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*Commercial Diplomacy and International
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ABSTRACT

Commercial diplomacy is a significant factor in the on-going process of globalization, yet there is a shortage of empirical research on this activity. This paper reports the results of an empirical study conducted among diplomats and managers. It identifies three dominant types of commercial diplomats: civil servant, generalist and business promoter. The paper shows how commercial diplomacy contributes to the promotion of international trade and corporate partnership, to the resolution of business conflicts and the marketing of a country as a location for foreign investments, R&D activities or tourist destination and "made-in". It presents the current trends in commercial diplomacy, examines the determinants of its value chain and service fees and makes a number of suggestions on how to improve performance given the growing willingness of governments to emphasize the business promotion approach.

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COMMERCIAL DIPLOMACY AND INTERNATIONAL BUSINESS

Michel Kostechi and Olivier Naray

Introduction

Commercial diplomacy plays a significant role in global trade, investments and R&D activities, yet has remained virtually unexplored as a factor of international business development. This paper examines the issue from a managerial perspective. The emphasis is on the value chain of commercial diplomacy and on leading management issues such as service profile, its positioning, client-provider gap, management style, organizational matrix, as well as service fees, motivation, the evidence concerning improved performance and best practice. Empirical data has been collected through in-depth interviews, a panel of experts and questionnaire-based research.

Commercial Diplomacy

Diplomacy is usually described as the main instrument of foreign policy enabling the management of external relations of a state by communication with foreign authorities and publics, as well as through the process of negotiations and networking. Diplomatic activities may take place on the international level (bilateral, regional or multilateral) or within the host state (for example, relations with government departments, civil servants, parliament, NGOs, business organizations, corporations and so on). Commercial diplomacy is a government service to the business community, which aims at the development of socially beneficial international business ventures. Commercial diplomats perform their main activities in the host country and are usually staff members of a diplomatic mission or a trade promotion organization (TPO) / investment promotion agency (IPA). The term commercial diplomat in this paper stands for all different denominations that commercial diplomats might officially receive such as 'commercial counselor', 'commercial attaché', 'trade representative', 'commercial representative' and so on. The term *commercial diplomacy* is frequently used to cover two somewhat different types of activities: (i) activities relating to trade policy-making (for example, multilateral trade negotiations, trade consultations and dispute

Handwritten notes in the left margin: "in case of corporate objectives" and "in case of".

<p>The commercial diplomacy's service has to fit suffer from inefficiencies. influenced by politics and bureaucracy, often country. Government services, strongly relations between the home and the host fulfill social expectations concerning business beneficiaries are involved in creating value to Government providers and business</p>	<p>2. Government service</p>
<p>Performance - being intangible - is difficult to evaluate. It is highly dependent on the skills and motivation of the providing individual and/or team and on the quality of the relationship between the commercial diplomats and their beneficiary.</p>	<p>1. Service</p>
<p>Managerial Implications</p>	<p>The Nature of Commercial Diplomacy</p>

Table 1
The Nature of Commercial Diplomacy Services and their
Managerial Implications

settlement) and (ii) business-support activities (Curzon 1965, Saner & Yin 2003). The first category is also referred to as trade diplomacy and is designed to influence foreign government policy and regulatory decisions that affect global trade and investment. This paper deals with the second form of diplomacy and opts for the use of the term commercial diplomacy for the following reasons. First, the term commercial diplomacy is commonly employed within numerous foreign services and in the literature to describe business support functions performed by the members of diplomatic missions, their staff and the related agencies. Second, the alternative term business diplomacy is ambiguous since it is often used in reference to corporate activities widely known as public relations, public affairs or corporate-government affairs. Finally, the term commerce is broad enough to cover not only issues related to trade but also those related to investment, tourism or intellectual property. With globalization and greater government attention paid to corporate performance, job creation, and research and development (R&D), the role of commercial diplomacy tends to change. Table 1 below presents the main features of commercial diplomacy viewed as a service and briefly describes their managerial implications.

X =

corp trade diplomacy

The spectrum of actors in commercial diplomacy ranges from (i) the high-policy level (head of state, prime minister, minister or a member of parliament) to (ii) ambassador and the lower level of specialized diplomatic envoy known as trade representative, commercial attaché, or commercial diplomat. The activities of the latter take place within a network of specialized, government-sponsored organizations charged with trade promotion or attracting foreign direct investments such as the TPOs or IPAs. It is this particular form of commercial diplomacy that is the focus of this paper.

