

Economic Diplomacy and Business Negotiation- managerial approach

Amra Nušinović, Erkan İlgun

International Burch University, Faculty of Management,

71000, Sarajevo, Bosnia and Herzegovina.

E-mail: *amra.nus@gmail.com*

Abstract

Economic Diplomacy explains how states conduct their external economic relations in the 21st century: how they make decisions domestically; how they negotiate internationally; and

how these processes interact. Economic diplomacy in the global environment has become essential for all countries. The contemporary world is painted with constant changes, where the key of economic success lies in their ability to understand and a good adjustment to the new business environment. This newly created environment is nothing more than globalization. If we bear in mind that the global economy is characterized by high levels of competitiveness, the question is how the economic operators of small countries, such as Bosnia and Herzegovina, can gain market share and how they can achieve competitive advantage. Research shows that a very important role may be played by effectiveness and efficiency of diplomacy, or more precisely its economic component, relatively economic diplomacy. It is a fact that highly-educated and motivated diplomacy is indispensable to every nation which ties its economic prosperity to constant and fruitful exchange on the world market, to the free circulation of people, goods, and capital, and to its successful economic performance in the world. In today's world of global world economy, it is especially necessary. Negotiation is constantly present in our lives, and according to some, it represents one of the skills necessary for survival. Regardless if the aim of the negotiation is victory over an opponent, compromise, or the development of good mutual international relations, a manager must know competitive tactics to be able to achieve the best negotiation results. Possession of negotiation skills is crucial in the interaction of the manager with the employees, the head manager, or with stockholders outside of the company. Business negotiation is the very essence of diplomacy, that is its basic activity. Diplomacy and negotiation are terms which always appear together.

Keywords: Economic diplomacy, global economy, business negotiation, global environment, international relations, Economic diplomacy in Bosnia and Herzegovina.

1. The Term and Significance of Economic Diplomacy

Economic diplomacy is a specific combination of classic diplomacy, economic sciences, and managerial sciences, methods and techniques for negotiation with foreign partners, public relations, and collecting economic information of interest for the economy of one's country or company, in the aim of penetration onto the world market. Economic-diplomatic and diplomatic action do not have magical powers, nor can they resolve inner structural problems of the economy and the country. They must be in service of economic and political recuperation and the country's stabilization, as well as its successful representation and penetration in the world. Therefore, they do not only follow but they assist the economic development of the country, its performance in foreign policy and foreign economy in the world. From the Renaissance up to today, economic issues has been one of the narrowest tasks of diplomacy, parallel to politics. The term Economic Diplomacy is of a relatively new date and is rooted in the French language- la diplomatie economique.

Economic Diplomacy can be looked at from two perspectives. One is Economic Diplomacy in the larger sense, and it is more comprehensive and relevant to all the subjects of a society who participate in strengthening the economic competitiveness of a nation with diplomatic methods; the second definition of Economic Diplomacy in the narrow sense concerns the exclusive activities of the Ministry of Foreign Affairs in the defense of the economic interests of its country. Economic diplomacy promotes national economic interest and business in other countries. It is associated with trade, business, market, and investment promoted through political diplomacy. Economic diplomacy depicts how states conduct their economic relations

with other countries by using political influence and promoting trade and investment to find a market for its products and services.

We will state some of the interesting and up-to-date definitions of Economic Diplomacy:

„Economic Diplomacy represents a type of government service to the economy or the business sector of a country, whose main goal is the achievement and development of socio-economic benefits out of international business activity.“

„Economic Diplomacy incorporates within itself negotiation skills, followed by the process of collecting information of interest for the economy of the country it is representing. Subsequently, economic diplomacy lobbies with the goal of positioning economy in the foreign market on the one hand, as well as with the goal of protection of the economy of its own country on the other.“

„Economic diplomacy represents a specific combination of diplomacy in the classical sense of the word, as well as economic sciences and management, whose main goal is to create, sustain, and develop a positive environment for multilateral and bilateral economic cooperation.“³⁴

Economic diplomacy is functional at three levels: bilateral, regional, and multilateral. Bilateral economic diplomacy plays a major role in economic relations. It includes bilateral trade and treaty; agreements on investment; employment or avoidance of double taxation; and range of formal and informal economic issues between two countries. Bilateral Free Trade Agreements have been the order of the day, and are being implemented by many countries around the world. Regional cooperation is of growing importance in economic diplomacy. National interest and economic liberalization is easily accepted when it is confined to a particular region. The opening of borders and markets becomes easier within a regional framework. Multilateral economic diplomacy takes place within the framework of the World Trade Organization (WTO), the World Bank, the International Monetary Fund (IMF), and UN agencies. When speaking of human potential in economic diplomacy, a representation is not possible without the help of managerial concepts. The term that is increasingly being used in management is the so-called „human ware“, that is, the element in an organization which is becoming more and more appreciated on the market (intangible assets).

