1. Introduction to the *Research Handbook on Economic Diplomacy*

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For long, the role of the State and the importance of foreign trade for the wealth of nations were clear building blocks of Political Economy. Indeed, the trade function of the government was so clear to everyone that no separate terminology was needed in discussions about the State's involvement in export, import and foreign investment. Neoclassical trade economics, however, opposed government intervention in international trade and investment and sought to reduce explicit and implicit subsidies, the latter including what we today label as 'economic diplomacy'. Neoclassical economics was especially influenced by David Ricardo's *Principles of Political Economy and Taxation* (1817 [1962], para. 7.1) in which Ricardo develops the theory of comparative advantage as an explanation for the 'natural trade' that leads Portugal to export wine and England to export cloth. Ricardo frames his theory of international exchange as if government was not involved in international transactions. The fact of the matter, however, is that the trade flows between Britain and Portugal were the result of economic diplomacy and arranged in the context of the Methuen Treaty, a military and commercial treaty between Portugal and England signed in 1703 as part of the War of the Spanish Succession (Felipe and Vernengo 2002; Duguid 2007). Ricardo's influential reframing of the British-Portuguese trade as market-driven at least partially explains why the role of the State in international trade and investment has been ignored for a long time in economics.

This introductory chapter deals with the issues of how and why the perception of 'economic diplomacy' has changed over the past decade resulting in the emerging of a new and by now well-recognized subfield at the interface of economics (including business economics, public finance and international economics) and international political science. The chapters in this Handbook provide the colors that help us to paint this picture. As with any new research field – especially when it is multidisciplinary in character – definitions of concepts regarding economic diplomacy have been initially fuzzy and occasionally have made it more difficult to agree on the exact delineation of phenomena to be studied and to decide on what is better left to other scientific disciplines. In the case of economic diplomacy research, this manner of epistemological hysteresis is due to the fact that practitioners have used the terminologies of 'commercial diplomacy' and 'economic diplomacy', unfortunately, both as synonyms and as terminologies to make a distinction between different subfields. If this distinction is made in the literature then commercial diplomacy typically refers to bilateral diplomatic activities that support private sector profit-making activities (in particular trade and investment promotion),[1] while economic diplomacy in essence is broader and next to trade and investment promotion activities involves activities of diplomats in international economic institutions such as the World Trade Organization, the Organisation for Economic Co-operation and Development (OECD), the G20 or the United Nations Conference on Trade and Development (UNCTAD).

The term 'commercial diplomacy', however, in our opinion is no longer an appropriate and clear concept to describe what economic diplomacy is all about. The role of 'commercial diplomats' has been broadened and, for example, economic missions nowadays may also comprise representatives from the not-for-profit sector, including universities and other knowledge institutes, the health sector, the cultural sector, non-governmental organizations (NGOs) and so on. Moreover, the weight given to the broadened set of activities has increased as a result of significant changes in the organization of global economic activity (in particular the growing fragmentation of production shaped in international value chains), as well as the changing roles and interests of both not-for-profit organizations and internationally active companies. Indeed, since the start of this Handbook project in 2015 we increasingly recognized these changes and realized that it will be especially useful to focus in future research on those aspects of economic diplomacy that are aimed at:

- the opening of markets to stimulate bilateral cross-border economic activities such as imports, exports, mergers and acquisitions and greenfield foreign direct investments
- the building and use of bilateral cultural, political and economic relationships between countries in order to assist domestic companies
- the use of bilateral economic relationships, including (the threat) to discontinue these activities, as a tool of diplomacy.

This area of interest should in our opinion be labeled *bilateral* economic diplomacy. This is not to say that we think that commercial, bilateral and multilateral diplomacy could or should be completely separated in theory and practice. Indeed, commercial – bilateral – interests can be important determinants of the positions of countries in international organizations. Similarly, commercial relationships are developed in the wider context of the rules and regulations of the multilateral system. Our point is that bilateral economic diplomacy, which includes commercial diplomacy as a subset (as illustrated in the Venn-diagram in Figure 1.1), provides a usefully defined and comprehensive set of study subjects and activities to justify bilateral economic diplomacy research as an independent field of research. The focus of the field should be on bilateral activities and only take multilateral aspects into account as far as these activities are directly relevant for changing

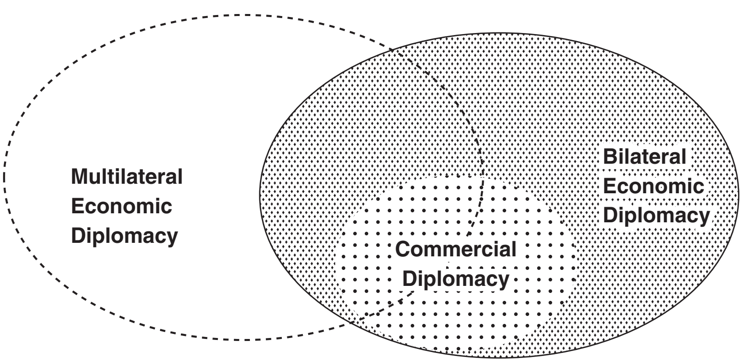


Figure 1.1 Multilateral, bilateral and commercial diplomacy

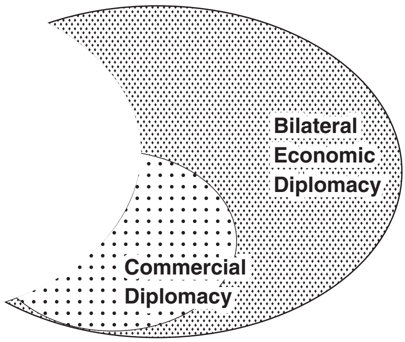


Figure 1.2 Non-multilateral economic diplomacy

Table 1.1 Positive and negative economic diplomacy

Positive interaction	State visits, Export promotion, Development cooperation	Establishing/ upgrading diplomatic representation	Signing of Treaties, regional economic integration, membership of international organizations
Negative interaction	Boycott, Embargo, Financial sanctions	(temporary) closing of embassies and consulates; withdrawal of Ambassadors	Exits, non-adherence to rules, regulations and/or obligations, multilateral sanctions
	Bilateral economic diplomatic exchange	*Bilateral economic diplomacy infrastructure*	*Multilateral economic diplomatic events and structures*

or sustaining bilateral relationships (as is the case in many of the international economics papers dealing with economic diplomacy).

While we find this categorization of economic diplomacy useful, we have, however, not shared the definition with the contributors and allowed each of them to start from and develop their own perspective. Some authors propose an even narrower approach to the field and focus on specific economic diplomacy activities. Volker Nitsch in Chapter 6 of this Handbook*,* for example, argues that the study of the impact of state visits should be limited to bilateral meetings only and he therefore excludes multilateral summits and meetings regarding international organizations. In terms of the area and topics covered this delineation amounts to a substantial reduction (Figure 1.2).

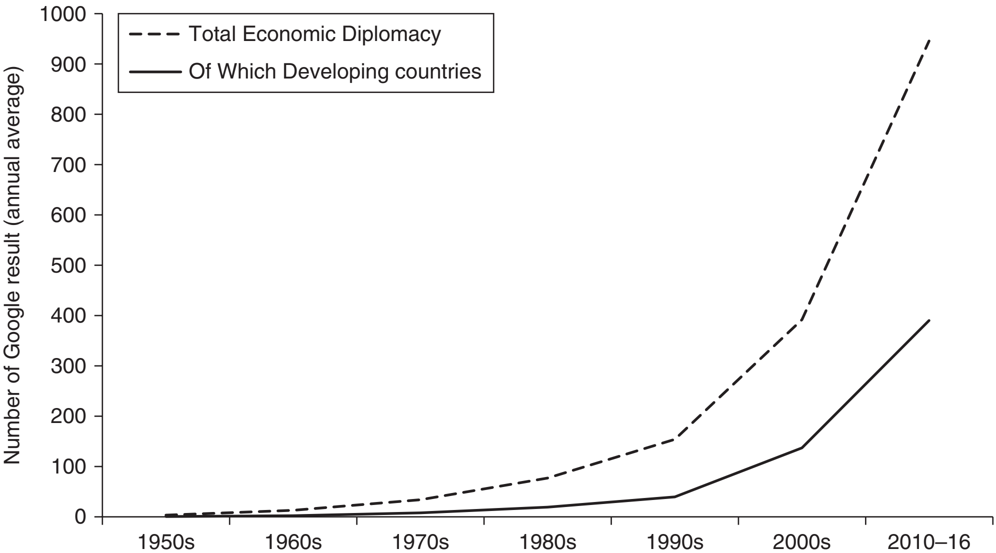
Typically, the analysis in the literature has focused on positive interaction (Table 1.1). This is clear for the field of international economics that has covered economic integration (ranging from free trade areas to monetary union) and the resulting trade diversion and trade creation as one of its main topics (note that additional benefits may accrue typically not covered by the mainstream approach if, as argued by Sylvanus Kwaku Afesorgbor in Chapter 20, economic integration creates a peace dividend). Also, the literature on commercial diplomacy has focused on ways to stimulate exports and bilateral investment: state visits and other trade missions, the role of (economic) diplomatic staff and structures and the role of trade promotion institutions (e.g., Harding and Javorcik 2012; Ferguson and

Forslid 2014). Finally, the broader literature on bilateral economic diplomacy has tended to focus on trade-enhancing activities (e.g., Casey 2015; Gil-Pareja et al. 2015).

