

DISCUSSION PAPERS IN DIPLOMACY

***Commercial Diplomacy in Advanced Industrial
States: Canada, the UK, and the US***

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ABSTRACT

Commercial diplomacy is an elusive concept that is often confused with economic diplomacy. The work done by the government to promote both exports and inward investment summarises what commercial diplomacy is all about. Governments play a major role but they do not act alone and the private sector is intimately involved in commercial diplomatic activities. If both export promotion and inward investment promotion are individually well-documented, few attempts have been made to consider them together. In this era of globalisation, the two activities are becoming increasingly interlinked, and this underscores the relevance of this research. The practices and processes adopted by the USA, Canada and the UK to pursue commercial diplomacy — be it the use of trade missions or trade fairs, the pricing of services, cross-fertilisation, or the use of information and telecommunication technologies — are often similar. However, the structures and mandates adopted by their governments vary significantly. Through the three case studies, this research identifies the differences in structures, mandates, and practices, and it explores possible reasons that explain them.

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COMMERCIAL DIPLOMACY IN ADVANCED INDUSTRIAL STATES: CANADA, THE UK, AND THE US

Alexandre Mercier

Introduction

A significant part of diplomatic work is allocated to commercial issues (Kopp, 2004, p.6; Rana, 2000, p.117). Indeed, the French and German ambassadors claim that 60 per cent of their work is dedicated to economic promotional efforts (Rana, 2004, p.66). Despite this, the literature covering the issue from the perspective of International Relations is extremely limited (Lee and Hudson, 2004). This is surprising given that government support for export promotion has been made available for about a century (Seringhaus and Botschen, 1991, p.116), and that it is possible to go back to at least 1911 and find journal articles that mention the importance of the commercial aspects of diplomacy (Straus, 1911, p.218; No author, 1912).

There is clearly a need for more research on the topic, especially from a comparative point of view, as is recognised by Berridge (2006). This is the point of departure for this research which will compare the contemporary commercial diplomatic structures, processes and practices of Canada, the United Kingdom (UK) and the United States of America (US). More precisely, the aim of this paper is to answer the following questions: What is commercial diplomacy exactly? Who are the actors in commercial diplomacy? What types of structures are used by governments to pursue commercial diplomacy? How are resources allocated between inward investment and trade? Finally, what practices and processes are used to pursue commercial diplomacy? In answering these questions, a cross-country analysis will identify existing variations and then explain why they exist.

The first section of the paper briefly establishes the possible ways in which commercial diplomacy might be defined, and identifies the definition that will be used for the purposes of this research. The second section identifies the main actors in commercial diplomacy, be they state or non-state actors. The third section examines what structures, and processes are used by different countries to pursue commercial diplomacy. The fourth section, and the core of the research, presents and analyses the three case studies. For each country, the structural characteristics will be presented initially. Then, the focus will be to analyse the programmes, practices and processes used and the priorities established by each country. It should be noted that when the

information about a particular issue remains poorly documented or scarce, or there is no significant difference between the case studies, it will only be presented in the theoretical section.

With regards to methodology, two caveats must be made. First of all, the main documentation used for this research is primary sources. As has already been noted, the documentation is often scarce. Moreover, the information available varies enormously between the countries studied. The research can only go as far as the documentation allows. Secondly, although not aimed at being a mere description of facts, this research will hold a significant descriptive nature, since it is a comparison.

Finally, the choice of countries analysed must be explained. In general, first, the three countries are all leading members of the world economy (see Table 1). Second, the relative importance of international trade to the national economy varies across all three countries – with Canada the most dependent and the US least dependent of the three on international trade. Third, as I will demonstrate in section two, the governmental structures created to pursue commercial diplomatic interests vary tremendously between the three countries.

More specifically, the US is particularly interesting for various reasons. The governmental organisation is quite decentralised and this is reflected in the myriad of agencies partially responsible for commercial diplomacy. Moreover, by its sheer economic size and business presence, the US almost always has a national company in contention to win private contracts and government procurements abroad. Finally, the regulations supervising trade are much more constraining for US firms. The UK is interesting because it is one of the main economies of the European Union (EU) and also one of the most open to international markets. Moreover, the UK commercial diplomacy structure has been significantly modified in the recent past. Regarding Canada, most of its international trade is conducted bilaterally with the US. Moreover, Canada's tremendous natural resources attract a lot of attention and this influences the way the country is perceived abroad.

