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# Global Governance and Diplomacy

## Worlds Apart?

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The Centre for International Governance Innovation  
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*Handwritten notes:*  
Diplomacy = Procedures of 1, 289, 33, 40  
Government = policy, international arrangements, etc.  
CIGI  
12, 291, 292, 49  
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*Handwritten:* 1402500

20. They both are for the purposes of UN coordination of and relations with regional and other organisations.
21. See Commission of the European Communities, 2005b.
22. See Commission of the European Communities, 2003b.
23. See European Communities, 2007, 15.
24. The EU's basic document on EU-UN cooperation is peppered with references to the aspirations of the EU to be a model for other regional organisations (European Commission, 2003).

## 5

### Business – Government – NGO Relations: Their Impact on Global Economic Governance

*Raymond Saner and Lichia Yiu*

#### Introduction

This chapter builds on previous research and exploratory studies on business diplomacy (Saner, Sondergaard and Yiu, 2000; Saner and Yiu, 2005), modern economic diplomacy (Saner and Yiu, 2003), development diplomacy (Saner, 2006), multistakeholder diplomacy (Hocking, 2005b) and polyateralism of diplomacy (Wiseman, 1999). It offers new insights into the nexus between the various forms of diplomacies as they interact within the context of international business, international relations, international economic policy and multilateral trade organisations, such as the World Trade Organization (WTO).

Globalisation has transformed international economic relations around the world, affecting the economic, social and political spheres of societies and citizens. It is characterised by a complex set of interconnectivities, interdependencies with an increasing number of actors vying to influence the outcome of these economic relationships.

State and non-state actors lay competing claims to resources, market legitimacy and are engaged in activities traditionally defined as belonging to the domain of diplomacy. Moreover, the proliferation of state and state actors engaged in international economic policy-making can come in various forms of dissonances and conflicts. This 'democratisation' of diplomatic space has also put into question whether the existing form of discourse between these state and non-state actors hinders or furthers international economic policy-making. It has also raised the question of whether there is a need for the creation of an international governance structure that would provide a constructive policy framework within which the various actors' interactions could be embedded and channelled.

This chapter follows the following structure. As a first step, different types of contemporary diplomacy within the international economic sphere

undoubted success of the EU institutional model – even if this is questioned internally in the EU and its legitimacy is as hard to find as it is to define. Nonetheless, Europe's apparent consensus – *pace* the democratic deficit – on governance may be the basis for a similar consensus at global level. The proposal by four members of the European Parliament that the UN should itself be doted with a proper parliamentary assembly is but one element that might need consideration (Watson et al., 2007).

But painfully difficult issues lie on the horizon. Both the UN and the EU 'mask rough political reality through ostentatiously pompous rhetoric' (Ojamen, 2006), as one academic puts it. Sooner or later the EU will have to address a whole string of areas where there has been no European debate so far, but where global governance is likely to be increasingly put to the test: the use of force without a UN mandate; the doctrine of pre-emption against international terrorism; regime change and the use of force in the framework of the obligation to protect; and the idea of 'unreasonable vetoes', whether in the UN Security Council or the European Council. EU governance still needs focus, but since the destination remains unknown, perhaps for the time being, it is the journey, not the arrival that matters. But this may seem weak reasoning if, as this chapter has identified, there is a risk of civilian power Europe becoming super-power Europe, as is increasingly feared (Telò, 2006; McCormick, 2007).

In conclusion, the EU might do well to 'out' the concept of its own governance forming a basis for new forms of global governance, for these are little known concepts, despite their forming the core of EU-UN relations. Why push the idea? Because continued institutional cooperation and large leaps of faith will be needed if global governance is to contribute, in the long term, to some acceptable, even desirable, form of global government.

### Notes

1. This somewhat cavalier statement requires nuance in so far as some Nordic systems are clearly more transparent than their counterparts in other European countries (Bailes et al., 2006). The Council is also not uncontestedly transparent, since it imposes strict conditions on sight of sensitive documents, arguing for example that the European Parliament has no remit for security issues. See *European Voice*, 19–25 October 2006. It is unlikely that national parliaments in general would be afforded better access, however.
2. Again, this is a broad generalisation to which there are notable exceptions; such as the UK's once declared 'ethical' foreign policy, though on the reality behind this aspiration see Pilger (2006).
3. This is recognised in the European Commission's own communication on governance. See European Commission (2001a).
4. For an insightful analysis of the state and fate of bilateralism in Europe see Bátorá and Hocking (2007).