<p>6. Networking service</p> <p>A service in which the value is largely created through relationships that give access to new information not publicly available and forge business contacts is particularly intangible and difficult to assess. The skills, standing and the right motivation of the individuals involved in such activity is a [condition] <i>sine qua non</i> of success.</p>	
<p>5. Commercial service</p> <p>The business beneficiaries pay for certain other services, which raises the issue of what is the rationale for having the services provided by diplomatic missions rather than private consultants, intermediaries or self-help business organizations.</p>	
<p>4. Public service</p> <p>The business beneficiary does not pay for certain commercial diplomacy (public) services, which means that 'ownership' may be a critical issue in determining what the content and quality of the service should be and how it should be evaluated.</p>	
<p>3. Diplomatic service</p> <p>into the context of the home country's foreign policy, its export promotion programs and wider economic policy objectives. The resulting subordination to several forms of authority may bring confusion and reduce accountability. Moreover, diplomats are frequently criticized for their limited understanding of business, lack of entrepreneurship and abuse of the diplomat's power for personal benefit or that of their cronies.</p>	

Review of the Literature

There are relatively few academic publications on commercial diplomacy and there is an even greater shortage of management science studies of the issue. Useful reviews of the status and functions of the commercial diplomat are offered by Carron de la Carrière (1998), Rana (2001), Sauer & Yiu (2003), and Kopp (2004). Rana's study is an experience-based account by a former diplomat. These publications offer useful descriptions of the commercial diplomat's functions and numerous conceptual insights but are based on scarce empirical evidence.

Commercial diplomacy is also dealt with in a number of studies providing multi-faceted analyses of particular foreign services. A French study group (Commissariat du Plan, 1994) addresses commercial diplomacy in the context of competitive intelligence and business intelligence. A paper by Garten et al. (1998) considers the role of US commercial diplomats in Asia in the mid-1990s and evaluates its benefits for the US Administration and business community. A study by Porter (2004) concentrates on the Canadian experience and focuses on the added value of the commercial diplomat's functions. Quantitative evidence contained in the study by Rose (2005) suggests that export development is encouraged by diplomatic representations abroad. Using a cross-section of data covering twenty-two large exporters and two hundred import destinations, the author shows that bilateral exports rise by approximately 6-10 per cent for each additional consulate abroad.

Commercial diplomacy is perceived as an integral part of a trade = \int

promotion program in a study by Rothkopf (1998). The study evaluates the program's beneficiaries and deals with the controversies surrounding the benefit-sharing within the business community. Finally, commercial diplomacy is marginally addressed in a number of broader publications dealing with export promotion (e.g. Hibbert 1990, Kotler et al 1997). The Hibbert model suggests that the role of the commercial representation abroad depends on the home country's institutional settings and organizational constraints and, in particular, on the relative position of the TPO, ministry of commerce and ministry of foreign affairs in the organizational matrix.

There is a tendency for diplomatic missions to undertake more and more technical and specialized business-assistance functions (Rose 2005, Rana 2001) and diplomatic staff are increasingly required to engage in partner search, promotion of investments and technology transfer or business

→ performance of in style + experience

The scope and quality of commercial diplomacy depend on the number of people doing the job. Thus the first question asked concerned the number of commercial diplomats working abroad and of local professional staff assisting them. Questionnaire-based responses by ministries from twelve countries provided the data included in Table 2.

Quantitative Importance

The trend is encouraged by developments in Information Technology (IT) and low-cost transportation which naturally shift many specialized policy matters away from host country-based diplomats and towards experts located in the capitals of their home countries. This paper concentrates on the role of commercial diplomacy in international business. Its objective is: (i) to assist managers and government in considering how to better use and improve commercial diplomacy and (ii) to provide researchers with a foundation for future systematic investigation. With reference to the latter objective we devised a model that explains the commercial diplomat's role in the process of business internationalization. This is based on the observation that the value added of commercial diplomacy is dependent on a set of variables specified in the path diagram shown in Appendix 2 and discussed in the main body of this paper.

It is estimated that the total number of commercial diplomats across the world is no fewer than 20,000 and that the costs of commercial diplomacy operations – including salaries plus social charges and the operating costs related to the performance of commercial diplomacy functions – exceed half a billion US dollars per year (Appendix 3). Those figures do not comprise diplomatic envoys, such as ambassadors, who engage in commercial diplomacy in addition to their other main tasks and the non-diplomatic staff of various TPOs and business organizations which perform commercial diplomacy-related functions.