1. Definitions

The concept of commercial diplomacy is usually interpreted in two ways. On a more general level, some scholars define commercial diplomacy as being a part of economic diplomacy, which is concerned with economic policy issues (Berridge and James, 2001, p.81; Saner and Yiu, 2003). This definition — referred to as “macro level” commercial diplomacy by Kopp (2004, p.7) — is broad and seems more concerned with negotiations of trade agreements and their implementation.

There is no doubt that commercial and economic diplomacy are highly complementary (Potter, 2004, p.55), but not the same. A Dictionary of Diplomacy defines commercial diplomacy as follows:

The work of diplomatic missions in support of the home country's business and finance sectors. Distinct from although obviously closely related to economic diplomacy, it is now common for commercial diplomacy to include the promotion of inward and outward investment, as well as trade (Berridge and James, 2001, p.38-39).

This definition—referred to as “micro level” commercial diplomacy—is narrower in scope (Kopp, 2004, p.8). It focuses on supporting trade, and inward as well as outward investment.

Finally, Lee defines commercial diplomacy

“as the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes (2004, p.51).”

For the purpose of this paper, it is Lee's definition that will be used. The primary reason for this is because, in my view at least, in recent years private actors have become more important in the diplomatic sector, including commercial diplomacy.

2. Actors

Initially, economic issues — including commercial diplomacy — were mainly the fiefdom of the ministries of foreign affairs of central governments (Saner and Yiu, 2003, p.5). In the recent past, after the reorganisation of diplomatic systems, the commercial activities of central governments have become more centralised (Lee and Hudson, 2004, p.344). Today, economic and commercial diplomacy is primarily handled by the economic and trade

ministries (Saner and Yiu, 2003, p.5). The decentralisation of power to provincial governments has also meant that these regional levels of government also take an active role in pursuing commercial diplomacy (Saner and Yiu, 2003, p.10).

Saner and Yiu recognise that, nowadays, non-state actors play a significant role in diplomacy (2003, p.5). The main non-state actors, which represent business interests are chambers of commerce and the industry and trade associations (Seringhaus and Rosson, 1989, p.44). As US Commercial Attaché William Thorn suggests, the stance taken by these organisations is a blended position of their entire membership, which means that they cannot represent perfectly all their members (2006).

3. Structure and Process in Commercial Diplomacy

Export Promotion

The most significant variations between countries are in regard to the structural form of the agencies that are given responsibility for export promotion (Sharma and Tyerman, 1998, p.7; Department of Trade and Industry, 2004, p.60). The reasons behind this are not always obvious. Seringhaus and Rosson (1990, p.10) identify country philosophy and the history of business-government interaction as explanations. It seems that political issues, the homogeneity of the country and the size of the country are other explaining factors.

The most important factor, however, is its character: public, private or a mixture of both (Seringhaus and Botschen, 1991, p.116; Rana, 2002, p.70-71). As we will see, two of our case studies have instituted a form of structure that is purely governmental. However, not all countries adopt such a structure. The best example of this situation is Austria, where it is the chambers of commerce that have the responsibility to provide the commercial diplomatic services (Department of Trade and Industry, 2004, p.60; Seringhaus and Botschen, 1991, p.117). However, many countries adopt a public-private organisational structure (Seringhaus and Rosson, 1989, p.35). Moreover, as the case studies will demonstrate, it seems that most of the government led agencies are increasingly welcoming support from the private sector or integrating it into its structure, which confirms the public-private partnership tendency.

The second structural aspect concerns the level of government where the services are provided. There are organisations at the central, regional and local level that provide export promotion services (Department of Trade and

Industry, 2004, p.60). For example, in the case of Belgium, it is mainly the regional authorities of Flanders, Wallonia and Brussels that are entrusted with the task (Coolsaet, 2004, p.62). For many countries, it is the central government that fulfils most of the export promotion (Wells and Wint, 2000, p.51). It is true that regional governments also play a role, but the central government is normally the coordinating body.