This focus on positive interaction may be problematic from a policy perspective in view of current developments that reshape the future importance of the constituent parts of economic diplomacy (see Section 1.5 below). From a scientific perspective, ignoring 'natural experiments' of negative interaction is bad practice because this limits the number of available observations and because reactions and adjustments to positive and negative interaction are not symmetrical (van Marrewijk and van Bergeijk 1990, 1993; Dizaji and van Bergeijk 2013; di Malo and Valente 2013). In order to strengthen our understanding of the impact of negative interaction this Handbook explicitly deals with negative interaction, such as economic sanctions and (armed) conflicts in Part III.[2]

1.1 THE EMERGENCE OF THE CONCEPT OF ECONOMIC DIPLOMACY

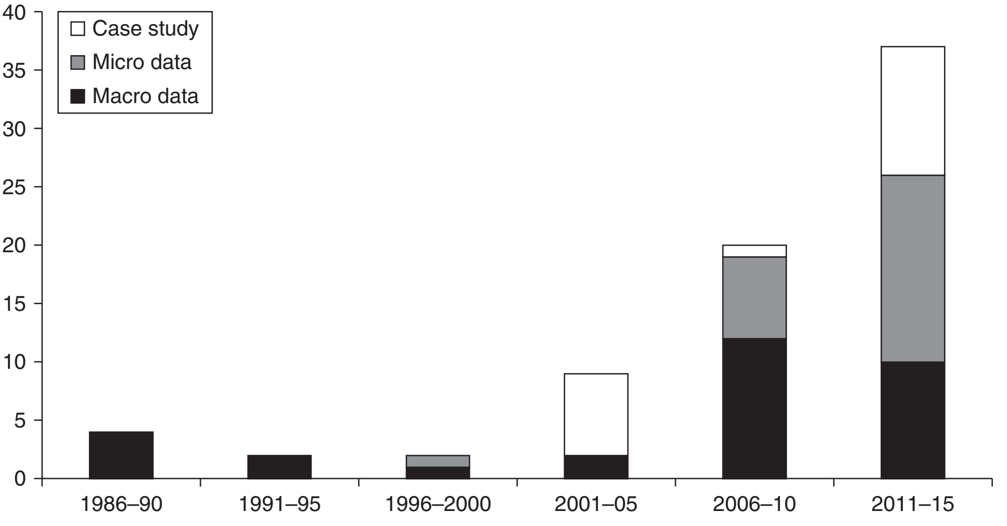
Economic diplomacy is clearly a modern concept that only got a convincing foothold in the scientific literature during the last decade. The significant use of 'economic diplomacy' as a concept and/or terminology started after the turn of the Millennium as illustrated in Figure 1.3; whereas the concept was hardly ever used in the 1960s to 1980s, since 2010 almost a thousand scientific references per year engage with 'economic diplomacy'.



Note: Reported number of hits for 'economic diplomacy' and ('economic diplomacy' + 'developing countries').

Source: Google Scholar (accessed January 2017).

Figure 1.3 Number of scientific references addressing economic diplomacy (annual averages 1950–2016)



Source: Moons (2012, 2017) and the material collected for Chapters 4 and 5 of this Handbook.

Figure 1.4 Development of the number of qualitative and quantitative studies on economic diplomacy 1986–2015

Figure 1.4 confirms this trend based on reviews of the literature and research syntheses such as the meta-analysis in Chapter 4 by Selwyn Moons and the structured review of qualitative case studies in Chapter 5 by Renata Cavalera Muniz.[3] The use of qualitative case studies to investigate economic diplomacy is also a relatively recent phenomenon. Figure 1.4 summarizes, extends and updates their findings,[4] illustrating how economic diplomacy is becoming a significant field in the multidisciplinary field. Moreover, the field already has a dedicated peer-reviewed academic journal, the *International Journal of Diplomacy and Economy* (its editor Gorazd Justinek is one of our contributors). This Handbook further illustrates the fertility of the research agenda regarding economic diplomacy and its impact on foreign trade and investment. It is relevant to note that the research agendas are developed by scholars with different academic backgrounds including Accounting, Business Economics, Conflict Studies, Development Studies, International Economics, International Relations, Management Science, Peace Science, Political Science and Public Finance. This illustrates again that the research agenda for economic diplomacy in essence is multidisciplinary.

1.2 DRIVERS OF (STUDIES ON) ECONOMIC DIPLOMACY

It is no coincidence that the growth in studies that engage with economic diplomacy takes off around the turn of the Millennium. The growth in the volume of studies is enabled by the greater availability of (firm-level) data and new econometric impact evaluation techniques (as pointed out by Marcio Cruz, Daniel Lederman and Loretta Zoratto in Chapter 7 of this Handbook), as well as better methodologies (Volpe Martincus et al. 2010). The take-off reflects the growth of economic diplomacy activities and the number of specialized economic diplomacy institutions. For example, Cruz, Lederman and Zoratto (Chapter 7 of this Handbook) point out that two-thirds of the world's Export Promotion Agencies (EPAs) were created in the late 1990s. This is the period where a sharp increase in globalization becomes a determining trend due to two crucial factors. Firstly, the integration of former communist countries into the world economy boosts openness (measured by the trade to gross domestic product (GDP) ratio) globally by some 2–3 percentage points (van Bergeijk and Oldersma 1990; van Bergeijk 2015) implying a growing weight of international activities in world-wide consumption and production.[5] Secondly, the Global South, in particular due to the rise of China, captures an important share of global trade (international value chains) and investment flows (Murshed et al. 2011; UNCTAD 2013). In addition to these game changers, Gorazd Justinek (Chapter 2 of this Handbook*)* points out the importance of the financial and economic crisis that started in 2008 and the impact of new communication technologies. Globalization has extended the networks of all actors that accordingly are more vulnerable with regard to behavior and changes in other jurisdictions. Even actors with geographically limited direct networks and activities (so remaining in the purely domestic or national realms) are increasingly linked across borders through upstream or downstream activities in their formal and informal networks and through the internationalization of the activities of other nearby actors. The increasing importance of activities that go beyond borders (i.e., beyond the geographic location of the State) has substantial implications for the State as its stakeholders are fragmented across jurisdictions. Traditionally, the State had to deal only with its own citizens as they constitute the franchise, but, due to the cross-border linkages, non-state actors in other jurisdictions can influence the State and its interactions with other States and thus need further reconsideration (Bayne and Woolcock 2003). Importantly, technological progress (the internet and further improvements in transportation) reduced the economic costs of trading with distant countries and increased the opportunity for services trade. Economic distance seemed to decay. At the same time, however, trade models continued to find that their measures of physical distance mattered (and actually started to matter more than in the mid 1990s) (Disdier and Head 2008). How to reconcile this puzzle? Typically, trade economists discovered that other forms of distance (cultural, political, historical) had taken over the trade-reducing role of economic distance, that is, the costs of transportation (van Bergeijk and Brakman 2010). Partly this reflected the fact that these factors had always been present but hidden under the veil of the economic distance. With reduced economic distance these factors became apparent. However, trade in new or non-traditional goods and with 'new' trading partners has increasingly been recognized as an important driver of international trade (Kehoe and Ruhl 2013). Here two issues are relevant. Firstly, the development of new trading networks (trading where previously no trade was registered – this reflects growth along the extensive margin and involves new market, product, country combinations), including logistics, finance and trade-related digital communication or trade-replacing innovation, for example, related to 3D printing. Secondly, the emergence of non-OECD countries as major international trade and investment partners in the world trade and investment system. Developing countries have specific problems, in particular, low and lower middle income countries, in terms of growth of new products and new markets as they develop (Cadot et al. 2011; Kishan S. Rana, Chapter 19 of this Handbook). Here economic diplomacy related to product quality (standards, trust; see Chapter 3 by van Gorp), country image and access to international markets is elementary.

It has been argued that four phases exist in the way developing countries progress in their handling of economic diplomacy (Bayne and Woolcock 2016; see also Chapter 19 by Kishan S. Rana in this Handbook): economic salesmanship, economic networking/advocacy, image building and regulatory management. Rather than phases of development these aspects may represent dimensions of the economic diplomacy space that countries try to expand simultaneously. For example, a good country image probably is a necessary condition for salesmanship (see Chapter 9 by Prahastuti Maharani in this Handbook).

