

**Thesis title:**

**“Economic Diplomacy” as a means of Economic Development:  
The case of Bangladesh**

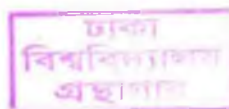
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গ্রন্থাগার

Certificate

This is to certify that, Mohammed Ziaul Haque has conducted thesis work under my supervision for fulfilling the requirement of the degree of Master of Philosophy in International Relations at the University of Dhaka. The title of his thesis was- "*Economic Diplomacy*" as a means of Economic Development: The case of Bangladesh. The work or any part of this thesis has not been submitted anywhere for any other degree.

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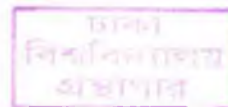
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**Abstract**

The end of the cold war has witnessed an increasing emphasis by the developing countries to strengthen external economic relations. In this context, foreign economic policy has generated substantial academic interest and the matter of promoting national economic interest/development has emerged as a central issue in IR. This thesis analyzes economic diplomacy from the perspective of national economic development. Bangladesh qualifies as an appropriate case study for its heavy dependence on external economic resources and its development realities. Economic globalization due to the content of this thesis rightfully dominates the context of the overall analysis. In this thesis I argue that, economic diplomacy is capable of fostering economic development in a country. However, in case of developing countries like Bangladesh there are a host of internal and external realities and deficiencies which are capable of restraining the developmental potential of economic diplomacy. Furthermore, it is evident from the discussions of this thesis that, Bangladesh has not been able to pursue economic diplomacy in a professional manner and therefore has not been able to establish a satisfactory relationship with its efforts in economic development. Along with these voices of frustration I argue that, there are also reasons to be optimistic. Analysis of the available data proves that, external economic resources have a positive impact on the economy of Bangladesh. This indicates that, if Bangladesh can reap the benefits of economic globalization and successfully overcome the various limitations in its economic diplomacy, then its economic development will definitely be promoted by economic diplomacy.

***Chapter 1:***  
***Introduction***



## 1. Introduction:

Economic diplomacy in this era of economic globalization has acquired a central position in the study of foreign policy<sup>1</sup>. Economic diplomacy certainly as evidence indicates is capable of facilitating economic development of a country with the flow of external resources primarily in the form of investment, trade, aid, employment and initiation of a favorable international policy framework. Economic diplomacy as this thesis will examine is pretty central to the overall development process as well as sustainability of development in a state. In many cases economic diplomacy has achieved what other foreign policy initiatives have failed to do. For example in contemporary history of world affairs, economic sanctions and incentives has acted as effective approaches of economic diplomacy with very visible impact on the course of history. South African apartheid<sup>2</sup> is a case to note here and there are strong grounds to believe that, many other concerns of contemporary world like conflict prevention<sup>3</sup>, environmental threats, growth of religious radicalism etc. can be successfully negotiated by the application of economic diplomacy. This thesis concentrates on the impact of economic diplomacy in the economic development of developing countries like Bangladesh. The principal test in this thesis is to judge the feasibility of economic diplomacy as a tool to materialize economic development

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<sup>1</sup> Contradictory to this development of economic diplomacy is its naïve theoretical progress and academic infancy. Only a few universities offer full graduate level courses in economic diplomacy. LSE and Birmingham University in the UK and Queens University in Canada are prominent among these. In most cases economic diplomacy is taught as part of a parent course like foreign policy, international economics etc. This scenario is more acute in the developing countries like Bangladesh.

<sup>2</sup> Economic diplomacy in its list of achievement has the historic victory of anti-apartheid policy in South Africa and in the policy priorities of post-apartheid South Africa. Siphon M. Pityana, the then Director General of Foreign Affairs of South Africa in a speech said the following-

"The birth of our new democracy is partly testimony to the success of economic diplomacy of the anti-apartheid liberation movement which, among other things, persuaded governments and business interests to turn their backs on the erstwhile pariah country. It is no wonder therefore that after our generally peaceful transition to democratic rule in 1994, we immediately prioritized our country's re-integration into a rapidly-globalizing world economy. Our task was made difficult by the inward looking and highly protectionist nature of the economy which we inherited."

Visit the web page of Department of Foreign Affairs of South African for the full speech by Siphon M. Pityana, Director General of Foreign Affairs to the RAU Centre for European Studies in Africa/Konrad Adenauer Foundation Seminar on "South Africa's Foreign Relations and National Wealth Creation" on the "Meaning and Importance of economic diplomacy for South Africa in the context of globalization" (Date: 20 October 2000, Sasol Auditorium, Johannesburg).

<sup>3</sup> Economic diplomacy has played a monumental role in conflict prevention in European Union for the last 60 years. The humble beginning of the European Coal and Steel Community has led to economic prosperity, conflict prevention through the creation and expansion of the European Union. Economic diplomacy is very central to this process. Trans Atlantic economic diplomacy as an offshoot of this process is considered as one of the most important success stories in international economic relations. Also there are instances like the World Bank financed project in the Philippines which have provided jobs to the guerrillas and ensured their disarmament (Stiglitz, 2002a).

in the developing countries from the perspective of the existing economic globalization, the internal as well as external obstacles of economic diplomacy and the historical elements in this process like colonial legacy<sup>4</sup>.

Under the present international economic environment some countries are positioned more favorably to gain from economic diplomacy compared to the countries of the global South. In the case of Bangladesh my argument is that, it is theoretically possible like many other countries to deploy economic diplomacy as an effective device to ensure economic gain from the global economy. But, the existing international economic structure as well as the pattern of international economic relations limits the prospect for countries like Bangladesh. In this regard economic globalization places certain limitations on the economic diplomacy by the developing world. While mentioning these external limits of economic diplomacy, some quite unique limitations of economic diplomacy in Bangladesh needs to be acknowledged. The domestic and purely 'Bangladeshi' limitations like the very 'anti-development' political culture<sup>5</sup>, poor standard of governance etc. even though are huge obstacles for economic diplomacy, are not discussed in this thesis. This thesis as a research in IR is limited to the analysis of external limitations of Bangladesh economic diplomacy, its foreign policy and the internal dynamics of foreign affairs.

There are seven chapters in this thesis besides the usual introduction and conclusion. The *first* chapter after this introduction traces the historical evolution of international economic relations as well as the place of economic development in this evolution. This chapter analyzes the historical debates in IR regarding the place of development issues in IR and consequently IRD (international relations and development) as a related topic.

The *third* chapter discusses the definitional and conceptual aspects of economic diplomacy. In this chapter foreign economic policy and economic diplomacy is discussed from the theoretical and the practitioner's perspective. The post cold war era shifts in economic diplomacy is elaborated in this chapter. This discussion also facilitates the subsequent discussions regarding the prospect of economic diplomacy in this era of economic globalization.

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<sup>4</sup> Colonial legacy in this case indicates the legacies remaining as 'trade-mark' limitations for most of the post – colonial developing countries in Africa, Asia, Latin America who were developed by their colonial masters as the suppliers of raw materials for industry, agricultural products (without adding value to it, as primary products), poor institutional framework to carry out international trade, poor industrial base or no industrial base, non-functional domestic economic infrastructure etc.

<sup>5</sup> By 'anti-development' political culture I refer to the failure of our political leadership to leave aside national economic interests apart from their political difference and struggle for the control of the statecraft. The unconditional support from the political leadership for national economic interest is a universally recognized pre-condition for economic development which seems non-existent in Bangladesh. In this context, the issue of policy continuity is also of vital significance.



The *fourth* chapter discusses the theoretical linkage as well as the empirical evidence to illustrate the linkage between economic diplomacy and economic development. Major 'external elements' in the process of national economic development is elaborated in this chapter to justify the role of economic diplomacy as an essential step towards economic development. The perspective of developing country economies is the context for this discussion.

The *fifth* chapter elaborates the scope and state of economic diplomacy in the global north. In this regard the discussion of this chapter is divided into two sub-chapters. The first one analyzes the impact of economic globalization for the developing countries from the perspective of economic diplomacy and the second one discusses the overall state of developing world economic diplomacy.

The *sixth* chapter of this thesis discusses the evolution of economic diplomacy in Bangladesh foreign policy. This chapter identifies the role of economic objectives in Bangladesh foreign policy and economic diplomacy as a declared foreign policy objective from a historical perspective. The *subsequent two* chapters prior to the concluding remarks deal with the impact of external economic resources in the economic development of Bangladesh. This chapter uses the available data regarding various external economic resources to draw inference about the impact of external economic relations in the economic development of Bangladesh. There are two segments in this discussion. A descriptive analysis of the flow of external resources on the Bangladesh economy initiates the process of an econometric analysis of the impact. This study proves that external economic resources are positively significant for Bangladesh economy. The *eighth* chapter of this thesis suggests the various measures for the improvement of Bangladesh economic diplomacy. These suggestions include policy prescriptions as well as institutional changes and the required initiatives to sustain the reign of 'economic globalization'. While formulating the suggestions this chapter also critically examines the strengths and weak points of economic diplomacy in Bangladesh.

The research due to the nascent stage of development of the subject matter (economic diplomacy) and the acute crisis of relevant study materials in Bangladesh was an ambitious one. The relevant organizations in Bangladesh (like MOFA, ERD, BISS, BIDS etc.) which are expected to deal with economic diplomacy could provide little academic input other than some statistical facts which are again not immune from credible discrepancy. It is evident from my interaction with these organizations that, there is no professional effort at economic diplomacy rather it may be described as occasional endeavor by various ruling regimes. In this context, it needs to be mentioned that, during my studies I collected the bulk of the theoretical materials from the library of Carleton University, Canada and Bradford University, UK. The other major source for study materials was the internet. During the various stages of this thesis I have had the opportunity to exchange views on this topic both with practitioners as well as academicians in Bangladesh and outside Bangladesh. I have gratefully



incorporated some of their observations and suggestions in this thesis. This thesis is based on secondary data sources<sup>6</sup>. These data have been used to draw inferences for the various discussions in this thesis. The statistics of the Bangladesh government has been the prime source of data along with other sources like the World Bank, UN organizations and its various reports. This research has used the various reports of international and national organizations as well as the government reports. Alongside the research of the academics, the research of the practitioners in economic diplomacy has been incorporated to provide a balanced 'effort' in this thesis. The title and content of this thesis provokes a host of debates and discussions in basic economics that I tried to pursue from my non-economist background. A major emphasis in regard to the literature surveyed for the preparation of this thesis is the use of the research by developing country scholars who along with their research; 'owns' the issues discussed in this thesis. The discussions in this thesis have initially progressed with the theoretical perspective of IR and the political economy aspect of the paradigm concerned. Occasional application of economic and development theories were allowed when it was quite essential. But, I must confess that, at one stage this thesis incorporated more economics than I initially could visualize.<sup>7</sup>

The thesis is based on the theoretical developments in the area of international economic relations and economic development. The various outputs of economic diplomacy is theoretically analyzed and later on discussed from practitioner's perspective and evidences. Theoretical discussions in this thesis are followed by critical appraisal of the theory to facilitate a fair judgment of the concepts and issues related to this thesis.

In this thesis 'globalization' and in particular 'economic globalization' is considered as the 'paradigm' that decides foreign economic policy and ultimately ability of economic diplomacy to foster/materialize economic diplomacy. The position of the developing countries –the global South<sup>8</sup> in this case has remained as the basis of understanding and visualizing the policy options relevant to Bangladesh.

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<sup>6</sup> The various data used in this thesis should not be treated as 'precise' due to the institutional limitations of the various government and research institutions in Bangladesh. However, I have tried to use the most reliable source among the available data. The difference in most cases was not a huge deviation which adds to the credibility of the inferences drawn in this thesis.

<sup>7</sup> After my research for this thesis I fully agree to what Palmer and Perkins (1985: 532) argued in their basic text-*International Relations* -that, every student of IR who is not a trained economist will inevitably venture in to the land of economics as much of the current subject matter of IR is economic in character.

<sup>8</sup> The definition of UNCTAD (mentioned in Trade and Development Report 2004, p. XI) regarding 'developed or industrialized countries' (members of the OECD), 'transitional economies' (the countries of Central and Eastern Europe, the CIS and Baltic States), 'developing countries'(all countries, territories or areas not specified above)- is used in this thesis while discussing various issues. Although not all OECD countries are in the northern hemisphere (ie. Australia) and not all developing countries are on the southern part of the globe, the discussions in this thesis refers the developed countries as "the North" and the developing countries as "the South".

**Chapter 2:**  
***International Economic Relations  
and  
Economic Development:  
The Historical Evolution***

## **2. International Economic Relations and Economic Development: The Historical Evolution**

A fundamental objective for all countries is to build strong external partnerships around the world, to create a network of friends and allies. In an interdependent world, these ties are essential for the pursuit of one's own interests. These interests cover national security (i.e. safety and survival of the state in all circumstances), as also political, economic, and other benefits, extending to fields such as culture, education, environment, science & technology, tourism, and the like. States pursue self-interests in an enlightened manner for the most part, seeking to maximize their own gain, but in a way that is also to the advantage of the other partners, since this is the only way to build sustainable relationships (Rana, 2002: 16). National interest is of pivotal significance in international relations. Hans J. Morgenthau (1958) argues that, as long as the world is politically organized into nations, the national interest is indeed the last word in international politics. All states thereby have national economic interests. This not only concerns safe-guarding the present and future economic integrity of sovereign territory and well-being of the citizens therein, but also interstate alliances (e.g. the EU or ASEAN) and systemic matters: for example, climate change, sustaining the multilateral trading system, scarce global resources and drug trafficking (Christopher M. Dent, 2000: 278).

This very basic aspiration of the state appears to be the context of the evolution of-'International Relations' as an academic discipline. The systematic study of the relations between states had begun to take shape by the middle of the seventeenth century' (Olson and Groom, 1991:1). Olson and Groom point to the emergence of the European state system with the Peace of Westphalia (1648) as the birth of world politics. Der Derian and Shapiro (1988), on the other hand, argue that the French Revolution and its repercussions signaled the end of inter-dynastic relations and the beginning of modern international relations between states (Dickson, 1997:10).

In this process of understanding the origin of IR it is also equally important to recognize that IR as an academic discipline has been constructed by the West, typically in the UK in the post- WWI years and in the USA after WWII. Consequently IR has reflected the concerns of academics (and of policy makers) from these countries, and has not always been keen to engage in theoretical debates originating outside them (Dickson, 1997:12). This 'in built' limitation of IR will emerge in the discussions of the following chapters as a major obstacle for economic diplomacy by the developing countries and a 'trade mark' characteristics of the international economic system where economic diplomacy is supposed to provide equal opportunity to materialize respective national interests.

The theoretical exercises in the initial development of IR as an academic discipline also do not reflect a 'just' recognition of national development



initiatives. The traditional debates as well as theoretical constructions although highlights the clash of national interests and power, it fails to recognize national development efforts as the 'rolling stone' in this clash of national interest. One of the 'great' debates in IR occurred between two rival interpretations and understandings of the international system: the idealist (or Utopian) and the realist perspectives. While idealism perhaps has the potential to create a more inclusive discipline, realism, reflecting very much the post-war hegemony of the USA, narrowed the scope of the debate significantly (Dickson, 1997:12).

Power is conceptualized as 'hard' and 'soft' depending upon whether it is exercised directly or indirectly.<sup>9</sup> Tangible sources such as military and economic strength constitute the former while intangible elements like ideas, culture, diplomatic skill, and mobilizing multilateral institutional resources fall within the latter category. By skillfully weaving the two, states like America have come to enjoy an enormous international clout. But others find it challenging to do so. Even the two main ingredients of 'hard' power itself – military and economic strength—have eluded many. Admittedly, between the two types of power the former is easier to acquire and therefore states have concentrated on it. But experience has shown that this capability is ephemeral unless it is underpinned by economic strength. The collapse of the Soviet Union was instructive in this respect (Sridharan, 2002:58).

After WWI, the victorious powers, namely the USA and the UK, agreed that war, a legitimate tool of conflict resolution, was catastrophic in its consequences and should therefore be avoided at all costs (Dickson,1997:12). In this regard it may be mentioned that, four states together controlled fully half of the world's trade on the eve of World War I: the United Kingdom (17 per cent), the United States (15 per cent), Germany (12 per cent), and France (7 per cent). No other state had as much as 3 per cent of the total. The foreign trade of the United States was increasing more rapidly than that of any other nation (Palmer & Perkins, 1985:134). So, the allies had a strong economic reason to maintain a status quo in international relations.

Post WWI era was marked by Intensive economic nationalism. Exports were forced, imports were curtailed. All the weapons of commercial warfare were brought into play; currencies were depreciated, exports were subsidized, tariffs raised, exchanges controlled, quotas imposed, and discrimination practiced through preferential systems and barter deals. Each nation sought to sell much and buy little. A vicious spiral of restrictionism produced a further deterioration in world trade (Wilcox, 1949:8-9).

These inter war policies<sup>10</sup> contributed to the deterioration of world trade as well as the beginning of global depression. Trade and monetary policies emerged as

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<sup>9</sup> For details see Nye, Joseph S. (1997) *Understanding International Conflicts*. New York: Longman.

<sup>10</sup> Clavin, Patricia M. (1996) *The Failure of Economic Diplomacy: Britain, Germany, France and the United States, 1931-36*. MacMillan Press Ltd.: UK analyses these inter-war policies in details.

primary instruments used by major states to reinforce a division of world into tightly knit political-economic regions, which in turn resulted into the outbreak of WWII. In light of the consequences of the foreign economic policy characteristic of the 1930s, the need to encourage relatively free international movement of goods and capital was felt widely to be essential for world peace as well as for global prosperity (Walters and Blake, 1992:14).

Following WWII the Western states, under vigorous American leadership, were most anxious to construct an international economic order within which trade would flourish. In particular, efforts were devoted to avoiding the explicitly competitive "beggar-thy-neighbor" foreign economic policies that characterized international commerce during the 1930s (Walters and Blake, 1992:13). The victorious Western allies created the General Agreements on Tariffs and Trade (GATT) in 1947 which was a legally binding codification of rules for the conduct of trade among its member states<sup>11</sup>. Unfortunately for economic diplomacy, when realism triumphed after WWII, the focus of IR was the maintenance of external security (and in effect the sovereignty) of the state in the face of international anarchy. International politics was termed 'high' politics. In contrast domestic issues, such as development, were considered to be low politics and not the concern of IR. Realism thus made an explicit distinction between the international and the domestic, based on the presence or absence of sovereignty. While economic processes are clearly related to state capacities, IR also made an explicit distinction between the economic and the political. IR was about politics. The question of development, on the other hand, was an economic one. Thus the lens through which IR viewed the world was one which highlighted the importance of international political concerns and did not therefore include the concerns of national economic development (Dickson, 1997:13). This perspective in IR in fact failed to recognize that, national economic interests was a major cause of the two world wars, as well as the subsequent five decades of cold war.

In the short period at the end of the Second World War, before the cold war began, there was a tremendous burst of international institution-building, both political and economic. The key pillars then established were; the United Nations and its family; the Bretton Woods Institutions of the International Monetary Fund

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Clavin argues that, the failure of understanding as well as acknowledging one another's economic diplomacy was a decisive element in the outbreak of WWII and thereby the positive role of economic diplomacy is vital for peaceful as well as mutually beneficial co-existence of independent states in international relations and for the maintenance of status-quo.

<sup>11</sup> The objective of GATT was to establish international norms of responsible trade policy against which the national trade policies of its member states can be evaluated. In cases where a national policy is found to be inconsistent with GATT principles, there were supposed to be established procedures to settle grievances in a manner designed to minimize further restrictions of international trade. GATT's primary utility has been to introduce a form of permanent international oversight and accountability for commercial policies that prior to its existence, were viewed as exclusively national prerogatives (Walters and Blake, 1992:14-15).



(IMF) and the World Bank; and the General Agreements on Tariffs and Trade (GATT), survivor of the projected International Trade Organization (ITO). All these were intended as fully universal institutions. But, not all achieved that goal and the advent of the cold war frustrated many of their objectives (Bayne, 1994:8). In the history of international economic organizations the Bretton Woods (WB, IMF, and ITO) will be always considered as milestone events. The post WWII Bretton Woods view of the global economy is a system that rested on three organizations that were to secure:

- a) a stable and healthy international monetary system (IMF);
- b) the reconstruction and development of national economies (World Bank);
- c) free international economic exchange (ITO).

Unfortunately, this structure supported by three pillars, did not come into being, mainly because politicians did not want to hand over their autonomy and policy discretion in the field of international economic relations (Bergeijk, 1994:184-5). However, these organizations created the foundation or at least without any doubt initiated the present day international trade, aid, investment and banking.

In fact a formal recognition of the need to fill the institutional void in the trade realm was made in Resolution VII of the Final Act of the conference at Bretton Woods, where it was recommended—

'to the participating governments that... they seek, with a view to creating in the field of international economic relations conditions necessary for the attainment of the purposes of the Fund and of the broader primary objectives of economic policy, to reach agreements as soon as possible on ways and means whereby they may best:

- I. reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;
- II. bring about the orderly marketing of stable commodities of prices fair to the producer and consumer alike;..<sup>12</sup>

There were also three political bases for the Bretton Woods system: I) the concentration of power in a small number of states, II) the existence of a cluster of important interests shared by those states, III) the presence of a dominant power willing and able to assume a leadership role (Spero & Hart, 1997:1).

This concentration of both political and economic power in the developed countries of North America and Western Europe enabled them to dominate the Bretton Woods system. They faced no challenge from the Communist states of Eastern Europe and Asia, including the Soviet Union, which were isolated from

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<sup>12</sup> Proceedings and Documents of United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, 1-22 July 1944, vol. 1, Department of State Publications 2866, International Organization and Conference Series 1, 3 (Washington, D.C., 1948) 944.

the rest of international economy in separate international economic system. Although the less-developed countries (LDCs) were integrated into the world economy, they had no voice in management because of their political and economic weakness (Spero & Hart, 1997:1).

