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The New Economic Diplomacy

Decision-making and negotiation in international economic relations

NICHOLAS BAYNE and STEPHEN WOOLCOCK
The London School of Economics and Political Science

With Case Studies by:

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Chapter 1

What is Economic Diplomacy?

Nicholas Bayne and Stephen Woolcock

This is a book about how states conduct their international economic relations at the start of the 21st century: how they make decisions domestically; how they negotiate with each other internationally; and how these two processes interact. While states are at the centre of this study, it also includes non-state actors, whose influence on decision-making is growing. In general, this book is about the methods and process of decision-making and negotiation, ie about economic diplomacy, rather than about the content of policy. It is not intended to be a manual for negotiators, but rather to explain why governments (and other actors in economic diplomacy) behave in the way they do.

We call this book *The New Economic Diplomacy* to emphasise how much this activity has changed in the 1990s and early 2000s. Through most of the period since World War II, economic diplomacy was dominated by governments and, within them, by permanent officials. It was shaped by the constraints of the Cold War. Now, with the end of the Cold War and the advance of globalisation, there are far more non-government players; ministers and heads of government are active alongside their officials; and a single economic system covers the entire world. Economic diplomacy is concerned not only with measures taken at the border, but increasingly operates 'within the frontier'. Finally, Cold War political impulses are being replaced by worries about globalisation and, since 11 September 2001, the fight against terrorism. All these themes will shape this book.

Most of this book, including the first seven chapters, is written by Nicholas Bayne and Stephen Woolcock of the LSE. But economic diplomacy is not just a subject for academic study. It is an activity pursued by state and non-state actors in the real world of today. In some respects economic diplomacy is like sex: easier to describe if you have practised it yourself. So an integral part of this book is provided by a series of chapters, starting at Chapter 8, written by experienced practitioners of economic diplomacy. These practitioner chapters will provide case studies and illustrations of how economic diplomacy works.

This opening chapter covers the following:

- It begins with a broad definition of economic diplomacy;
- It briefly identifies the theoretical approaches relevant to economic diplomacy;
- It sets out the main analytical framework used throughout the book, based on three tensions and eight questions;

What!

SW

- It explains the multi-level nature of economic diplomacy, which is the principal theme of Part II of the book.

The chapter concludes with a brief review of the structure of the book and how the academic and practitioner chapters fit together.

Why Study Economic Diplomacy?

It is worth asking why economic diplomacy deserves attention. There are four main reasons.

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First, economic diplomacy is about **process** rather than **structures.** Academic studies in International Political Economy (IPE) normally focus on the structural factors that shape economic relations between states. These will include international structures, such as the relative power of different nation states in the economic system, or the structures of influence within national economies, in which different sectoral interests compete in determining policy. Likewise IPE discusses the main political causes of the evolving structure of the international economy, and the implications of this structure for national policy choice. Associated studies of international business take firms as the focus of attention, rather than government, although government policy obviously affects international business.

This book is different in being concerned with process, ie with decision-making processes in governments and international institutions. The relative importance of process over power structures in determining policy choices will vary. When there are major differences in economic power and influence, these are likely to be the shaping factor in any policy outcome. But when power relationships are more balanced, the process of negotiation is likely to be more important. As Professor John Odell points out in his book *Negotiating the World Economy* (Odell 2000), outcomes vary between cases when structural features are the same, which suggests that process is important. Hence a study of decision-making processes in international economic relations fills a gap in the field.

Second, economic diplomacy is becoming **more important**. During the Cold War international relations were dominated by security concerns and the study of international relations reflected this. Economic diplomacy was going on the whole time, of course, but it did not have the same prominence as it has gained since the end of the Cold War. After the Cold War security factors play a reduced role and economic relations have assumed a greater importance. The terrorist attacks against the United States on 11 September 2001 have placed security once again in the forefront of debate. But economic diplomacy remains relevant to efforts aimed at tackling some of the root causes of terrorism, such as poverty and marginalisation.

Third, governments need to be **efficient** and pursue the aims of enhancing economic welfare in a global economy. To a far greater extent today than in the 1970s or 1980s, national economic performance is dependent on international factors. With the advance of globalisation, governments need to choose policies that shape the interaction between the domestic and the international economy. In order to deliver results in terms of economic welfare at home, governments have to pay more attention to foreign economic relations and thus engage in economic diplomacy.

Fourth, at the same time, governments are under increased pressures of **accountability**. They have to ensure that their decisions in economic diplomacy are accountable to the growing number of constituencies affected (or disaffected) by globalisation. This requires a better understanding of decision-making processes and how they might be improved. But these processes have in the past been based on policy elites. This means that a 'democratic deficit' has grown, which has been reflected in the criticism of established channels of democratic accountability by civil society. Some of this has found expression in the streets of Geneva, Seattle, Washington, Genoa and even Gothenburg. Transparency and accountability are now the watchwords in the debate on globalisation. These issues relate directly to decision-making by governments in response to globalisation and are reflected in today's economic diplomacy.

Defining Economic Diplomacy

Diplomacy and its stereotypes

'Economic diplomacy' is the term chosen to describe the subject of this study. This has the advantage that 'diplomacy' is a broad and elastic term. But precisely because it admits of wide interpretation, some further definition is needed, to make clear what is and is not included in this book about economic diplomacy.[1]

The classical concept of diplomacy defines it as:

> The conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means.[2]

A more recent definition says that:

> Diplomacy is concerned with the management of relations between states and between states and other actors.[3]

To do justice to *economic* diplomacy, it will be necessary to stretch these definitions and dispose of some misleading stereotypes associated with the term diplomacy, as set out below.

The first stereotype is that diplomacy is conducted only by diplomats, ie by people from foreign ministries.

The second stereotype is that diplomacy applies to informal negotiation and voluntary cooperation, but not to rule-based systems and legal commitments. For

r. 12 = reciprocity

example, Professor John Jackson contrasts what he calls "the negotiation and diplomacy approach" with "the rule-oriented approach" in his analysis of the dispute settlement mechanism of the World Trade Organization (WTO).[4]

The third stereotype is that diplomacy is a weak and imprecise activity, where conciliation leads only to meaningless compromises. British Prime Minister Margaret Thatcher once said at an international meeting:

> Everyone knows I am no diplomat; we have more than enough of them.[5]

The fourth stereotype is that diplomacy is elitist, conducted by an establishment of privileged officials. The reference to 'official agents' in the classical definition already quoted rather implies this.

The fifth stereotype is that diplomacy is secretive and opaque. Diplomats, it is said, prefer to strike deals shut away in smoke-filled rooms, emerging only to announce agreement.

None of these stereotypes apply to economic diplomacy, as covered by this book. As the following sections will show, the scope and content of economic diplomacy is much broader and more purposeful.

Government and other actors

Economic diplomacy is mainly concerned with what **governments** do. But it goes much wider than foreign ministries. In this book we consider all government departments, ministries and agencies which have economic responsibilities and which operate internationally to be engaging in economic diplomacy, though they might not describe it as such. Within government, economic diplomacy is less and less the preserve of closed circles of officials. Not only ministers and heads of government but also parliaments, independent agencies and sub-national bodies are all making their influence felt.

A wide range of **non-state actors** engage in economic diplomacy, both by shaping government policies and as independent players in their own right. Non-governmental actors have always been present in economic diplomacy to some extent. In the past, **business** tended to be the most active interest, working both on detailed and more general questions of economic diplomacy. Now **civil society NGOs** have assumed centre stage, questioning the merits of globalisation and staging sometimes violent demonstrations at major economic meetings.

International organisations are very important as a forum for negotiations. But this book does not treat them as independent actors. Instead it focuses on how governments make use of these organisations and integrate them into their own decision-making processes.

International and domestic

Economic diplomacy is concerned with **international economic issues**. In principle, this should simplify the analysis. But it is becoming increasingly difficult to draw any clear line between what is 'domestic' and what is 'international'. The growth of economic interdependence since the 1950s, which has accelerated in recent years, means that what was previously considered to be domestic (or European) is now subject to international negotiation.

The Bretton Woods system of international economic institutions was based on what John Ruggie has called 'embedded liberalism'.[6] This meant that the system developed rules for economic relations between states, but left national economic autonomy largely untouched. As long as national policies did not have negative impacts on others, governments could pursue whatever employment, tax or industrial policy they wished. For example, when the General Agreement on Tariffs and Trade (GATT) was formed in 1948 - as described further in Chapter 6 - there was a clear understanding of what was a trade issue, and thus potentially subject to GATT rules, and what was a non-trade issue. Provided national regulation or policies did not discriminate between imported and local national goods, GATT rules provided no constraint on national policy autonomy.

But increased economic interdependence, now called 'globalisation', has put an end to such tidy distinctions between what is national and what is international policy. The implication of this process for economic diplomacy is to make it much more complex, covering more and more issues and including more and more actors.

Instruments and issues

Economic diplomacy, as defined in this study, uses a full range of **instruments**. We take economic diplomacy to embrace the whole spectrum of measures from informal negotiation and cooperation, through soft types of regulation (such as codes of conduct), to the creation and enforcement of binding rules or regimes. The implications and relative merits of these differing degrees of constraint on national policy autonomy are key questions to be examined in this book.

In economic diplomacy progress is usually made by persuasion and mutual agreement, rather than by the confrontation that Thatcher liked. But economic diplomacy is often confrontational and can go right to the brink of conflict. This happened, for example, in the fisheries dispute between Canada and the European Union in 1995. Economic diplomacy can include punitive economic measures taken in the pursuit of political goals, such as sanctions, and some scholars use the term only in this sense. But we prefer Baldwin's term 'economic statecraft' for sanctions and related policies, which are only covered in passing in this book.[7]

We regard economic diplomacy as being defined not by its instruments but by the economic **issues** that provide its content. Economic diplomacy is sometimes used as a synonym for trade diplomacy - the negotiation of trade agreements in bilateral, regional or multilateral contexts. Our definition includes trade diplomacy, but goes much wider. We follow the same definition as used by Odell in determining the scope of economic negotiation. This covers:

> Policies relating to production, movement or exchange of goods, services, investments (including official development assistance), money, information and their regulation.[8]

This is a very wide range of issues. A single volume could not cover them all and, of necessity, this book is selective, as revealed by the range of practitioner authors and their case studies. It concentrates on the central issues of trade, finance and the global environment. These are topics of high political profile, which arouse strong popular concern and bring out well the interplay between different actors in economic diplomacy.

This book also has to make choices between the countries studied. Much of it is about economic diplomacy as practised by the major powers of Western Europe, North America and Japan that come together at the G7/G8 summits. These are the most influential countries in the international economic system and their practices in decision-making and negotiation are relatively open and easy to study. But it would be wrong to ignore the rest of the world, at a time when more and more developing and ex-communist countries are becoming active internationally and when the problems of the poorest countries attract growing concern. So the later chapters of the book deal with issues of concern to rich and poor countries alike.

There are also some limits on the treatment of the European Union. The development of common external positions in the EU, for example in international trade, is regarded as economic diplomacy. But agreeing common internal positions, for example on monetary union, is not. The distinction is a bit arbitrary; but it means that the viewpoint is always from inside Europe looking outwards.

The impact of markets

A distinctive feature of economic diplomacy, as opposed to political diplomacy, is that it is sensitive to **market developments**. Increased economic integration, has made markets for production and investment global, with the result that virtually any national regulatory policy could have an impact on the relative competitiveness of different locations. Market developments will thus shape the actors involved in any issue, influence the negotiating positions and possibly offer alternatives to a negotiated solution. This means economic diplomacy will only succeed if the market does not offer a ready alternative acceptable to one side. Markets can also punish national policies which are not in line with market expectations.

As Odell puts it, markets can be endogenous to economic diplomacy, in that they form an integral part of the process. Foreign policy analysis is about decision-making processes and therefore has certain parallels to economic diplomacy. But it seldom sees markets as shaping the decision-making process in the way economic diplomacy does.

Is There a Theory of Economic Diplomacy?

Theoretical aspects of economic diplomacy are the subject of Chapter 2 of this book. But it is important to make clear at the outset that there is no single theory of economic diplomacy that is able to predict outcomes in any given international economic negotiation. In the absence of such a theory, an analytical framework is needed to do two things:

- *First,* to bring some order to the examination of the complex process of decision-making in economic diplomacy; and
- *Second,* to enable some generalisations to be made on the nature of economic diplomacy, drawing on the case studies examined later in this book.

Theory has two main uses. It can provide answers on how states, under given circumstances, will conduct policy. Such a theory is concerned with the prediction of outcomes and it must be possible to test whether the theory is correct or not. Inevitably, theories of this kind make significant simplifications, for example, by regarding states as unitary actors, which have clearly defined and stable policy preferences. Such a theory is not much help in economic diplomacy, which is concerned with the interaction between international and domestic factors and economic and political concerns. It makes no sense to assume that states are unitary actors, that negotiators have full knowledge of national policy preferences or that these preferences will be steady and not affected by market developments.

