

in 30 John Lee

ISP POLICY FORUM: PUBLIC ADVOCATES FOR PRIVATE INTERESTS? THE RISE OF COMMERCIAL DIPLOMACY

Editor's Note: The following is the second instalment of ISP's Policy Forum, and we hope for more instalments in future issues of the journal. This Policy Forum focuses on the apparent rise of commercial diplomacy in recent years. Though not a new phenomenon in global politics, each of the following articles highlights new aspects in this area of global interaction. Each article also brings with it a perspective based in experiences from a particular country's interactions. We hope that this cross-national flavor will provide diverse insights into the issues surrounding commercial diplomacy and the policy implications those issues generate. Before moving on to the articles, the editors of ISP would like to thank Donna Lee, University of Birmingham, for her excellent work in soliciting these articles and coordinating their production for the editorial process. We sincerely appreciate her initiative and her work on the editors' behalf.

MARK A. BOYER
For the Editors of ISP

The Growing Influence of Business in U.K. Diplomacy

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Since coming to power in 1997 the Labour government of the United Kingdom (U.K.) has renovated the diplomatic system so that the planning of commercial diplomacy has been centralized, the commercial activities of diplomats have been extended, and business interests have been formally integrated within the diplomatic systems. The changes to the institutions and practice of U.K. diplomacy now under way have created a diplomatic practice in which the balance between the commercial and political elements of commercial work has swung very much in favor of the former.

In some Foreign and Commonwealth office (FCO) quarters these new practices are seen as an attack upon diplomacy; diplomats are thought to be reduced to "selling socks for Britain" and diplomacy is dubbed a "profession in peril." Neither the changes to diplomacy nor the gloomy professional reaction to them is exceptional to the U.K. As this forum shows, the increased attention to the commercial elements of diplomacy is now common among a growing number of countries. While such views have merit and reveal legitimate professional concerns on the part of diplomats, this article focuses on understanding these changes to diplomatic practice in the broader context of changing government-business relations in the U.K. The Labour government has made no secret of its desire to develop closer relations with business, having developed public private initiatives in a number of public policy areas including education, the prison service, health, and transport. In a recent speech Minister of State John Battle stated that "[b]usiness is the Foreign Office's number one priority customer."¹ The current changes to diplomatic

¹Speech to the Confederation British Industry, 15 March, 2000. Found at <http://www.fco.gov.uk> [accessed July 21, 2003].

institutions are best understood as part of government strategy to increase formal links with business that has given private interests growing influence in U.K. diplomatic practice.

The institutional restructuring of U.K. diplomacy has focused on increasing the export promotion and inward investment activities of diplomats and on creating a new central government body to coordinate these activities. In addition, the funding of commercial diplomacy has increased at the expense of traditional diplomatic activity.² At the center of these new structures we find formal business-government partnerships providing business with officially recognized influence in the planning, implementation, and evaluation of commercial diplomacy. Government-business partnerships have become a key organizing principle in contemporary U.K. diplomacy—so much so that public interest is increasingly conceptualized as a collective of private business interests.

Before discussing these changes in detail, let us first, briefly, define commercial diplomacy in the U.K. Commercial diplomacy is usually defined as the work of public officials from the FCO, overseas missions, and other government departments such as Trade and Industry (DTI) in support of the business and finance sectors of the economy. This narrow definition, however, fails to capture the involvement of nonstate actors in commercial diplomacy that, as this article shows, is so important to the practice of U.K. commercial diplomacy. A broader definition of commercial diplomacy is therefore needed to help us recognize and begin to understand the role played by nonstate actors. Thus commercial diplomacy is best defined as the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes.³

What does this network of actors typically do? Commercial diplomacy involves the promotion of inward and outward investment and the promotion of exports in trade. We can identify three broad categories of activity. One is the gathering and disseminating of commercial information and market research—that is, information on existing and potential markets on both a geographical and sectional basis. Another is developing business and government contacts in host countries and introducing the home private sector to these contacts. Finally, there is the promotion of U.K. goods and new products in the host market through the organization of seminars, trade fairs, and direct lobbying. Less evident, but clearly part of the broad sweep of commercial diplomacy, is commercial intelligence, an activity that often goes beyond gathering information to using diplomatic channels in order to keep ahead of foreign economic rivals.

Some examples of recent U.K. commercial activities include: holding a special promotions event in the British Embassy in Hanoi to help Cable & Wireless secure a U.S.\$207 million contract to supply telecommunications equipment to Vietnam; lobbying the U.S. Customs Department on behalf of Rochford Thompson Equipment to help secure a \$38 million contract to supply passport reading equipment; assisting in the organization of the British Motor Show in Yokohama as part of a year-long trade festival promoting U.K. goods across Japan; sending a mission to Sweden to help the aerospace industry; organizing a trade mission in Mexico to help the company Carlson Filtration secure an order worth some £30,000.