These organizations however, brought limited success. The post WWII world was divided in to two opposing bloc. The communist bloc led by the USSR and the capitalist bloc led by the USA. These two blocs represented two completely different types of economies and political ideologies which virtually limited the potential for international economic relations. In economics it was a struggle of the open system, in which governments encouraged competition, the private sector and freedom of choice, against the centrally-planned system where everything was done by government direction. The most warlike thing, economically, in the cold war, was that the Russians and other communist governments sought economic success by prolonging into peacetime the practices used in wartime (Bayne, 1994:4). But, one can consider that for a very brief period, as the Second World War ended, one could speak of a truly world-wide economic system. But, very soon, at least from the Soviet refusal in 1947 to let Eastern Europe benefit from the Marshall Plan, this world-wide economy was split apart (Bayne, 1994:8).

Amidst these two worlds the 'Third World'<sup>13</sup> was just emerging with a 'nurtured incapacity' to interact with and integrate in to the world economy. The focus on power and security was given credence by the Cold War, which provided the space for the growth of security or strategic studies. Framed in realist terminology, power became the means and the end by which the state survived. Importantly, the Cold War emerged at the same time as the process of decolonization was accelerating. This had implications for the manner in which the Third World was viewed. Historically, most of the Third World was incorporated into large empires and was studied as part of colonial policy, mainly through international history. Independence struggles were approached from the point of view of how to develop power peacefully, the potential effects of the loss of empire, or the study of those politicians who paved the way for decolonization. International history was written from the more powerful nation's point of view (Dickson, 1997:13).

In fact the fate of the Third World was not a credible issue in the construction of the post WWII international system. Most of the states represented at the UNO today as well as at the present global system were not even existent. The loosened grip of colonialism in Africa and Asia resulted in to the post WWII growth of nation- states. The emerging Third World states were not major power

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<sup>13</sup> The phrase the 'Third World' was invented in the early 1950s, by the French sociologist Alfred Sauvy to identify the Asian, African and Latin American countries outside the 'First World' (democratic West) and 'Second World' (communist East). For details see Ryrie, William. (1999) *First World, Third World*. Second Edition, London: MacMillan Press Ltd.



players. Reason dictated that those states which had no influence on (power in) the international system were not the focus of IR. Instead the Third World became a matter of foreign policy concern; from Western perspective a place where Communism must be contained. To the extent that the developing countries have presented a threat to international security, they have been watched and studied not so much for their own contribution to the extent international system, but as part of the wider concern for international order (Dickson, 1997:13).

Unfortunately until the end of the cold war, states did not concentrate on economic power. But, now partly due to the end of the cold war and the euphoria of economic globalization, economic power has emerged as the most sought after attribute of power. In fact economic strength is a pre-requisite for sustaining both 'hard' and 'soft' power. Economically powerful states are better able to command diplomatic and cultural influence as well as in making their 'presence' felt inside international organizations (Sridharan, 2002:58)<sup>14</sup>.

The basic argument is on the premise that, the study of development has been relatively neglected in IR. This neglect stems in part from the manner in which IR - the discipline, has been constructed. Now-a-days it is argued that the question of development can contribute to the creation of a more reflective and inclusive discipline which is global in scope (Dickson, 1997:23). And the post cold war era IR as an academic discipline perhaps for the first time has included development issues as a major concern. This in true sense may be considered as a paradigm shift. Apart from the so called global war against terrorism (essentially a by product of Pax Americana) there remains very little doubt that economic development is of pivotal significance even for the 'status quo' of the present day international system. Viewed earlier as a peripheral activity best left to commercial secretaries and specialists from other departments, the building of trade and economic relationships has moved to the center of diplomacy. This is an interesting turn of the wheel of history. Even a couple of decades back, commercial diplomacy was seen as a 'black hole' by diplomats pursuing a fast-track career, and paled in comparison with political work (Rana, 2002:67).

Development due to its inner dynamics cannot be assumed to be a localized or national problem. That is, unless it is possible to isolate a particular country completely from the international system, and to understand its economic, political and social system without reference to the global environment (historical or contemporary), development remains in theory a global issue. It links the idea of national development to the global context (Dickson, 1997:19). I consider international relations and development as two very interrelated and interdependent concepts. This thesis is based on the notion, that international

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<sup>14</sup> This issue of 'presence' indicates the type of limitation relevant to Bangladesh foreign policy due to its lack of ability to pursue its policy in international affairs. The debate regarding the maintenance of foreign relations and on the other hand owning a foreign policy is an extension of this scenario.

relations and the development of individual states are very much interrelated and the struggle for national development inevitably takes place in an international context (Bienefeld, 1982).

Strange (1970:305) argues that the developments in the international economic system is out-distancing and out growing the rather more static and rigid international political system. From this onwards there seems to be three direct affects of international economics in international relations.

*First*, there are the direct effects on states of their common involvement in the expanding international economic network. Richard Cooper (1968), subdividing again, finds three different ways in which states are affected.<sup>15</sup> One is by what he calls 'disturbance' effects—the increase in the disturbance, originating externally in some other part of the international economy, of some important part of the domestic economy—whether it is the level of employment, of prices, of interest rates, or of the country's monetary reserves.

*Second*, there are the hindrance effects, when the mutual sensitivity of national economies to each other slows down or diminishes the effectiveness of national economic policies—as when a credit squeeze and tight money policy which is intended to dampen domestic demand pulls in foreign funds which will tend (unless sterilized, insulated or counteracted) to frustrate the policy –makers' intentions.

*Third*, there are competitive or what used to be called 'beggar-my-neighbor' policies, by which states seeking to serve their own national economic interests (as trying to control overseas investments, or by trying to regulate mergers and takeovers) coincidentally damage the national economic interests of other states, and thus risk creating new sources of international conflict. In this regard a fourth effect may be drawn -

*Fourth*, there is the issue of national development as an inherent element in international relations. Nation states cannot develop in isolation and do thereby try to maximize their gain from interacting in international economy. From this perspective international relations and national development are pretty much inter- twined.

Neo-mercantilism (the equivalent of realism in the political sphere) posits that the economic self-interests of governments lead to the "trade wars"<sup>16</sup>. Institutionalists agree that interdependence, economic integration and competition in the world political economy give rise to conflicts. Nevertheless, the growing economic

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<sup>15</sup> See Cooper, Richard (1968) *The Economics of Interdependence: Economic Policy in the Atlantic Community*. New York, Toronto, London, Sydney: McGraw-Hill for the Council on Foreign Relations.

<sup>16</sup> See Featherstone, Kevin and Ginsberg, Roy H. (1996) *The United States and the European Union in the 1990s: Partners in Transition*. London: Macmillan Press, p. 242.



interdependence provides a disincentive against trade wars as it promotes a convergence of interests (Grittersova, 2000: 80). Nation states are also engaged in fierce competition for economic gains and at the same time seek cooperation with other like-minded states in order to shape regulatory institutions in their favor.<sup>17</sup>

Indirectly, all these changes have produced two kinds of response in the behavior of states which therefore constitute a dynamic element in international politics as well as in economics. One response is co-operative, the other defensive. The co-operative response produces a steady expansion in international economic co-operation and organization. 'The central problem,' to quote Cooper (1968) "is how to keep the manifold benefits of extensive international economic intercourse free of crippling restrictions while at the same time preserving a maximum degree of freedom for each nation to pursue its legitimate economic objectives." The defensive response follows logically that as governments tend to increase their concern with domestic welfare, including economic welfare, they will have to devise and to adopt new defensive weapons to protect this welfare should it be threatened or jeopardized from outside (Strange, 1970:305-6). A third type of effect is the potential of economic relations as glue to political relationships. There is a growing realization that if economic relationships are strong, they have an impact on political relationship and whatever ripples occur in political relations, it gets sorted out because both countries have a stake in not losing out beneficial economic relationship.<sup>18</sup> (Rashid, 2005:2). This again indicates to the previously discussed notion of international systemic status –quo.

The discussion regarding these major deviations in the traditional notion of IR remains rather incomplete if former Soviet President Gorbachev's contribution is not recognized. In the early 1990s Mikhail Gorbachev's program<sup>19</sup> of *perestroika* triggered two developments that will prove to be of major importance to the world trade system in the 1990s. First, the collapse of the Berlin Wall and the Iron Curtain meant the end of a very substantial distortion of intra-European trade flows. This distortion was not only the result of physical barriers to trade flows, but also, and especially of psychological and political barriers. Second, the end of the Cold War gave birth to the idea of a New World Order in which military supremacy and especially military force are considered to be less appropriate

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<sup>17</sup> See Saner, Raymond & Yiu, Lichia (2003) *International Economic Diplomacy: Mutations in Post – modern Times*. Discussion Papers in Diplomacy, Netherlands Institute of International Relations 'Clingendael', ISSN 1569-2981.

<sup>18</sup> The address to the Indian Economy & Business Update, 18 August 2005 by Mr. Harun ur Rashid. The author is a former Bangladesh diplomat and author of several books on Bangladesh Foreign Policy. The paper is also available as '*Economic Diplomacy in South Asia*' at [http://www.rspas.anu.edu.au/papers/asare/update/05.IndiaUpdate\\_Rashid.pdf](http://www.rspas.anu.edu.au/papers/asare/update/05.IndiaUpdate_Rashid.pdf)06/03/06

<sup>19</sup> Soviet leader Mikhail Gorbachev in June 1985 introduced 'Perestroika' which literally means restructuring and particularly referred to the restructuring of the Soviet economy. This reform initiated the demise of the Soviet era command economy and the beginning of market economy and arguably to the disintegration of the Soviet Union.

instruments for solving international conflict. Unless the need for conflict resolution is reduced, this implies the need to use economic sanctions more often as an instrument of modern diplomacy, increasing the probability of political trade frictions. In its turn the increasing potential for political trade frictions stresses the importance of a proper design of the major international institutions that are needed to underpin a world order in which military conflict plays a minor part (Bergeijk, 1994:1).

Foreign policy has always reflected economic objectives, but their significance as an impact on other issues has dramatically increased. With the end of the Cold War, the relative importance of economic as distinct from military security issues has increased<sup>20</sup>. However, this development was one which also marked the Cold War era as it evolved through its various phases. Thus, in the 1980s, Rosneau in an overview of changing character of foreign policy noted that the heightened significance of economics—attributed to nuclear stalemate and Third World demands for a greater share of the world economic cake—was one of the two particularly noteworthy changes to the foreign policy environment<sup>21</sup> (Hocking and Smith, 1997:7-8). Also, the biggest change in diplomacy since the 1970's has been the near-universal recognition that economics now lies at the heart of relationships between countries (Rana, 2000:96).

Previous histories of the Cold War have stressed open conflict and diplomacy. Kunz (1997) like many other academics argue that, it is high time for a new history stressing economics. In fact like many wars in the recorded history of warfare, the Cold War was internally driven by economics and economic diplomacy played a major role, often indirectly<sup>22</sup> as well as directly<sup>23</sup>. She argues that, economic diplomacy was the key to victory in the Cold War more important than military policy and domestic economic decisions. In her own words, 'Economic diplomacy provided the engine that drove the economic and security train of the 'free world' (Kunz, 1997:2).

Another crucial shift in terms of academic focus was the euphoric recognition of geo-economics and re-direction of national strategic concerns considering geo-

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<sup>20</sup> For details see S., Brown (1995) *New Forces, and the Future of World Politics* (post cold war edition). New York: Harper Collins.

<sup>21</sup> See Roseneau, J.N. (1987) Introduction: new directions and recurrent questions in the comparative study of foreign policy. C.F. Hermann, C.W. Kegley and J.N. Roseneau (eds), *New Directions in the Study of Foreign Policy*, Boston, Allen and Unwin, 1987, p.3.

<sup>22</sup> This indicates the indirect impact on economic prosperity from conflict like the one argued by Kunz when she asserts that the policy of defense spending that went along with fighting the Cold War was the engine of prosperity that allowed Americans to enjoy economic prosperity. This in turn allowed America to sustain high levels of military spending and to maintain its commitments across the globe at minimal cost to the American economy. Kunz (1997:2) argues that, "the national security state fathered economic growth at home".

<sup>23</sup> Throughout the Cold War period there were economic sanctions imposed by rival ideological blocs as well as economic incentives/ benefits/isolations for ideological affiliation. These may be identified as very direct aspects of economic diplomacy having positive and negative economic as well political consequences.



economic locations. Some well known academicians, such as Paul Kennedy, Jeffrey Garten, Edward Luttwak and Lester Throw, at the end of the 80s and the beginning of the 90s predicted this shift from geopolitics to geo-economics. The project of 'Europe 92' and the emergence of Japan and the Asian Tigers as economic powerhouses in those years contrasted sharply with the relative decline of American economic strength. With varying emphasis these authors were the first to claim that international relations would inevitably evolve in to competing economic blocs. Power relations would no longer be determined by military but economic weight (Coolsaet, 2001).

According to the New York Times one of the proudest achievements of President Clinton was his success at linking American foreign policy with the domestic economy and jobs. Apparently, in Bill Clintons' own word he had discovered, that-

'there is no longer an easy dividing line between foreign policy and domestic policy, that the world we're living in doesn't permit that luxury any more'.

The newspaper also quoted Mickey Kantor, Clinton's Secretary of Commerce, according to whom-

'Clinton is the first President to really make trade the bridge between foreign and domestic policy.'<sup>24</sup>

Furthermore, the newspaper referred to the 'commercial diplomacy' of Secretary of Commerce Ronald H. Brown and the 'unrelenting focus on trade' in the Clinton foreign policy<sup>25</sup>. Protection and promotion of U.S. economic interest has always in every U.S. regime been the central objective of foreign policy.<sup>26</sup> This trend has emerged very strongly in the post cold war foreign policy of the developed as well as the developing countries.

In fact by the 1990s most states in the international system could not ignore the growing nexus between economics and foreign policy and began devising

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<sup>24</sup> New York Times, 29 July 1996.

<sup>25</sup> Stephen M. Wait in his article, 'Two Cheers for Clinton's Foreign Policy' (Foreign Affairs, March-April-2000, Volume-79, No. 2, pp.63-79) has summarized the economic aspects of Clinton's foreign policy as follows-

"Clinton's economic strategy included an intense effort to lower trade and investment barriers which he pursued vigorously despite considerable opposition from his own party. His specific achievements include the passage of North American Free Trade Agreement, the completion of the Uruguay Round of trade talks, and host of bilateral trade agreements. The results speak for themselves: despite the negative effects of the Asian financial crisis, expanding exports accounted for more than 20 percent of U.S. GDP growth from 1992 to 1999."

<sup>26</sup> Read the articles by former U.S. Secretary of State Charles Hughes, 'International Conciliation', 194 (January 1924), Secretary of State Condoleeza Rice, 'Promoting the National Interest', Foreign Affairs, Volume 79, No. 1, January/February 2000, and Samuel P. Huntington, 'Advice for a Democratic President: The Economic Renewal of America,' The National Interest (Spring 1992). These articles provide an idea regarding the consistent and central space of economic interest in U.S. foreign policy.

strategies to influence global economy in a way that served their domestic priorities. In this sense foreign policy largely became foreign economic policy (FEP) and its pursuit now confirms the ever diminishing distance between domestic and foreign concerns as much as between economics and politics.<sup>27</sup> Sridharan (2002:58) considers the economic liberalization measures undertaken by some states in the post-cold war era should not be merely assessed in terms of their domestic priorities but also in terms of their impact on the conduct of foreign policy.<sup>28</sup>

For example economic concerns, clearly came to the forefront of American diplomacy in the beginning of the 90s. But in this regard the United States was not unique and same kind of reflection is evident in the foreign policy of other countries. Former Australian foreign minister Gareth Evans mentioned that-

'My own government (Australia) has been chopping resources, with more and more emphasis on trade and commercial aspects.'<sup>29</sup>

From the discussions above it is possible to sort out several features of national development initiatives in international relations-

- A) An inherent aspiration of the nation-state is the issue of national development. This has been reflected passively/ in disguise in the pre-cold war era which now is rather direct and 'de-jure'.
- B) Development as a never ending activity constantly demands external interaction. External interaction is essential for economic development.
- C) International economic relations has attained a new dimension due to the forces of economic globalization and the end of the cold war. International economy is now identified as 'global economy' which essentially relates/integrates the national economy with the global economy.
- D) Economic interest dominates foreign policy in most countries which are responsive or committed to public welfare. This also indicates the limitations of the state in IR as it is highly vulnerable to the dynamics of international affairs. The erstwhile sovereign status of the state in IR is now challenged due to economic realities/ compulsions. This is arguably the most important qualitative shift in IR since the end of the cold war. Economic diplomacy acts as a sort of 'buffer zone' and 'shock absorber' to resist the 'anti-state forces' of economic globalization while;

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<sup>27</sup> See Tooze, Roger (1994) *Foreign Economic Policy in the New Europe: A Theoretical Audit of a Questionable Category*. Walter Carlsnaes and Steve Smith (eds.), *European Foreign Policy: The EC and Changing Perspectives in Europe*. London: Sage, pp. 61-83.

<sup>28</sup> See Segal, Gerald (1992) *Openness and Foreign Policy Reform in Communist States*. London: Routledge.

<sup>29</sup> (Former) Foreign Minister of Australia Gareth Evans as quoted in : *International Herald Tribune*, 11 January 2000



simultaneously pursuing national economic development amidst economic globalization.<sup>30</sup>

Development is both a concept and an activity. The trend towards globalization and greater integration of the world means that development can no longer be seen as an isolated practice. Lately, this recognition of the national development issues in IR has led to the creation of a new chapter called 'International Relations & Development' (IRD). This part of IR deals exclusively with the development potential and dynamics of the nation states in IR. The end of the Cold War arguably, has affected approaches to the study of development and international relations; in particular, state-directed and non-market approaches have been dismissed (Dickson, 1997:1).

In fact the policymakers in the 21<sup>st</sup> century are pursuing development goals in a landscape that has been transformed economically, politically, and socially. Two main forces will be shaping the world in which development policy will be defined and implemented: globalization (the continuing integration of the countries of the world) and localization (the desire for self-determination and the devolution of power). At the end of the 20<sup>th</sup> century, globalization has already demonstrated that economic decisions, wherever they are made in the world, must take international factors into account (World Bank, 2000:31). The prosperity of any one country in the global trading system is increasingly dependent on the prosperity of others. It is true that the interdependence is asymmetric: developing countries remain more dependent on industrial countries as export markets than industrial countries are on developing countries. But in the globalized world of the early twenty-first century all countries' fortunes are becoming inextricably linked (UNDP, 2005:115). Today, domestic economies isolated from the world economic system cannot hope to provide adequately for their societies; thus participation in the world economy is a necessity rather than a choice. As the world economy becomes increasingly interdependent, states' options to act autonomously are limited (Hastedt and Kay, 1994:286).

Internationally it is recognized that for economic development, countries must participate and development should be pursued in a global partnership and not in isolation. The Millennium Development Goals (MDGs)<sup>31</sup> categorically declares this issue in the following language-

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<sup>30</sup> By anti-state forces I refer to the elements of economic globalization that has to some extent curtailed the policy space and option of the state. The concepts of 'buffer zone' and 'shock absorber' is used to explain in a simple manner the role of economic diplomacy in promoting/upholding the policy sovereignty of the state while remaining effective in preserving /promoting national economic interest. These issues are elaborated in the remaining chapters of this thesis.

<sup>31</sup> MDGs are part of several agreed objectives to be implemented by 2015. There are eight goals in MDGs. All the development literature of the various international governmental organizations as well as many leading international NGOs use the MDGs as a policy guideline as well as a performance indicator. Goal -8 as described above emphasizes on the relevance of international relations and co-operation in the development of the LDCs.



*MD Goal 8*      Develop a global partnership for development. Reforming aid and trade with special treatment for the poorest countries (UNDP, 2005:39).

The developing countries have become more integrated in the world economy. Development efforts in any country depend heavily on international environment because of the globalization process (Chowdhury, 2004: 13-14). The link between national economic development and international environment is very well established in the international as well as national policy framework. Also the disadvantageous condition of the global south in the academic world of 'development' ultimately emerges as an obstacle for the development of these countries by limiting their participation in the international policy framework and as well as the capacity to participate.<sup>32</sup>

In this historical evolution another essential part of the study of IR is - International Economic Relations (IER). If we go back to the origins of diplomacy, like the recently transcribed Amarna archive clay tablets of Middle Egypt of the period 1460-1220bc , and the extensive trade that existed in subsequent centuries among the countries and civilizations of Egypt and West Asia, we see that trade provided the first motivation for inter-state contacts and agreements. Another example is provided in the spread of colonialism in Asia, following Vasco da Gama's journey to India in 1498, and Europe's 'discovery' of the riches of the East Indies. Again the flag followed the trade (Rana, 2002: 67). In the colonial age of the 18<sup>th</sup> and 19<sup>th</sup> centuries, Britain, Belgium, France, Italy, Netherlands, Spain and other European colonial powers conducted their foreign policy to protect and promote their economic interests in their respective colonies (Chowdhury, 2004: 15).

Even though IER has existed ever since the earliest days of economic interaction among tribes, empires, kingdoms etc. entities, globalization perhaps has given a magnitude to it which was never seen before. According to Saner and Yiu (2003:1) globalization has transformed the organization of international economic relationships around the world, affecting the economic, social and political spheres of societies and citizens. It is characterized by a complex set of interconnectivities and interdependencies with an increasing number of actors vying to influence the outcome of these relationships. They lay competing claims to resources, markets and legitimacy and are engaged in activities traditionally defined as belonging to the domain of diplomacy. There is very little doubt about the significance of international economic relations in regard to economic development. History abundantly provides evidences to testify this argument.

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<sup>32</sup> Development initiatives like the Washington Consensus and post Washington Consensus as well as the recent PRSP (Poverty Reduction Strategic Papers) or even in the Country Strategic Papers- the policy framework is driven by the global north. The recipients even lack the ability to implement and thereby invite greater interference of external actors in the economic development process.

This era of globalization may have provided a sort of magnitude to the existing international economic relations with the fundamental elements unchanged. Accordingly foreign economic relations and economic diplomacy has now emerged as essential segments in the study of international relations. The following chapter deals with the definitional as well as theoretical-conceptual aspects of foreign economic policy and economic diplomacy.