The alternative use of theory is in helping to identify which questions to ask. A theoretical framework of this kind will help in sorting out the complex factors that shape the policy process. Purists will argue that this is not really theory, but only an analytical tool; so be it. The aim is to identify the main explanatory factors and then consider which of these is most important in a range of case studies.[9]

The development of this framework can, of course, draw on the existing literature on international economic cooperation or IPE in general, which considers the systemic, societal and state centred factors shaping national policy preferences. This literature, as noted, looks predominantly at structures of interest and power and how these shape economic policies. The existing literature allows for different levels of analysis of economic relations between states, as follows:

- *Systemic.* In systemic theories, the international system is regarded as decisive in explaining events. Realist theories, for example, put much weight on the relative economic power of states. Hegemonic stability theory, much used in IPE, argues that economic cooperation only comes about when there is a dominant state able to ensure that it happens. Regime theory provides insights into how and why states cooperate, whether this takes the form of formal institutions or more informal processes in which shared values and norms help develop confidence in the mutual benefit of cooperation. There are other 'structural theories' which see national economic policies as dependent on the wider global capitalist system; these include dependency theory and world systems theory.[10]

- *Domestic.* In contrast to systemic theories, which concentrate on relations between states as single entities, domestic theories look within the state for explanations of international behaviour. At the national domestic level there are societal and state centred theories, which divide as follows:
  - Societal theories see policy as the outcome of interaction between different interest groups, with government officials acting as agents in negotiations. Societal forces such as interest groups can also operate across borders as transnational actors.
  - State centred theories focus more on the role of institutional structures and the interplay of interests between different government departments. Here the interaction between national parliaments and the executive branches of government is seen as important, as are bureaucratic decision-making approaches.
- *Ideas and individuals.* Some theories argue that ideas, like political ideologies, or individuals have a determining impact on policy. This impact can be felt both domestically and internationally.
- *Interaction between levels.* There are also theories or approaches which seek to capture the interaction between these different levels of analysis. The two-level game model developed by Professor Robert Putnam is of particular interest in economic diplomacy because it puts the negotiation process at the core of analysis.[11]
- *Theories of negotiation.* Negotiation theory, as developed for negotiations between private parties, as in industrial relations, is being applied more and more to international economic negotiations. It can provide some valuable insights into negotiating strategies. Odell applies elements of negotiation theory to economic diplomacy.

To recapitulate the discussion of theory, the aim is not to identify a parsimonious theory that could be used to predict the outcomes of negotiations. This might be an interesting academic study, but would not be able to interpret what happens in practice. Instead, the objective is to formulate a middle range framework of analysis that will help in understanding the factors at work in economic diplomacy and reaching some broad conclusions based on the evidence provided by practitioners.

In Chapter 2 of this volume we shall discuss in more detail some of the mainstream international relations and international political economy theories or analytical frameworks that help to inform our study of economic diplomacy. For the purposes of this volume the approaches which explain the interaction between the different levels of analysis will be most helpful.

The Analytical Framework of this Book

The main analytical framework adopted in this book draws on the theoretical strands identified in the last section. But it combines these with observation of how economic diplomats themselves behave, as illustrated in the later case studies.

The main argument of this book is that governments are trying to reconcile three types of tension, so that policies become mutually reinforcing rather than conflicting with each other. These tensions are:

- *First*, the tension between politics and economics;
- *Second*, the tension between international and domestic pressures;
- *Third*, the tension between governments and other actors, such as private business and NGOs.

Taken together, these three tensions generate eight distinct questions, to be defined below, which provide the principal lines of enquiry for this book.

Tension Between Economics and Politics

The first major tension is between international economics and international politics. In an ideal and tidy world, states would be able to keep politics and economics apart. But the world is not tidy and states are political entities rather than economic ones. So politics constantly encroaches on economics in the pursuit of international objectives. Governments strive to reconcile politics and economics so that they do not conflict but mutually reinforce their chosen policies - and this gives rise to the first two questions. In analysing this first tension, systemic theories are most relevant.

1. How to reconcile economic and political objectives?

States use the instruments of economic policy to pursue political objectives as well as economic ones. These objectives may not be compatible; how can governments make them so? In the period following World War II, the United States launched the Marshall Plan, a major economic initiative. This had the essentially political aim of helping Europe resist communist encroachment and the Americans adjusted their economic aims accordingly.[12] On that occasion politics and economics strongly reinforced each other. In the present day there are both economic reasons for rich countries to assist poor countries, such as trade expansion, and political reasons, such as conflict prevention and - since 11 September 2001 - the fight against terrorism. But there has been less success, so far, in making these objectives reinforce each other, so as to prevent poor countries falling further behind.[13]

2. How to reconcile economic and political methods?

When governments are choosing policies, they often find that those which make most sense to economists come up against political difficulties. For example, most economists argue that countries gain economic benefit by removing barriers to external competition, whatever other countries may do. But the people who lose the protection provided by these barriers agitate louder than those who gain advantage from their removal. This creates a political obstacle; how can this be overcome, so as to unlock the economic benefits? One technique that has been developed is to negotiate away trade barriers by reciprocity.[14] Countries find this politically easier, if economically sub-optimal, because they visibly get something in return for whatever they may put on the table.

Tension Between Domestic and International Pressures

The second major tension is between domestic and international pressures in economic policy-making. This fundamental tension underlies all economic diplomacy. The international penetration of domestic economies, by trade, direct investment and financial flows, has been growing steadily since the end of World War II. This is the dominant trend of the age. It has accelerated since the Cold War ended, over ten years ago, and has been labelled 'globalisation'. The effort to resolve this tension leads to four more questions. In this area domestic, state centred theories are most relevant, combined with those models like Putnam's that explain the interaction between the domestic and the international.

3. *How do governments reach common decisions internally in economic diplomacy?*

In political diplomacy, foreign ministries clearly dominate decision-making. In economic diplomacy other departments often have the lead, like finance or trade ministries, and foreign ministries may struggle to get their word in. As more economic issues get international exposure, more government departments and agencies become involved in economic diplomacy: environment departments involved in international environmental negotiations; competition authorities seeking to regulate international market distortions; even ministries of home affairs concerned with money laundering and terrorist finance. As a result, bargaining to achieve a common agreed view within a national government is the first step in economic diplomacy. How can all these different interests be reflected in a way that still enables the government to act decisively?

4. *How best to reach international decisions compatible with the position agreed at home?*

Each government sits down in international negotiations with interlocutors that have gone through internal bargaining that is parallel to its own. Each will want an international outcome which meshes with its domestic process. But economic diplomacy is a dynamic and iterative process in which domestic positions will generally have to be modified in order to reach an internationally agreed result. National policy positions are based on balancing the interests of different sectors or groups. But linkages in international negotiations often mean that concessions in one policy area are needed to achieve policy objectives in others. The original position may have to be changed and this calls for a sounding of domestic views by the chief negotiator. This process will be shaped by domestic institutional arrangements, which may be laid down in law or in national constitutions, or may

be the result of precedent. But how far should the various economic and other domestic interests have a say in the redefinition of international negotiating objectives?

5. *Which is more effective in economic diplomacy - voluntary cooperation or systems based on rules and legally binding commitments?*

Rule-based systems appear more predictable, more durable and a better protection against abuses. If markets are global, that argues that the rules governing markets should also be internationally agreed. Rule-based systems require governments to surrender some of their sovereignty, but the international penetration of their economies may have undermined their sovereignty anyway. However, the articulation of national policy preferences is still primarily a domestic function. If policy preferences change, international rules may not be able to accommodate this, so that they are no longer regarded as legitimate. In such circumstances the less demanding but more flexible technique of voluntary cooperation appears preferable. How can the choice be made?

6. *How can governments satisfy democratic legitimacy for their positions and reconcile efficiency and accountability?*

Governments may be convinced of the economic benefits of opening up to international competition. But their legitimacy depends on the support of their electorates. How do they persuade their electorates, who have instinctive anxieties about being vulnerable to forces outside their control? Economic rules or agreements may derive from international institutions. But how can national governments make sure these decisions are understood and accepted by their parliaments? In short, how can economic diplomacy be democratic? The advance of globalisation and the growing number of constituencies touched by developments in the international economy has generated growing pressure for greater democratic accountability of decision-makers. But this can lead to a conflict between efficiency and accountability, when international agreement can only be secured by modifying the domestically agreed position. Does greater accountability require the legislative branch of government to be included in the redefinition of national interest? If so, how can one ensure that politicisation of the process will not lead to deadlock?

Tension Between Governments and Other Forces

The questions formulated so far concern governments only, defined to include both executive and legislature. The third major tension in economic diplomacy is between governments and other forces. The penetration of international factors into domestic economies, a major aspect of globalisation, is led not by governments but by private sector agents - traders, investors and financiers. As globalisation advances, other groups and social movements become involved in economic diplomacy. Their activities can go beyond seeking to influence national governments; they can combine so as to operate transnationally, as global civil society does. In consequence, some scholars go so far as to argue that globalisation is removing any role for the nation-state and for national governments.[15] This book does not endorse that view; but it argues that governments have to operate in a different context than before, as the two remaining questions show. For this tension, domestic societal theories are relevant, as well as analyses like Odell's that incorporate the role of markets.

7. How can governments best react to the growing influence of the private sector and of markets?

Much of the prosperity of the last 50 years has been stimulated by government giving more opportunities to private business and by transferring power to them: by the removal of trade barriers, deregulation and privatisation. What are the consequences of this transfer of powers for economic diplomacy? What responsibilities should governments keep, what should private business undertake and how can government and business work together? This is linked to a second question: how do governments deal with market pressures? Decisions taken by a government, in fiscal, monetary or regulatory policies, will affect how markets view the credibility of that government. Effective market regulation is considered a prerequisite for attracting foreign investment and ensuring that the domestic economy is internationally competitive. If markets perceive that regulation is either too lax or too strict, investment may go elsewhere.

8. How should governments best respond to pressures from NGOs for more transparency and more involvement?

Many issues in economic diplomacy, like the environment and world poverty, stimulate highly motivated and articulate private groups. Some of these are constructive and well informed and have a lot of expertise to offer government. But others are destructive and anarchistic, gathering hostile crowds at international economic meetings. Some aspects of the growth of civil society represent efforts of interest groups to bypass national governments, because the interests concerned no longer have confidence in the formal lines of democratic accountability. This leads NGOs to argue for more transparency and to claim that their involvement makes the process more democratic. But should governments accept these views uncritically? How can they answer their negative critics, but cooperate with constructive NGOs in ways that allow each side to retain their independence?

That completes the list of questions for study. Together they provide an analytical framework that will be used in later chapters throughout this book. Table 1.1 sets the tensions and questions out in consolidated form.

Table 1.1 Tensions and Questions in Economic Diplomacy

Tension Between Economics and Politics
How to reconcile economic and political objectives? How to reconcile economic and political methods?
Tension between International and Domestic Pressures
How do governments reach common positions internally? How can internally agreed positions be deployed internationally? Which is better - voluntary cooperation or binding rules? How to ensure democratic legitimacy and accountability?
Tension between Governments and Other Forces
How do governments deal with private business and markets? How should governments respond to NGOs?

The Multi-level Nature of Economic Diplomacy

Both the academic literature and our own analytical framework distinguish between the international and domestic levels of decision-making and examine the links between them. But within domestic decision-making there is a hierarchy of actors - government and non-government, national and sub-national - that interact among themselves; these are examined in Chapter 3. In international negotiation there is comparable interaction between the multiple levels available in economic diplomacy - the bilateral, the regional, the plurilateral and the multilateral. These different levels, and the interaction between them, provide a framework for analysis in the second part of this book, from Chapter 10 onwards. These chapters also look briefly at unilateralism, which might be considered the 'zero option'.

At first sight unilateralism would seem to be irrelevant to economic diplomacy, as it does not involve negotiation. Unilateral action, for example in trade liberalisation or protection, is a domestic policy decision. But unilateral liberalisation or protectionism clearly has an impact on other economies, by expanding or restricting access to the market concerned for investors or exporters from other countries. This can lead to a political response, in the form of imitation or retaliation. In some cases governments deliberately adopt unilateral measures in order to bring about changes in other countries' policies, as with the aggressive unilateralism of the trade policy adopted by the United States in the 1980s.

Bilateralism. Bilateral relations still form a major part of economic diplomacy, ~~whether this~~ consists of informal dealings between countries on a range of issues, or formal bilateral trade or investment treaties. Bilateral economic diplomacy is still the simplest technique, which makes it easy to explain to domestic interests.