Notes: (1) Estimate. (2) Corresponds to commercial diplomats integrated in TPO offices abroad since the embassy does not perform export promotion; (3) Comprises 15 Swiss Business Hubs (TPO), which are not counted in our estimates.
 Source: Trade data refer to the 2003 WTO statistics. Numbers in column 3 and 4 are based on questionnaire research.

Country of Origin	Share of World Trade (in%)	Number of Commercial Diplomacy Units	Staff of Commercial Diplomacy Units Abroad
Germany	10.0	220	
United States	9.6	150	
Japan	6.3	80	780
China	5.8	50 (1)	
France	5.2	156	
United Kingdom	4.1	200	1500
Canada	3.6	100	585
South Korea	2.6	141	
Sweden	1.3	40 (2)	235
Switzerland	1.3	140 (3)	
Brazil	1.0	57	193
Poland	0.7	77	

Table 2
 Number of Commercial Diplomats by Country of Origin

Handwritten notes:
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The Value Chain

Commercial diplomacy is a value-creating activity. By value is meant the utility combination of benefits delivered to the beneficiaries minus the cost of those benefits to business and government (Porter, 1980). The commercial diplomacy's services may be thus presented as a value chain disaggregated into strategically relevant activities as shown in Figure 1. Two types of activities are distinguished: (i) primary activities (relating to trade and FDI), research and technology, tourism and business advocacy) and (ii) support activities which provide the inputs needed for the primary activities to occur (intelligence, networking, involvement in the 'made-in' image campaigns, support for business negotiations, contract implementation and problem-solving).

The primary activities of a commercial diplomat are essentially marketing-related. When asked to define his job, an experienced commercial diplomat from New Zealand described it as 'managing the relationship between sellers and buyers'. Trade promotion covers such duties as involvement in trade fairs, exhibitions, trade missions, conferences or seminars and 'made-in' promotion campaigns. Commercial diplomats also become involved in the promotion of tourism and other services such as banking or education. In doing so, they often co-operate with TPOs / IPAs or bilateral chambers of commerce. Commercial diplomats often have a double mandate as TPO / IPA directors and as commercial counselors of the embassy. In countries such as South Korea, Taiwan or Japan, commercial diplomacy is delegated to the TPO's foreign offices and therefore the director of the branch in the host country is the 'commercial diplomat' in our understanding.

Intelligence from commercial diplomats most frequently concerns reporting on opportunities resulting from calls for tenders, development projects or the needs of leading industrial customers, information on changes in regulations affecting exporters and so on. Information-gathering is even assumed by such chambers;

The main support activity of commercial diplomacy is intelligence, which includes information search and dealing with business enquires from the home and host country firms. A Central American commercial diplomat considers that 'about 95% of clients do not ask for elaborate services but mainly for basic information on legal issues, political situation, etc'. A typical question might be: 'is there a market for product X in country Z?' Such simple activities mainly provide benefits for SMEs rather than larger firms. In Switzerland, economic reports of embassies follow standards set by Seco (belonging to the ministry of economy) and are prepared in co-operation with bilateral chambers of commerce. In small embassies the basic service may be

The attraction of FDI is a growing activity because they stimulate the home country's economic growth and employment in priority sectors or regions, as well as complementing co-operation in science and technology. Advocacy in favor of the national business community means the commercial diplomat's involvement in public affairs for the benefit of national companies and business associations in their dealings with the host country government, parliament or main public (Kostecki, 2005). It also signifies that commercial diplomats react to host country proposals for regulations and international trade agreements.