***Chapter 3:***

***Foreign Economic Policy  
and Economic Diplomacy:  
General meaning and scope***

### 3. Foreign Economic Policy and Economic Diplomacy: General meaning and scope

Foreign policy, according to Otto Von Bismarck is merely an extension of domestic policy<sup>33</sup>. Interests may be identified as objectives which nations try to pursue in order to influence the world environment to their advantage<sup>34</sup>. As defined above foreign policy knows no "eternal allies" or "permanent enemies", it seeks and augments national self-interests which alone are eternal and perpetual. Foreign policy consists of the courses of actions which a state usually undertakes in its efforts to carry out its national objectives beyond the limits of its own jurisdiction (Halim, 1984:2).

Styliandis (2004) believes that foreign policy should be based on three specific pillars:

- The political diplomacy,
- The economic diplomacy,
- The development assistance, including alternative forms of diplomacy such as cultural, educational, environmental and developmental diplomacy.

Lately, foreign economic policy has become an integral part of the broader foreign policy vision. Economic tools have become increasingly important mechanisms for projecting a country's influence and increasingly vital components of foreign policy (Tsardanidis, 2001). In this case, India is a success story in materializing its foreign economic policy. Indian FP has historically placed enormous significance to economic aspects. Indian Prime Minister Nehru in a parliamentary speech acknowledged the importance of the economic dimension in foreign policy:

"Ultimately foreign policy is the outcome of economic policy, and until India has properly evolved her economic policy, her foreign policy will be rather vague, rather inchoate and rather groping."<sup>35</sup>

This tradition of placing due significance to economic aspects of foreign policy has increased in India after the economic reforms in 1991. Indian leaders have extolled the virtues of retooling India's foreign policy to serve its economic interests. Mr. I.K. Gujral in a speech when he took over as Prime Minister said;

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<sup>33</sup> Padelford, Lincoln and Olvey define policy "as the overall result of the process by which a state translates its broadly – conceived goals and interests into specific courses of action in order to achieve its objectives and preserve its interests". For details see their book, *The Dynamics of International Politics*. Third Edition, New York: Macmillan, 1976, p. 201.

<sup>34</sup> W. W. Rostow quoted in Padelford, Lincoln and Olvey, op. cit., p. 234.

<sup>35</sup> Quoted in Chakrabarti, R. (1982) *The Political Economy of India's Foreign Policy*. Calcutta: K.P. Bagchi & Co., p.18.



"India's top foreign policy priority is to strengthen its economy... (and) Indian foreign policy gives the highest priority to the economy, economic growth and economic relations".<sup>36</sup>

It is clear that, economic instruments are in constant use in furtherance of national policy. In times of peace all states have objectives which must be pursued whenever possible, such as raising the standard of living, promoting foreign sales, expanding employment, conserving natural resources, advancing technology, and improving health. According to Davis (1999:5-6), once a foreign policy strategy shifts from threat or use of force (coercion) to peaceful change the most proficient means of achieving this outcome is- economic persuasion. Economic instruments may also be used when a state is preparing to go to war or is fearful of being attacked. It may wish to conserve certain goods and to stockpile others, or it may seek to impede the war preparations of the threatening state or states (Palmer & Perkins, 1985:132). Every state is in some degree dependent on other states- it must import or export or both- it is to some extent responsive to pressures which other states may bring to bear on it, just as it may itself bring pressures to bear on other states. Whenever economic policies are shaped to promote national ends- whether or not they are intended to injure other states- they are economic instruments of national policy (Palmer & Perkins, 1985:132).

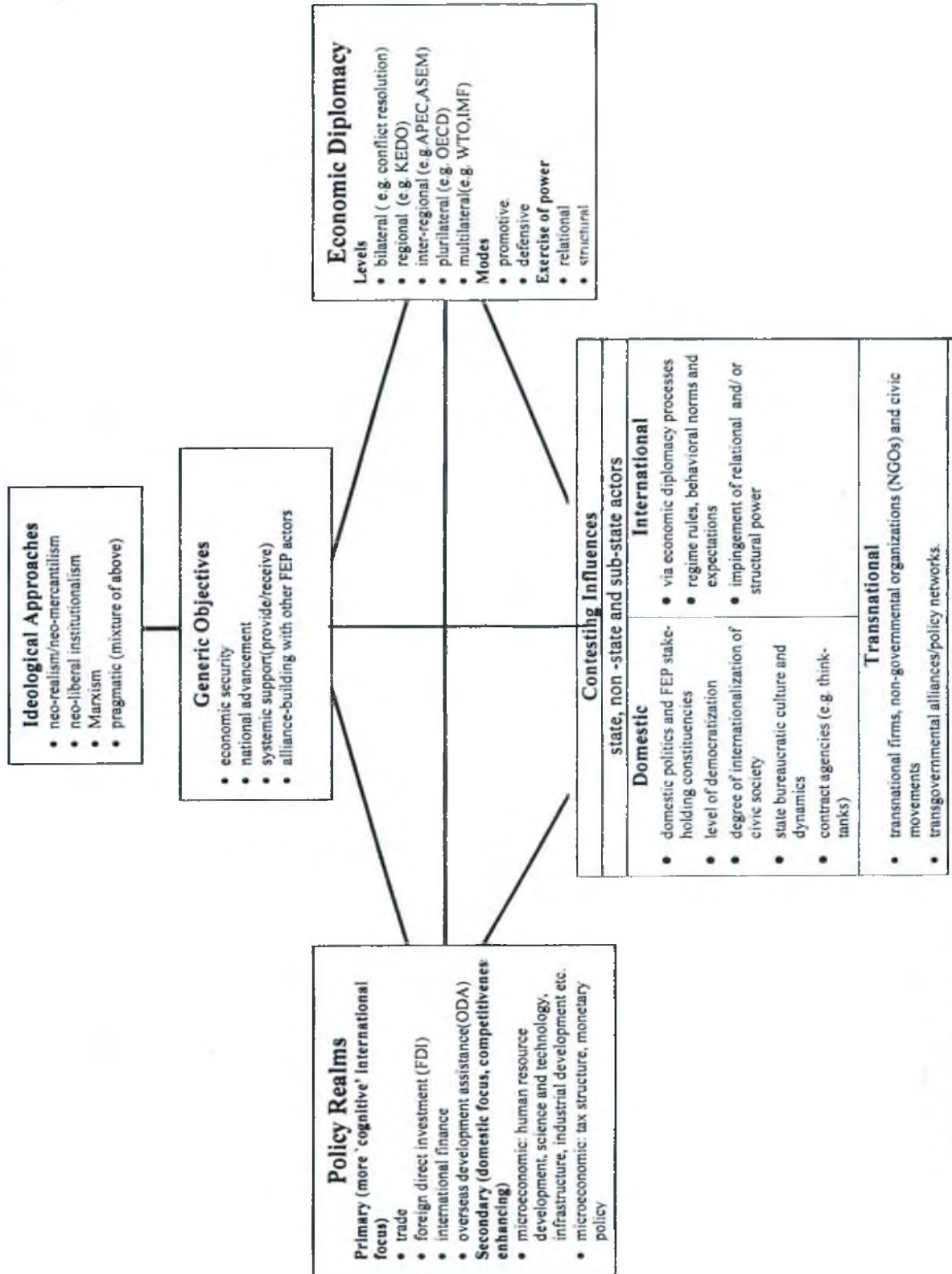
Foreign economic policy is a hybrid of foreign and economic policy and can be classified as the policy actions taken by a nation-state to organize its trade and investment so as to maximize national income.<sup>37</sup> Figure – 1 by Christopher M. Dent, (2000) represents an attempt to model a broad schematic of the interactive dimensions of FEP with the diagrammatic arrows indicating directional influence (unidirectional and two-way) between them. It is conceivable that some minor feedback loops of influence may exist between the different FEP interactive dimensions, for example from the conduct of trade policy to the broad objectives that define it. Thus, while the ideological approach adopted by the state will largely determine its generic FEP objectives (as denoted by the wider arrow width), these are also affected by a matrix of contesting influences and through channels of economic diplomacy. In ideological terms, a neo-realist approach would emphasize the primacy of national advancement over systemic support, although to hegemonic power theorists these two objectives are closely related since the latter reinforces the former for the hegemon. Mercantilism is strongly linked to neo-realism by prescribing the advance of the nation state's position through protectionist policies, state promotion of 'strategic' industries and other measures. To neo-liberal institutionalists, promoting free trade and interstate cooperation are priority FEP objectives because these support the international

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<sup>36</sup> Reuters, 3 Jan, 1997.

<sup>37</sup> For details read Cohen, Benjamin J. (1991) *Crossing Frontiers*. Boulder, West view. p.25

Figure - 1 - Foreign economic policy: interactive dimensions



economic system in which all states must co-exist. Furthermore, interstate alliances of a regional or other kind may be expedient in a world of complex economic interdependence, but nowhere these alliances threaten multilateral economic regimes (e.g. WTO, IMF). A Marxist approach to FEP starts with the view that the world economy is divided by an alignment to rich capitalist nations (core powers) against poor underdeveloped nations (peripheral powers) whereby the latter are subservient to the capital interests of the former (Dent, 2000: 278). Foreign economic policy is conducted within a 'diplomatic space'. For most states, the practice of economic diplomacy is exercised at multiple levels, ranging from the bilateral to multilateral as portrayed in *Figure – 1*.

The broad range of official foreign economic policy action requires coordination. Coordination as described in the case of U.S.A. involves above all 1) the management of policy decision processes so that trade-offs among policy interests and goals are recognized, analyzed, and presented to the president and other senior executives before they make a decision; and 2) the oversight of official actions, especially those that follow major high-level decisions, so that these actions reflect the balance among policy goals that the president and his responsible officials have decided upon (Destler, 1980:8).

In practice, these two tasks are closely related. It is often in reaction to an action that appears unbalanced that officials charged with coordination are able to bring a broader policy choice to the attention of senior officials. And both tasks require interagency communication – facilitated by committees, working groups, and so on—and analyses of effects of alternative policy courses. Moreover, as the opening examples illustrate, coordination requires the consideration of non-foreign or non-economic interests and goals (Destler, 1980:9). This issue of co-ordination is equally true in case of any other country with an active foreign economic policy.

The modalities of economic diplomacy concern the use of either promotive or defensive FEP measures, with the former intended to yield collaborative outcomes between FEP actors (e.g. a free-trade agreement) while the latter are intended to uphold the commercial interests of the protagonist against opposing pressure from a counter-interest power or powers. Another key aspect of economic diplomacy is the exercise of relational and structural power. Relational power relates to the leverage that an international actor can directly exert on the behavior of, or decisions made by, another; structural power refers to the ability of certain international actors to shape and determine the systemic structures within which other actors must too operate.<sup>38</sup>

Destler (1980:7) defined foreign economic policy as one that encompasses government decisions and actions that affect both foreign and economic concerns. Explaining further the boundaries of this definition he illustrated the U.S. position

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<sup>38</sup> See Strange, S. (1994) *States and Markets*. London: Pinter.



that, foreign economic policy, for purposes here, includes government actions with important impact on U.S. relations with other governments and on the production and distribution of goods and services at home and abroad. Many matters covered by this definition fall into one of three functional policy areas: trade, monetary, and aid. But to treat foreign economic policy simply as the sum of the actions within these "tracks" risks inadequate treatment of issues like food, energy, and domestic economic stabilization. Decisions on acreage restriction programs or taxes, for example, affect international economic relations but may not technically fall within these tracks. Foreign economic policy may be identified as those policies in the overall foreign policy which are based on economic realities and requirements of a country. Like other areas of foreign policy external realities, national security (economic security included), national power, political and ideological priorities influence foreign economic policy. In this case economic diplomacy is the principal means of attaining foreign policy objectives.

A major concern for any theoretical and conceptual discussion on foreign economic policy is the relatively underdeveloped state of its academic development and accomplishments as a separate academic discipline. The difficulty of drawing precise boundaries raises a broader question: whether foreign economic policy should be treated as a distinct, separable sphere of government activity for either analytic or organizational purposes. Analyses and prescriptions generally assume that it should but usually do not face the matter explicitly (Destler, 1980:8). Academic advancement and empirical evidence does not uphold the separate status of FEP as an academic discipline. But, there is substantial content in it to practice and study it exclusively.

Stephen D. Cohen<sup>39</sup> does face the issue explicitly: he argues that, for organizational purposes, "international economic policy must be viewed as being a separate phenomenon", though he recognizes its critical connections to national security and domestic economic concerns. Foreign economic policies have immediate implications for a state's security and economic welfare and understandably involve bargaining at the domestic as well as international levels. There has most certainly been renewed domestic interest in foreign economic policies given the growing concerns with market access and competitiveness and this has, more often than not, reflected a disunity of interests, particularly that between free trade and protectionist interests (Hocking & Smith, 1997:9). This plurality of interests not only seeks to influence the making of foreign economic policy 'at home' but has also responded to increased globalization through the formation of linkages across territorial boundaries and with like-minded sections of what has loosely been termed 'international civil society'. Just as each state forms links with other states in pursuit of its economic and security objectives, the links made by societal actors (be they corporate or other actors) with others in the global community should not be underestimated in terms of their impact on both inter-state and intra-state negotiations (Solomon:2000:1). The momentous convergence

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<sup>39</sup> See Cohen, Stephen D. (1977) *The Making of United States International Economic Policy: Principles, Problems and Proposals for Reform*. Praeger, p.xxii.

in global security and economic relationships over the past few years necessitates a new foreign policy- one which successfully integrates national security concerns with evolving economic interests. In the economic sphere, a state is competitive with other nations for contracts and markets. Thus, economic diplomacy must also be more responsive to domestic interest groups, because it regularly impacts their concerns and their constituencies in more direct way (Tsardanidis, 2001).

The systemic approach, as an explanation of foreign economic policy, holds that a nation-state's position in the international economy is the fundamental determinant of that state's foreign economic policy. In doing so, it suffers from the weakness of not giving sufficient attention to the domestic political process of each state. In seeking to provide a more comprehensive explanation, the discussion will focus on what are considered more fruitful avenues of research, the state-centered, societal-oriented and institutional approaches to foreign economic policy making and the contribution of each to understanding the policy-making process within this period of economic change and adjustment (Solomon:2000:1).

In general it may be argued that the primary policy realm of FEP relates to four distinct yet increasingly overlapping forms of international economic exchange, namely trade, foreign direct investment (FDI), international finance (may include exchange rate policy where practiced) and overseas development assistance (ODA) (Dent, 2000: 278). This is the external face of FEP as well as the popular expectation. But, FEP is much more complex in its actual content. A comprehensive framework of FEP analysis, includes actual policy domain of FEP, such as trade, foreign investment, international finance, overseas development assistance, and co-operation policies. Additional "associative" policy domains such as the issues of industrial and human resource development etc. are vital aspects of FEP analysis. The ideological issues in FEP, strength of economic diplomacy which powers FEP, various contesting domestic and international and transnational actors, the position of the national economy in the global economic structure (Dent, 2001) are also important considerations. Solomon (2000:2) argues that, even in this globalised era, foreign economic policies should be considered as much the products of domestic actor interaction and institutional dynamics as responses to global market developments. The liberal capitalist state's embrace of globalization has involved ceding some of its authority to the market by the state. In response some important societal actors (from whom the state will require support) have sought to drive a hard bargain with the state and insist that the nature of this engagement with globalization remains a matter of contention. Even for those skeptical of the influence of globalization over state policy-making, there is no doubt regarding the strong globalizing tendencies that each state has to confront. Foreign economic policy being domestic and economic as well as foreign in its policy content takes account of both domestic and international determinants. With the ever more intrusive influence of globalization and the complexity of that influence, particularly identified through the emergence and strengthening of global



structures, a state's policy responses must make reference to not only the global and the domestic determinants, but also to how each affects the other. A constructivist position would argue that it is useful to see international structure being expanded to include institutional rules, norms and principles and how state practices construct and reproduce those structures.<sup>40</sup>

### **Determinants of External Economic Relations:**

Any study of FEP must consider the usual complexity of contesting influences over the FEP making process and its outcomes. In any industrial democracy (like Japan) foreign economic policy emerges as a result of a tug-of-war between the rational theories of economics (or legitimate demands of the external world) and the actual domestic political forces (Nukazawa, 1982:56). There are two main perspectives to this. First, while most central governments (i.e., the state) remain at the heart of the FEP-making process, they are nevertheless susceptible to pressure from non-state actors (e.g. firms, industrial associations, NGOs, powerful individuals) and sub state actors (e.g. provincial governments) with a stake in FEP outcomes. Second, FEP decisions are generally determined by an interaction of pressures from domestic, international and transnational sources (Dent, 2000: 278). Koopmann<sup>41</sup>(1998:38) argues that, internationalization of domestic economic policies also calls for FEP to be analyzed in terms of international systems of institutional competition. The rivalry that occurs is between the immobile factors of production in different countries (including the legal, economic, social and political systems) which vie for the only really mobile factor of production, namely capital (including technical knowledge). Koopmann continues to argue that, in theory, FEP for example in Germany is the "external" complement of market-oriented structural policy in the "internal" economy. The latter consists of:

- policy on the underlying order, setting out the legal framework and supporting economic institutions;
- competition policy, safeguarding individual economic freedom;
- market policy, ensuring that markets function properly.

Perhaps the U.S.A. maintains the most advanced level of foreign economic policy with its very active economic diplomacy. An understanding of the process of formulating FEP in the U.S.A. will help to recognize the complexities involved in identifying the FEP determinants. E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs while addressing the U.S. Foreign Policy Teacher's Forum remarked that---

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<sup>40</sup> For details see Reus-Smit, Christian. (1996) *Beyond foreign policy: state theory and the changing global order*. *The State in Question* edited by Paul James. St Leonards: Allen and Unwin. p. 192.

<sup>41</sup> Koopmann worked as Head of the Research Group on International Trade and Services at the Hamburg Institute for Economic Research (HWWA), Hamburg, Germany.



"We work on foreign economic policy with up to 40 other U.S. government departments and agencies, and – of course – we are in close consultation with the Congress. We also meet regularly with the private sector and nongovernmental organizations, ranging from business to labor unions to major environmental groups."<sup>42</sup>

Narayanan (2005) reveals a highly personalized dynamics of power politics at the top and the relatively fluid role of the Chinese Communist Party's (CCP) politburo and secretariat, and their adhoc working groups. This study argues that, revolutionary ideology is secondary to economic performance to the Chinese leadership. The leadership elite in China is more responsive to the market dynamics and facilitating the state for the market.

Foreign economic relations (as materialized by the formulation of a foreign economic policy and placing economic diplomacy at the frontier of events) of a country is influenced by a number of domestic and external factors. Most important domestic factors (M. Ahmed, 1989:113 -115) appear to be-

- a) the structure of the economy;
- b) the nature of the government;
- c) the economic policies pursued; and
- d) the bureaucracy.

The basic economic structure of a country determines the nature of its exports and imports. Thus a primary producing country imports industrial goods from developed countries in exchange for its primary exports. In other words, a mutually profitable market must be found out to cater to the need of these two categories of countries. Every specific relationship is based on some specific need. This need which is the basis of mutually profitable trade is the outcome of economic structure of the participating countries. Thus the macro and micro economic issues as well as structures of a country are vital concerns for FEP/R.

The nature of the government, particularly its political ideology, is a crucially important factor in shaping a country's foreign economic relations. This is more relevant in the context of aid distribution as well as exploring new markets for products of a country. However, it is also possible on the part of a government to pursue good trade relationship with another government of a different ideology provided good diplomatic relationship is maintained. This depends on the nature of economic goals of the governments concerned.

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<sup>42</sup> Read the remarks of E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State to the Foreign Policy Teachers' Forum, Loy Henderson Room, State Department, Washington, DC, June 22, 2005 which is available at the U.S. Department of State website as 'Economic Diplomacy in the New Millennium: New Priorities and Concerns', <http://www.state.gov/e/eb/rm/2005/48611.htm> (page visited on 24/05/2005).

Economic policies pursued by the governments may encourage or discourage trade in a particular commodity or with a particular country or region. Financial and fiscal policies as well as other trade control measures may be designed to promote trade in a commodity. Various policies ranging from trade concessions to the formation of regional co-operation are adopted to develop further economic relations among countries. The issue of determining the right set of economic policies ultimately decides the out come of FEP at home and abroad. Even with a very active FEP and intense economic diplomacy, a country's economic aspirations may end up in total failure due to the absence of an appropriate economic policy.

The over-all background and commitment of the bureaucracy is also responsible for shaping economic relations of the country with other countries. An efficient administrative system helps the development of a fruitful external economic relationship. Bureaucratic commitment and involvement in foreign economic relations decide the level of implementation and sustainability of a given FEP of a particular regime and the in general FEP of a country. The quality of diplomatic ability emerges as a central element in this case.

There are a large number of external factors which influence the foreign economic relations of a country. Some very vital factors are as follows (M. Ahmed, 1989:115) –

- a) political attitude of the foreign countries;
- b) international economic environment; and
- c) economic policies of partner countries.

The political attitude of the foreign countries plays a significant role in shaping the external economic relations of a country. The sympathetic attitude of the United States towards countries like South Korea, Taiwan and Israel is a principal factor of the success of these countries in international trade. It is easily understood, that the approach of the major economic powers is of paramount importance for the external economic relations of small countries. This is also closely related to the economic policies pursued by other countries that regulate the flows of imports into these countries through various trade and other economic control measures. Thus tariff and quota restrictions of the developed countries are major hindrances to the successful export performance of the poor countries.

The overall international economic environment is a major determinant of the external relationship of a country. The boom and the recession in the world economy affect the trading relationship among countries. If economic activities expand in the rest of the world, it may act as a favorable factor in developing trade relationship of a particular country. The economic policies of partner countries must be complementary for a fruitful external economic relation to develop. The sustainability as well as utility of countries representing opposing economic policies is always questionable.