The new and emerging players in the global production networks participated in the multilateral trade system but their markets remained quite distinct from OECD markets because of cultural, historical and institutional reasons (Möhlmann et al. 2010; Fensore et al. 2017; Moons 2017). Since such invisible barriers to trade obviously are not covered by the rules and regulations of the World Trade Organization, bridging this gap and enabling trade with developing economies and emerging markets became a major task for economic diplomats. Government involvement is, for example, a *sine qua non* in many former state economies, especially in Asia where the presence of a civil servant is necessary to signal that government approves of the economic activity (see, e.g., Chapter 18 of this Handbook by Andreas Fuchs). The firm needs 'a' diplomat to signal his government's blessing. The activities of diplomats in the network of bilateral relationships serve more purposes. We can see four issues that need to be addressed:

- **Cultural and institutional factors** may make it necessary for national governments to get involved in international transactions (van Bergeijk 1996). This is especially the case now that former communist countries account for an increasing share of world trade.
- **State enterprises** may be the counterpart of a company operating in the international markets. This creates the necessity for entrepreneurs to seek cooperation with their national governments in order to equalize the power balance and to improve the playing field (see Chapter 12 of this Handbook by Arjan Lejour who points out that the larger the role of the government in the trade partner's economy the more important could the government's economic diplomatic support be for its exporting firms).
- **(Political) uncertainty** about international transactions must often be removed or reduced. Government involvement may signal that a transaction will not raise political resistance. As the differences between transaction partners grow so does the uncertainty associated with the exchange (van Bergeijk 1994, 2009; Guiso et al. 2009; Kraus et al. 2015; Yu et al. 2015). Some transactions will suffer more from uncertainty than others due to characteristics of the traded product or the sector in which investment takes place (Guiso et al. 2009; Lankhuizen et al. 2015). Typically, transactions in more complex products and politically sensitive sectors are most vulnerable for a lack of trust between transaction partners because these transactions demand more interaction and trust. Chapter 11 by Moons and de Boer confirms the importance of economic diplomacy for transactions in more complex products.
- The **information** needed for international transactions sometimes requires involvement of government officials because it will only be shared in long-run relationships between non-commercial parties (see Chapter 10 by Compernolle and Vancauteren on the use of information by exporting firms).

The new (or perhaps: stronger) wave of globalization broadened the informal and formal networks of all actors (i.e., States, private – multinational – firms, NGOs and households). Paradoxically, this acceleration of the speed and intensity of globalization has made all actors both more influential *and* more vulnerable in this respect (van Bergeijk 2009, 2011). Consumer demand derives from several jurisdictions and consumers can and do use their wallet in addition to and sometimes rather than the ballot (or as Andrew Rose puts this in Chapter 15 of this Handbook: the public desires to purchase more/fewer goods from countries seen to be a force for good/evil). A business firm sells in many markets so that its consumer base no longer reflects the frontiers of States. Rather than relying on the State's diplomacy firms themselves engage in diplomatic activities (see Chapter 3 by Desirée van Gorp in this Handbook).

1.3 WHAT HAVE WE LEARNED?

The literature of the 1980s and 1990s dealt with the impact of the 'diplomatic climate' using aggregated events-based indicators and was thus dealing with the broad question of whether diplomacy matters for international trade and investment flows. This focus meant that researchers analysed both positive and negative diplomatic interactions (the latter including such events as suspension or termination of representation and embargoes and boycotts). The recent literature has tended to focus on specific positive 'economic diplomacy' interactions such as the existing network of representations (Rose 2007; Volpe Martincus et al. 2010) and agencies (Lederman et al. 2010; see also Chapter 7 of this Handbook), 'new' representations (Afman and Maurel 2010) and state visits (Nitsch 2007; Casey 2015; see also Chapter 6 of this Handbook). Moreover, this relationship was made much more explicit and resulted in significant data collection efforts for state visits, the diplomatic network (embassies and consulates) and the commercial diplomatic grid including agencies for the promotion of exports and foreign direct investments. Indeed, an important aspect of the field is its commitment to data collection generating unique datasets (Table 1.2 provides an overview of new data collections reported in this Handbook).

Data collection is important in any field, but in the case of economic diplomacy data availability is often hampered by secrecy also because information is a crucial component of competitiveness. In Chapter 8 (p. 113) of this Handbook Olivier Naray observes: 'It is important to note that diplomatic services were found to be generally sceptical about survey requests other than within their own headquarters, due to confidential contents of diplomatic activities. The researcher visited several selected embassies personally in Switzerland and convinced them to participate in the survey.' An alternative manner to collect data is during policy evaluations (Chapter 10 in this Handbook by Compernolle and Vancauteren is an example). Data collection is especially important in developing countries and emerging markets where trade negotiation capacity is being built up; the collection should be focused on national needs and priorities as pointed out in Chapter 19 in this Handbook by Kishan S. Rana. Indeed, no data means: no rational evidence-based economic diplomacy and trade policy. An important issue pointed out by Moons in Chapter 4 (see also Moons 2017) is that reporting standards in academic publications are not homogeneous across disciplines. In order to enable research synthesis, for example,

Table 1.2 Overview of newly developed datasets on economic diplomacy by chapter

Chapter	Short description of main variables	Coverage
4	Primary study characteristics and estimates	32 studies, 963 estimates
5	Case study characteristics	19 studies, 25 cases
7	Characteristics of EPAs	96 EPAs in 2010
8	Tasks and time allocation commercial diplomats	6 home and 39 host countries of 145 diplomats
9	Indonesian Trade Attachés and EPAs	30 countries, 23 diplomats, 19 EPAs
10	Dutch economic diplomacy in Latin America	420 missions and diplomats in 13 Latin American countries (use of 2638 firms)
13	Costs of economic diplomacy, national promotion systems	Italy, UK, France, Germany

by means of a meta-analysis standard parameters such as the number of observations, coefficients and *t*-statistics (or standard errors) are extremely important. A related issue is that datasets should be made public in order to allow for replication.

1.3.1 Instruments of Bilateral Economic Diplomacy

The new empirical literature thus disaggregated the diplomatic climate and deepened our understanding of the components or tools of bilateral economic diplomacy. At the level of specific tools, important differences have occurred in research design. Rose (2007), for example, focused on the impact of embassies; later studies replicating Rose's study with other datasets also included consulates and their economic diplomacy indicator(s) either as an aggregate indicator (Yakop and van Bergeijk 2011) or with a separate indicator reflecting different levels of representation (Moons 2017). An important issue has been to distinguish the impact of the different instruments, for example, by distinguishing between economic diplomatic representation, on the one hand, and export promotion agencies, on the other hand (van Veenstra et al. 2011) – or between embassies and trade missions (Creusen and Lejour 2013). This enabled research to investigate whether specific instruments are complements or substitutes enabling understanding of whether synergy or crowding out occurs.

The contributions to this Handbook in combination cover a great many instruments and indicators (Table 1.3). It may be useful in future studies to group these instruments along the lines developed by Vergara Caffarelli and Veronese in Chapter 13 of this Handbook. They define a narrow perimeter which excludes the activities of the responsible ministry and excludes embassies, consulates and the domestic activities of the responsible ministry (so: the diplomatic network) so that only the commercial diplomatic activities are included and the wide perimeter that includes all activities at home and abroad linked to the economic diplomacy function (including, e.g., innovation; see Omelyanenko 2017). Different groupings are of course possible and future analysis may enable a cluster approach or principal components analysis.

At the current stage, however, the differentiation enables us to establish robustness

Table 1.3 Instruments of economic diplomacy by chapter

Instrument	Chapter(s)
Diplomatic climate (general, soft power)	4, 15, 18
Diplomatic representation (aggregate measure, level)	4, 20, 21
Embassies (Ambassadors, Chargés d'affaires)	4, 10, 11, 12, 21
Consulates	4, 10, 11, 12
Trade Attachés (Commercial diplomats)	8, 9, 21
Export promotion agency home country	4, 7
National promotion system	13, 19
Export promotion/support agency/office abroad (trade posts) presence/level	4, 9, 10,12
Investment promotion agency home country	4
Digital diplomacy including social media	2, 3
State visits	4, 6, 18
Trade mission (government-led)	4, 10,12, 14, 18
Other missions (no government involvement but subsidized)	10
Sanctions	15, 17
Public expenditure (budget)	7, 13, 14, 19
Development aid	22

of the major stylized fact of the literature – namely: diplomacy significantly matters for international trade and investment either as a barrier or as a bridge – in three ways.[6] Firstly, a broader set of (often more specific) instruments has been investigated with similar results. Compernolle and Vancauteren (Chapter 10 of this Handbook), for example, study the impact of the actual manpower allocated to bilateral economic diplomacy in embassies. Secondly, research that simultaneously deals with combinations of instruments occasionally finds that a specific instrument becomes insignificant at the same time that other economic diplomacy indicators remain significant. Embassies, for example, become statistically insignificant in Maharani's gravity model for Indonesian economic diplomacy, but at the same time she shows the impact and synergy of Trade Attachés and trade promotion offices abroad (Chapter 9 of this Handbook). Thirdly, findings of studies using alternative measures such as the correlates of war data on diplomatic representation replicate earlier used indicators (e.g., Afesorgbor in Chapter 20 of this Handbook). It is in this respect also interesting to see how Andrew Rose (one of the seminal contributors to the new economic diplomacy literature) in Chapter 15 of this Handbook, so to say, squares the circle and includes both negative diplomatic instruments (sanctions) and 'soft power' in his analysis. Rose argues that 'soft power affects exports because it reflects a public desire to purchase more/fewer goods from countries seen to be a force for good/evil' (pp. 241–2). His finding of a significant impact of BBC/WorldScan events data confirms the findings of the 1980s and 1990s (Pollins 1989a, 1989b; van Bergeijk 1992, 1994): the aggregate diplomatic climate matters for cross-border economic activities.