But it gives advantages to the stronger partner and can easily become confrontational. Bilateral deals also contribute to building up more complex agreements on a regional or global level. Bilateralism can be important in determining how regional or multilateral rules should be interpreted, for example in economic disputes between the US and Japan.

Regionalism. The regional dimension in economic diplomacy is of growing importance. Regional economic agreements, although often politically motivated, also offer a more rapid way of opening markets. Liberalisation may be easier for national interests to accept when it occurs within a regional grouping of countries with broadly the same levels of development and similar policy preferences. For business interests, access to a larger regional market may be seen as a substitute for wider markets, or as a stepping stone to international competition. Regional agreements may even involve the pooling of sovereignty in order to have a greater impact in international negotiations or over the power of global markets. Whatever the motivation, regional agreements are clearly a growth industry.

Plurilateralism. The plurilateral level of economic diplomacy attracts less attention than either regionalism or multilateralism. But plurilateral bodies, like the Organisation for Economic Cooperation and Development (OECD), the G7/G8 and the Commonwealth, serve two important purposes in economic diplomacy. First, they can provide a forum where national governments seek to reconcile domestic and international economic objectives, by a process of voluntary cooperation. Second, they enable like-minded governments to develop agreed positions which they can then advance in wider multilateral contexts. The OECD has been the forum for the preparatory work in a wide range of subjects, which has, for example, provided the foundation for agreements on services and agriculture in the GATT and WTO.

Multilateralism. Finally, multilateral economic diplomacy provides for the involvement of all countries, though this makes it cumbersome. It incorporates regimes such as the WTO, the International Monetary Fund (IMF) and World Bank and the economic work of the United Nations, as well as a wide range of specialist organisations. Multilateral economic diplomacy is well suited for rule-making and there were great advances here in the 1990s, especially in the trade and environmental fields. But this has led the multilateral institutions into controversy: NGOs attack them as opaque and undemocratic; developing countries complain that the multilateral system puts them at a disadvantage; even developed countries find it hard to come to terms with the increasing encroachment of international rules into domestic policy. So while the prizes are high in successful multilateral economic diplomacy, the risks are high also.

Interaction between levels

The multi-level nature of economic diplomacy means that governments take advantage of the interaction between levels. This can be seen in various ways.

First, countries may identify different levels as suitable for specific policy issues. For example:

- Regional agreements will suit neighbouring countries seeking the benefits of integrated markets for trade and investment;
- Plurilateral understandings will suit policy issues, such as export credit policy, which cannot command the support of enough countries for multilateral rules to be agreed;
- Multilateral treaties are used, for example in global environment issues, where the involvement of all countries is necessary.

Second, different countries may use different levels for the same subject. In the trade negotiations between the European Union and Mexico, the EU negotiated at the regional level, Mexico bilaterally.

Third, the availability of different levels means that governments, as well as non-state actors, will shop between them, seeking to make progress wherever it looks most promising. For example, states and business interests seeking a more predictable environment for investment have sought all of the following:

- Bilateral investment treaties (BITs);
- The inclusion of investment in regional agreements, such as that agreed in the North American Free Trade Agreement (NAFTA);
- Plurilateral agreements, such as in the unsuccessful Multilateral Agreement on Investment (MAI), which built on earlier work in the OECD;
- Multilateral agreements, such as in the provisions of the General Agreement on Trade in Services (GATS) that cover right of establishment. Investment is also on the agenda for the new WTO round agreed at Doha in November 2001.

An analysis of economic diplomacy in a policy area such as investment will also show how norms or models developed at one level can find application in the others. For example, the OECD's work in investment formed the basis for regional agreements such as NAFTA. The regional agreements will generally take the principles developed within the OECD further, both in terms of the coverage and the binding nature of the agreements. Regional agreements have in turn provided the model for multilateral agreements. Regional agreements may also set regulatory norms or standards that have an influence beyond the region itself, for example, regional standards of food safety in North America or Europe. In short, agreements reached at one level will have implications for other levels of policy-making. Seldom do negotiations occur in a vacuum. There are normally models or precedents that can be found in other agreements.

The Structure of This Book

After this introductory chapter, the first part of the book - Chapters 2 to 9 - examines **The Nature of Economic Diplomacy**. Chapter 2 looks in detail at the relevant theoretical approaches. Chapter 3 analyses the growing ranks of actors in economic diplomacy, divided between national state actors, national non-state actors and transnational actors. Chapter 4 considers how governments approach domestic decision-making and international negotiation. Chapter 5 examines the new demands placed on economic diplomacy today, as a result of the end of the Cold War and the advance of globalisation, and the new strategies introduced in response to these demands.

These general chapters are illustrated by four case studies, two historical and two contemporary. The new economic diplomacy, with which this book is concerned, has its roots in the development of the international economic system since World War II. This development is illustrated by the historical case studies in Chapters 6 and 7. Chapter 6 examines how decisions were made and agreements negotiated at the creation of the multilateral trade regime in the 1940s, compared with the conclusion of the Uruguay Round in the 1990s. Chapter 7 analyses the evolution of the G7 economic summits of the 1970s, which proved to be precursors of the new economic diplomacy. These themes are picked up in the two practitioner chapters that follow. Their authors represent the state and non-state actors in economic diplomacy. Colin Budd of the British Foreign and Commonwealth Office, representing government, provides a contemporary assessment of the G7/G8 process in Chapter 8. Phil Evans, of the Consumers Association, analyses in Chapter 9 multilateral trade politics as seen by a representative NGO.

The second half of the book - Chapters 10-17 - examines **Multi-level Economic Diplomacy**, depending on whether it is pursued bilaterally; through regional groupings, especially the European Union (EU); or through plurilateral or multilateral institutions. Chapter 10 looks at the pros and cons of bilateral economic diplomacy, arguing that bilateralism is particularly attractive to the United States (though much less to its neighbour Canada). This is illustrated by the case study in Chapter 11, by Matthew Goodman from Goldman Sachs, on the complex economic relationship between the United States and Japan. Chapter 12 examines regionally based economic diplomacy, with special reference to the European Union. Patrick Rabe of the European Commission complements this with Chapter 13, analysing how the EU constructs and deploys its international environment policy.

The use of international institutions, both plurilateral (like the OECD) and multilateral (like the World Bank), is the subject of Chapter 14. This is supported by three case studies: Ivan Mbirimi of the Commonwealth Secretariat writes in Chapter 15 on developing countries in economic diplomacy; Nigel Wicks, late of the British Treasury, reflects in Chapter 16 on international financial institutions; and Richard Carden, from the Department of Trade and Industry, examines the world trading system in Chapter 17. While these chapters analyse international institutions such as the IMF and the WTO, they focus not so much on the

institutions themselves, as on the use which states make of them in pursuing their national objectives.

Conclusion

Economic diplomacy is an elusive subject. New questions are always coming to the surface and the context can change abruptly. The year 1999 began with the world financial system still in turmoil, after the Asian, Russian and Brazilian crises, but the trading system looking robust. Twelve months later, the financial system had calmed down, while the trading system was reeling from the disastrous WTO meeting at Seattle. The terrorist attacks of 11 September 2001 have raised fresh questions about the likely direction of economic diplomacy. Despite this volatility, however, some trends have emerged which help to illuminate the questions chosen for study. Thus the final chapter of this book, Chapter 18, draws some conclusions about where economic diplomacy is going, in the first decade of the 2000s.

Notes

1 Marshall 1999, pp. 7-8, distinguishes six different meanings of diplomacy.
2 Bull 1977/1995, p. 156. He notes two other narrower uses of the term.
3 Barston 1997, p. 1. This is the first sentence of his book.
4 Quoted from Jackson 1998, p. 60.
5 From a speech to an Anglo-German (Koenigswinter) conference in spring 1990 - Nicholas Bayne's notes. Her reservations about diplomats are also strongly expressed in Thatcher 1993.
6 See Ruggie 1982.
7 Van Bergeik 1994 uses 'economic diplomacy' in this narrow sense. 'Economic statecraft', however, is the more usual expression, as in Baldwin 1985 and Hanson 1988.
8 Quoted from Odell 2000, p. 11, slightly edited.
9 Odell 2000 uses this classification which he attributes to Stanley Hoffman.
10 Susan Strange developed a concept of structural power to help in making assessments of power in various fields, such as security, production, finance and knowledge. See Strange 1996, especially pp. 25-30.
11 The classic exposition of the model is in Putnam 1988. He developed it from his observation of the Bonn G7 summit of 1978, when he was serving in the White House - see Putnam and Henning 1989.
12 For a vivid practitioner's account of the Marshall Plan, see Marjolin 1989.
13 This has been a recurrent objective of the G8 summits of recent years. For example, the Kananaskis summit of June 2002 adopted an Africa Action Plan to underpin the New Partnership for Africa's Development (NEPAD), in a way that has parallels with the Marshall Plan. But this project is still at its early stages - see Chapter 18 below.
14 Reciprocity is one of the basic principles on which the GATT was founded - see Chapter 6 below.
15 Held and others 1999 divides attitudes to globalisations between 'hyper-globalisers', 'sceptics' and 'transformationalists'. Examples of hyper-globalisers, who believe that

globalisation undermines the state, are Ohmae 1992 and Strange 1996. For sceptics, see Chapter 5 below. The authors belong to the transformationalist school.

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PART I

THE NATURE OF ECONOMIC DIPLOMACY

they engage the new actors directly in decision-making, to ensure policy is responsive to a wide range of interests? Or should they seek to maintain some distance, in order to insulate themselves from pressure and potential capture?

All these questions will be picked up in the following chapters of this book. But first it is necessary to understand more about the actors involved in modern economic diplomacy. The main part of this chapter examines the principal actors, classified as in Table 3.1.

Table 3.1 Principal Actors in Economic Diplomacy

National State Actors
The Executive Branch
The Legislative Branch
Political Parties
Provincial, State and Local Government
Regulatory Agencies
Non-State Actors
Business Interest Groups
Confederations of Industry
Sector Trade Associations
Trade Unions
Consumer Organisations
Transnational Actors
Global Civil Society
International Business
International Organisations
Epistemic Communities

National State Actors

States or governments are the major actors in economic diplomacy still, but, as was pointed out in earlier chapters, we cannot assume that governments are unitary actors. There are different branches of government and the potential for different views on any given topic within the different branches of government. As noted in the previous chapter, negotiators are often negotiating on two fronts, the foreign front and the domestic front. We shall look first at the two main branches of government - the executive and legislative branches.

The Executive Branch of Government

Models of economic diplomacy sometimes consider the tension between the executive and legislative branches as being a key feature shaping economic diplomacy. Divided government is then generally seen as the divide between the executive and legislative branches of government, or 'polyarchy',[1] which affects the interaction between the executive, legislature and other non-governmental actors. The models tend to be built on the need for the executive branch to get any agreement ratified by the legislature. This may be a suitable simplification for assessing two-level games, but in economic diplomacy we are also interested in how the executive comes to define the national interest. In an increasing number of policy areas this takes the form of a complex inter-departmental or inter-agency debate.

An example from multilateral trade negotiations illustrates how the executive branch of any government must find a consensus among a wide number of different government departments. Trade negotiations in the Uruguay Round (1986-1994) were led by the USTR in the United States and DG Trade of the European Commission, in consultation with the EU Member States, in the case of the European Union. But many other departments were involved:

- *Departments of agriculture* were closely associated with the negotiations, because of the centrality of negotiations on reductions in agricultural support. Ministries of agriculture also regulated food safety standards in many countries, so they were likewise involved in the negotiations of an Agreement on Sanitary and Phyto-Sanitary (SPS) measures.
- *Departments of industry, enterprise or the economy* were involved in the negotiations because of their interest in sponsoring a wide range of industrial sectors. As the negotiations touched not only on tariff levels but also on non-tariff measures, such as quotas for textiles and clothing or tighter WTO control over the use of national subsidies, these departments played a central role.
- *Ministries of science or technology* were also concerned with the control of national subsidy programmes as well as the negotiations on Trade Related Intellectual Property Rights (TRIPS).
- *Finance ministries* were involved in the negotiations because tariff reductions resulted in reduced government revenue and because the negotiations on services covered financial services, which had been the jealous preserve of finance ministries or treasuries for many years.
- The services negotiations also involved ministries responsible for *transport, telecommunications, health and other public services*, which were all subject to negotiations and some liberalisation commitments.
- Even *ministries of the interior or home offices* were concerned with the services negotiations because they covered the free movement of people and thus touched on immigration and migration issues.

