

THE MEANING OF ECONOMIC DIPLOMACY IN SMALL COUNTRIES-A SPECIAL REFERENCE TO THE REPUBLIC OF NORTH MACEDONIA

Ile Masalkovski, PhD

University St. Kliment Ohridski-Bitola, Faculty of Law-Kichevo
ile.masalkovski@gmail.com

Assosiate professor Bozidar Milenkovski, PhD

University St. Kliment Ohridski-Bitola,
Faculty of Information and Communication Technologies-Bitola
bozidar.milenkovski@fikt.edu.mk

Abstract

The increased complexity of international economic relations has led to increased interest of the states for greater economic engagement in their diplomatic activities. At the same time, the role of diplomacy as a tool for promoting and protecting the economic interests of the states becomes very important. The developed economic diplomacy should contribute to increasing exports, attracting investments, promoting bilateral economic relations with other countries and establishing quality economic cooperation with international organizations. In this context, the concept of economic diplomacy is of great importance for small countries like the Republic of Macedonia, which are trying to accelerate economic development and economic integration.

Key words: economic diplomacy, economic relations, globalization, foreign direct investment.

INTRODUCTION

As a result of the processes of globalization and trade liberalization, the competition in the domestic and foreign markets has increased. The process of globalization greatly complicates relations between countries that increasingly depend on each other economically, and are linked by economic, political, social and other interests. This, brings new challenges to the countries about outlining strategies for foreign policy and diplomatic activities. In conditions of continuous increase in the free flow of people, goods, capital and services, the biggest priority of diplomacy is the economic prosperity of its own country. The economy has never played such a big role and has never had such importance in foreign policy and diplomacy as it has today. Foreign policy can not be separated from market realities. Countries that do not have built a concept of economic diplomacy, can not have a proactive role in relations with other countries. Even though it is burdened with numerous difficulties, this concept has a real potential to grow into a strong mechanism for development of the domestic economy.

This is especially evident in the small countries that are highly dependent on the economic exchange with other countries, such as the Republic of Macedonia which aspires to engage in large multilateral economic, political and security integrations. Small and open economies, such as the economy in our country, are demanding greater involvement in the globalized economy, fitting into the world market and finding their own specialized areas in which they will achieve comparative advantages. That is why the role of economic diplomacy is very important.

THE CONCEPT OF ECONOMIC DIPLOMACY

The concept of economic diplomacy brings together two different theoretical concepts: diplomacy and economics, both of which, as understood in the past, constitute complementary means of foreign policy (Bayne Nicholas, Woolcock Stephen, 2011). The modern system of international economic relations imposes the need for intensive economic and diplomatic activities aimed at the realization and protection of economic priorities and interests. The classical diplomacy as a way of acquiring international-legal political sovereignty is no longer sufficient. Today, a new combination of classical political diplomacy and economy that develops good economic relations is needed. David Baldwin called the combination of foreign policy and international trade-economic statecraft, meaning "all the economic means by which foreign policy makers try to influence international subjects" (Baldwin A. David, 1985, p. 40). According to Harold Lasswell, economic statecraft is one of the techniques of statecraft that uses economic instruments (Lasswell D. Harold, 1945, p. 9). It is needed diplomacy which transforms political advantages into economic gains. In the conditions when creating a concept of economic diplomacy is the best way that leads to successful foreign policy, it is necessary to constantly seek quality foreign investors and new markets for domestic products, as this ensures economic development of the countries and reduction of unemployment. Economic diplomacy means diplomatic activities aimed at developing and protecting the economic interests of the country. Diplomacy that uses economic resources, either as awards or sanctions, in achieving a specific foreign policy goal is sometimes referred to as the economic skill of the state (Beeridge G.R., James Alan, 2003). It, in a wider sense, refers to all entities of a society that participate in strengthening the economic competitiveness of a country by diplomatic methods. In the narrow sense, economic diplomacy refers to the exclusive activities of the Ministry of Foreign Affairs in defending the economic interests of its country. The country can count on fast and sustainable economic development only if in the realization of this goal it uses economic diplomacy as a strategic tool. To achieve that, the concept of economic diplomacy should be strategically conceived, well coordinated in practice and coherent. There are several areas in the economy in which the diplomacy is of great importance. Those areas are (Mavlanov R. Ibrahim, 2008):