Value Chain of Commercial Diplomacy

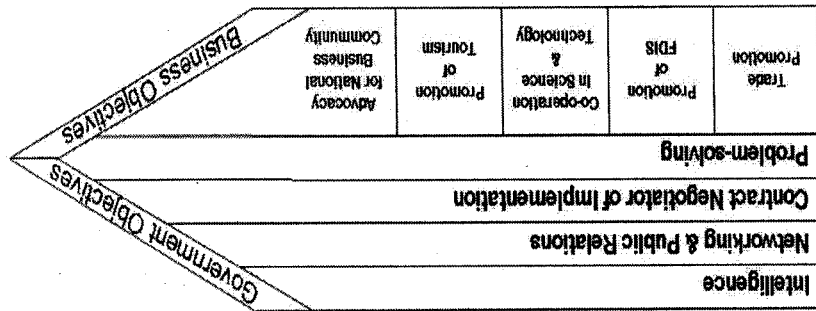


Figure 1

progressively changing its character due to the improved transparency brought about by the WTO and Internet based information systems such as the EU centralized database <http://ec.europa.eu>. Trade promotion experts invite commercial diplomats to suggest business solutions instead of providing information. Reporting becomes more business specific. One finds today business information on the Internet and in the Financial Times. Companies have reports; reports should be short and to the point. As a consequence, commercial diplomats may focus more on searching out more specific information on 'real-life' issues. Such 'tailor-made' information is often presented in confidential reports. The ambassador receives all the information and decides with whom to share it. Staff distribute the information accordingly thereafter.

An illustrative list of comments on business-support functions of commercial diplomats is set out below:

- Business is conducted by companies but governments may open doors (Australian industrialist).
- We introduce business people but we stop there. Doing business is not our responsibility (commercial diplomat, South America).
- It (commercial diplomacy) is largely about personal relationships and networking (commercial diplomat, Anglo-Saxon country).
- Commercial Diplomacy is essentially about selling consulting services. Companies should be charged for it. (Trade promotion expert).
- Mostly manufacturing SMEs used trade promotion services. We deal with a number of Fortune 500 companies mainly to provide advocacy services. (commercial diplomat, Anglo-Saxon country).
- A trade representative needs time to become a player and to be taken seriously; at least 18 months (former commercial diplomat from New Zealand).
- Our ambassadors and commercial diplomats are in regular contacts with multinational corporations in order to encourage them to invest in our country (commercial diplomat from Central Europe).
- Commercial diplomatic services are particularly useful for newcomers to a given market or for SMEs with no experience in exporting (business person from France).

Networking is needed to bring together high tech start-ups with venture capitalists or other partners. Public relations are strategic for FDI promotion and may involve ambassador's contacts with CEOs of large companies and

attendance at business fora in the host country. Assistance in 'match making' is particularly frequent for the commercial diplomats from the UK, Brazil, Canada, China and Switzerland. Such activities refer both to trade issues and foreign direct investments. In the latter case the partner search may be also conducted on behalf of a particular region in the home country (Billi and Serner, 2006).

Support for national firms involved in negotiations with the authorities or corporations from the host country are an important form of support by commercial diplomacy services, which favor a hands-on approach to business. A commercial diplomat's public relations activities essentially aim at maintaining good contacts with business leaders and authorities and cover advocacy efforts aimed at the protection of the home country's business interests in public hearings or consultations in the host country's legislative process. The representatives of some Anglo-Saxon countries suggest that such activities are particularly frequent in the case of Fortune 500 companies. As noted by a former ambassador 'hierarchy may be very important. The trade representative is not always received, when alone, by managers of large corporations and the Ambassador has to go along as well to gain access to top management'. In the UK, Australia, Canada and the European Union commercial diplomats are only too well aware of the important influence that an ambassador's contacts may have for promoting foreign direct investments. As an Australian businessman puts it, 'certain investments would have never taken place without a close contact between our ambassador and a CEO of a major foreign company'.

The commercial diplomats also act as advisers in contract negotiations, provide support for problem-solving in business or in corporate-government relations, and become involved in dispute settlement cases. The problem-solving activities frequently refer to the protection of intellectual property rights (Kostecki, 2006), tax issues, assistance to national companies which have suffered losses and wish to obtain compensation as well as various forms of support provided as diplomatic protection. Many of these kinds of problems are discussed during periodic bilateral consultations with government of the host country. Support for problem-solving is well illustrated by Asian commercial diplomats' efforts to deal with the European health authorities 'when a food product suffered from export ban to Europe's market'. Commercial diplomats also assist in the finding of a "friendly" solution without judicial procedures when business conflicts arise.

