

**UNIVERSITEIT TWENTE.**

# **Research on Commercial Diplomacy: Review and Implications**



**MASTER THESIS**

**University of Twente**

**Faculty of Management and Governance**

Business Administration

International Management

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**July, 2012**

# **Research on commercial diplomacy:**

## **Review and Implications**

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## **Executive Summary**

### Research on Commercial Diplomacy: Review and implications

Shifting boundaries, developments in trading systems and technological change request for an increasingly active attitude of governments to attract Foreign Direct Investment (FDI) and encourage companies to enter foreign markets. Under the rubric of commercial diplomacy this thesis reviews existing conceptual and empirical work to develop a future research agenda on such business-government collaboration. First, based on various definitions we demarcate the concept of commercial diplomacy and build an initial framework in order to integrate topics discussed so far in the literature into one holistic model. Next, we identified 44 articles and analyze the specific topics examined, theories used, methods employed, levels of analysis, and the empirical findings. The review reveals an increasing but still limited body of research at the interface of the fields of International Relations (IR) and International Management (IM). We found a number of empirical studies, but most of the work was conceptual. Remarkably were especially the number and diversity of the topics examined: research on commercial diplomacy is still in its infancy due to a body of literature that is strongly limited by the patchiness of the topics covered. In order to stimulate further research within both disciplines, the last chapter aims at elucidating the added value of IM research on the topic at hand.

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## Preface

Dear reader,

The master thesis at hand marks the end of my Master of Science in Business Administration program at the University of Twente in Enschede, the Netherlands. Prior to this program (in 2010), I finished a three-year Bachelor of Science program in Public Administration - European Studies at the same university. This combination of study fields and my interest and enthusiasm for both disciplines is the reason I chose “commercial diplomacy” as a topic for my thesis.

Thanks to Dr. Huub Ruël, who introduced me to the topic, I embarked on a journey to find out “what has been done” and “what needs to be done” concerning research in the field of commercial diplomacy. The topic appealed to me for its nature at the edges of International Relations and International Management, for its world-wide scope and applicability, and the fact that it is still a new and vibrant topic.

Most of my research was conducted during a five-month internship at the European Chamber of Commerce of the Philippines, in Manila, Philippines. Thanks to Mr. Alba, the business development manager, I was given the chance to engage in the work of the Chamber of Commerce and get to know a country and culture of great diversity, challenges, and immense natural beauty. My gratitude also goes to Mr. Ruël who was very engaged during this time, guiding me very flexibly through the stages of my project via diverse channels of modern communication.

I would also like to thank both my supervisors, Mr. Ruël and Mr. Ehrenhard for being very supportive when I came up with the plan to extend my thesis defense for five months in order to do an additional internship at the Ministry of Foreign Affairs in The Hague, Netherlands. Both of them continually inspired me with their enthusiasm for the topic at hand and I would like to thank them for their many excellent suggestions. Finally I am very grateful for the support of my family and friends. I sincerely enjoyed writing my Master thesis and I hope to be able to continue doing research in the field.

Enschede, July 2012,

Shirin Reuvers

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## List of Abbreviations

CD	Commercial Diplomacy
ECCP	European Chamber of Commerce of the Philippines
ED	Economic Diplomacy
EPO	Export Promotion Organization
EU	European Union
FDI	Foreign Direct Investment
IM	International Management
IMF	International Monetary Fund
IPE	International Political Economy
IPR	Intellectual Property Rights
IR	International Relations
JCR	Journal Citation Report
JIBS	Journal of International Business Studies
OECD	Organization for Economic Co-operation and Development
SME	Small and Medium-sized Enterprise
TDO	Trade Promotion Organization
US	United States
WTO	World Trade Organization



## 1. Introduction

At least since Friedman published his book “The World is Flat” in 2005, globalization and its increasing consequences for the global economy became a popular subject for discussion among academics. Globalization, a term describing the phenomenon of increasing connectivity and interdependency of the world’s countries, markets, businesses, and individuals (Scholte, 2000) brings along the flattening of level playing fields (Friedman, 2005). Within this flattened and thus increasingly competitive global market place, international management research is a “relevant source of knowledge for understanding business phenomena” (Pisani, 2009: 202). One of the most important international management topics, according to Pisani (2009), is *Internationalization*. The internationalization of businesses has consequently attracted much interest and research has been conducted from different perspectives. However, not only companies, also governments and even supranational institutions, such as the European Union, face new challenges arising from the elimination of the traditional boundaries of the geopolitical and economic world map. International trade can be beneficial for both, companies and governments. However, there are still many barriers to internationalization, which need to be overcome in order to enable positive spill-over’s, such as job creation, tax revenue increase, economic and political integration.

An increasingly important way to overcome these barriers and to support businesses in the internationalization process is the use of diplomatic relations abroad. In contemporary times, a change in the practice of diplomacy towards more commercial activities can consequently be observed (Kostecki & Naray, 2007). According to Lee and Hudson (2004: 348), “commercial activities of diplomatic services have been centralized, [...] extended, and business interests have been formally integrated within diplomatic systems”. Commercial diplomacy thereby has become a foreign policy priority of many governments. Commercial diplomatic activities aim at “encouraging business development” (Naray, 2010a: 131), “the development of socially beneficial international business ventures” (Kostecki & Naray, 2007: 28), and “national economic development” (Saner and Yiu, 2003: 34).

For the purposes of this thesis commercial diplomacy is defined as the use of diplomatic means to support commercial activities between countries aiming at a national competitive advantage, including export, investment, and technological transfer promotion. Whereas

commercial diplomacy seems to become more and more important, the body of literature on the subject is rather limited, as discussed in Kostecki and Naray (2007). It “fails to identify, explain and understand [...] the increased influence of private interests in diplomacy” (Lee & Hudson, 2004:348), which is of growing interest to companies.

There is no single theory on commercial or economic diplomacy, due to the fact that most theories make significant simplifications, such as regarding state governments as unitary actors with stable preferences. However, a unification approach is unacceptable, since commercial diplomacy is concerned with the interaction of international and domestic factors and economic and political concerns (Bayne & Woolcock, 2007: 5), which are often quite diverse. However, an analytical framework of the topic as presented later in this thesis will enable generalizations on the nature of commercial and economic diplomacy.

The purpose of this thesis is therefore to systematically review the existing literature and identify future research opportunities that enhance our understanding of commercial diplomacy. As a consequence the research question for the article presented below is to distinguish “what has been done” from “what needs to be done” concerning research on commercial diplomacy. The article seeks to contribute to the literature by identifying literature gaps and by providing a future research agenda. This goes hand in hand with its practical significance, since future empirical findings will lead to useful recommendations for practitioners of commercial diplomacy.

The literature often distinguishes between commercial and economic diplomacy. In the following article commercial diplomacy is defined as the use of diplomatic means to support commercial activities, such as export and foreign direct investment promotion, pursued with means and resources available to the home country aiming at economic stability, home country welfare and a national competitive advantage. The above-mentioned definition includes characteristics of economic diplomacy. Even though we are aware of a theoretical difference, we decided to combine elements of commercial and economic diplomacy in our definition since in practice both terms are often used interchangeably.

Within the literature review, the identified literature is grouped based on an input-throughput-output (conversion) model, thereby focusing on the examined topics. A conversion model was chosen since we define commercial diplomacy as an activity pursued by the government

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(input) via several channels (throughput) aiming at benefits for the business community and the state (output) in a specific environment (context). The model enables us to identify the shapers, drivers, actions, context and benefits of commercial diplomacy.

The Journal of International Business Studies is our publication channel of first choice. As a consequence a short description of the journal itself, as well as the title page and the letter to the editor, John Cantwell, is attached to this report.

The research was mostly executed in the Philippines, while doing an internship at the European Chamber of Commerce of the Philippines in Manila. A short description of the work of the European Chamber and a recommendation letter are also included in this thesis and precede the article.

In the last chapter of this thesis we intend to give an initial impetus to conduct more research on commercial diplomacy within the international management discipline. We therefore define commercial diplomacy as a subject of study, focusing on the economic issue at hand and present a number of important theories within the discipline, which demonstrate the significance of IM research on the topic.

## **2. Journal of International Business Studies**

The Journal of International Business Studies describes itself as “the official publication of the Academy of International Business, publishing papers of significant interest that contribute to the theoretical basis of business and management studies” (JIBS, 2011). Accordingly to the latest Journal Citation Report (JCR), released by Thomson Reuters in 2010, JIBS has an impact factor of 4,184 and is thus the 3rd most influential Business journal and the 8th most influential Management journal ranked in the JCR. The Editor in Chief is John Cantwell from Rutgers University, the Deputy Editor is Mary Yoko Brannen from INSEAD and the Managing Editor is Anne Hoekman from Michigan State University. Last but not least the Reviewing Editor is Alvaro Cuervo-Cazurra from Northeastern University. So far, two articles related to commercial diplomacy have been published in the journal (Kotabe & Czinkota, 1992 and Wilkinson & Brouthers, 2000b).

The Journal was chosen in order to stress the importance of commercial diplomacy as an international business topic as opposed to an international relations related subject. In addition, the high impact factor and its high ranking in the Financial Times Top 40 Journals make it an attractive publication medium.

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### 3. Letter to the Editor

Dear Mr. Cantwell,

Enclosed you find our paper, entitled “Research on Commercial Diplomacy: Review and Implications”. Please accept it as a candidate for publication in the Journal of International Business Studies. The study reviews the concepts and components of commercial diplomacy in the literature and presents an overview of the current state of research. Reviewing more than 40 articles, it reveals an increasing but still limited body of research at the borders of the fields of International Relations and International Management. Based on a simple input-throughput-output model it summarizes the current state of literature and develops a future research agenda on such business-government collaboration.

The subject of the paper fits within the area of “Business/Government Interaction and Relations” and relates to two earlier articles concerning commercial diplomacy published in your journal:

- Kotabe, M., & Czinkota, M. R. (1992). State government promotion of manufacturing exports: A gap analysis. *JIBS*, 23(4), 637-658 and
- Wilkinson, T. J., & Brouthers, L. E. (2000b). Trade shows, trade missions and state governments: increasing FDI and high-tech exports. *JIBS*, 31(4), 725-734.