- internationalization of the process and increasing the independence of the world economic system that is moving towards global and regional integration,
- striving for the economic systems of the states and the companies to act according to the principles of the market economy and the free flow of people and capital,
- the process of globalization set on new qualitative and quantitative bases,

- use of new management methods that work according to the energy efficiency laws and the modern operation of information technologies,
- development and application of innovations to achieve competitive advantages.

These are the areas in which economic diplomacy is expected to show the highest level of efficiency and effectiveness, i.e. to contribute to the realization of the most important economic goals of one country. Professor Evan Potter from the University of Ottawa, defines five basic activities of economic diplomacy: (1) promotion of exports, (2) fostering foreign direct investment, (3) cooperation in science and technology (including research and development) and the acquisition of benefits from the transfer of technologies, (4) promotion of tourism, and (5) advocacy of the interests of the national business community (Potter Evan, 2004, p. 55-60). Furthermore, this concept should have political support, which primarily involves creating a favorable business climate within the country. Attractive sectors and activities that would be recognized and would motivate foreign investors to invest should be identified. Economic diplomats should work daily to monitor and discover potential business opportunities, as well as gather public and confidential economic information, analyze them and submit them to the competent state authorities. The concept of economic diplomacy abroad is primarily based on the work of diplomatic missions and consular offices, honorary consuls, as well as specialized agencies for export promotion and attraction of foreign investments. In our case, economic advisers should be set up in the most important embassies, whose work will be exclusively related to economic diplomacy. They should have a good insight into the economic situation in the receiving countries, built business contacts, know the legal norms that relate to business operations in the receiving country and the focus of their interest should be information on economic sectors of interest for exports. In this context, special attention should be paid to the development of bilateral relations with the countries inhabited by a number of Macedonian diaspora. This can be done in the form of a network of business clubs that would be places where business people would gather and socialize, places of business contacts, exchange of information and signing of contracts.

THE CHALLENGES OF ECONOMIC DIPLOMACY IN SMALL STATES

There is no precise definition in the professional literature, nor is unanimity about which country is small. But there are at least two approaches that define this notion - quantitative, based on objective criteria (population size, size of territory, GDP, military capacity, etc.) and qualitative, which focuses on the psychological dimension (entrepreneurial abilities, the goals and priorities of state leaders, the competence of the administration, etc.). Hence, it seems that the best definition of the term small country would be obtained if both approaches combine (Elman Miriam, 1995). The term "micro" countries cover those countries whose population does not exceed 1.5 million inhabitants (Ali Naseer Mohamed, 2002, p. 1).

Small countries have limited human and financial resources, and their impact in the world is much lower compared to large countries. They are usually open and as such are highly dependent on the external economic environment. As a consequence, small countries, under the influence of external factors, must build resilience to the shocks coming from the international environment. This can be

