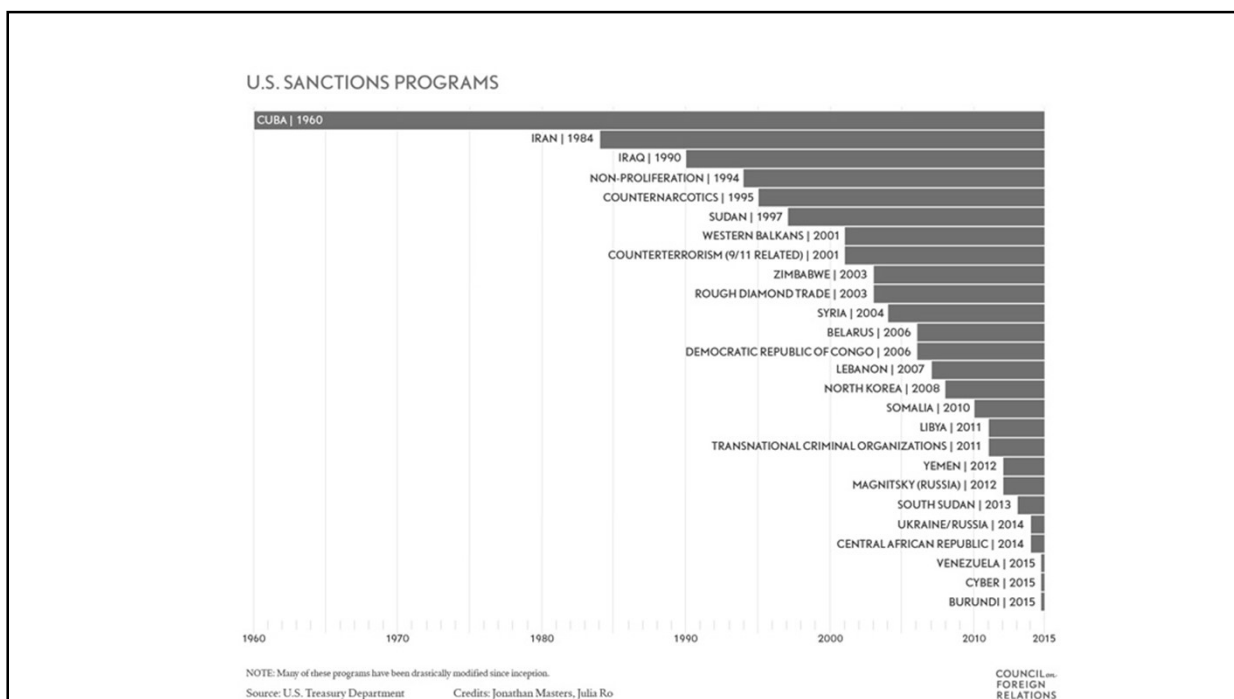
The Conclusion of Sanctions

- **Sanctions fatigue tends to settle in over time and international compliance tends to diminish.**
 - Inevitably, the issue that led to sanctions being introduced loses its emotional impact. Concerns over the humanitarian impact of sanctions also weaken resolve.
 - At the same time, the target country has time to adjust. Working around sanctions, import substitution, and any improvement of living standards due to adaptation all make sanctions bearable. All of these factors have eroded the impact of sanctions against Iraq, Libya, and Cuba.

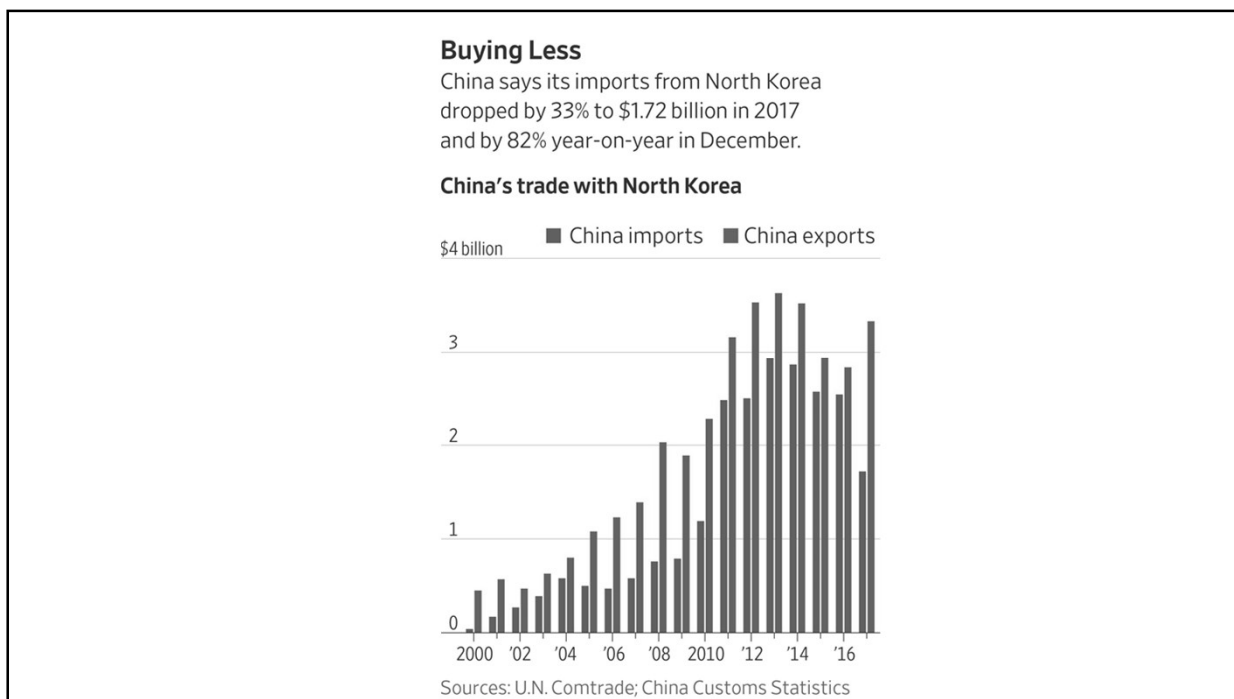
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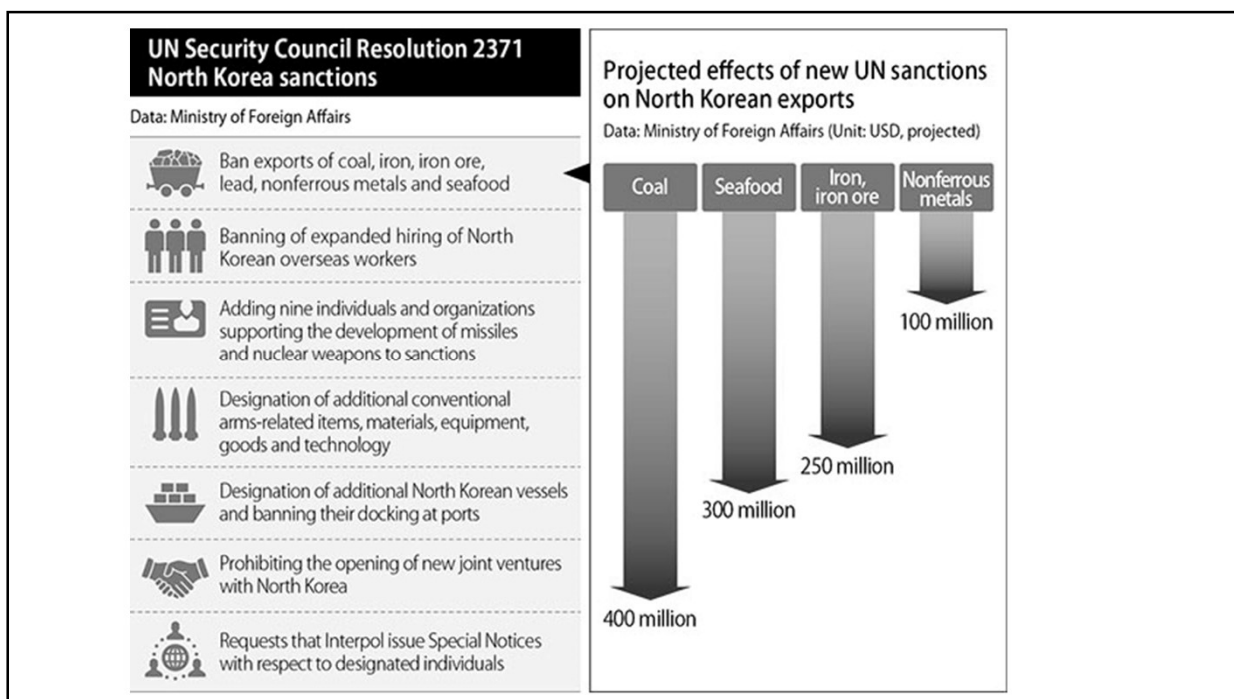
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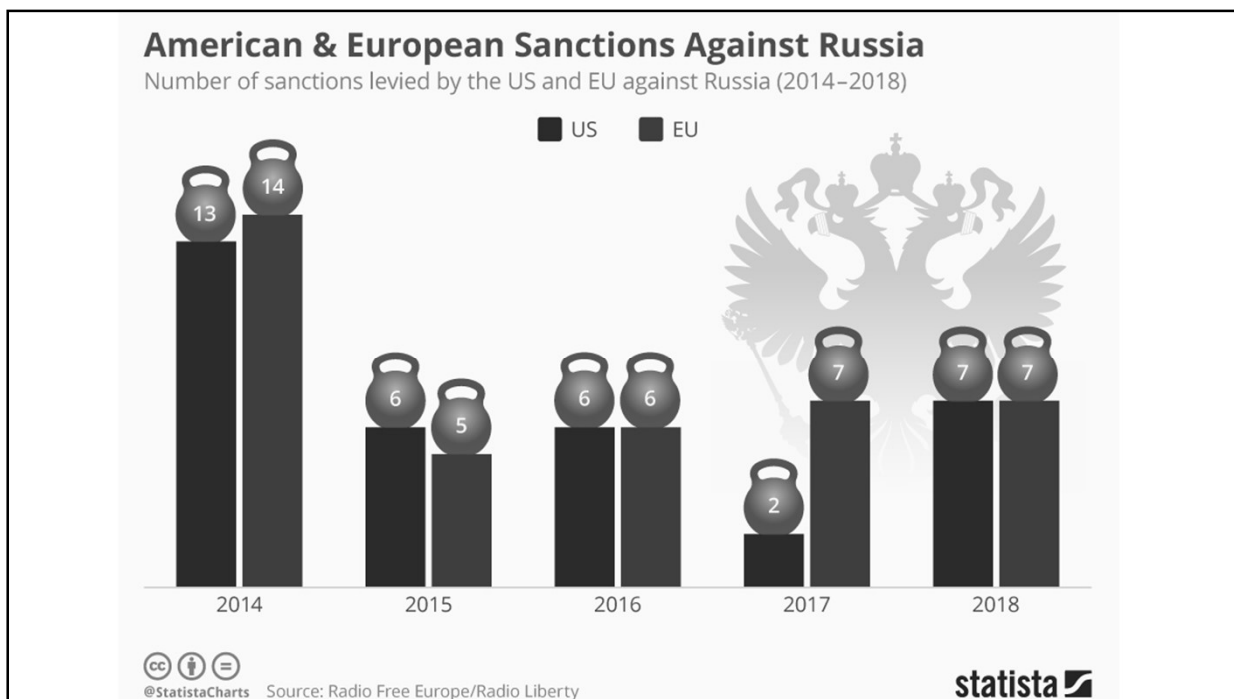
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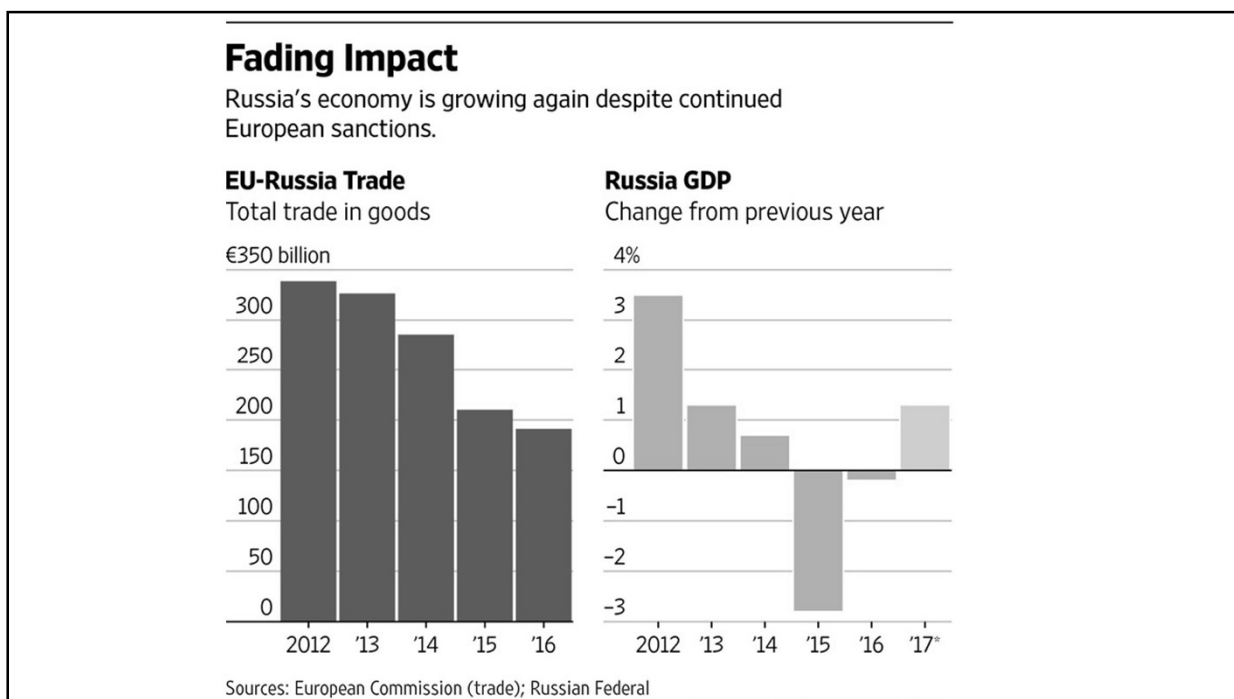
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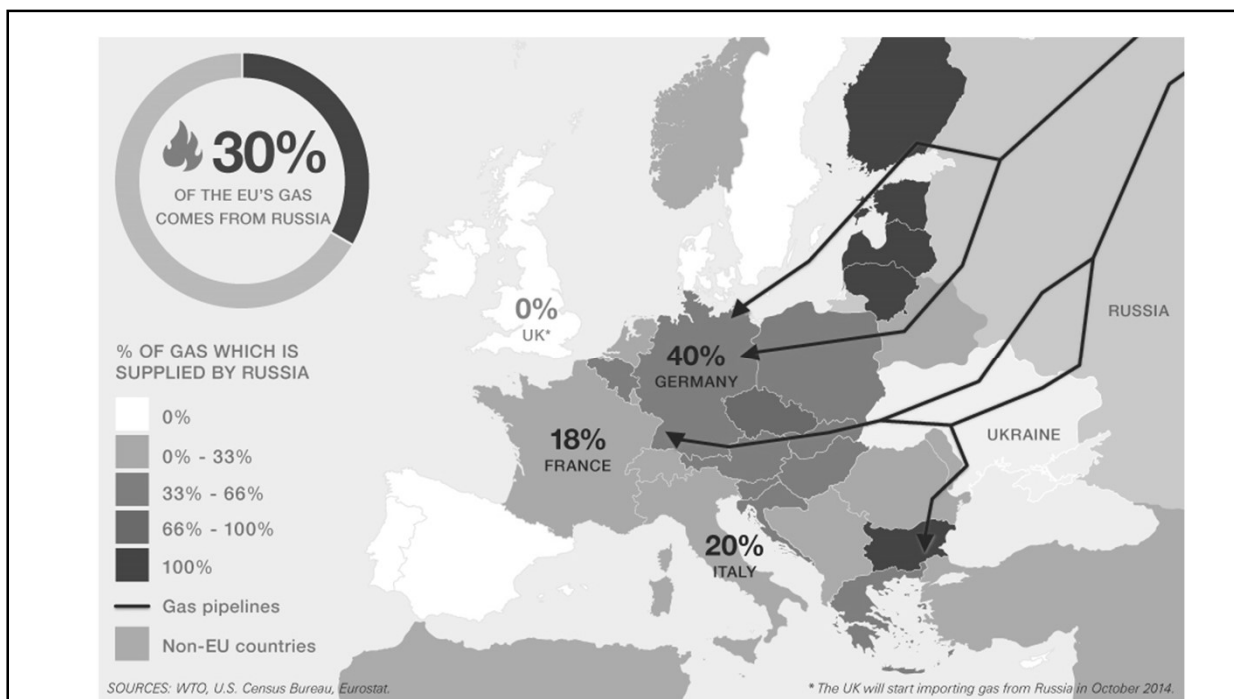
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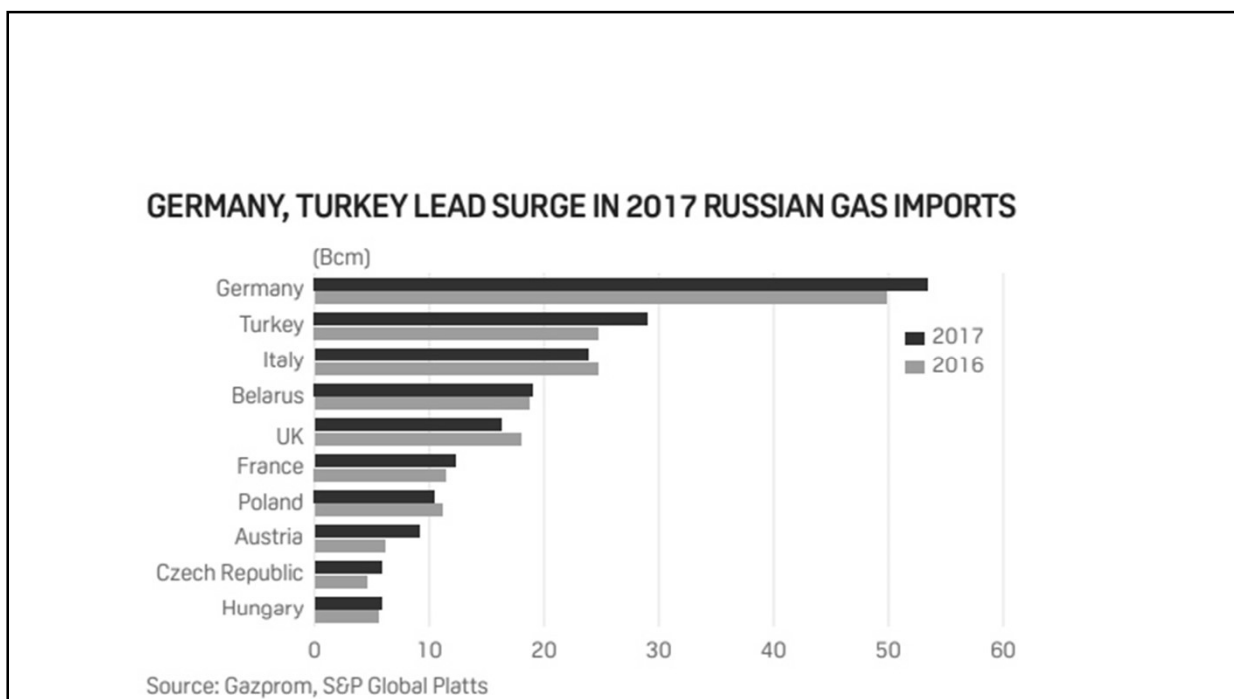
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Economic Diplomacy in International Relations