1.3.2 Heterogeneity of Economic Diplomacy

Evaluating the literature and suggesting a research agenda for the field, van Bergeijk (2009) identified the large (and often growing) extent of heterogeneity that existed under the veil of the averages and estimated coefficients that have been reported in the literature on international economic relationships. Typically, the literature finds different levels of significance and occasionally even different signs of the estimated coefficients for the OECD countries, for the emerging markets and/or for the developing countries. One reason for these differences is the heterogeneity due to globalization. The extent of heterogeneity in the world economic system has increased and while globalization has recently slowed down country and firm heterogeneity will probably continue to increase in the foreseeable future (van Bergeijk and van Marrewijk 2013; Alonso et al. 2014). Indeed, heterogeneity implies many substantive empirical, methodological and theoretical research questions that will continue to be on the agenda regarding economic and commercial diplomacy. Other potential sources for heterogeneity include different approaches to training regarding economic diplomacy, training (facilities) and research capacity, as pointed out by Kishan S. Rana in Chapter 19 of this Handbook.

Heterogeneous countries and policies

A key stylized fact in the literature is that the impact of economic diplomacy instruments depends on country-specific choices regarding the modes of implementation. State visits and trade missions, for example, may be targeted to specific projects or key sectors and consist of a small group of dedicated firms and officials or may be more general in aim and consist of a large, heterogeneous group. This may also be the case in investment promotion (Harding and Javorcik 2012). Also, the geography and frequency of (re)visits and the level of the involved officials is a choice parameter for individual countries. Regarding development cooperation some countries, in particular in Scandinavia, focus on the least developed and most vulnerable countries while other countries link development cooperation to national economic interests.

Table 1.4 reports two factors behind the heterogeneity of impact of yet another instrument, namely, diplomatic representation: (a) efficiency of geographic focus (being there where the contribution of economic diplomacy towards export market growth is most significant) and (b) efficiency of the economic diplomatic representation (so taking the geographic focus of countries as exogenous – the latter is tested by means of a slope dummy in addition to the shift dummy that is typically used to estimate the impact of economic diplomatic representation in gravity models).[7] In the top-right we find countries that have an efficient economic service, but they could benefit more if these efforts were aimed at other economies.[8] In the bottom-left we find countries that aim their economic diplomacy at the right markets, but could gain in efficiency, for example. In the bottom-right we find Iran, Norway, Uganda and Venezuela that are unfocused and inefficient (note that in the case of Norway inefficiency simply may represent a stronger focus of other non-commercial interests). Interestingly, the top-left corner of focused and efficient economic diplomatic representations contains many developing countries and emerging markets that outperform many OECD countries (including the G7 countries) in terms of both focus and efficiency. In terms of efficiency, the BRIICS (Brazil, Russia, India, Indonesia, China, South Africa) with the exception of India

Table 1.4 Focus and efficiency of economic diplomacy (2005)

	Right focus; right economies	Unfocused
Efficient economic diplomacy	**Argentina**, Austria, Belarus, Belgium, Bulgaria, ***China***, Czech Republic, **Ecuador,** Finland, ***Indonesia*****,** Ireland, Israel, **Kenya, Malaysia**, Netherlands, New Zealand, **Pakistan, Peru, Philippines**, *Russia*, Saudi Arabia, Singapore, ***South Africa***, Sweden, **Thailand**, Ukraine, **Uruguay, Vietnam**	Australia, ***Brazil*****, Chile**, South Korea
Inefficient economic diplomacy	**Algeria, Bangladesh**, Canada Denmark, **Dominican Republic**, **Egypt,** France, Germany, Greece, Hungary, ***India*****,** Italy, Japan, Kuwait, Mexico, **Morocco, Nigeria**, Poland, Portugal, Romania, Spain, **Sudan**, Switzerland, **Tunisia**, Turkey, UK, US	**Iran,** Norway, **Uganda, Venezuela**

Note: Developing countries in bold (BRIICS in italics).

Source: Based on van Bergeijk et al. (2011).

outperform the G7 countries although this may be related to the fact that country image is probably better for the G7 countries so that the contribution of G7 Ambassadors is *ceteris paribus* smaller than for their colleagues working for BRIICS countries as the potential to build country image is vast. Country heterogeneity is a challenge because, as pointed out by Cruz, Lederman and Zoratto in Chapter 7, p. 114), ‘the learning from a specific country should be taken cautiously, but definitely provides lessons to other countries’. By implication, research synthesis aimed at generalizable conclusions and specific conditions is important for the field of bilateral economic diplomacy research. In addition to the differences between countries, of course differences in the efficiency of the tools of the same country are important. A cost-benefit study that aims at estimating the net present discounted value of four economic diplomacy instruments missions for the Netherlands (van den Berg et al. 2008) shows different and sometimes negative outcomes for considered instruments (Chapter 14 of this Handbook provides an update regarding the costs and benefits of trade missions, one of the four originally investigated economic diplomacy instruments). Both between and within heterogeneity are important issues for which more research needs to be done in order to inform evidence-based policies.[9]

Heterogeneous development levels

Initially, the analysis of economic diplomacy studied the impact of diplomacy assuming that the effect would be independent of the level of development of the respective trade partners, hiding significant heterogeneity. Yakop and van Bergeijk (2011) showed the importance of distinguishing between OECD markets and developing countries. Indeed, embassies and consulates can reduce intangible, but real, barriers to trade (such as a lack of trust, cultural differences or lacking or weak legal frameworks and insufficient accountability and stability). This export facilitation is a significant trade-enhancing factor in South-South trade, in trade between developed and developing countries (and vice versa) but not within the group of higher income countries.[10] This could reflect that markets in the developing countries tend to be more incomplete, implying that market failures may be more of a problem in these countries. It could also reflect the difficulty that developing countries face in connecting to global value chains. Products produced in developing countries are generally perceived as being of lower quality than the produce of their peer in high income countries (Rauch 1999). Transactions from developing countries thus face a reputational disadvantage. Typically, economic diplomacy can be useful in this context in order to establish good political relationships that breed trust and facilitate mutually beneficial trade and investment. Van Veenstra et al. (2011) and Hayakawa et al. (2014) find that export promotion agencies do not add much value in OECD countries but appear to be effective in developing countries (this study analyses export promotion agencies in conjunction with embassies and consulates). These macro findings are also supported by firm-level data (Creusen and Lejour 2013; see also Chapter 12 in this Handbook). In the Global North the recognition of the more significant impact of economic diplomacy in the trade between developed and developing countries leads to an integration of trade policy and development cooperation into one ministry and sometimes even under the leadership of one minister as is the case in Denmark, Ireland and the Netherlands (Moons 2015, 2017). Such organizational changes are infrequent events in a field that is characterized by organizational hysteresis and normative institutional sclerosis. An example is the Italian National Promotion System discussed by Filippo Vergara Caffarelli and Giovanni Veronese in Chapter 13 of this Handbook: 'the policy orientation . . . did not stem from an organic project, but rather is the result of normative interventions, not always appropriately coordinated with the pre-existing system' (p. 204). The level of development is nowadays an important strategic variable in the design and intensity of economic diplomatic interaction (France is an example, see Lapeyronie, Maurel and Meunier in Chapter 21). This move towards integration of trade policy and development cooperation implies that policy makers increasingly combine insights from development studies and international economics in their strategies. Development cooperation and international trade and investment policies are seen as building blocks for economic diplomacy.

Heterogeneous firms

Under the macroeconomic averages a lot of heterogeneity is hidden. In addition to the export decisions that are studied by the mainstream international economics literature, we note the heterogeneity that is observed in the use of economic diplomacy by firms. Compernolle and Vancauteren (Chapter 10 of this Handbook) distinguish four groups of firms using two dimensions (use/non-use of economic diplomacy *versus* export/non-export). Interestingly, in their sample half the firms that participate in trade missions do not (start to) export while only about 10 percent of exporting firms in their sample uses economic diplomacy. They also provide an important innovation by linking economic diplomacy use directly to the firm whereas other studies use market-specific indicators of economic diplomacy (see also van den Berg 2014 who uses propensity score matching to investigate the export performance of participants to a particular government program to comparable not supported competitors that are at a similar stage of export market entry).

Identifying specific firm-market combinations with and without direct government support also enables research into spill-overs from treated to non-treated firms.

The availability of microeconomic firm-level datasets that could be used to link trade performance and economic diplomacy support for individual firms enabled a robustness test on the macroeconomic findings. The seminal paper by Volpe Martincus and Carballo (2008) distinguishes between the impact of economic diplomacy for the extensive margin (trading to new destinations and/or trading other kinds of products) and the intensive margin (trading more already exported kinds of products to existing locations).[11] Micro data research confirms (a) the importance and significance of economic diplomacy; (b) the importance of the level of development (results for OECD countries and developing countries differ (see Chapter 12 by LeJour; Gil-Pareja et al. 2015); and (c) the heterogeneous impact of economic diplomacy instruments.