Before proceeding to the discussion of economic diplomacy and its content, it is important to discuss the way foreign economic policy is carried out. A common problem for developed as well as developing countries is the role of the foreign ministry in handling the economic aspects in foreign policy. As international economic issues moved up the international agenda, many foreign ministries find themselves ill-equipped for managing this aspect of international relations in view of their traditional political emphasis or lack of resources. In order to ensure the paramountcy of the foreign ministry in international financial diplomacy, some countries which play active international financial and commodity roles, such as France, Brazil and Mexico have developed cadres in the foreign ministry through training, secondment and other measures. By the late 1980s most states had established some form of economic division within their foreign ministries. Most states retain separate foreign and trade ministries, arrangements for overseas representation vary. Some states have, however, attempted to unify trade promotion in the foreign ministry (Barston, 1988:17). Foreign ministries do not generally handle external economic relations (with the exception of Australia, Canada and a score of others that have a combined ministry). But some monitoring of bilateral economic links is combined with political work in most MFAs, through their territorial divisions. This is in recognition of the fact that economics is a vital and often dominant component of bilateral relations. The other related element is that most diplomatic services combine economic work with other tasks, though there are a number of countries that also have a specialized foreign commercial service (like the US), or handle commercial diplomacy with a combination of specialists deputed to the larger embassies from the trade ministry, and regular foreign service personnel handling this elsewhere (Rana, 2002: 69). In Japan, for example, the information gathering monopoly of the Foreign Ministry is rivaled by the Ministry of International Trade and Industry (MITI) [using the overseas branches of the Japan External Trade Organization (JETRO)] and links with corporations, the Defence Agency through its attaches and the Ministry of Finance through its personnel attached to Japanese embassies (Barston, 1988:21).

Former Indian diplomat K. Rana<sup>43</sup> discusses several different models in his book, if we try and understand how economic work, i.e. trade and investment issues are handled within the MFA. These are:

- *Unified.* There are about 15 countries which now combine foreign affairs and foreign trade (Australia, Canada, and Sweden). But in a special twist, under the, under the unified ministry, Australia has a separate commercial export promotion service, distinct from the diplomatic service, though the head of mission plays a unified role in heading both activities. In July 1987

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<sup>43</sup> Kishan S. Rana is a former Indian diplomat and a recognized expert in economic diplomacy. He is the author of, 'Inside Diplomacy', Manas Publications, New Delhi, India (2000) and 'Bilateral Diplomacy', Diplo Handbooks, Diplo Project, Mediterranean Academy of Diplomatic Studies, University of Malta, Geneva and Malta (2002) and several other publications dealing with the theoretical and practical issues of economic diplomacy.



Australian government merged the Department of Foreign Affairs and Department of Trade. For Australia this merger was mainly a positive policy shift, but there is no guarantee or universal recognition of this type of merger.<sup>44</sup> In the case of Canada, the External Affairs Ministry was reorganized in 1982, and the department became directly responsible for the promotion of Canadian trade overseas, as the primary federal government contact with foreign governments and international organizations which influence trade (Barston, 1988:17).

- *Part unification.* The best instance is UK that has created two special units in the Foreign Office, jointly with the Department of Trade and Industry, to handle trade and investments, manned by a unified diplomatic service.
- *Third agency.* This is the Singapore method, where the MFA largely keeps out of economic work, and the operational tasks are handled by two special entities, the Singapore Trade Board and the Singapore Economic Development Board, under the supervision of the Ministry of Trade and Industry. Each Board posts its own representatives at key locations, placed within the embassy or consulate general. The ambassador and other diplomats work closely with them in the well-known 'Team Singapore' style. In other instances we see that harmony is harder to establish.
- *Competition.* This is the relatively confused situation in many countries, with the MFA and economic ministries engaged in turf battles over responsibility not only for export promotion and investment mobilization, but also over the handling of WTO affairs, and some other economic groupings. Examples: India, Thailand. One direct consequence is that the diplomatic machine does not make a full contribution to the advancement of economic interests.
- *Renunciation.* The MFA does not play an active role in bilateral economic work, and is glad to hand this over to another ministry. Examples: China, Germany. This does not optimize resources, even if there is little outward evidence of disharmony.

There are also exceptional situations where aid work is concentrated in the MFA, but this happens only with donor countries (examples: Japan, the Netherlands). There are no instances where recipient countries (i.e. developing countries) handle aid work in the MFA. India offers an interesting contrast; it runs a small aid donation program, which is handled entirely from the Ministry of External Affairs. But the inbound aid work is handled exclusively by the Indian Finance Ministry (Rana, 2002: 71). It seems that, the discussion regarding FEP and its place in the state craft is full of divergent schools of thought. No single model

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<sup>44</sup> For details see Harris, Stuart (2002) The merger of the Foreign Affairs and Trade Departments revisited. *Australian Journal of International Affairs*, Vol. 56, No. 2, pp. 223-235.

contains all the merits; it is rather an issue of relative judgement on the basis of the situation concerned.

### **Diplomacy & Economic diplomacy:**

Diplomacy as the vehicle to carry on as well as implement the foreign policy of a country signifies that economic diplomacy is inevitably the means of implementing the foreign economic policy of a country. But, economic diplomacy in many discussions as well as in this thesis is not 'absolutely' distinguished from foreign economic policy. The reason behind this is the wide spread popularity of this concept of 'economic diplomacy' and the synonymous use of it to foreign economic policy. It is hardly mentioned that the foreign economic policy is geared for economic gain; rather we refer to economic diplomacy. The other reason is the lack of academic concentration on the subject matter – foreign economic policy allowed the post cold war euphoric economic interaction to pick the means (economic diplomacy) of foreign economic policy as the main focus. Even though in this discussion I have not categorically differentiated economic diplomacy and foreign economic policy, I have discussed the definitions of these two parts of the 'same coin' separately.

In fact by all means foreign policy and diplomacy are so well knitted that in practice it is hard to distinguish each other. The foreign policy of a state as J. R. Childs (1948:64) has said, is 'the substance of foreign relations', whereas 'diplomacy proper is the process by which is carried out'. British diplomat, Peter Marshall (1997) has differentiated between foreign policy and diplomacy as, 'Foreign policy is about what to do and diplomacy is about how to do it'.<sup>45</sup> For this thesis this differentiation by Peter Marshall remains as the basis of discussion.

Harold Nicolson (1946:164) in his *'The Congress of Vienna: A Study in Allied Unity'* has written that-

"It is useful, even when dealing with a remote historical episode, to consider where diplomacy ends and foreign policy begins. Each of them is concerned with the adjustment of national to international interests. Foreign policy is based upon a general conception of national requirements. [...] Diplomacy, on the other hand, is not an end but a means; not a purpose but a method. It seeks, by the use of reason, conciliation and the exchange of interests, to prevent major conflicts arising between sovereign states. It is the agency through which foreign policy seeks to attain its purpose by agreement rather than by war. Thus when agreement becomes impossible diplomacy, which is the instrument of peace, becomes inoperative; and foreign policy, the final sanction of which is war, alone becomes operative."

The above conceptual clarification by Nicolson enables to draw a fine line between diplomacy and foreign policy. In historical and academic analysis diplomacy is an older term than foreign policy which is almost a 19<sup>th</sup> century

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<sup>45</sup> See Marshall, Peter. (1997) *Positive Diplomacy*. Macmillan: London.



term. Diplomacy in fact goes back to the intermittent efforts of primitive tribes to find a substitute for war. The advancement of civilization implies multiplicity of the intercourse of states and diplomacy has grown up as a system of regulating it.

According to the Permanent Court of Arbitration in the Russian Indemnity (1912)-

"the diplomatic channels are the normal and regular means of communication between states in that relations governed by international law"

The term "diplomacy" has been drawn from Latin term 'diploma' which literally means a double document. During the Roman period of history all passports, imperial letters etc. were stamped on double metal plates, folded and sewen together. These metal passes were described as 'diplomas'. However, later the term came to be applied to all the official documents which conferred certain privileges or rights under some mutual treaty. The term diplomacy was used for the first time by Burke in ' Letters of a Regicide Peace' for the skill in the conduct of international relations and negotiations. In fact diplomatists existed long before the words were employed to denote the class. Machiavelli (1469-1527) is perhaps the most celebrated of men who discharged diplomatic functions in early days. Metternich (1773-1859), Prince Bismarch (1815-1898) enjoyed worldwide celebrity. Outside Europe there were notable 'pioneer' diplomatists such as Sir Thomas Roy British Lord ambassador at the court of the Mughal emperor Jahangir (1855-60). Diplomacy has reached the present modern stage passing a long way from the ancient age of Greek city states of the 5<sup>th</sup> B.C. through Middle ages, Machiavellian period and post revolutionary period. In the evolution of diplomacy European, Indian and Islamic contributions are significant. In the recent development of diplomacy the mentionable contributors are of the Congress of Vienna 1815, the Congress of Aix-la-Chapella of 1818. And in the present century 'The Vienna Conventions on Diplomatic Relations of 1961 and the Vienna Convention of Consular Relations of 1963 are mentionable.<sup>46</sup>

Barston<sup>47</sup> defines diplomacy as-

'Diplomacy is concerned with the management of relations between states and between states and other actors'.

From a state perspective diplomacy is concerned with advising, shaping and implementing foreign policy. As such it is the means by which states through their formal and other representatives, as well as other actors, articulate, coordinate and secures particular or wider interests, using correspondence, private talks, exchanges of view, lobbying, visits, threats and other related activities (Barston,

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<sup>46</sup> For a detailed account of the evolution of early diplomacy, see Nicolson, H. (1957) *The Evolution of the Diplomatic Method*. London: Cassell Publishers and Cohen, Raymond. (1999) *Reflections on the New Global Diplomacy: Statecraft 2500 BC to 2000 AD*. In *Innovation in Diplomatic Practice*, edited by Jan Melissen, London: Palgrave.

<sup>47</sup> See Barston, R. P. (1997), *Modern Diplomacy*, 2<sup>nd</sup> edition, London and New York: Longmans, p.1.



1988:1). According to Professor Quincy Wright (1955) diplomacy has two meanings – popular and specific. In the popular sense it means the tact skill and intelligence with which the negotiations are carried out. In the specific sense it means “the art of negotiation, in order to achieve the maximum group objectives with a minimum of costs, within a system of politics in which war is a possibility.”

Satow defines modern diplomacy as “the application of intelligence and tact to the conduct of official relations between the governments of independent states”.<sup>48</sup> Implicit in Satow’s statement is the view that diplomacy is the exclusive domain of the Ministry of Foreign Affairs (MOFA). However; globalization and democratization have rendered the professional boundaries of diplomacy more porous and put into question the territorial claims of the traditional diplomats. Alternative diplomatic actors have emerged within and outside the state and often act independently from the MOFA.<sup>49</sup> Diplomacy as a profession has undergone changes in terms of definition, qualification and role expectation of what a diplomat is or is not supposed to do.<sup>50</sup> Murray (2008) argues that, in the twenty first century, the study and practice of diplomacy are enjoying a renaissance and there are more non state actors in the study of diplomacy. In fact the huge intrusion of non state actors, post cold war era realities and globalization has made the traditional state centric practice of diplomacy as increasingly irrelevant.<sup>51</sup>

From this perspective, Bayne and Woolcock (2003:5-6) in order to do justice to the term ‘diplomacy’ portrays some misleading stereotypes associated with the term diplomacy, as set out below-

The *first stereotype* is that diplomacy is conducted only by diplomats, i.e. 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. The WTO rule based approach to dispute settlement is an example here.

The *third stereotype* is that diplomacy is a weak and imprecise activity, where conciliation leads only to meaningless compromises.

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<sup>48</sup> Definition given by Ernest Satow, see Lord Gore-Booth (ed), “*Satow’s Guide to Diplomatic Practice*”, Longman, 1979, pp.3.

<sup>49</sup> Read Saner, Raymond & Yiu, Lichia; “*International Economic Diplomacy: Mutations in Post – modern Times*”, Discussion Papers in Diplomacy, Netherlands Institute of International Relations ‘Clingendael’, ISSN 1569-2981, 2003.

<sup>50</sup> For a more detailed overview of diplomacy’s change of definition and practice see Raymond Saner (2002), “Zur Kultur eines Berufs: Was ist ein Diplomat?” in Enrico Brandt, Christian Buck (eds) “*Auswärtiges Amt: Diplomatie als Beruf*”, Leske & Budrich, Opladen, Germany.

<sup>51</sup> See Langhorne, Richard (1998) *Diplomacy Beyond the Primacy of the State*. Diplomatic Studies Program, Leicester University, 43: 1-11 and Hoffman, John (2003) Reconstructing Diplomacy. *British Journal of Politics and International Relations* 5(4): 525-542.

The *fourth stereotype* is that diplomacy is elitist, conducted by an establishment of privileged officials.

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 agreements.

In developed countries the distinction between internal affairs and foreign policy has increasingly been replaced by a multi-actor participation in diplomacy, foreign economic relations and public affairs. These major developments of emerging diplomatic activities external to the traditional prerogatives of the MOFA deserve greater attention and invite rethinking of the definition of diplomacy, role definition of diplomats and the functions and task of MOFA. Diplomats and civil servants of MOFA are confronted with new actors, new agenda items and new working methods and are caught with inadequate training and preparation. Adaptation of traditional diplomacy to the reality of post-modern diplomacy has become an urgent necessity (Saner & Yiu, 2003:3-4).

Important ministries at the central government level responsible for specialized policies are increasingly engaged in policy dialogues with counterparts in other countries. With growing use of international conferencing, these Ministries inadvertently challenge the traditional lead role of MOFA in matters regarding state-to-state exchanges or participation at international standard setting fora. These specialized Ministries have gradually eroded the MOFA monopoly in handling foreign economic affairs and demand to be the leading agencies in their respective domain of competence, e.g. Ministry of Economic Affairs taking over the lead at the IMF or World Bank, the Ministry of Telecommunication at ITU, Ministry of Labor at the ILO and WTO. According to Saner & Yiu (2003:4-7) faced with this proliferation of diplomatic activities by other ministries, many MOFAs either try to block entry of other ministries into the international arena or gradually accept a secondary role at international meetings. Other MOFAs have been successful in transforming their role from being solely responsible for foreign economic policy to becoming the overarching coordinator of inter-ministerial foreign economic policy formulation. Such a more consultative role allows specialized ministries to participate in the formation of negotiation positions while at the same time leaving the MOFA diplomats formally in charge of national delegations at international economic meetings. Transnational enterprises are important non-state actors operating on a global scale in developed, developing and transition economies. The need to deal more effectively with international and national regulatory bodies and to manage more successfully the various activist groups, have encouraged transnational companies to take matters in their own hands and start "diplomatic" offensives in different settings and through different media channels. There are also very strong examples in this regard.<sup>52</sup>

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<sup>52</sup> A relevant example is the establishment of the Trans-Atlantic Business Council (TABC) by major businesses from both the United States and Western Europe as a forum to coordinate their



According to Saner & Yiu, (2003:3-4) increasingly, business communities put forward their own white papers stipulating preferred policy positions and forming cross-border alliances through their multiple "embassies" (i.e., national subsidiaries) to promote their own agenda.

Considering this proliferation of actors involved in international relations and diplomatic activities, Melissen (1999) offers the most succinct definition of contemporary foreign policy and diplomacy by stating:

"(Diplomacy) is defined as the mechanism of representation, communication and negotiation through which states and other international actors conduct their business"<sup>53</sup>

Melissen's definition best reflects and captures the post-modern nature of diplomacy that is characterized by the simultaneous participation of multiple state and non-state actors. Faced with the complexities of multilateral standard setting organizations responsible for economic policies such as the WTO, IMF or OECD, many governments have broadened participation of ministries specialized in economic and financial matters thereby decreasing or neutralizing the influence and role of MOFAs. For example, the US government centralised decision-making power in regard to trade negotiations at the WTO by creating a new executive office of the president, the Office of the United States Trade Representative (USTR) in 1962. In addition, the US government created an interagency command group based in Washington to improve policy coordination during the General Agreement on Tariffs and Trade (GATT) Kennedy Round, thereby limiting complexity, inter-ministerial disputes and external influencing by members of parliament (congress) and various lobbying groups.<sup>54</sup>

According to Raymond and Lichia (2001:12-13) effort by specialized Ministries to conduct policy related international negotiations and to influence the structure and mechanisms of global governance have eclipsed the previous prominence of MOFAs in economic and trade arenas. The rise of this non-traditional genre of multi-ministry international diplomacy is for instance apparent in Geneva where many industrialized countries' Embassies to the WTO are staffed by a greater number of officials than is the case at their bilateral Embassies to Switzerland in Berne. The greater number of staff is mostly due to the ever increasing number of non- MOFA diplomats and government officials.

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positions regarding WTO and other trade related issues. For more information, visit [www.tabd.com](http://www.tabd.com).

<sup>53</sup> See Melissen, Jan. (1999) ed. *Innovation in Diplomatic Practice*. Macmillan, London, pp. xvi-xvii.

<sup>54</sup> Read Donna Lee's (2001), "Endgame at the Kennedy Round: A Case Study of Multilateral Economic Diplomacy", *Diplomacy & Statecraft*, Vol.12, No.3, pp. 119-120.



The 1961 Vienna Convention on Diplomatic Relations, the definitive legal framework for diplomacy that consolidated the accumulated practices of earlier times, states in Article 3:

- I. The functions of a diplomatic mission consist *inter alia* in :
  - a) representing the sending State in the receiving State;
  - b) protecting in the receiving State the interests of the sending State and of its nationals, within the limits permitted by international law;
  - c) negotiation with the Government of the receiving State;
  - d) ascertaining by all lawful means conditions and developments in the receiving State; and reporting thereon to the Government of the sending State;
  - e) promoting friendly relations between the sending State and the receiving State, and developing their economic, cultural, and scientific relations.
  
- II. Nothing in the present Convention shall be construed as preventing the performance of consular functions by a diplomatic mission.

The key words are: representing, protecting, negotiating, ascertaining and promoting (Rana, 2002: 21). So, the work of a diplomat can be divided into four basic functions: (a) representation, (b) negotiation and bargaining, (c) reporting and (d) the protection of the interests of the nation and of its citizens in foreign lands. These functions are interrelated.

The next chapters deal exclusively with the concept of economic diplomacy which essentially has all the fundamental traits of diplomacy that has already been discussed. The historical trail of economic diplomacy within the realm of the various facets of diplomacy is briefly discussed next to track the present day economic diplomacy.

### **Diplomacy to economic diplomacy:**

Diplomacy as a means of materializing national interests and priorities has its many facets like Gunboat diplomacy, Dollar diplomacy, Ecological diplomacy, Cultural diplomacy as well as the concern of this thesis - Economic diplomacy. The closest type of diplomacy to facilitate the discussion of economic diplomacy is dollar diplomacy. In his final message to Congress on 3<sup>rd</sup> December, 1912 President William Howard Taft looked back at the foreign policy followed by the United States during his administration and noted:

"The diplomacy of the present administration has sought to respond to modern ideas of commercial intercourse. This policy has been characterized as substituting dollars for bullets. It is one that appeals alike to idealistic humanitarian sentiments, to the dictates of sound policy and strategy, and to legitimate commercial aims"

Taft's remarks gave formal definition to the term "dollar diplomacy", a phrase synonymous with the diplomacy his administration pursued between 1909 and 1913. During those years the goal of diplomacy was to make the United States a commercial and financial world power. The Taft administration concentrated on assisting American businessmen in the protection and expansion of investment and trade, especially in Latin America and the Far East.<sup>55</sup> The term was originally coined by Taft, who claimed that U.S. operations in Latin America went from 'warlike and political' to 'peaceful and economic'. At the time, during the largely isolationist –pacifist sentiments in the U.S. showed disapproval for the Spanish-American War and the Philippine Insurrection, and those like Taft who sought to expand the U.S.' reach saw the use of money as a suitable compromise.<sup>56</sup>

The first invented 'dollar diplomacy' that aimed at stabilizing the American 'near abroad' so as to protect and enhance American commercial and financial interests, first in the region and then world-wide (China), as well as securing jobs at home. The second will always be linked with the first successful attempt consciously undertaken by a large number of governments to shape an economic and monetary world order, in order to prevent a new Depression at home (since the 30s had demanded so huge a price of the American population), and, as a corollary, to advance American leadership in the West.<sup>57</sup> Basically, *Dollar diplomacy* was the term used to describe the efforts of the United States—particularly under President Taft — to further its foreign policy objectives in Latin America and East Asia by the application of its economic power. The term objectively is related to the earlier "gunboat diplomacy"—the demonstration or implied threat of superior military power to influence terms of trade and colonialism. If we trace the origin of diplomacy as a means of fulfilling national economic interests then gunboat diplomacy can also be categorized as the predecessor of economic diplomacy. In international politics, *gunboat diplomacy* refers to the pursuit of foreign policy objectives with the aid of conspicuous displays of military power—implying of constituting a direct threat of warfare, should terms not be agreeable to the superior force. The term gunboat diplomacy comes from the age of warring European empires, where such displays typically involved demonstrations of naval might—gunboats were a prominent type of warship and symbolized an advanced military. A country negotiating with a European power—usually over issues of trade—would notice that a warship or fleet of ships had appeared off its coast. The mere sight of such power always had a considerable effect, and it was rarely necessary for such boats to use other measures, such as demonstrations of cannon fire.<sup>58</sup>

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<sup>55</sup> See Trani, Eugene P., 'Dollar Diplomacy' in Alexander De Conde (Eds) *Encyclopaedia of American Foreign Policy: Studies of the Principal Movements and Ideas* Volume 1, Charles Scribner's Sons, New York, P. 268.

<sup>56</sup> Visit Wikipedia, the free encyclopedia ([http://en.wikipedia.org/wiki/Dollar\\_Diplomacy](http://en.wikipedia.org/wiki/Dollar_Diplomacy)) Web page visited on 11/10/2005.

<sup>57</sup> Van Dormael, A. (1978) *Bretton Woods. Birth of a monetary system*. London, Macmillan, pp.ix and 112.

<sup>58</sup> Visit Wikipedia, the free encyclopaedia ([http://en.wikipedia.org/wiki/Dollar\\_Diplomacy](http://en.wikipedia.org/wiki/Dollar_Diplomacy)) Web page visited on 11/10/2005.