So far, commercial diplomacy has been a focus of international relations related journals, thereby ignoring the fact that the subject is at the border of both disciplines and therefore of great interest for business related journals as well. The necessity of such a literature review lies in the patchiness of the topics covered in the literature so far. Most articles focus on rather specific subtopics, thereby isolating the examined topic from other aspects of commercial diplomacy. A thorough overview consequently allows capturing the state of knowledge and examining future research topics. This study is the first that collects, structures and analyses the examined topics and reports on the gaps in the literature. We are convinced the contribution of this study warrants its publication in the Journal of International Business Studies. Finally, this paper is our original unpublished work and it has not been submitted to any other journal for reviews.

Sincerely,

Shirin Reuvers

Huub Ruël

Michel Ehrenhard

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#### 4. European Chamber of Commerce of the Philippines



The European Chamber of Commerce of the Philippines (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of business services and by creating linkages between companies, organizations and individuals with existing or potential business interests in Europe and the Philippines. The ECCP is a membership organization with more than 750 membership companies. ECCP makes its members' viewpoint heard on economic and business issues, legislative measures and administrative regulations; it identifies business opportunities and facilitates business contacts. The Chamber is also a valuable resource organization for business, company and product information. Philippine companies are assisted in technologies, products or services and to expand their exports. The ECCP acts as the secretariat of the Asia-Europe Foundation of the Philippines ([www.asef.org](http://www.asef.org)).

To whom it may concern,

December 19, 2011

I would like inform you, that Ms. Shirin Reuvers, has performed exceptional well while rendering her internship with the Business Development unit of the European Chamber of Commerce in the Philippines (ECCP) from September 15 to December 23, 2011.

During her internship she was to gather relevant information requested by European companies exploring to do business in the Philippines. Specifically, she researched about government tariff regulations, articles on investment opportunities in area of medical tourism, assisted in finding suitable distributors or agents for European companies to cite a few.

Ms. Reuvers has exemplified her resourcefulness and efficiency in performing challenging research tasks. She possesses the ideal work attitude expected in goal oriented work environment.

For whatever it is worth, Ms. Reuvers is a valuable asset in whatever company she works for.

Sincerely,

Mr. Alfonso C. Alba (Assistant Manager for Business Development)

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## 5. The Article

# **Title of the manuscript: Research on Commercial Diplomacy: Review and Implications**

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## 5.1 Abstract

Commercial diplomacy is an important tool for countries to support their business community abroad in an on-going process of globalization and technological improvements. Nevertheless, commercial diplomacy literature is still in its infancy. This paper reviews existing research and develops a framework, which integrates the topics examined so far and provides the reader with a future research agenda on commercial diplomacy. First, based on existing definitions we demarcated the concept of commercial diplomacy and built a framework in order to integrate topics discussed so far in the literature into one holistic model. Next, we identified 44 articles and analyze the specific topics examined, theories used, methods employed, levels of analysis, and the empirical findings. The review reveals an increasing but still limited body of research at the interface of the fields of International Relations (IR) and International Management (IM). We found a number of empirical studies, but most of the work was conceptual. Remarkably were especially the number and diversity of the topics examined. The current body of literature is strongly limited by the patchiness of the topics covered. Therefore we conclude that more studies with an international business and/or political-economic approach need to be conducted and we call for more multi-level research, including studies focusing on companies and supra-national institutions as levels of analysis. Future studies need to focus on the systematic framework presented, which will allow governments to adapt and reorganize existing commercial diplomatic structures and increase efficiency and effectiveness on the basis of theoretical conclusions.

## 5.2 Introduction

Both companies and governments face enormous challenges arising from the diminishing importance of the traditional national borders due to globalization (Friedman, 2005; Pisani, 2009; Scholte, 2000), technological change and developments in trading systems. In a more globalized world, trade patterns and the variety of trade partners change. Trade barriers on the other hand often remain in place or even increase. An increasingly important means to overcome these barriers and to support businesses in the internationalization process is the use of diplomatic relations. Governments have a major interest in supporting business abroad as it often leads to domestic job creation, tax revenue increase, and a stable economy (Naray, 2010). As a consequence, a change in the current practice of diplomacy towards more commercial activities can be observed (Kostecki & Naray, 2007). According to Lee and



Hudson (2004: 343), “commercial activities of diplomatic services have been centralized, [...] extended, and business interests have been formally integrated within diplomatic systems”. Commercial diplomacy has thereby become a foreign policy priority of many governments. Activities within the field of commercial diplomacy aim at: “encouraging business development” (Naray, 2010a: 122), “the development of socially beneficial international business ventures” (Kostecki & Naray, 2007: 1), and “national economic development” (Saner & Yiu, 2003: 1). In this paper such activities will be labeled ‘commercial diplomatic relations. While the commercial aspect seems to be increasingly important in diplomatic practice, the body of literature on the subject is still rather limited, as discussed by Kostecki and Naray (2007). The literature “fails to identify, explain and understand [...] the increased influence of private interests in diplomacy” (Lee & Hudson, 2004: 344) and hardly draws a complete picture of all its aspects.

The purpose of this paper is therefore to systematically review the existing literature and identify future research opportunities that will enhance our understanding of the topic. The identified literature was grouped according to an input-throughput-output (conversion) model based on the examined topics and by the theoretical perspective, methodology, and level of analysis employed. The aim of this review is to integrate topics already elaborated on in the literature, into one coherent model. The literature was investigated and classified according to three different disciplinary perspectives: International Relations, Economy (Political Economy), and International Business. Finally, the content and findings of the studies were examined based on our commercial diplomacy framework and a future research agenda is proposed.

### 5.3 Review methodology

An in-depth literature review was conducted with the aim to evaluate and critically synthesize previous research on the subject of commercial diplomacy. Our review investigated the theoretical background and perspective of the papers, their methodology and findings. The overall aim was to distinguish “what has been done” from “what needs to be done” (see Research Agenda). Relevant variables were identified and a more complete overview of the subtopics of commercial diplomacy created. Our additional objectives included identifying relationships between previous studies and understanding the nature of commercial

diplomacy. A detailed explanation of our research methodology and how the identified literature was categorized, prioritized, and analytically processed, follows.

When scanning the body of literature, we included all possible publications covering commercial diplomacy. However, since the initial sample of papers was rather limited ( $n = 13$ ), we added the terms *economic diplomacy*, *government trade*, and *export promotion* to the search parameters in subsequent steps to broaden its scope (see appendix 1: Search Parameters for more details). To increase our sample of articles even further, additional key words and search terms were identified based on initial readings. The number and variety of key words consequently increased. We queried several databases with a total of 20 key words (see appendix 2: key words) and combinations of them. In addition, we made use of back referencing, thereby identifying additional articles based on the reference lists of other articles. In total, 44 relevant studies were identified.

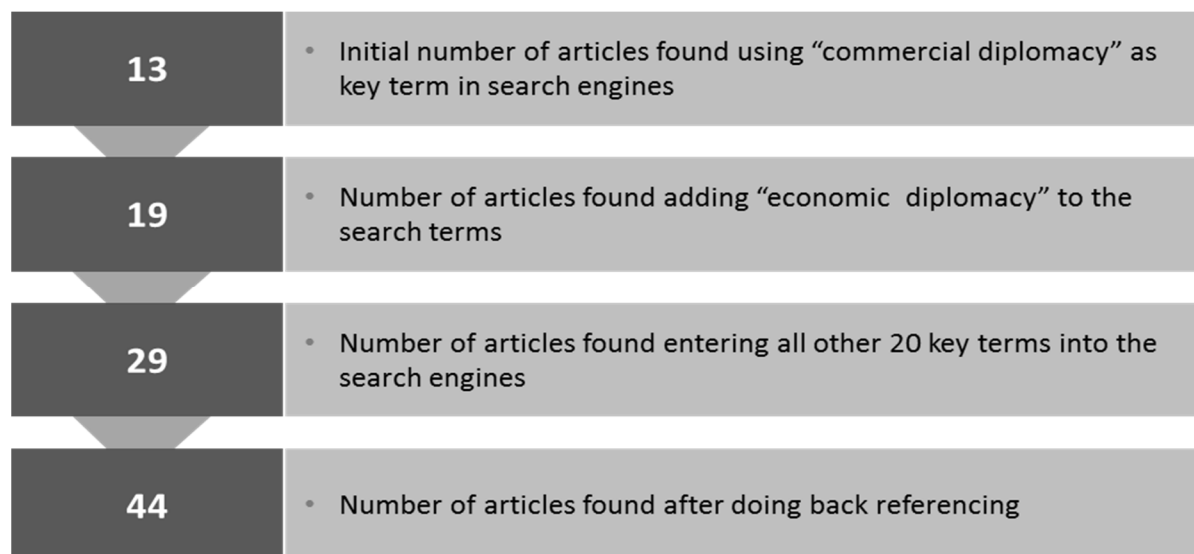


Figure 1: Numbers of articles identified

The recent publication dates (58% of all articles are published after 2004; 88% of all articles are published after 1999) support our initial statement that commercial diplomacy is a topic for which there is increasing academic interest.

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<b>Year of publication</b>	<b>Number of publications</b>
1992-1999	5
2000-2003	10
2004-2007	15
2008-2011	14

Table 1: Number of publications per period

After reading all 44 articles a framework for commercial diplomacy was produced on basis of which the findings and topics discussed in the articles were structured. In order to work accurately and clearly, a concept-matrix was created.

<b>Article, Publication date</b>	<b>Definition</b>	<b>Level of analysis</b>	<b>Methodology</b>	<b>Disciplinary perspective</b>	<b>Conclusion</b>
Coolsaet, R. (2004)					
Czinkota, M. (2002)					

Table 2: Concept matrix

## 5.4 Review

Having described the method we used to produce the database, we shall proceed by defining the topic on the basis of the articles found and present and explain the framework we created to structure the subtopics of commercial diplomacy.

### 5.4.1 Definition of commercial diplomacy

In the literature the concepts of economic and commercial diplomacy are often used interchangeably. Definitions of both concepts vary, and consequently the relationship between them is also described in different ways. Some authors argue that commercial diplomacy is a part of economic diplomacy (Okano-Heijmans & Ruël, 2011). It is certain, however, that both kinds of diplomacy are “irrevocably intertwined” (Potter, 2004: 55) and thus “distinct [but] obviously closely related” (Berridge, 2001: 128). Since the definitions of commercial and economic diplomacy used in the identified literature vary significantly and since in practice there is not much of a differentiation between the two, we will solely use `commercial

diplomacy' as an umbrella term for both – economic and commercial diplomacy – in this paper. We shall first discuss both definitions briefly and then present a conclusive definition, which will be used in the remainder of this paper.