Micro data research, moreover, has also been important because it provides tests on theoretical premises (such as market failures) that underpin the rationale for economic diplomacy and because it enables one to uncover spill-over effects from economic diplomacy instruments to non-treated firms.

1.3.3 Causality

One important issue in this literature is the potential endogeneity in the geographical allocation of the instruments of economic diplomacy. Is trade and investment intensive because of diplomatic activities or are diplomatic activities directed to markets that grow fast?

It is by now customary to apply either an instrumented variables approach (see Chapters 6, 10, 11 and 12), appropriately lagged economic diplomacy variables (Selmier and Oh 2013), first differencing (see Chapter 20) or separated estimation of time-varying and time-invariant elements of the empirical model (see Chapter 21) in order to deal with reverse causality (Figure 1.5). Typically, these corrections for potential endogeneity do not reduce the significance of the impact of economic diplomacy. Unlike the related field of quantitative international relations that addresses the conflict-trade relationship, Granger causality studies so far have not been produced for economic diplomacy so that a direct test is not available and something that we expect to be covered in future research. This Handbook, however, offers several new strategies that help to reduce the relevance of the

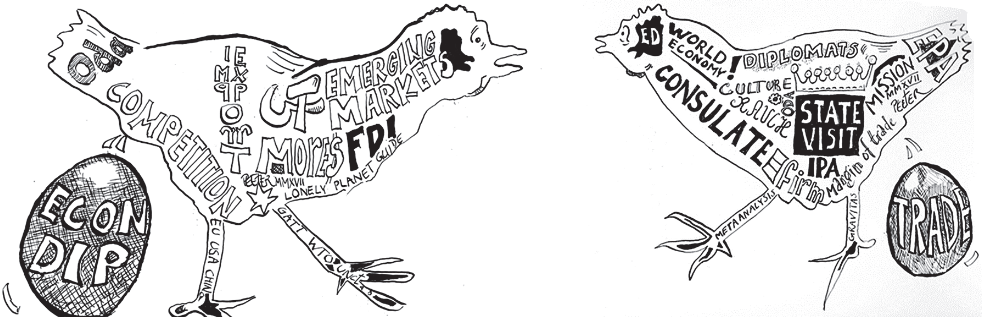


Figure 1.5 Reversed causality versus causality

endogeneity issue by means of the research design. The meta-analysis in Chapter 4 of this Handbook shows that papers that correct for endogeneity are not structurally associated with less significant results. Moons and de Boer (Chapter 11) decompose international trade by complexity using the Rauch (1999) classification and Lapeyronie, Maurel and Meunier (Chapter 21) decompose trade by primary, intermediate and final goods. Disaggregating trade data is a powerful research strategy because economic diplomacy may correlate with the level of total trade but is much less likely to do so with trade in a specific product (category) (see also Ciuriak 2014). Maharani (Chapter 9) uses a before-after analysis of variation due to the opening and closure of diplomatic representations (Figure 1.6). This is a promising strategy in view of the turbulence in representation that is a so far unnoted characteristic of economic diplomacy.

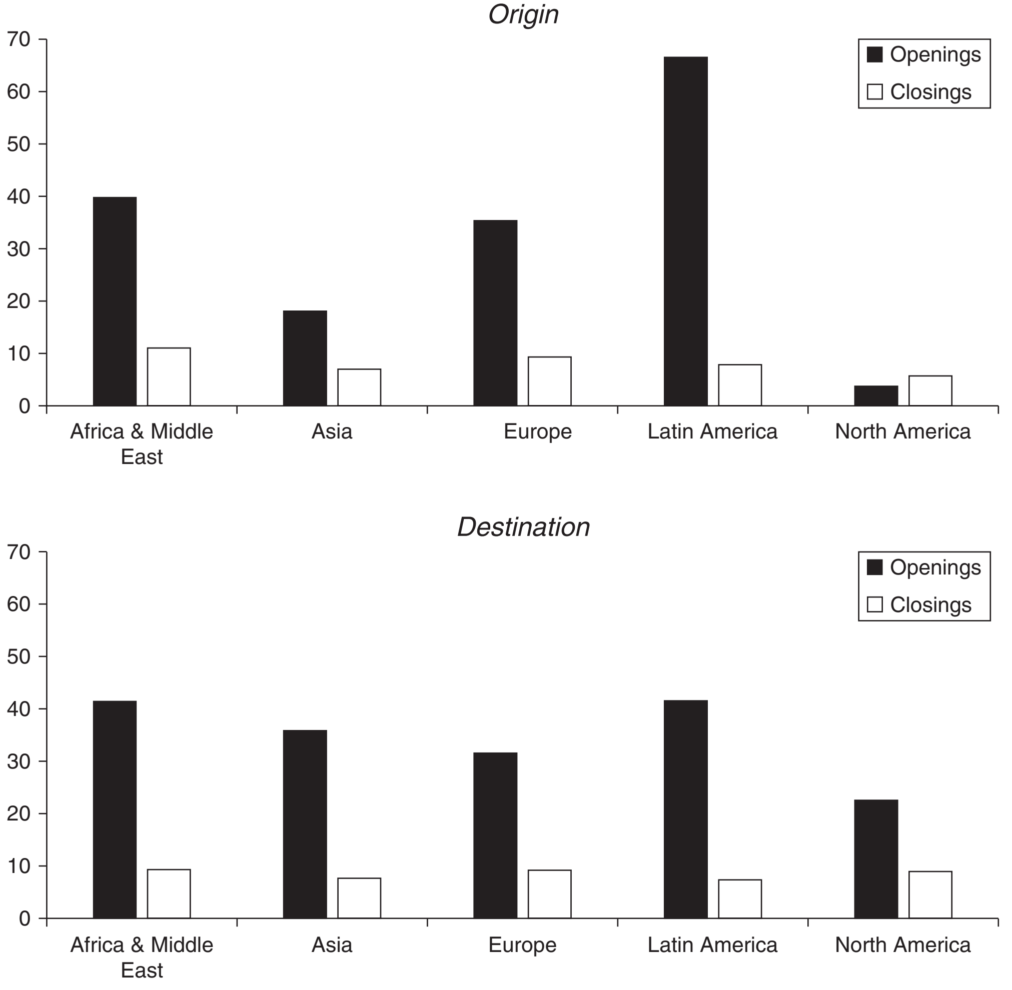
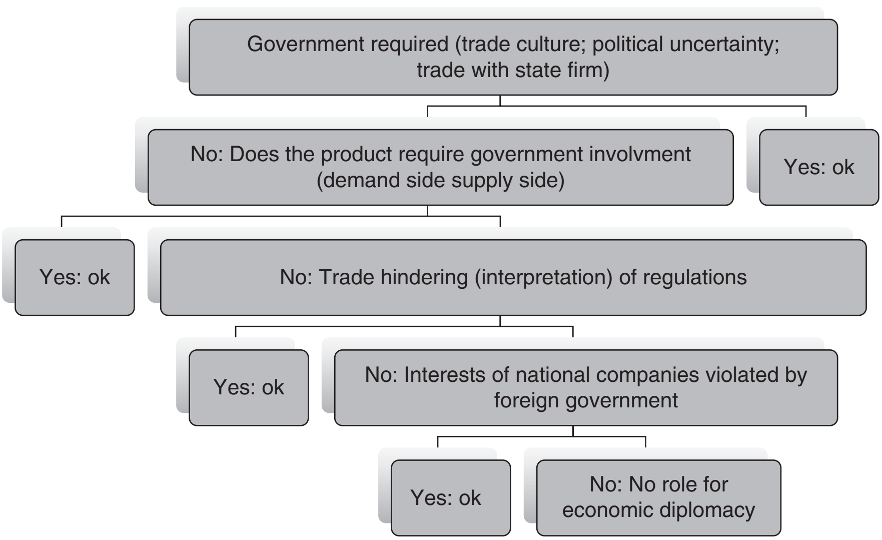


Figure 1.6 Openings and closings of embassies by origin and destination between 2006 and 2013

Not all economic diplomatic activities, however, can be expected to yield beneficial results and some restraint is necessary because firms will always demand more of un(der)priced public services and also because diplomats may want to show that they are involved in economic activities in order to further their diplomatic career. To facilitate decision making on the use of scarce resources Figure 1.7 develops a decision tree. We start at the top level of the decision tree. The first question relates to the country characteristics of the trade partners. At the second level the focus is on the product characteristics. We do not expect a substantial role for economic diplomacy regarding homogeneous goods that are sold via arm-length transactions. In contrast, economic diplomacy may have a role to play for complex goods. Examples are dual use goods that require decisions in terms of export permits and infrastructural works that are commissioned by governments so that economic diplomats by necessity have to be involved in both countries. At the third level we find specific (interpretations of) foreign regulations that discourage trade and investment. And ultimately there may be cases where the interests of national companies are violated by foreign governments. But if neither of these issues is on the table, economic diplomacy cannot be expected to be welfare enhancing because there is no underlying market distortion that could justify government interaction. An alternative use of the decision tree is that it can help to clarify when economic diplomacy sometimes works better. Moons and de Boer in Chapter 11 report that economic diplomacy works less well for homogeneous goods; indeed, when dealing with more complex goods where trust and information asymmetries are important factors economic diplomacy would also be indicated by Figure 1.7.