The last structural aspect regards the number of departments/ministries that share the management of commercial diplomacy within the governmental structure. There are about 15 countries that have merged their ministry of foreign affairs with their ministry of trade to create one consolidated ministry (Rana, 2002, p.70). These include Australia, Belgium, Canada, and Sweden (Lee and Hudson, 2004, p.343; Rana, 2002, p.70). In other cases, such as the UK and the Czech Republic, the government has created a joint body of the ministry of foreign affairs and the ministry of trade, to coordinate export promotion (Lee and Hudson, 2004, p.343; Rana, 2002, p.70). There are countries, such as the US, where it is the ministry of trade/commerce that is still primarily—but not exclusively—responsible for export promotion (Kopp, 2004, p.8). Finally, there is the possibility to establish special entities, what Rana calls a “third agency”, the best example being Singapore (2002, p.70).

Investment Promotion Agencies

The promotion of foreign direct investment (FDI) also referred to as inward investment is usually done through organisations that are called investment promotion agencies (IPAs) (Loewendahl, 2001; UNCTAD, 2001). This type of agency is relatively new and only started to grow in popularity within the last 20 years (UNCTAD, 2001, p.3). The almost universal adoption of this type of agency is a great sign of the rising importance that is given to FDI. However, not all countries possess national IPAs, an example being China (Loewendahl, 2001, p.7). The main reason behind this decision is usually due to the belief that the major question is not about which country to invest in, but where to invest within a country (Loewendahl, 2001, p.7). This is why some countries, mostly developed ones, have created over 250 sub-national IPAs (UNCTAD, 2001, p.vii).

Sub-national IPAs, which are often present in federal states, are usually agencies that promote regions, provinces or states (UNCTAD, 2001, p.6). Thus, they usually promote a sub-national political entity. The attention given to local agencies seems very limited. This is surprising, since the major cities and urban areas of the countries under discussion, are growing drivers of economic production. This has led major cities also to create IPAs, for example Montreal International and Think London (Montreal International,

2006; Think London, 2006). This trend is understandable since major cities are often the main economic motors of entire regions, even countries.

Since sub-national IPAs are usually independent organisations, and not subsidiaries of the national IPA, the issue of coordination becomes vital (UNCTAD, 2001, p.6). The independence of sub-national IPAs leads to competition between them for the same investment and this can be very problematic (Loewendahl, 2001, p.9).

Similar to export promotion, the core decision when establishing the structure regards its nature: public, private, or a mixture of both (Wells and Wint, 2000, p.50). Investment promotion involves some tasks that are usually best performed by private organisations, and some other tasks which are traditionally executed by governmental organisations (Wells and Wint, 2000, p.50). Therefore, the choice of structure is really an important decision. The possible structures are: governmental, autonomous governmental body, joint private-public, and private (UNCTAD, 2001, p.4). The vast majority of countries, 80% according to UNCTAD (2001, p.4), choose a form of governmental structure. The reason lies in the fact that investment promotion is considered a public good (UNCTAD, 2001, p.4), that is "they provide social benefits that outweigh their potential to generate private profits (Wells and Wint, 2000, p.53)." However, IPAs need some independence from the government, because of the special nature of investment promotion (UNCTAD, 2001, p.4) and their constant interaction with business (Loewendahl, 2001, p.8). This might mean that there will be an increase in the number of organisations that will become quasi-governmental in the future.

Strategic approach and targeted companies

Concerning export promotion, there are two possible strategic approaches adopted by the countries: loosely coordinated or integrated (Seringhaus and Rosson, 1990, p.8-11; Seringhaus and Botschen, 1991, p.117). Some countries prefer to offer an array of services—generally to most or all companies—that are loosely coordinated. In contrast, some countries target specific market projects and assist companies for a specific period of time (Seringhaus and Rosson, 1990, p.9). Moreover, these "services appear to be coordinated across programmes to address firms' different requirements over the exporting process (Seringhaus and Botschen, 1991, p.128)." Countries adopting a strategic approach usually identify the industries they will focus on and the companies they target.

Regarding inward investment, the strategic approach is more concerned with the core objectives or functions adopted by IPAs (Wells and Wint,

2000). The main objectives given to IPAs are the following: image-building, investment services, and investment generation (Wells and Wint, 2000, p.22-26). Generating investment, through targeting of investors, is obviously very important to all agencies (Morisset, 2003, p.32; UNCTAD, 2001, p.15). Although not clearly mentioned by any author, it is most probable that developing countries need to put more effort into image-building.