- Economic diplomacy studied through an IR lens is primarily concerned with high politics and issues related to national security, where national interests are primarily defined in terms of (inter)national stability.
- When considered in the broader field of economic diplomacy, this strand of research is characterized by an interest in power elements rather than policy and process. Illustrative is Baldwin's introduction to his study

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Economic Diplomacy in International Relations

- On economic statecraft, which reads that it 'is a study of economics as an instrument of politics'.
- The high politics or power-play element explains why political scientists who study the interrelationship between international politics and economics regularly employ the term 'economic statecraft', or tend to discuss the subject without linking it to any concept at all.
- In the former case, the focus is often on sanctions—negative or positive—while research of the latter kind tends to address the relationship between foreign policy on the one hand and trade or investment on the other.

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Foreign Aid

- Hans Morgenthau
 - Foreign aid is among the “real innovations which the modern age has introduced into the practice of foreign policy,”
- Hans Morgenthau, a well-known professor of international relations), who articulated the view that “Foreign aid is today and will remain for some time an instrument of political power.

107

Foreign Aid

- Foreign aid, though large and commonplace, is not without controversy, especially in major countries providing aid.
- This controversy centers on the volume of aid that donor governments should provide and the related issue of the impact of aid on development.
- Aid’s critics complain that aid has been ineffective and should be cut.

108

Foreign Aid

- The number of organizations and countries involved in providing foreign aid is also large.
 - Several dozen international organizations, like the World Bank, the Asian, African, and Inter-American Development Banks, and the United Nations Development Program (UNDP), plus approximately thirty governments have significant programs of foreign aid
 - rich countries of North America, Western Europe, and Japan
 - oil-producing countries in the Middle East
 - middle-income developing countries, like Korea, Thailand, and Turkey.
 - Poor Countries India and China, provide aid to other poor countries.

109

Foreign Aid

- Foreign aid, though large and commonplace, is not without controversy, especially in major countries providing aid.
- This controversy centers on the volume of aid that donor governments should provide and the related issue of the impact of aid on development.
- Aid's critics complain that aid has been ineffective and should be cut.
- Aid's advocates argue that it has been effective, can with reforms be more effective in the future, and therefore, on moral and practical grounds, it should be dramatically expanded

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Foreign Aid

- States are responsible above all for the security and well-being of their own citizens.
- Why then would they provide their own scarce public concessional resources to promote, among other things, the well-being of people in other countries?

111

Foreign Aid

- aid is, indeed, primarily a tool of hard-headed diplomacy. (Aid's impact on the poor is incidental or instrumental—as a means of increasing the security of the donor nation, for example, through reducing the temptations of communism or terrorism.)

112

Foreign Aid

- “realists” who argued aid was a tool for enhancing national power and security was George Liska (like Hans Morgenthau, a well-known professor of international relations), who articulated the view that
- “Foreign aid is today and will remain for some time an instrument of political power.”

113

Foreign Aid

- Liberal internationalists and others of the liberal tradition in national relations would see foreign aid as an instrument or reflection of the tendency of states to cooperate in addressing problems of interdependence and globalization.
- Growing amounts of aid have been channeled through international institutions and used to expand international “public goods,” such as controlling the spread of infectious diseases worldwide or reducing environmental degradation.

114

Foreign Aid

- Foreign aid has also been interpreted through the lenses of “constructivism”—the newest tendency among international relations scholars—as the expression of a norm that has evolved in relations between states that rich countries should provide assistance to poor countries to help the latter better the quality of lives of their peoples

115

Foreign aid

- It is not a policy but a tool of policy. It is sometimes regarded as including trade and military expenditures abroad or is used to encompass all public transfers among countries.

116

Foreign Aid

- Foreign aid is defined here as
 - a voluntary transfer of public resources, from a government to another independent government, to an NGO, or to an international organization (such as the World Bank or the UN Development Program) with at least a 25 percent grant element, one goal of which is to better the human condition in the country receiving the aid.

117

Foreign Aid

- Aid can be in the form of cash
 - (grants or concessional loans),
 - in kind (e.g, food aid),
 - or in the form of debt relief.
- These transfers can fund a diverse set of activities: budgetary and balance of payments needs in recipient countries, investment projects and research activities, economic or political reform programs, technical advice and training, and humanitarian relief

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Foreign Aid

- **Aid can permit a recipient government to expand activities** that help realize the purposes of the aid
 - it can increase investments in infrastructure, provide relief to a suffering population, or ease the budgetary burdens of military expenditures
- **aid can expand the capacity of** a recipient government to act in ways that enable it to use all its resources more productively
 - for example, aid can provide training and advice to government officials in budgeting, auditing, program management, planning, and a host of other technical and managerial areas.

119

Foreign Aid

- **aid can act as an incentive or as a payment** for recipients to act in ways favored by the donor by conditioning it on desired behavior on the part of the recipient
 - For example adopting economic policy reforms or supporting the donor government's positions in international forums) or reducing or eliminating it when recipients behave in ways unwelcome to the aid-giving government

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Foreign Aid

- **foreign aid is a potent political symbol and signal**
- As a voluntary transfer, it suggests approbation by the donor of the recipient and vice versa.
- And rising amounts of aid often signal increasing closeness in relations between donor and recipient, just as falling aid levels can symbolize cooling relationships and disapprobation.
- Aid can also act as a general signal to other governments, demonstrating that the government providing it is ready to stand behind the recipient government in the face of pressures from hostile or aggressive governments.
- Finally, foreign aid often serves several of these functions at once.

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Economic Diplomacy of China

- China's annual average Gross Domestic Product (GDP) growth rate has kept a historic pace of about 10%, making it one of the fastestgrowing economies in the world.
 - China emerged as the world's second largest economy,
 - it has also become an active economic player worldwide:
 - the largest exporter of commodities, biggest manufacturer, principal holder of foreign exchange reserves, biggest creditor nation, second largest importer and second largest recipient of foreign direct investments (FDI)

122

- There is no uniform Chinese economic diplomacy across the board.
- In the Asia–Pacific regions, Beijing attaches great importance to both economic and security interests.
- Apart from trade, investment and financial interests, China also seeks to secure its sovereignty and territorial integrity through rivalry with Japan and the Philippines over the disputed islands, on the one hand, and with the US over political order in the Asia–Pacific, on the other hand.
- Therefore, while most ASEAN states have welcomed the US as a deterrent against growing Chinese military buildup, their economies have become increasingly dependent upon China.
- However, in Africa, Latin America, Central Asia and the Arab world, Beijing focuses mainly on economic interests; its security interests are secondary and minimal

123

- China's economic diplomacy mostly targeted Japan, the US, Europe and other developed economies that boast plentiful funds, advanced technology and managerial expertise, regarded as indispensable factors for China's economic modernization drive

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Silk Road

- In September 2014, at Nazarbayev University, Kazakhstan, President Xi Jinping proposed to build a 'Silk Road Economic Belt' to boost cooperation with Central Asian and Middle Eastern countries;
- During his visit to Indonesia thereafter, President Xi suggested that China and the South and Southeast Asian nations build a 'Maritime Silk Road in the 21st Century'. The two 'Silk Roads' indicate that Beijing's grand strategy has shifted from 'looking eastward' to 'looking westward'.

125

China and Middle East

- In 2013, the Arab world as a whole ranked as China's seventh largest trading partner whereas China is the Arab countries' second largest trading partner, and the largest one to nine individual Arab states
- In 2013, for instance, China became Algeria's main commercial supplier, surpassing France, which had traditionally been Algeria's main supplier (with US\$6.6 billion before year's end, while France, the traditional supplier, exported less than US\$5 billion)

126

- However, contrary to the Western powers and Russia's involvement in the Libyan, Yemeni and Syrian conflicts, China has kept a guarded distance from Arab politics

127

- DEGANG SUN AND YAHIA H. ZOUBIR argue that China's economic diplomacy has three major features.
 - First, it attempts to engage in economic and trade activities with overseas counterparts without interfering in the target countries' internal affairs;
 - Second, it relies on political and diplomatic measures to facilitate economic expansion abroad;
 - Third, it uses economic leverage (including development aid) to entice the target countries to enhance closer economic ties.
- The application of economic diplomacy, the PRC has used, in some regions, commercial relations to extract diplomatic support on such issues as human rights, Taiwan and Tibet; but, in the Arab world, Beijing has often used political means to achieve economic ends

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- China's economic diplomacy towards the Arab countries is embedded in its business-first strategic culture, i.e. making economic development the priority of the government's tasks.
- Strategic cultures of sovereign states differ and can generally be categorized into two groups: geopolitics-driven and geoeconomics-driven, respectively

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Table 1. Geopolitics-driven and geoeconomics-driven powers and their MENA policies: a comparison

	Geopolitics-driven powers	Geoeconomics-driven powers
Represents	US, UK, France and Russia	China, India, South Korea and Brazil
Strategic culture	Military power as the core	Economic power as the core
Diplomatic target	Military influence	Economic influence
Policy priority in the MENA	Seeking predominance in the MENA security affairs	Seeking economic opportunities in the MENA
Attitudes towards the MENA political disputes	Active participation for control	Avoiding entanglement, preferring neutrality
Domestic interest groups	Military–industrial complex and oil companies	Big oil and foreign trade companies
National strategy	Military intervention	Promotion of domestic development
Deployment of military presence in the MENA	More	Less

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- China's economic diplomacy towards the Arab countries is driven more by commercial interests than by security interests. In the face of ongoing Arab revolts, the PRC has taken a pragmatic stance: seeking the maximum economic benefits and minimum political adventures/risks
- Using the China Development Bank and the Export– Import Bank, Beijing has become the major provider of low-interest development loans to the MENA countries. These loans are contingent upon repayment via resources, or are built around Chinese companies undertaking the projects employing Chinese sources and using Chinese materials

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Factors governing China ED

- The first factor governing China's economic diplomacy relates to its national conditions.
 - Joshua Eisenman points out, 'Unlike the Maoist era, when China's trade policies served its leaders' political goals, now they aim to access markets as part of China's larger domestic development strategy'.

132

- China’s economic diplomacy has shifted from the developed countries to the developing nations, including the energy-rich Arab states.
- Compared with the developed economies that are suffering from systemic economic slowdown and shrinking markets, the resource-rich Arab countries in the Gulf and North Africa represent promising emerging markets, which constitute ideal destinations for China’s surplus capital and manufacturing goods.
- In 2013, China imported about 133 million tons of oil from the Arab countries, representing 47.2% of the total imported volume

133

- With the rapid development of its economy, China has become vulnerably dependent on the Arab markets and energy. As pointed out by the official Xinhua News Agency, the Arab world is of great significance to China’s ‘market diversification’ and ‘going-global’ strategy

134

- Meeting the domestic demand has been the major consideration in China's economic diplomacy towards the Arab countries since 2011.

135

- The second factor driving China's economic diplomacy towards the Arab countries is the consolidation of China–Arab relations.
 - Former Chinese Premier Wen Jiabao emphasized that
 - China and the Arab countries share a lot of similarities, as both are developing countries with long histories, brilliant civilizations and glorious cultures; both were humiliated and colonized by Western powers in the modern times; and both are seeking national revitalization in the new era

136

- China has realized that the Arab countries have different national conditions and policy orientations and that China and the Arab countries barely share real common values.
- Within the League of Arab States, the club of pro-Western, oil-rich, tribally-based, geopolitically vulnerable Gulf Cooperation Council (GCC) monarchies has strikingly different policy orientations from the Arab republics, like Syria, Egypt and Algeria.

137

- Assistant Minister of Commerce, Qiu Hong, pointed out in September 2012 that:
 - as two great developing economies, China and the Arab world are undergoing a key historical juncture of economic and social transition and are both faced with arduous tasks of improving people's well-being. Therefore, the two sides should consolidate their cooperation and enhance their capacity to resist external ventures in win-win development

138

- The third factor propelling China's economic diplomacy towards the Arab countries is the top leaders' perception of the rivalry that exists among great powers in the new era.
- Since the new central leadership was elected in 2012, Chinese top policymakers, particularly President Xi, underscored time and again the desire to achieve the '**Chinese Dream of National Rejuvenation**' because great strategic opportunities are offered to China in the twenty-first century.

139

- During the Central Economic Work Conference of February 2013, President Xi highlighted that, 'the connotation and conditions of our strategic opportunities have changed, but [we] still boast precious opportunities and favorable conditions for our development'.