Source: Based on van Bergeijk (2012).

Figure 1.7 Decision tree for economic diplomacy

1.4 ORGANIZATION OF THE HANDBOOK AND INTRODUCTION TO THE CHAPTERS[12]

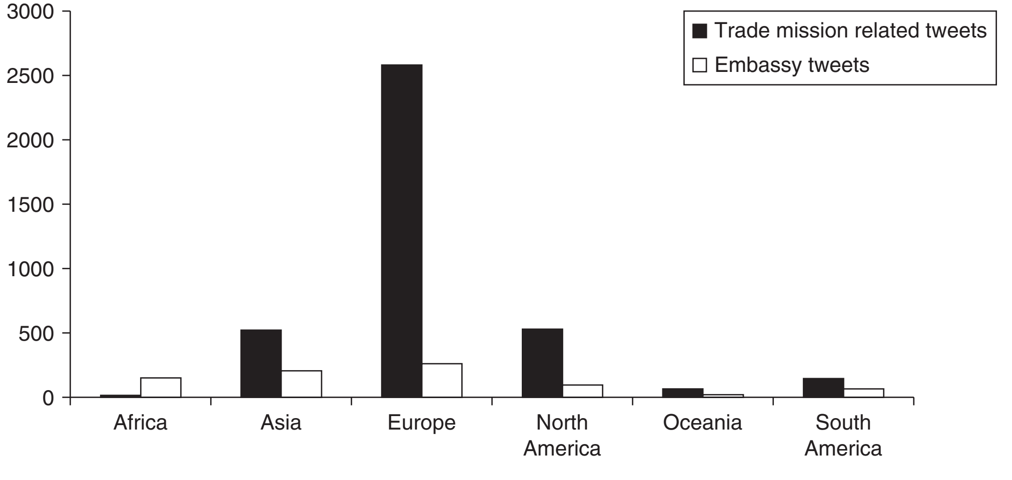
This Handbook starts with a general context consisting of five chapters (including this Introduction) that provide reflection on the field and synthesize existing knowledge. The other chapters are organized in four parts:

- Part I on roles and impact of economic diplomats
- Part II on the impact of economic diplomacy, on its costs, on its benefits and its net contribution to economic welfare
- Part III on politics, soft power and conflicts
- Part IV on emerging economies.

The organization into different parts provides structure for the reader who wants to read front to back or wants to focus on one of the topics of the parts, but we note that the chapters are stand-alone contributions that can be read independently. Also, in assigning chapters to parts we focused on the major contribution of the chapter. Thus, for example, Chapter 9 by Prahastuti Maharani is in Part I because it deals with Trade Attachés and not in Part IV although it is a country study for Indonesia.

1.4.1 General Context

In Chapter 2 Gorazd Justinek discusses recent developments in (economic) diplomacy. He points out that in a time of globalization, (economic) diplomacy is being shaped and co-created by numerous new stakeholders that partially emerge in the diplomatic arena due to new media and new technologies or, iDiplomacy. As illustrated in Figure 1.8, substantial



Source: Twiplomacy master data file 2016, available at http://twiplomacy.com/wp-content/uploads/2016/06/Twiplomacy-2016-Master-Data-File-1.xlsx (accessed 20 April 2017).

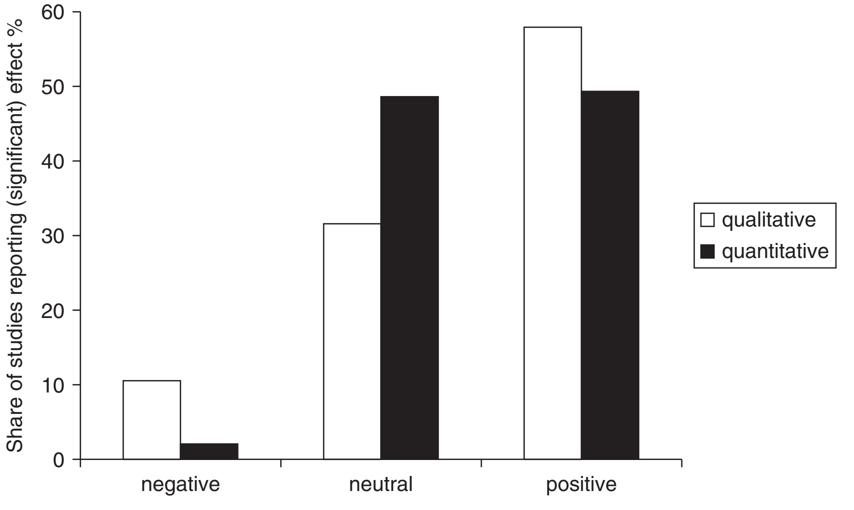
Figure 1.8 Number of economic diplomacy related tweets (2007–16) differences exist in the use of social media as a tool of economic diplomacy and Chapters 2 and 3 pay substantial attention to these instruments in particular because the new media empower consumer groups and activists by providing cheap communication tools.

Justinek introduces the ECONFINBUS concept as students of economic diplomacy not only deal with diplomacy, but are also analysing the financial and business dimensions of the processes underlying the production of economic diplomatic outcome. Another broadening of the concept is the impact of international economic relationships on human rights. Chapter 3 complements this analysis by a 'view from the Board Room'. Defining business (corporate) diplomacy as the management of interfaces between a global company (both small and medium enterprises (SMEs) and multinationals) and its multiple non-business counterparts and external constituencies, Désirée van Gorp discusses how businesses have become important political actors that experience a growing responsibility to respond to global challenges. Discussing the Volkswagen emission scandal, the PUMA safe program and the Avaaz movement, she distinguishes business diplomacy from spinning and issue management, discusses how local, industry and international standards can be important building blocks of sustainable development chains and highlights the role and potential of civil society movements. Van Gorp argues that future research in business diplomacy needs to be interdisciplinary and align the literature on business diplomacy in the fields of international relations and international (business) economics. It is important to incorporate the issue of how technological innovation impacts on the interfaces relevant to companies operating in internationally fragmented value chains.

The upshot of both Chapters 2 and 3 is that understanding economic diplomacy, its efficacy and its effectivity requires an analysis that must be multidisciplinary and simultaneously brings knowledge about businesses (perhaps, more generally: all profit and not-for-profit NGOs) as well as governments to the table.

Typically, multidisciplinary analyses methodologically are based on (triangulated) quantitative and qualitative findings. Figure 1.9 provides an example of a triangulation related to the research syntheses on which Chapters 4 and 5 report, namely, the impact of economic diplomacy as uncovered by 51 primary studies (19 qualitative case studies and 32 quantitative econometric studies). The qualitative and quantitative bodies of literature agree: the evidence for a general positive and significant economic diplomacy effect is compelling but study and country-specific circumstances are important and may occasionally lead to different (contradicting) results.

Based on a meta-analysis of 32 studies published between 1985 and 2012, Selwyn Moons (Chapter 4) finds that study characteristics to a large extent explain the heterogeneity of the findings of the primary studies. In general, the instrument of diplomacy used in primary studies influences the reported outcome significantly: economic diplomacy in this sense 'works'. Primary studies on average tend to report lower significance and contradictory signs for the lower ranked diplomatic establishments (consulates and export promotion agencies) and also for activities organized with the diplomatic network (trade missions and state visits). Renata Cavalcanti Muniz (Chapter 5) provides the first systematic literature review of case studies focused on economic diplomacy from the field of International Relations and International Political Economy. She examines 19 case studies looking at descriptive characteristics and content of the primary studies in order to contribute to case study methodology in general as well as to get a better



Source: Data underlying Figure 4.2 and Table 5.2.

Figure 1.9 Economic impact of economic diplomacy according to 19 qualitative and 32 quantitative primary studies

understanding of how International Relations and International Political Economy use this methodology to study economic diplomacy. Cavalcanti Muniz discusses case study implementation distinguishing three pillars: Focus, Implementation and Reporting. The findings indicate that although there is a widespread use of case study methodology in researching economic diplomacy, there is little if no discussion on the merits of using the methodology. Indeed, more qualitatively oriented researchers of economic diplomacy seem to take the methodological choice of case studies for granted and importantly often implement case study methodology without following systematic procedures.

1.4.2 What Economic Diplomats Do

Part II is devoted to the so-called chicken test (difficult to explain and define, but if you see and hear one, you recognize it directly). So, rather than starting from a definition this chapter looks at what economic diplomats do. This is a practical way to define the topic of this emerging field where different perspectives exist on the conceptualization of the activities of economic diplomats. Volker Nitsch (Chapter 6) deals with a high-profile activity of economic diplomacy: economic missions. Politicians and high-ranking social servants travel abroad a lot and often for reasons related to trade, investment and market access. Despite technological advances travel activities by politicians did increase over the last few decades. The types of their trips, according to Nitsch, range from formal, multi-day visits to brief logistical stop-overs, from the regular exchange of information in working meetings to ceremonial visits. Diplomatic activities are costly involving money, time and effort. As a result, and also due to a gradual shift of focus in diplomacy towards economic issues, a growing literature aims to quantify the economic benefits of such activities.