achieved by strengthening the capacities of adaptation and absorption of the shock of the environment. Small countries use economic diplomacy to alleviate the protectionist and interventionist policies of the other countries. The main logic is to establish a friendly environment for the internationalization of the work of the companies and the exchange of goods and services. In classical forms of behavior of small countries in international relations, the following points out: (1) low involvement in world politics and limitation of action in the close geographical environment, (2) a relatively narrow circle of international themes that matter to them, (3) the use of diplomatic and economic instruments instead of military, (4) insisting on "moral aspects" in international relations such as international law, international principles, etc., (5) focus on multilateral cooperation and multilateral organizations, (6) neutral opinion, (7) reliance on the great forces for protection and resources, (8) a focus on cooperation in order to avoid conflicts, and (9) rational spending on energy and resources to ensure the physical and political security of the countries (Hey Jeanne, 2003, p. 5). The small countries, aware of their "weakness", are striving to increase their significance to the international community through an active "virtual expansion" approach. That means they reduce the power of the big players by using psychological tactics: human resources, intellectual and propagandistic skills (Chong Alan, 2007). Although small countries have certain advantages in the context of their integration into global economic flows, their size may be a disadvantage. For example, if a company operates on a small market, it can be viewed as a large one. Therefore, when entering the global market, companies must be well-prepared to protect themselves from major international players. The small market may also imply lack of resources, especially human and financial. Because of that, it is very important to achieve efficient resource management. This is particularly emphasized in economic diplomacy. Engaged personnel must be well-trained, flexible, ready to adapt to changes in the environment and active in the process of seeking new business opportunities. The key to the success of economic diplomacy is a system that does not produce post mortem analysis, which suggests why the outcome was negative, but the pre-mortem, which ensures a bad outcome does not happen at all or at least tries to mitigate the shocks and the damage (Penev Slavica, Udovič Boštjan, 2014, p. 271-287). It is also necessary to understand the cultural differences. In a multicultural environment, people with knowledge of certain skills are needed, such as: managing cultural diversity and change, functioning in flexible organizational structures and teams, skills related to international negotiation, innovation, skills related to the knowledge of international marketing etc. In addition, the large number of participants complicates the reliability of international operations. The Internet and the information society generate certain weaknesses such as: unauthorized access, cyber conflicts, destruction of databases etc. At the same time, social networks become very important. All this requires new knowledge and skills for both diplomats and business people. It is obvious that there is a convergence of skills in both professions. For diplomats, this means having the skills of the business people, while business people need the skills of the diplomats. However, the view that economic diplomats must learn and adopt skills of business people is dominant, rather than vice versa. Diplomats abroad and business people from small countries

and companies must have vast knowledge and skills to be able to handle the challenges of the environment that is changing (Ruëll Huub, Zuidema Lennart, 2012). They must negotiate in the host country, decide, settle conflicts, negotiate with the unions, communicate with the public in order to respond to legal, financial, trade and development issues, strengthen relationships with employees, resolve disputes, etc. Another, very important challenge in the short term, is the selection of personnel for the work abroad. The first mistake is reliance exclusively on professional criteria and experience. Often, those who have been very successful in their countries are failing abroad. This happens not only because of the inability to adapt to the new environment, but also because individuals can become successful in their countries because of the specific "contacts" that they do not have abroad. The second mistake is insufficient willingness to work abroad.

POTENTIAL OPERATIONAL ACTIVITIES OF ECONOMIC DIPLOMACY IN THE REPUBLIC OF NORTH MACEDONIA

The activities of economic diplomacy should take place in the home country, in international organizations and in specific countries. The goal of these activities should be attracting investments, organizing meetings at international level, seminars, business forums and other business conferences. Economic diplomacy should focus on increasing and improving the export of Macedonian enterprises. On the other hand, it should be borne in mind that capital in the Republic of Macedonia goes on three bases, and that economic diplomacy should analyze it. These three bases are: remittances from abroad, foreign direct investment (FDI) and foreign loans.

1) The Republic of Macedonia, as well as the entire Western Balkans, exports work force. These people, through remittances sent home, finance a substantial part of the country's trade deficit. Unfortunately, although they may be several times larger than FDI, remittances generally finance consumption rather than investments. Most of the remittances are direct aid intended for the consumption in the daily lives of the families. The second part goes to the civil engineering and finances the construction of houses and apartments that should serve as residences to the migrants who send remittances when they retire in the future. However, if those funds are invested in something, then they are invested in fast food kiosks, petrol stations and auto repair shops (Inotai Andreas, 2007, p. 198). This does not contribute much to the promotion of the country's export competitiveness.