5. I differ here from the assumption of Cross that diplomats *per se* are an epistemic community, holding, rather, that there are specific epistemic communities *with* the diplomatic community (Cross, 2007). This is not the place for an exhaustive analysis of the point.
6. I avoid using the term 'diplomacy' to cover representation of anything other than states. I prefer to define diplomacy as what diplomats do professionally. Diplomats are foreign ministry-officials representing their state abroad, or usually so doing. By this I mean that these officials may sometimes return to base and are not called upon there to represent their state, but they nonetheless remain 'diplomats' in the same way as actors remain actors even when they are 'resting'.
7. This conundrum is summed up in 'Who 'ya gonna call?', *The Economist*, 1995SS.
8. See Bátorá (2005), Robert Cooper (2003), Hocking and Spence (2005) and Spence (2006).
9. A good critical attempt at disentanglement can be found in Macaul (2002).
10. For an insightful discussion of the issue see Barker (2003).
11. An interesting summary of the norms and values embodied in the EU's draft constitution can be found in Emerson et al. (2005) 'What Values for Europe? 7 Ten Commandments'. CEPS Policy Brief No. 65. Centre for European Policy Studies.
12. See European Neighbourhood Programme, available from [http://ec.europa.world/emp/index\\_en.htm](http://ec.europa.world/emp/index_en.htm)
13. The 16 neighbours are Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia, and Ukraine. Libya, Belarus, and Syria will attend as observers.
14. For more see Hänggi and Winkler (2003).
15. Examples of cooperation in the field include the hand-over of the UN Police Mission ITTP to EUPM in Bosnia-Herzegovina, the MONUC takeover from EU military operation Artemis in the Democratic Republic of Congo, the EU role of the UN Mission in Kosovo, as well as peacebuilding activities such as cooperation with UNAMA and UNDP in Afghanistan, Commission-UN cooperation on elections in Iraq, EC support and collaboration with the UN Mine Action Service (UNMAS) and UNDP.
16. In this regard, it is important to recall article 300 of the Treaty establishing the European Community which sets out the procedure to be followed for the conclusion of an agreement between the Community and international organisations, that is recommendation by the Commission to the Council for authorisation to open negotiations and a negotiating directive issued by the Council. On the other hand, article 24 of the Treaty on European Union regarding agreement between the EU and international organisations on CFSP matters, envisages authorisation by the Council to the Presidency, assisted by the Commissioner appropriate, for the opening of negotiations; such agreements are then concluded by the Council. As for article 302 of the Treaty establishing the European Community, it provides that '[i]t shall be for the Commission to ensure the maintenance of all appropriate relations with the organs of the United Nations.'
17. For an analysis see Wouters et al. (2006).
18. For a recent comprehensive analysis of the economics of various regional integration endeavours see de Lombaerde, Philippe ed. (2007).
19. That is whether or not it is a regional organisation in terms of chapter 8 of the charter or not – the EU claims it is not.

20. They both are for the purposes of UN coordination of and relations with regional and other organisations.
21. See Commission of the European Communities, 2005b.
22. See Commission of the European Communities, 2003, 3.
23. See European Communities, 2007, 15.
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This chapter follows the following structure. As a first step, different types of contemporary diplomacy within the international economic sphere

*2 subnational diplomatic cooperation*

introduced and discussed. In a subsequent section, these concepts will be illustrated by examining a multi-actor diplomacy case namely the multilateral negotiation of trade in Educational Services (ES) within the WTO/GATS context.

**Co-existence of divergent and convergent diplomatic roles in the international economic policy sphere**

Looking more closely at the developments in the international economic sphere, one can notice a further broadening of actors involved in economic diplomacy. In addition to state actors, one can observe increasing participation in this sphere by transnational companies and transnational Non-Governmental Organisations (NGOs) who not only interact with traditional state actors but also increasingly engage each other directly on issues pertaining to international economic policy.