Marcio Cruz, Daniel Lederman and Laura Zoratto (Chapter 7) focus on the role and impact of export promotion agencies (EPAs) using a novel database from the World Bank, in collaboration with the International Trade Centre in Geneva, covering the 2005–10 period. Most agencies are public-private institutions and have focused on assisting exporters in understanding and finding markets for their products. Several went through at least one type of institutional change in the short period between 2005 and 2010. EPAs spend more on small and medium firms, on established exporters (instead of new/occasional exporters or non-exporters) and on the provision of marketing services (e.g., trade missions) and export support services (e.g., training, technical assistance). Reviewing the recent literature, they find evidence of positive contributions of EPAs around the world in raising exports, through both increasing the number of trading partners and the intensity by which they trade.

Olivier Naray (Chapter 8) provides quantitative evidence on commercial diplomats' time allocation on their roles (facilitation, advisory and representation), activity areas (trade promotion, investment promotion etc.) and individual features, thus filling the gap in the current literature related to the managerial dimension of commercial diplomacy. His results show that commercial diplomats spend more than half of their time on the activity area of trade promotion. Commercial diplomats may have to tackle too many different technical activity areas such as Intellectual Property and Tourism. Therefore, diplomats risk losing focus on their core business. It is recommended to reconfirm trade promotion as the core business instead of overwhelming commercial diplomats with other technical areas such as Research & Development and Science & Technology. The question also arises to what extent the heavy advisory role is still recommendable while private business firms provide services that could partially replace this function.

Many of Naray's findings are supported by Prahastuti Maharani's country study (Chapter 9) on the role of Indonesian Trade Attachés and International Trade Promotion Centers. She uses a multimethod approach that consists of a benchmark analysis against Thailand and Malaysia, a standard gravity panel model, document analysis and background interviews with Indonesian trade representatives in Australia, Indonesia and the Netherlands. Maharani finds positive and significant effects on export. In contrast to the literature, the presence of an embassy and/or consulate in the host country is not significantly correlated to bilateral trade flows. Economic diplomacy is important for building a good country image and to promote an emerging market as a reliable trading partner with high-quality export products. Economic diplomacy, however, is not a panacea as Maharani clarifies while discussing challenges such as lacking exporter preparedness, substandard logistic infrastructure and budgets that remain below those of neighboring countries.

Phil Compernolle and Mark Vancauteren (Chapter 10) capture the role of economic diplomacy on the basis of a novel construct that weights each embassy with regards to its attention to economic diplomacy and investigate to what extent Dutch economic diplomacy explains trade with Latin America. Compernolle and Vancauteren employ a constructed firm-level dataset that links international trade with firm-level characteristics for the period 2006–11 and also include firms that made use of economic diplomacy, but did not subsequently trade with Latin America. Their results suggest that economic diplomacy in the form of information services and trade missions has a significant and positive impact on firm-level exports to Latin America. Their results remain robust when they take into account the role of endogeneity, zero trade flows, unobserved firm-level heterogeneity and country-specific destinations.

1.4.3 Impact (Benefits), Cost and Cost-benefit Analysis

Some of the previously mentioned chapters (in particular Chapters 4, 5, 7, 9 and 10) provide evidence that indicates that a necessary condition for effective economic diplomacy is being met. Impact on trade and investment is, however, not a sufficient condition and therefore a cost-benefit analysis is necessary (van Biesebroeck et al. 2016; see also Hoekman and Javoricik 2004). Part II further investigates this issue by presenting two best practice chapters on impact analysis for macroeconomic models (Chapter 11) and microeconomic models (Chapter 12) before bringing in (Chapter 13) the actual costs of economic diplomacy (and the necessary investment in information) into the research picture. The final chapter in this part provides a cost-benefit analysis of an economic diplomacy instrument based on impact and cost studies.

Selwyn Moons and Remco de Boer (Chapter 11) add to the existing literature by providing the first comprehensive analysis that takes into account different forms of diplomatic representation, the complexity of the traded products and the effect of diplomatic representations on the formation of bilateral trade relations (as opposed to expanding trade volumes). This chapter sheds light on the effect of different sorts of diplomatic activity on trade using an applied gravity model with developed and developing countries to assess the effect of economic diplomacy on exports. They find clear differences between diplomatic representations, with embassies having a stronger effect than other forms of representation. Furthermore, there are strong differences between product groups, with economic diplomacy – as expected – being more effective for more complex goods. These results hold both for forming trade relations as well as expanding the volume of trade.

Arjan Lejour (Chapter 12) discusses and compares various ways in which firms can overcome export barriers through analysing a micro data panel of 16,500 Dutch exporters for the years 2003–07. The effects appear to be export market, sector and firm specific. Lejour analyses a stepping stone strategy for discovering new export markets and economic diplomacy instruments, for example, trade missions and trade posts. A stepping stone strategy seems particularly effective for approaching markets close to existing export markets. The presence of trade posts and trade missions for particularly middle income countries stimulate the entry to new markets by 0.05–0.15 percentage points. Trade posts do not seem to be effective in developed markets. Although government diplomacy could make the difference between exporting and not exporting to a country, the firm characteristics are much more important including size, productivity, export experience and stepping stone markets.

Filippo Vergara Caffarelli and Giovanni Veronese (Chapter 13) analyse the (costs of the) public systems supporting firms' internationalization in Italy, France, Germany and the UK. They review the economic motivations underlying public intervention and the available empirical evidence, analysing the structure of National Promotional Systems in 2012. The major difficulties of their cross-country comparison lie in different institutional arrangements and degrees of transparency. These problems are circumvented using a common methodology for all countries and drawing from all publicly available information, websites and official reports they could find, as well as direct contacts with national and regional authorities. While public financial resources in the four countries are roughly similar, after controlling for the size of the economy and exports the German system stands out as the one with lowest expenditure. The UK ranks first in terms of transparency.

Chapter 14 evaluates the social welfare effects of economic diplomacy. Michiel de Nooij, Marcel van den Berg and Henri de Groot present a social cost-benefit analysis of Dutch economic missions (Head of State and Ministerial levels) estimating its annual net present value at over €100 million. Central in their analysis is the welfare notion that extra exports only increase welfare to the extent that exporting companies are, on average, more productive than non-exporters. The economic benefits of economic missions are more difficult to quantify than the costs. Suggested avenues for further research include the quantification of the impact of missions on exports and foreign direct investment (FDI), and the productivity premium of exporters and the learning effect, especially for new exporters that require government support.

1.4.4 Conflicts and Diplomacy

Diplomacy is not only a force for the good. Cooperation and conflict are both essential characteristics for the relationships between countries. It is therefore useful to bring issues such as soft power, the Liberal Peace (i.e., the theory that trade can help to reduce war; see Chapter 16 by Syed Mansoob Murshed) and economic sanctions into the equation.

Andrew Rose (Chapter 15) examines the trade effect of soft power (global influence considered to be admirable by other countries) using a standard gravity model of bilateral exports, a panel of data for 1998–2013, and an annual survey conducted for the BBC by GlobeScan which asks people in up to 46 countries about whether each of up to 17 countries were perceived to have 'a mainly positive or negative influence in the world'. Holding other things constant, a country's exports are significantly higher if it is perceived by the importer to be exerting more positive global influence. This effect does not vary much across time, but does across countries. In particular, the exports of Israel and North Korea are more, and the US and Russia are less affected by soft power. This stands in comparison to the non-effect of sanctions on trade.

Syed Mansoob Murshed (Chapter 16) starts by connecting the theory of liberal peace to the notion of economic diplomacy and then relates the greater economic globalization outcome of economic diplomacy, and its counterpart liberal peace objective, to the incidence and nature of domestic conflict (note that this issue is taken up in the empirical analyses in Chapters 20 and 21). Building on a game theoretic model of interaction between the State and a dissident group over the degree of globalization, Murshed explains why civil war has become the dominant form of war (mainly in developing countries). Other forms of social conflict and unrest short of war are emerging, especially in the wake of the growing global tide of rising inequality and relative deprivation since the current phase of globalization gathered pace. This process is also reflected in voting in democratic countries, for example, the referendum in favor of Brexit in 2016.

Sajjad Dizaji (Chapter 17) considers Iran's reorientation of trade towards new trading partners over the different sanctions episodes during 2000–14. A standard gravity model is used to investigate the impacts of limited US sanctions as well as extensive US-European

Union-United Nations sanctions on Iran's bilateral trade, exports and imports showing that Iran has changed its trading partners from European Union (EU) and OECD countries towards new partners in East Asia and the Middle East and North Africa. Moreover, although the limited US sanctions had already increased Iran's trade with third countries the extensive sanctions still impacted on Iran's total trade, exports and imports. The recent changes in Iran's political behavior in dealing with world powers on its nuclear program have mitigated the strong impacts of multilateral sanctions on its trade flows, exports and imports.