It is worth nothing that economic diplomacy represents a type of multicultural management, that is, it is made up of people from various cultural value systems, which have to form a complete team, which also represents one of the most frequent problems for all those who work in international business. The differences in size and economic strength of a country, the differences of the political and economic systems, the various characteristics and systems of market regulation influence the fact that countries also develop differing concepts of economic diplomacy. Economic diplomacy is faced with very complex standards which regulate the organizations responsible for economic policies such as for example, the World Trade Organization (WTO), the International Monetary Fund (IMF), or the Organization for Economic Collaboration and Development (OECD).

2. The role of diplomacy in a country's economic development

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The role of economic diplomacy is becoming more significant, in international business, as well as in the process of economic universalization and the need for export-oriented companies. Economic diplomacy has great influence on the economic development of a country. Researching economic diplomacy imposes the need to consider its role in the development and promotion of a country's economy. It is necessary to establish the relationship of: national business- state administration – economic diplomacy. The basic task of the state administration is to establish relations between the business subjects of its country with economic diplomacy and its representatives, which represent their country abroad. Economic diplomacy is dealing with a new concept of international economic collaboration, but also with the connection between economic diplomacy and business. Therefore, it has common ground in the fields of foreign trade, finances, industrial relations, negotiations and contracts in politics, as well as in business. Economic and diplomatic actions must be in the service of the state, as well as its successful representation and penetration into the world markets. With the globalization of world economy and international politics, the interest of certain economies in being promoted abroad and earning greater participation in the world market and a share in the realized profits, becomes the state interest of their countries.

Today, an economic representative is an economic observer of economic developments on the world market in the country he/she is sent to. In daily communication with skilled economic diplomats of interested countries, they expect information and guarantees that all conditions and full security for their investment are provided. In economic life, aside from all other factors, economic diplomacy helps with quality information and advice on current trends, scope, types, and quality of similar or sought-for products of competitor-companies and countries, analyses of the needs and saturation of foreign markets, acceptable prices and deadlines, all the way to the designs or product samples of competitor companies. It is a fact that a rational and thought-out concept of the economic representation of Bosnia and Herzegovina in the world still does not exist, one that complies with the needs and abilities of our economy.

3. Economic diplomacy and business negotiation

Business negotiation is the very essence of diplomacy. It is a skill which a diplomat must possess if he/she wishes to successfully fulfill his/her mission. Diplomacy and negotiation are two terms which always go together. This is also pointed out by Berridge: „diplomacy is the leading of international relations more by negotiation than by force, propaganda or the application of rights“ or Kovačević who states that negotiation is the way in which diplomatic activities are achieved and represents the core of diplomacy.³⁵

The interesting aspect is how a diplomat enters into the challenges of modern times. Domestic companies can lose a great part of their money if an investment is brought into question because a manager does not understand or has missed the chance to acquaint him/herself with the latent political opposition which is key to the realization of the investment or the export of products, while the country can lose great amounts of money on the international market because its trade negotiators do not understand the need for a political conflict to be resolved in mutual negotiations. An economic diplomatist is responsible for representing the interests of his/her country in his/her work; so consequently, the result of the

* Assistant Prof.; Dumlupınar University, Faculty of Economics and Administrative Sciences (İİBF), Department of Public Administration.

negotiation has great influence on the entire economic development. Due to this, the skill of negotiation is one of the most important priorities, and with the strengthening of the negotiating power itself, it becomes of particular importance. Cultural differences play a significant role in international business negotiations. Ignorance of the behavior, needs, and customs of a different environment can represent problems in negotiations, as well as be negatively reflected on the relationships between the negotiators, as well as the countries. Taking into account cultural differences means a certain level of tolerance and understanding. For most negotiations, the rule that „nothing is agreed upon until everything is agreed upon“ applies, which means that any provision of the agreement is subject to change until the parties approve it completely. However, international agreements and contracts enter into force by way of ratification by a state organ, which is usually parliament. Fulfilling the contract and agreement affects the credibility and mutual trust between negotiators. A once violated or canceled agreement can permanently hinder relations between the countries. Failure to fulfill the agreement negatively affects the country's image itself, and this can also negatively reflect on its economy. Of course, it is in every country's interest to have the contract and agreement fulfilled by the other party. Economic diplomacy should play a major role in this business. Therefore, an economic diplomat must be aware of all the contractual relationships between his/her country and the host country, as well as their essence in order to be able to react on time, but also to mediate in contentious situations in order to prevent eventual unwanted consequences. International business negotiations are extremely complex activities. For their successful execution, it is necessary that every country in the best and most efficient way changes and prepares its resources. Naturally, developed countries have great advantage here. The question arises of how small countries and developing countries can be equal partners in negotiations with developed countries. Experience indicates more and more that even developing countries can have a large and important influence in international negotiations, insofar as they have the correct procedure. In order for developing countries to strengthen their negotiation positions in international frameworks, it is necessary for them to provide maximum attention to the elimination of causes for their deficiencies.