Commercial diplomatic activities of the kind described above are now centralized around a new business-led government unit in which novel diplomatic identities are emerging. These changes are a direct result of the Blair government's determination to build close public-private partnerships in the diplomatic process as in other areas of U.K. public policy. Let us now highlight these three key changes.

²In 1999, the FCO spent 27 percent of its total budget on commercial activity—which is more than it spent on any one of its other functions. Figures calculated from FCO data, *Annual Report, 1999*. Found at <http://www.fco.gov.uk>. [accessed July 21, 2003].

³I am grateful to Brian Hocking for pointing out the need to think about diplomacy in terms of networks

The Centralization of U.K. Commercial Diplomacy

The centralization of U.K. commercial diplomacy is now under way following the introduction of a new joint FCO-DTI body, British Trade International (BTI). This body coordinates all the trade development and inward investment promotion carried out by a network of public and private actors including FCO and DTI staff in the U.K., the foreign service personnel in overseas missions, and a large number of local, regional, national, and overseas government and private agencies. Currently led by Sir Stephen Brown, BTI Officials are recruited in equal numbers from the DTI and the FCO to emphasize the combined nature of the schema. Improvements in the career prospects of diplomats involved in commercial work are being used to increase the appeal of these activities to diplomats. There are now plenty of senior positions to be had in the new institutional structures and the overseas missions. For example, supporting the chief executive in the coordination of commercial activities is a joint management team (staffed by representatives from the DTI and the FCO as well as a new senior level committee).

Foreign and Commonwealth missions continue to provide a full range of economic services in overseas missions, whereas the DTI plays only a peripheral support role from Whitehall. This may not help interdepartmental unity, because it marginalizes the input of the DTI in the critical area, overseas work. Significantly, in contrast, business has the opportunity to play a much more integral role because of its powerful position on the board of BTI as well as through secondment* schemes to overseas missions. It is to these developments that we now turn.

Business-Led Diplomacy

BTI is the key unit heading the network of public and private actors involved in U.K. commercial diplomacy. It provides an official forum for the representation of private interests. The new arrangement clearly encourages the development of a business-led diplomacy. Business enjoys majority representation on the board of BTI. It is this extensive representation of private trading interests in the new schema that creates the potential for business to become the predominant actor in U.K. commercial diplomacy, even though the activity is funded by the public purse. Launching BTI in June 1999, then Minister of State Geoff Hoon stated that it would draw on expertise from business and set the strategic direction for export promotion. In creating BTI, the government seeks to unify the disparate activities of a number of agencies, and to do so in a way that facilitates an ascendant role for business in the whole export promotion operation. More significantly, the government intends business ideas, knowledge, and skills to determine the practice and purpose of the new commercial diplomacy.

BTI develops long-term trade strategies and directs performance review of all export promotion activities. The primary goal of current strategy is to increase British business success overseas, with an emphasis on trade development rather than just trade promotion. Particular emphasis is given in assisting smaller and inexperienced companies to develop exports in new and existing markets.

The enhanced position of business in the new institutions of commercial diplomacy means that business interests drive export promotion strategies in the U.K. BTI has earmarked key markets for the focus of future trade promotion identified by the recent annual report of the FCO. Currently these markets are China, Japan, India, Sweden, Mexico, the oil rich Caspian region, and developing countries. Again, nothing exceptional or unpredictable here. What is not clear from

*Secondment refers to the common UK management practice of temporary postings in a—usually—entirely new work setting in order to learn new skills.

this list, however, is the extent to which these targeted markets reflect the particular export interests of small or inexperienced U.K. business, or the general interests of all U.K. exporters. This issue seems important in respect to how we think about and perhaps begin to define representation in current diplomatic practice. It suggests a change from a broad view of representation based on the general interests of the state to the narrower concerns of private business. Moreover, the practice of targeting a narrow range of markets for small and medium-sized businesses narrows the definition of diplomatic representation even further.

While commercial lobbying may be assisting a narrow range of U.K. businesses, commercial intelligence is drawn from a wide range of markets. BTI amasses commercial intelligence from all overseas posts currently working in some 140 markets to boost British exports, making its information readily available to British business via its website. This website provides an information gateway of paid access to detailed market information, sector information, specific advice for first time exporters, information on export promotion events, contacts and links, and a series of export databases. There is, however, little that is new in terms of the content of diplomacy in these web pages; the range of services offered matches those traditionally offered by the commercial departments of overseas missions. What is new is the centralization of this service and the use of information technology as a diplomatic method.