The new entrants to the diplomatic arena represent different groupings and organisations of local, national and international interests who pursue convergent and divergent interests. These multiple forces co-exist with each other and exercise different forms of diplomatic influence to achieve their objectives. Commenting on the increase of non-state actors, Langhorne (1998: 58) states that: 'private organisations are developing their own diplomacy both between themselves and between actors in the state system; and the way they have been doing it is remarkably reminiscent of the early days of state self representation.' *SS - cooperate diplomatically*

The proliferation of diplomatic roles and actors is indeed stunning. Reflecting on the role and function of non-state actors, Burt and Robinson (1999: 17, 42-43) point out that the international landscape is crowded with Multinational Corporations (MNCs) and NGOs that impact directly on the conduct of international relations, and consequently, on the conduct of diplomacy.

Focusing on the economic sphere at the international level, these newly emerged diplomatic functions and roles of the various state and non-state actors could be categorised in Table 5.1.

Table 5.1 Divergent and convergent diplomatic roles in the international economic policy sphere

State actors	Functions	Roles
Economic Diplomacy	Economic Diplomacy	Economic Diplomats
Commercial Diplomacy	Commercial Diplomacy	Commercial Diplomats
Non-State actors		
Corporate Diplomacy	Corporate Diplomacy	Corporate Diplomats
Business Diplomacy	Business Diplomacy	Business Diplomats
National NGO Diplomacy	National NGO Diplomacy	National NGO Diplomats
Transnational NGO Diplomacy	Transnational NGO Diplomacy	Transnational NGO Diplomats

Non-state actors such as national or international NGOs are adding voices to international development policy debates by organising, campaigning and lobbying across national boundaries in order to have a greater influence on international development policy-making. This trend has gained major momentum, evidenced by the active involvement of NGOs in international cooperation for development; vocal criticism of unfettered capitalism; conflicts with multinational companies in regard to the exploitation of natural resources; and confrontations with national governments on various socio-economic development policy issues.

Faced with the growing economic and political interdependence of markets and states, governments have to cope with the increasingly complex and at times turbulent post-modern environment, including the actions of NGOs. Governments need to find effective ways to interact with state 'adversaries' such as NGO pressure groups. These competent and networked groups monitor and evaluate the performances of governments and multinational companies and demand greater accountability and transparency of their actions. NGOs and other civil society groups have led to galvanise public opinion to successfully forward their own agendas effectively to demand greater social and international solidarity.

A well-documented example of successful NGO influence on development policy is Eurodad's advocacy in favour of debt relief of poor and least developed countries. Eurodad is the European Network on Debt and Development. It is a network of 52 development NGOs from 17 European countries working on international economic justice issues.

Prior to the campaigns by Eurodad, the International Monetary Fund (IMF) and the World Bank, faced with the staggering indebtedness of Highly Indebted Poor Countries, thought that limited debt relief would make the debt of these countries 'sustainable' and allow them 'to grow out of' their debt through economic growth. In contrast, however, Eurodad emphasised that partial debt relief could not help these countries manage their excessive debt, and that they required more substantial forgiveness to fight poverty. The persistent and well-coordinated influence of Eurodad led international financial institutions to adopt a poverty reduction-based debt policy. The use of such tactics as monitoring political international financial institutions; sharing relevant information with NGOs; coordinating public pressures and promoting alternative frameworks; and negotiating text revisions with representatives of the financial institutions and national governments constitute an excellent example of development diplomacy.<sup>1</sup>

Non-state actors, be they NGOs or business lobby groups, have built formidable trans-border alliances through the effective use of web-communication, research and publications. They exert increasing pressure on state actors at international organisations, such as the WTO, where a mandate is the setting of rules and standards in the domain of international

economic governance. As depicted in Figure 5.1 below, international NGOs headquartered in developed countries, such as World Wildlife Fund (WWF), Association for the Taxation of Financial Transactions to Aid Citizens (ATTAC) and Oxfam, exert influence at times more effectively than is possible by a large number of developing country governments. For instance, transnational NGOs focusing on international economic policy (also called the Porto Alegre movement). They influence the process by conducting independent policy research and writing position papers and by organising conferences for country representatives of the G77 group of developing and least developed countries. By giving advice and support, for example, they are able to aid these countries gain increased market access for their agricultural products. Most significant of all, major NGOs have gained credibility by opening up parallel policy dialogue spaces thereby directly competing with state actors.