Targeting specific sectors, for export promotion and more importantly for inward investment, is a practice adopted by most countries. The targeting is highly dependent on the level of development of the country concerned (Charlton et al., 2004, p.8). Developed countries are highly interested in those sectors related to innovation and what is called the "knowledge-based" economy (Department of Trade and Industry, 2004). What becomes obvious through the case studies, however, is that what seems like a strategic approach — focusing on innovation and the knowledge-based economy — is not that strategic and is quite wide in scope (Dickson, 2006).

The programmes and services provided to potential exporters or those seeking to expand further are generally focused on small- and medium-sized enterprises (SMEs) (Seringshaus and Rosson, 1989, p.34; Department of Trade and Industry, 2004, p.63; International Trade Association, 2006). The reason why governments target SMEs rests on the fact that they usually lack financial resources and the information needed to pursue possibilities overseas on their own (Spence, 2003, p.83).

However, the concept of SMEs is not totally clear and transparent. Mr. Thorn, who is a US Commercial Attaché, asked how do we define a SME (2006)? The definition of the concept is not a universal one and it varies between countries (Ayyagari, Beck, and Demirgüç-Kunt, 2003, p.2).

Although not definitive, there seems to be a tendency across countries to become more strategic in their approach. After being more loosely coordinated (Seringshaus and Rosson, 1989, p.36-37), Canada has adopted a more strategic approach (Potter, 2004). Some years ago, the UK was described by Seringshaus and Rosson as adopting a strategic approach (1989, p.37), and this is even more true today. It appears that it is the limited amount of funds available and the need to maximise resources that has led to this situation.

The process of targeting companies for inward investment is quite different from that undertaken when targeting companies for export promotion. UNCTAD affirms that "greater importance is placed on SMEs rather than on large TNCs (2001, p.23)." TNCs are thought to have sufficient resources to allow them to work without the assistance of IPAs (UNCTAD, 2001, p.23). However, major companies are not ignored and they are sometimes precisely targeted (Rana, 2002, p.87). This is probably

due to the fact that major companies' investments are usually quite large and they might create a lot of jobs, which makes it more cost-effective for commercial diplomats.

Programmes

Governments use many programmes to pursue export promotion and inward investment. Regarding export promotion, Kotabe and Czinkota separate programmes into two categories: export service programmes and market development programmes (1992, p.639). The former category includes seminars for potential exporters, export counselling, how-to-export handbooks, and export financing, while the latter category includes dissemination of sales leads to firms, participation in foreign trade shows, preparation of market analysis, and export news letters (Kotabe and Czinkota, 1992, p.639). Seringhaus and Rosson claimed almost 20 years ago that developed countries universally used these programmes with similar approaches (1989).

Regarding inward investment, Wells and Wint identify various practices used by the governmental agencies:

[These include] advertising, direct mailing, investment seminars, investment missions, participation in trade shows and exhibitions, distribution of literature, one-to-one direct marketing efforts, preparation of itineraries for visits of prospective investors, matching prospective investors with local partners, acquiring permits and approvals from various government departments, preparing project proposals, conducting feasibility studies, and providing services to the investor after projects have become operational (2000, p.21-22).

As Seringhaus and Rosson noted in 1989 (p.34), there exist many similarities between the programmes and services offered by the various countries. Given that there is not much evidence that this situation has changed in the interim, the only programmes that will be compared are the ones concerning trade shows and trade missions.

Trade shows and missions are two types of practices that are believed to be amongst the most effective when the government is actively involved (Wilkinson and Brouthers, 2000, p.725). Trade shows, also referred to as trade fairs, are usually events that take place at a fixed location overseas, where firms exhibit their products in a stand for the duration of the show (Wilkinson and Brouthers, 2000, p.731). These events have grown in number, there are more than 2,000 major trade shows each year (Hansen, 1996, p.39). International trade fairs "present a highly focused effort to enter

foreign markets and thus help exporters in a tangible, experiential way to develop contact with their target markets (Seringhaus and Rosson, 1998, p.400).” Governmental support for trade shows is a well-established strategy adopted by many nations, in order to help their exporters (Hansen, 1996, p.44; Seringhaus and Rosson, 1998, p.400).

Trade missions are a widely used form of commercial diplomacy. They have become very popular in the recent past (Spence, 2003, p.84). The availability of rapid air transport at low cost has made the organisation of trade missions — like summit diplomacy — much simpler (Cooper, 1999) and more cost effective (Spence, 2003, p.84).