140

- In the longer run, China's economic diplomacy in the Arab world will produce a strategic outcome and may help to achieve Beijing's grand strategy of building a China–Central Asia–Middle East passageway in the fields of logistics and energy, providing China with stable and prosperous 'close neighbors' and 'extended surroundings', building the 'Silk Road Economic Belt', as President Xi advocated

141

Approaches of China's economic diplomacy towards the Arab countries

- China has adopted a number of measures to secure China's economic interests.
 - First, China strives for new mechanisms to facilitate Sino–Arab economic development in its economic diplomacy. In 2004, former President Hu Jintao paid a
 - historic visit to the headquarters of the Arab League in Cairo, and the two sides
 - announced the establishment of the China–Arab States Cooperation Forum
 - (CASCF), the most important mechanism for the promotion of bilateral relations
 - at the ministerial level conforming to the win–win approach

142

- With abundant foreign exchange reserves, Beijing has established two of the world's largest sovereign wealth funds:
 - the official China Investment Corporation (CIC)
 - and the non-official and less transparent State Administration of Foreign Exchange Investment Company (SIC).
- The Arab world is one of the major destinations for future investment funds.
 - Since the outbreak of the Arab revolts, Chinese policymakers continued economic pursuits while avoiding getting enmeshed in the Arab political chaos.

143

- China signed agreements on governmental, economic, trade and technological cooperation with all Arab countries, except Somalia

144

- Second, Chinese top leaders initiated economic diplomacy towards key Arab countries through high-level exchange of visits. China's high level visits to the Arab countries have been more frequent since the outbreak of the revolts.
- In the Gulf area, China has devoted greater attention to Saudi Arabia, Qatar and the UAE, seen as the hubs of China's economic diplomacy

145

- The Bank of China has established branches in the UAE, Qatar and Kuwait; the Industrial and Commercial Bank of China has established branches in the UAE and Qatar.
- Airline companies, such as Air China, China Southern and China Eastern have established businesses in Saudi Arabia, the UAE and Qatar, as well.
- China is now the largest importer of Saudi oil.
- President Hu Jintao visited Saudi Arabia twice in 2006 and 2009; then
- Vice President Xi Jinping visited Saudi Arabia and Qatar in 2008 and former Premier Wen Jiabao visited Saudi Arabia, the UAE and Qatar in early 2012.

146

- Compared with the frequent visits to the GCC countries, China's top officials' visits to Iraq, Lebanon, Yemen, Syria and other poor Arab countries are much rarer, indicating that China's economic diplomacy centers on resource-rich and politically stable Arab countries

147

- Third, China strives to promote economic diplomacy through aid packages.
- The assistance to Arab countries comes in different forms, such as economic aid, training programs and the recruitment of Arab students.
 - In 2012, more than 1,000 Arab professionals from different sectors received professional training in China, and approximately 8,000 Arab students were studying in China.

148

- In June 2014, President Xi declared during the 10th anniversary of the founding of the CASCF (China Arab States Cooperation Forum) that in the next three years, Beijing would train 6,000 people to work in Arab countries and have 10,000 artists visit each other in the coming decade
- Through these economic packages and intellectual aid programs, China strives to improve its national image as a **'responsible power'** and **'reliable brother'**, in order to pursue successfully its economic diplomacy in the Arab countries.

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Actors of China's Economic Diplomacy

- Interagency cooperation
 - There exist various institutions in charge of implementing China's economic diplomacy, divided into different agencies. Economic engagement abroad involves
 - more than the ministries of foreign affairs, commerce and industry; it is the business
 - units of the country, associations of industry and chambers of commerce, the financial sector, business schools and think-tanks, the tourism industry and a host of
 - domestic actors that are both the stakeholders and the prime movers

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Actors of China's Economic Diplomacy

- China's economic diplomacy is implemented through the close coordination of different ministries and administrations, such as the
 - National Development and Reform Commission (NDRC),
 - the National Energy Administration, Foreign, Commerce, Science and Technology,
 - International Department of the Central Committee of the Communist Party of China (CPC)
- Due to the central–local government dichotomy, China's economic diplomacy is also executed at the level of the municipal, provincial and autonomous regions

151

Actors of China's Economic Diplomacy

- China's Foreign Ministry bears the major responsibility for implementing the PRC's economic diplomacy.
- Since the founding of the CASCF forum, China has viewed the Arab countries as a 'unified entity'—in spite of their different conditions—and China's Foreign Ministry plays a pivotal role in coordinating different Ministries of Commerce, Science and Technology, as well as the agencies from the ruling CPC.

152

Actors of China's Economic Diplomacy

- Second, the Ministry of Commerce plays an important role in economic diplomacy
- towards the Arab world, especially in the negotiation of the China–GCC Free Trade Area (FTA) and the hosting of the China–Arab States Economic and Trade Forum.

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Actors of China's Economic Diplomacy

- China's Ministry of Science and Technology has also contributed to China's economic diplomacy in the Arab countries, with the Asia and Africa Department as the implementing organization.
- For instance, in its economic cooperation with Algeria, Vice Minister of Science and Technology, Zhang Laiwu, suggested that Algeria should emulate China's 'high-tech park', and attract both Chinese and Arab entrepreneurs to settle down in the high-tech park, and promote industrialization of scientific and technological research

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Actors of China's Economic Diplomacy

- Fourth, apart from the aforementioned three agencies of the '**State Council**' (habitually called 'the government'), 中联部[Zhonglian Bu], i.e. the International Department of the Central Committee of the CPC (customarily identified as 'the Party') is also a key player in China's economic diplomacy
- As a liaison office of the CPC foreign relations, Zhonglian Bu strives to serve as a bridge connecting Arab ruling parties with China's through economic links.

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Central–local governments' coordination

- China's economic diplomacy towards the Arab countries reveals its power sharing not only among different ministries, but also between the central and local governments.
- In China, provinces and municipalities are important actors in regional diplomacy, and their economic exchanges are frequent with the countries that adjoin them.

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Central–local governments’ coordination

- As of 2011, Chinese provinces, municipalities and autonomous regions established 30 pairs of sister cities with their counterparts from the 22 Arab countries, implying that some local governments have also participated actively in China’s economic diplomacy.

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Central–local governments’ coordination

- The Ningxia Hui Autonomous Region and the Yiwu city of Zhejiang Province are two typical examples Ningxia serves as a ‘melting pot’ of Chinese and Arab cultures, therefore playing a pivotal role in promoting bilateral economic cooperation.
- This is the only autonomous region at the provincial level, established by the Hui majority. Landlocked and backward in infrastructure, Ningxia is one of China’s poorest regions. However, it is now offered a good opportunity to promote its economic and trade relations with Arab countries.

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Central–local governments’ coordination

- Yiwu city of Zhejiang Province also plays an active role in implementing China’s economic diplomacy towards the Arab countries.
- Located in central Zhejiang Province, Yiwu is regarded as the largest commodity distribution center in the world, and simultaneously the largest business transaction hub of the Middle East countries in China.
- The fluctuating number of businessmen with foreign passports in the city has exceeded 580,000, and 1,500 companies from over 20 Islamic countries have set up offices in the city. It

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Central–local governments’ coordination

- China’s national oil companies, such as the CNPC and SINOPEC, also serve as important lobbies shaping China’s economic diplomacy in the Arab world.
- As long as they can obtain approval from the top leadership, these state-owned oil giants are able to integrate their overseas investment strategy into China’s going-global strategy.
- CNPC and SINOPEC investments in Sudan, South Sudan, Iraq, Saudi Arabia and Libya are cases in point.
 - For instance, the two companies own major stakes in the al-Ahdad, Halfaya and Rumaila oil fields in Iraq.
 - In order to foster closer relations with Baghdad, Beijing wrote off about 80% of Iraq’s US\$8.5 billion debt.
 - President Xi and Premier Li warmly received Crown Prince Salman, Deputy Prime Minister and Defense Minister of Saudi Arabia in 2014. The two sides reiterated their determination to consolidate the bilateral strategic partnership

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Japan's Economic Diplomacy Environment And Establishment

- Economic diplomacy has been a characteristic element of Japan's foreign policy of the post-war period and is a key instrument in Japan's quest for national security.
- This emphasis on a strategy that holds that economic-commercial interests and political interests reinforce one another, and should thus be seen in tandem, contrasts with the traditional approach of transatlantic powers, which attaches relatively greater importance to the military-economic linkage in their quest for influence.
 - As illustrated by the intense debate on whether, when and how Japan will become a 'normal' country

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Japan's Economic Diplomacy Environment And Establishment

- As the growth of the Japanese economy slowed from the 1990s and Japan's government became more active in the military field—albeit in a non-combat role—political scientists' enquiries largely turned to the (alleged) 'remilitarization' of Japan
- The relative shift of attention towards developments in the military-strategic field has resulted in a deficient understanding of shifts in economic-strategic thinking among Japanese elites in recent years.

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Japan's Economic Diplomacy Environment And Establishment

- the Japanese state is not 'normalizing' but 'adapting, dismantling and innovating'.
- Like other East Asian so-called 'developmental states', Japan is not converging on a neo-liberal (Anglo-American) norm, but, rather, is in a transformative phase.
- While shifts are discernible in the field of military security, substantial changes are also taking place on the politico-economic front.

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Economics and Security in Japan's Diplomacy and Foreign Policy

- As the defeated power in the Pacific War and latecomer in a system that was largely dominated by the United States and European countries, Japan in the post-war period followed an approach to economic and foreign policy that emphasized—to a greater extent than its Western counterparts— economic tools for political and foreign policy purposes, and political tools for commercial purposes.
 - In the domestic sphere, the term 'industrial policy' is used to refer to such active and conscious attempts by government to influence specific firms, industries, or sectors.
 - In the international context, the concept of economic diplomacy captures the wide range of government attempts to employ, and direct economic and political intercourse.
 - Japan's activism in this field may be thought of as the foreign policy implication of Gerschenkron's argument that latecomers in the world economy require a centralized approach to industrialization and economic growth

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Japan's Economic Diplomacy Environment And Establishment

- Japan's approach entailed a move beyond the emphasis on the military–economic linkage that transformed European states into established powers.
- And as is well documented, the Japanese 'peace constitution' and security guarantee provided by the United States facilitated and reinforced this tendency.
- Clearly, the Cold War not only had an impact on Japan's security policy, but also on its economic diplomacy.

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Japan's Economic Diplomacy Environment And Establishment

- The so-called Yoshida Doctrine (*Yoshida rosen, Yoshida dokutorin*), which was pioneered by Japanese Prime Minister Yoshida Shigeru in the 1950s and by later prime ministers in the 1960s, became symbolic of Japan's approach and was premised on a focus on economic growth and passivity in global affairs—sometimes referred to as mercantile or economic realism and free-riding.
- The domestic organization of the political economy that facilitated this approach became conceptualized in the notion of the 'developmental state', characterized by an interventionist government that guides and supports **social–economic development through industrial growth in a capitalist environment**.
- More specifically, Japan's success was said to lie in the government–industry partnership that had resulted in a system with the 'firm as family corporate paternalism'

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Japanese ED

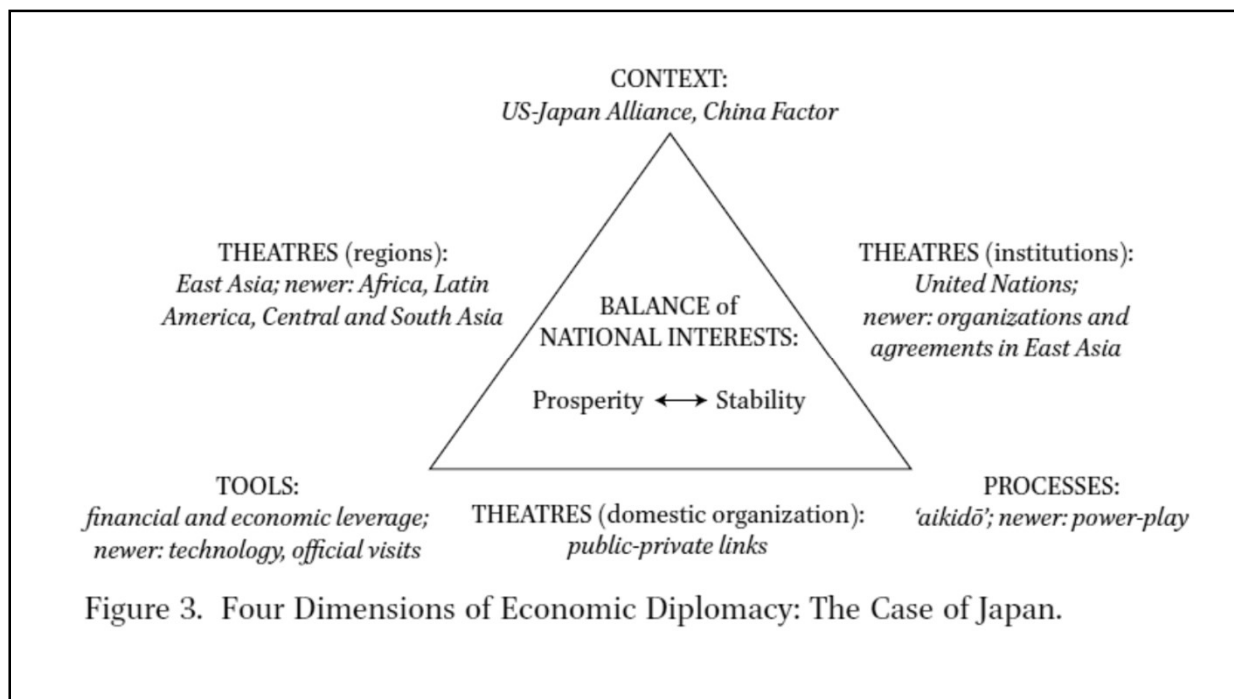
- a hybrid public–private system, driven preeminently by market-oriented private-sector calculations.
- The implications of this domestic organization for foreign policy practice at large received relatively little attention, however, except in studies on Japan’s industrial networks in South-East Asia.

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Japanese ED

- The emphasis on economic and diplomatic means rather than on military means to protect Japan’s national security is also ingrained in Japan’s comprehensive security (*sōgō anzen hoshō*) policy, which was developed in the 1980s.
- In addition to the military field, this security policy addresses economic and environmental dimensions.
- This conforms with the idea of economic diplomacy involving a ‘business end’ and a ‘power-play end’— as detailed in the previous chapter.
- In order to secure the balance of national interests, the Japanese government adopted a ‘dual hedge’ strategy, wherein the alliance with the United States served as a hedge against China’s military power and other regional security threats.
- At the same time, different partners were cultivated, especially in Asia and the Middle East, to hedge against economic dangers—the so-called ‘military shield and mercantile sword’.

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Japanese ED

- Two recurring themes in contextual debates about Japanese policies are the role of the US–Japan alliance and Japan’s activities in the region.
- These have largely determined Tokyo’s economic diplomacy and can be directly related to the two main determinants of the balance of national interests—stability and prosperity—as the Japanese government considers both the economic and the military benefits of the alliance and of its own regional role.

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Japanese ED

- As economic security came to be discussed in China from 1997 onwards, the **'friendship diplomacy'** framework that had characterized Sino- Japanese relations after 1972 ended, and a sense of competitiveness between the two regional powers strengthened.
- Although the formal rhetoric is still that of engagement, Japan seeks to dilute Chinese power in multilateral frameworks and economic cooperation in the region.
- The driving forces of regional cooperation in East Asia thus involve a complex mix of defensive regionalism, economic interdependence and intra-regional competitive dynamics.
- **Japanese policies shift, slowly but steadily, from an emphasis on the 'business end' of economic diplomacy towards more visible power play.**

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Theatres of Japanese ED

- In the early post-war period, Japan's economic diplomacy activities focused on the East Asian region.
- Its role has been characterized as that of a 'network power', in reference to the private–public link between keiretsu networks and the Japanese government. As the (South-)East Asian region developed and the challenge of China's rising economic, political and military capabilities expanded, the Japanese government broadened its economic diplomacy activities to other regions, including Africa, Latin America, and Central and South Asia.
- This involved a refocus of development/economic cooperation efforts towards Africa and India—regions where competition with China about political influence and energy resources is fierce.
- The Japanese government is also reaching out with official development aid (ODA) and economic cooperation projects to countries such as Bolivia, Chile and Kazakhstan, which are growing in strategic importance because of their role as suppliers of the rare minerals that are required for Japan's high-technology sectors

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Processes of Japanese ED

- Characterizations of Japan's ways of going about foreign policy point to a **'hybrid approach'**, with one study addressing multilateral assistance and finding a mix of **proactivism, acquiescent activism, defensive activism, and anticipatory activism**.
- Other scholars posit that Japan's international relations can be compared with the practice of *aikido* ('the way of harmony'), because of its emphasis on economic matters, most importantly a preference **for using economic statecraft positively rather than military statecraft negatively**.