Towards the end of the Uruguay Round, the environment began to figure as a major potential issue. Labour standards were also proposed as a topic that should

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Chapter 4

The Practice of Economic Diplomacy

Nicholas Bayne

Building on the treatment of actors in Chapter 3, this chapter goes deeper into the practice of economic diplomacy, concentrating on what is done by national governments. It starts by analysing the activities of permanent officials or bureaucrats. These are still the people who conduct most international negotiations in economic diplomacy; and while formal decision-making powers may rest with ministers or legislatures, these powers are usually exercised on the basis of preparatory work done by officials. But as the chapter proceeds, it traces the interaction of bureaucrats with other state and non-state actors.[1]

The chapter begins with the story of the fifth International Tin Agreement (ITA) - an old story now, but a true one. Though an anecdote from the old economic diplomacy, it illustrates well both how different tensions operate within government and what methods are used to resolve them. The main body of the chapter is divided into three parts:

- The first goes through the sequence of **domestic decision-making** in government;
- The second analyses the process of **international negotiations** and relates this to the domestic sequence;
- The third examines strategies used in such negotiations that illustrate the interaction between domestic and international levels.

The conclusions relate both decision-making and negotiation to the tensions of economic diplomacy identified in Chapter 1.

The Story of the Fifth International Tin Agreement

The International Tin Agreement (ITA) came up for renewal for another five years in 1982.[2] The aim of the ITA was to iron out short term fluctuations in the world price of tin by the use of a buffer stock. The buffer stock manager sold tin if the price rose too high, bought tin if it fell too low and had a fund for this purpose. The intervention prices were set by the International Tin Council, composed of major producers and consumers of tin. The United Kingdom had always been a member of the Council. The key difference for the UK in 1982 was that policy towards the ITA had to be agreed unanimously within the European Community (EC).[3]

In 1982 Britain had separate Departments of Trade and of Industry, as is still the case in France and Canada; policy on the ITA fell to the Department of Industry. The officials concerned took the view that the UK should not join the new agreement. They argued that the effect of the Agreement over the years had been to keep the price of tin artificially high. This was bad for British industrial users of tin, who had to pay too much and were forced to seek substitutes. It was bad for the operators of British tin mines, who saw their market shrinking. Industry officials foresaw that upward pressure on the price would cause the ITA to collapse within three years.

Officials in the Foreign and Commonwealth Office (FCO) strongly disagreed with Industry and argued that Britain should join the new ITA, just as it had joined all previous tin agreements.[4] The FCO was not convinced by Industry's economics. The Agreement had served its purpose well over 20 years, which suggested a fair balance of supply and demand. The FCO relied on political arguments in favour of joining. If Britain decided not to join, then the EC as a whole could not join; and with such a large group of consumers absent the Agreement could not survive. This would alienate the other Member States of the EC, most of whom wanted to join; it would alienate developing countries, who attached importance to this and other commodity agreements; in particular, it would alienate Malaysia, the largest tin producer. Britain had already had several rows with Malaysia in the early 1980s - Prime Minister Mahathir Mohammed had just come to power - and did not want another. FCO officials had firm instructions on that from Peter Carrington, then British Foreign Minister.

The Department of Industry and the FCO reached deadlock. So they looked for allies in other departments. The Department of Trade supported the FCO, as they were responsible for the UN Conference on Trade and Development (UNCTAD), which encouraged commodity agreements.[5] But the Treasury supported Industry, as they did not want Britain to pay money into an agreement that might collapse. So there was still an equal balance of forces.

As officials could not agree, the problem went to a Committee of Ministers, which brought in yet more departments. The Minister of Agriculture and his officials were against the tin agreement, as they did not like those commodity agreements that covered agricultural products.[6] But the Minister of Defence, like his officials, favoured joining it, as they hoped for defence sales to Malaysia. So both ministers and bureaucrats were split down the middle and there was still no decision.

In these conditions the problem had to go to the Prime Minister, then Margaret Thatcher, for her to arbitrate. She was known to be inclined against the Agreement, largely because the Americans, under President Ronald Reagan, had decided they would not join. But before she made a decision, she and Carrington went off to an Anglo-German summit, to meet Helmut Schmidt as Chancellor and Hans Dietrich Genscher as Foreign Minister.

The risks were high for the FCO at this summit, as Germany was the only other EC Member State that had doubts about the International Tin Agreement. If Germany should decide not to join, that would undermine the FCO's case, while strengthening Industry's position. Both Genscher and Schmidt were undecided when the summit began. In the event, Carrington persuaded Genscher that the right course was to join; Genscher then persuaded his chancellor Schmidt; and Schmidt persuaded Thatcher. Britain and Germany endorsed an EC position in favour of the new agreement, which was duly adopted and entered into force.

This episode reveals unusually starkly the tensions in economic diplomacy: between the Department of Industry's economic case and the FCO's political case; and between the FCO's international arguments and Industry's domestic ones. (As this was back in 1982, governments were still the only players. There was no requirement to involve other actors.) The episode also reveals how heads of government get involved, both as domestic arbiters in decision-making and as players on the international scene. Carrington's manoeuvre is also an admirable example of skilful two-level game diplomacy.

Was joining the Agreement the right decision? Here the passage of time provides the basis for a clear judgement. Three years later, the buffer stock fund overspent and became insolvent. The Fifth ITA collapsed, just as forecast, with heavy losses to the subscribing countries.

Decision-Making in Government: the Domestic Sequence

This part of the chapter looks generally at the process of decision-making by governments in economic diplomacy. It analyses the process as a sequence of six stages, mainly based on what happens in the British government, but noting significant differences with other countries where they are relevant. The six stages are:

1. Identifying the lead department.
2. Three levels of consultation:
   - Internal;
   - With outside forces;
   - Inter-departmental.
3. Political authority.
4. Democratic legitimisation.
5. International negotiation.
6. Ratification of agreement.

This sequential treatment is deliberately simplified, in two respects. First, some of the stages may happen simultaneously, in practice, not in succession. Second, the sequence may have to be repeated, in whole or part, as decision-making proceeds, either because of new domestic developments or because of its interaction with international negotiations. Economic diplomacy is rarely a linear process; it is an iterative and cyclical activity, which may go round the same course several times.

development of ministerial initiative is an aspect of the new economic diplomacy that will be explored further in the next chapter.

4: Legitimisation

In non-democratic governments, a decision by ministers or the head of government settles the matter. But in democracies a further process is required, to give the government's agreed position democratic legitimacy and to satisfy its accountability to its electorate. This normally involves a report to the elected legislature and possibly endorsement of the government's decision by a vote. In Britain this usually comes quite late in ongoing economic diplomacy. But elsewhere the elected bodies, especially the US Congress, could be involved much earlier. The report to parliament will usually be accompanied by formal statements and briefing material intended to be published in the press or other media. At this time the government announces its position formally and takes responsibility for it.

Both to the press and to parliament the government may not want to go beyond a general statement, without too much detail, so as to retain some flexibility in the later negotiation. The reaction of parliament and the press will have a stronger impact on ministers than on officials. So forces outside government, like business and NGOs, will try to influence government decisions through parliament and the media too, in addition to direct contacts with officials.

5: International negotiations

This completes the domestic decision-making sequence to prepare for an international negotiation. The actual negotiation can be left on one side at this stage - it will be considered later in the chapter. For the moment, the assumption is that the negotiation has run its course and international agreement has been reached.

6: Ratification of agreement

Once agreement is reached, a number of stages in the earlier domestic sequence are repeated. The lead department negotiator reports to the other departments concerned and seeks their concurrence. The lead department minister briefs other ministerial colleagues, to re-confirm the earlier political authority. The agreement is reported to parliament and, if necessary, legislation is introduced so that the government can meet the commitments it has taken. The government launches a media campaign to ensure the agreement wins public acceptance.

No government wants to find that the agreement it has struck internationally comes apart at this ratification stage. So governments take precautions in advance to avoid this danger. Sometimes these may be formal precautions, as when the US Administration seeks 'fast-track' authority from Congress, which means that Congress can either endorse or reject an agreement - it cannot amend its provisions. Most often international negotiators will adjust their tactics in anticipation of any problems with ratification. Even with these precautions, however, all negotiators are taking a gamble when they return to seek ratification

for what they have agreed. These risks will vary from country to country, depending both on the general structure of government and the strength of the particular administration in power. This determines the size of the win-set available to the negotiator, as Putnam's analysis makes clear.

International Negotiations

This review of the domestic sequence in decision-making has deliberately left on one side what happens in international negotiations. It is now time to examine the international sequence and how it meshes with the domestic one. International negotiations can also be analysed in five distinct stages, which can sometimes be linear but will more often be iterative and cyclical, like their domestic counterpart. The stages are:

I. Agenda-setting.
II. Mandating.
III. Negotiating to agreement.
IV. Adoption of agreement.
V. Implementation.

I. Agenda-setting

Before any negotiation there will be an agenda-setting phase, which identifies what should be subject to international treatment. This phase can be lengthy - for example it took four years' preparation before the GATT was ready to launch the Uruguay Round. During this phase governments have usually not committed themselves to firm positions, as it coincides with the 'consultation' stage in the domestic sequence. This provides opportunities for outside forces, such as business and NGOs, to get their favoured subjects accepted on the agenda. It is often the occasion for the international epistemic communities described in Chapter 3 to establish an intellectual basis for the discussion, before the hard bargaining sets in. Once the negotiation proper begins, however, these outside forces usually have to withdraw, leaving only governments at the table.

An example of how business and academic experts may seek to influence agenda-setting relates to the Commonwealth Heads of Government Meeting (CHOGM) in Durban, South Africa, in late 1999. The CHOGM was held shortly before the world's trade ministers met in Seattle, aiming to launch a new trade round in the WTO. If the Commonwealth, with over 50 members, could decide a common line for Seattle, that should have quite an impact on the agenda to be agreed there. The Commonwealth Business Council (CBC), representing private business in Commonwealth countries, wanted the heads of government to agree at Durban on specific proposals for the new WTO round. The CBC commissioned a report from their academic advisers, who were Razeen Sally and Stephen Woolcock (co-author of this book) of the International Relations Department of the LSE. The CBC report was well received at Durban, and Commonwealth trade ministers were active at Seattle, though the meeting was a disaster for other reasons.

II. Mandating

Once the decision has been taken to launch the negotiations and the agenda is defined, the government representatives involved need a mandate to negotiate. This is provided by completing the later stages of the domestic sequence, to secure inter-departmental agreement, political authority and democratic legitimisation.

As the domestic decision-making procedures vary very widely between countries, so will the mandates given to negotiators. They will especially determine how much negotiating flexibility or 'slack' they will have. Negotiators from the United States and the European Union will normally have a tightly defined mandate, reflecting the complexity of their domestic decision-making. This will limit their win-set, in Putnam's terms, and make them hard negotiators. But negotiators from developing countries are often given much greater freedom of action and may be quite detached from the domestic process. Economic diplomacy is more often handled by foreign ministries and less integrated into domestic policy. Representatives of developing countries may operate independently of their capitals and take decisions on their own initiative.[12]

III. Negotiating to agreement

This is the core of the international process. Negotiating strategies are considered in more detail in the next section. But throughout this process the negotiator and his team, at least those from developed countries, will be checking the likely acceptability of the emerging results at the domestic level. For a delegation with only limited negotiating slack, this will be a constant, iterative process.

For example, European negotiators operating in Washington, eg at the IMF or World Bank, or in New York, eg at the United Nations, will take advantage of the difference in time zones. The domestic team in the lead department will receive at the start of the working day, in Brussels, Berlin or London, the negotiators' report and request for guidance sent overnight. They will have the morning to consult other parties, by telephone and e-mail or in informal meetings, before sending a reply out before the working day begins in the United States. Such activity will usually be confined to bureaucratic contacts. Consulting ministers or outside forces usually takes a little longer.

IV. Adoption of agreement

The negotiations, if successful, will conclude with an agreement. Before the participating governments will commit themselves to such an agreement and be ready to submit it to ratification, there is usually a more formal procedure than happens while the negotiations are in progress. There is often a pause between reaching agreement on a text (which may be **initialled** by the official negotiator) and giving formal assent to it (which may involve **signature** by a minister).

Depending on the subject, there will be different thresholds of adoption. Informal understandings on familiar subjects, based on voluntary cooperation, may not need to go beyond official level. But any agreement involving a formal commitment or a new departure in policy will usually require political authorisation by ministers. In some countries, such as the United States, the government may consult the legislature before adopting an agreement, to be sure that the subsequent ratification process will go smoothly.