In a rather broad sense, economic diplomacy is defined as diplomacy where diplomatic means are used to achieve economic and foreign policy goals (Haan, 2010; Okano-Heijmans, 2008). In addition economic diplomacy “seeks to secure the nation’s interests [and] to serve economic interests through diplomatic means” (Muller 2002: 1). “The use of international political tools to obtain economic objectives and [economic diplomacy] as such has actually existed ever since ancient civilizations have engaged themselves in commerce and trade” (Coolsaet, 2004: 61). As a consequence, economic diplomacy is “the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage, it has bilateral, regional and multilateral dimensions, each of which is important” (Rana, 2007: 1).

Commercial diplomacy, on the other hand, emphasizes the government’s role, being defined as “government service to the business community [and the state], which aims at the development of socially beneficial international business ventures” (Naray, 2010a). It is “the work of diplomatic missions in support of the home country’s business and finance sectors” and “includes the promotion of inward and outward investment, as well as trade” (Ozdem, 2009: 8). Commercial diplomacy consequently includes “all aspects of business support and promotion (trade, investment, tourism, science, and technology, protection of intellectual property)” (Naray, 2010b: 8). Lee (2004: 51) additionally mentions the role of the private sector by defining commercial diplomacy as “the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes”.

The definition we will use in this paper includes economic and commercial diplomatic aspects and is phrased as follows: Commercial diplomacy is the use of diplomatic means to support commercial activities, such as export and foreign direct investment promotion. It is pursued with resources available to the home country, aiming at outputs such as economic stability, home country welfare and a national competitive advantage. Countries thereby target one or several foreign countries on a bilateral or multilateral basis. Commercial diplomacy functions as an umbrella term, including nation branding and participation in multilateral meetings,

such as those of the WTO, and rewarding and sanctioning other countries in order to achieve foreign policy objectives.

#### 5.4.2 Framework

Matching the above-mentioned definition and based on insights from previous conceptual work, we created a general framework in order to structure the relevant topics. A straightforward input-throughput-output (conversion) model was chosen and applied to the topic. We chose a conversion model as we define commercial diplomacy as an activity pursued by the government (input) via several channels (throughput) aiming at benefits for the business community and the state (output) in a certain environment (context). The model enables us to identify the shapers, drivers, actions, context and benefits of commercial diplomacy. In addition, we differentiate between three levels: the national policy, the organizational and the individual level. The four constructs and their indicators on each level will be discussed below.

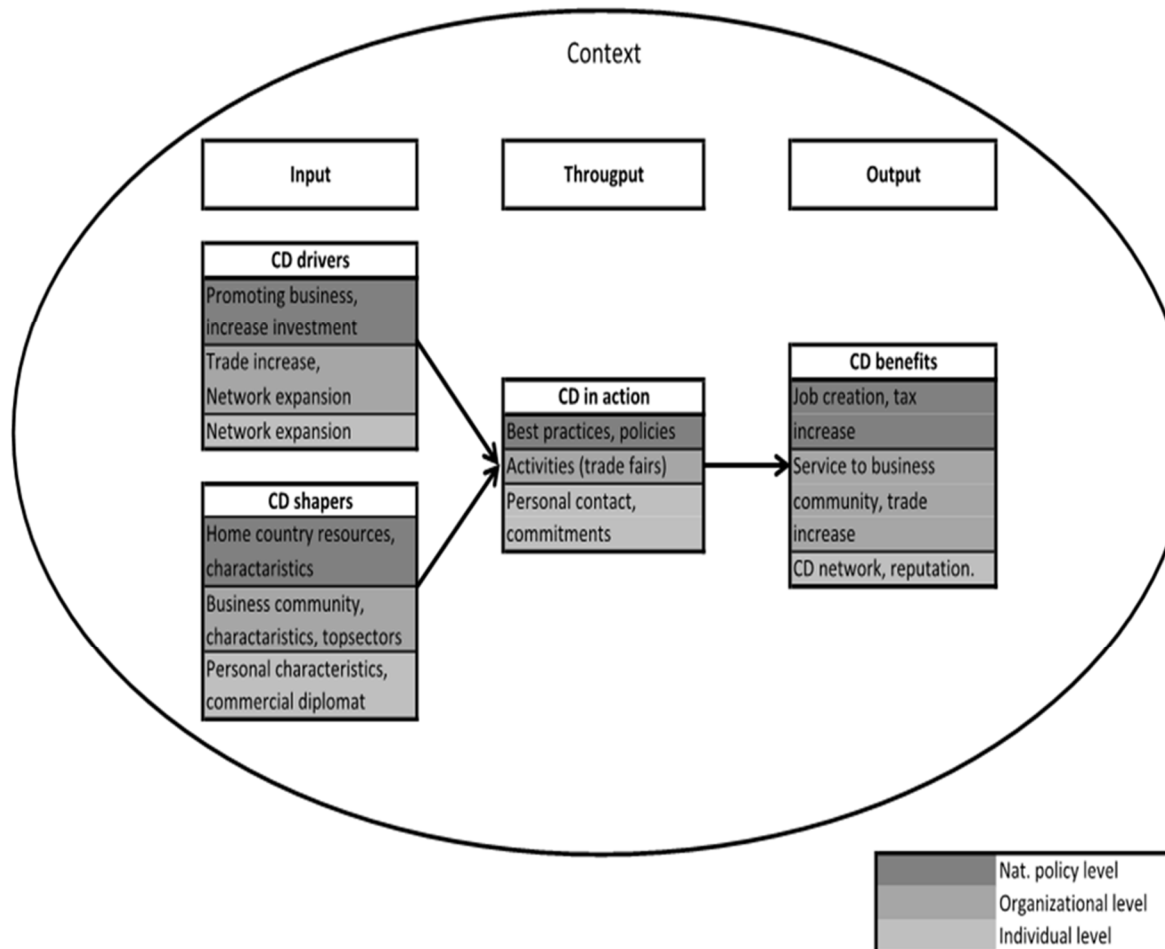


Figure 2: Literature framework input-throughput-output (conversion) model (commercial diplomacy)

*Commercial diplomacy input- drivers and shapers*

As input to commercial diplomacy we define drivers, i.e. the objectives and rationales behind investments in commercial diplomacy, and shapers, i.e. the resources of the home country and the organization devoted to commercial diplomatic activities and the personal characteristics of the commercial diplomat.

Drivers to pursue commercial diplomacy, as discussed in the literature, include the prospect of increasing trade, arranging a level playing field for companies (or even a national competitive advantage), increasing employment and internal revenue in the country, increasing business intelligence and network possibilities, and strategic and political concerns at the national policy and the organizational level. In addition, arguments about why commercial diplomacy should be conducted by the state and not by private entities are presented in the literature (Heemskerk, 2010; Henrikson, 2006; Hibbert, 1998; Kostecki & Naray, 2007; Naray, 2010a; Ozdem, 2009; Rose, 2005; Wilkinson & Brouthers, 2000b). At the individual level, personal network expansion and reputation building are the most important driving forces.

The identified literature also provides several shapers of commercial diplomacy, including home country resources and characteristics at the national policy level, business community characteristics and the identified top sectors at the organizational level, and the personal characteristics of the diplomat at the individual level. The latter covers the background, education and skills of the diplomatic actor in charge. While research on home country resources and on commercial diplomatic actors is rather well established (Coolsaet, 2004; Henrikson, 2005; Kelly, 2000; Lee & Hudson, 2004; Mercier, 2007; Morrow, Siverson, & Tabares, 1998; Muller, 2002; Ozdem, 2009; Potter, 2004; Rana, 2007; Sherman & Eliasson, 2006, 2007; Sridharan, 2002; Van Dooremalen & Quaedvlieg, 2010; Yang et al., 2008), studies on the personal characteristics of the state representative in diplomatic function are rather scarce (Hocking, 2004; Saner & Sondergaard, 2000) and only recently addressed by Naray (2010b). In addition, there are certain home and host country characteristics that shape the context for commercial diplomacy. Home country characteristics include the national government structures and the influence of public and private actors on commercial diplomacy within the country (Coolsaet, 2004; Henrikson, 2005; Kelly, 2000; Lee & Hudson, 2004; Mercier, 2007; Morrow et al., 1998; Muller, 2002; Ozdem, 2009; Potter, 2004; Rana, 2007; Sherman & Eliasson, 2006, 2007; Sridharan, 2002; Van Dooremalen & Quaedvlieg,

2010; Yang et al., 2008). Host country characteristics include the level of economic and political development and the diplomatic ties between the home and the host country (Morrow et al., 1998; Okano-Heijmans, 2008; Okano-Heijmans & Ruël, 2011; Van Bergeijk, Veenstra & Yakop, 2010; Van Bergijk, 1992; Yakop & Bergeijk, 2009).

### Commercial diplomacy throughput

Throughput indicators refer to the transformation process of inputs into outputs, that is to say commercial diplomacy in action. This includes activities and practices such as trade fairs and other export promotion activities, and interactions between the home and the host countries, such as state visits, information markets and meetings. Many authors discuss such activities at the organizational level, some include a list of possible activities, and others evaluate specific activities separately (Czinkota, 2002; Haan, 2010; Herbst, 1996; Kotabe & Czinkota, 1992; Lee & Hudson, 2004; Mercier, 2007; Naray, 2010a; Nitsch, 2005; Sridharan, 2002; Van Dooremalen & Quaedvlieg, 2010; Wilkinson & Brouthers, 2000b). Table 3 shows a list of the possible activities discussed in the literature.

<b>Network activities</b>	<b>Intelligence</b>	<b>Image campaigns</b>	<b>Support business</b>
Developing business and government contacts	Gathering/ Disseminating commercial information	Promoting goods and services	In negotiations; contract implementation and problem-solving
State visits/ delegation	Market research	Participating in trade fairs, introducing potential exporters	Gathering export marketing data
Buyer-seller meetings	Reporting to home country	Sensitizing potential foreign investors	Supervision of violations of IPRs and contracts
Match-making	Consultant to both countries	Gathering export marketing data	Advocacy activities
Search for partners/distributors/ investors/ lawyers	Image studies, joint scientific research	Tourism promotion activities	Coordination of legal actions
Personal network of commercial diplomat		Awareness campaigns	

Table 3: Possible activities within commercial diplomacy

Along with these activities, best practices and policies are part of the commercial diplomacy throughput at the national policy level, as are the personal contacts and commitment of the commercial diplomat at the individual level. However, so far no research concerning those indicators has been published.