Table 3 presents some quantitative indicators of the relative importance of the various functions in terms of work load and time allocation by the commercial diplomat's staff. Business intelligence and participation in trade

fairs and other trade promotion events tend to account for the major share of commercial diplomacy activities. With the notable exception of Germany and the UK, responding to requests for information on the part of the home and host country companies accounts for an average of 43 per cent of a commercial diplomat's time. A UK diplomat considers that the traditional intelligence function of a commercial diplomat is decreasing due to easier e-data access and improved transparency in business. Another significant activity is the involvement in trade fairs, trade missions and other trade promotion events which take, on average, more than 23 per cent of the time of the commercial diplomacy units. There are, however, notable deviations from this pattern. Germany, China and Brazil place significant emphasis on relations with the host country government rather than on dealing with enquirers for information. According to an Anglo-Saxon commercial diplomat, 'traditional trade work decreases to the advantage of promotion of services, science and technology and investments'. A similar tendency is confirmed by commercial diplomat interviewees from Japan and Canada.

The United States focuses on trade promotion activities (FDI issues being left to particular states), whereas the United Kingdom concentrates its efforts on the attraction of foreign direct investments, as well as scientific and technological skills and underlines the importance of public relations (especially at the ambassador level) in business support. Particularly intimate links between high level diplomacy and commercial diplomacy exist in the British Foreign Service where 'even the ambassador deals approximately 30% of his time with trade and investment issues'. Almost all commercial diplomats dealing with promotion of FDI's wish they had more time for that activity since it is increasing in importance to the national economy.

What determines the weight of the various commercial diplomacy activities? Here a number of variables are at play, variables which are both exogenous and endogenous to the national service of commercial diplomacy. The exogenous variables include: host country characteristics such as market size and potential, the location of a particular centre of gravity (if any), business style and governance, home country characteristics (such as the level of economic development, mobility of managers, IT use and attitudes towards business), and the nature of bilateral relations between the home and the host country.

Notes: questionnaire-based research.
 *60 per cent for all export promotion activities, the allocation 3 times 20% (trade fairs, intelligence and support) is an estimate.

Country	Commercial diplomats	Home diplomats	Trade Fairs	Promotion of FDI's	Government Relations	Business Intelligence & Partner Search	Support in Business Negotiations	Support in Business Disputes	Tourism
Germany	5	30	65	-	-	-	-	-	-
United States	60	40							
Japan	20	70							
China	15	10	40	25				10	
France	10	10	15	60				5	
United Kingdom									
Canada	30	20	50					Ambassador	
South Korea	25	25	50						
Sweden	30	50	10					10	
Switzerland	10	40	40					40	
Austria	30	50						20	
Brazil		60-70							
Poland	25	13	12	50					
Hungary	20	25	25					5	
Venezuela	10	10	20	60					
Ireland	10	50						10	
El Salvador	50								
Portugal *	20 (est.)	15	20 (est.)						25

Table 3
 Allocation of Commercial Diplomat Time between Various Business-support Activities (as a percentage of the questioned commercial diplomat's total work time)

The next two sections deal with the exogenous variables while endogenous variables are considered at a later stage.

Host Country Characteristics

The host country's market size and market potential is the most significant determinant of the investment in commercial diplomacy. Indeed, target countries with large and rapidly growing markets, such as Brazil, China, India, Russia or Eastern Europe tend to attract more commercial diplomacy activities than countries with small markets and limited growth.

Such markets are to be found largely in culturally distant countries where market penetration is a progressive process of learning by doing. Established companies need commercial diplomacy services particularly in new markets' (Swedish Manager). The recent experience with the Swiss Business Hub (SBH) suggests that 'business support is perhaps less urgently needed in neighboring countries than in major distant markets'. Several European and US managers refer to cultural problems in China, Japan or other Asian countries and recognize that 'commercial diplomacy may facilitate interaction'. The market-entry function of commercial diplomacy is particularly critical for small and medium-sized enterprises that are newcomers to a particular region.

The gravity centre is also, at times, important. No one may truly encourage their national financial industry without being present in London, New York or Singapore. Specialized trade fairs which, take place in certain locations may also require commercial diplomacy presence. For example, the Basel watch exhibition in Switzerland is essential for many foreign watch producers whilst for textiles and clothing numerous promotion activities are centered in Paris, Milan or London. The commercial diplomats from textile-exporting nations have to be there.

Various policy variables such as an unreliable legal environment, the inability to obtain satisfaction in courts or widespread corruption in the host country affect the nature of commercial diplomacy. Such an environment gears commercial diplomacy activities towards assisting the national firms that have been injured by acts contrary to law, the slow process of jurisdiction and so on. If such problems cannot be solved through normal channels,

- 2) This is the act by which a State, espousing the cause of its subject as the injured party, intervenes in its own name when it feels that a rule of international law has been violated.