V. Implementation

Once an agreement has been negotiated internationally and ratified domestically, then it has to be implemented. All governments taking part in an international agreement have an interest in seeing that other parties respect the agreement as faithfully as they do. The effectiveness of this will depend on the structure of the agreement and the institutions sponsoring it. For example:

- Agreements based on voluntary cooperation often rely on peer pressure to ensure implementation. In compact institutions like the OECD this can be effective, but in wider, more diffuse bodies like the UN commitments are easily evaded.
- Some voluntary agreements are self-regulating, especially where funds are involved. Countries following IMF programmes are not obliged to observe them - but they will not receive the desired finance if they fail to do so.
- Other agreements are based on formal rules and legal obligations. Failures of implementation are subject to dispute settlement procedures. These can apply bilaterally, in regional agreements (the EU or NAFTA) or multilaterally, especially in the WTO.

Implementation is thus a major factor in deciding between voluntary cooperation and formal rules - one of the key questions for this book.

Table 4.1 How Domestic Decision-Making and International Negotiation Fit Together

Domestic	*International*
1. Identifying the Lead Department	
2. Three Levels of Consultation	I. Agenda-Setting
3. Political Authority	
4. Legitimisation	II. Mandating
5. Negotiation	III. Negotiating to Agreement
	IV. Adoption of Agreement
6. Ratification	
	V. Implementation

After this analysis of both the domestic and international sequences, Table 4.1 illustrates how they fit together.

International Negotiating Strategies

This section returns to the actual process of international negotiation and examines some of the strategies used, especially those that try to take advantage of the domestic process in other negotiating parties. This analysis of negotiating strategies is picked up again in Chapter 14, in the examination of international economic institutions and what governments want from them. The strategies considered here are the following:

1. Bargaining among lead negotiators:
   - Value claiming bargains;
   - Value creating bargains;
   - Package deals.
2. Exploiting divided counsels.
3. Intervention by outside forces:
   - Direct intervention;
   - Indirect intervention;
   - Collective intervention.
4. Political intervention - playing the head of government card.

1. Bargaining among lead negotiators

Negotiators from the lead departments (who may have people from other departments at their elbows) come to the international table with a double aim: to maximise the area on which they can agree with the other parties; and to demonstrate the benefits of the agreement reached to their partners in the domestic process. As explained in Chapter 2, negotiations can be divided into two methods: distributive or value claiming bargaining - when party A gains, party B loses; and integrative or value creating bargaining, where everybody gains.[13]

Value claiming. It is instinctive to think of negotiators bargaining so as to gain advantage at the expense of the other parties; a gain for me means a loss for you. Popular opinion - like parliaments and the media - often looks at negotiations in this way. But if negotiators only concentrate on their gains, this is not likely to be a fruitful approach to economic diplomacy. An agreement is unlikely to be concluded where one or more parties are clearly the losers. Such an agreement is unlikely to be ratified back home and, even if it were, the losing side would always look for ways to escape or overturn it. The US Administration fell into this error in its approach to a new round of negotiations in the WTO at Seattle in late 1999; it proposed an agenda which brought obvious gain to the United States but did not offer enough to anyone else.

Value creating. So the skilful negotiator looks for value creating deals where all parties can regard themselves as having benefited. The problem here is that simple deals of this kind are difficult to identify. For example, in climate change negotiations, it appears as though everyone would benefit from the reduction of emissions of greenhouse gases worldwide. But developing countries point out that this is in fact an unequal bargain, as reducing emissions inhibits their growth more than it does for mature industrial countries. So they have resisted such commitments without some compensation from rich countries.[14]

Package deals. In practice, many value creating agreements turn out to be packages of a number of value claiming deals. In each individual deal, some countries gain more than others, but the total package adds up in such a way as to provide something for everyone. So in the initial agreements to create the European Economic Community, the French feared that the common commercial policy would benefit German industry too much and insisted on provisions in agriculture and help for their ex-colonies as well. One consequence of this is that international economic negotiations quite often proceed by large package deals. For example, negotiating rounds in the WTO consist of a 'single undertaking', so that nothing is agreed until everything is agreed.[15] This strategy increases the chances of there being something for everyone, as well as the adverse consequences for a government that causes such a deal to collapse.

2. Exploiting divided counsels

It may be that the ingenuity of negotiators in constructing value creating bargains and package deals is not enough to close the gap. So governments look for ways to take advantage of the domestic processes in other parties. Each government in the negotiations knows that the others have been through a comparable process of consultation and political decision. A skilful negotiator looks for ways to exploit evidence of divided counsels in other governments.

One method is to play on known departmental rivalries. In some cases officials may feel closer to their colleagues from the same ministry abroad, whom they see as allies, than to officials from other ministries at home, whom they regard as rivals. Normally the Japanese government is very cohesive, but there is an interesting opportunity to use this tactic in trade negotiations, because the Foreign Ministry has the lead, rather than the Ministry of Economics, Trade and Industry (METI), which may therefore feel left out. The British Department of Trade and Industry (DTI) has close links with its sister ministry the METI and may find it more responsive than the Foreign Ministry to its arguments to get the Japanese position changed.

Even where there are no built-in rivalries, it is normal that the agreed position of a government is more limited than individual departments would prefer. In principle, departments should abandon their wider objectives and rally behind the agreed position. But many departments in practice cannot or will not abide by this discipline. They let it become known that they could accept or even prefer a different position. The British, as noted, are usually very disciplined internally and so are the French. Other countries are more given to fighting out their inter-departmental battles in public or at the negotiating table - such as the Americans and the Germans. This makes them obvious targets for others to exploit these divided counsels.

The same tactic can also be practised against the collective negotiating position of the European Union when the common purpose of the Member States is fragile. When Canada, in 1995, had a bitter dispute with Spain about fishing in the North Atlantic, the Spanish expected solid European support for their position, because the EU operates a Common Fisheries Policy. But within the EU, Britain and Ireland had the same complaints about Spanish over-fishing as the Canadians had. They ensured that the EU and Canada struck a deal which increased the discipline over everyone's fishing practices.

3. Intervention by outside forces

While governments try to take advantage of domestically divided counsels to move international decisions in their favour, outside actors - business, NGOs and others - may do the same. This too is part of economic diplomacy and three methods can be identified.

Direct intervention. With this method, a group outside government in one country tries to influence the government in another. An example of this happened in 1998 during negotiations before the Birmingham G8 summit on debt relief for low-income countries. Christian Aid, a leading British charity in the Jubilee 2000 Campaign that was lobbying for generous debt relief, correctly identified Germany as the main obstacle to agreement. It issued its supporters with postcards addressed to the German finance minister, printed with a text in German urging a more generous approach. 15,000 such postcards flooded into the German finance ministry, while a second wave targeted Federal Chancellor Helmut Kohl and the leader of the opposition, Gerhard Schroeder. It is rare for a direct approach of this kind to be effective immediately and the Kohl government did not change the German position while it was in office. But after Schroeder and the German Social Democrats (SPD) won the election of late 1998, one of their earliest acts in office was to reverse the stance on debt relief.[16]

Indirect intervention. The second method is where forces outside government in one country mobilise supporters outside government in another. For example, European and American insurance companies were very frustrated in the 1990s by the barriers to access to the insurance market in India, which was a government monopoly. Direct appeals to the Indian government had little impact. But the Western insurers learnt that Indian industry was equally frustrated, because it wanted better quality insurance cover than the government monopoly could offer. So Western insurers provided Indian industry with arguments to press their case with the authorities - with the effect that in December 1999 the new Indian government passed a law opening up the insurance sector to competition. A similar manoeuvre was tried at the Doha WTO meeting of November 2001, when the Indian trade minister was holding up agreement. The head of the British Confederation of British Industry (CBI), who was at the meeting, contacted his

counterpart in India, pointing out that a failure to agree would hurt Indian business and urging that local pressure be brought to bear on the minister - though it is not clear if this had any effect.

Collective intervention. In the third method, groups outside government combine to exert pressure on governments together. For example, the WTO's negotiations on financial services twice came near to collapse, in 1993 and 1995, largely because of differences between the US and the EU negotiators. The US wanted too much, while the EU would settle for anything. Then a group of American and European financial service firms came to realise that they had a joint interest in a good result from the negotiations. So they exercised collective pressure on the European and American negotiators to work together - with the result that the negotiations concluded with an agreement in 1997.

Collective intervention is increasingly practised by the NGOs active in global civil society. This may include concerted lobbying of the staffs of international institutions, such as the World Bank. It may also manifest in the form of public demonstrations at the time of major international meetings, like European Councils or G8 summits.

4. Political intervention - playing the head of government card

The international strategies examined so far have been initiated by government officials or by outside forces. However, even in negotiations conducted by officials, ministers often intervene, though they are not themselves at the table. Internationally heads of government may try to break the deadlock when this persists at lower levels, just as they act as arbiters nationally. Now that heads of government, like Tony Blair and George Bush, often talk on the telephone, such intervention is becoming more common. This chapter therefore concludes with a few examples of intervention by the British Prime Minister.

These interventions range from the simple to the more ambitious. A simple intervention took place in 1999 when Blair telephoned his French counterpart, Lionel Jospin, over the French attempt to maintain a national ban on sales of British beef after a Europe-wide ban had been lifted. Blair appealed to Jospin for help, because of the political difficulties which the French move was causing him. (Jospin apparently replied that, if he helped Blair, he would have worse political difficulties of his own and the ban has remained in force.) In 2000 Blair intervened with US President Clinton to get British exports of cashmere taken off the list of products subject to American retaliatory trade barriers because of the EU policy on bananas. Blair argued to Clinton that the US was alienating its most likely ally in the European trade debate. He tried a similar approach to Bush in 2002, before the US imposed new tariffs on steel imports, but this was to no avail.

A more ambitious intervention took place early in 1999, again over debt relief for the poorest. Britain has always been a keen advocate of this policy, while Germany was initially reserved. As noted earlier, after Schroeder replaced Kohl in office, the Chancellor himself announced a reversal of policy on debt relief, taking a much more forthcoming approach.[17] However, the finance ministry was still the lead department for this subject in the German government and they continued to drag their feet.

At some point Blair contacted Schroeder to draw his attention to this, knowing that Schroeder was not on very good terms with his finance minister, Oskar Lafontaine. The result was that Schroeder removed the lead responsibility for this subject from the finance ministry and transferred it to his own department, the Federal Chancellery. The Chancellery moved the subject along much faster, and the Cologne summit produced a substantial agreement. This was another example of an advanced 'two-level game' move in economic diplomacy, comparable with Carrington's tactic described at the start of this chapter.

Conclusions

This chapter has analysed the methods adopted by governments today, in decision-making and negotiation, to reconcile the three tensions of economic diplomacy, as set out in Chapter 1. The main focus has been on the second tension - between domestic and international pressures.

The **domestic sequence of decision-making** is initially concerned with how governments reach common positions internally - the third question in Table 1.1. It provides both for the allocation of responsibility, at official and ministerial level, and a series of techniques for reaching agreed views, right up to the use of the head of government as arbiter. This aspect mainly relates to the **efficiency** of government. But as the domestic sequence proceeds, it increasingly focuses on **accountability** - the sixth question in Table 1.1 - by involving political authority, democratic legitimisation and ratification.

In the process, however, domestic decision-making also addresses the other two tensions, as follows:

- The task of reconciling the first tension, between international economics and politics, falls particularly on foreign ministries. They are regular players in the consultation process, though seldom in the lead except when external political factors are unusually strong.
- To reconcile the third tension, between government and other forces, outside actors, especially business, NGOs and the media, have to be integrated into the decision-making process, so that wider domestic pressures can be satisfied. Outside actors are involved not only in confidential consultations with officials but also in the more public lobbying of ministers and parliament. This is a growing trend, which will feature in future chapters.

In **international negotiations**, economic diplomacy looks for ways in which domestically agreed positions can be deployed successfully in international contexts - the fourth question in Table 1.1. The negotiators seek to maximise the scope of agreement in ways that will satisfy not only their own domestic backers but also domestic interests in their negotiating partners, since without that, the agreement will fail to secure the necessary ratification. They therefore look, in the first instance, for solutions which provide something for everyone. If such solutions are not readily attainable, negotiators look for ways in which the domestic processes in their partners can be turned to their advantage.

While much of this activity takes place among the circles of officials concerned with the negotiations, it can go wider and bring in the other strands of economic diplomacy:

- Ministers, and especially heads of government, try to advance agreement by introducing additional political arguments;
- Outside forces, like business, NGOs and epistemic communities, also seek to intervene directly, indirectly or collectively to change the course of the negotiations;
- The implementation of international agreements is relevant to question 5 in Table 1.1 - whether voluntary cooperation or formal rules work better.

Many of the practices involving officials described in this chapter, though still valid today, derive from the 'old economic diplomacy'. The next chapter focuses on the pressures acting on economic diplomacy in the 1990s and early 2000s and the strategies adopted in response to them. It looks at the rising involvement of ministers, non-state actors and international institutions and thus will provide a fuller analysis of the 'new economic diplomacy'.