#### Commercial diplomacy output

The output of commercial diplomacy, i.e. the results and benefits at the national policy level, can be differentiated into three kinds: economic benefits (Czinkota, 2002; Nitsch, 2005; Rose, 2005; Yakop & Bergeijk, 2009), political benefits (Haan, 2010; Neumayer, 2007; Okano-Heijmans & Ruël, 2011), and nation branding (Potter, 2004; Yang et al., 2008). Economic benefits include wealth and knowledge creation and an increase in international trade. Political benefits include developmental aid (Haan, 2010; Okano-Heijmans, 2008), economic means to pursue political goals and the global pattern of diplomatic representation. Nation branding has a positive effect on both economics and politics (Potter, 2004). In their study, Yang et al. (2008) demonstrate a measurement for country reputation and examine its effect by means of a single country study. Commercial diplomacy creates benefits for the business community (organizational level) and the commercial diplomat himself / herself by increasing his / her network and positive reputation (individual level).

#### Commercial diplomacy context

Commercial diplomacy is highly influenced by external forces or what we call its context. Many articles describe phenomena, such as globalization, that influence commercial diplomacy externally. In this paper they will be referred to as factors in the commercial diplomacy context. These factors may facilitate or constrain commercial diplomacy. The relevant influences of the diplomatic environment, such as increasing use and improvements in technology and a growing influence of developing countries, are mostly discussed in more recent studies (Haan, 2010; Henrikson, 2005; Kostecki & Naray, 2007; Lee, 2004; Lee & Hudson, 2004; Muller, 2002; Potter, 2004; Saner & Yiu, 2003; Sherman & Eliasson, 2007; Van Dooremalen & Quaedvlieg, 2010).



## 5.5 Findings

### 5.5.1 Disciplinary perspectives

Within the research on commercial diplomacy, a variation in the chosen disciplinary approaches is found. Naray (2010a) identifies three different approaches: international relations and diplomacy; the political economy of commercial diplomacy; and the international trade promotion/international marketing approach. Lee and Hudson (2004) only differentiate between international relations/diplomacy-related studies and those with a background in political economy. In this study, we use both disciplines mentioned by Lee & Hudson, adding international business as a third, which includes the research topics discussed and findings on the promotion of trade and investment from the point of view of businesses.

#### International relations

International relations is the most visible discipline in the literature. However, literature with this disciplinary approach is still limited (Lee & Hudson, 2004). Many authors, such as Coolsaet (2004), Dooremalen and Quadvlieg (2010), Heemskerk (2010), Herbst (1996), Lee (2004), Mercier (2007), Morrow et al. (1998), Muller (2002), Neumayer (2008), Nitsch (2005), Rana (2007), Sherman and Eliason (2006), Stringer (2007), Van Bergeijk et al. (2010), and even Naray (2008 & 2010), use the international relations perspective to look at all commercial aspects within the broader sense of diplomacy between governments. According to Lee and Hudson's meta-analysis (2004: 360), literature based on an international relation perspective uses a "predominantly rationalist approach to diplomacy, an approach that is based largely on a statist reading of international relations". While many authors argue that this view is of great importance because commercial diplomacy is often integrated in the Foreign Service and vital for the national interest, Lee and Hudson (2004: 360) criticize that "much of the diplomatic studies literature is unable to perceive, let alone analyze, the commercial elements of diplomacy".

#### The political economy

According to Lee and Hudson (2004: 359) the "political economy approach to diplomacy has a double advantage - it adds to the theoretical and empirical utility of diplomatic studies as well as international political economy". Literature with a political economy approach discusses the funding of commercial diplomatic activities (Hocking, 2004; Lee & Hudson,

2004; Ozdem, 2009; Sherman & Eliasson, 2006; Wilkinson & Brouthers, 2000a, 2000b; Wright, 2000; Yakop & Bergeijk, 2009), presenting a number of fundamental arguments in favor of and against funding by the government, thereby discussing the involvement of private actors. Publications in the field of (political) economy especially stress the influence of economics on diplomacy, thereby focusing on effectiveness and efficiency aspects (Naray, 2010a). Lee and Hudson (2004: 360), for example “adopt a political economy approach that integrates market relations with political relations and thus conceptualizes diplomacy as a continuous political-economic dialogue”.

### International business

Articles within the international business perspective discuss the promotion of trade and investment “from the point of view of international business firms and countries’ promotional efforts” (Naray, 2010a: 128). Commercial diplomatic activities, such as foreign direct investment (FDI), export and trade promotion, are most often researched from an international business perspective and are quite common in the literature (Czinkota, 2002; Haan, 2010; Hibbert, 1998; Kelly, 2000; Kotabe & Czinkota, 1992; Nitsch, 2005; Potter, 2004; Rose, 2005; Saner & Yiu, 2003; Yakop & Bergeijk, 2009; Yang et al., 2008; Yannopoulos, 2010). Naray (2004: 128) stresses the importance of those studies “with regard to trade representation, possible business models, institutional arrangements and country comparisons, even though quantifying the influence of commercial diplomacy remains very difficult”.

### **5.5.2 Methodological approaches**

Of all identified articles, 59% are empirical studies and 41% make use of a conceptual approach. Of the empirical studies, eleven articles are case studies (42%), five articles make use of a survey/questionnaire (19%), and five employ established data and a gravity model to analyze trade flows (19%). The rest of the studies can be considered meta-analyses (20%). However, the identified studies do not always state their methodologies clearly. Mixed-methods research occurs rather incidentally without a clear description and/or justification.

### Levels of analysis

The studies identified obviously refer to one or more level(s) of analysis. However, level issues are often not specified, and mixed-level studies seem to occur rather coincidentally or at least with no clear announcement of explicit multi-level research. In a nutshell, the current

research in commercial diplomacy generally demonstrates a low degree of clarity of level. Though there are studies that refer to several levels, multi-level studies are rather scarce. The levels identified are presented in Table 4.

Levels of analysis found	Number of times	Percentage
Countries	13	29.5 %
Individual actors	11	25 %
Concept diplomacy	8	18.1 %
Activities	6	13.6 %
Companies	5	11.3 %
Literature	1	0.22 %

Table 4: Levels of analysis

## 5.6 The commercial diplomacy framework – topics and findings

In order to systemize the rather scattered picture of the topics covered and the related findings, the following review draws on the proposed framework (Figure 3) and provides an overview of the current state of the literature on commercial diplomacy.

Studies aiming to provide a complete picture of commercial diplomacy and to incorporate the drivers, shapers, context, and benefits of both forms of diplomacy are rather rare. Most studies focus on subtopics of the framework that are often rather specific, thereby isolating the topic from other aspects of commercial diplomacy, as discussed above.

The model differentiates between three different levels: the national policy, the organizational, and the individual level. We consequently include indicators for the input, throughput, and output of commercial diplomacy for all three levels based on what can be found in the literature. Overall, we can conclude that most research is done at the national policy level and only a few at the organizational and individual levels. In fact, only Naray (2010a; 2010b) and Kostecki and Naray (2007) focus on the individual level of the commercial diplomat.

### 5.6.1 Commercial diplomacy input

As mentioned before, commercial diplomacy input can be divided into drivers and shapers. While drivers cover the rationales for countries to invest in commercial diplomacy, shapers include home country resources and the personal characteristics of the commercial diplomat.

More straightforward objectives for governments at the national policy level to promote business include creating jobs and increasing tax revenue and foreign direct investment and economic growth (Kotabe & Czinkota, 1992; Van Bergeijk, Veenstra, & Yakop, 2010; Wilkinson & Brouthers, 2000b), thereby maintaining country competitiveness (Lee & Hudson, 2004). In addition, Kostecki and Naray (2007) mention that commercial diplomacy may be used as an instrument of government policy. Strategic concerns and nation branding (improving or shaping the country's image) may play a role as well (Potter, 2004; Yang et al., 2008).

At the organizational level, objectives for enterprises include reducing the risk of entering a foreign market, improving economies of scale, growth, support in conflict situations, and access to decision-makers through the support of government delegations (Kostecki & Naray, 2007; Nitsch, 2005; Saner & Sondergaard, 2000; Wilkinson & Brouthers, 2000a; Yannopoulos, 2010). Commercial diplomacy drivers at the individual level are not discussed in depth in the literature. They include personal network expansion and reputation building.

In addition to the above-mentioned objectives at the national policy level, the literature also discusses other rationales for governments to invest in commercial diplomacy, i.e. why business interests abroad should be promoted by the public administration instead of private companies or vice versa. One of the arguments is that embassies can gather intelligence rather easily through their broad networks and influential role in the host country community (Kostecki & Naray, 2007). Diplomats also have immunity, which encourages risk-taking intelligence activities. Kostecki and Naray (2007) argue that diplomats attract more attention due to their visibility in the mass media. As a consequence, stage promotion events can be organized at a relatively low cost (*ibid*). Diplomatic actors' positions additionally function as access gates to important decision-makers in the host country and come with a high level of credibility (*ibid*). Another rationale is the fact that economies of scale and scope can be achieved by centralizing support and diminishing the costs of the promotion effort.