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Japanese ED

- The main trigger for change in Japan's economic diplomacy came with the start of economic reform in China in the late 1980s, followed by the dramatic experience of the Gulf War of the early 1990s.
- These events ended Tokyo's emphasis on so-called 'chequebook diplomacy', in reference to Japan's provision of cash but failure to contribute manpower to international peacekeeping and military operation
- Realizing the limits of its (publicly) passive diplomatic stance and in response to foreign criticism of this one-sided approach, the Japanese government slowly changed course since the mid-1990s.

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Tools of Japanese ED

- In the case of Japan, detailed studies of economic diplomacy tools have focused on
 - development/economic cooperation,
 - negotiations towards trade agreements
 - Sanctions
 - trade and investment promotion
 - business advocacy,
 - Summitry
 - Regional financial cooperation.

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Tools of Japanese ED

- These instruments were pragmatically linked when politico-strategic goals could largely be subordinated to economic/commercial objectives (as was the case until the early 1990s), making for a sophisticated and comprehensive economic diplomacy policy of the Japanese government in cooperation with the business sector.

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Tools of Japanese ED

- The security guarantee that was provided to Japan by the United States from the 1950s facilitated a positive approach to Japanese economic diplomacy.
- **Official Development Assistance (ODA)** came to be used as a tool to improve relations with the East Asian region—also serving as compensation for wrongdoings during the Pacific War and the colonial period— in accordance with Japanese business interests.
 - Following the 1985 Plaza Accord, ODA was used for restructuring Japanese industry.
 - Later, as (South-)East Asian countries developed, the Japanese government placed growing emphasis on the environment
 - From the 1990s, the new strategy increasingly comprises a joint economic cooperation effort by the Japanese government and the private sector involving ‘green’ energy and environmental technology

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Japan’s economic diplomacy

- free-trade agreements and (official development) assistance points to a remarkable degree of policy activism in the employment of these economic diplomacy tools.
 - Japanese attempt to respond strategically to common challenges—the domestic economic recession and international pressure for policy convergence and competition with China—
 - the government is criticized for being slow in forging free-trade agreements (FTAs, or Economic Partnership Agreements, as the Japanese prefer to call them)

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Japanese ED

- A relatively new instrument (or, better, mode) in Japan's economic diplomacy toolkit concerns summitry and business representatives joining high-level politicians on official visits abroad.
- Perhaps surprisingly, this practice has been more common in Western countries than in the East, with Japanese bureaucrats expressing hesitancy to embark on such efforts because of 'the need to separate the public and private spheres'.
- Amid intensifying competition—not least from South Korea and China—Japan is now following the Western example. DPJ heavyweight Maehara, for example, visited the United States and Vietnam for railway pitches. In Hanoi in May 2010, together with (then) National Policy Minister Sengoku Yoshito, Maehara tried to secure package deals by linking pitches for railroad and nuclear projects, and offering economic assistance and cooperation.

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Actors of ED

- Economic diplomacy is framed and undertaken by a variety of actors, including domestic politicians, the private sector, and other interest groups.

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Organization and Institutions

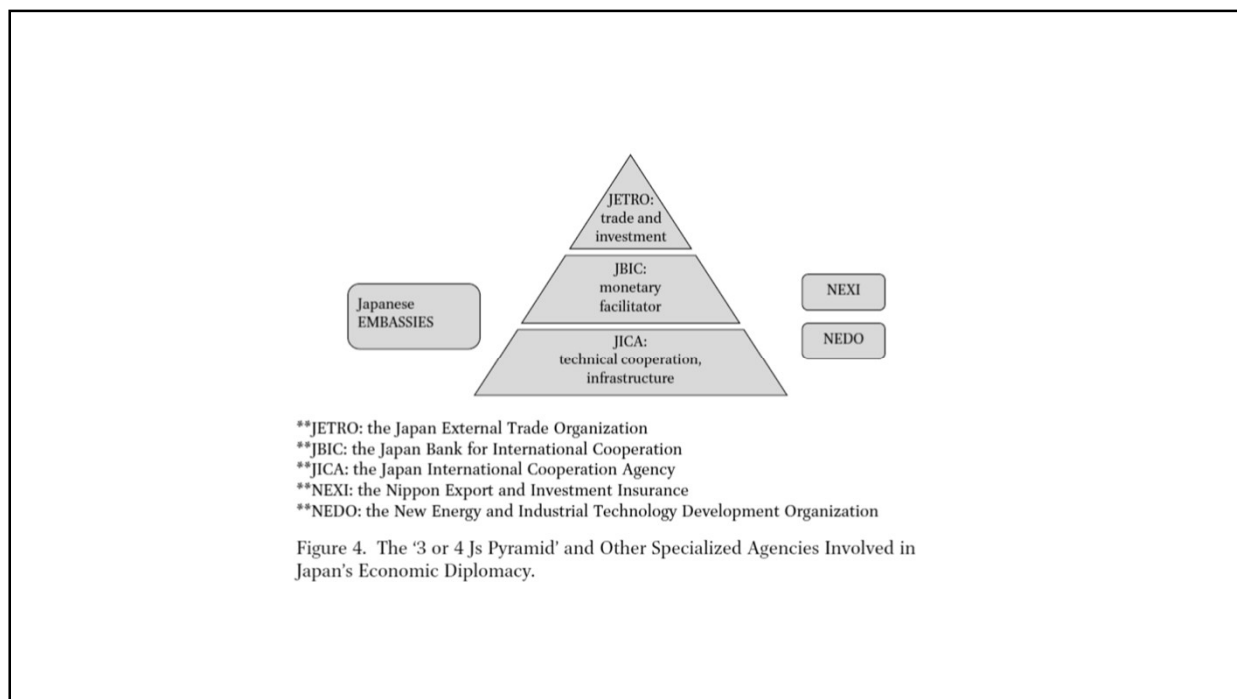
- Steering and controlling the many organizations and public–private partnerships that form, influence and cooperate with the state is a substantial challenge of modern governance.
- This goes for Japan’s economic diplomacy as well, in which a diverse group of (semi-)government organizations and institutions is involved.
 - Rivalry and turf battles between organizations exacerbate their differences. This is clearly seen in trade negotiations, where representatives from MOFA, METI and the Ministry of Agriculture, Forestry and Fisheries (MAFF) openly clash when representing Japan in negotiations with other countries.

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Organization and Institutions

- The institutional structure of the (semi-)government organizations involved in the tools that have traditionally dominated in Japan’s economic diplomacy—**trade and investment promotion and development assistance**.
 - Primary responsibility to develop ODA policy lies with MOFA
 - bilateral assistance is implemented by the New Japan International Cooperation Agency (New JICA, which was established in 2008)
 - primary responsibility for policymaking lies with METI
 - Implementation is undertaken by the Japan External Trade Organization (JETRO)

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Organization and Institutions

- The Japan Bank for International Cooperation (JBIC, formerly the Export–Import Bank of Japan) complements this public–private effort, providing financial schemes for various ODA and commercial projects. JICA, JETRO and JBIC thereby form the core of a network that is referred to as the '3 or 4 Js'—of which Japanese embassies abroad are also part.
- Other administrative agencies involved in Japan's economic diplomacy include METI's Nippon Export and Investment Insurance (NEXI), which covers losses incurred from political risks as well as commercial risks, and the New Energy and Industrial Technology Development Organization (NEDO).
- One of METI's biggest administrative agencies, NEDO undertakes the promotion of environmentally friendly and energy technology

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Five Strands of Japan's Economic Diplomacy

- The Japanese government has for a long time adhered to a policy that integrates economics, politics and security.
- five pillars were emphasized in Japan's *Diplomatic Bluebook* of 2011:
 - (1) promoting the free-trade system;
 - (2) securing the long-term and stable supply of resources, energy and food;
 - (3) the international promotion of infrastructure systems;
 - (4) the promotion of Japan as a tourism-oriented nation; and
 - (5) publicizing the Japan brand

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Negative Sanctions

- Japan has traditionally held a strong preference for positive inducements and has shied away from using sanctions and other more blunt instruments at the 'power-play end' of economic diplomacy.
- That being said, its policies have shown remarkable shifts in recent years. As hesitance about openly adhering to a (military) 'stick' is weakening, the notion of comprehensive security appears to be subject to partial reinterpretation. The key drivers of these policy shifts should be sought in Japan's declining ODA capabilities and the United States' demands for a greater military role for Japan, with the alliance partner propelling Tokyo to make greater use of its military power.

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Japanese Economic Diplomacy

- Japan's **commercial diplomacy** is being revamped and linked to development assistance in new ways, especially in the 'green' environmental and energy fields.
- **Tourism promotion** is being elevated and is also quickly becoming an important part of commercial diplomacy efforts.
- Formal unilateral sanctions are no longer taboo, even if they are still applied only in exceptional cases
- Bilateral and multilateral trade diplomacy took off in the early 2000s and was revamped in 2010, with regional rivalry and alliance politics as the key drivers.
- Japan's financial diplomacy in the region, which seemed promising in the early 2000s, has lagged in recent years, while currency policies are moving in opposite directions.

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Japanese Economic Diplomacy

- Shift in the perceived balance of national interests, the case studies show that slowly but steadily Japanese policies have moved from an emphasis on the **'business end' of economic diplomacy to include also a more outspoken and visible element of power play.**
- At the same time, commercial diplomacy has been reinvented in response to enhanced competition and rising global challenges such as climate change and natural resource scarcity.

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Table 2. Japan's New Economic Diplomacy since the 1990s.

	Sub-field	Trend	Policy change
Commercial diplomacy	Trade and investment promotion	++++	From export only to also more import and investment, infrastructure and 'greening'
	Business advocacy	++	Enhanced in the 2000s
	Tourism promotion	++++	Starting from the late 2000s
Trade diplomacy	Bilateral (EPAs)	+++	Attempted but actual progress slow
	Regional	+++	Revamped, but lagging
	Multilateral (WTO)	++	Ongoing effort, little progress
Financial diplomacy	Regional cooperation (currency swaps)	+++	Asian Monetary Fund proposal failed, Chiang Mai Initiative (Multilateralization)
	Regional currency	++	Ambiguous, support for dollar waning
	Foreign government bonds	++	Accumulating dollars, euros and yuan
Inducements	Bilateral assistance (economic cooperation)	+++	'Greening' of aid, linking to infrastructure promotion
	Multilateral aid	+	Conforming to Western consensus
Sanctions	Unilateral sanctioning	+++	Less unwilling to use: North Korea
	Aid suspension	++	Less unwilling to use more generally
	Multilateral sanctions	++	Still restrained, but following UN

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Japanese Economic Diplomacy

- Japan's inducement and sanctions' regime—as well as its financial, trade and commercial diplomacy—have in common is that they are spurred by the ongoing change in the geostrategic and economic power balances among countries in East Asia.
- Regional and global rebalancing thus appears to be the primary driver behind Japan's strategic reorientation.
- The evolving role of the United States and the US–Japan alliance plays a key role

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Japanese Economic Diplomacy

- Hegemonic presence of the United States will be a more negotiated system that will entail a more pluralistic organization of power and influence.
- Japan has economic and military benefits of the alliance with the United States and is reconsidering their policies.
- Japanese government has also been strengthening and restructuring its military capabilities since the 1990s, its diplomatic practice still emphasizes economic means.
- This includes more forceful means of diplomacy, which can still largely be seen within a comprehensive framework of economic diplomacy.
- Japan's new economic diplomacy no longer relies on inducements per se, but also includes more outspoken and forceful ways to defend its strategic interests.

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Japanese Economic Diplomacy

- The shifts in Japan's economic diplomacy since the 1990s beg the question of whether Tokyo is moving closer to the traditional policies of Western countries, which generally adhere to a stricter separation of the public and private and of the economic and military–strategic spheres.
- untransparent links between Japanese government and business (*kan-min*) have been the subject of much debate since the 1980s, as foreign countries grew increasingly critical of Japan's 'mercantilist practices'.
- The observation that while the economic importance to Asia of Japan as a *nation* has decreased in relative terms, the importance of *Japanese firms* has not, for they at least to an equal degree may be regarded as a success of Japan's economic diplomacy, which has evolved to a next phase.

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Japanese Economic Diplomacy

- the Japanese state can be seen to be adapting and innovating—that is, reconsidering its tactics.
- This in turn raises the question of whether (or how) Japan's path and evolving policies may foreshadow the future of other states in East Asia that follow a similar economic growth model and that learn from Japan's earlier successes and failures.

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Japanese Economic Diplomacy

- The many differences of this group of countries notwithstanding, Japan's experience appears to be of interest for at least four reasons:
 - 1) Japan's roots of state-led development, which have inspired other countries in the region;
 - 2) the evolution of Japan's policies in response to power shifts in the region;
 - 3) Japan's decades-long experience as the only non-Western member of the group of developed countries; and
 - 4) Japan's geographical and cultural closeness to one of the world's most rapidly developing regions.

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China Model of Development

- "It is very possible that the Beijing Consensus can replace the Washington Consensus."
- in the wake of the crisis many Western governments, including France and the United States, bailed out their financial sectors and many of their leading companies. These bailouts made it harder for Western leaders to criticize Beijing's economic interventions.
- In recent years, the "China model" has become shorthand for economic liberalization without political liberalization

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China Model of Development

- China's model of development is actually more complex.
- It builds on earlier, state-centered Asian models of development such as in South Korea and Taiwan, while taking uniquely Chinese steps designed to ensure that the Communist Party remains central to economic and political policy-making.
- Like previous Asian modernizers, China in its reform era has devoted significant resources to primary education, resulting in youth literacy rates of nearly 98 percent; in many other developing nations, the youth literacy rate is less than 70 percent.
- China also has created highly favorable environments for foreign investment.
 - However, Beijing government maintains a high degree of control over the economy, but it is hardly returning to socialism.
 - Instead, Beijing has developed a hybrid form of capitalism in which it has opened its economy to some extent, but it also ensures the government controls strategic industries, picks corporate winners, determines investments by state funds, and pushes the banking sector to support national champion firms.

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China Model of Development

- In the 1980s and 1990s China privatized many state firms, the central government still controls roughly 120 companies.
- Among these are the biggest and most powerful corporations in China:
 - of the 42 biggest companies in China, only 3 are privately-owned.
 - In the 39 economic sectors considered most important by the government, state firms control roughly 85 percent of all assets

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China Model of Development

- In this type of authoritarian capitalism, government intervention in business is utilized, in a way not possible in a free-market democracy, to strengthen the power of the ruling regime and China's position internationally.
- When Beijing wants to increase investments in strategically important nations, such as Thailand or South Africa, it can put pressure on China's major banks, all of which are linked to the state, to boost lending to Chinese companies operating in those nations.
- For example, Chinese telecommunications giant Huawei, which is attempting to compete with multinationals like Siemens, received some \$30 billion in credit from state-controlled China Development Bank, on terms its foreign competitors would have salivated over.
- By contrast, though the Obama administration wanted to drastically upgrade the United States' relationship with Indonesia, an important strategic partner, it could not convince many American companies to invest there, and, unlike the Chinese leadership, it could not force them to do so.

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China Model of Development

- Increasing assertive Chinese diplomacy has alienated some other countries, particularly in Asia.
- Yet along with more forceful diplomacy, Beijing has started to proactively promote its model of development, and in some ways, its newfound confidence only adds to its global appeal, since other, smaller countries want to join forces with a clearly rising power.
- But even as China has become more confident, its leadership still recognizes that it cannot challenge American military power, at least not anytime soon.
- Despite boosting its defense budget by over 10 percent annually, China remains a long way from developing a global blue water navy, or expeditionary forces capable of fighting far from China's borders.
- Most years, the Pentagon's budget surpasses the defense budgets of all other major military powers combined. "We need to think more on how to preserve national integrity. We have no intention of challenging the US [militarily,]" admitted Major General Luo Yan, a senior member of the People's Liberation Army

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China Model of Development

- In January 2009, In Davos (the World Economic Forum)
 - The first senior Chinese leader to attend this forum was a former premier Wen Jiabao
 - Months after Lehman Brothers collapsed, triggering the global economic crisis, Wen told the Davos attendees that the West was squarely to blame for the meltdown roiling the entire world.
- Until the end of 2008 top Chinese official lived by Deng Xiaoping's advice
 - to build China's strength while maintaining a low profile in international affairs.
- But in 2008 and 2009 the global economic crisis decimated the economies of nearly every leading democracy, while China surfed through the downturn virtually unscathed.
 - The economic crisis, said former U.S. Deputy Treasury Secretary Roger Altman, has left "the American model ... under a cloud."