Notes

1 This chapter, and this book generally, follows the European (and Japanese and Canadian) usage of 'ministers' and 'officials', rather than the American terms 'politicians' and 'bureaucrats'.
2 For an account of the operation of commodity agreements generally, see Spero and Hart 1997, Chapter 7.
3 On decision-making in European trade policy, see Woolcock 2000 and Johnson 1997. The common EC regime for commodity agreements, called 'Proba 20', was only agreed in early 1982, so that it did not apply when the ITA had last been renewed in 1977, even though the UK was already in the EC by then.
4 The author was the official mainly concerned in the FCO.
5 The rise and decline of UNCTAD is covered in Spero and Hart 1997.
6 At the time these covered cocoa, coffee, tropical timber and wheat.
7 The more familiar name for this ministry is the 'MITI' - Ministry for International Trade and Industry. The new name was only introduced in 1999.
8 The ideas in Professor Jackson's paper *Restructuring the GATT System* (Jackson 1990), especially pp. 93-94, were taken over almost exactly in the design of the WTO.
9 Since June 2001, this department's name has been the Department of the Environment, Food and Rural Affairs, replacing the Department of the Environment, Transport and the Regions. Before the Blair government took office in 1997, it was simply known as the Department of the Environment.
10 See Howe 1994, p. 447.
11 For a perceptive analysis of the differences between ministers and officials, see Aberbach, Putnam and Rockman, 1981.

results from international action, notably from the Montreal Protocol to protect the ozone layer.

The poorest countries

One of the darkest aspects of globalisation is that it appears to be good for the rich but bad for the poor - unless active measures are taken to help those left behind. During the 1990s targets were set at UN conferences for reducing world poverty (defined as those living at under $1 a day), getting children into primary education and lowering child and maternity mortality rates by the year 2015. Reviews conducted in 2000 showed good progress in East Asia, especially China, but disappointment elsewhere, while parts of Africa had gone backwards.[15]

Poor countries needed more help, but did not always get it. Official aid transfers, measured as a proportion of rich countries' GNP, declined in the 1990s.[16] In correcting their budget deficits to become more competitive, many countries cut their aid spending together with everything else. Many countries also diverted money to Eastern Europe that would otherwise have gone to the developing world. There was much more foreign private finance available for investment. But very little of that went to poor countries, except for very large ones like China or Indonesia.

There were some measures taken for the benefit of the poorest, notably in debt relief. During the 1990s the IMF and World Bank, together with Western creditor governments, brought in several initiatives to reduce the debt of poor countries, encouraged by the worldwide campaign of NGOs called Jubilee 2000. The Cologne G8 summit in June 1999, promised deeper and faster relief than was available before. By July 2001, 23 of the 41 Heavily Indebted Poor Countries (HIPC) eligible for relief were in the programme. Political unrest and civil war were the main factors holding back most of the remaining debtor countries, chiefly in Africa.

Debt relief, in any case, addressed only one corner of the problem of world poverty. The rich countries still had more to do to enable the poorest nations to share in the benefits of globalisation. There was some recognition of this as the 2000s began. Successive G8 summits, from Okinawa in 2000 to Kananaskis in 2002, launched new initiatives of potential benefit to the poorest countries, working closely with the private business sector and with NGOs. They encouraged making information technology (IT) available to poor countries and enabling them to leap-frog several stages of development. To reduce the damage done to poor countries by infectious diseases, they launched the Global Fund to fight AIDS, malaria and tuberculosis. They agreed an Africa Action Plan to underpin the efforts being made by African leaders themselves, in the New Partnership for Africa's Development, to improve political and economic governance and stimulate development.

Many poor countries gained little from the international trading system. The G7 members had promised, at their Lyon summit back in 1996, to offer duty and quota free access to the products of the poorest countries, which amounted to only 0.5% of world trade. This commitment was slow to be implemented. But in the

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early 2000s the United States (through the Africa Growth and Opportunity Act), the European Union and Canada all moved to improve market access for the poorest countries.[17] There were also promises to reverse the decline in official aid flows. At the UN meeting on finance for development in Monterrey, Mexico, in March 2002, the United States undertook to increase its aid by $5 billion per year over five years. Parallel commitments by the European Union and Canada raised this total to $12 billion per year in additional aid, half of which could go to reforming African countries. But while this new concern for poor countries was encouraging, lasting results would depend on the promises being made at Monterrey and the G8 summits actually being honoured, so as to improve the progress towards the poverty targets set in the 1990s.

New Strategies in Economic Diplomacy

This review of recent developments has explained the challenges facing the new economic diplomacy. The final part of this chapter pulls together the demands made on governments by globalisation and examines the strategies adopted by states in conducting their economic diplomacy in the early 2000s, so as to meet these challenges.

The demands of globalisation

Globalisation, as Chapter 3 has already shown, expands the range of actors in economic diplomacy. But it also makes other heavy demands on governments:

- First of all, globalisation has greatly increased the *range and variety* of economic diplomacy. Many new subjects became active in the 1990s and 2000s: converting former communist countries to prosperous market economies; a much wider trade agenda; the global environment; new international financial architecture; debt relief and other programmes for the poorest countries; issues which arouse strong popular concern, like food safety, international crime and - since 11 September 2001 - terrorism and its financing.
- Second, the *domestic penetration* of economic diplomacy has intensified. Most of the issues covered by economic diplomacy up to the 1980s, for example in trade policy, concerned policies applied at the border. Now they extend to domestic policies, such as industrial subsidies, support for agriculture and rules of establishment for services firms. All of these have become subject to international discipline, while there is debate about how trade should be linked to labour and environment standards. This evolution emerges from the two case studies on international trade politics, in Chapters 6 and 9.
- Third, the range of *countries active* in economic diplomacy has expanded and now spans the entire globe. Till the Cold War ended, most of the communist states were outside the system. Many developing countries were also inactive. But developing countries participated fully in the Uruguay Round and now want to make the WTO work for them. They will not automatically endorse proposals advanced in the IMF by the G7 finance ministers.[18] The international

system and its institutions now have to operate for the benefit of the entire membership, not just the richer ones.

- Fourth, the *power of governments* to shape events is shrinking, in relation to other forces, and so are the resources available to them. More power is shifting to the private business sector and to other actors. This is not necessarily a bad thing. The Cold War showed that regimes that clung onto control over their economies eventually collapsed. But the decline in relative power and resources means that governments are often trying to do more with less.

These new challenges sharpened all three of the tensions underlying economic diplomacy: between economic and politics; between international and domestic pressures; and between governments and other forces. Governments looked for new ways to improve decision making and negotiation in economic diplomacy, which would compensate for their relative loss of power and address international economic issues which touched their domestic interests ever more closely.

In the course of the 1990s and early 2000s governments developed four strategies, all of which remain active today:

3

- Involving ministers;
- Bringing in non-state actors;
- Greater transparency;
- Using institutions.

These will be examined in turn.

Involving ministers

The first strategy is the greater involvement of ministers, thus raising the political profile. Up to the 1980s economic diplomacy, outside the European Community, was left largely in the hands of bureaucrats. In the old GATT, for example, ministerial meetings were rare. But the WTO has a regular cycle of ministerial meetings every two years or so, while smaller, informal ministerial groups helped to prepare for Doha. Ministerial committees at the IMF and World Bank used to be routine affairs. Now they are more purposeful and are surrounded by satellite ministerial meetings of smaller Groups of Seven or Ten or Twenty. The heads of the GATT and the OECD used to be former officials. Now they are former ministers - Renato Ruggiero and Mike Moore at the WTO, Donald Johnstone at the OECD.[19]

Ministers make their contribution not only at international meetings but by their impact on the domestic ~~decision-making process~~. What do they contribute, when they launch their own initiatives, rather than relying on the work of their officials?

- *First,* as they are usually elected themselves or otherwise linked to the electoral process, ministers are closer to the people and have more domestic political authority. Their involvement enhances accountability and is a natural response to the greater penetration of international issues into national economic life that globalisation brings.
- *Second,* while bureaucrats prefer continuity - their instinct is to adapt an existing technique or institution - ministers are innovative. They put a premium on change and new ideas.
- *Third,* ministers tend to be impatient: they want quick, visible results.
- *Fourth,* ministers put a lot of weight on public presentation. They advocate greater transparency (see below) but may sometimes settle for show rather than substance.

Heads of government - prime ministers and presidents - have even more to contribute than their departmental ministers. As compared with other ministers, their authority is greater; their democratic legitimacy is often more direct; and they are better equipped to reconcile domestic and international pressures. This is fully documented in the case studies in Chapters 7 and 8 on the evolution of the G7/G8 process.

So there is a natural expansion of international summit meetings in economic diplomacy. When the G7 summit and European Council were founded in the 1970s, they were almost alone of their kind. Now international economic summit meetings happen all the time. The EU has regular summits with the US, with Canada and with Asian countries. Asia-Pacific Economic Cooperation (APEC) has summits and so do the participants in the future Free Trade Area of the Americas (FTAA). The UN has occasional summits on special issues, on the Rio environment model. And when heads of government meet bilaterally - Zhu Rongji in Washington or Tony Blair in Tokyo - economic issues make up most of their agenda.

Bringing in non-state actors summit diplomacy?

The second strategy is to involve players from outside central government in the decision-making process. The different actors have already been covered in Chapter 3, so that only a brief account is needed here to explain why and how this grew so fast in the 1990s and early 2000s.

As governments' own powers and resources shrink, they try to get the private sector to share their burdens. In development, for example, they encourage the use of private capital for investment; and they work with charities like Christian Aid and Médécins sans Frontières. In financial crises they do not want IMF money simply to bail out private banks - they want the banks themselves to contribute. Many governments of developed countries include representatives from business and NGOs in their delegations to international conferences, as the EU and UK did at the Seattle and Doha WTO meetings.

In all this, the challenge for the government is to spread the load while remaining in control of the agenda. This has so far been easier to manage with private business than with the NGO community. There are now established parallel business channels for economic diplomacy at several levels aimed at facilitating agreement between governments. In a regional context, the Trans-

Atlantic Business Dialogue encourages closer EU/US relations; the Pacific Business Council meets alongside APEC. Multilaterally, firms may subscribe to the Global Compact initiated by the UN Secretary-General.

As for the NGOs, their violent demonstrations, which started at the WTO meeting in Seattle and led to a death in Genoa at the 2001 G8 summit, make the headlines. But the street protests are only the visible part of the iceberg and do not reflect the positive influence of the NGOs. In fact, NGOs exert much more influence through their direct contacts with governments and with institutions, such as the UN on the environment and the World Bank on development issues.[20]

Greater transparency

The third strategy in economic diplomacy is the drive for greater transparency - for better information, greater clarity and more publicity. The pressure for this comes both from within government and from outside. It follows from the greater involvement of ministers and from the participation of NGOs, since both seek and use publicity to mobilise support for their objectives.

NGOs in their campaigns give high priority to transparency. They complain about the secrecy of negotiations and want more public scrutiny. Governments seek to respond to this, so as to counter popular anxieties about globalisation. Institutions like the IMF and the WTO are responding to pressure to become more accessible to the public and to explain their activities better.

Transparency means different things in different policy areas. In the new financial architecture, the IMF requires governments to observe codes of openness about their economic policies; governments in turn require banks to do the same about their operations. The argument is that with greater transparency financial operators would not make unwise investments and governments would be able to anticipate financial crises. Similarly, transparency is integral to many of the agreements in the WTO. In services, for example, the barriers to trade in practice consist of regulations. If these regulations are obscure or ill-defined, that amounts to an obstacle to competition.

Transparency is a useful strategy, but it raises some problems. Transparency can on occasion be the enemy of fruitful negotiation. In many ways, negotiation is like courtship: there is usually a period of private exploration and preparation before the parties are ready for public commitment. In negotiations governments make tentative proposals to see what responses they produce - and may later withdraw or modify them. All this is harder if conducted in public. Chinese Premier Zhu Rongji, when in Washington in April 1999, made proposals on trade policy going well beyond what had been authorised before he left Beijing. He was damaged back home not only because Clinton turned him down but because the Americans made his proposals public - via the internet.

Using institutions

The fourth strategy is the greater use of international institutions. Where governments' individual powers are shrinking, it makes sense to act collectively whenever possible. The years after World War II, up to the 1960s, were active in

institution building, both globally and regionally. The next two decades were barren in comparison, with the G7 summits as virtually the only innovation. But the 1990s have seen a wave of new institutions and the transformation of old ones.

Among global institutions, the WTO was essentially new, far more than the successor to the GATT. The Rio process produced a network of new environmental bodies linked to the UN. These have not yet coalesced into a World Environment Organisation, though some argue for this. In finance, the 'new architecture' has left the IMF and World Bank largely unaltered in their basic structure. But there has been extensive innovation round their edges and the process of change may not be complete.