The amount of resources assigned to commercial diplomatic activities varies based on national policies and priorities. According to Naray (2010b: 8), governments “invest considerable amounts financed by public contributions” with the aim of supporting home country companies. This also includes investing time, e.g. by the commercial diplomat or ambassador himself. Rana (2004) concludes in his research that 60% of the work of the French and German ambassadors concerns economic promotional efforts. Kostecki and Naray (2007: 12) conducted a study on the “allocation of commercial diplomat time between various business-support activities”, differentiating between activities in the field of trade fairs, promotion of FDIs, government relations, business intelligence and partner search, support in business negotiations and disputes, and tourism, which all belong to commercial diplomacy. The authors also studied the number of commercial diplomats working abroad and the local professional staff assisting them for twelve developed countries (Kostecki & Naray, 2007: 6). In addition to the government, the private sector and semi-public entities are also involved in commercial diplomatic activities, according to Mercier (2007). Not only time investments, but also factors such as “offering attractive working conditions [...] material conditions [and the] length of employment contract” play a role (Naray, 2010a: 146). Neumayer (2008) adds the costs of setting up and maintaining diplomatic representations, and the fact that opening up a representation in one country may imply losing representation in another. In his study, he concludes that the “global pattern of diplomatic representation is significantly determined by geographical distance between countries, the power of both sending and recipient countries and by the degree of their ideological affinity” (Neumayer, 2008: 228), calling for these aspects to be considered in the academic discussion. Another important factor of the inputs of a country is the degree of participation in multilateral meetings, through which countries may significantly increase their worldwide influence (Muller, 2002).

Concerning the home country, Mercier (2007) identifies three different structural aspects of its governmental system on commercial diplomacy: 1) whether the structure is mainly public, private, or a mixture; 2) the level of government; and 3) the number of departments and ministries involved. Naray (2010a) elaborates on the differences between national commercial diplomacy systems in terms of their organizational and institutional arrangements. Based on those differences and earlier research (Hibbert, 1998), he distinguishes six types of

arrangements<sup>1</sup> according to criteria such as the Trade Promotion Organization's (TDO) relative independence from ministries, its position in the trade-promotion structure, and the responsible ministry. Ozdem (2009) conducted a case study on the issue (in three developed countries), thereby identifying two different structures: the unified ministries approach and the two separate ministries approach. Lee and Hudson (2004) concluded in their study that governments are currently making the effort to reorganize their diplomatic systems so that commercial activities are more centralized and extended. Mercier (2007) and Rana (2007) also speak of a 'public-private partnership tendency'. In this context, Sherman and Eliasson (2006) analyze the US and EU petition process for private-public partnerships and what they call the 'privatization of commercial diplomacy'.

Regarding the government level, Stringer (2007) argues for more honorary consuls as commercial diplomatic actors due to the increasing importance of local areas and regions. Also, Saner and Yiu (2003: 5) state that the "decentralization of power to provincial government [also means] that these regional levels take [...] a more active role in pursuing commercial diplomacy".

Along with the home country resources, such as time and financial investments, and the policies employed, the actors engaged in commercial diplomacy also shape its outcomes. In the literature, a wide spectrum of actors has been identified, including at the high-policy level, i.e. the head of state, prime ministers, ambassadors, ministers and members of the parliament; the lower level of diplomatic envoy, such as trade representatives, commercial attachés, and commercial diplomats; and actors of government-sponsored organizations, including trade promotion organizations and investment promotion agencies (Kostecki & Naray, 2007). Ozdem (2009) identifies the following commercial diplomatic actors: the Foreign Ministry, the Ministry of Foreign Trade, and the Ministry of Finance, the Treasury, and specialist export and investment promotion agencies. Rana, on the basis of his worldwide study of the structures of foreign affairs and external economic management, adds business schools,

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<sup>1</sup> The Corporatist type (independent trade-promotion structures); the Pragmatist type (coordination mechanisms); the Northern Europe type; the Commonwealth type (combination of foreign affairs and trade); the Classical type (trade promotion as part of trade policy and Ministry of Trade); and the Developing Country type (trade promotion in the Ministry of Foreign Affairs)

academics, think tanks, the tourism industry, media, and a host of domestic actors “that are both stakeholders and prime movers” (Rana, 2007: 3) to the list.

While the above-mentioned studies focus on the different actors in commercial diplomacy, Kostecki and Naray (2007) and Naray (2010a; 2010b) investigate the individual level, that is to say the personal characteristics of the state representative in diplomatic function. Recently, Naray (2010b) published an empirical study on the successfulness of certain working styles of a commercial diplomat. In his research, he differentiates between the business promoter, civil servant, and generalist styles (Kostecki & Naray, 2007; Naray, 2010a). He argues that “ideally a new [commercial diplomat] recruit’s profile ought to combine strengths in international experience and business, preferably in senior marketing and a solid understanding of involved institutions” (Naray, 2010b: 9). Suggestions about a return of the commercial diplomat to the private sector after a few years in diplomatic service are also mentioned, based on the idea of having a “natural access to international business and marketing issues while understanding the broader context of bilateral relationships” (ibid.) Lee (2004) and Mercier (2006) refer to this idea as ‘cross-fertilization’ (between the public and private sector). In this context, the personal network and commitment of the commercial diplomat is also of great importance. Naray (2010a) argues that two more basic elements seem to be crucial for the future commercial diplomat’s recruitment: business knowledge and experience.

Overall, there is a limited body of literature on home country resources. Furthermore, whereas the actors involved in commercial diplomacy are discussed more explicitly, Kostecki and Naray are almost the only scholars conducting research on the personal characteristics of the commercial diplomat. The biggest gap in the existing literature, however, concerns research on policy-making on commercial diplomacy at the national level.

### **5.6.2 Commercial diplomacy throughput: commercial diplomacy in action**

This section describes the current state of research on commercial diplomacy in action, thereby investigating commercial diplomacy activities and practices as well as interactions between home and host countries.

The literature on practices and activities is rather extensive, in comparison to all other sub-topics. According to Kostecki and Naray (2007), two types of activities are distinguished: primary ones (relating to trade and FDIs, research and technology, tourism and business



advocacy) and supporting ones (relating to the inputs needed for the primary activities: intelligence, networking, involvement in the 'made-in' image campaign, and support for business negotiations, contract implementation and problem-solving). Lee (2004) categorizes activities slightly different by allocating commercial diplomacy-related activities to three categories: gathering and disseminating commercial information and market research; developing business and government contacts; and promoting goods and new products in the host market. In his current research, Naray (2010a) included a matrix with all the activities of a commercial diplomat, thereby differentiating between the following five activity areas: promotion of trade in goods and services; protection of intellectual property rights (IPR); cooperation in science and technology; promotion of 'made-in' and corporate images; and promotion of FDI. Ozdem (2009), Mercier (2006), and Coolsaet (2004) also collected a very detailed list of commercial diplomatic activities. Mercier (2006) thereby stressed that export promotion activities and inward investment promotion activities should be considered together. However, Rana (2003: 5f) distinguishes between activities for export promotion, such as "market studies, visits by business delegations, participation in international trade fairs, and buyer-seller meetings" and activities mobilizing FDI, which he calls 'salesmanship' activities, such as "sensitizing potential foreign investors on the opportunities in the home country, [...and] targeting promotion". Kostecki & Naray (2007: 10) add *match-making* to the activities of commercial diplomats, stating that a few countries in particular devote significant resources to the process. Match-making is the process of finding suitable business partners for national companies and organizations.

Many other studies focus solely on one of the above-mentioned categories, or more specifically on one of the activities conducted by a commercial diplomat, as for example on the individual level. Herbst (1996) thereby mentions that a large part of a commercial diplomat's work consists of reporting from the host country to the home country. Potter (2004) reinforces this by stating that the trade commissioner functions as the home country's eyes and ears in the foreign market. Saner and Yiu (2003), on the other hand, studied the function of a commercial diplomat as a consultant to both domestic and foreign companies. At the organizational level, Yakop and Bergeijk (2009) follow up on this by presenting a list with relevant topics for which firms mainly need commercial diplomatic support. A number of other studies, including Czinkota (2002) and Yannopoulos (2010), focus solely on the promotion of exports as an activity of commercial diplomat and evaluate their performance



accordingly (Herbst, 1996; Hibbert, 1998; Nitsch, 2005; Wilkinson & Brouthers, 2000a; 2000b). In this context, Veenstra et al. (2010) conclude that export promotion agencies are mostly ineffective in their work, whereas Yannopoulos (2010) nuances this statement by arguing that export assistance programs cannot be viewed as being “equally useful” (Yannopoulos, 2010: 36) to all exporters.

An additional topic at the national policy level is policy-making itself. So far, only a few studies on commercial diplomacy policies have been published. This is mainly due to the fact that commercial diplomacy remains an unspoken part of diplomatic activities, or as Lee (2004: 344) puts it: commercial diplomacy is “present-but-invisible”. A few authors have approached the subject, including Muller (2002), who focuses on the policy shift of the South African government towards a universal model, which excluded hardly anyone from the commercial diplomacy efforts of the country. Van Bergeijk and Melissen (2010) also provide arguments in favor of more economic diplomacy policy, mainly based on the current changes in the global environment. Many other authors refer to a policy shift when studying the increased number and frequency of commercial diplomatic activities (Coolsaet, 2004; Lee, 2004; Muller, 2002; Potter, 2004; Rana, 2007; Saner & Sondergaard, 2000; Sridharan, 2002; Stringer, 2007). Some, such as Heemskerk (2010) and van Dooremalen and Quaadvlieg (2010), also elaborate on countries' policy choice to focus on certain sectors to bundle their commercial diplomatic efforts.

All countries use a number of commercial diplomatic instruments to pursue their national economic and foreign policy goals. Depending on the situation of the country and their economic or political partners, those instruments vary in strength and assertiveness. They include free-trade- and preferential-trade- agreements (on a bilateral or regional basis), agreements that tackle non-tariff obstacles, transportation agreements, and investment protection and facilitation accords (Okano-Heijmans, 2008; Rana, 2007; Sherman & Eliasson, 2007; Van Bergijk, 1992). Recent trends show that governments make use of “comprehensive economic cooperation accords” (Rana, 2007: 6) with their network of embassies and consulates.

In general, the literature on commercial diplomacy in action, i.e. its activities or practices, is rather well established in the body of literature investigated. However, the number of

evaluation studies still needs to be increased, making use of different levels of analysis, in order to provide applicable results.

### **5.6.3 Commercial diplomacy output: commercial diplomacy benefits**

The aim of commercial diplomacy is to benefit business enterprises as well as the government and society. In any case, it should be a value-creating activity since it is dealing with both managerial and governmental concerns (Kostecki & Naray, 2007; Potter, 2004).

Political benefits: According to a study by Kotabe and Czinkota (1992), commercial diplomacy creates jobs, increases tax revenue and stimulates economic growth. Another potential benefit, studied by Yan et al. (2008), is augmenting the positive reputation of a country, which means the “relative attractiveness of a country in the minds of foreign publics” (Yang et al, 2008: 422), which may stimulate trade patterns. Heemskerk (2010) also stresses the influence of commercial diplomacy on protectionism and free trade.