Commercial diplomats often refer to the image problem of their economy abroad as an issue of true concern. Particularly for developing economies, the 'made-in' image, which relies on stereotypes, is difficult to modify. Commercial diplomats are involved in 'made-in' promotion, tourist campaigns, and meetings with potential investors to explain policy reforms that attract foreign business. For example, Venezuela's commercial diplomat noted that very little is known in Europe about her country's business community, including the country's leading energy sector and the role it plays in OPEC. Another commercial diplomat from a transition economy based in Europe noted that 'his main challenge is to give his national business an image of a credible trading partner'. Even in the case of Japan one of the commercial diplomat's tasks 'is to maintain "Japan Brand" i.e. the image of quality and precision of the Japanese products'. For a Canadian commercial diplomat his country suffers from an out-dated image since it is 'identified mainly as an exporter of commodities and not of high tech. Canada also stands in the US shadow as a trading partner'.

Commercial diplomats provide support for visits of the home country business people and politicians to the host country and offer assistance to encourage the participation of business people in various fairs, exhibitions,

Commercial Diplomacy and the Home Country

commercial diplomats may be instrumental in exercising diplomatic protection.²

The relative importance of various commercial diplomat's activities depends on the host country's business regime. The business regime is defined by the rules and processes which guide the country's business relations. The role of a commercial diplomat's support in corporate-government relations tends to be particularly critical when local government or the governmental elite play a role due to state-trading, public ownership, production subsidies, or informal influence over local business. The business regime is clearly influenced by culture and tradition. The greater are the differences, the less reassuring it is for a newcomer to enter a market and the more important the commercial diplomat's role in providing business support, at least at the initial stage.

In the case of small countries or non-mature trade relationships, commercial diplomats are sometimes involved in setting up a bilateral chamber of commerce. On the other hand, when trade relations are mature passed via the Internet.

The environment for bilateral business is another factor shaping the commercial diplomat's role. The commercial diplomat's activities depend on the climate of bilateral relations influenced by history, perhaps a colonial past, political proximity, the importance of the aid program, military alliances, and so on. A commercial diplomat's job may be facilitated by bilateral agreements (for example, on tax or FDI matters) and/or participation in common regional groupings such as a free trade area or customs union. As noted by an experienced diplomat, the increasing interest in investments partly reflects a lack of a multilateral agreement on the matter which creates more work for commercial diplomats. There is evidence that the EU commercial diplomats operating in other European countries have considerably modified their duties as regional integration has progressed over the years. Within EU countries, for instance, the classical export promotion tasks of the embassy have become obsolete, since trade barriers do not exist anymore and market information is

immune to that tradition. habits in business-government interaction and commercial diplomacy is not development, and cultural considerations. Every country and culture has its commercial diplomat, perception of the role of the state in business factors as managerial expectations concerning what can be obtained from a know the embassy staff. The reason for this disparity might include such to the embassy once abroad, just to say "we are here" and meet and get to need to be watched by government. French business people automatically go Swiss businesses are used to dealing with challenges alone and do not feel the to their embassies. They do this only when and if they have a major problem. European businessmen noted that the Swiss doing business abroad don't go to contact host country diplomats, whilst others tend to act alone. A differences in the propensity of business to maintain contacts with national present, as in Canada or Scandinavian countries. There are also substantial firms coming from countries where government traditionally has been more exporting firms have fewer expectations regarding export promotion than the United States, where government intervention has been traditionally low, countries and strongly influences commercial diplomacy. In Switzerland and The government approach towards business varies considerably between assistance may also comprise arranging for visas or temporary work permits.

calls for tender and so on. In the case of certain developing countries such

Commercial diplomacy, being a government service, is accused of certain shortcomings (for details see Table I). In certain cases such criticism may be encountered because of the stereotypes regarding government agencies. In others, it is a reaction to an unsatisfactory experience, exemplified in the list below:

Rationales for Commercial Diplomacy

commercial diplomats tend to rely on inputs provided by bilateral chambers and operate in a symbiotic relationship with them. For example, some Anglo-Saxon commercial diplomats stress that they draw on the expertise of local bilateral chambers of commerce, and that their links with such chambers are generally informal and mutually useful. Nevertheless, the role of certain bilateral chambers is not free of ambiguity. As noted by another commercial diplomat from a small European country, the chamber is usually a place where businesses meet in the foreign country to network with each other and to make deals and it is not clear why they should offer support to newcomers who are likely to become their competitors.