Among sub-global, plurilateral institutions, the EBRD, launched in 1991, was wholly new. During the 1990s the G7, since 1998 the G8, mutated from an annual summit meeting into an apparatus of distinct groups in finance, environment, employment, energy, crime and many other things. The OECD took on new members and the Commonwealth has found an economic vocation, centred on the problems of the poorest and the smallest countries.

But it is at regional level that the institutional growth has been most striking: NAFTA in North America, Mercosur in South America, the ASEAN Free Trade Area (AFTA) in South-East Asia and similar, if less ambitious, groups in South Asia, Southern Africa and the Caribbean. Some of the new regional groups have a very wide geographical scope: Asia-Pacific Economic Cooperation (APEC) goes all round the Pacific rim; the Free Trade Area of the Americas (FTAA) covers the whole Western Hemisphere. This growth continues in the 2000s, with new initiatives in Asia and the decision to convert the loose Organisation for African Unity (OAU) into the African Union.

In Europe, the EU deepened its economic integration during the 1990s in ways which had strong international impact, with the completion of the single market, the reform of the Common Agricultural policy (CAP) and the launch of economic and monetary union (EMU). As well as preparing for its own enlargement Eastwards in Europe, the EU reached out to its neighbours in the Mediterranean; and it went through two cycles of new relations with North America, with the Transatlantic Declarations of 1990 and the Action Plans of 1995-96.

The change is not just in the number and range of institutions. It is also in the way governments make use of them in support of their domestic objectives. They do not just use the institutions to extend their reach internationally, but also to endorse and justify their domestic actions and to share the burden of politically difficult decisions. As governments reduce their ability to intervene nationally, through privatisation and deregulation, they become keener on international rules, for example in telecommunications or financial regulation or even in agriculture. There is, however, an unsolved problem over resources. The institutions, like other players in economic diplomacy, are often asked to do more with less.

All this activity reinforces the multi-level nature of economic diplomacy. While countries may still conduct their economic diplomacy bilaterally, they may also mobilise a whole range of different institutions - regional, plurilateral and multilateral - and use them for a variety of functions. Multi-level economic diplomacy, which takes advantage of the different levels and the interaction between them, provides the main content of Part II of this book.

Conclusions

This chapter has examined the new challenges to economic diplomacy in the 1990s, stimulated by the end of the Cold War and the advance of globalisation. As the demands on governments increased, but their relative power shrank, they resorted to new strategies in their domestic decision-making and international negotiations. It remains to see how these strategies help to reconcile the different tensions in economic diplomacy: between international economics and politics; between international and domestic pressures for both efficiency and accountability; and between governments and other forces.

Involving ministers - and heads of government - is partly intended to reconcile politics and economics. The end of the Cold War, at the beginning of the 1990s, mounting concern about the poorest countries, as the decade ended, and the response to the terrorist attacks of 11 September 2001 all required a fresh balance between politics and economics. This, for example, has moved the G7/G8 summits in new directions. But ministers and heads of government also have greater capacity than their officials to reconcile conflicting domestic and international pressures by virtue of their political authority. They enhance accountability through their obligations to parliament and the electorate. They are likewise better equipped to deal with outside forces, because of their democratic legitimacy and their involvement with domestic politics and the public at large.

Bringing in non-state actors is a direct response to the tension between government and outside forces. Governments co-opt business, NGOs and others into their domestic decision-making in order to engage them and forestall potential opposition, though they need to take care against being 'captured' by them. The same process is beginning in international negotiation: environmental NGOs and epistemic communities are advising the UN; private banks and debt relief campaigners are engaged with the IMF. The involvement of non-state actors is also an essential part of the process of reconciling domestic and international pressures because it widens the scope of accountability.

Greater transparency is linked to the two previous strategies, as it responds to problems perceived both by ministers and by some outside actors. To that extent it contributes to reconciling governments and other forces. It can help in reconciling domestic and international pressures, when it improves accountability. But it can also hinder the process, when it makes negotiation harder by premature disclosures.

Using institutions is a natural response to the advance of globalisation. It is used to make economic diplomacy more efficient and responsive to the new demands generated by globalisation. It has become a favoured strategy for governments in reconciling domestic and external pressures, as will emerge from many of the chapters in Part II of this book. This accounts for the revival of institution building during the 1990s. But this strategy can have its political drawbacks, if the institutions are perceived to have a 'democratic deficit'. Then the improvements in efficiency are offset by a loss of accountability. This strategy can engage some outside actors effectively, but it can alienate others, like the obstructive demonstrators in Seattle and Genoa.

While Chapter 4 took ongoing economic diplomacy as its starting point, this chapter has focused on the causes and the main features of the new economic diplomacy. Taken together, they serve to introduce the case studies in the next four chapters. The first pair of these examine the historical development of decision-making and negotiation between the 1940s and the 1990s, concentrating on the multilateral trading system and the growth of the G7/G8 summits. The second pair of case studies introduce the first practitioner authors, one representing government and the other from a representative NGO. They look at the same subjects in reverse order, providing analyses of the summits and of international trade politics as perceived in the early 2000s. These case studies, like the others in this book, provide illustrations from real life of the analytical and theoretical concepts introduced in Chapters 1 and 2.

Notes

1 Stiglitz 2002 contains serious criticisms of IMF-sponsored policies in Russia during the 1990s. But he is better at saying what the IMF did wrong than at explaining how they could have done better.
2 On the New International Economic Order, see Spero and Hart 1997, Chapters 6 and 7.
3 For a fuller analysis of this process, see Bayne 1994.
4 The literature on globalisation is very extensive. This analysis draws chiefly on Cable 1999, Held and others 1999, Hirst and Thompson 1997, Gilpin 2001 and Woods 2001. Some scholars - especially those called 'sceptics' by Held and others - point out that globalisation dates back to the late 1800s and early 1900s. It was interrupted by the two world wars and, in some respects, such as movement of labour, has not regained its original intensity.
5 This is well illustrated in Cable 1999, Figure 1.1. The pattern in the early 2000s has been more erratic.
6 The official history of the Uruguay Round is in Croome 1995. Preeg 1995 gives a more reflective analysis. Ostry 1997 sets the results in a historical context and looks forward.
7 See IMF 1997.
8 See IMF 1997, p. 72f.
9 The first meeting to be the target of mass demonstrations was the WTO ministerial conference at Seattle in December 1999. The next targets were the meetings of the IMF and World Bank in 2000, first in Washington and then in Prague. Attention was then extended to summit meetings: the European Councils in Nice (December 2000) and Gothenburg (June 2001); the Summit of the Americas (Quebec City, April 2001); and the G8 summit (Genoa 2001). See Green and Griffith 2002.

10 The most dangerous moment came in October 1998, with the collapse of an American hedge fund with heavy exposure in Russia. But the Federal Reserve mounted a rapid rescue operation, while maintaining confidence by easing monetary policy.
11 For useful and compact analyses of the new architecture, see Eichengreen 1999, Evans 2000 and Kenen 2001.
12 The works of Dani Rodrik examine the political and social consequences of globalisation in both developed (Rodrik 1997) and developing countries (Rodrik 1999).
13 For analyses of Seattle and its consequences, see Bayne 2000b and Bhagwati 2001.
14 There were other examples of reluctance within the EU to opening up to wider competition in the early 2000s. Germany managed to frustrate new rules on take-overs, France continued to protect its public utilities and the liberalisation of financial markets met considerable resistance.
15 For an account of these and other international development targets, see DFID 2000, especially Figures 1.1 and 1.2.
16 Aid was often made dependent on poor countries following structural adjustment programmes agreed with the IMF and World Bank. But these programmes attracted criticism - see Killick 1995 and 1998.
17 The American actions benefited mainly African countries, with parallel benefits in the Caribbean, where, however, there are few of the poorest countries. The most radical action was taken by the European Union, which admitted all products (except arms) from least-developed countries free of duties and quotas from March 2001. There are transitional periods, however, for rice, sugar and bananas. Canada announced a similar programme in June 2002, excepting only eggs, poultry and dairy produce.
18 The G7 finance ministers proposed to the IMF in 1994 a new issue of Special Drawing Rights (SDRs) and expected this to be endorsed automatically. But the other members threw it out as not being generous enough.
19 These senior international posts are now filled not only by ex-ministers but by former heads of government: Supachai at the WTO, succeeding Moore; Gro Harlem Bruntland at the WHO; and Ruud Lubbers as the UN High Commissioner for Refugees.
20 A useful examination of the relations between NGOs and international economic institutions is in O'Brien and others 2000.

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Chapter 6

The ITO, the GATT and the WTO 2

Stephen Woolcock

The aim of this chapter is threefold. First and foremost it aims to provide an illustration of how the theoretical analysis discussed in Chapter 2 can be applied to a specific set of negotiations. Second, it gives a summarised history of the origins of the trading system and the factors that shaped the creation of the post-Second World War trading system, and as such provides something of an historical foundation for discussion of more current trade issues in the other chapters of the book. Third, the chapter compares the negotiations that led up to the failure of the ITO and the creation of the GATT with those that concluded the Uruguay Round and created the World Trade Organization.[1]

The chapter discusses the central questions that would need to be addressed in a comparison of trade diplomacy over time, and therefore provides a reference point for considering how economic diplomacy may also have changed (or not) over the past 50 years.

The chapter looks primarily at the period between 1941 and 1950. In 1941, for the first time, the nature of the post-war trade regime was discussed between the United States and Britain as one of the elements of the Atlantic Charter. October 1950 was when President Truman finally withdrew the legislation implementing the ITO from the US Congress and thus effectively killed the idea of a comprehensive global trade organisation for forty-five years. By way of comparison the chapter takes the trade negotiations during the Uruguay Round between 1986 and 1994. The comparison is not the failure of the ITO with the success in creating the WTO, because the actual creation of the WTO did little to change the trading system. What changed the trading system in the 1990s was the substance, in terms of enhanced market access, rule-making and institutional changes. These changed as a result of the Uruguay Round negotiations not simply through the formal establishment of the WTO.[2]

The chapter first goes over a few methodological questions, before recalling the factors identified in the theoretical analysis set out in Chapter 2, that one would expect to shape the outcomes of the relevant negotiations. The chapter then tells the story of the negotiations leading up to the failure of the ITO and discusses which factors appear to explain the course of the negotiations. A brief summary of the Uruguay Round negotiations is then provided.[3] The impact of the factors identified in the theoretical framework on the Uruguay Round are then discussed, before the chapter concludes with a comparison of the two sets of trade negotiations and some thoughts on what they tell us about the evolution of economic diplomacy.

Methodological Questions

Telling a story or developing theory?

As mentioned in Chapter 1, there are two approaches to seeking to understand economic diplomacy, as in other areas of international political economy (IPE) and international relations (IR): to explain what happened; or to develop theory inductively and then use empirical case studies to determine whether the theory is correct and how it might be refined. Economic historians focus on explaining why things happened the way they did. The danger of this approach is that historians may first of all get caught up in controversy over what actually happened and why. Second, a series of case studies, without any means of comparison, makes generalisation, such as on the nature of economic diplomacy and how it is changing, difficult or risky. Political scientists, at least many of those in the United States that have led in looking at the factors shaping foreign economic policy, tend to focus on developing theory in order to be able to say something about patterns of behaviour and possibly what might happen if a certain set of conditions exist. This second approach is based on inductive theory and hypotheses supported by empirical studies. The danger with this latter approach is of falling between two stools. On the one hand it may not be possible to develop a theory that is applicable without reducing the analysis to a limited number of key variables. At the same time using empirical studies to develop the 'science' or theory, may result in a less than complete coverage of the substance of negotiations.

Defining the case study

As in all historical case studies, the choice of period is important. By selecting a period one can skew the findings towards a particular result. For example, consider two different hypotheses on the nature of trade diplomacy:

- Trade diplomacy is influenced by precedent and by cooperation between governments in international institutions (an institutional or functionalist view);
- Trade diplomacy is shaped by the most powerful states, especially by hegemons (a realist view).

If one were to take a period from 1920 to 1950, one would find that technical work on trade undertaken in the League of Nations during the 1930s provided the models for future GATT and ITO negotiations.[4] Likewise, the Reciprocal Trade Agreements Act, adopted by the United States in 1933, influenced the nature of the post-war trade regime. The regime was thus based on reciprocity rather than on unilateral liberalisation, as was the case with the British-influenced regime prior to 1900. If, on the other hand, one looks at the period from 1945 to 1950, one might conclude that US leadership or hegemony was the only factor shaping the trade agenda.

A balanced approach

The purpose of this volume is not to develop a theory of economic diplomacy, nor to simply provide a list of case studies in economic diplomacy. The aim is to find a balance between the two approaches discussed above in which it is possible to say something about the factors that help form economic diplomacy and how they have changed, but also provide some useful substantive knowledge on trade policy and diplomacy.