Economic diplomacy although enjoys a fair amount of recognition in foreign policy, it is still not academically well developed and widely researched in comparison to other aspects of international affairs. In this thesis I have attempted to discuss several definitions of economic diplomacy and lastly have provided a working definition to facilitate the argument of this thesis. Saner and Yiu (2003:13) have defined economic diplomacy conducted by MOFA or other government ministry as the one concerned with economic policy issues, e.g. work of delegations at standard setting organizations such as WTO and BIS. Economic diplomat also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.<sup>59</sup>

This definition emphasizes on the economic policy issues and the matter of influencing these policies to secure benefit for the home government. But, a limitation in this definition is the passive recognition of the other ministries involved in this process of dealing with the economic policies of the home country. Woolcock and Bayne (2003) has widened this horizon much beyond the foreign ministry. Economic diplomacy is defined not by its instruments but by the economic issues that provide its content. Economic diplomacy is sometimes used as synonym for trade diplomacy—the negotiation of trade agreements in bilateral, regional or multilateral contexts (Bayne & Woolcock, 2003:7). In practice foreign ministry hardly deals with economic policies either in national or international context. Therefore throughout this thesis, I have argued that, foreign ministry may be utilized as the nodal point in this paradigm for economic diplomacy and there is enormous responsibility of other ministries like finance, trade, industries, science and technology etc. In fact the entire traditional politico-security approach in foreign affairs has undergone a commendable shift. Economic development objectives are gaining prominence in foreign policy more than ever before and there fore increasing the international obligation of other ministries. Governments are also keen to support national economic development by providing support to their own enterprises for instance in the form of export advice, legal assistance, export incentives and backstopping when needed. Such support includes helping national enterprises establish subsidiaries in other markets. At the same time, their function can also include the provision of support to foreign enterprises interested in investing in the respective country.

Another related term- commercial diplomacy is required to clarify before fully proceeding to the discussion of economic diplomacy. Raymond and Lichia

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<sup>59</sup> For details in contemporary economic diplomacy read Saner, Raymond; Yiu, Lichia; *International Economic Diplomacy: Mutations in Post – modern Times*, Discussion Papers in Diplomacy, Netherlands Institute of International Relations 'Clingendael', ISSN 1569-2981, pp.13, 2003.



(2001:13) has defined commercial diplomacy as the work of diplomatic missions in support of the home country's business and finance sectors in their pursuit of economic success and the country's general objective of national development. It includes the promotion of inward and outward investment as well as trade. Important aspects of a commercial diplomats' work is the supplying of information about export and investment opportunities and organizing and helping to act as hosts to trade missions from home.<sup>60</sup>

In some cases, commercial diplomats could also promote economic ties, through advising and support of both domestic and foreign companies for investment decisions.<sup>61</sup> Recognizing the importance of international trade and FDI to national economic development, governments have stepped up their efforts in strengthening their commercial representation in major trading partner countries. Commercial diplomats offer both services in this important sphere of diplomacy. They are either civil servants or specially trained diplomats, or representatives of chambers of commerce of trading associations seconded to national Embassies located in important foreign markets. In addition to the traditional function of commercial attaches, para-satal organizations or public organization have been given mandates to expand their services, coverage and presence abroad in order to support trade expansion and to conduct commercial diplomacy. Traditionally, big enterprises in the USA hire former ambassadors or state secretaries to promote business contacts and in order to obtain lucrative contracts. The goal of economic diplomats is to competently influence multilateral economic policy by coordinating specialized ministries, by shaping the negotiation process at economic standard setting organizations, and by constructively including non-state actors when useful and appropriate. The commercial diplomat's aim is to open foreign markets for their own home companies by influencing foreign governments' economies and by facilitating the easy entry of their respective national companies in to foreign markets (Saner & Yiu, 2003:14-16). They should also be available for facilitation should there be conflict of interests with foreign or non-business stakeholders. But, this type of differentiation is not well recognized even in most developed countries. For academic purpose this differentiation is more suitable. In this thesis the task of economic diplomat and commercial diplomat is interrelated and is identified in the same line.

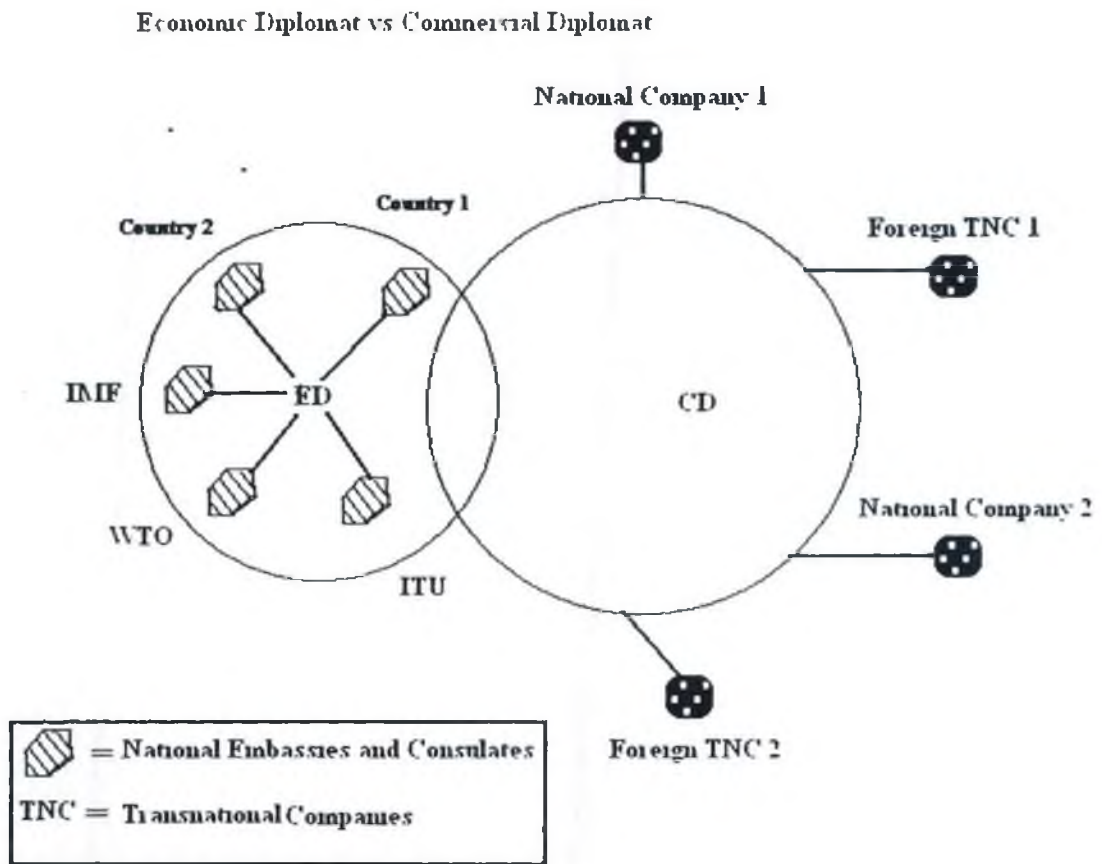
Economic diplomacy in a broad sense, 'seeks to structure, shape, and manage over time a system of international relationships to secure (the) nation's interests (Diamond & McDonald, 1996:26). Economic diplomacy seeks to serve economic interests through diplomatic means (Muller, 2002:1). By 'economic diplomacy'

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<sup>60</sup> Also see Scholte, Jan Aart. (2000) Globalisation, Governance and Corporate Citizenship. *The Journal of Corporate Citizenship*, Issue 1, pp.38-39.

<sup>61</sup> A detailed discussion on this two topics is provided in by Raymond Saner & Lichia Yiu in their "International Economic Diplomacy: Mutations in Post – modern Times", Discussion Papers in Diplomacy, Netherlands Institute of International Relations 'Clingendael', ISSN 1569-2981, pp.13-20, 2003.

Figure -2 the difference between economic diplomacy and commercial diplomacy (Saner & Yiu, 2000: 14):



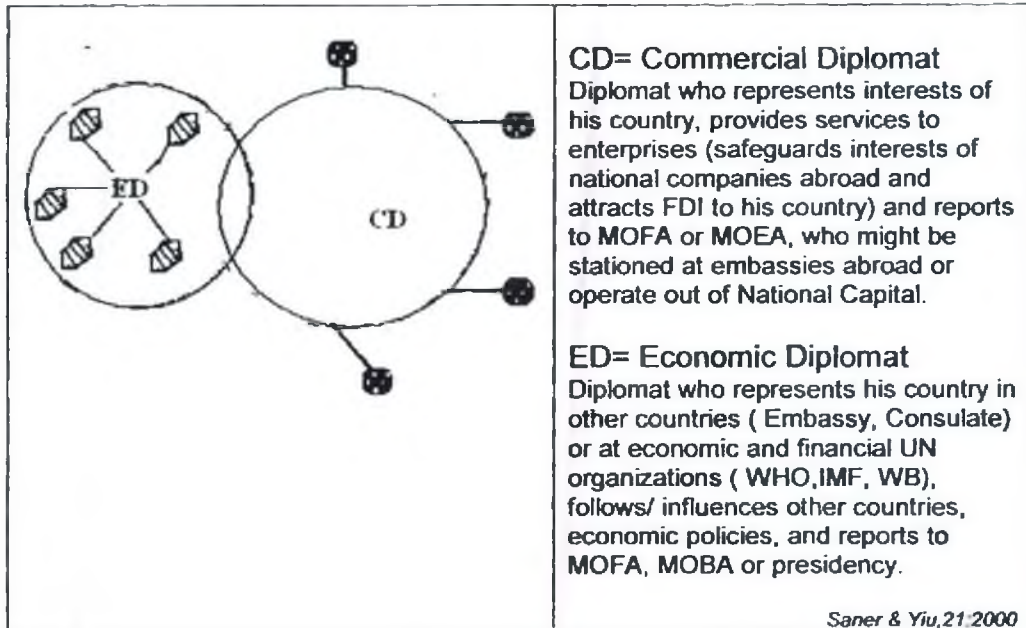
Muller emphasizes on the political instrument of foreign policy and distinguishes it from the economic instrument (including such techniques as propaganda), and the military instrument (including the use of force). Economic diplomacy in this case largely consists of negotiation and communication and is in essence a 'peaceful' means of implementing foreign policy.<sup>62</sup> However, Muller expressed his awareness of the fact that, economic interests can be pursued for other, broader (political) purposes or that the means chosen for the pursuit of economic interests could at the same time serve interests other than the economic. It is understood that the political and the economic are closely interrelated and often not easy to distinguish clearly. The fact is that in a globalized world; governments do not become less important, but they have to transform their role. Involving many different actors, both within and without government, means that total capacity to deal with aspects such as export promotion could be enhanced.

<sup>62</sup> For details see Muller, Marie. 'South Africa's Economic Diplomacy: Constructing a Better World for All?' *Diplomacy & Statecraft*, Vol.13, No. 1 (March 2002), pp. 1-30, Published by Frank Cass, London.

However, it is also creating problems of coordination and integration. This is true for economic diplomacy as well as diplomacy in general (Muller, 2002:20).

Figure -3 the functional difference between the task of Economic Diplomat and a Commercial Diplomat

**Economic Diplomat (ED) vs Commercial Diplomat (CD)**



Woolcock and Bayne (2003:11) argue 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.

Economic diplomacy is concerned with the prediction of outcomes of future trade regimes and therefore it will need an understanding of market factors at work in a given global economic environment and in that process, a country will involve in making decisions in advancing economic interests (Rashid, 2005:3).

It is obvious that the conduct of economic diplomacy is not the easiest of diplomatic endeavours. This is particularly true for developing countries that lack some of the very fundamental pre-requisites for effective economic diplomacy. However, it is also true for many other countries.



In a major report on US diplomacy the following pronouncement was made:

American diplomacy is today at severe risk because it does not have the modern technology it needs to do its job. As astonishing as it may seem, the Department of State does not have the proper tools for gathering, processing, and disseminating information, nor for communicating effectively with an increasingly democratic world.<sup>63</sup>

Economic diplomacy may face certain issues, namely tension between politics and economics when political considerations outweigh economic interests or vice-versa, tension between international and domestic pressures, particularly while domestic producers are against opening up for free flow of goods and tension between government and private sectors in terms of policy issues. (Rashid, 2005:3).

Economic diplomacy defined by Woolcock and Bayne (2003:6) is mainly concerned with what governments do. But it goes much wider than foreign ministries. 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 head 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. 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 and NGOs have assumed centre stage. Economic diplomacy uses a full range of instruments. Economic diplomacy embraces 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. In economic diplomacy progress is usually made by persuasion and mutual agreement, rather than by the confrontation. Economic diplomacy can include punitive economic measures taken in pursuit of political goals, such as sanctions (Bayne & Woolcock, 2003:6-7).

Also on the flip side of this spectrum, it is important to recognize that politics has equally important impact on economic diplomacy and some times surpassing the market dynamics. In fact the difference between political diplomacy and economic diplomacy lies in the extraordinary impact of politics on both these forms of diplomacy. A working definition (for conceptual clarification) of economic diplomacy for this thesis therefore may be detailed as follows-

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<sup>63</sup> See *Reinventing Diplomacy in the Information Age, A Report of the CSIS Advisory Panel on Diplomacy in the Information Age* (Washington: Centre for Strategic and International Studies, 1998), and p.vii.

'Economic diplomacy can be generally identified as the means by which trade, investment, aid, economic sanctions and other aspects of international economic affairs/ relations is conducted, contacted, negotiated as well as coordinated between states, non-state actors and other entities. It is concerned with the efforts of the individual state that activates/deploys its diplomatic strength primarily for the benefit of its national economy. However, the objective as well as the outcome of economic diplomacy may expand to other areas of state craft. This role of economic diplomacy illustrates that, although economics is the primary jurisdiction, it is not its sole objective (also that of foreign economic policy). The actors, representative agents, stake holders and the process economic diplomacy interacts with, owns or activates itself as an entity may or may not be affiliated with an institutionalized framework.'

### **Theory of Economic Diplomacy:**

There is no single theory of economic diplomacy that is able to predict outcomes in any given international economic negotiation. Such a theory is not much helpful 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 (Bayne & Woolcock, 2003:9).

There are analyses of existing IR and IPE literature that have relevance to economic diplomacy, or foreign economic policy making. The existing literature on international economic cooperation or IER in general, considers the systemic, societal and state centered factors shaping national policy preferences. This literature predominantly looks 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, international system is regarded as decisive in explaining events (Bayne & Woolcock, 2003:9). Systemic approaches look at how government officials (such as economic diplomats) respond to opportunities or constraints posed by the position of the country in the international system at any moment in time. Realist theories, for example, put much weight on the relative economic power of states. A realist approach would therefore expect negotiations to be concerned about relative gains, or whether one party gains more than the other. In many instances in economic negotiations there will be a question of the distribution of the economic gains from an agreement. In so far as the distribution of economic gains shape relative (political) power, realism will be relevant to economic diplomacy (Bayne & Woolcock, 2003:24). The principal



deficiency of realist approaches is that, it tends to neglect domestic factors, whereas economic diplomacy is very much about reconciling domestic preferences and international obligations<sup>64</sup>. Hegemonic stability theory (HST), much used in IPE, argues that economic cooperation only comes about when there is a dominant state able to ensure that it happens (Bayne & Woolcock, 2003:9). HST argues that a hegemon- a leading power able to shape outcomes- is needed if international economic co-operation is to succeed. Without the coercive power of a hegemon it would not be possible to ensure effective compliance with any regime established. Hegemonic stability theory has in particular been applied to help explain how international economic order was established after WWII under American hegemony. This was in contrast to the chaos of the inter-war period, when Britain was no longer able to fulfill the role of a hegemon and the United States was not willing to provide such a role (Bayne & Woolcock, 2003:25). Critics of HST claim that, even though hegemons are needed to establish regimes but, that the regimes, once established, can continue to function after the hegemon has lost its potency. Once the regime exists it reduces transaction costs, for example, by providing a common set of norms or standards that are accepted by all parties and do not have to be re-negotiated on every occasion<sup>65</sup>. 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<sup>66</sup> (Bayne & Woolcock, 2003:9). The other systemic theories as world systems theory and dependency theory, seek to explain economic events and decision-making with reference to the relative power in the international economy. In essence such theories argue that those states shaping the capitalist world economy can dictate the rules of the game to the others (Bayne & Woolcock, 2003:26). The practice of economic diplomacy can hardly deny this difference between the powerful (northern or industrialized) countries and developing countries. Systemic theory due to the relevance of the realist perspective in international relations is very strongly placed in the practice of economic diplomacy.

### **Domestic:**

In contrast to systemic theories, which concentrate on relations between states as single entities, domestic theories look within the state for explanations of

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<sup>64</sup> See Katzenstein, P. (1978) *Between Power and Plenty: Foreign Economic Policies in Advanced Capitalist States*. Madison and London: University of Wisconsin Press.

<sup>65</sup> See Keohane, R.O. (1984) *After Hegemony: Co-operation and Discord in the World Economy*. Princeton: Princeton University Press.

<sup>66</sup> Read Susan Strange (1996) for the concept of structural power and making assessments of power in various fields, such as security, production, finance and knowledge. Strange, S. (1996) *The Retreat of the State: the Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press, pp. 25-30.



international behavior. At the national domestic level there are societal and state centered theories, which are divided 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 centered 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 (Bayne & Woolcock, 2003:10).

Institutional structures and the different interest groups and the bureaucracy- these all are important actors in the domestic setup. But, the output of this domestic setup is mostly dependent on the external inputs. This is particularly true for developing countries that are mostly unable to sell their domestic policy concern/issues in the international system dominated by the powerful players of the game. Irrespective of the limits of this school of thought domestic theorists are fairly influential in the sense that, policy originates here.

### **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. This indicates to the ideas of individuals/institutions capable of changing the course of time. Ideology can also shape economic diplomacy in the sense that a shift in the underlying paradigm that helps shape our view of the world economy will also influence negotiations. For example, the view of the world in the late 1940s was of a system in which nation states retained a high degree of autonomy over national economic policies, but which co-operated in international institutions to ensure certain principles prevailed, such as non-discrimination. During the 1970s and 1980s such as Keynesian orthodoxies and interventionist industrial development and trade policies gave way to liberal ideas. The general shift towards a liberal paradigm during the 1980s and 1990s has also been, in part, the result of the influence of a prevailing set of ideas or ideology, as well as the perceived failure of an ideology based on a more interventionist state (Bayne & Woolcock, 2003:31).

Cordell Hall, the US Secretary of State in the 1940s with a firm conviction in the need for a liberal trading system certainly had influence. Negotiations on the Bretton Woods institutions- the IMF, IBRD, GATT and ITO – were shaped by a relatively small group of individuals, and some of these, such as Keynes, played a shaping role. In economic diplomacy in the 21<sup>st</sup> century one must expect individuals to play a smaller role because of the greater number of actors involved and the greater complexity of the subjects. However, individuals may

play a role in certain instances, especially when the person concerned has considerable power (Bayne & Woolcock, 2003:32).

The strength generated by able individual ideas/ ideologies can never be underestimated. As long as the world is blessed with leaders like Gandhi, Nehru, Mahatir, Gorbachev or tested with 'leaders' like Hitler- significance of ideology and individual remains valid.

### **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.<sup>67</sup> Its central concern is with explaining the negotiating process, rather than accounting for national preferences. Robert Putnam (1988) developed his metaphor of two-level games after observing the G7 process, as well as the process of trade negotiations in the US Domestic 'Level II' games involving negotiations seeking to maximize their support among national interest groups or institutions. International 'Level I' games involve negotiators seeking to maximize their ability to satisfy domestic interests, while minimizing the adverse international consequences (ie considering the political ramification of the negotiations). Putnam assumes a single chief negotiator, who sits at both tables. By strategic interplay between the two games s/he can change either the domestic or the international balance of preferences and reach an agreement acceptable to both sides. In other words the structural factors are not simply taken as a given. It is envisaged that, these can be modified through negotiation. The process is divided into two-negotiation and ratification-level I and level II respectively.

### **Theories of negotiation:**

Negotiation theory, as developed for negotiations between private parties, as in industrial relations, is being applied more and more into international economic negotiations. It can provide some valuable insights into negotiating strategies. The aim according to Bayne & Woolcock (2003:10) is not to identify a parsimonious theory that could be used to predict the outcomes of negotiations. 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. This theory is particularly relevant to the practitioners as part of the pre-negotiation preparation. But, this involves the risk of surrendering prior to the start of the original negotiation as it is evident from the passive attitude of the developing world countries.

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<sup>67</sup> See Putnam, Robert. (1988) *Diplomacy and Domestic Politics: The Logic of Two-Level Games*. *International Organization*, Vol. 42, no. 3, pp. 427-460.



## **The Multi-level Nature of Economic Diplomacy:**

Within domestic decision-making there is a hierarchy of actors- government and non-government, national and sub national –that interact among themselves. In international negotiation there is comparable interaction between the multiple levels available in economic diplomacy- the bilateral, the regional, the plurilateral and the multilateral (Bayne & Woolcock, 2003:15).

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.

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. Liberalization 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 (Bayne & Woolcock, 2003:15-16).

The plurilateral level of economic diplomacy attracts less attention than either regionalism or multilateralism. Plurilateral bodies, like the OECD, the G7/G8 and the Commonwealth, serve two important purposes in economic diplomacy.

*First*, they 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.

Multilateral economic diplomacy provides for the involvement of all countries, though this makes it cumbersome. It incorporates regimes such as the WTO, the IMF and World Bank and the economic work of the United Nations, as well as a wide range of specialist organizations. Multilateral economic diplomacy is well suited for the rule making and there are great advances here in the 1990s, especially in the trade and environmental fields. 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. Multilevel nature of economic diplomacy enables governments to take advantage of the interaction between levels. This can be seen in various ways (Bayne & Woolcock , 2003:16-17) -



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

- Regional agreements will suit neighboring 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 government, as well as non state actors, will shop between them, seeking to make progress wherever it looks most promising.