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China Model of Development

- As Western leaders, policy-makers, and journalists questioned whether their own systems had failed
- Chinese leaders began to more explicitly promote their authoritarian capitalist model of development.
 - Many Western governments, including France and the United States, bailed out their financial sectors and many of their leading companies.
 - These bailouts made it harder for Western leaders to criticize Beijing's economic interventions

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The Silk Road

- The original Silk Road came into being during the westward expansion of China's Han Dynasty (206 BC–220 AD) which forged trade networks throughout what are today the Central Asian countries
 - Kyrgyzstan, Tajikistan, Kazakhstan, Uzbekistan, Turkmenistan, and Afghanistan, as well as modern-day Pakistan and India to the south.
- Those routes eventually extended over four thousand miles to Europe.
- Central Asia was thus the epicenter of one of the first waves of globalization, connecting eastern and western markets, spurring wealth, and intermixing cultural and religious traditions.
- Valuable Chinese silk, spices, jade, and other goods moved west while China received gold and other precious metals, ivory, and glass products.
- The route peaked during the first millennium, under the leadership of first the Roman and then Byzantine Empires, and the Tang dynasty (618–907) in China.

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The Silk Road Economic Belt and the 21st-century Maritime Silk Road

- Strategy was first introduced in September and October 2013
- promoted by Premier Li Keqiang during the State visit in Asia and Europe
- The Initiative in the initial days was also called as "One Belt and One Road"
- Development strategy proposed by Chinese President Xi Jinping that focuses on connectivity and cooperation between Eurasian countries and People's Republic of China
- The strategy underlines China's push to take a larger role in global affairs, and the desire to coordinate manufacturing capacity with other countries in areas such as steel manufacturing.
- integration of the region into a cohesive economic area through building infrastructure, increasing cultural exchanges, and broadening trade
 - analogy to the historical Silk Road

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The Silk Road Economic Belt and the 21st-century Maritime Silk Road

- Infrastructure networks
 - Alternative for the US trading arrangements
- Financial institutions
 - The Asian Infrastructure Investment Bank
 - Silk Road Fund
- Geoeconomic integration
- University Alliance of the Silk Road

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AIIB Bank

- development bank that aims to support the building of infrastructure in the Asia-Pacific region
- The bank currently has 56 member states while another 24 are prospective members
- The Asian Development Bank Institute published a report in 2010 which said that the region requires \$8 trillion to be invested from 2010 to 2020 in infrastructure for the region
- In June 2014 China proposed doubling the capital of the bank from \$50 billion to \$100 billion
- October 2014, twenty-one countries signed a Memorandum of Understanding (MOU)

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AIIB Bank

- The U.S. tried to keep Australia and South Korea from becoming prospective founding members
 - both join the bank in March 2015
- In 2015, the United Kingdom announced that the UK had decided to apply to join the Bank
 - becoming the first major Western country
 - The announcement was criticised by the U.S. Obama Administration
- Germany, France and Italy followed in joining the bank

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AIIB

- AIIB, which, as its name suggests, will lend money to build roads, mobile phone towers and other forms of infrastructure in poorer parts of Asia
- China's official answer is that Asia has a massive infrastructure funding gap.
- ADB and World Bank loans support everything from environmental protection to gender equality, the AIIB will concentrate its firepower on infrastructure.
- Critics warn that the China-led bank may fail to live up to the environmental, labour and procurement standards that are essential to the mission of development lenders.
- ADB (Asian Development Bank) has a capital base (money both paid-in and pledged by member nations) of just over \$160 billion and the World Bank has \$223 billion.
- The AIIB will start with \$100 billion in capital

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AIIB

- China will use the new bank to expand its influence at the expense of America and Japan, Asia's established powers. China's decision to fund a new multilateral bank rather than give more to existing ones reflects its exasperation with the glacial pace of global economic governance reform
- The same motivation lies behind the New Development Bank established by the BRICS (Brazil, Russia, India, China and South Africa).

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AIIB and other banks

- The ADB is dominated by Japan
 - Japan's voting share is more than twice China's and the bank's president has always been Japanese.
- IMF dominated by US
 - Reforms to give China a little more say at the International Monetary Fund have been delayed for years, and even if they go through America will still retain far more power.
- China is, understandably, impatient for change. It is therefore taking matters into its own hands.

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U.S. vision for the New Silk Road?

- For the United States, the New Silk Road refers to a suite of joint investment projects and regional trade blocs that have the potential to bring economic growth and stability to Central Asia.
- Obama emphasized the need for Afghanistan to build an economy independent of foreign assistance.

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Trump and new policies

- Prior to Donald Trump's election as US President, it could be expected that Washington's Trans-Pacific Partnership (TPP)
 - a free-trade alliance of 12 Asian and Pacific economies
 - FTA would be a counterbalance to rising Chinese power.
- Trump however, pulled the US out of the deal a day after taking office.
 - While it still includes Australia and Japan, both major economies, without Washington's backing the TPP will be far smaller if it manages to nevertheless go ahead.

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Chinese AID

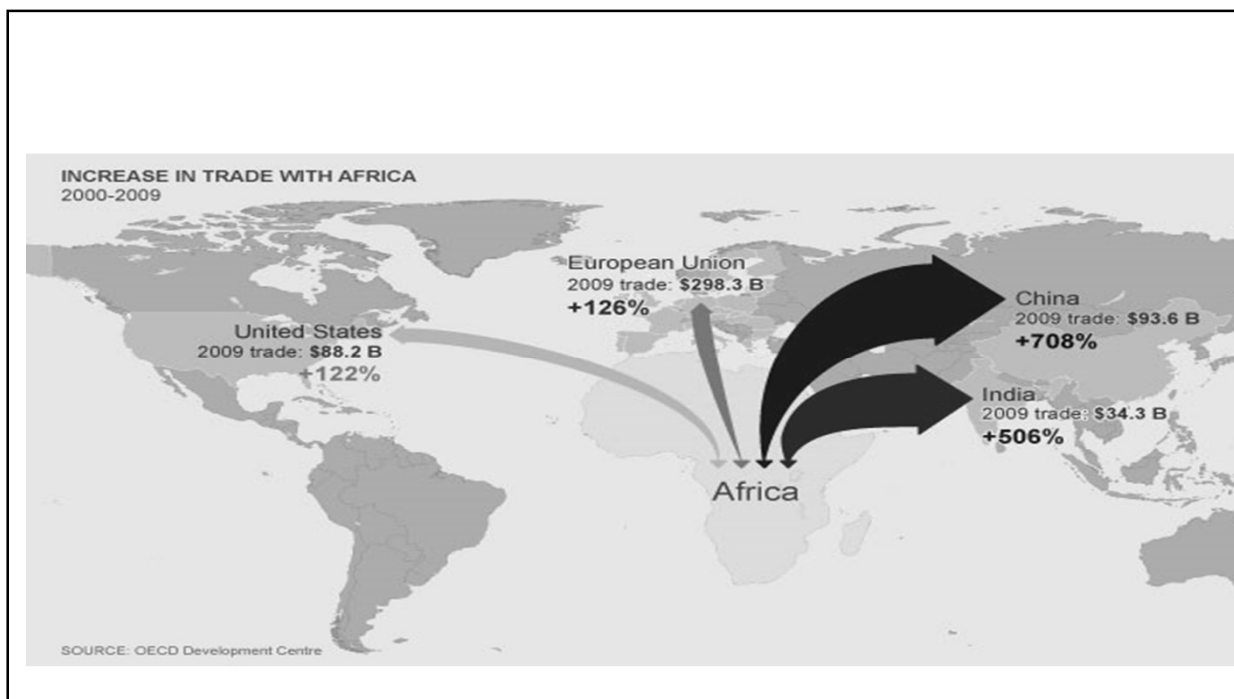
- Official statistics
 - Not published
- Chinese AID
 - Without strings attached
 - Without colonial history
 - China was “colonized”
 - Beijing Consensus
 - Chinese development without democratization
 - Developing country to Developing country
 - China
 - Peaceful rise a Peaceful development

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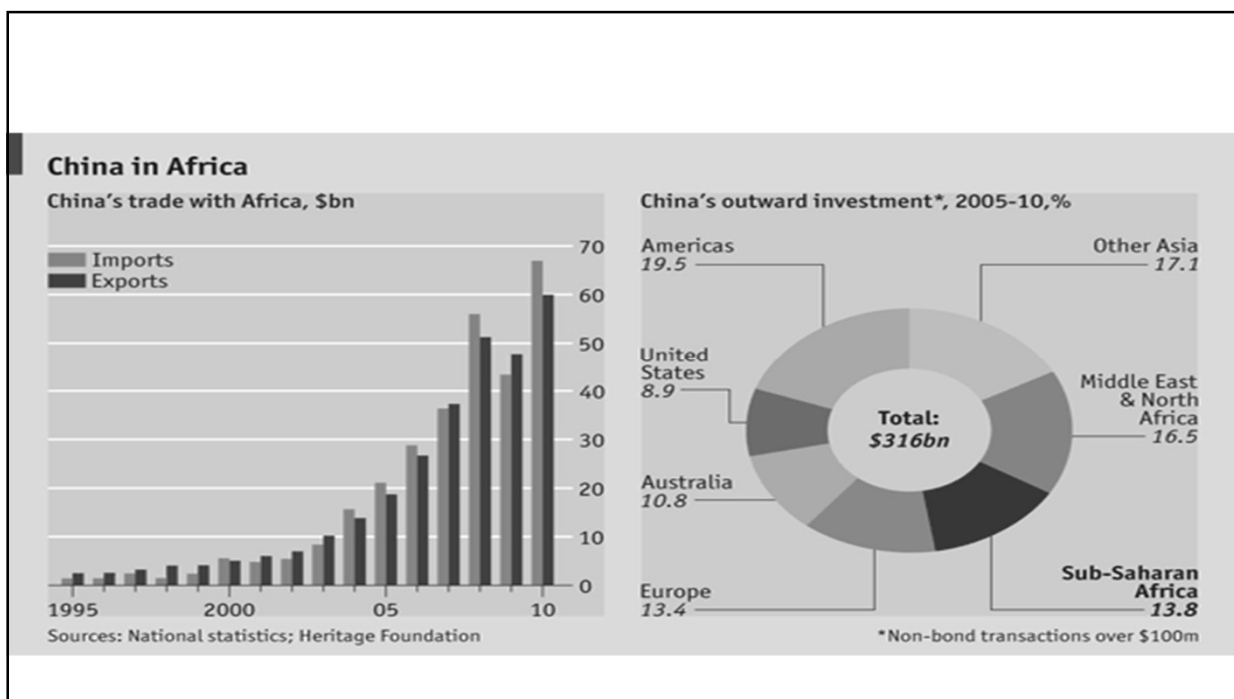
China and neocolonialism

- China's 'non-interference' model gives African leaders more freedom and the opportunity
- China's cheap technology and infrastructure
- China's hunger for energy resources
- China's friendship with respect
- China sells arms in order to cement relationships with some African leaders. Sudan, Ethiopia, Zimbabwe
- In Angola, China has proposed low-cost loans (1.5%), to be paid back in oil
- Cheap infrastructure
 - For Africans or for Chinese national interests?
- Angola – Chinese schools, hospitals

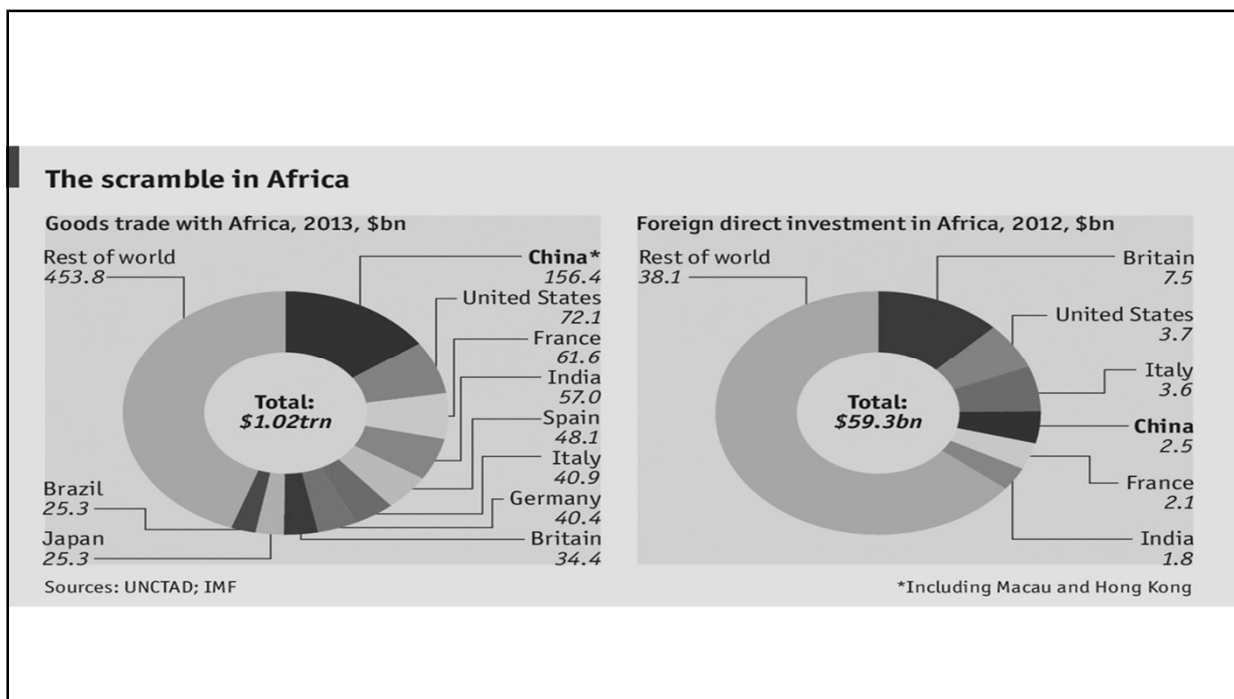
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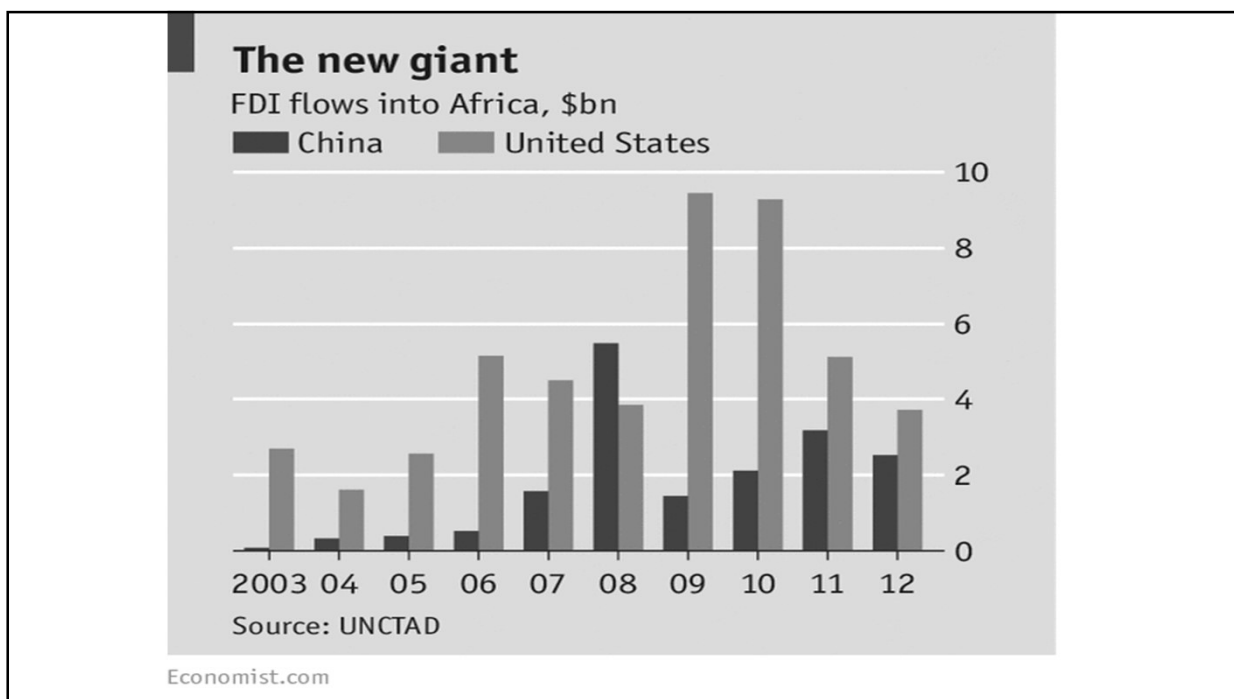
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China in Africa

- 1971, the support of African nations was crucial in the PRC joining the United Nations (UN), taking over the seat of the ROC on Taiwan
- Jian Zemin declared to Chinese entrepreneurs, "Go out" encouraging businessmen to conquer world markets
- In 1990 China agreed to join in UN peace-keeping responsibilities in Africa.