General definitions of the concept are rather rare. Jaramillo’s (Wilkinson and Brouthers, 2000, p.731) reference to them as the arrangement, made by export promotion professionals, of individual or group meetings between buyers and sellers at appropriate overseas locations, appears to be too narrow since it does not account for some of the high profile missions that take place. In addition to export promotion professionals, who are usually governmental staff, trade missions can also be composed of governmental personalities: central government politicians, and provincial/state/regional politicians.

Trade missions allow the participants to gain knowledge of a foreign country’s culture thanks to “direct contact with local business persons and government representatives (Spence, 2003, p.83).” Trade missions seem a very good way of allowing companies to find opportunities abroad and encounter possible partners through local networks (Young, 1995, p.15). However, the question remains whether they really bring about new opportunities in themselves, or if they are only used to maximise publicity by formalising already agreed deals.

Pricing Practices

The various services provided by governments are not all free. In the past, the majority if not the entirety of services provided were free (Thorn, 2006; Dickson, 2006). This is no longer the case today. Although not trying to compete with private counselling firms, governments have slowly become more market oriented in the provision of their services. The aim is not to charge the total cost of the services, but to share the burden between the government and the companies seeking help (Thorn, 2006; Dickson, 2006). This approach is mostly true for export promotion. Charging foreign investors is not a general practice adopted by IPAs; it goes against the “welcoming attitude” that they like to display (UNCTAD, 2001, p.34).

The budget constraint put on governmental support programmes is significant (Crick and Czinkota, 1995, p.61), and is the main reason

explaining this trend of charging for certain services. The general information and counselling provided to exporters and investors are usually free. However, many of the more personalised services, such as participation at trade shows and trade missions or special market analysis lead to charges. According to Ms. Dickson, the reason behind this rationale is the fact that companies used to come unprepared to meetings and lacked seriousness in their attempt to export when no charges were levied (2006).

Cross-fertilisation

The importance given to economics and commercial issues in diplomatic organisations is relatively new. This tendency can be observed through the fact that some countries, for example Germany, hire more economists than law graduates in their diplomatic services nowadays (Rana, 2002, p.68). However, diplomats of older generations still lack the expertise needed to manage commercial diplomatic policies (Lee, 2004, p.53).

This has led to the establishment of "cross-fertilisation" schemes; some diplomats are placed in business settings for short periods of time, while business representatives take temporary postings in diplomatic missions (Lee, 2004, p.53). The UK has seriously embraced this strategy (Rana, 2004, p.67; Lee, 2004, p.53-54). Canada and the US also see some positive benefits linked to cross-fertilisation, but prefer to give supplementary training through diplomas and distance-learning programmes (Rana, 2004, p.67). The staffing of IPAs illustrates cross-fertilisation emphatically. According to UNCTAD, half of the staff employed by OECD IPAs come from the private sector (2001, p.12).

Information technologies

There is no doubt that new technologies have "significantly affected the process of diplomacy (Kurbalija, 1999, p.171)." The Internet clearly has changed the way in which diplomats work on a daily basis. It offers various cost-effective possibilities to facilitate export promotion efforts (Rana, 2002, p.85), and the same is true for inward investment (UNCTAD, 2001, p.34).

The Internet is a powerful tool to disseminate and give access to information. All three governments targeted in this study now use it to give out free basic information about export promotion and inward investment. The information can be related to regulation and customs, market information, and much more. The other opportunity is match-making among buyers and sellers, through specialised computer softwares (UNCTAD, 2001, p.9). Currently, this is mostly exploited by business chambers and private entrepreneurs

(Rana, 2002, p.85). Rana recognises that official agencies responsible for export promotion are beginning to use these methods (2002, p.85). Moreover, the Internet can be really efficient in helping to computerise the network and the various contacts established by the employees (UNCTAD, 2001, p.11).

However, the Internet's influence is not all positive. Many businesses try to find information for possibilities abroad directly on the Internet, but as Ms. Dickson and Mr. Thorn suggest, the problem is that only a small portion of all the information available is accurate (2006; 2006). This suggests that the Internet has diverted some companies away from commercial diplomatic services, sometimes with negative results.