Theoretical frame works only help us to understand the process and predict the events in a rather 'scientific' manner. But, these theoretical tools are not enough. In a complex subject like 'economic diplomacy' we should rather emphasize in identifying the principal actors and their respective role/interests. The broader theoretical framework will help us to place these actors, their interests and objectives in a framework in a more precise manner. As an elusive subject, economic diplomacy is always changing. This characteristic of economic diplomacy restricts the effort to draw an agreed boundary for the actors in economic diplomacy. However, I agree to Woolcock's (2003:46) classification regarding the principle actors in economic diplomacy as follows-

Table- 1 Principal Actors in Economic Diplomacy:

<p><b>National State Actors</b> The Executive Branch The Legislative Branch <i>Political Parties</i> Provincial, State and Local Government Regulatory Agencies</p> <p><b>Non-State Actors</b> Business Interest Groups <i>Confederations of Industry</i> <i>Sector Trade Associations</i> Trade Unions Consumer Organizations</p> <p><b>Transnational Actors</b> Global Civil Society International Business International Organizations Epistemic Communities</p>
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The following chapter deals with the post cold war features of economic diplomacy to identify the ground where it is to function. The end of the cold war like most of the issues in IR, has also influenced economic diplomacy. For a meaningful discussion of the remaining issues in this thesis, an elaboration of the post cold war era economic diplomacy seems quite essential.

### **3.1 Post- Cold War Era Economic Diplomacy:**

As a 1998 survey has pointed out, most ministries of Foreign Affairs all over the world have been insisting on the importance of economic diplomacy (Coolsaet, 1998: 27).<sup>68</sup> According to Coolsaet (2001) diplomats of many countries make no secret of the fact that their prime task now is to look after the commercial interests of the state they represent. Since the end of the Cold War, states, i.e. ministries of Foreign Affairs (together or in competition with other departments), have shown a remarkable aggressiveness with regard to bilateral commercial activities. Experts believe that, economic diplomacy gradually obtains substantial role in the overall foreign policy. A country's international relations and its influence are dependent on its international actions, its economic influence and not any more on its military power (Styliandis<sup>69</sup>, 2004:2).

At the end of the second Clinton administration, newspapers, both in Europe and the United States, agree that economic diplomacy has indeed been the most consistent thread in President Clinton's foreign policy legacy. Job No. 1 of the Clintonite foreign policy, it was said, was using diplomatic power to open markets for American goods, helping to create jobs and lift the United States out of a recession.<sup>70</sup>

There seems to be an overwhelming recognition of economic diplomacy as a means of economic gain from external sources. In foreign policy, explanations vary as to why this shift has taken place. The present emphasis on economic diplomacy is sometimes explained in terms of a generational shift, as a result of an increased professionalism and even 'technocratisation' amongst the present generation of diplomats, replacing the generation of gentlemen-diplomats that left the diplomatic service in the beginning of the seventies. According to this

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<sup>68</sup> In 1998, Centre for the Study of Diplomacy in co-operation with the Belgian ministry of Foreign Affairs initiated an inquiry in to the long term evolution of diplomacy in the light of the impact of globalization and the emergence of transnational and post-territorial agenda items / actors. The results were published in Prof. Dr. Rik Coolsaet's 'The transformation of diplomacy at the threshold of the new millennium'. Leicester, University of Leicester, Centre for the Study of Diplomacy, DSP Discussion Papers, nr. 48, 1998.

<sup>69</sup> Mr. Eviptidis Styliandis was the Deputy Minister of Foreign Affairs for Greece and this is part of his speech at the Athens Business Club 2004, Friday, 27/8/2004. (available at [http://www.mediainfo2004.gr/cgi-bin/hweb?A+1781.printer\\_en.html&V=mediainfo2004\\_9/12/2004](http://www.mediainfo2004.gr/cgi-bin/hweb?A+1781.printer_en.html&V=mediainfo2004_9/12/2004))

<sup>70</sup> New York Times, 28 December 2000; Le Monde, 8 November 2000. Also see International Herald Tribune, 15 December and 'Clinton's Foreign Policy'; in *Foreign Policy*, November-December 2000, p. 19.



explanation, 'old fashioned' diplomats and diplomacy only dealt with geopolitical aspects of military security and considered commercial diplomacy an inferior task. Today's economic diplomacy can easily be compared in intensity and in scope with the commercial diplomacy of the European states during the nineteenth century or with the dollar diplomacy under the American president William Howard Taft (Coolsaet, 2001). In the United States' history William H. Taft (1909-1913) and Franklin D. Roosevelt (1933-1945) will be at the same stage to qualify for the same epitaph as Mickey Kantor gave Bill Clinton.

In an argument, which upholds the end of the Cold War or present-day globalization as the main explanation of the current emphasis on economic diplomacy, the causality of the connection must be faulty if correct historical comparisons can not be demonstrated. Either the explanation is correct and then the historical parallels are faulty, or the historical parallels are correct and then the explanation is wrong. In all fairness, it can be argued that both parts of this dichotomy are right to some extent if one accepts the argument that globalization is not a unique contemporary phenomenon. As some historians (contrary to the majority political scientists) have asserted, history shows in fact successive accelerations of the globalization process. A combination of technological breakthroughs and growing economic, financial and commercial interdependence made the world a bit smaller step by step – an (objective) development accompanied by a (subjective) awareness of this rapidly shrinking world (Coolsaet, 2001).

Coolsaet (2001) argues with definite contextual reference that, economic diplomacy by any means is not a brand-new or contemporary phenomenon. Since the Italian Renaissance it has always been one of the twin tasks of diplomacy, alongside the security dimension (maintaining the balance of power). Economic and military diplomacy can be viewed as two linked DNA-chains, alternately gaining prominence to the apparent detriment of the other dimension, with the later evidently not disappearing by temporarily taking a back seat. Post cold war emphasis on economic diplomacy can be recognized as a 'cyclical resurgence of a long-term pattern'. He portrays present day intensive economic diplomacy as an essentially transitory phase as the rules of the game are changing and it will last until new rules are agreed upon by a significant number of powerful players. In fact there is no going back as the genie is out of the bottle. Like the invention of printing and the Industrial Revolution, the changes in economic behavior produced by the open international system are permanent. During the cold war, the Soviet Union and its allies tried to maintain a regime of 'economic security' and to protect themselves from outside competition. Their attempt collapsed because, in the end, their populations would not accept living standards which steadily fell behind those achieved in the West. The same will happen, if any other country or group of country tries to maintain a protected system in a competitive world. Electorates may not like the pressures of competition; but they will like the dead hand of protection even less (Bayne, 1994:7).



Major global actors and if at least the official positions and statements of the cold war era rivals are analyzed then ample evidence of the above mentioned shifts can be identified. Russian Deputy Foreign Minister Andrey Denisov in an interview<sup>71</sup> with the 'Diplomat' magazine is quoted to have said that-

"Economic diplomacy has become a vital component of Russian foreign policy. Along with its traditional mission, namely promotion of trade and economic exchanges with foreign countries, it covers a variety of concrete areas, such as investment cooperation, interaction with international economic organizations and financial institutions, regional structures, the involvement in the analysis, and search for solutions to global economic challenges."

E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State while explaining the role of economics in U.S. foreign policy<sup>72</sup> remarked that,

"a strong economy is the foundation of our (U.S.) national security. ....Today, perhaps more than at any other time in history, economics is inextricably part of our foreign policy. Trade and investment directly affect our economic well-being; they have a direct impact on our national security".

Mr. Colin Powell (former Secretary of State) reminded new Ambassadors before they go overseas that their main tasks include assisting American business to ensure that American companies are judged fairly on their merits in the competition with companies from other countries<sup>73</sup>. All these statements and initiatives indicate that in this post-cold war era economic diplomacy is to stay out there and will certainly dictate foreign relations and its outcomes.

There are certain assumptions for this shift as well as rationales in this regard. Economic diplomacy is going to become even more complicated as well as prominent over the following decades, for several reasons as follows-

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<sup>71</sup> Deputy Foreign Minister of Russia Andrey Denisov provided an interview to Yury Tavrovsky, Diplomat's Editor in Chief. This interview was published as 'Russia's Economic Diplomacy', in the Diplomat magazine, 05 March, 2003. Electronically available at ([http://www.usrccne.org/news2\\_phtml?=122](http://www.usrccne.org/news2_phtml?=122)) , USRCCNE: News: News from Russia: Russia's Economic Diplomacy.

<sup>72</sup> Read the remarks of E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State to the Baltimore Council on Foreign Affairs, Baltimore, Maryland, April 3, 2002 available at the U.S. Department of State website as 'U.S. Foreign Policy: The Growing Role of Economics' <http://www.state.gov/e/eb/r.s/rm/2002/9155.htm> (page visited on 24/05/2005).

<sup>73</sup> See the concluding remarks of E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State to the Baltimore Council on Foreign Affairs, Baltimore, Maryland, April 3, 2002 available at the U.S. Department of State website as 'U.S. Foreign Policy: The Growing Role of Economics' <http://www.state.gov/e/eb/r.s/rm/2002/9155.htm> (page visited on 24/05/2005).

*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. Hence a study of decision-making processes in international economic relations fills a gap in the field (Bayne and Woolcock, 2003:3-4).

*Second*, security has been a key concept in IR- traditionally referred to the security of the state from external armed aggression. 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. 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 marginalization (Bayne and Woolcock, 2003:3-4). The end of ideological struggle of the Cold War gave the economic dimension of international relations the just and necessary attention that it missed due to the confrontation between East and West. Diplomats and officials finally got the time and the energy for dealing with economics, considered to be of much more direct relevance for the well-being of everyday citizens (Tsardanidis, 2001). Security now clearly has an economic aspect. It is important to have a means to generate income which can provide the basic necessities of life, including health welfare, employment and education<sup>74</sup> as well as food security. National security is about providing for the basic needs of the population. If these are not met, then it cannot be claimed that the population is secure in its livelihood. It is also more likely that, social unrest will result. This in turn will threaten the internal political stability of the state (Dickson, 1997:134). This dimension of national security has crucial implementation for economic diplomacy as economic diplomacy has considerable liability for the economic welfare of a country.

*Third*, NGOs have become more visible, assertive, and expert in what had previously been an often arcane and elite arena. According to Raymond and Lichia (2001) the non-state actors are gaining greater sway in economic policy debates by entering these complex patterns of interaction and interdependency. The civil society NGOs are also active in this area by adding their voice to the international economic policy debates and in international cooperation for development. Also the civil society NGOs are adding their voice to the economic policy debates by organizing and lobbying across national boundaries in order to have a greater influence on international policy making and this trend is more visible in international co-operation for development (Raymond & Lichia:2001:2). Through most of the period since WWII, 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

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<sup>74</sup> See Thomas, C. (1987), *In search of Security: The Third World in International Relations*; Hemel Hempstead: Harvester Wheatsheaf.



and the advance of globalization, 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 (Bayne & Woolcock, 2003: 3).

*Fourth*, developing countries no longer intends to have the rules of the game dictated to them by a few large developed economies (Tsardanidis, 2001). Paul Meerts (2002) comments: "This Eurocentric character of the Westphalian system might not fit the globalised world of today and tomorrow".<sup>75</sup>

*Fifth*, the increasing globalization of the economy opens up new perspectives for further trade expansion, but at the same time also sharpens the competition in securing countries' shares in world markets and in securing new ones. The economic sphere will see increasing multilateral and regional negotiations rather than traditional bilateral agreements. The globalization of the world economy confronts therefore the nation-state with new challenges. This globalization and the increased competition that flows from it, oblige every country to bundle its forces. A global economy requires global, multinational negotiations. The emergence of the new and open regionalism demands regional accomplishments and transactions (Tsardanidis, 2001).

*Sixth*, growing international competition, considered to be the companion of globalization, forces governments to offer increasingly competitive conditions for international companies to invest. In order to secure foreign investments and high –qualified jobs, governments need to enter into negotiations with transnational companies, presenting themselves (Tsardanidis, 2001). 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 globalization, governments need to choose policies that shape the interaction between the domestic and 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 (Bayne & Woolcock, 2003: 4).

*Seventh*, 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 globalization. Transparency and accountability are now the watchwords in the debate on globalization. These issues relate directly to decision-making by governments in response to globalization and are reflected in today's economic diplomacy.

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<sup>75</sup> See Paul Meerts (2002), *Peace vs. Justice: Negotiating Forward and backward looking Outcomes*, Clingdael, The Hague.



***Chapter 4:***

***Economic diplomacy as a means of  
economic development:  
Theoretical and practical aspects***

#### **4. Economic diplomacy as a means of economic development: Theoretical and practical aspects**

The previous chapter as part of the preparation for the discussion onwards has elaborated the theoretical as well as the conceptual issues regarding economic diplomacy and foreign economic policy. In this chapter the concentration is on the main theme of the thesis that is---the way economic diplomacy facilitates economic development. The role of economic diplomacy in facilitating economic development from the context of the developing countries is discussed in two segments. *Firstly*, the various external resources capable of contributing to economic development are discussed to elaborate their role. *Secondly*, the role of economic diplomacy in generating this flow of external resource is discussed.

At the beginning of this chapter for conceptual clarity, I would prefer to separate economic development among other development ingredients<sup>76</sup>. It is clear that the development debate has leaned too heavily on European ideas about economic progress and that development has been equated with economic growth and industrialization (Dickson, 1997:3). Even though economic progress is an essential component of development but it is not the only component. This is because development is not purely an economic phenomenon. Ultimately it must encompass more than the material and financial side of people's lives. Development should therefore be perceived as a multi-dimensional process involving the reorganization and reorientation of entire economic and social systems. In addition to improvements in incomes and output, it typically involves radical changes in institutional, social and administrative structures, as well as in popular attitudes and sometimes even customs and beliefs<sup>77</sup>. Stiglitz (2002:252) advocates that, development is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to health care and education. Development also should not be considered as something unique to poor states, but as part of the processes of change and transformation facing all societies. Development in reality is a never ending process and every country lacks in certain aspects of development. Also, as development is usually defined in a national context, its widespread realization may necessitate fundamental modifications of the international economic and social system (Todaro, 1992:98). It is also very important to understand that, the context of

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<sup>76</sup> A major motivation to undertake a research involving economic development is the ability of economics to activate as well as accelerate pace to other wheels of the development wagon. To me economic development is the heart of all 'development initiatives'.

<sup>77</sup> Noble laureate Amartya Sen's '*Development As Freedom*' (1999, Anchor Books, New York) elaborates the issue of development from the perspective of freedom. Sen argues in this book, that development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency and explains the essential centrality of the freedom of the individual and the internal dynamics of poverty. This book explains that, economic development is not fruitful without the other elements of 'freedom'. Here freedom is the primary end of development and also it's principal means.

development theory and practice is constantly changing; solutions applicable in one decade may not be applicable in the next (Dickson, 1997:2).

Considering all the above characteristics of development and the place of economics in development, one might still wonder regarding the huge recognition of economic development in the national development initiatives and international development efforts. The characteristic that separates economic aspects of development from all other developmental elements like education, cultural heritage, social integration, political culture is the huge 'spill-over' ability of economic progress on the other development ingredients. Economic progress has the strength to effectively drive other development priorities to finer points and ensure overall development which the other development elements cannot<sup>78</sup>.

In order to understand the external relationship the individual countries orchestrate for their national economic development the literature that deals with this aspect of economic development needs to be understood. The literature on economic development has been dominated by three major strands of thought : (1) the 'stages of economic growth' theories of the 1950s and early 1960s; (2) the 'international dependence' theories of the late 1960s and the 1970s; and (3) the 'free-market' theories of the 1980s and 90s. The thinking of the 1950s and early 1960s mainly focused on the concept of successive 'stages of economic growth' in which the process of development was seen as a series of sequential stages through which all countries must pass. It was primarily an economic theory of development in which the right quantity and mixture of saving, investment and foreign aid were all that was necessary to enable Third World nations to proceed along an economic growth path which historically had been followed by the more developed countries (Todaro, 1992:98).

The dependency school of thought in economic development came at a time when the majority of the members of today's United Nations was breaking the shackles of colonialism and gaining independence as well as providing the academia with the case studies to challenge the established thoughts on economic development<sup>79</sup>. The view expressed in the concept of 'stages of growth' was then replaced to a great extent by what may be called the 'international dependence' school of thought. This approach views underdevelopment in terms of international and domestic power relationships, institutional and structural economic rigidities, and the resulting proliferation of

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<sup>78</sup> For example a country like Bangladesh may be considered as very rich in terms of its cultural heritage with its rich tradition, literature and cultural passion that many developed countries lack. This certainly is one of the indications of civilization as well as overall development but, this cultural richness has very little impact on other aspects of development like economy, education, science and technology etc.

<sup>79</sup> The total number of nations represented in the League of Nations as founding members was 42. There were 51 original members in the United Nations and as of today (with the blessing of the post WWII and post-cold war growth of nation states) the total number of nations represented at the UNO is 192 with the addition of Montenegro on 28 June, 2006. This number is itself an indication of the change in world affairs in the last few decades since the WWII.



dual economies and dual societies both within and among the nations of the world. Dependency theories tend to emphasize external and internal institutional constraints on economic development such as gross inequalities in land ownership, highly unequal and imbalanced international trade relationships and the control of the most important domestic and international economic levers by a small group of wealthy local and global power elites (Todaro, 1992:98). This dependency school still is relevant when the hostilities in trade relationship is analyzed where the centre is dominant over the periphery. Throughout Africa, Asia, and the Middle East and Latin America, primary product exports to the developed countries have traditionally accounted for a sizable proportion of individual GNP. In addition to their export dependence, many developing countries rely, generally to an even greater extent, on the importation of raw materials, machinery, capital goods, intermediate producer goods and consumer products to fuel their industrial expansion and satisfy the rising consumption aspirations of their people (Todaro, 1992:319).

Since WW II, developing countries in their efforts to alter their 'receiving end' position in world economy have relied to three strategies according to Spero & Hart (1997:151)-

a) attempts to de-link themselves from some aspects of the international economic system, b) attempts to change the economic order itself, and c) policies designed to maximize the benefits from integration into the prevailing system. Spero and Hart (1997) is of the opinion that these strategies revolved around the fundamental question of whether it is possible to achieve growth and development within the prevailing international economic system. This dilemma of participation and non-participation in international economy came to a sort of conclusion in the 1990s. During the 1980s and early 1990s many (mostly Western) economists argued that the Third World needed more 'free markets' and less government intervention in the economy in order to promote competition and stimulate rapid growth and development (Todaro, 1992:99). This thought of school gained momentum with the economic collapse as well as geographical disintegration of the U.S.S.R. and the East European communist bloc. The discussions regarding the external sources of economic development and economic diplomacy as a means of economic development in this thesis is based on this principle of free market economy which is the 'mantra' for economic development in this era of economic globalization.

There are also contending theories about this integration/participation of the developing countries in international economy. Some of these contending theories are discussed in the preceding few paragraphs which will facilitate the understanding of the present day global economic environment to assess the prospect of economic diplomacy as a means of economic development. Liberal theories of economic development argue that the existing liberal economic regime that originated in the Bretton Woods is very much helpful for the development process of the developing countries. While Marxists theories and

Structuralism challenges the liberal theories and considers the so called liberal world economy as the root of development problems.

#### **Liberal theories:**

Liberal theories of economic development argue that the existing international market structure provides the best framework for Southern economic development. The major problems of development, in this view, lie in the domestic economic policies of the developing country, which create or accentuate market imperfections, reduce productivity of land, labor, and capital, and intensify social and political rigidities. The best way to remedy these weaknesses is through the adoption of market-oriented domestic policies. The liberal theorists believe that, appropriate internal policies, the international system through increased levels of trade, foreign investment, and foreign aid flows- can provide a basis for more rapid growth and economic development. In practice, this means the reversal of policies that hinder trade and investment flows, such as high tariffs and restrictions on FDI inflows, and the adoption of policies that increase domestic levels of competition—for example through the privatization of state enterprises, deregulation of overregulated markets, and other domestic reforms (Spero & Hart, 1997:152). The liberal/ pluralist school of thought encompasses both transnationalism- that is, the claim that the state is no longer the dominant actor in the international system but is challenged by other, non-state actors- and interdependence that is, the belief that increasing links between national economies make states more vulnerable to events in other parts of the world (Keohane and Nye, 1977). According to this school, the nature of international relations, change from interstate relations to a more multi-focal approach. The interdependence perspective claims that increased trade, investment and technology linkages lead to increased vulnerability and sensitivity between actors. IR in this regard becomes an act of economic linkages as well as political linkages. Under this system of mutual vulnerability weaker states as in the realist school are not unimportant (Dickson, 1997:15).

#### **Marxist theories:**

Marxist and neo-Marxist theories argue that, Southern countries are poor and exploited because of their history as subordinate elements in the world capitalist system. This condition according to this school will persist for as long as they remain part of that system. The international market is under the control of monopoly capitalists whose economic base is in the developed economies. The free flow of trade and investment so much desired by liberals enables the capitalist classes of both the developed and underdeveloped countries to extract the economic wealth of the underdeveloped countries for their own use (Spero & Hart, 1997:153).

Marxist theorists criticize all the existing channels of international economic relations starting from foreign aid, trade, investment to the flow of remittance.



International policy framework is also against the interest of the global South according to this school of thought.

This school considers trade between North and South as an unequal exchange, as control of the international market by the monopolies/oligopolies headquartered in the developed capitalist countries leads to declining prices for the raw materials produced by the South and rising prices for the industrial products produced by the North. Thus the terms of trade of the international market are not favorable to the South. In addition, international trade encourages the South to concentrate on backward forms of production that prevent development. In regard to foreign investment it is criticized as being responsible for the further hindering and distortion of Southern development, often by controlling the most dynamic local industries and expropriating the economic surplus of these sectors through the repatriation of profits, royalty fees and licenses. Foreign investment contributes to unemployment by establishing capital-intensive production, aggravating uneven income distribution, displacing local capital and local entrepreneurs, adding to the emphasis on production for export, and promoting undesirable consumption patterns. Marxists also believe that, trade and investment remove capital from the South and necessitate Southern borrowing from Northern financial institutions, both public and private. But, debt service and repayment further drain Third World wealth. Finally, foreign aid reinforces Third World's distorted development, by promoting foreign investment and trade at the expense of true development and by extracting wealth through debt service (Spero & Hart, 1997:153).