4. Economic diplomacy in Bosnia and Herzegovina

Economic diplomacy is a very powerful term in the world, while it is still an unknown one in Bosnia and Herzegovina. Developing economic diplomacy for the government in B&H is still not on the list of priorities. Our country does not have a developed web of representatives in potential markets, which would additionally encourage the broadening of economic cooperation of B&H firms in these areas. The extremely unfavorable economic situation in which our country finds itself in forces upon it the need to speed up integrative processes, in order to, in conditions of heightened interdependence with highly-developed countries, achieve a more powerful speeding-up of development, and above all in the economic sphere. Bosnia and Herzegovina is a country in transition with a difficult heritage of war which burdens both the transition process as well as the process of economic development, and it has an almost non-existent economic diplomacy. The diplomacy of Bosnia and Herzegovina is very weak, bureaucratic, and insufficiently equipped to support our economy. The export our country achieves, and which is not on a satisfactory level, best tells us how much the economy is suffering due to not establishing economic diplomacy. According to the opinion of Mr. Sven Alkalay, the minister of foreign affairs in B&H, the markets of Libya, Turkey, the countries of the Middle East, but also Germany, Italy, and Austria, should be better treated and we should significantly activate ourselves towards them. These are the countries in which pre-war B&H was extremely esteemed for its quality. There are many chances for export in

these countries, receiving significant jobs, but also potential investors who would invest in B&H, its economy and development. Economic diplomacy is the best way to give information about our potential, our possibilities, products, and services. There are countless possibilities opening up for B&H companies, those which would with the adequate diplomatic engagement, lead to business success, and one of them is the placement of certified „halal“ products, which are increasingly sought in EU countries, as well as better promotion of the natural and touristic beauties of B&H in the world. The export achieved by B&H, which is not at a satisfactory level, best tells of the way the economy is suffering due to not establishing economic diplomacy, and it is problematic also that 95% of export is achieved on the markets of ten to twelve countries, ignoring the enormous markets such as Russia or the Arab countries. Our products have little or no participation in these markets, while it is exactly these countries that are the area we need to look for our chance in. Faced with a new market environment and new market rules, the economy of Bosnia and Herzegovina finds itself in a very difficult and unenviable position. Technological obsolescence, non-existence of political consensus, non-existence of clear economic and political goals result in the difficult and unfavorable economic position of Bosnia and Herzegovina on the international economic scene. The wish of Bosnia and Herzegovina for the development of international economic collaboration enforces the need for intensifying economic and diplomatic activities, whose goal is the protection of national economic interests. Bosnia and Herzegovina does not have its own economic representatives in the world.

5. Conclusion- Economic diplomacy as the future of diplomacy

It can be said that economic diplomacy is the future of diplomacy because in the circumstances of the globalization of the world economy, it has become the basic source for penetration onto world markets. It is a fact that highly-educated and motivated diplomacy is necessary for every nation which connects its economic growth to the constant exchange on the world market, the free movement of people, goods, and capital, its successful economic performance in the world. None of us can live and produce on our own all that is necessary for the normal functioning of the economy and satisfying the needs of the citizens. The main function of economic diplomacy is the protection of national interests in international economic relations. On the other hand, we are facing a world economic crisis which, aside from everything, is heavily burdening international relations and having an important effect on the profiling of current economic diplomacy. Considering that the basic goal of economic diplomacy is to stimulate economic exchange between countries, it is clear that it is an important factor in its development. The opinion prevalent in the West is that the opening of markets, free movement of goods, services, and capital are necessary elements for the successful economic growth of a country. Economic diplomacy promotes such an idea, and in this way contributes to the openness and greater exchange and collaboration of the developed world with developing countries. The global goal of world development is that those parts of the world where poverty rules, destitution, starvation, and the like, that these states are brought to a minimum and in the end, completely eliminated. It is for this reason that it is necessary to fight with all resources and with human solidarity, and in this, a great role is played by economic diplomacy.

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