Economic benefits: Along with government benefits, Naray (2010b) also includes business beneficiaries. According to him, the purpose of commercial diplomat activities varies according to the size of the business firms. As a consequence, SMEs are usually supported in taking their first steps in a new foreign market, whereas larger firms use diplomatic channels to “gain advocacy support in international tenders [and] influence relevant policy-making and regulations in the host country” (Naray, 2010b: 8). Economic benefits in the form of an increase in exports was studied by Czinkota, who stated that exports shape the “public perception of the competitiveness of a nation and determine [...] the level of imports that a country can afford” (Czinkota, 2002: 315). Yakop and Bergeijk (2009) and Veenstra et al. (2010) conclude in their studies that commercial diplomacy is only effective when the home country is a high-income country and the host country a low- or middle-income country and that diplomatic representation via embassies or consulates “is not a relevant trade enhancing factor for trade within the OECD” (Yakop & van Bergeijk, 2009: 4).

In their research, Kostecki & Naray (2008) present the value-chain of commercial diplomacy, thereby stating that commercial diplomacy is a value-creating activity. Empirical evidence is provided by a number of authors (Nitsch, 2005; Rose, 2005; Saner & Yiu, 2003; Stringer, 2007; Yakop & Bergeijk, 2009) who argue for more input (diplomatic missions, etc.) in order to receive better and greater output (higher trade volume etc). Rose (2005: 13), for example,

states that “bilateral exports rise by approximately 6-10 % for each additional consulate abroad”. This is in line with the study of Veenstra et al. (2010), which concludes that a 10% increase in consulates and embassies can lead to a 0.5-0.9% larger trade flow. Heemskerk (2010) adds that according to estimates, economic diplomacy accounts for a growth in welfare of between 100 and 200 million euros a year. And Nitsch (2005) expresses the added value of commercial diplomacy by stating that international trade missions explain 6-10% of the trade volume worldwide.

Taken as a whole, there is a limited body of conceptual papers on the outcome of commercial diplomacy. There is a significant need for empirical studies, especially from a political economy perspective, researching the effectiveness of commercial diplomacy and its benefits for society.

#### **5.6.4 Commercial diplomacy context**

Several phenomena are discussed in the literature on commercial diplomacy, such as globalization. In addition, government characteristics, such as market size, bilateral history and current relation between the two countries, are aspects of the commercial diplomacy context.

Host country characteristics include the bilateral relations and its economic, cultural, legal and political situation. According to Rose (2005) and Kostecki and Naray (2007), the host country's market size and potential are the most significant determinants for investments in commercial diplomatic relations. Another factor of influence may be “the gravity center” (Kostecki & Naray, 2007: 13) or topsectors, implying that some regions/countries are very important markets for certain products. Other authors add decisive variables to the discussion, such as the legal environment of a country and its reliability, the possibility to obtain satisfaction in court, and the level of corruption. The efficiency of commercial diplomatic efforts therefore depends on the host country's business regime, cultural differences, and efficiency of governance (Kostecki & Naray, 2007; Yakop & Bergeijk, 2009). Foreign pressure based on ideological differences may prevent the establishment of diplomatic representation in the first place (Kostecki & Naray, 2007; Neumayer, 2007). In this respect, history, especially colonial ties (Yakop & Bergeijk, 2009), may influence diplomatic relations between countries and therefore also commercial diplomacy significantly. Okano-Heijmans (2008) therefore conducted an in-depth study on the economic and diplomatic relations

between Japan and China, focusing on the historic ties between the two countries. Other factors of importance include military alliances, the importance of possible aid programs and economic importance (Kostecki & Naray, 2007). Neumayer (2008: 229) studied why “some nation-states host many more foreign representations at home than others”. He concluded that three factors exert a strong influence on the representation pattern: distance, power, and ideology. Based on his argumentation, Kostecki & Naray studied the number of commercial diplomats by country of origin, estimating that “the total number of commercial diplomats across the world is no fewer than 20,000 and that the costs [...] exceed half a billion US dollars per year” (2007: 6). Yakop & Bergeijk (2009) supplemented the literature by doing research between different country groups according to different income and development levels, concluding that especially for less developed countries outside the OECD, economic relations are of great importance.

Along with the home and host country characteristics, worldwide phenomena are also commonly discussed in the literature. They include trends such as increasing internationalization and globalization (Kostecki & Naray, 2007; Muller, 2002; Potter, 2004; Saner & Yiu, 2003; Van Dooremalen & Quaadvlieg, 2010), encouraging more interdependencies between states, but especially between the political and economic sphere. Increasing use and improvement of technologies (Henrikson, 2005; Kostecki & Naray, 2007), but also phenomena such as the blurring of barriers, common threats such as terrorism (Potter, 2004), and an ever-stronger commercial influence play important roles (Van Dooremalen & Quaadvlieg, 2010). An often discussed topic is also the increased influence of developing countries (Haan, 2010; Saner & Yiu, 2003; Van Dooremalen & Quaadvlieg, 2010) and of private actors (Henrikson, 2005; Saner & Yiu, 2003; Sherman & Eliasson, 2007; Van Dooremalen & Quaadvlieg, 2010).

In general, research on the context of commercial diplomacy is of great importance since commercial diplomacy is conducted in an ever-changing environment. As a consequence, there is an urgent call for new studies on the influence of modern technology development and other globalization phenomena.

### 5.6.5 Findings

As stated before, most studies focus on rather specific subtopics of this framework, thereby isolating the elaborated topic from other aspects of the commercial diplomacy model. Studies

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aiming at the complete picture of commercial diplomacy are rather rare, even though authors such as Kostecki and Naray (2007) and Rana (2007) try to capture a broader picture of commercial diplomacy, thereby including aspects of the input, throughput and output of the model constructed in this paper. By employing a general and plain outline, the framework is supposed to present at least the basic issues of commercial diplomacy and should be refined for future work. Commercial diplomacy is a new and evolving field of research at the interface of the fields of International Relations (IR) and International Management (IM). Reviewing the initial body of literature and discussing a future research agenda, we would like to stimulate further debate and research on the topic of commercial diplomacy.

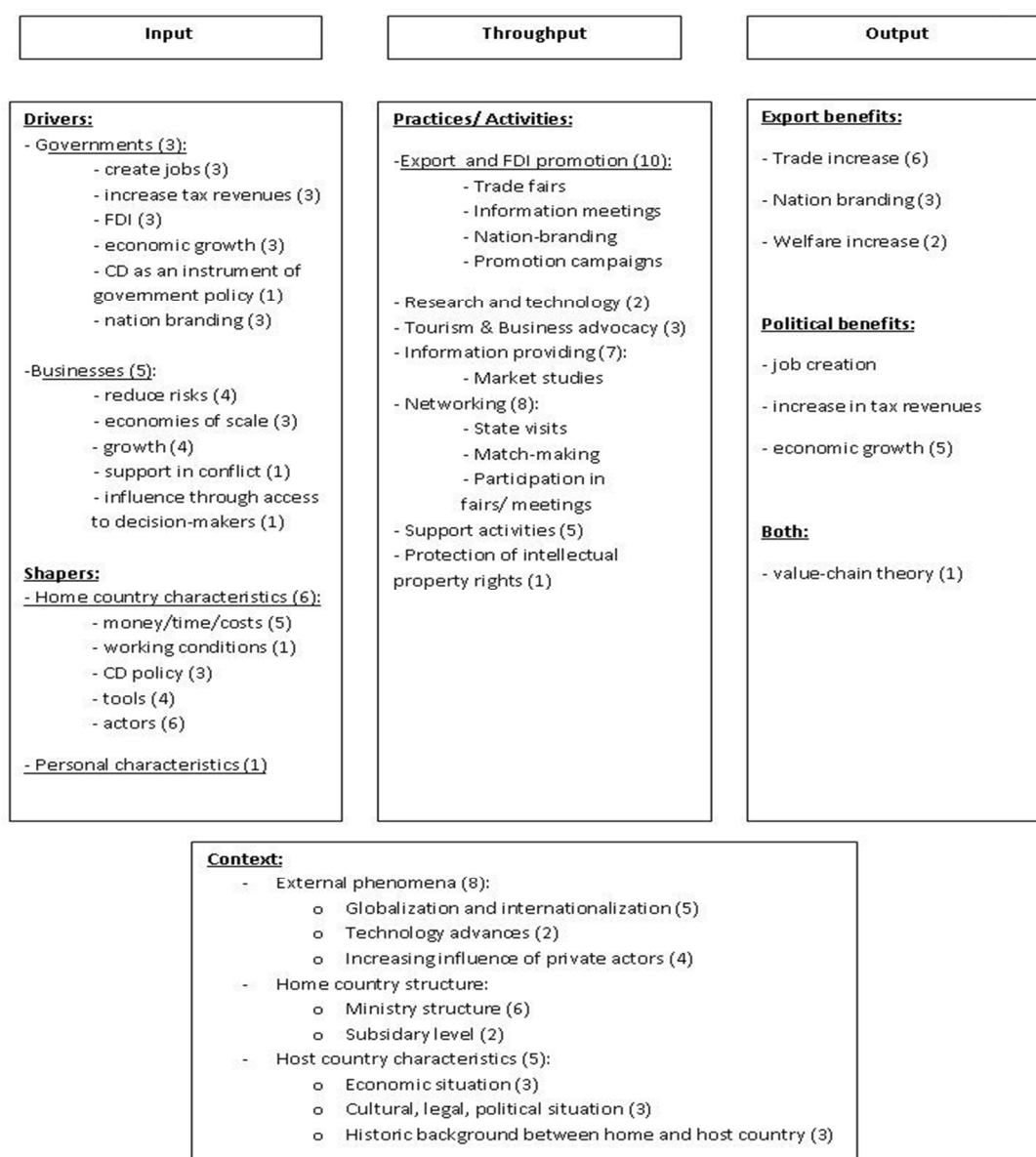


Figure 3: Indicators found in literature structured on basis of the presented framework including number of times discussed

#### **5.6.5.1 Practical implications**

As this critical literature review demonstrates, the relative importance of commercial diplomacy and its input, throughput and output is a topic of inquiry in the fields of international relations as much as in international management. Arguments for and against commercial diplomacy often depend on the perspective chosen. Presenting an overview of the current body of literature emphasizes the patchiness of the work and the need for a more complete picture of the topic to enable well-informed advice to be given to governments and involved organizations. Since commercial diplomacy forms an important part of governmental policy, recommendations should be based on a complete analysis of commercial diplomacy, including effectiveness and efficiency studies. The presented model informs the reader about the current state of research and encourages scientists to continue analyzing it.