In a similar manner, transnational companies progressively more take matters into their own hands and start their own 'diplomatic' campaigns in different arenas. The need to deal more effectively with national and

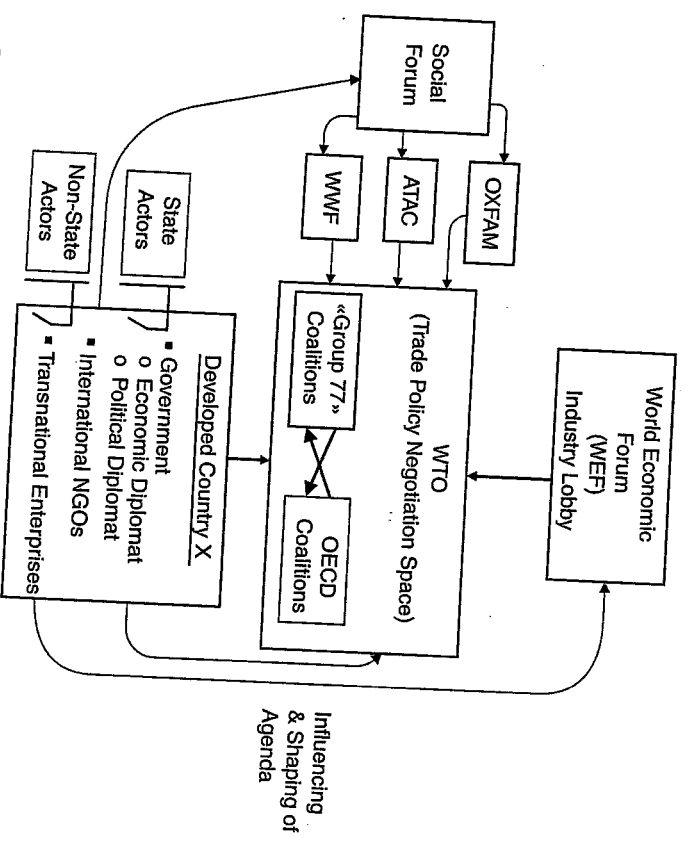


Figure 5.1 Illustration of post-modern diplomacy in a developed economy context - shaping international economic policy by state and non-state actors

international regulatory bodies focusing, for example on competition, labour standards, accounting standards (Basile I & II), has propelled actors to organise their own influencing strategies rather than wait on sidelines until the respective government representatives have completed their multilateral negotiations. Instead, they have chosen to create parallel dialogue spaces where Transnational Corporations (TNCs) formulate their own policy propositions and then try to sell these solutions to their respective governments.

Business related NGOs active in the international economic policy such as the World Economic Forum (WEF) have ventured into the field of organising dialogue space between governments and businesses and now also expanding their scope of influence by inviting select groups of NGOs to these business-government conferences and meetings. Transnational enterprises attempt to influence government representatives at the annual WEF meeting in Davos or through their Brussels-based lobby groups in order to ensure that the WTO negotiations do not result in agreement that could increase their production and transaction costs. The TNC groups, such as the Transatlantic Business Dialogue, often hold parallel meetings alongside major summits (G8 Summits, EU-US Summits, etc.) where politicians meet and attempt to inject their agenda into global economic processes and to safeguard their interests.

State actors of developed countries also use alternative arenas to conduct regional or multilateral diplomacy. Representatives of the Ministries of Economic Affairs or the Ministries of Foreign Affairs having to balance a larger portfolio of sovereign interests meet at the Organisation for Economic Cooperation and Development (OECD) and other fora to form coalitions and pre-negotiate common positions in anticipation of the WTO round negotiations. At the same time, on their respective home fronts, the state actors are often the target of the opposite influences of business NGOs actors who try to get their agenda items included in the mandate of the country's WTO negotiators.

Managing these competing and collaborative relationships requires government officials to have the highest proficiency of diplomatic skills. Any misstep is bound to be instantaneously broadcast over the Internet creating negative political fall-out in terms of image loss.