### **The Structuralists :**

Structural theory falls between liberalism and Marxism. They contend that, the international market structure perpetuates backwardness and dependency in the South and encourages dominance by the North. According to this view, the market tends to favor the already well endowed and thwart the less developed. Unregulated international trade and capital movements will accentuate, not diminish, international inequalities, unless accompanied by reforms at the national and international levels (Spero & Hart, 1997:154). This school is cautious regarding the disadvantageous condition of the global South, in the world economy, but emphasizes on reforming the global economic system.

Irrespective of all these debates there are certain benefits of external economic involvement that the following few sections of this thesis elaborates in the identification of the theoretical connections of the external resources like foreign aid, trade, investment, employment etc, to economic development. But, before that a brief definitional clarity regarding economic development is added to facilitate the consecutive discussions<sup>80</sup>.

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<sup>80</sup> There is a huge literature on this debate regarding the definition of economic development. In this thesis I have emphasized on economic growth as a principal element in the identification of economic development of a country. But, for me economic development should attain a certain



In strictly economic terms, 'development' has traditionally been thought of as the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its Gross National Product at rates of perhaps 5 to 7 per cent or more. For example, the 1960s and 1970s were dubbed the 'Development Decades' by a resolution of the United Nations, and development was conceived largely in terms of the attainment of a 6 percent annual growth rate of GNP. Unfortunately the experience of the 1950s and 1960s, when a large number of Third World nations did achieve the overall UN growth targets but the levels of living of the masses of people remained for the most part unchanged, signaled that something was very wrong with this narrow definition of development. A clamour was raised by an increasing number of economists and policy makers for the 'dethronement of GNP' and the promotion of direct attacks on widespread absolute poverty, increasingly inequitable income distributions and the spectre of rising unemployment (Todaro, 1992:99). But, till today economic growth rate is the prime indication of economic development. The growth rate of GDP in real terms overtime indicates an economic expansion or recession, while it's (per capita) level gives a rough indication of the average living standard (UNCTAD, 2008:2). The impact of external resources on the economic development of Bangladesh for this thesis has been judged from this parameter. The impact of internal and external resources on the national economy is centered around this growth obsession.

Resources from sources outside national boundaries are always a positive aspect for national economy (economic development). Among the different types of external resources and inputs in the national economy, considering the case study, I have limited my discussion (detailed) in the areas of foreign trade, investment and aid. Other aspects of external resources like, the contribution of non-resident citizens, foreign borrowing and lending, international migration etc are not elaborated in the theoretical discussion. But, the discussion regarding Bangladesh economic diplomacy includes all these issues at length.

#### A) International trade gains:

Adam Smith (1776) famously declared in the 'Wealth of Nations' that "the discovery of America, and that of a passage to the East Indies by the Cape of Good Hope are the two greatest and most important events recorded in the history of mankind". He argued that, "uniting, in some measure, the most distant parts of the world, by enabling them to relieve one another's wants, to increase one another's enjoyments, and to encourage one another's industry, their general tendency would seem to be beneficial". Adam Smith argued, a larger market permits a finer division of labor, which in turn facilitates innovation and

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level of security/ liberty from external forces as well as have a sustainable base firmly rooted in domestic economy.

learning by doing. Some of that innovation involves transportation and communications technologies that lower costs and increase integration.

Smith's conjectures of dynamic gains to trade are at the core of many new mathematical models of "endogenous growth". These models stress that long-term growth depends on increased productivity and innovation, and that the incentives for both depend (as Adam Smith conjectured) on the scope of the market. If innovators are selling in an expanded world market, they will generally have more incentives to innovate. If productivity is raised by refining the production process among a larger number of specialized subunits, and if each subunit faces fixed costs of production, then a larger market will allow these fixed costs to be spread over a larger production run (Sachs, 1998).

According to Meier (1990:181-2) the mainstream development economists now clearly recognize the superiority of a trade strategy of export promotion (EP) over that of import substitution industrialization (ISI). The early postwar period of development economics, however, was dominated by export pessimism and widespread support for ISI. The potential for export substitution – the promotion of non-traditional exports—was not recognized. A major turning point came with the arguments and evidence presented by Little, Scitovsky, and Scott (1970) who concluded that export demand and domestic supply are both elastic. Since then the adverse effects of ISI have been documented in detail for numerous countries (Bhagwati, 1978; Krueger, 1978; Balassa, 1982; Lal and Rajapatirana, 1987)<sup>81</sup>.

There are five basic gains from participation in international trade (Todaro, 1992:333)-

- a. Trade is an important stimulator of economic growth. Trade helps poor countries to grow economically
  - by enlarging a country's consumption capacities,
  - by increasing world output and providing access to scarce resources and worldwide markets for products.

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<sup>81</sup> For details on this strategic shift in foreign trade policy see-

— Balassa, Bela (1982) *Development Strategies in Semi- Industrial Economies*. Baltimore: John Hopkins University Press.

— Bhagwati, Jagdish N. (1978a) *Anatomy and Consequences of Exchange Control Regimes*. Cambridge, MA: Ballinger Publishing Co.

— Krueger, Anne O. (1985) "The Experience and Lessons of Asia's Super Exporters," in *Export-Oriented Development Strategies*, edited by Vittorio Corbo, Anne O. Krueger, and Fernando Ossa, Boulder and London: West View Press, pp. 187-212.

— Krueger, Anne O. (1998) Why Trade Liberalisation is Good for Growth? *The Economic Journal*, 108 (September), 1513-1522. Blackwell Publishers, 108 Cowley Road, Oxford, UK.

— Lal, Deepak, and Rajapatirana, Sarath (1987) Foreign Trade Regimes and Economic Growth in Developing Countries. *World Bank Research Observer*, 2(2), 189-216.

— Little, I. M. D., Scitovsky, T. and Scott, M.F.G. (1970) *Industry and Trade in Some Developing Countries*, London: Oxford University Press.



- b. Trade tends to promote international and domestic equality of factor returns and raise the real income of trading countries
  - by making efficient use of each nation's and world's resource endowments
  - by raising relative wages in labor-abundant countries and lowering them in labor scarce countries.
- c. Trade helps countries to achieve development as those economic sectors having comparative advantage in terms of labor efficiency or factor endowments are rewarded.
- d. In a free trade environment a country can maximize its national welfare as international prices and costs of production determine how much a country should trade.
- e. An outward looking international policy promotes growth and development as it allows unlimited trade.

According to liberal analysis trade can act as an engine of growth. Specialization that is consistent with national comparative advantage increases income levels in all countries engaging in free or relatively open trade. Specialization in areas where the factors of production are relatively abundant promotes more efficient resource allocation and permits economic actors to apply more effectively their technological and managerial skills. It also encourages higher levels of capital formation through the domestic financial system and inflows of FDI. Private financial flows from developed countries can be used to fund in infrastructure and productive facilities (Spero & Hart, 1997:152). Evidence is there that, countries with the largest GNPs are those that dominate international trade and have done so for the past 100 years or so (Cho, 1995:33). Legends in the study of economics have also argued for various positive impacts of international trade<sup>82</sup>.

Classical and neoclassical economists opined that, trade is not simply a device for achieving productive efficiency; it is also an "engine of growth".<sup>83</sup> But dissenters from this optimistic view like List, Lenin and Manoilescu argues that, at the theoretical level the problems of development are inherently dynamic and static equilibrium analysis of international trade theory are irrelevant. This school<sup>84</sup> considers that, international trade has actually operated as a

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<sup>82</sup> John Stuart Mill in his '*Principles of Political Economy*' (1848) has argued that, the opening of a foreign trade ..... sometimes works as a sort of industrial revolution in a country whose resources were previously undeveloped. Equally famous economist Alfred Marshall in his '*The Principles of Economics*' (1890) is of the opinion that, the causes which determine the economic progress of nations belong to the study of international trade.

<sup>83</sup> See Robertson, D.H. (1949) *The Future of International Trade* reprinted in American Economic Association, Readings in the Theory of International Trade, Blakiston Co., p. 501.

<sup>84</sup> Outstanding among these critics are Han Singer, Raul Prebisch and Gunnar Myrdal. There are off course, differences of emphasis in their arguments. For details see, H.W. Singer, "The Distribution of Gains between Investing and Borrowing Countries", *American Economic Review*,



mechanism of international inequality- widening the gap in the levels of living between rich and poor countries (Meir,1963:152).

The optimists of international trade emphasizes the supply side of the development process- the opportunity that trade gives a poor country to remove domestic shortages and to overcome the diseconomies of the small size of its domestic market. Of major benefit is the opportunity that trade offers for the exchange of goods with less growth potential for goods with more growth potential, thereby quickening the progress that results from a given effort on the savings side (Hicks,1959:132). An obvious example is the opportunity to import capital goods and materials required for development purposes (Meir,1963:157).

Classical economists also noted the effects of trade on the domestic factor supply, especially on capital accumulation. The capacity to save increases as real income rises through the more efficient resource allocation associated with international trade. And the stimulus to investment is strengthened by the realization of increasing returns in the wider markets that overseas trade provides (Meir,1963:158). But in order to make foreign trade functional in the development process there are pre-requisites. Meir (1963:191) argues therefore that, foreign trade may operate as an engine of growth transmission- provided there are latent indigenous forces of development that can be released through trade. The gains from trade can facilitate development, but they cannot be a substitute for the development forces that must necessarily be created within the domestic economy.<sup>85</sup> Krueger is of the opinion that, empirical evidence overwhelmingly indicates that there are important links between trade and economic growth (1990:95). She also emphasizes on the importance of access to international markets in providing a means of permitting more rapid growth than would otherwise be feasible (Krueger,1990:101).

World Bank actively encourages foreign trade as a means of economic development. World Bank prescribes trade for developing countries for four reasons (World Bank, 2000:51).

First, it is frequently the primary means of realizing the benefits of globalization. Countries win when they gain market access for their exports and new technology through international transfers, and when heightened competitive pressure improves the allocation of resources. The rising share of imports and exports in GDP for Latin America and Southeast Asian countries in 1980-7 attests to a growing exposure to international trade.

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Papers and Proceedings, May, 1950, pp.473-485; United Nations, Economic Commission for Latin America, *The Economic Development of Latin America and Its Problems*, New York, 1950, *passim*; Gunnar Myrdal, *Rich Lands and Poor*, Harper & Brothers, 1957, *passim*.

<sup>85</sup> For a detailed analysis of the impact of trade on development from the perspective of the global south and globalization, see Stiglitz (2002a); Stiglitz & Charlton (2005).

Second, the continuing reallocation of manufacturing activities from industrial to developing countries offers ample opportunity to expand trade not only in goods, but also in services, which are becoming increasingly tradable. In a few decades global trade in services may well exceed that in goods.

Third, trade is intertwined with another element of globalization: the spread of international production networks. These networks break up sequential production processes, which traditionally have been organized in one location, and spread them across national borders.

Fourth, the growth of trade is firmly buttressed by international institutions of long standing. The WTO, built on the legacy of GATT, is the latest step in creating a commercial environment more conducive to the multilateral exchange of goods and services.

*Table- 2 (Trade Integration 1970-1998, % of GDP)*

Country	1970-79		1980-89		1990-98	
	Exports and imports	Imports	Exports and imports	Imports	Exports and imports	Imports
Nepal	17	11	22	17	35	26
Bangladesh	14	10	18	13	22	14
India	10	5	12	8	17	9
Pakistan	24	15	29	19	32	18
Sri Lanka	40	22	57	35	65	38
Tanzania	43	26	27	20	38	28
Ethiopia	20	11	25	17	23	17
Mozambique	..	..	33	27	47	40
Kenya	49	29	40	25	47	28
Uganda	20	8	15	8	24	17
Median *	38	21	37	22	43	26

\* Median of 46 low income countries.

**Source :** Mayer (2000) , Globalization, Technology Transfer and Skill Accumulation in Low- Income Countries', UNCTAD Discussion Paper, No. 150.

The above table shows how foreign trade has become more important during the past three decades for the less developing and developing countries. Foreign trade very clearly occupies a significant part of the GDP of these countries. Participation in an expanding global market has basically been a positive force for growth and poverty reduction in developing countries, which is why so many countries have chosen to become more open to foreign trade and investment (World Bank, 2002:18). From a human development perspective trade is a means to development, not an end in itself. Export success has not always enhanced human welfare on a broad front. The evidence suggests that more attention needs to be paid to the terms on which countries integrate into world



markets. Fairer trade rules would help, especially when it comes to market access. The world's highest trade barriers are erected against some of its poorest countries: on average the trade barriers faced by developing countries exporting to rich countries are three to four times higher than those faced by rich countries when they trade with each other. Agriculture is a special concern. Two-thirds of all people surviving on less than \$1 a day live and work in rural areas. The markets in which they operate, their livelihoods and their prospects for escaping poverty are directly affected by the rules governing agricultural trade. Rich countries spend just over \$ 1 billion a year on aid for agriculture in poor countries, and just under \$ 1 billion a day subsidizing agricultural overproduction at home (UNDP, 2005:10).

Trade has always been seen as crucial to the development process, trade being the engine of growth (Dickson, 1997:3). Success in world trade depends increasingly on entry into higher value-added markets for manufactured goods (UNDP, 2005:116). At a household level exports can provide an important source of income and employment to poor people. In Bangladesh the growth of garments exports since 1990 has created about 1.8 million jobs, more than 90% of them for women. Increased incomes in the garment sector have lowered poverty and contributed to improvements in health and education indicators (UNDP, 2005:120).

A vital benefit of trade derive from the imports of capital goods that are cheaper than those available domestically. Exports of labor intensive manufactured products in the 1960s and 1970s enabled the Republic of Korea and Taiwan Province of China to import and adapt the technologies needed to diversify their manufacturing sectors, raise productivity and enter higher value-added areas of world trade. Similarly, export growth, allied to foreign investment, has financed the import of technologies that have enabled Chinese firms to compete successfully in local and international markets (UNDP, 2005:120). Similarly, international trade played a major role in the industrial development of North America and Australia in the nineteenth century, and of the East Asian 'Tiger' economies, India and China at various points in the second half of the twentieth century (Stiglitz & Charlton, 2005:12). There is very little doubt on the positive relationship of trade and GDP growth. Exports expansion supports economic growth and exports are very often the main source for foreign exchange needed for funding imports of foods and services, which constitutes an important component of overall supply. However, the relationship between trade and GDP may differ significantly according to circumstances. In developing countries, imported capital goods and intermediary inputs can be vital for investment and industrialization, and running a trade deficit may promote long-term growth. On the contrary, the persistence of trade deficits generates foreign liabilities that may eventually lead to a 'debt trap', inhibiting investment and growth (UNCTAD, 2008:6). Sensitive implementation of trade liberalization and sequencing of liberalization in the context of national circumstances is very important for upholding the development potential of foreign trade (Stiglitz & Charlton, 2005).



## B) Foreign Investment gains:

Economic growth in any country depends upon the sustained growth of productive capacity, supported by savings and investment. Low levels of savings and investment particularly in developing countries result in a low level of capital stock and economic growth (Sahoo, 2006:26).

The international flow of financial resources takes two main forms: private foreign investment and foreign aid. This flow is likely to have the following impacts on the economic development of the developing countries (Todaro, 1992:396) -

- a. Foreign investment and foreign aid is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and management skills and the desired level of these resources necessary to achieve growth and development targets. It fills the resource gap between targeted or desired investment and locally mobilized savings<sup>86</sup>. Criticizing the growth models proposed by Harrod and Domar on the ground of the fixed proportion of factors of production and substitutability between labor and capital, Solow (1956) argues that capital formation increases labor productivity in a dynamic process of investment growth.
- b. Another analogous contribution is the reduction of the gap between targeted foreign exchange requirements and those derived from net export earnings plus net public foreign aid. This is the so-called foreign exchange or trade gap. An inflow of private foreign capital can not only alleviate part or all of the deficit on the balance of payments current account but it can also function to remove that deficit over time if the foreign owned enterprise can generate a net positive flow of export earnings.
- c. Investment by foreign financial resource also fills the gap between targeted governmental tax revenues and locally raised taxes. By taxing MNC profits and participating financially in their local operations, LDC governments are thought to be better able to mobilize public financial resources for development projects.
- d. Foreign investment by the MNCs also partially or wholly closes the gap in management, entrepreneurship, technology and skill. MNCs not only provide financial resources and new factories to poor countries, they also supply a 'package' of needed resources including management experience, entrepreneurial abilities and technological skills that can then be transferred to their local counterparts by means of training programs

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<sup>86</sup> The Harrod –Domar macroeconomic growth model portrays this 'savings investment gap'. This model postulates a direct relationship between a country's rate of savings,  $s$ , and its output growth,  $g$ , via the equation  $g = s/k$  where  $k$  is the national capital-output ratio. If the desired rate of growth,  $g$ , is targeted at 7% annually and the capital-output ratio is 3, then the required rate of annual saving is 21% as  $s=g \times k$ . If the domestically mobilized savings is 15 then it may be said there is a gap of 6 which if collected from external sources will be helpful to meet the desired rate of growth.

and the process of 'learning by doing'. Moreover, according to this argument, MNCs can educate local managers about how to establish contacts with overseas banks, locate alternative sources of supply, diversify market outlets and in general, become better acquainted with international marketing practices. MNCs bring with them the most sophisticated technological knowledge about production processes while transferring modern machinery and equipment to capital poor Third World countries.

- e. FDI establishes backward and forward linkages with local industries. FDI can either complement or displace domestic investment. FDI can improve domestic investment through positive spillovers and by creating complementary industries. However, it can also drive out domestic investment due to higher financial power, better technology and management and higher productivity. Thus, FDI has a dynamic effect on domestic investment (Sahoo, 2006:31-32).
- f. FDI influences export. If the motive of FDI is to capture domestic market because of high trade costs or tariffs, then FDI may not improve export performance. On the other hand, if the motive of FDI is to make use of cheap imports or the country's comparative advantages to tap the export market, it may contribute to export growth (Sahoo, 2006:34).

FDI although expected to boost long-run growth in the recipient economy via technological upgrading and knowledge spillovers, the extent of this growth depends on the degree of complementarity and substitution between FDI and domestic investment<sup>87</sup>. Investment policy reviews by UNCTAD provide evidence of benefits of FDI in terms of employment generation, wages and linkages with local firms, increases in technology-intensive exports, range of new products and services, etc. Overall, UNCTAD investment reviews suggest that, FDI has a positive impact on growth by that it varies from country to country (UNCTAD, 2003).

### C) Foreign Aid gains:

Three criteria distinguish foreign aid from other financial flows. First, the assistance must be public or at least noncommercial in intent. Second, the assistance must be rendered on concessional terms; that is; loans must be made at below-market interest rates and for extended repayment periods. Third, the assistance should be designed to aid in development or redistribute income, and not for military uses (Hastedt and Kay, 1994:287).

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<sup>87</sup> Jr., Luiz R. de Mello, (1999), 'Foreign direct investment-led growth: evidence from time series and panel data', *Oxford Economic Papers* 51 (1999), 133-151. This paper estimates the impact of foreign direct investment on capital accumulation, and output and total factor productivity growth in the recipient economy. Time series and panel data evidence from a sample of OECD and non-OECD countries in the period 1970-90 is the basis of this study.



- a. External finance (both loans and grants) can play a critical role in supplementing domestic resources in order to relieve savings or foreign exchange bottlenecks<sup>88</sup>.
- b. External assistance also is assumed to facilitate and accelerate the process of development by generating additional domestic savings as a result of the higher growth rates that is presumed to induce.
- c. Financial assistance needs to be supplemented by 'technical assistance' in the form of high-level manpower transfers to assure that aid funds are most efficiently utilized to generate economic growth.

Country evidence confirms the potential for strong growth effects. High growth economies in Africa such as Mozambique, Tanzania and Uganda depend heavily on aid to sustain investments in social and economic infrastructure. Mozambique has been growing at 8% a year since the mid-1990s, one of the fastest rates in the developing world. That growth could not have been sustained without net aid transfers per capita of \$54 – providing vital support for infrastructure and balance of payments (UNDP, 2005:81). In addition, foreign aid from developed market economies, although not a market relationship, is believed to help fill resource gaps in less-developed countries by, for example, providing capital, technology, and education (Spero & Hart, 1997:152).

Aid plays a critical role in financing the investments in health and education needed to build human capital. In Tanzania external assistance constitutes more than one-third of social sector budgets. In Zambia health sector spending would fall from \$ 8 per capita to \$ 3 without aid, with devastating implications for the fight against HIV/AIDS and other public health problems. In Uganda foreign aid increased by 5% of GDP between 1997 and 2001, and per capita spending on health has tripled since 2000, with about half the health budget financed by donors. Several aid programs have demonstrably reduced child deaths. In Egypt a national diarrhoea control program supported by the US Agency for International Development (USAID) and the World Health Organization (WHO) helped reduce infant deaths by 82% in five years, preventing 300,000 child deaths. In Bangladesh aid has played a central role in financing school-based meals programs designed to create incentives for parents to send their children- especially girls- to school. These programs now reach more than 2 million

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<sup>88</sup> This is known as 'two-gap' analysis of foreign assistance. The basic argument of the two-gap model is that most developing countries are faced either with a shortage of domestic savings to match investment opportunities or a shortage of foreign exchange to finance needed imports of capital and intermediate goods. This was described by Chenery and Strout in the sixties known as two-gap theory. It states that when there is a gap (deficit) between export and imports known as foreign exchange gap and a gap between savings and investment, we can fill the gaps by procuring foreign aid. That is when investment (I) demand is greater than savings (S) or/ and the import bill (M) exceeds export (X) earnings, there is a necessity of foreign aid. These two gaps are the manifestations of the resource gap because within the framework of national accounting, export domestic saving investment gap is equal to the foreign exchange gap (Chowdhury, 2004: 20-21).



children and have led to dramatic increases in school enrolments and progress towards gender parity (UNDP, 2005:81).

Several early studies found a positive relationship between aid and growth (e.g., Papenek, 1973; Levy, 1988), but this strand of the literature took a significant turn in the mid-1990s when researchers began to investigate whether aid might support growth with diminishing returns. A large group of studies that allow for diminishing returns have found a positive relationship (Hadjimichael and others, 1995; Durbarry and others, 1998; Dalgaard and Hansen, 2000). These studies conclude that aid did not work in every country.