4. Case Studies

Canada

Canada has thrived on international trade. It is the leading exporting nation of the G-7 when measured in percentage of output (Stothart, 2003, p.22). It also spends a lot of money on commercial diplomacy (Figure 1). In 1996, Canada spent 10 times more than the USA on government-backed trade missions (Garten, 1997a, p.77). This high level of spending is due to the importance given to the success of Canadian companies worldwide. As Potter suggests:

“given the high level of dependence on the international economy, Canada has more to win or lose (2004, p.59).”

Structural layout

Canada has created a public organisation to pursue commercial diplomacy (Seringhaus and Rosson, 1989, p.37). It is one of the few countries in the world that has unified its ministry of foreign affairs and its ministry of foreign trade (Rana, 2002, p.70). The amalgamation of the Trade Commissioner Service (TCS) with the Department of External Affairs happened in 1982 and the ministry is now known as the Department of Foreign Affairs and International Trade (DFAIT) (Potter, 2004, p.56). The official reason given for the merger of the departments was that foreign policy included a vast array of interests—economic, trade, immigration, political, aid, and cultural—that should be centralised under one single bureaucratic ‘roof’ (Potter, 2004,

p.56). Moreover, as we have seen, diplomatic work increasingly has become centered around economic and commercial issues.

It may be, however, that Canada simply lacks the political power to pursue a strong foreign policy and that economic and commercial issues are much more vital concerns. Potter refers to this as the "trade-driven" foreign policy agenda of Ottawa (2004, p.59). In 2001, former Prime Minister Jean Chrétien conducted a second Team Canada mission to China in less than a decade, showing the importance for Canada of trade in general and between the two countries in particular (Privy Council Office, 2006). However, when asked why Canada was pursuing strong economic ties despite the poor human rights record of the country, Mr. Chrétien bluntly expressed his view – that a country of 30 millions inhabitants like Canada could not really influence China, with a population of over 1 billion, through political pressure (Cordon, 2001).

The creation of the DFAIT has not received unanimous support. Experts and insiders usually recognise that within the DFAIT, the International Trade section is a junior ministry of the Foreign Affairs section (Stothart, 2003, p.23; Dickson, 2006). During interview, Ms. Dickson claimed that it was very important for the two departments to be together and that the rapid break-up and re-amalgamation that took place in 2003-2004 had been quite damaging to the institution. The confusion is compounded by the fact that while it is theoretically a single ministry, the department has 2 ministers (DFAIT, 2006a).

Commercial Diplomacy in Numbers

Unfortunately, no figures are given by the government about how much it spends on commercial diplomacy. At home, the central institution charged with implementing trade promotion is Team Canada Incorporated (TCI), which was created in 1997 (Potter, 2004, p.57). TCI's membership is composed of 16 federal departments and agencies which either have a mandate or interest in helping Canadian companies succeed abroad. It also works in close collaboration with provinces, territories and other partners. The management board of TCI is composed of a five-person executive committee, which is usually chaired by the International Trade Canada representative (Treasury Board of Canada, 2006). The structure of TCI, where many agencies are involved, is rather similar to the one in the US.

The Trade Commissioner Service is the central body used abroad to pursue commercial diplomacy (Potter, 2004, p.56). The most recent annual report available states that the TCS is staffed by approximately 800 trade commissioners posted in 140 cities overseas. To support them, 100 trade

commissioners provide services through the 12 regional offices within Canada (TCI, 2004). Canada's TCS expansion abroad has been quite important, with the number of trade commissioners growing by 300 between 2001 and 2004 (TCI, 2001). The recent trend has been to put additional resources in the major emerging markets, such as India for example (Trade Promotion Coordination Committee, 2005, p.vii).

The organisation responsible for investment promotion is Invest in Canada. Until recently, the organisation was known as Investment Canada (Wells and Wint, 2000, p.51). Invest in Canada is part of the governmental structure and has always been under the control of Industry Canada (Industry Canada, 2006; Wells and Wint, 2000, p.55). The organisation, which is a member of TCI, makes use of the TCI network of offices at home and abroad. Canada is one of only a few countries which take the approach of employing diplomatic staff for investment promotion in the network of embassies and consulates (UNCTAD, 2001, p.8).

Strategic approach and targeted companies

Today, the approach of the government of Canada is quite similar to most OECD countries, in that there is a clear focus on innovation sectors and the knowledge-based economy (Dickson, 2006). This more strategic approach was adopted in 1997 by Ottawa and it is referred to as the "New Approach" (Potter, 2004, p.58). Previously, the approach of Canada was much more general and loosely coordinated (Serinhaus and Rosson, 1989, p.37-38).