**State and non-state actors co-shaping the international economic policy sphere**

**Diplomatic function and roles of ministries in charge of economic and commercial policy**

Faced with a myriad of multilateral standard setting organisations responsible for global economic policies such as the WTO, IMF or OECD, many governments have enlisted the participation of sector specific ministries specialised

in economic and financial matters, thereby decreasing or neutralising the influence and role of Ministries of Foreign Affairs (MFAs). For instance, the US government centralised decision-making power in regard to trade negotiations at the WTO (formerly, the General Agreement on Tariffs and Trade or GATT) by creating a new executive office of the president, the Office of the United States Trade Representative, in 1962. In addition, the US government created an interagency command group based in Washington, DC to improve policy coordination during the GATT Kennedy Round thus reducing complexity, limiting inter-ministerial policy disputes and restraining external influencing by members of congress and various lobbying groups (e.g., farm and food processing industry) (Lee, 2001: 119-120).

Efforts by specialised ministries to conduct policy-related international negotiations and to influence the structure and mechanisms of global economic and trade arenas. The rise of this non-traditional genre of multilateral ministry international diplomacy is, for instance, apparent in Geneva where many permanent missions of industrialised countries to the WTO are staffed by a greater number of officials than is the case at their bilateral embassies in Bern. The greater amount of staff is mostly due to the ever-increasing number of non-MFA diplomats and government officials, who do not share the same foreign service traditions and who do not abide by the same mental model and the same approaches to international diplomacy. This diversity has added different, if not new, dynamism to the international relations and has resulted in greater volatility and unpredictable outcomes of a country's economic negotiations at a multilateral organisation like the WTO.

Whether conducted by traditional diplomats from the MFA or by other government ministry officials (e.g., Ministry of Economic Affairs, Ministry of Trade or Ministry of Trade & Industry) Economic Diplomacy can be defined as follows:

Economic Diplomacy is concerned with economic policy issues, e.g. work of delegations at standard setting organisations such as WTO and BIS, Economic diplomats also monitor and report on economic policies in foreign countries and advise the home government on how to best influence them. Economic Diplomacy involves the use of economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes called 'economic statecraft' (Berridge and James, 2001: 81).<sup>2</sup>

Governments are also keen to use diplomacy to enhance national economic development by providing support to their own enterprises, for instance in the form of advice on how to improve their exports, e.g., through legal assistance and export incentives when needed. Such support

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includes helping national enterprises establish subsidiaries in other markets. At the same time, commercial diplomacy can also include funding in their respective countries. Thus, commercial diplomacy can be defined as:

Commercial Diplomacy entails the work of diplomatic missions in support of the home country's business and finance sectors in their pursuit of economic success and the country's general objective of national development. It includes the promotion of inward and outward investment as well as trade. One important aspect of a commercial diplomat's work is the provision of information about export and investment opportunities and organising and helping to act as hosts to trade missions home. (Burt and Robinson, 1999: 39-39)

In some cases, commercial diplomats could also promote economic growth through advising and supporting both domestic and foreign company investment decisions. The difference between Economic Diplomacy (ED) and Commercial Diplomacy (CD) can best be illustrated in Figure 5.2.

*Handwritten note: = additional responsibilities!*

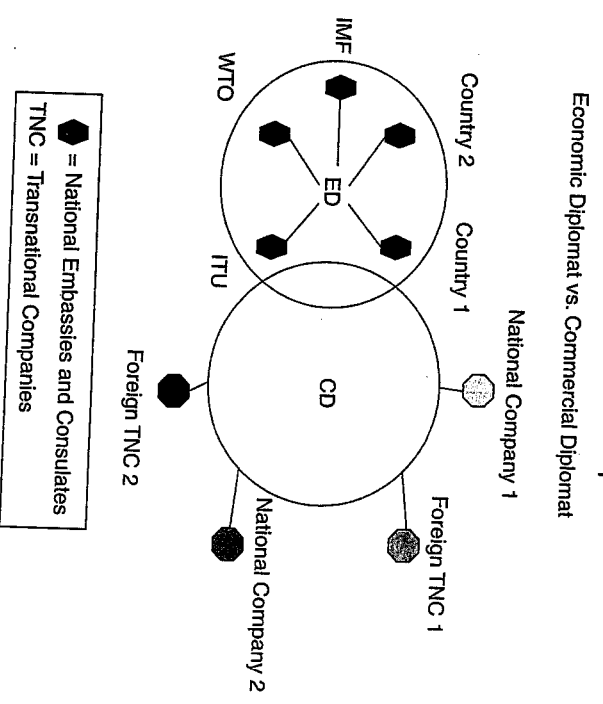


Figure 5.2 The difference between Economic Diplomacy (ED) and Commercial Diplomacy (CD)  
 Source: Saner & Xiu, 2003.