#### **5.6.5.2 Limitations to the study**

There are a number of limitations to this paper. The review is restricted to studies published in international peer-reviewed journals. In addition, language restrictions limited the search to articles published in English, Dutch, and German. As a consequence, further research published in books, unpublished papers, or other languages may be available and could be added. The framework, designed to systematize the current body of literature on commercial diplomacy, is normative since it is not based on proper theoretical foundations. However, an appropriate theory for framing commercial diplomacy is lacking at present.

### **5.7 Commercial diplomacy research agenda**

This paper's proposed framework and conceptualizations give a useful overview of the current state of the literature on the topic of commercial diplomacy. In this section, we would like to outline a future research agenda. First of all, empirical research should be conducted on the key research topics to support the theoretical perspectives. It is of great importance to collect meaningful data and translate the findings of these studies into useful recommendations for practitioners, especially since the empirical literature on commercial diplomacy is still in its infancy. So far, we have produced some valuable insights into the nature of commercial diplomacy. The theoretical development of the literature needs to continue, however. Future research on the output, a number of factors and possible changes in the context of commercial diplomacy is needed, thereby making use of different disciplinary

perspectives and methodological approaches. The following section elaborates on these demands by discussing some initial implications concerning theoretical perspectives, methodological approaches, and levels of analysis. So far, research has mainly focused on commercial diplomacy in action. In this paper, however, we see the need of a shift of attention to other parts of the model, but especially towards obtaining a broader view on commercial diplomacy. This includes business studies and a more managerial approach. There is a constant need to update empirical findings and apply different approaches and perspectives.

### **5.7.1 Disciplinary perspectives**

Due to a predominantly international relations approach to diplomacy, commercial elements of diplomacy are often either neglected or not entirely comprehended by the literature. This is what Lee & Hudson (2004: 360) refer to when they speak of the “present-but-invisible” status of commercial diplomacy. Recently, some scholars have picked up the topic, but there is a need to increase the use of the international business and economic-political perspectives to gather more information on the effectiveness and efficiency of commercial diplomacy. Adopting these approaches enables the integration of market relations with political relations and consequently conceptualizes diplomacy as a “political-economic dialogue” (Lee & Hudson, 2004: 360). In addition, due to recent changes in the political environment, governments and nation-states should be investigated from a business rather than an international relations approach. Efficiency and cost-benefit analyses are vital tools for practical application in this case. A dialogue on public-private relationships within state structures, as currently employed by many International Political Economic (IPE) studies, is also of great use in the commercial diplomatic debate.

### **5.7.2 Methodological approaches**

Because commercial diplomacy is a developing field with diverse topics, methodological pluralism should be present. All of the empirical studies presented in this paper are cross-sectional, and only the conceptual case studies take historical relations between the home and the host country into account. Since commercial diplomacy is subject to change, longitudinal studies would help identify the direction of the transformation and may support strategic choices. A drawback of the studies identified is that most of them rely on single source respondents, nearly all being the commercial diplomats themselves. To increase the level of awareness, multiple respondents should be included. Most important is the necessity to



increase the number of empirical studies, thereby taking into account additional ways of data collection. Recent studies often lack description, explanation, and justification of the choice of methodology. Future studies should improve on this drawback by explicitly stating and justifying their methodological choices.

### 5.7.3 Level of analysis

Due to the fact that issues of level create particular problems when “the levels of topic, theory, data collection and/or analysis are incongruent” (Babbie, 2010: 386), future work should explicitly address them. Commercial diplomacy includes the micro- as well as the macro-level and there is consequently a necessity for more multi-level approaches, as applied by Kostecki and Naray. So far, most articles have employed case studies, i.e. they mostly used countries and individuals as their level of analysis, which is common for studies with international relations as a theoretical background. We call for more research on business firms as the level of analysis. In order to investigate the entirety of commercial diplomacy, multi-level research is needed, incorporating supranational institutions (EU, WTO, IMF, and more), the government level, public and private actors, and business firms. This paper contributes to the current state of research by focusing on the existing literature as the level of analysis.

### 5.7.4 Topics

Analyzing the existing literature as summarized in Figure 2, it becomes apparent that current studies mainly refer to specific subtopics of commercial diplomacy. One of their central limitations is their lack of an overview. In fact, we possess scientific knowledge of several parts of the above-presented framework, while there is only a hint of the complete picture. What we consequently need in order to advance the current state of the literature are three different kinds of studies: First, specific studies which address a new subset of the framework: its concepts and the relationship between them are needed to gain more in-depth information. Second, specific studies that address already examined subtopics of the framework in order to support prior findings by replication are vital. Third, there is a need for general studies that embrace several aspects simultaneously.

First of all, a better understanding of the output of commercial diplomatic activities should be created. There is a need to replicate and extend empirical studies, such as the ones by Rose (2005), Nitsch (2005) and Veenstra et al. (2010), making use of different methodological



approaches. The central question is whether the benefits of commercial diplomacy justify the burdens for the public, as Rose already points out. Mercier (2007) adds the possibility of recovering costs through charging fees to this discussion and raises the critical question about the nature of companies that should be supported: those with headquarters in the home country or those that deliver the most added values to the home country. Studies focusing on the value of commercial diplomacy for the government (job creation, internal tax revenues, etc.) and for businesses (economies of scale and scope, economic growth, etc.) are needed to support the value-chain theory of commercial diplomacy as presented by Kostecki & Naray (2007) and answer those questions. Additional research should thus include the extent to which government and business objectives are met and their satisfaction achieved, thereby measuring the commercial diplomat's effectiveness. Follow-up studies lend robustness to prior findings and alleviate possible contradictions. In addition they may justify prior findings and the methodologies used and take reliability and validity measurements into account.

Along with a gap in the literature concerning the efficiency and effectiveness of commercial diplomacy, in-depth research is lacking on its context, i.e. on the external influences. An ever-changing environment demands new studies, which take into account the role of technological advances, the blurring of barriers, the development of e-government (Kostecki & Naray, 2008), and the increasing number of actors involved in commercial diplomacy. While a number of authors include some thoughts on these issues in their studies, empirical research will support their argumentation, as also claimed by Saner (2000).

Another topic yet to be investigated is how the tendency to centralize commercial diplomacy may be affected by the autonomy given to local and regional governments, and subsequently, how countries should deal with regional rivalries over FDI (Mercier, 2007; Rana, 2007). More research on how to overcome a lack of impetus, cultural differences and ineffective governance will be needed (Yakop et al., 2009), and aspects such as country reputation, relational and historical dimensions, and affinities between countries should be taken into account (Yang et al., 2008). The question of whether a best practice approach could be developed should be discussed in the literature, and factors that influence the success of commercial diplomacy should be pointed out (Mercier, 2007). Evaluation studies, such as the ones by Wilkinson & Brouters (2000b), could be of great use here.

### 5.7.5 Conclusion

All in all, we conclude that concerning the disciplinary perspectives, more studies with an international business and/or political-economic approach need to be conducted in order to receive a complete picture of commercial diplomacy, including the priorities of receivers of the diplomatic effort (businesses), and efficiency and effectiveness issues. Second, concerning the empirical methods, combining different ones enables the literature to present in-depth, reliable and generalizable findings. Third, issues of level should be solved by conducting more multi-level research, including studies focusing on companies and supra-national institutions as levels of analysis. Fourth, considering the patchiness of the current body of literature, future studies should focus more on the systematic framework presented in this study. And fifth, studies focusing on the individual level of commercial diplomacy, that is to say on the actors involved, should be conducted in order to increase the commitment of commercial diplomats. All this will allow governments to adapt and reorganize existing commercial diplomatic structures and increase efficiency and effectiveness on the basis of theoretical conclusions. A joint debate taking advantage of different methodological and theoretical approaches should yield insights for future research which will help to advance our understanding of commercial diplomacy.

## 6. Commercial Diplomacy at the interface of IR and IM

In order to stimulate further research, in particular within the international management discipline, the following chapter stresses the fact that commercial diplomacy can best be understood combining insights of the two fields: international management (IM) and international relations (IR). The chapter aims at elucidating our claim for more research on the topic of commercial diplomacy from an IM perspective. First we define the concept of commercial diplomacy and both theoretical disciplines: IR and IM. Afterwards we identify a number of important international management theories and models to demonstrate the influence of commercial diplomacy on the international management literature and vice versa.

For further use in this chapter, we will define commercial diplomacy not just as an activity, but also as a research topic. Commercial diplomacy then is concerned with international economic issues and defined, not by its instruments, but by the economic issues that provide its content. It consequently can best be perceived and understood by using insights from both international relations and international management. Both fields are important pillars of commercial diplomacy as a research subject (as demonstrated in Figure 4).

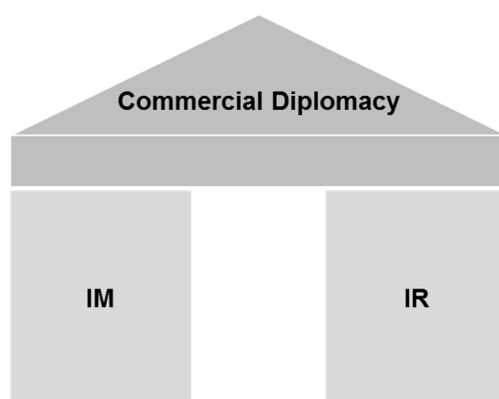


Figure 4: The two pillars of commercial diplomacy

The field of international relations studies the interactions among states and other political units in the international system. Areas of particular interest include diplomacy and diplomatic history, international law, international organizations, international finance and economics. Increased attention has been paid to developing a more scientific understanding of the international system as a whole (Pearson and Rochester, 1988).

The field of international management on the other hand is concerned with a changing environment, challenges and opportunities for businesses in a global market. International management is the management of business operations conducted in more than one country (Deresky, 1997). It is concerned with cross-border and cross-cultural management questions.