The Changing Identity of the Diplomat

A wide range of new training programs and two-way secondment schemes has led to a third change in diplomatic practice in the U.K. that also enhances the role and influence of business—the fusion (some would say confusion) of public and private identity in diplomacy. Diplomats are now trained in business skills and placed temporarily in business settings. Business representatives are given temporary diplomatic status in overseas missions through placement schemes. As a result, the distinction between the two sets of actors, as the discussion below shows, is becoming increasingly blurred.

If diplomats are to take a more direct and active role in export promotion, and in so doing become major actors in the global economy, then it follows that they require specialist training. Traditional diplomats are generally thought to be ill-equipped to manage foreign economic policies effectively. Because of their usual emphasis on high politics, U.K. overseas missions are weak on the details of economic issues. Furthermore, the previous practice of poor funding of commercial activities exacerbates these skill-deficit problems.

Can diplomats be trained effectively to promote British exports and British enterprise in the global economy or, alternatively, should the FCO subcontract commercial diplomacy out to private actors such as lobbyists and market research agencies (as is the case in the United States)? This has long been a thorny question. Certainly many skeptics doubt that diplomats can, or should, be trained in trade promotion skills. Among the legion of skeptics are many diplomats who, in the past, have tended to see themselves as classically trained generalists or experts in several areas rather than experts in one specialized area such as trade.

Rather than subcontracting out to the private sector as some skeptics suggest, the U.K. government has developed schemes by which business subcontracts “in” on short-term secondments in embassies, high commissions, and consulates. New attachment schemes facilitate what the government refers to as the cross-fertilisation of skills between business executives and diplomats. For example, the FCO’s Short Term Business Attachment Scheme places business executives in overseas missions for a period of three or six months to provide expert support and advice to the diplomats. The government now makes high claims for these executives who are seen as a new breed of diplomat providing “expert support on

specific projects or promotions at our Embassies and High Commissions overseas.”
 † Since the scheme was introduced in July 1999, many attachments have been made, including that of a Rolls Royce executive on a three-month secondment to Australia to review the engineering, technical, and manufacturing capability of firms located there. In a similar placement David Scammel, the marketing manager of Quantel, was seconded to the British Consulate in Los Angeles for six months. He said of the experience: “My presence and ideas helped the Consulate become more conscious of the key business issues. In turn, I came away respectful of what government is doing.”⁴

Recent controversies over the secondment of a British Nuclear Fuels Limited (BNFL) employee, Tom McLaughlan, to the overseas mission in Tokyo illustrate some of the problems secondment programs can produce. McLaughlan stands accused of abusing his diplomatic status by presenting an exceptionally positive view of BNFL in embassy reports written in the name of the ambassador. These reports convinced FCO officials in London that the Japanese government and industry were united in their view of the advantages of working with BNFL—a claim challenged by William Walker in a letter to the *Guardian* newspaper (March 10, 2000). Although the FCO claims that McLaughlan was answerable to officials and not to BNFL, this case shows that business representatives on secondments can, and do, abuse their diplomatic status by representing narrow private interests even when they conflict with the general interests as they did in the BNFL case. With so many secondment programs in operation now, the issue of interest representation and, of course, accountability in overseas missions becomes far more important.

Other new breeds of diplomats include the so-called Ambassadors for Britain. In this scheme, leading business executives act to promote the general interests of U.K. business at special events in overseas missions. There have been some thirty such ambassadors working for the U.K. in over thirty countries.⁵ Government attempts to forge closer links between diplomats and business also involve officials seconded to the private sector in yet another scheme. In 1998 twenty FCO officials were seconded to a variety of business environments including British Aerospace, † Unilever, and British Petroleum.⁶ It is far too early to tell whether these reforms are increasing the professionalism and expertise in trade within commercial sections of FCO missions or not.

Conclusion

This article has focused on recent changes to U.K. diplomatic institutions and diplomatic practice that facilitate the growing influence for business in U.K. These include the development of a new FCO-DTI unit at the center of government, the formal inclusion of business representatives and thus business interests in this new body and in overseas missions through placement schemes, and the marriage of public and private actors and interests. It is important to identify these changes not because it helps us reach conclusions about the demise or resilience of traditional diplomacy but rather because it provides a means to identify and understand changes in public-private relationships within state structures. The current changes to diplomacy are not the most spectacular or the most controversial examples of the growing influence of business in British public policy. Nonetheless, they are further evidence of the changing nature of government-business relations in the U.K.

⁴FCO, *Annual Report*, 1999, p. 18.

⁵FCO, *Annual Report*, 1999.

⁶FCO, *Annual Report*, 1999.