Recognising the importance of exports of goods and services and of foreign direct investment to national economic development, governments have increasingly stepped up their efforts in strengthening their commercial representation in major trading partner countries. Commercial diplomats both offer or specially trained diplomats. They can also be representatives of chambers of commerce or of trading associations seconded to national embassies located in important foreign markets. In addition to the traditional function of commercial attachés, government agencies focusing for instance on strengthening internal activities of small and medium sized enterprises have also been given mandates to expand their services, coverage and presence abroad in order to support trade expansion and to conduct commercial diplomacy.

Diplomatic function and roles within multinational enterprises

In order to succeed as a business and ensure the sustainable economic viability of their investments, transnational enterprises must draw on competencies which will allow them to manage the demands of multiple stakeholders at home and abroad. Increasingly, major corporations want to be engaged in the standard setting negotiations in order to sustain their competitive advantage thereby stepping into the traditional arena of the sovereign states. These diplomatic interventions can be observed in both regional and global settings such as the European Union and UN agencies like the WTO, World Health Organization and UN agencies like the Telecommunication Union. Faced with these new challenges, global companies are fast to acquire greater diplomatic capacities and competencies in handling both the internal stakeholders and the external non-business stakeholders.

While companies are more familiar with influencing the governmental apparatus, traditionally known as government relations, MNCs found themselves often ill-prepared and uncomfortable in dealing with the external non-business and non-state stakeholders. Experiences have shown that the latter dealings could be highly problematic for multinational companies if badly or incompetently handled. A case in point is the lawsuit in which large western pharmaceutical companies started and lost against the South African government. The issue was whether a developing country like South Africa could provide cheaper generic drugs needed to treat the growing number of AIDS patients by suspending transnational pharmaceutical companies' patent rights (compulsory licensing option) or whether it had to comply with Intellectual Property Rights (TRIPS) of the WTO and not infringe on patent rights. The TNCs came under tremendous pressure by international NGOs and finally bowed to the mounting domestic and international pressure from activists groups and their public diplomacy.

The goal of the diplomatic function within a multinational corporation is two-fold. On the one hand, it is to ensure continuation and structural stability within the diverse web of headquarter and subsidiaries companies to reduce labour costs and business risks. On the other hand, it is to align with the company's external constituencies and stakeholder groups in order of reputation and in regard to limiting possible pressure on the TNC by various societal groups and organisations in order to maintain favorable market conditions of doing business globally. This function could be divided into two, namely, that of corporate diplomacy and of business diplomacy. The former, according to G. Hofstede,

is primarily targeted at the internal cohesion within a multinational corporation. It consists of two organizational roles considered to be crucial for the successful coordination of a multinational company, namely of a country business unit manager who should be able to function internally: the culture of the business unit, and the corporate culture that is heavily affected by the nationality of the global corporation; and that of a corporate diplomat who as a home country staff or other national representative is impregnated with the corporate culture, multilingual, from various occupational backgrounds, and experienced in living and functioning in various cultures. These two roles are essential to make multinational structures as liaison persons in the various head offices or as temporary managers for ventures (Hofstede, 1991: 213, emphasis original)

In contrast to corporate diplomacy, business diplomacy aims to make the external environment of its subsidiaries conducive for business activities (Figure 5.3). Demands from the local communities on corporate conduct (present, past and future) limit the range of freedom of corporate behavior. If external constituencies and pressure groups are incompetently managed, this deficiency could quickly result in millions of dollars in costs (e.g., filing of damage claims) or lost business opportunities.

Traditionally, big enterprises hire former ambassadors or state secretaries (in the United States) to promote business contacts and in order to obtain lucrative contracts. However, business diplomacy extends beyond the domain of public relations and business contacts. It deals with the one hand, the communities and consumer groups at the grassroots level, and on the other, with the international community. Civil society actors are far more fragmented than states or other transnational enterprises and therefore are more challenging to deal with. Nevertheless, civil society organisations can cause a multitude of challenges to transnational enterprises that cannot be ignored or swept under the carpet. Civil society actors have the possibility and capability to 'coerce' MNCs long after the wrong business practices had been corrected or proved to be unfounded. An excellent example of this is the long lasting reputation