Canada is deeply integrated with the US, its southern neighbour. This is why North America, including Mexico, is widely recognised as the most important market for export promotion and inward investment. This is reflected by the signing of the North American Free Trade Agreement (NAFTA) in 1994. The document *Opening Doors to the World* is quite general in the fact that most regions of the world are identified as important markets (DFAIT, 2006b). A look at the destinations where Team Canada Missions have been held since 1994 gives a good indication that Asia and Latin America are key markets for Canada (DFAIT, 2006c).

The main sectors identified, for both export and investment promotion, are the following: aerospace and defence, automotive, chemicals and petrochemicals, energy and environmental technologies, information and communication technologies, and life science (biotechnology, medical devices and pharmaceuticals) (Industry Canada, 2005, p.30). The sector that must be highlighted is energy and environmental technologies. Canada is endowed with vast amounts of energy and other natural resources. With the recent upward trend in the prices of those resources, the exploitation of them

becomes much more attractive. Ms. Dickson mentioned during the interview the fact that the resource potential of northern Canada is still waiting to be fully exploited and that facilitating this is important to Canada (2006).

Therefore, image-building is much more important to Canada than it is the US and the UK. Whilst often still perceived as a mostly resource-based economy by many foreign investors (Potter, 2004, p.58), Canada is determined to be identified as both a source of and location for high-tech, high value-added knowledge based industry.

The companies targeted vary depending on whether they have been targeted for export or investment promotion. The emphasis is put on SMEs when it comes to export promotion (Potter, 2004, p.58). More importantly, the services are offered to companies who have "done their homework and researched their foreign target markets (Potter, 2004, p.58)", and are therefore "market-ready" (Team Northern Ontario, 2004, p.3; Dickson, 2006). However, despite this emphasis on SMEs it is actually medium-sized companies that are mostly targeted (Dickson, 2006). This is because it is mostly this size of enterprise that fulfils the "market-ready" constraint, and they are the ones who are most likely to succeed in their attempts to export.

When it comes to investment promotion, the attention is put on the two ends of the size scale: large or small enterprises (Dickson, 2006). As noted above, focusing on large companies is a general approach adopted by all countries. However, the focus on small companies is concerned with innovative sectors, where it is believed that the growth of such companies in the near future will be quite significant and beneficial to Canada (Dickson, 2006).

Trade missions

Trade missions have been a very important tool utilised by Canada in the last 15 years and hundreds of them are organised every year (Stothart, 2003, p.27). The most important trade missions conducted at the federal level are Team Canada Missions, and Canada Trade Missions (DFAIT, 2006b). The Team Canada Missions, which were used between 1994 and 2004 by Prime Minister Jean Chrétien, gathered together the federal and many provincial prime ministers with identified business leaders to conduct high-visibility visits to a foreign country. Canada Trade Missions mainly differ in that they are led by the international trade minister and the trade ministers of the provinces (DFAIT, 2006b). The success of these missions has helped to raise the image of Canada as a knowledge economy (Potter, 2004, p.59; Dickson, interview). Once again, this shows the importance of image-building for Canada.

Team Canada Missions have been discontinued. The main reason for this is that they had in effect become political 'events' designed to generate exposure and publicity for Prime Minister Jean Chrétien for domestic political consumption (Dickson, interview). Subsequent Prime Ministers appear to have decided not to continue the practice, which perhaps confirms the claim of authors who suggest that personality influences the way diplomacy is conducted (Barston, 1988).

As separate political entities, the provinces of Canada also conduct trade missions on their own. Recent examples of these missions are the mission of the province of Québec to India, in January 2006 (Gouvernement du Québec, 2006), and the mission of the province of Ontario to China in November 2005 (Government of Ontario, 2005). It is clear that these missions are not of the same scale as those conducted by the federal government, but they allow smaller and more local companies to try to establish foreign business. They also clearly show the importance of regional governments in commercial diplomacy.

Pricing Practices

Canada's approach to pricing is not very well documented. The information presented in this section comes from the information gathered at interview with Counsellor Dickson. It appears that the tendency to charge for services, while still not extensively used, has become more common in the last 5 years. The services that are charged for are special market analysis and participation at trade fairs or trade missions. The approach is to share the cost of these types of services between government and business, rendering them accessible whilst making sure that the companies are serious in their intent.