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China and Africa; concerns over rights and exploitation

- Criticism of China's human rights is (predictably) increasing in the West, as China rises.
- Some of the concerns are genuine, while others may hide political agenda.
- Common criticisms are over areas such as human rights, environment, and labor standards.
- As Chinese enterprises expand overseas, especially in Africa, criticisms of exploitation are increasing.
- China is "providing free-interest loans and aid and we are a reliable backup for Africa's economic development."
- China pledged to give Africa 10 billion dollars in concessional loans over the next three years, and is accelerating its drive to pour vast sums of money into developing infrastructure in many African nations.
- This has been welcomed by African leaders.

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China and Africa; concerns over rights and exploitation

- China spends in Africa, because its massive foreign exchange reserves are largely denominated in dollars, and Beijing needs to diversify those assets. “
- Western countries may also have double standards and be part of a wider agenda whereby the rich countries are feeling threatened by the rise of a potential economic competitor.
- Western standards of human rights and raising those as issues are a good thing, but their own aid policies have often been with their own interests in mind, so caution is probably warranted for anyone bearing gifts.

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China in Africa

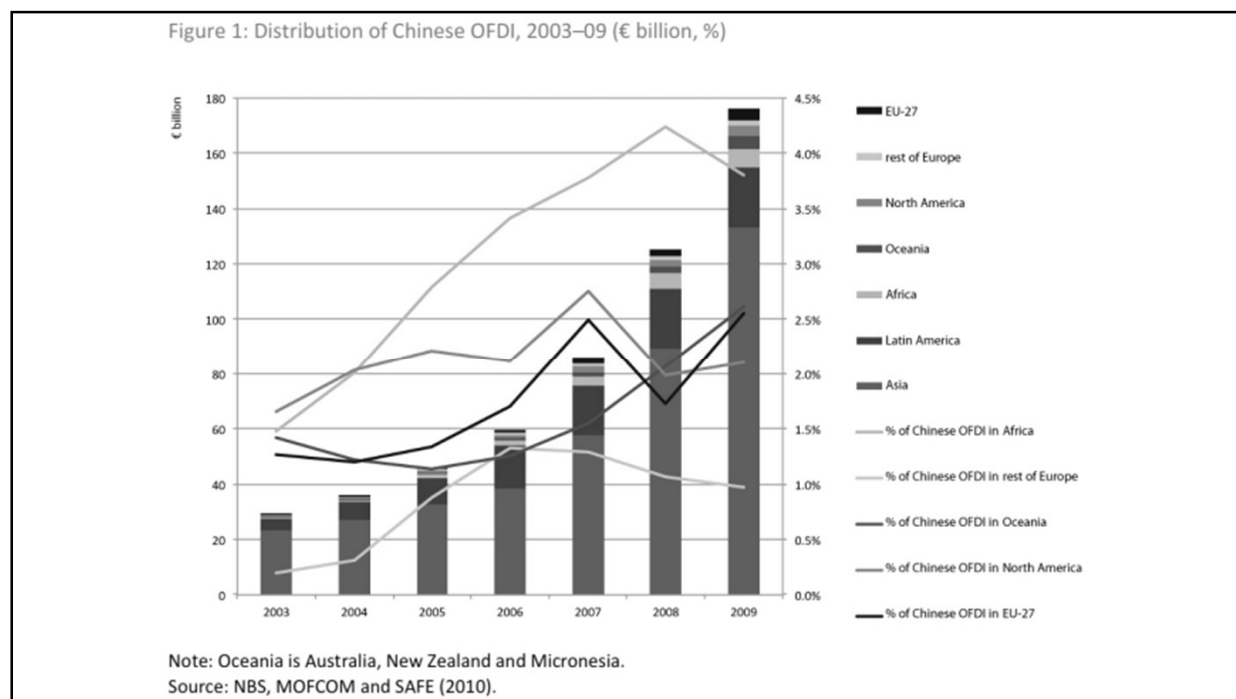
- 1971, the support of African nations was crucial in the PRC joining the United Nations (UN), taking over the seat of the ROC on Taiwan
- Jian Zemin declared to Chinese entrepreneurs, "Go out" encouraging businessmen to conquer world markets
- In 1990 China agreed to join in UN peace-keeping responsibilities in Africa.
- 11,000 PLA soldiers in 18 UN missions
- US provides 26% of UN peacekeeping budget, but supplies
- China supplies only 3% percent of UN budget
- 2007, first UN peacekeeping mission under Chinese command
- China provides more personnel than US

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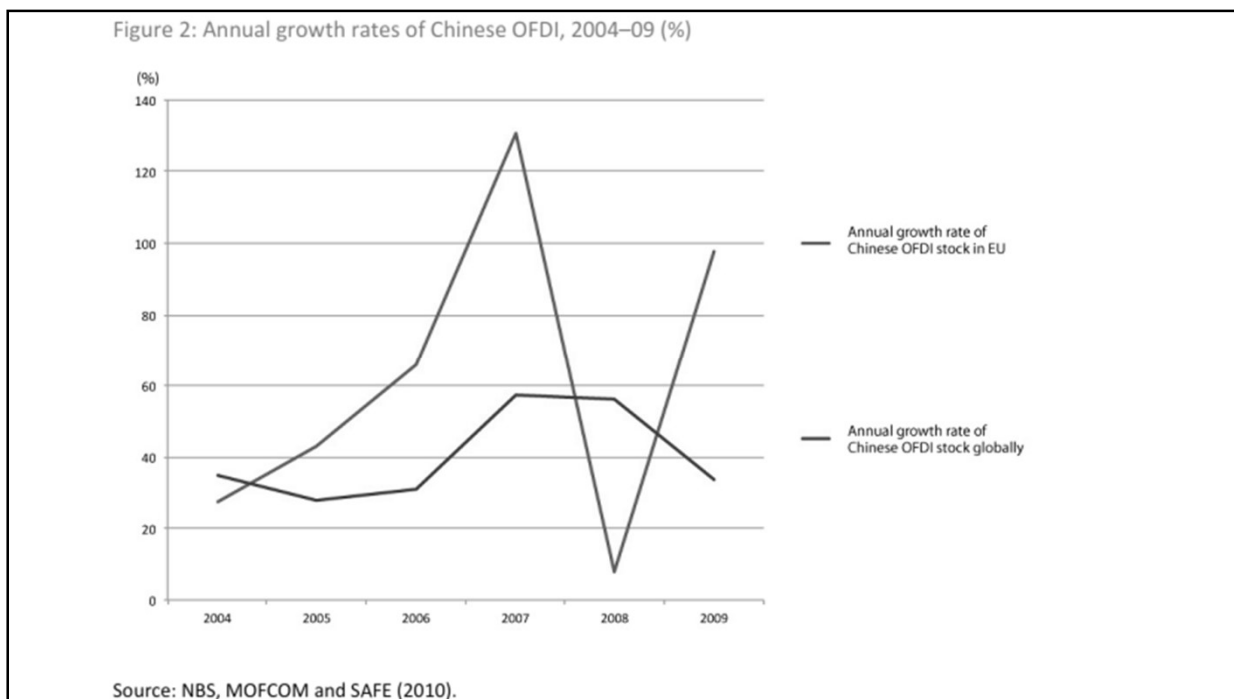
Chinese FDI

- China maintains a more restrictive foreign investment regime than its major trading partners, including the United States.
- China became the world's top destination for foreign direct investment (FDI) in 2014, according to the United Nations Conference of Trade and Development (UNCTAD)
- China relies on an investment catalogue to encourage foreign investment in some sectors of the economy, while restricting or prohibiting it in many other industries.
- The Chinese government has stated that it welcomes foreign investment.
- China attracted USD 120 billion in FDI in 2014, surpassing the United States as the world's top destination for annual FDI flows for the first time since 2003

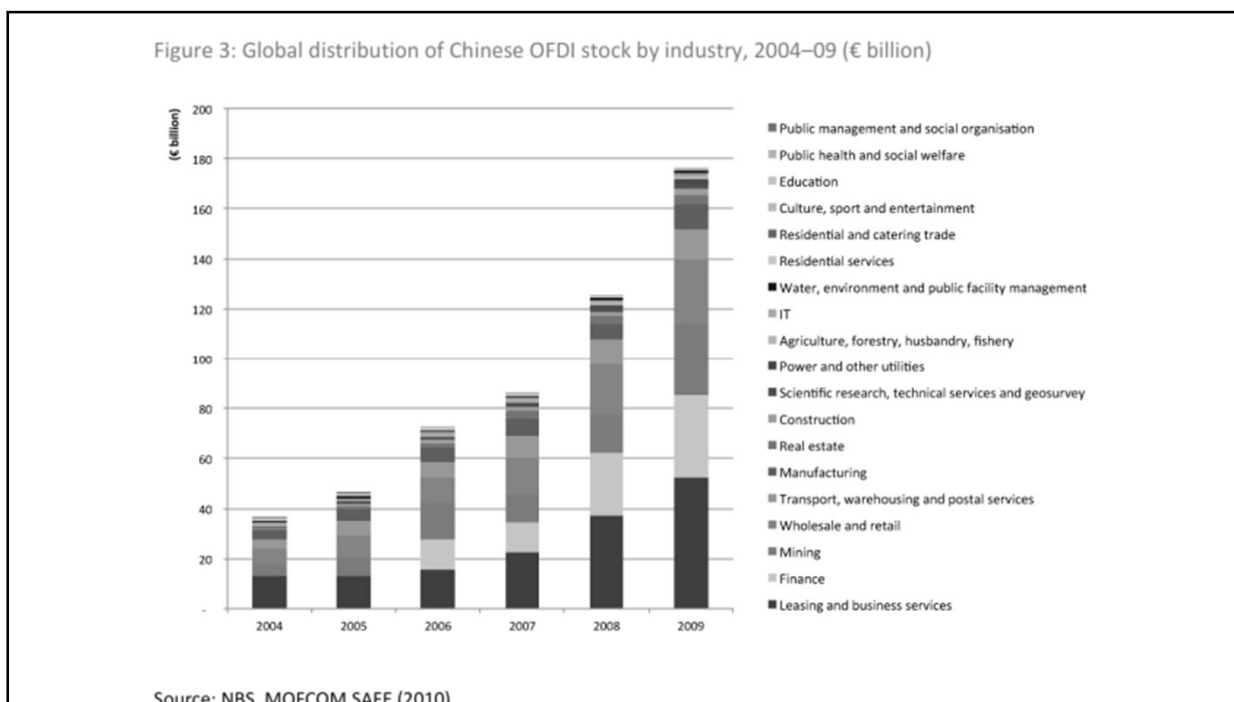
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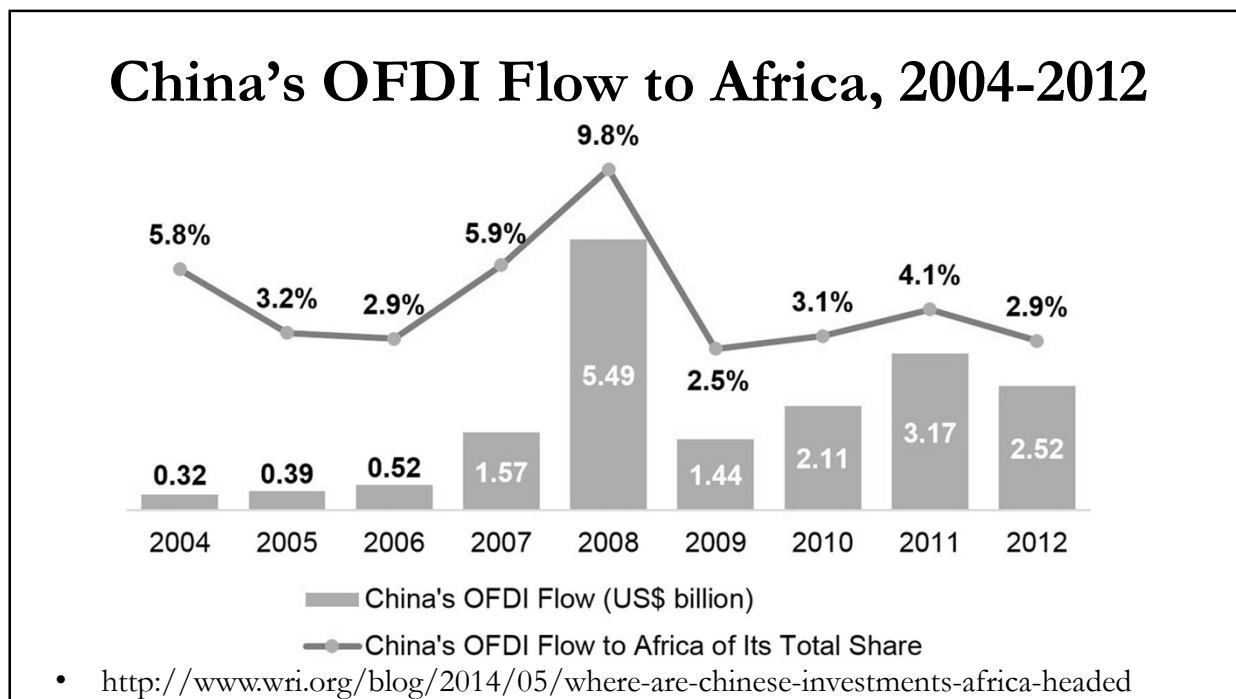
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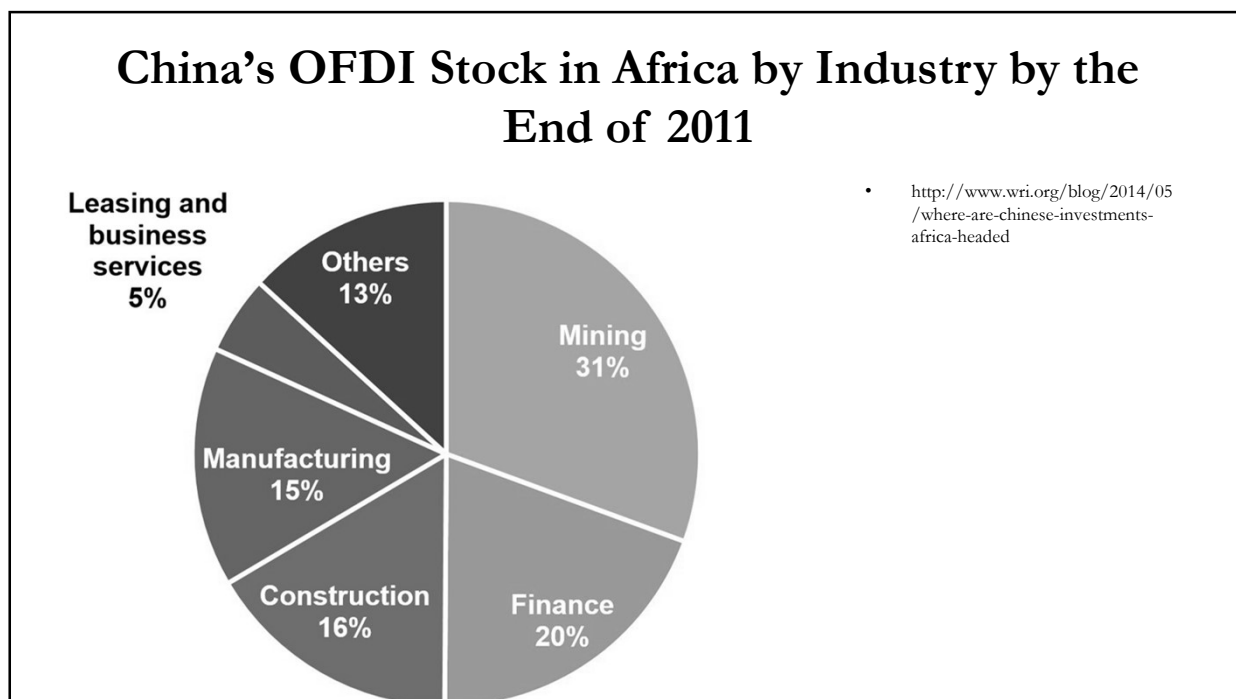
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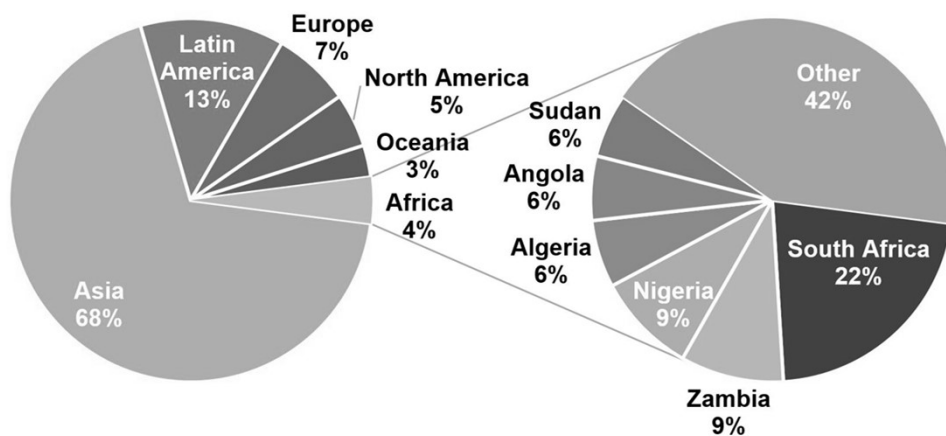