The Potential Factors Shaping the Outcomes on the ITO and the GATT

As Chapter 2 set out, there are a number of factors that could shape trade negotiations. There are what we called the systemic factors in Chapter 2, such as *power relationships* between states. This goes for the influence of relative power relationships to shape outcomes, in the sense that the more powerful states could be expected to shape the agendas and results of trade negotiations. It may also be true in the sense that trade policy, like other policies, may serve the realist aims of states to enhance their power relative to other states. Realists would also argue that trade agreements will fail if they threaten national sovereignty.

Concern with relative power may have an impact in the sense that *strategic factors* may have a bearing on the trade policy chosen by a country. For example, it has been argued that agreement in trade negotiations is facilitated between allies or when a group of countries faces a threat from a potential superpower competitor.[5] The strategic explanation of trade policy outcomes would, for example, argue that agreements are more likely during the Cold War because of a desire for the western, liberal democracies to show solidarity in the face of competition from Soviet or Chinese communism. Another theory based on the power of states, namely hegemonic stability theory, argues that trade agreements are more likely to be concluded, or trade regimes established, when there is a *hegemonic power* (such as the United States) with the will and ability to shape outcomes. In theory dependency theory might also be applied to trade policy. During the early period of our comparison there were few developing countries involved in forming the GATT, so it might be argued that a group of core industrialised countries formed the system in their own interest. Finally, institutional approaches might help to illustrate the differences between 1947, when there were no functioning institutions governing international trade, and 1995, when there was fifty years of experience of cooperation within the GATT and other institutions.

Chapter 2 also discussed domestic factors, such as *societal and state centred* explanations in economic diplomacy. In trade policy these take the concrete form of national sectoral interests, such as the balance between sectors of the economy seeking protection and those interested in liberalisation. Alternatively societal approaches might compare the relative weight and influence of business (capital) and consumers or organised labour. The growing role of civil society NGOs also fits easily into a societal based approach which compares the positions of key interests. *National institutional factors* will also influence outcomes. For example, it has been argued that divisions within government (between the executive and legislative branches in the United States) was one reason the US adopted the GATT but not the ITO.[6] A less obvious domestic factor shaping trade outcomes might be the degree of scope or discretion given to negotiators by national political interests, whether these are embodied in legislatures or in other forms of interest representation.

It has been argued that the greater the 'negotiating slack' (ie discretion granted to negotiators), the less likely it is that trade agreements will be ratified and thus successfully concluded.[7] Alternatively, the dialogue between national ministries or departments with differing preferences will shape outcomes. A case in point would be the contrast between the US State Department interested in strategic goals such as reconstruction in Europe and containing Soviet influence in Europe, and the US Department of Commerce interested in export markets for national industries.

We also saw that *ideology* or shifts in the prevailing paradigm shaping national policies may have an impact. A comparison between 1947-51 and the Uruguay Round provides a comparison between a period when the Cold War was beginning to one when capitalism had been accepted by virtually all countries. Did the absence of ideological conflict between communism and capitalism facilitate the conclusion of the Uruguay Round or make it harder? Have other ideological divides, such as between free trade and sustainable development, reflected in the post Uruguay Round debate rather than the negotiations of the Uruguay Round itself, only become apparent because of the absence of the old ideological divide that influenced most of the 20th century?

Finally, what role did individuals play during the two periods? Personalities such as Cordell Hull, the committed free trader in the US State Department may have shaped the outcome in the late 1940s. Perhaps individual negotiators had an impact by judgements at key times in negotiations. Instinctively one would expect individuals to have less of a role in the 1980-90s because as Chapter 3 has shown there were far more actors around than in the rather select groups that negotiated the GATT and the ITO.

Linkage has also been identified as a potential factor in outcomes.[8] In trade policy this means, in practice, linking progress in one area with that in other policy areas or sectors. There are multilateral 'rounds' of negotiation, rather than continuous negotiations, in part because negotiators have found it helpful to negotiate packages. This permits all negotiators to come out of negotiations with successes and, in terms of negotiating process, enables negotiators to overcome zero-sum or value claiming negotiations and opt for outcomes that benefit all. There may, of course, be other linkages between trade policy and other policy areas, perhaps non-economic issues. In the case of the early debates on the post-war trade regime, for example, the US could have linked its aims in trade with aid for Britain during the whole of the 1940s.

If decision-makers in government are preoccupied with political crises or other pressing issues, this may also affect outcomes. For example, it has been argued that the US Congress was preoccupied with Marshall Aid and NATO when the ITO legislation was due for ratification.[9] Likewise, the end of the Cold War in Europe in the late 1980s and its impact on European politics has been seen as a distraction for the European governments at a critical stage in the Uruguay Round negotiations.[10]

The ITO and the GATT

Background to the negotiations

The negotiations on the ITO must be understood against the background of the economic recession of the 1930s and the war. The recession taught policy-makers a clear lesson that beggar-thy-neighbour policies were damaging for all. Prior to 1914, trade and investment had been broadly liberal under British leadership. Diplomacy was almost exclusively political diplomacy. The 1914-18 war shook the foundations of economic liberalism. America overtook Britain in economic muscle and became the world's leading creditor, but it was not ready to assume leadership of the international economy.

The 1920s and 1930s saw efforts to check the growth of economic nationalism and establish a trading regime, but these failed. In 1922 the Genoa ministerial conference sought but failed to reduce barriers to trade. In 1927 the World Economic Conference reached agreement on a detailed programme based on non-discrimination, tariff reductions, the removal of quantitative barriers to trade and the ending of export subsidies. But this was negotiated by trade officials and was not supported by their political masters. A high level meeting in October 1927 did agree to a convention on tariff reductions balanced by an escape clause, but the requisite number of countries did not ratify this and it also failed.

The economic depression of the 1930s made things worse. In 1930 the League of Nations produced proposals for a one year truce in tariff wars followed by progressive reductions in tariffs. But in May 1930 the US Congress passed the Smoot-Hawley Tariff Act, which raised US tariffs to higher levels still and provoked Britain to finally break with free trade and support the introduction of imperial preferences in 1932. In 1934 the US began to reverse its policy of high tariffs with the passage of the Reciprocal Trade Agreements Act (RTAA). This was not unilateral free trade but trade liberalisation based on reciprocal reductions in tariffs. It took Congress out of trade policy and gave the officials in the Administration more control over the process.

By the end of World War II most economies were in ruins, except the United States, which accounted for more than 50% of world industrial output, had a balance of payments surplus of $11bn (in 1945 prices) and, with Canada, was the only creditor. Elsewhere countries introduced controls on trade and currency in order to preserve the limited resources they had and many countries moved towards large-scale nationalisation.

The positions of the major actors

In these circumstances the United States sought increased trade and reconstruction to provide export markets for its products and avoid surplus capacity. It wished to

It is also instructive to compare the use of linkage in the two periods. During the negotiation of the ITO there was no link made between it and the GATT, so opponents of the ITO could still fall back on the GATT. By the time the proposal for a World Trade Organization (WTO) was included in the Uruguay Round negotiations, it had been firmly established that there would be no agreement until everything had been agreed. This is the concept of the global multilateral round of negotiations. In the case of the WTO this linkage seems to have been an important factor. Given the opposition to the WTO in the US Congress, there would have been some doubt about Congressional ratification for the WTO had the rest of the Uruguay Round results not been linked to it. If the US got more or less what it wanted on trade in services, intellectual property and agriculture, it came at the price of the WTO that many saw as helping to rein in US unilateralism. The importance of this kind of linkage, which has became standard practice in international trade negotiations during the past 30 years, appears to have been somewhat overlooked in the existing studies of the adoption of the ITO and GATT in the US.

On the basis of the chapter it is possible to suggest a number of hypotheses on how economic diplomacy has evolved. First, domestic factors have come to play a more important role in decision-making, as the scope for negotiators has been reduced. This makes the process of negotiation more difficult but reduces the risks of non-ratification. This is likely to vary between countries. There may, however, be limits to how far one can go in tightening domestic control over negotiations. Already one might argue that trade negotiators have precious little scope to negotiate and find solutions to divergent national positions.

A second hypothesis is that linkages between issues are important as a means of breaking what would otherwise be insuperable obstacles to agreement. Indeed the more domestic interests control negotiations, the greater the need for trade-offs between issues, so that protectionist or otherwise difficult interests can be compensated by interests in favour of an agreement. This suggests that more flexible approaches that weaken the 'package deal' nature of international trade negotiations may result in much slower progress in negotiations.

Notes

1 Other studies have also made such comparisons. See for example, Odell, J. and Eichengreen, B, 'Changing Domestic Institutions and Ratifying Regime Agreements', in Odell 2000 and Milner, H. 'The Bretton Woods Monetary Agreement and the International Trade Organisation, 1943-1950' in Milner 1997.
2 The creation of the WTO brought the General Agreement on Tariffs and Trade, the General Agreement on Trade in Services (GATS) and the intellectual property provisions agreed in the Uruguay Round under a single institution and unified the dispute settlement procedures. This is important, but it was the decisions on a range of elements of the Uruguay Round package which counted, not simply the creation of the WTO.
3 For further reading on the substance on the Uruguay Round see, for example, Croome 1995 for a good factual account of the negotiations.

4 See Viner 1950 for some discussion of the role of the League of Nations.
5 Gowa 1994 argues, for example, that trade negotiations only really succeed between allies because of an aversion of states to 'helping' their potential enemies by trading with them.
6 See Milner 1997 for a description of this process at work.
7 See, for example, Odell and Eichengreen 2000.
8 Both Odell 2000 and Putnam 1988 argue that linkage is a factor in international negotiations.
9 See Odell and Eichengreen 2000.
10 At a critical point during the trade negotiations, the European Union was busy discussing the future of European political and monetary union at the two Inter-Governmental Conferences that led to the Maastricht Treaty on European Union. See Woolcock and Hodges 1997.
11 See Odell and Eichengreen 2000.
12 There was no consensus within the US negotiating team, however, and Clair Wilcox the deputy negotiator is believed to have advised that no agreement in Havana would have been better than a weak agreement.
13 See Diebold 1952.
14 See Ruggie 1982.
15 On voluntary defections, see Putnam 1988.
16 For more reading on the Uruguay Round, see Schott 1994, Croome 1995, and Preeg 1995.
17 Some would contest this. Even if the US state was less able to shape events in 1994 than 1948, US commercial interests may well have had the power. For example, a coalition of business interests, led by US companies, was able to get intellectual property right standards integrated into the WTO.
18 In the years since the ratification of the Uruguay Round results, there has been a backlash against the loss of national policy autonomy, which suggests that some interests were not fully aware of the implications of the agreement. See Chapter 17 below.
19 For a discussion on the institutional structure of decision-making in the EU on trade policy see Chapter 12 below, as well as Hodges and Woolcock 1997, Meunier and Nicholaidis 1999.
20 For a discussion of US unilateralism see Bhagwati and Patrick 1991.
21 See Desai 1996.

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Chapter 7

Creating the Economic Summits

Nicholas Bayne

This chapter, the second of the historical case studies in this book, examines the foundation of the G7 summits in the mid-1970s and their subsequent development. This links into the first of the contemporary case studies in Chapter 8, where Colin Budd reflects on G8 summits and their preparation today, drawing on his experience as Economic Director at the Foreign and Commonwealth Office. These two chapters therefore compare summitry past and present.

Why does this book give so much attention to summitry? This is because the G7 summit - now the G8 - provides an excellent laboratory for research and experiment in the study of economic diplomacy. The summits cover the whole range of international economic relations. They deal with the issues of greatest concern of the day. The number of actors involved is limited and they can be observed directly, without the distorting lens of a formal organisation. Above all, summitry makes it possible to observe the efforts made (not always successfully) to reconcile the tensions between politics and economics and between external and domestic factors in decision-making - two central themes of this book. That is not surprising, as that is why the summits were invented.

This chapter is structured as follows:

- *First,* it looks at why the summits began in the early 1970s, their original objectives and the achievements of the early summits, up to 1978.
- *Second,* it analyses decision-making and negotiation in the context of the early summits, in terms of the sequences described in Chapter 4 and the questions formulated in Chapter 1.
- *Third,* the chapter examines why the summits since 1978 have never been as ambitious as the early ones.

The conclusions bring the record of summitry up to the present, looking at their recent contribution to resolving the tensions of economic diplomacy.

Why the Summits Began

From the late 1940s to the end of the 1960s, after the creation of the Bretton Woods institutions and the GATT, the world economy recovered steadily. Growth rates were strong, inflation and unemployment low. But all that was shattered on 15 August 1971, when the United States, unilaterally and without warning, ceased