Cross-fertilisation

There is little evidence of cross-fertilisation in Canada's commercial diplomacy. It is only in the home country that private sector influence is really significant (Dickson, interview). Here, the private sector has access to high levels of the government and can identify and influence the way that services are provided. It is mostly staff from other governmental bodies and a few associations and chambers of commerce that do short term work in the home section of the DFAIT (Dickson, interview). How this will affect the provision of services and help improve the provision of them is quite uncertain.

Information technology

The available evidence suggests that Canada has fully embraced the potential of information technologies and is putting a lot of emphasis on developing this further, especially through the creation of websites. There has been an effort to gather all the formerly disparate trade-promotion websites under the banner of the international commerce section of the DFAIT's website.

Moreover, the match-making possibilities offered by the Internet have been awarded a high priority in the overall strategy. The government has already built a virtual match-making programme called "CTCS", and is working on another called "TRIO" (Dickson, interview). It is no coincidence that these tools can also be used to measure the work of employees and the success of their efforts (Dickson, interview).

United Kingdom

The UK is one of the main political actors in the European Union and one of the biggest and most open economies in Europe. According to the OECD, it is the country that applies the lowest restrictions on FDI (DTI, 2004, p.57). It also supports its exporters extensively (Figure 1). However, competing effectively against low cost producers within the newly expanded EU and elsewhere, together with the growing economic weight and attractiveness of China and India in particular, demands that the UK continues to develop an efficient, effective commercial diplomacy.

Structural layout

In 1999, British Trade International (BTI) was created to become the lead agency for trade and investment promotion in the UK. BTI, which brings together the Foreign and Commonwealth Office (FCO) and the Department of Trade and Industry (DTI), was renamed UK Trade and Investment in 2003 (UKTI, 2006a, p.3). UK Trade and Investment is the body that coordinates all the export and investment promotion efforts of the country, and was created in order to centralise commercial diplomacy within the governmental organisation (Lee, 2004). It works closely with the private sector and thus falls into the public-private organisation category (Seringhaus and Rosson, 1989, p.37). Both export promotion and the attraction of inward investment are clearly within the mandate of UK Trade and Investment, and this differentiates the UK from the Canadian and US cases. There seems to be a stronger belief in the UK about the fact that inward investment is as important as export promotion, because it brings more competition and better

technologies. As noted above, the UK is the country that applies the least restriction on FDI. Therefore the need for a large department responsible for the screening and managing of inward investments is less apparent and might explain why investment and export promotion activities can realistically be dealt with by only one governmental agency.

Commercial diplomacy in numbers

In the UK, there is a complex network of agencies dealing with commercial diplomacy. UK Trade and Investment works in partnership with

the nine English Regional Development Agencies (RDA), the devolved administrations of Northern Ireland, Scotland and Wales, other government departments, as well as other national bodies including VisitBritain [and the British Council] (UKTI, 2006b, p.12).

The annual budget of UK Trade and Investment was just over £281.5 millions for fiscal year 2004-2005 (UKTI, 2005a, p.9). Staff numbers declined from 2,500 to 2,300 between fiscal years 2004-2005 and 2005-2006 (UKTI, 2005a, p.3; UKTI, 2006b, p.4). The organisation has 1,300 employees who work abroad in over 100 countries, and there are 400 members of staff deployed in the English regions (UKTI, 2005b, p.4). The remainder of the employees work at Headquarters in either London or Glasgow (UKTI, 2005a, p.7). Financial constraints imposed by the government help to explain this downward trend in staff numbers and there appears to be an understanding, applicable also to Canada and the US, that there is a need to do more with less.

Strategic approach and targeted companies

Of the three case studies, the UK is the first to adopt an integrated, strategic approach (Seringhaus and Rosson, 1989, p.35-37). In tandem with all industrialised countries, it is focusing its efforts on innovation and high-technology (UKTI, 2006b). The government is a world leader at setting commercial diplomacy practices and strategies. In its most recent planning document, the government explicitly states that it aims to transfer resources from the current ratio of 85% directed to trade promotion and 15% directed to inward investment to a ratio of 67% directed towards trade promotion and 33% for inward investment (UKTI, 2005b, p.5). The Canadian government intends to follow the path set by the UK (Dickson, interview).