2) Attracting foreign direct investment. In transition countries, there is usually a lack of austerity and consequently a lower level of investment that are necessary for ensuring long-term development. The lack of capital is provided from abroad. The best way to secure foreign capital is direct foreign investment. In order to create new jobs, and thus to reduce the unemployment rate in the Republic of Macedonia, it is necessary to provide a stable inflow of foreign direct investments, especially in the production facilities and services. With the economic diplomacy, the country should be made recognizable as a suitable investment destination, direct contacts with potential foreign investors should be made and the diplomacy should help them find business partners in the country.

3) The third source from which the trade deficit of the Republic of Macedonia is financed are loans from abroad.⁹³ In search of possible attractive investments, the international financial capital did not “bypass” the Republic of Macedonia. For example, in the period 2005 to 2018, the Republic of Macedonia is in charge of six Eurobonds: (1) the first Eurobond was issued in 2005 in the amount of Euro 150 million with a maturity of 10 years and an interest rate of 4.625%; (2) the second Eurobond was issued in 2009 in the amount of 175 million Euros, with a maturity of 3.5 years and an interest rate of 9.875%; (3) the third Euro bond was issued in 2014 in the amount of 500 million Euros, with a maturity of 7 years and with an interest rate of 3,975%; (4) the fourth Eurobond was issued in 2015 in the amount of 270 million Euros, with a maturity of 5 years and with an interest rate of 4.875%; (5) the fifth Eurobond was issued in 2016 in the amount of Euro 450 million, with a maturity of 7 years and with an interest rate of 5,625%; (6) The sixth Eurobond was issued in 2018 in the amount of 500 million Euros with a maturity of 7 years and with an interest rate of 2.75%. The largest investors in the Macedonian Eurobonds are well known world investment banks, pension funds, insurance companies and equity funds. The inflows from Eurobonds are used to cover the budget deficit, i.e. for regular execution of all budget expenditures, as well as repayment of previous debts.

PROPOSAL STRATEGY FOR SOCIAL DEVELOPMENT OF THE REPUBLIC OF NORTH MACEDONIA WITH THE HELP OF ECONOMIC DIPLOMACY, IN THE FUNCTION OF ITS JOINING THE EU

Economic diplomacy in the modern world of economic interdependence is relevant to all types of countries - small, large, developed, undeveloped, transitional, and it is of enormous importance for any small or medium-sized nation trying to survive in times of globalization and competition (Naray Olivier, 2008, p. 2). Economic diplomacy in a stable economic environment is more relevant in: (a) transition countries and countries in which decision-makers in politics can exert a strong influence on economic decisions / activities, or (b) in small countries, which do not determine the prices, and therefore have little impact on the economic developments in the world and have to adapt quickly to the changes that occur. It can be concluded that economic diplomacy is a *conditio sine qua non* for small transition countries such as the Republic of Macedonia. Furthermore, the strategies of economic development today are related to the development of science and technology in the society. The integral development strategy also depends on the historical, cultural, socio-political and other characteristics of the countries in which it is necessary to implement certain economic reforms, but also from the social values, norms and rules, as well as from the powerful and influential groups in the countries. In addition, in defining a strategy with a particular goal, there must be a clear understanding of one's own abilities and existing resources. The integrated strategy must possess a certain quantum of decisions that include the following: goals, policy principles and plans for achieving goals, a way of organizing people

⁹³The gross external debt of the Republic of North Macedonia in 2017 is 7.403 billion euros (according to the NBRM) or 73.6% of GDP.