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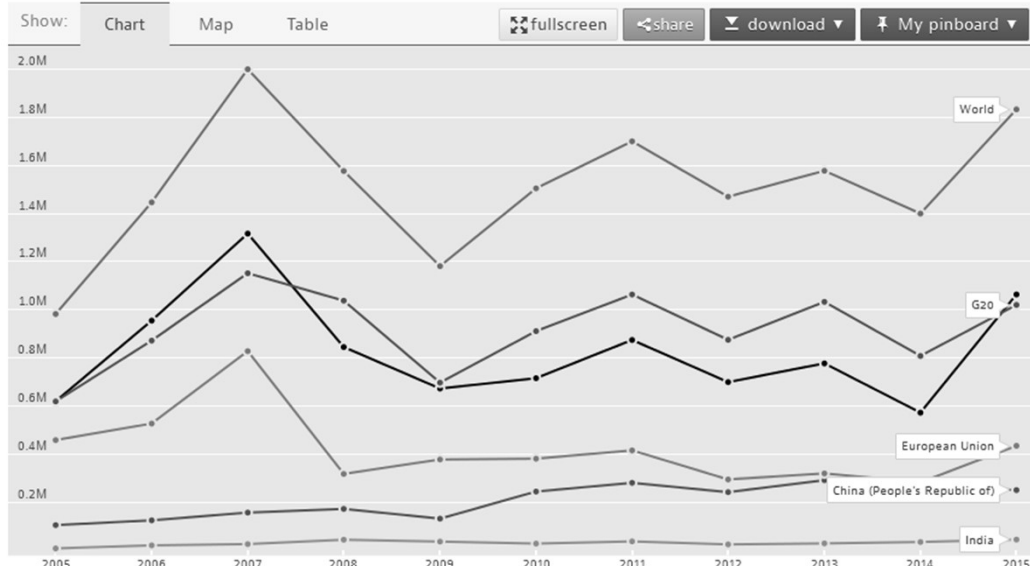
Where Are Chinese Investments in Africa Headed?



- <http://www.wri.org/blog/2014/05/where-are-chinese-investments-africa-headed>

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FDI flows Inward, Million US dollars, 2005 - 2015 Source: Benchmark definition, 4th edition (BMD4): Foreign direct investment: financial flows, main aggregates



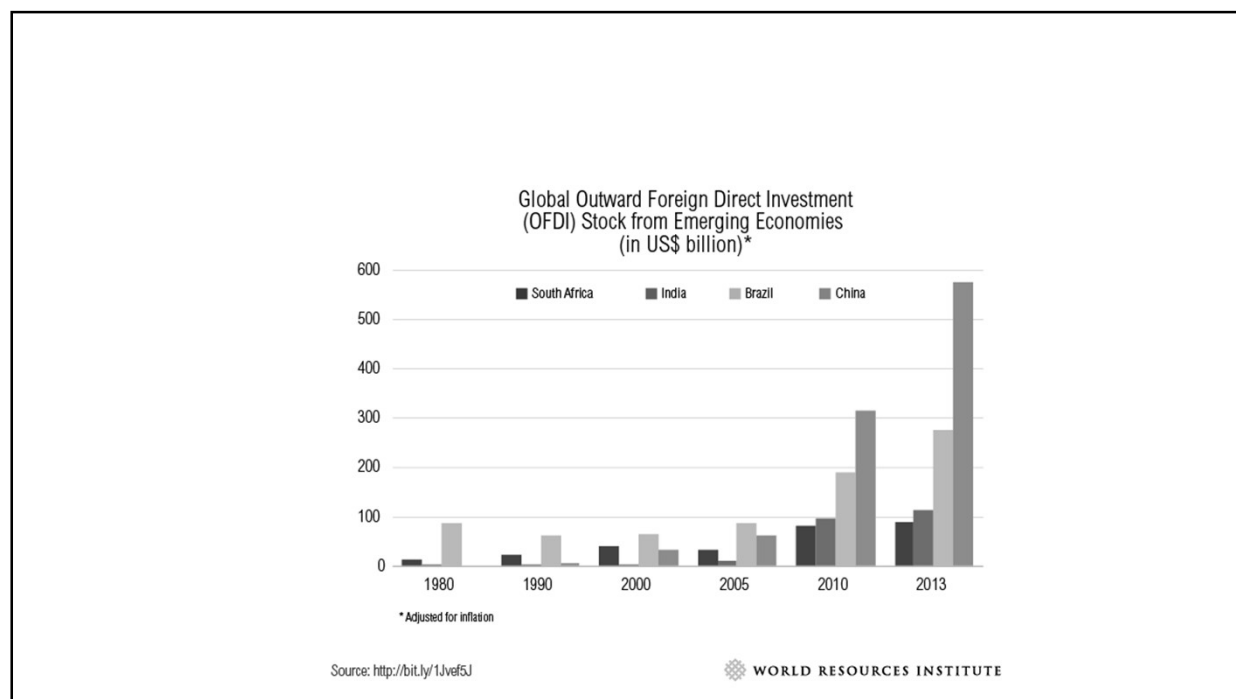
- <https://data.oecd.org/fdi/fdi-flows.htm#indicator-chart>

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The Rise of Emerging Economies

- In 1980, China, India, Brazil and South Africa had a combined GDP of \$720 billion (5.5 percent of global GDP).
- As of 2013, they represented \$14 trillion (19.1 percent of global GDP).
- Formerly the recipients of overseas investments, emerging economies like China, India and Brazil are now playing an increasingly important role as investors
- In 2014, China's overseas investments, known as outward foreign direct investments (OFDI), rose 14.1 percent to \$102.9 billion, while China's inward OFDI only rose 1.7 percent to \$119.6 billion. At this rate, China's outbound investments will overtake inward OFDI within the next two years.

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Where Is China Sending its Investments?

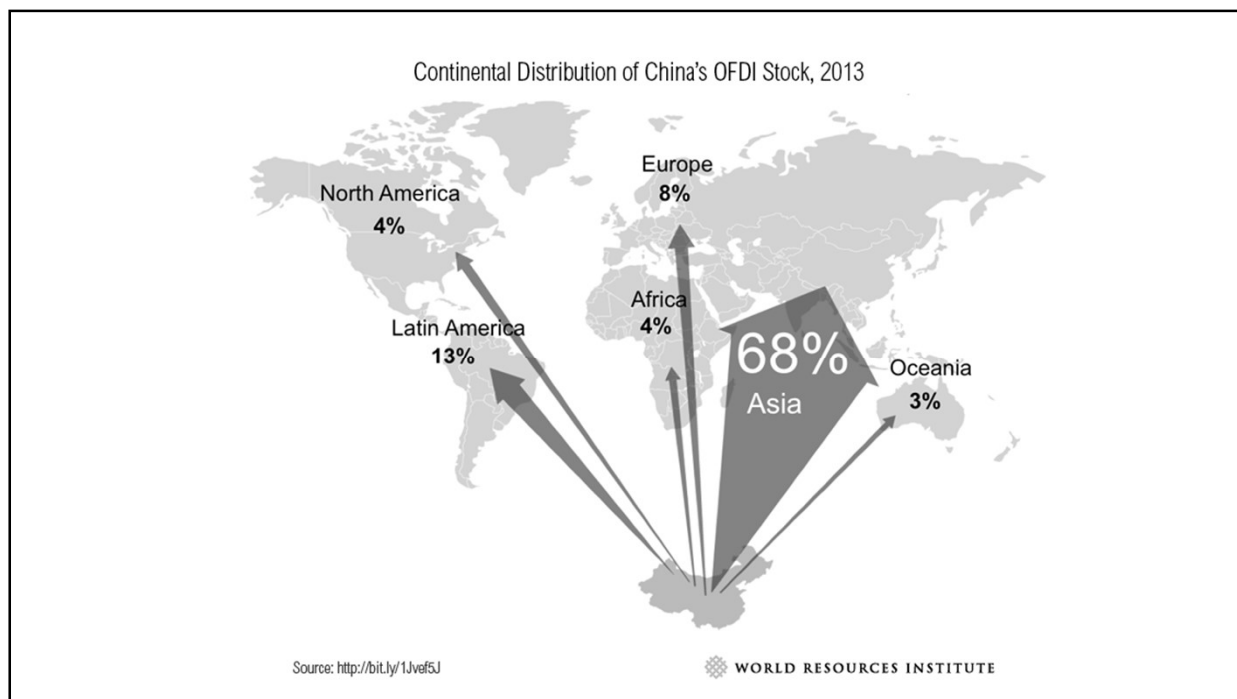
- As reported by China's Ministry of Commerce (MOFCOM), China's OFDI is largely concentrated in Asia (mainly in Hong Kong), although investment has increased significantly in Latin America and Africa over the past five years.

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Five major Chinese investments in 2016

- £6bn – China General Nuclear will have a 30% stake in the UK's Hinkley Point C nuclear power project, approved this year.
- £5.3bn – Insurer Anbang bought Strategic Hotels & Resorts from private equity group Blackstone.
- £2.8bn – The Dalian Wanda conglomerate bought Legendary studios, which made Godzilla and Pacific Rim.
- £1.4bn – Flight comparison site Skyscanner sold to Chinese travel firm Ctrip.
- £300m – Chinese businessmen and investors spent a combined £300m on three West Midlands football clubs, West Bromwich Albion, Aston Villa and Wolverhampton Wanderers.
- <https://www.theguardian.com/business/2016/dec/26/china-to-rein-in-foreign-investment-as-domestic-growth-stalls>

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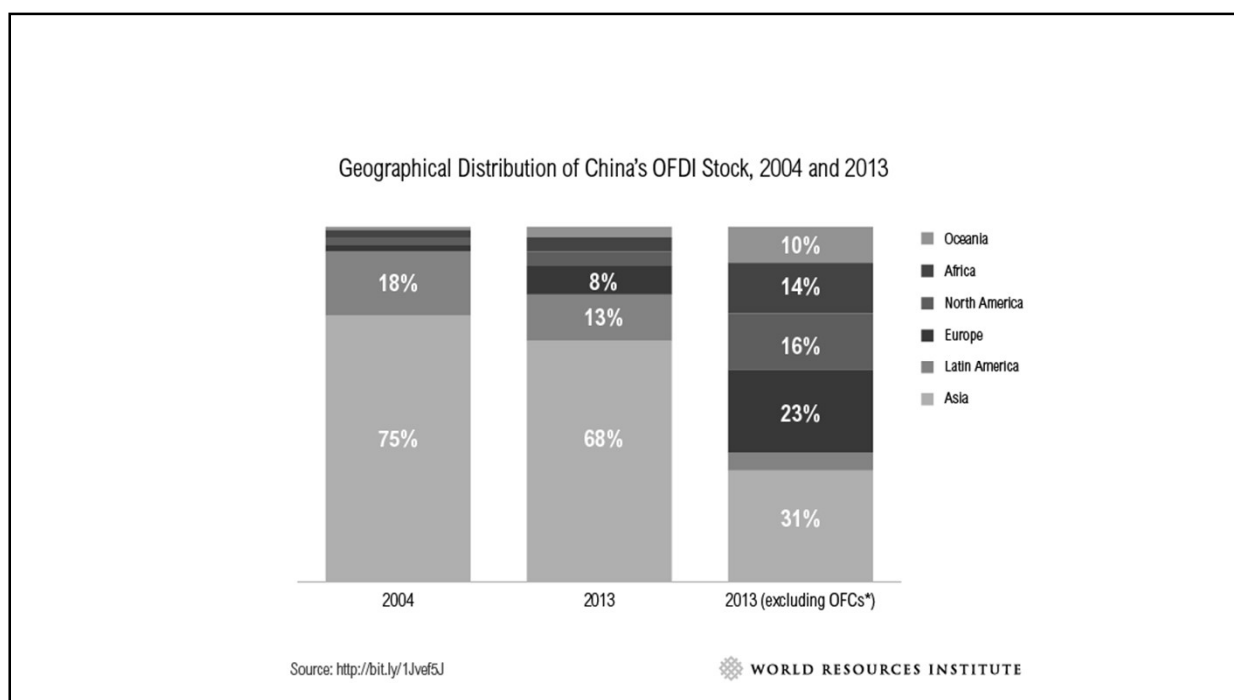


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The Final Destinations of China's OFDI

- Despite the reported concentration of Chinese investments within Asia, official Chinese OFDI statistics may not fully reflect the final destinations of China's OFDI. Like companies from many countries, some Chinese companies initially invest in tax havens or offshore financial centers where there is minimal or no tax, such as Hong Kong or the Cayman Islands
- Then, these companies reinvest this same money in other destinations, such as Africa and Latin America, through their subsidiaries in these offshore financial centers. Official Chinese OFDI only indicates the initial destination of investment

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The Final Destinations of China's OFDI

- many major mergers and acquisitions occur using money that initially flows through Hong Kong. In 2011, Sinopec, China's biggest oil refiner, acquired 30 percent of Galp Energia (Brazil) for \$5.2 billion through its Hong Kong subsidiary, Sinopec International Petroleum Exploration and Development Corporation (SIPC)
- This \$5.2 billion would be recorded as OFDI in Hong Kong, rather than in Brazil
- <http://www.wri.org/blog/2015/01/china%E2%80%99s-overseas-investments-explained-10-graphics>

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Sectors Receiving Chinese Investments