### **6.1 The added value of IM research on commercial diplomacy**

Combining insights from these two fields allows us to draw a holistic picture of CD. On the one hand, IR helps understanding CD as a process or activity between at least two countries. On the other hand, IM provides insights concerning the economic and organizational content at hand, especially when defining commercial diplomacy as the process of international, cross-border, economic decision-making. The literature has so far focused on CD from an IR perspective. Commercial diplomacy thereby is seen as a process of decision-making and negotiation (Kostecki & Naray, 2008; Lee & Hudson, 2004; Naray, 2007; 2010). In the international management field however commercial diplomacy has mostly been disregarded.

#### **6.1.1 Commercial diplomacy from the IM perspective**

According to Hodgetts and Luthans (1994), key factors in the international environment are the economic, legal-political and socio-cultural environment. In an unknown legal-political environment, businesses must deal with unfamiliar political systems, government supervision, laws and regulations. Commercial diplomacy is supposed to serve national economic interests by supporting companies to enter foreign markets. However, businesses need to be prepared to use these services. In addition, governments are still learning to efficiently use their commercial diplomacy resources, as defined in section 5.6.1. Research articles on efficiency and effectiveness (such as Rose, 2005; Nitsch, 2005) therefore are an important contribution to the body of literature on commercial diplomacy.

#### **6.1.2 IM categories**

Commercial diplomacy touches upon a number of categories within the international management literature as defined by Pisani (2009), which are presented in table 5.

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<b>Category Topics</b>	<b>Included</b>
1. Global business environment	Global economy, global markets, political and regulatory environments, and international risk
2. Internationalization	Description and measurement of internationalization, antecedents and consequences of internationalization
3. Entry mode decisions	Predictors of entry mode choices, predictors of international equity ownership levels, and consequences of entry mode decisions
4. International joint ventures (IJV)	International joint venture partner selection, IJV partner relations, and consequences of IJV
5. Foreign direct investment (FDI)	The timing of FDI, motivations of FDI, location of FDI, and firm and host country consequences of FDI
6. International exchange	International exchange, determinants of exporting, export intermediaries, and consequences of exporting
7. Transfer of knowledge	Antecedents of knowledge transfer, processes of knowledge transfer, and consequences of knowledge transfer
8. Strategic alliances and networks	Strategic alliance relationships, networks of strategic alliances, and outcomes of strategic alliances
9. Multinational enterprises	Multinational enterprise strategies and policies, models and descriptives of the multinational enterprise
10. Subsidiary–headquarters relations	Subsidiary role (including subsidiary strategies and typologies), subsidiary control, and subsidiary performance
11. Subsidiary and multinational	Subsidiary HRM practices, subsidiary behaviors, multinational team management negotiations, and multinational team management
12. Expatriate management	Expatriate human resource management, issues for expatriates, and expatriate and repatriate reactions

Table 5: Category topics in the field of international management (Pisani, 2009)

It often is a stepping stone for companies to act in the global business environment, to become international, to form international joint ventures, invest in foreign markets, and engage in international exchange and knowledge sharing. Its match-making activity may lead to strategic alliances and networks and supports multinational enterprises. In order to get a

holistic picture of commercial diplomacy, investigating the influence of commercial diplomatic activities on businesses and international management categories as summarized by Pisani (2009) is critical. In addition organizational issues concerning the governmental structures of both countries involved in the commercial diplomacy process need to be considered (Hibbert, 1998; Mercier, 2007; Ozdem, 2009). International management literature thereby is an essential contribution.

### 6.1.3 The role of the state - the diamond model

Especially in building multi-national cooperation's and taking the decision to internationalize, governments can play a decisive role. According to Porter (2001), governments can function as catalysts or challengers to businesses. Through commercial diplomacy they promote goals that lead to sustained investment, deregulate competition, enable companies to build alliances, and improve the nation's business environment diamond<sup>2</sup> (Porter, 2001).

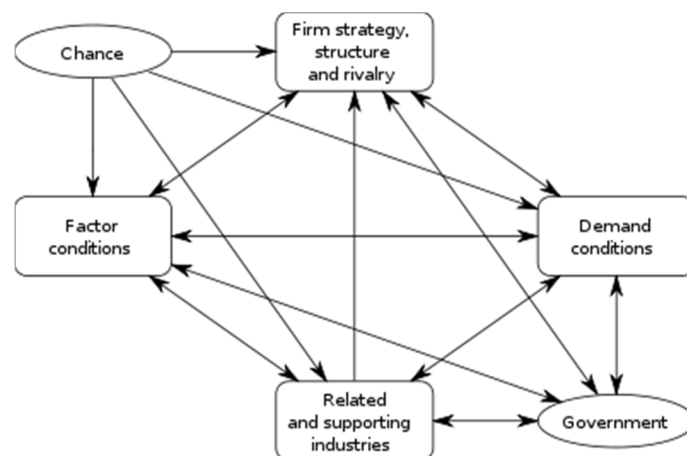


Figure 5: Diamond model

By means of commercial diplomacy governments can influence companies directly (e.g. trade missions) and indirectly (e.g. creating a level playing field through negotiation). Also the attraction of FDI plays an important role: it stimulates the home country's economic growth

<sup>2</sup> To stress the importance of the environment in which a company is active, Porter (2001) developed a 'diamond' model, including five factors influencing the success of a company. That is, 1) factor conditions, 2) demand conditions, 3) firm strategy, 4) structure and rivalry, related and supporting industries and 5) the role of government.

and employment and complements cooperation in science and technology (Kostecki & Naray, 2008). “Advocacy in favor of the national business community means the commercial diplomat’s involvement in public affairs for the benefit of national companies and business associations in their dealings with the host country government” (idem, p.11). As they argue this also means that the commercial diplomat reacts to proposals for regulations or trade agreements from the host country. Governments thereby touch upon a wide scope of economic issues including “policies relating to production, movement or exchange of goods, services, investments, money, information and their regulation” (Odell, 2000: 11).

#### 6.1.4 Value creating theory

The ultimate goal of commercial diplomatic activities is to create value for the business beneficiaries, but also to “fulfill social expectations concerning the relations between the home and the host countries” (Naray & Kostecki, 2008:2). Commercial diplomacy consequently is a value-creating activity, which means that benefits must be higher than costs. However, both concepts are difficult to measure in practice when it comes to diplomatic activities. Value creation, efficiency and effectiveness measurement, all three at the heart of international management, are essential for good usage of commercial diplomacy. Unfortunately, analysis of this kind can only be conducted on basis of an immense database, including data such as international trade statistics, financial statistics of enterprises, production statistics, firm registers, information on trade missions, and statistics of embassies or export promotion organizations (EPO’s). Since acquiring this data is rather time consuming, expensive, often difficult and sometimes even impossible, literature in this field is still in its infancy.

#### Value Chain of Commercial Diplomacy

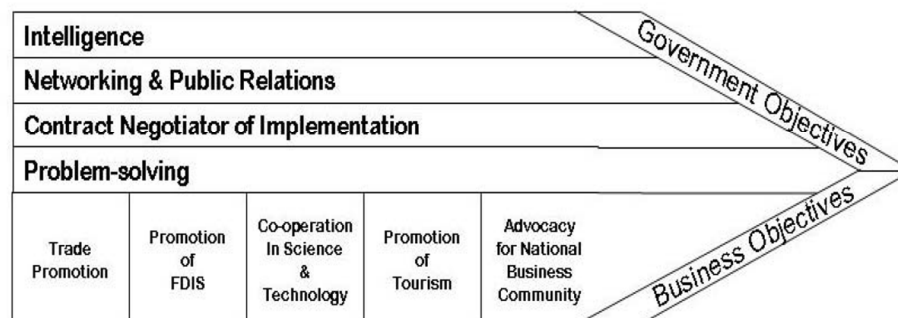


Figure 6: Value Chain of Commercial Diplomacy by Kostecki & Naray (2008)

### 6.1.5 Findings

All in all, decisions to be taken by commercial diplomats and policy advisors in the field of commercial diplomacy often equal those to be taken by managers of international, multinational and global companies. These include the international (political) economic issue at hand, but also organizational, cross-border and cross-cultural management. Since the aim of commercial diplomacy is to serve national economic interests in the global economic marketplace, knowledge about the above mentioned fields is essential. Drawing a holistic picture of commercial diplomacy can thus be done best by including IM and IR studies. Since IM literature on commercial diplomacy is still in its infancy, we strongly encourage authors to contribute to the existing body of literature. Next to the influence of existing IM literature on commercial diplomacy as a research field, commercial diplomacy may also affect literature on international management vice versa. Potter's (2007) national diamond model thereby can function as a useful starting point.



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## 8. Appendix

### Appendix 1: Search criteria

Babbie (2009) identifies the following search criteria: selection, relevance, validity, and completeness. While the selection criteria are explained in detail in the main text, the other three are discussed in this section. To progress to the next step in the evaluation phase and limit the resources needed for evaluation, only academic papers published later than 2000 were considered. The academic source requirement, also a criterion for validity, ensures that only papers with a certain level of quality were considered, i.e. that tools and techniques were applied correctly and in a scientific sense. In order to check the completeness of the body of literature, an intensive reference check was performed. In addition, the cross-search test employed increased the probability of completeness.

### Appendix 2: Key words

Concepts	Activities	Actors
Commercial diplomacy	Export promotion	Export promotion agency
Economic diplomacy	Trade promotion	Trade promotion agency
Market access diplomacy	Trade fairs	Commercial counselor
Foreign trade diplomacy	State visits	Commercial attaché
Public diplomacy	Government export promotion	
Modern (New) diplomacy		
Public diplomacy		
Business + Diplomacy		
Political Economy		
Governance environment for trade		
Political determinants for trade		

Table 6: Key points and search terms used in order to identify literature

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### Appendix 3: Search parameters

In order to plan the literature search strategy, a number of parameters for the search were defined:

<b>Parameters</b>	<b>Narrow</b>	<b>Broad</b>
<b>Language of publication</b>	English	English, German and Dutch
<b>Subject area</b>	Commercial diplomacy	Economic diplomacy
<b>Geographical area</b>	Worldwide	worldwide
<b>Publication period</b>	1995-2011	1950-2011
<b>Literature type</b>	secondary	Primary, secondary and tertiary sources

Table 7: Search parameters