and other resources to achieve the goals, as well as economic and non-economic contributions to the target group of the project. The basic political goals of the Republic of Macedonia as a state are: joining the EU, membership in NATO and strategic partnerships with developed countries. The Republic of Macedonia must face the need to regulate its economy and bring it to such a level that enables the achievement of the above-mentioned political goals. If the Republic of Macedonia wants to bring its gross domestic product (GDP) closer to the European average (or at least to the GDP of the new EU Member States), the Republic of Macedonia must take all necessary steps to create conditions for applying the contemporary paradigm of economic development with helping economic diplomacy and thus developing the following: dynamic entrepreneurship, stable business culture, economic, social and living standard of the citizens of the Republic of Macedonia, competitiveness, productivity of labor, etc. The role of the state, and therefore the economic diplomats, is not to be an investor and an entrepreneur, but to create an appropriate institutional framework and to create a more favorable infrastructure environment. The following picture presents possible solutions to the social development strategy of the Republic of Macedonia with the help of economic diplomacy, in the function of its joining the EU.

Picture 1. Proposal strategy for social development of the Republic of Macedonia with the help of economic diplomacy

Proposal Strategy for Social Development of the Republic of Macedonia

-Reaching social consensus:

a) systematic overcoming all obstacles to dynamic entrepreneurship,

b) achieving greater competitiveness of the economy of the Republic of Macedonia.

-Proactive economic policy based on knowledge, innovation and entrepreneurship:

a) linking and synergy of all means and intellectual potentials for achieving this strategy,

b) country support to foreign direct investment.

State support:

1. Agriculture (agricultural crops for export)

2. Industry and services

2.1. General goal:

-research and development,

-protection of the environment,

-sector of small and medium enterprises,

-trade

-Energy saving,

-employment

2.2. Special goal:

-metallurgy,

-mining,

-transport,

-financial services.

3. Regional aid

4. Active role of the country and of the economic diplomacy in this sphere in promotion of the economy of the Republic of Macedonia in the world

EU assistance:

-foreign direct investment,

-pre-accession assistance.

1. Priorities:

-encouraging the entrepreneurial sector and the small

and medium enterprises sector,

-knowledge, human resource development and employment.

2. Economic infrastructure:

-technology parks and business incubators,

-clusters and technology networks,

-application of research and its commercialization,

-free zones.

GOALS:

ECONOMIC:

- increasing the competitiveness of the economy of RM,
- approximation of the GDP of RM to the European average,
- dynamic entrepreneurship,
- developing a stable business culture,
- increasing economic, social and living

POLITICAL:

- joining the EU,
- NATO membership,
- strategic partnerships.

Conclusions

In conditions of globalization and liberalization, many institutions and economic laws have changed their meaning and content. Nowadays, it requires new forms of organizing the diplomatic service, as well as a new diplomatic profile. The traditional pattern of organizing diplomacy does not match the challenges and needs of the 21st century. Therefore, economic diplomats that would promote business in foreign countries are needed. Although there is no single definition of economic diplomacy, its role and significance are inviolable. In this context, the biggest problem of the Republic of Macedonia, and at the same time the task of economic diplomacy is increasing the level of FDI and developing foreign trade. The Republic of Macedonia, as a country facing numerous challenges, should formulate a special strategy for economic relations with foreign countries that would contain the goals of economic diplomacy and the ways of their realization within the framework of the implementation of the set foreign policy. In doing so, it should be borne in mind that a good and efficient concept of economic diplomacy implies a multidisciplinary approach to the areas it covers. Also, this form of diplomacy will have to be systematically developed. This concept can certainly contribute to reducing poverty and increasing well-being, but only if it is supported by a proactive policy that will engage institutions at all levels. The basis of this concept is the joint appearance of the President of the Republic of Macedonia, the Government of the Republic of Macedonia, the chambers of commerce and entrepreneurs in the removal of political obstacles and non-commercial risks in the emergence of new markets or in the acquisition of new market shares in the existing markets. The business and diplomacy connection is necessarily needed in building political-economic relations and for affirmation of the international legitimacy of the Republic of Macedonia. It is remarkable that economic diplomacy can achieve the highest level of efficiency only when it acts in a stable political, security and business environment. Only with this diplomacy, the Republic of Macedonia will be able to preserve its identity, have political legitimacy and economic recognition in the globalized world.

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