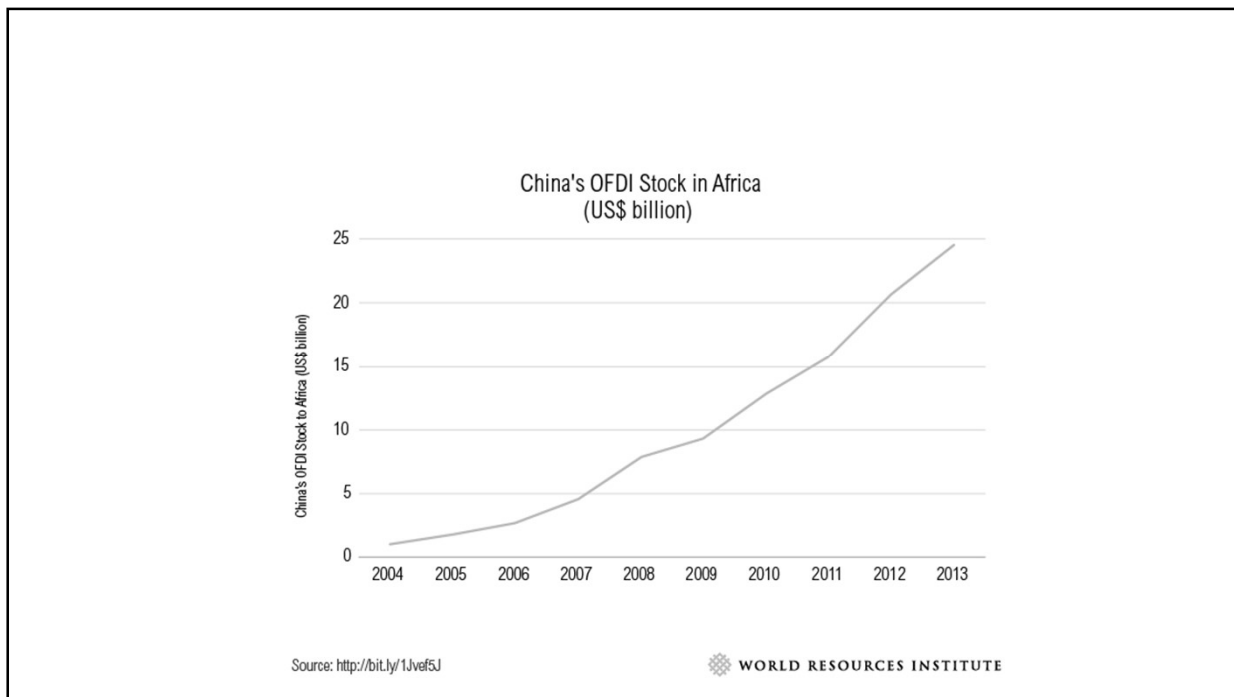
- By the end of 2012, 90 percent of China's OFDI was invested in six sectors—leasing and business services (33 percent), finance (18 percent), mining (14 percent), wholesale and retail trade (13 percent), transportation and storage (6 percent) and manufacturing (6 percent)
 - However, this may not reflect the whole story.
 - Part of the investments made in leasing & business services (33 percent) were set up as investment and asset management subsidiaries in OFCs, so these investments could have been reinvested in other industries
 - Meanwhile, domestically, the majority of China's loans were invested in the manufacturing sector, as China accounted for 22.4 percent of world manufacturing in 2012, the largest in the world

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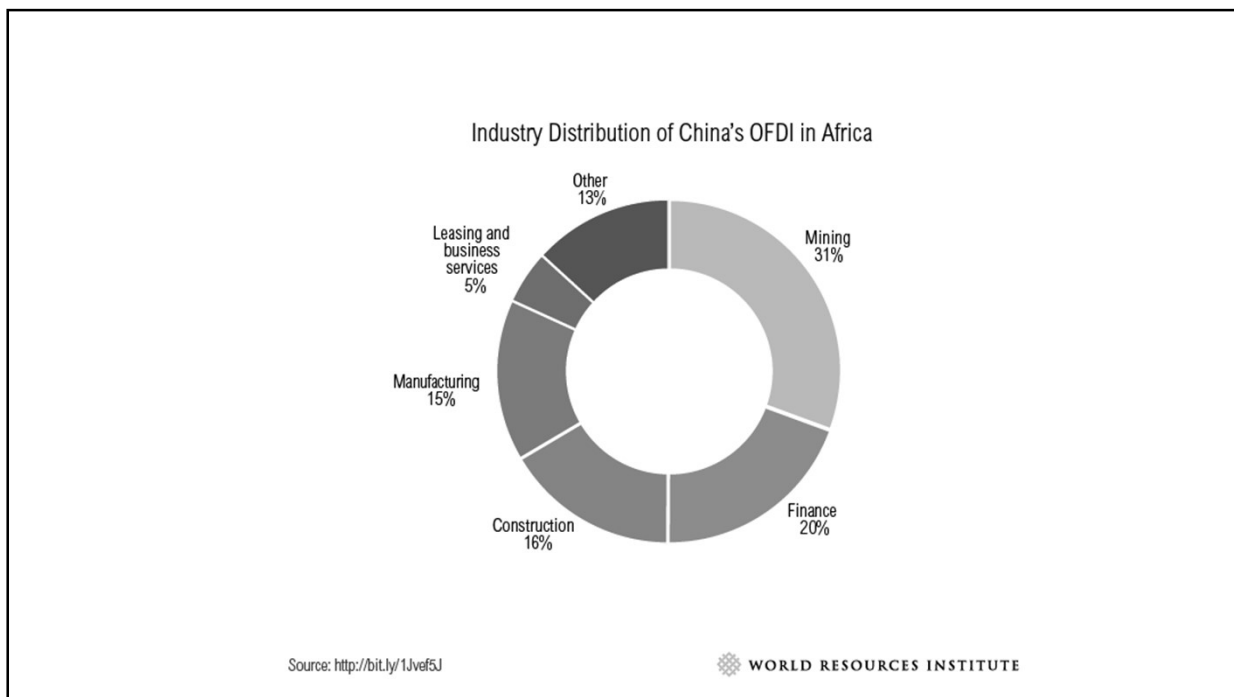
Regional Spotlight: China's Presence in Africa

- China's OFDI in Africa is accelerating rapidly, increasing from \$1 billion in 2004 to \$24.5 billion in 2013
- A large amount of the investments went to extractive industries, such as mining and oil extraction.
- By the end of 2013, 4 percent of China's OFDI stock, or \$26.2 billion, was in Africa. By 2013, the top eight recipients accounted for 61 percent of China's OFDI stock in Africa, with South Africa alone receiving 22 percent of China's OFDI in Africa

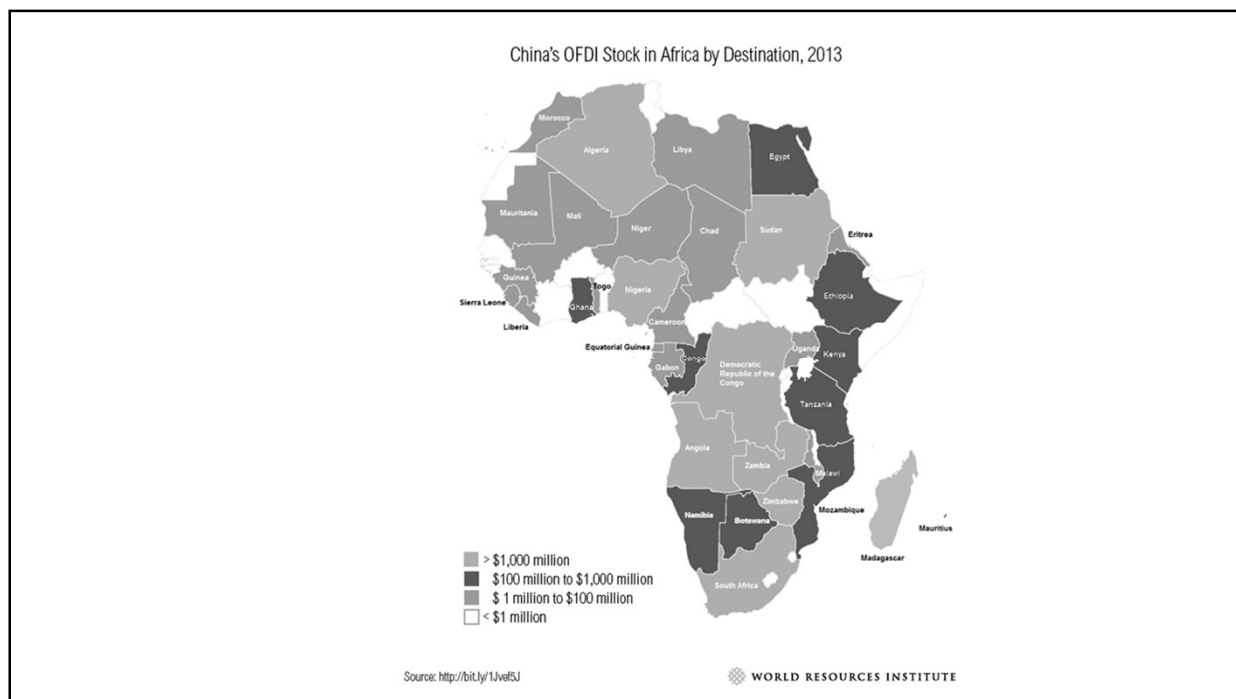
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The Silk Road Economic Belt and the 21st-century Maritime Silk Road

- It was unveiled in September and October 2013 by Premier Li Keqiang during the State visit in Asia and Europe
 - **Infrastructure networks**
 - **Silk Road Economic Belt**
 - the 'belt' includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East, and Europe
 - The initiative calls for the integration of the region into a cohesive economic area through building infrastructure, increasing cultural exchanges, and broadening trade

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The Silk Road Economic Belt and the 21st-century Maritime Silk Road

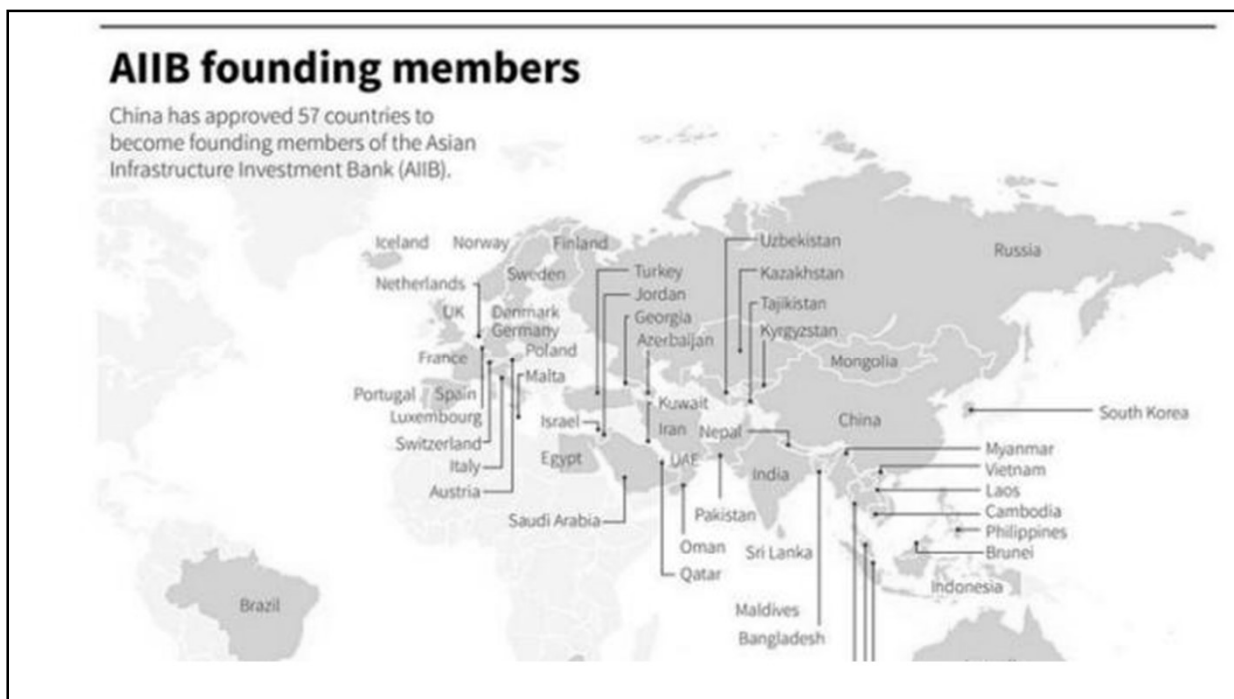
- It was unveiled in September and October 2013 by Premier Li Keqiang during the State visit in Asia and Europe
 - **Infrastructure networks**
 - **Maritime Silk Road**
 - investing and fostering collaboration in Southeast Asia, Oceania, and North Africa (the South China Sea, the South Pacific Ocean, and the wider Indian Ocean area)

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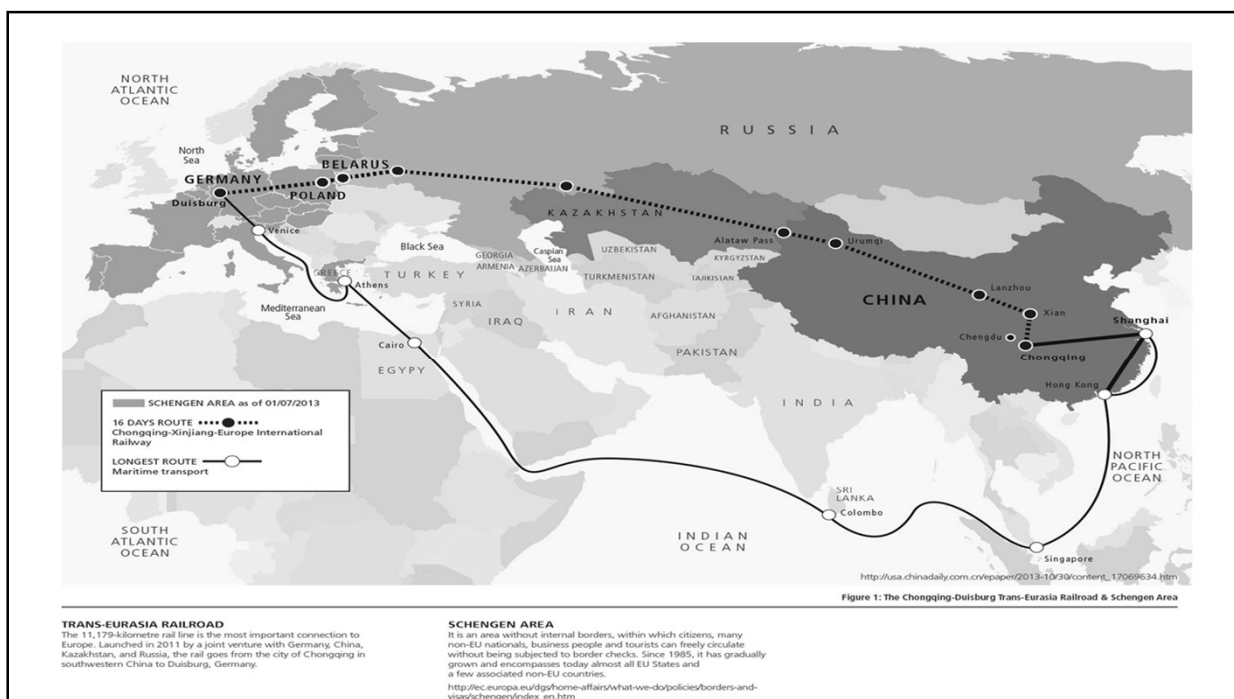
The Silk Road Economic Belt and the 21st-century Maritime Silk Road

- It was unveiled in September and October 2013 by Premier Li Keqiang during the State visit in Asia and Europe
 - **Financial Institutions**
 - The Asian Infrastructure Investment Bank, first proposed by China in October 2013, is a development bank dedicated to lending for projects regarding infrastructure. As of 2015, China announced that over one trillion yuan (\$160 billion US) of infrastructure projects were in planning or construction

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EU – Taiwan Economic Relations

- All European countries, with the exception of the Holy See, have established diplomatic relations with the People's Republic of China (PRC), and, consequently, have developed non-official ties with Taiwan.
- The latter are limited to the economic and cultural sphere, and should leave aside any move or transaction suggesting that Taiwan is anything else than a part of China under the PRC's rule.

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- Since the Republic of China (ROC) on Taiwan lost its United Nations (UN) seat to the PRC in 1971, and suffered major diplomatic setbacks, only the United States has expressed concern for the future of Taiwan.
- European countries have never been a party to the settlement of the Taiwan issue, with the exception of the United Kingdom which had participated in the Cairo and Potsdam inter-Allied conferences, in 1943 and 1945 respectively.

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