There is a trend to close down small embassies and to reinforce larger multilateral embassies at the UN and elsewhere. Such developments modify the role that commercial diplomats may play for the private sector. For example, the meetings of the World Economic Forum in Davos, facilitate advocacy conducted against the background of multilateral economic negotiations, and can be considered the new arenas for commercial diplomacy. Certain authors talk about a modern form of multilateral commercial diplomacy where a direct interaction between ambassadors, politicians, business leaders and NGOs creates a new dynamic against which multilateral economic negotiations are conducted (Naray, 2001).

Increased mobility and the Internet obviously affect the way in which commercial diplomats work. Speed brings dramatic change. In the past one month used to be a normal time, now one has to act immediately, within a few days or a week. Location is another issue. Today's commercial diplomat can work for a part of a continent from a business capital, for instance from Warsaw for central-eastern Europe. A commercial diplomat does not even really need an office anymore: a mobile phone and a lap-top PC should be enough for a traveling commercial diplomat to meet his clients. The commercial diplomat's work is increasingly done where the business is, on the spot.

Access to decision-makers: high ranking diplomats have better access to the chief executive officers (CEO) of large corporations, policy-makers, bureaucracies and elites in the host country.

Visibility in the mass media: a diplomat – especially an ambassador – attracts greater attention from journalists than a business person; they may stage promotion events at relatively low cost.

Economic intelligence: intelligence is better gathered thanks to the embassy's contacts. Moreover, diplomatic immunity encourages commercial diplomats to take risks in intelligence activities since *legati iure gentium sancti sunt* (diplomats are untouchable under international law).

Since many commercial diplomat activities may be well performed by private firms or associations that are free of such shortcomings, the rationale for maintaining commercial diplomats abroad has to be considered. There are several reasons why being part of public administration may have advantages over private representation of business interests abroad:

- (There is) no need for commercial diplomats: they only take advantage of diplomatic privileges; one cannot measure their performance in export promotion at all (confidential source).
- 'Exporters do not use the same language as diplomats' (an export promotion expert).
- 'A diplomat's social life is often very unproductive' (an export promotion expert).
- 'Diplomats are most of the time generalists and do not understand business concerns'.
- 'Commercial attaches are bureaucratic and ineffective' (an Australian businessman).
- 'Diplomats are most of the time overloaded with issues other than trade and investment so they have no time to do their job correctly as trade representatives and do not have the sense of priority to assist business people'.
- 'Commercial diplomats will only help their private friends and will therefore encourage corruption within the diplomatic service' (confidential source).
- 'There is no need for commercial diplomats in a free market economy. Buyers and sellers can meet without their assistance' (confidential source).

A particular set of problems concerns the filtering criteria that are used to allocate the commercial diplomat's services between the various firms. The issue is particularly important for the commercial diplomacy services offered free of charge and where the diplomats are sometimes accused of 'servicing' and diversified and less relationship-based.

The main users of the commercial diplomat's services varies depending on the countries and circumstances concerned. The client characteristics which influence the nature of commercial diplomacy services are: (i) the fit with the filtering criteria established by the home country government and (ii) the readiness to pay for the service. Most commercial diplomacy services focus on SMEs. To put it in the words of a South American commercial attaché, 'large companies don't need us', US commercial diplomats also consider that their services are 'mainly used by manufacturing SMEs; more than 93,000 such US firms used the services in 2004'. Other Anglo-Saxon commercial diplomats state they assist both SMEs and larger corporations but the profile of the support differs between the two categories. While in the case of big business the emphasis is on public relations involving the host country government and private sector personalities, the services offered to SMEs are more technical

Beneficiaries of Commercial Diplomacy

Instrument of government policy: commercial diplomacy appears to be an essential component of state-sponsored export promotion activities. In certain cases it is motivated by the conviction that the state has a role to play as a business facilitator and a catalyst of entrepreneurship. In others, it is based on the assumption that certain objectives of business promotion abroad can be best accomplished by the commercial diplomats due to the synergies between government and business organizations.

Economies of scale and scope: centralizing support to a national business community abroad permits the benefits of economies of scale and scope which diminish the cost of the promotion efforts that no private organization could reach.

Credibility: diplomats enjoy more credibility when making promises and commitments during their efforts to attract foreign investors than private actors. They have greater weight when dealing with the host country's public administration and state-owned enterprises.