Focusing on China, Andreas Fuchs (Chapter 18) reviews the literature on the linkages between the bilateral political climate, economic diplomacy and international trade. Research on the determinants and effects of China's economic diplomacy is still in its infancy but is expected to gain in importance with China's ongoing rise in the global economy. The existing scholarly work suggests that the state of bilateral political relations plays an important role for trade with China. Since research suggests that political tensions adversely affect diplomatic activities between countries and that diplomatic exchanges promote trade, economic diplomacy is a likely channel linking the bilateral political climate to trade. Foreign governments' positions on Taiwan and Tibet, for example, can determine the geography of state visits, the network of embassies and bilateral trade volumes. This chapter proceeds with a discussion as to why economic diplomacy should be more pivotal in economic exchange with China than with Western market economies.

1.4.5 The Emerging Global South

Kishan S. Rana (Chapter 19) develops a non-OECD perspective on economic diplomacy. Developing states face difficulty in moving up the value chain in their efforts to reach world markets. With underdeveloped domestic economic institutions and infrastructure, they have to depend on their diplomatic machinery to provide support to business enterprises, chambers of commerce and other economic agents, who do not have the needed international connections, or the resources to hire consultants or advisors. For these countries, access and utilization of foreign aid is also conditioned by these factors. How this becomes an inhibiting factor in their economic development is, according to Kishan S. Rana, understudied; rich states have moved much further, possessing their own internal and external institutions which sustain autonomous links with foreign counterparts. What are the stages that developing countries must traverse in their journey? How can they mobilize promotion methods, and also build their own institutions? How can these countries improve their aid management, in their dealings with donor institutions and countries?

Sylvanus Kwaku Afesorgbor (Chapter 20) focuses on South-South trade, in particular the impact of economic diplomacy on exports among African states. He tests whether there is evidence of a trade-off or complementary interaction between regional integration and commercial diplomacy in trade facilitation. He compares the effects of these two instruments of economic diplomacy on bilateral trade by employing a gravity model for 45 African states over the period 1980–2005. The results show that bilateral diplomatic exchange is a relatively more significant determinant of bilateral exports among African states compared to regional integration. Afesorgbor also finds a nuanced interaction between these two instruments of economic diplomacy: the trade–stimulating effect of diplomatic exchange is less pronounced among African countries that already share membership of a regional bloc. Generally, this could mean that there exists a trade-off between regional integration and commercial diplomacy in facilitating exports or a lack of complementarity between these two instruments of economic diplomacy.

Hugo Lapeyronie, Mathilde Maurel and Bogdan Meunier (Chapter 21) analyse for 2005–12 how a set of slow-moving determinants affect trade between the EU, on the one hand, and Central and Eastern European and African countries, on the other hand. They focus on two sets of determinants, Doing Business institutions and logistical infrastructure, as well as embassies and Ambassadors. Trade is disentangled for three types of goods: primary goods, parts and components, and capital goods. They show the beneficial effects of soft and hard infrastructure, compare the latter with the benefit of opening an embassy, compute the extra trade of a move towards better trade facilitation and Doing Business indicators and find that a huge part of the missing bilateral trade fixed effect of North African countries is accounted for by soft and hard infrastructure, and that diplomatic activity is also a powerful driver of regional integration.

Arjan de Haan and Ward Warmerdam (Chapter 22) describe China's development aid and analyse the economic and diplomatic determinants of the evolution of the Chinese aid system that may offer an alternative to the OECD's approach as codified by its Development Assistance Committee.[13] China's modern form of aid is a combination of project aid, grants and loans, debt relief (but not budget support), humanitarian aid, human resource development and technical assistance. There are a growing number of Chinese initiatives, including its aid program in Africa. De Haan and Warmerdam discuss the impact of changing global economics on China's foreign aid, the way it is used as its 'soft power', and how China contributes to the United Nations and Sustainable Development Goals, while it has gradually enhanced its position in international finance. They show how these issues are important to help understand the impact of Chinese aid in economic diplomacy and the way China's aid is embedded in its broader political and economic international relations.

1.4.6 Research Agenda

Based on suggestions for further research in the preceding chapters and an extended analysis of recent developments in the field, the final chapter by Peter van Bergeijk, Selwyn Moons and Christian Volpe Martincus puts the growing importance of bilateral economic diplomacy research in the context of the trend towards deglobalization. The chapter develops and discusses the academic agenda for bilateral economic diplomacy research pointing out the need to broaden the scope of existing research and exploring the agenda of microeconomic economic diplomacy research. Finally, the chapter focuses on the potential for economic diplomacy to reduce trade uncertainty and vulnerability to trade shocks.

1.5 ECONOMIC DIPLOMACY IN FLUX

Trade policy uncertainty as reflected in the America First movement and Brexit is an important feature of the current international context. In the context of increasing nationalism and the loss of autonomy regarding the setting of trade policies, two different strategies are on the rise. At one extreme we see the UK Brexit experiment that amounts to regional disintegration reclaiming autonomy (incidentally creating significant internal problems for a United Kingdom with regions possibly wanting to reclaim independence in order to join the EU). In a practical sense, Brexit will clearly be a stimulus for British economic diplomacy at the bilateral level (DFID 2017; Mendez-Parra et al. 2017) mirroring the reduction of bilateral representation in times of important regional integration activities (as discussed by Afesegbor in Chapter 20 of this Handbook). Some of the 'natural experiments' in trade policy, moreover, will inspire research on ending, designing and (re-)entering international economic relations and the role that economic diplomacy can play in these processes. At the other extreme, we see the recognition of member states of highly integrated economic and political unions that they can only make a difference for their constituents (a) in situations where they can stimulate bilateral economic activities by breeding trust, by exchanging and co-creating knowledge and information; and (b) by interventions for specific firms that are confronted with discriminatory policies or interpretations of internationally agreed rules and regulations. Here the EU with a common trade policy comes directly to mind as an example. EU member states have all increased bilateral activities with non-member states to take advantage of the little policy space that is still left. Both strategies, interestingly, imply a reorientation towards bilateral economic and political relationships.

The current geopolitical and geo-economic context is further complicated by the fact that the role of the US seems to be shifting away from benign hegemony at a moment in time when China shows its ambition to play an increasing international role, which complicates the provision of global public goods (Kindleberger 1986; Kaul et al. 2003; van Bergeijk 2013; see Song et al. 2017 for an overview of recent geopolitical studies), including the multilateral trade and payment systems and the relevant global institutions. There is more at stake than the grumbling of former world powers that always accompanies the advent of a new (potential) hegemon. Regional economic integration initiatives have been cancelled or put into question ('open for renegotiation') creating uncertainty and breaching the trust that is essential for engaging in international activities.

We hope that this Handbook is helpful as a basis for evidence-based policy making in this quickly shifting arena and a source of inspiration and a palette of best practices and available datasets.

NOTES

1. In the same vein 'business diplomacy' appears to be used, see the 2014 special issue of *The Hague Journal of Diplomacy*, in particular Kesteleyn et al. (2014).
2. Note that many soft factors such as culture and institutions also play a role in negative economic interaction. Driscoll et al. (2010) show the importance of cultural factors for both the choice to use economic sanctions and the outcome of economic sanctions. See Burlone (2002) on institutional efficiency and sanction impact.

3. Naray and Bezençon (2017) report a similar pattern for the management literature on commercial diplomacy.
4. The figure also uses Moons (2012, 2017) who provides a traditional review of the margins of trade literature. The margins of trade analysis of economic diplomacy starts only in the 2000s (when the trade literature in general starts to pay attention to the extensive and intensive margin).
5. See also Chollet et al. (2017) for a recent evaluation and Bratersky et al. (2016) for a dissenting view on the level of Russia-US trade.
6. Robustness of the key stylized finding is also strengthened by the fact that studies disaggregate 'global' findings by means of regional and country studies. Sometimes at the subnational level (see, e.g., Rioux Quimet 2015).
7. Inefficiency of economic diplomacy is an important issue and in particular this can be due to a lack of coordination (as discussed by Maharani in Chapter 9 of this Handbook). An early study by Secchi (1985, p. 88) identifies lack of coordination regarding customs procedures, delays due to inefficient decision-making processes, red tape and so on that can increase trade costs by as much as 7 percent of export value.
8. For example, see Sainsbury (2016) on Australia.
9. At yet another level, individual competencies and experience of diplomats may be important; see Chapter 8 by Naray in this Handbook and Ruel and Zuidema (2012). Similarly, business characteristics and strategies are important items to consider. See Chapter 3 by van Gorp in this Handbook and Olena (2017).
10. This finding is in line with the literature of trade facilitation in general; see, for example, Feenstra and Hong (2014).
11. Modern macroeconomic analyses also take the analysis of extensive and intensive margins on board (see, e.g., Chapter 11 by Moons and de Boer).
12. All contributed chapters have been peer-reviewed.
13. See also Fulton (2017).

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