In many instances embassies do not charge for their commercial services but this approach is being increasingly questioned. In the opinion of most interviewees, clients should be charged for the service. They should be charged, not to maximize revenue but for prestige and to ensure service quality. Others believe that commercial diplomats should charge, at least for some of their services and offer them to those who are willing to pay. If a company believes in its product and in its internationalization strategy it will pay. Many commercial diplomacy systems already follow this practice. It is the principle of the US commercial diplomacy to charge for services such as

exporters who are serious and wish to export to our host country market'.
 that want to import our products. Secondly, we provide services to our commercial diplomat notes: 'we serve those companies in the host country project'. Commenting on the prioritization of her clients, a South American their dealings with the local sanitary authorities or to initiate a new business assisted. For example, our exporters of meat and poultry use our embassy in respond to every request ... only those who satisfy the criteria should be the judgment of an experienced commercial diplomat, 'we are not able to 'waste' in his country's diplomacy resulting from a poor filtering system. In A commercial diplomat from Latin America complains about the extent of are not "export ready", essentially takes place at home, via export assistance'.
 In the US, filtering and pre-advising, i.e. eliminating the companies that

itself.
 applied given the *ad hoc* filtering practice in the commercial diplomat's office 'nothing succeeds like success' but it is doubtful whether it can be objectively chances to succeed'. The criteria is a paraphrase of the old marketing rule that expect us to do their exporting job. Priority is given to those that have the best especially when the people concerned lack education and experience and initiatives are not well prepared. We are not able to assist everybody international activities and the desire to innovate. Unfortunately, most such This is encouraged by domestic unemployment, the prestige attached to in her country, many small entrepreneurs try to initiate new ventures abroad. A Europe-based commercial diplomat from South America stresses that, particularly promising in terms of job creation, regional development or R&D. the areas of business which have been targeted by the government as being special attention is paid to newcomers and to the priority business, that is to countries 'prioritize service firms and high tech start-ups'. In most cases the SME category UK commercial diplomats operating in developed criteria to ensure that their efforts are targeted at the right businesses. Within commercial diplomats maintain they use government-imposed filtering their friends' or providing support to business in unjustified cases. Most

market research and involvement in trade fairs'. The Irish, Swiss and French commercial diplomats 'charge for a range of commercial diplomacy services' especially when 'the requests are demanding'. In particular, 'services such as market research and other forms of consulting are provided against a fee'. Such an approach, says an experienced commercial diplomat, prevents commercial diplomats from 'helping their private friends and encouraging corruption'. Charging for commercial diplomacy services – even if only to cover a fraction of the expense – might also reduce the ineffective allocation of public funds. As noted by a trade promotion expert: 'the best exporters do not use the service and providing the service to the worst exporters is a waste of time and resources'.

The level of the fees charged depends on the circumstances and the country concerned. 'Fees vary from country to country between 140 and 160 dollars/hour (2006 data) to 450 euro/half a day'. Many commercial diplomacy services are sub-contracted if an embassy does not have the resources to carry them out and the market determines the fee level. A commercial diplomat from Europe noted that 'embassies have no time for market research' and services are frequently sub-contracted.

Measurement of performance, although difficult, is important. There is a rising conviction that commercial diplomats should have their performance evaluated both by business managers and by government. Performance can be measured by industry's feedback, the number of clients, client loyalty and the revenue generated. The indices might also include: service fees earned, export growth by the commercial diplomat's clients, a listing of business transactions (or problems) concluded (or solved) with the commercial diplomat's assistance, business' view of the commercial diplomat's relevance, analysis of complaints and complaints by beneficiaries, the degree of respect for government rules or filtering criteria, the commercial diplomat's contribution to the fulfillment of government objectives and so on. Quality management certification might also be used to enhance performance.

In most cases, commercial diplomats state that they have no shortage of customers to serve. Requests for assistance originate from both home and host country companies, business organizations and professional associations whilst commercial diplomats manage their network of relations to obtain data, gain influence, offer services and charge fees. Priority is given to 'home business firms' willing to enter the host country's market. The best source of new clients for commercial diplomats is referrals. Some Anglo-Saxon commercial diplomats say they use referrals to acquire new companies. Japan's JETRO (Japan External Trade Organization) employs the cases of successful activities in its PR campaign among Japanese firms both to attract