The impact of foreign aid on overall economic growth rates of LDCs is expected to be different for different LDCs. More specifically, such effects will depend on:

- I. the effective use of aid;
- II. the state of economic development and its rate of growth;
- III. the rates of return on investment;
- IV. the nature of the infrastructure and the availability of physical human capital;
- V. the nature of economic regulation;
- VI. the political economy of the rent-seeking society.

Without a careful analysis of a complex set of dynamic socioeconomic factors, it is difficult to draw a definitive conclusion about the real impact of foreign aid on LDCs (Ghatak, 1995:184). Foreign aid for this reason has remained as the most debated aspect of external economic relations.

Foreign resources have played an important role in the economic development of many economically advanced countries of today. For example, between 1870 and 1914 the ratio of capital inflow to gross domestic capital formation was about 40% in Canada. The same ratio for Australia was about 37% between 1861 and 1900, and for Norway it was 29% between 1885 and 1914 and 31% between 1920 and 1929. Even in countries like Japan and the USA, where such ratios were lower during their early stages of economic development foreign capital played significant role. The LDCs of today are more or less in the same stage of economic development as the DCs used to occupy in the eighteenth and nineteenth centuries (Ghatak, 1995:145).

But, also one must acknowledge that, foreign resources is not an unmixed blessing. Dr. Barbara Ingham (1995:361) has summed the early 1970s left and the right views regarding the impact of external resources in the economics of the recipient countries –

- I. Foreign resources were being used to supplement consumption, often in the form of unnecessary imports, rather than being used to augment investment.

- II. Much of the aid which was flowing into development projects was being directed into grandiose schemes with very poor rates of return.
- III. Foreign inflows were bringing a 'debt service' problem to developing countries. Extra exchange was required to meet interest charges on the accumulation of past borrowings.
- IV. Foreign private investment was having unwelcome social and political effects. Powerful multinationals were coming to dominate political, economic and cultural life.
- V. Aid was keeping in power corrupt and inefficient governments in developing countries. Many were using funds from abroad to override democratic principles and abuse human rights.

The issue of 'self-tailoring of the coat to be used' is crucial in this case. There are also very discouraging examples of increased poverty and economic underdevelopment despite the intrusion of foreign resources as well as abundance of national resources. The mineral rich African countries are examples to be understood prior to the 'tailoring of the coat'.<sup>89</sup>

#### D) Other Foreign Resources:

Other external input to the national economy like *migrants' remittance* has experienced growing significance. In 1980 official development assistance (ODA) was about twice as much as remittances, which was followed closely by FDI. By 1996, remittances had eclipsed ODA and become the second most important source of external finance, next to FDI for developing countries. As figures of remittances are invariably underestimates owing to the existence of informal channels and the minimum thresholds for official recording (UNCTAD, 2008:34). This indicates that remittances have the potential to emerge as the most important source of foreign finance for many developing countries. The expected positive gains from labor migration are technological diffusion, or the transmission of ideas and knowledge through the migrant's skilled worker or the acquisition of human capital through various means (e.g. Park 2004).

The implications of migrants' remittances on poverty alleviation and meeting basic needs like food, clothing, shelter, education etc. is remarkable. Furthermore, it represents an increasingly important source of external funding

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<sup>89</sup> The story of cutting the coat according to the individual concerned is a pivotal policy doctrine and I emphasize on this principal for national development. Martin Khor (2002) argues that in developing a global partnership for development, there is an underlying need for an understanding that developing countries should have the right to take an appropriate and pragmatic approach towards selectively integrating their domestic economy with world economy. The understanding should be the basis of the systems of international trade, finance, investment, aid and intellectual property rights. The policies, rules and conditionalities arising from these systems should reflect these realities facing developing countries and their needs. Without this change in attitude and approach at international level, it would be difficult or impossible for developments and it would also be difficult for developing countries to attain other MDGs.



for many developing countries and an important source of foreign exchange for imports that can not be funded from domestic sources (UNCTAD, 2008: 34). The impacts of remittances are felt beyond the household and affect the national economy. High levels and/or large increases in remittance flows can have direct as well as indirect repercussions on the macro-economy. Remittances, specifically, have been acknowledged as critical sources of foreign exchange and macro-economic stability.

*Reducing debt burden* is another vital aspect of economic diplomacy which affects economic development positively. For countries like Bangladesh this will be of increasing significance. As Stiglitz (2002a:243) argues that, without forgiveness of debt, many of the developing countries simply cannot grow. Huge proportions of their current exports go to repaying loans to the developed countries. Sensible debt relief of highly indebted LDCs is argued is in the interest of the developed countries, because it would promote the growth of the world economy and prevent the transmission of shocks to the developed world (Kotilainen & Kaitila, 2002 :76).

After discussing the theoretical possibilities about the impact of foreign resources on the national economic development, the next discussion aims to explore the means that economic diplomacy deploys to extract these external resources. In other words the proof of the ability of economic diplomacy as the means (device) of acquiring/ facilitating these resources in the national economy will be chalked out in the following few paragraphs. In this process first of all the task of the economic diplomats is to be clarified briefly.<sup>90</sup> According to former Indian diplomat Kishan S. Rana (2002:69) the four pillars of economic work are:

- Trade promotion, with prime but not exclusive focus on exports.
- Investment promotion, mainly focused on inward investments, but not excluding the home country's outbound investments, where appropriate.
- Attracting suitable technologies, plus technology 'harvesting'.
- Management of economic aid, which is important for most developed countries as 'recipients', and as 'donors' for developed nations.<sup>91</sup>

Also, there are the larger tasks of country promotion, which supports all of the above, and blends into image building, as well as tourism promotion. Enhancement of the image of the home country is one of the essential tasks of diplomacy that underpins and relates to a wide range of external activities (Rana, 2002: 69).

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<sup>90</sup> Chapter three has extensive discussion regarding economic diplomacy as a concept and its function as well various means for the implementation of foreign economic policy.

<sup>91</sup> Countries such as China, Egypt and India are both donors and recipients of external economic assistance. Each focuses on providing the kind of aid that is best suited to its strengths, especially technical assistance which leverages domestic availability of high quality trained manpower and the training infrastructure.



The Association of Indian Diplomats identifies some selected tasks for the practitioners of economic diplomacy (Khosla, 2006) :

- a. Influence economic and commercial policies of the host-country to make them most conducive for the country's national interests which includes those of business and other stakeholders.
- b. Work with rule-making international bodies for shaping their decisions in the interests of the diplomat's own country.
- c. Forestall potential conflicts with foreign governments, economic actors and NGOs so that risks of doing business etc. are minimized.
- d. Use multiple fora and media to enhance and safeguard the image, capability, reputation and credibility of their own country and enterprises.

In the U.S. Department of State Employer Profile<sup>92</sup> the Economic officers' principal duty is to promote American economic and business interests by advocating open markets, the removal of barriers to trade and investment and the strengthening of the multilateral trading system. These efforts help to level the playing field for U.S. companies in the global marketplace. Economic officers master an expanding array of exciting new fields for bilateral and multilateral diplomacy in environment, science and technology issues such as ocean fisheries, cooperation in space, global warming and population issues. In brief the US economic officer –

- Develop a network of contacts in foreign and U.S. government institutions and businesses, as well as in international organizations, to advance U.S. economic interests.
- Resolve bilateral trade disputes and negotiate with our trading partners for further liberalize world trade.
- Advise officials on policy developments and make recommendations for U.S. government action.
- Negotiate trade-related agreements and treaties.
- Co-ordinate financial assistance to troubled areas.
- Develop trade policy, enforce export controls and promote open markets.

E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State while speaking on 'U.S. Economic Diplomacy: Priorities and Concerns' <sup>93</sup> remarked that,

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<sup>92</sup> See the duties of economic officers at the U.S. Department of State. Visit the U.S. State Department website at <http://careers.state.gov/officer/choose.html#EC> .

<sup>93</sup> Read the remarks of E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs of the U.S, Department of State at the Houston World Affairs Council Corporate Briefing, Houston Texas, on January 13, 2006 available at the U.S. Department of State website as 'U.S Economic Diplomacy: Priorities and Concerns' <http://www.state.gov/e/eb/rls/rm/2006/59303.html> (page visited on 06/03/2006).

“The State Department promotes prosperity at home and abroad by focusing on three priority areas:

- i. Open Markets,
- ii. Economic growth and development, and
- iii. Economic security.”

Enhancing the competitiveness of German firms on foreign markets and preserving the attractiveness of Germany as a business location to the investors are the twin objectives of foreign economic policy (FEP) in Germany. German FEP is implemented at the national, supranational (that is European) and international (that is, WTO, OECD, G-7, etc) levels (Koopmann,1998:38).

Although prosperity is an almost universal aim of economic diplomacy, there is no universally agreed means of achieving it. On the contrary, a multitude of methods are used, according to the ideas, circumstances, and expectations of those who control a country's economic diplomacy. Thus one type of economic diplomacy will suit a country with a market economy, while another type will suit a country with a directive economy. One set of measures will be adopted by a country with a payments surplus and another by a country with a deficit (Pinder,1976:314). This may also be considered as the theoretical limitation for the students of economic diplomacy and economic diplomats. Economic diplomacy is principally dictated by market forces. If one needs to ensure effective use of economic diplomacy then one must have a sound understanding of the economy of the host country and the home country too.

Therefore, it would be possible to define economic diplomacy as the use of any instruments of diplomacy for economic ends. Thus it could be argued that Britain's traditional policy of freedom of the seas was designed to safeguard British trade; and Marx perceived the strategic instruments of diplomacy as designed to achieve economic ends (Pinder,1976:313).

Institutional factors exacerbates inequalities between countries. The ability to shape agreements depends on the capacity of countries to follow complex, wide-ranging negotiations, an area in which some countries are distinctly more equal than others. In 2004, 33 developing countries, 10 of them in Africa, that were WTO members or in the process of accession had no permanent representative. The average size of a least developed country WTO mission is two professional staff. At the other extreme the European Union has 140 staff to make its case in WTO negotiations. That is without taking into account trade officials in national capitals, which would multiply that number several times over. While some developing countries- such as Brazil, China and India- field large negotiating teams and are effective participants in negotiations, most developing countries are marginalized (UNDP, 2005:146-147). The inference drawn from the number of economic diplomats and the organization of economic diplomacy resembles the economic differences among the actors concerned. This deficit in



representation matters. In day to day negotiations sheer weight of numbers and easy access to expertise count a great deal. Capacity to use the system is also reflected in the dispute procedure: not a single country in Africa has taken out a WTO case (UNDP, 2005:147).

A study on trade disputes at WTO by Abedin and Odano (2005) reveals very clearly that the developed countries are much more active in using the dispute settlement mechanism than the developing countries and therefore ensure a favorable outcome from the dispute settlement mechanism. This study categorically points out the following aspects-

- I. In all major areas of dispute, developed countries take leading positions both as complainants and as defendants.
- II. Size of GDP influences the outcome of dispute. The higher the GDP of a country than it's opponents, the higher it's chance of winning.
- III. The developed countries are being targeted more by the developing countries than the developing countries are targeted by them.

The above study clearly demonstrates the disadvantageous condition of the developing countries in world trade and in the WTO itself. Economic diplomacy and for that matter foreign economic policy has a lot to contribute in this regard. It seems that, increased activity in economic diplomacy is likely to facilitate economic prosperity. Also, a country's power in decision making in multilateral banks usually is correlated with its economic strength. Even when each country has equal representation in an international body, such as the United Nations system or the World Trade Organization (WTO), powerful forces can chisel away at developing country interests (through separate bilateral agreements, for example). And the capacity of developing countries to make informed decisions can be limited (World Bank, 2005:66).

In the International Bank for Reconstruction and Development (IBRD)—the market lending arm of the World Bank—a country's voting power depends on the percentage of IBRD shares it holds. The largest shareholders are the United States with 16.4% of the vote, Japan with 7.9%, Germany with 4.5%, France and the United Kingdom with 4.3%. Each has a representative on the Board of Directors. By contrast, all Sub-Saharan countries together have two representatives and 5.2% of the vote. Country influence in setting the agenda for the institutions is not limited to board membership. A 1998 study by Filmer and others (1998) shows that roughly two-thirds of the senior management-level positions at the World Bank are occupied by citizens of Part 1 (mainly OECD) countries, although these countries account for less than one-fifth of the global population and a smaller share of the number of member countries (World Bank, 2005:67).

In practice, the ability of countries to influence the agenda and decisions depends crucially on their capacity to be present, to follow negotiations, to be



informed, and to understand fully the complex issues at hand. A rough indicator of a country's capacity is the size of its representation in Geneva. A study by Blackhurst, Lyakurwa, and Oyejide (2000) found that only 8 of the 38 Sub-Saharan countries had close to five (the WTO average) resident delegates listed in the WTO directory. Worse, 19 of the 38 countries—half of the Sub-Saharan WTO membership—had no delegate resident in Geneva. Only Nigeria had a delegation that deals solely with the WTO (World Bank, 2005:67).

The discussion above clearly portray that, economic diplomacy as a means of extracting external resources to the national economy from world economy depends on several issues-

a) The diplomatic strength of the country concerned which is expressed in terms of—

- I. diplomatic ability, skill and the level of professionalism.
- II. the size of the mission/ the available manpower/resources to uphold national economic interest at the frontier of economic diplomacy.
- III. the geographical coverage that particular country portrays in terms of the number of missions in international organizations and other countries of the world.
- IV. the content of foreign economic policy itself.

b) The state of the domestic economy is a primary concern for economic diplomacy. The national economy must be prepared to accommodate or embrace the benefits derived from foreign aid, trade, investment and remittances. Without a fully functional economy actively supporting its foreign economic policy and its implementation through economic diplomacy— the efforts of economic diplomacy remains unjustified.

c) The ability of an actor (state in this regard) to 'ensure' the support of international policy framework is another decisive matter in making economic diplomacy functional for economic development.

Economic diplomacy as a means to implement foreign economic policy and ultimately facilitate national economic development is dependent on certain pre-conditions. There may be 'grey areas' in terms of the effectiveness of economic diplomacy depending on the condition to work it out. But, there is no doubt (theoretically and empirically) regarding the strength of economic diplomacy as a facilitator of economic development. Two major issues in this regard- I) implication of a favorable international policy framework in national economic development; II) the role of economic diplomacy in economic security and international financial crisis management- are not discussed in this thesis due to the characteristics of this particular case study. These are very important issues in foreign economic policy and essential elements in national economic development.

***Chapter 5:***

***The issue of Economic globalization  
and Economic diplomacy  
in the developing world***

## **5. The issue of Economic globalization and Economic diplomacy in the developing world:**

Today the effectiveness of purely a national economic policy from the perspective of economic globalization is questionable. Economic globalization has also made it difficult to draw a clear-cut distinction between what is domestic and what is international. Global economic issues have great impact on domestic issues and in the process, economic diplomacy involves in global economic issues (Rashid, 2005:3). Often it is argued that, states have lost their economic sovereignty. This reliance of domestic economic policy as well as national economy on the trends of global economy (to be precise on economic globalization) makes the role of economic diplomacy inevitable as well as very challenging<sup>94</sup>. Irrespective of this volatile portrait of international economic environment the burden of materializing national economic aspirations is now largely on economic diplomacy of a country. This is more relevant in case of developing countries that rely on external economics for trade access, investment, aid, debt relief, labor migration etc. The following sections discuss the issue of economic globalization from the perspective of developing countries and later on the issue of economic diplomacy of the global South is analyzed

### **5.1. Economic globalization and the global South:**

The term "globalization" is used to characterize several distinct features and trends. "Globalization" may simply mean the extension and deepening of global interrelatedness. It can also refer to the intensified, real-time communication across different parts of the world through news media such as the internet (Kopperi, 2001:47). Scholte (2000) suggested that, globalization involves 'the growth of "supraterritorial relations" among people'.<sup>95</sup> IMF (2002) defines globalization as the process through which an increasingly free flow of ideas, people, goods, services, and capital leads to the integration of economies and societies. IMF considers globalization as not an imposed or 'irreversible force' for some countries by some other countries. Rather, IMF defines globalization as representing a political choice in favor of international economic integration, which for the most part has gone hand-in – hand with the consolidation of democracy. Featherstone (1997:6-7) distinguished five dimensions of globalization. Firstly, there are *ethnoscapes* consisting of the flows of people: tourists, immigrants, refugees, exiles and guest workers. Secondly, there are *technoscapes*. This means the machinery and plant flows produced by multinational and national corporations and government agencies. Thirdly, there

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<sup>94</sup> This duality erupts mainly because of the opportunities existing in economic globalization and the obstacles that it poses for the developing country economies. The issue of increasing dependence on external economies and the 'loss of sovereignty' in national policy and economic issues is also a contradiction in the development efforts of individual countries.

<sup>95</sup> For elaborate explanation see Scholte, Jan Aart (2000) "Globalisation, Governance and Corporate Citizenship", *The Journal of Corporate Citizenship*, Issue 1, pp. 15-23.



are *financeescapes*, produced by the rapid flows of money in the currency markets and stock exchanges. Fourthly, there are *mediascapes*; the flows of information produced by the newspapers, magazines, television and film. Fifthly, there are *ideoscapes*, which means the flows of images and ideologies, especially ideologies which are comprised of elements of the Western Enlightenment world-view –that is images of democracy, freedom, welfare, rights, etc.<sup>96</sup>.

Among the many aspects of globalization 'economic globalization' by dint of its merit has drawn more academic attention than all the other ingredients of the globalization basket. Globalization is often argued as fundamentally an economic phenomenon (Kotilainen & Kaitila, 2002: 69). In fact it may be argued that, economic globalization is the engine of this globalization wagon wheel. Economic globalization is defined as a process in which the economic sphere gains (or given) certain independence from the political decision making at a global level (Kopperi, 2001:47). For this thesis economic globalization indicates to the liberalization of economic barriers among the states as well as the increased volume of economic activities across national boundaries. The globalization of economic activity and economic policy formulation is also vital from the point of view of this thesis. Most important aspects of economic globalization are the breaking down of national economic barriers; the international spread of trade, financial and production activities, and the growing power of transnational corporations and international financial institutions in these processes (Khor, 2000:1). This integration of the national economy may be a voluntary one or a forceful one or even an unavoidable one- but the truth is that it is not beyond the reach of the 'gene' called globalization<sup>97</sup>. Kotilainen & Kaitila (2002: 70) argues for the interdependence of economies in economic globalization and identifies the following economic activities responsible for the increasing interdependence among national economies -

- a. foreign trade of goods and services,
- b. foreign direct investment (FDI),
- c. other forms of co-operation of firms, such as joint ventures with minor foreign equity, the supply of technology or trademarks through licensing agreements, international subcontracting and contracts or franchising,
- d. international migration,

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<sup>96</sup> Featherstone referred to the distinction made by anthropologist Arjun Appadurai. For details see Appadurai's 'Modernity At Large : Cultural Dimensions of Globalizations' (1996), Minneapolis : University of Minnesota Press, and 'Globalization' (edited volume) (2002), Durham, NC : Duke University Press. Arjun Apadurai is Samuel N. Harper Professor of Anthropology and South Asian Languages at the University of Chicago.

<sup>97</sup> The 'gene' is the popular character in the famous Arabian stories which often is used in IR to describe the nuclear dilemma of the power aspirant developing countries who faces greater insecurity and practical problems (due to the maintenance issues related to the possession nuclear weapons/ facilities) after acquiring the nuclear capability. Here, it signifies rather the unavoidable reality that every participant of the global economy has to acknowledge.

- e. foreign borrowing and lending,
- f. foreign aid, and
- g. integration of macro-economic policies.

Economic globalization as indicated earlier has a very credible impact on the world economy and this often leads to the term 'global economy' as a replacement for the term— world economy or international economy<sup>98</sup>. The global south is often cited as the most effected segment of this global economy due to its almost receiving end location in economic globalization. Economic diplomacy inevitably is influenced by these realities and history indicates that at various stages of economic globalization this relationship was existent. The discussion in this chapter begins with the historical debate regarding the origin of the present day economic globalization. Then the relationship of economic diplomacy to economic globalization is analyzed. Later on, the definitional aspects and content of economic globalization is discussed. Lastly, the impact of all these characteristics of economic globalization on the global south is discussed to assess the prospect of developing country economic diplomacy in the context of economic globalization.

There are basically three schools of thought regarding the evolution of present day economic globalization. One school considers this era as a continuation in a re-cyclical style -- a sort of re-emergence. Sweezy (1997) argues that globalization is not a condition or a phenomenon: it is a process that has been going on for a long time, in fact ever since capitalism came into the world as a viable form of society. What is relevant and important is to understand that capitalism is in its innermost essence an expanding system both internally and externally. Once rooted, it both grows and spreads. Another group considers this as a consequence of some historical events and as a brand new chapter in world history. A third opinion considers that, economic globalization is not totally a new phenomenon, but it does have some new elements in it. This thesis prefers the third school of thought. To this group economic globalization in reality is not a new process, for over the past five centuries firms in the economically advanced countries have increasingly extended their outreach through trade and production activities (intensified in the colonial period) to territories all over the world. However, in the past two to three decades, economic globalization has accelerated as a result of various factors, such as technological developments by especially the policies of liberalization that have swept across the world (Khor, 2000:1).

If we look at history then we find that, from around 1870 until World War I, the world economy thrived in ways that look familiar today. The mobility of commodities, capital, and labor reached levels; the sea-lanes and telegraphs

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<sup>98</sup> I personally believe that, any realistic discussion on international economics involves the discussion of economic globalization for two perspectives, first as a 'paradigm shift' in world affairs which signifies the way we look at IR today and secondly as a consequence of the two World Wars and the cold war.



across the Atlantic had never been busier, as capital and migrants traveled west and raw materials and manufacturers traveled east. In relation to output, exports of both merchandise and capital reached volumes not seen again until the 1980s. Total emigration from Europe between 1880 and 1910 was in excess of 25 million. People spoke euphorically of "the annihilation of distance" (Ferguson, 2005).

In fact, when measured by the intensity of trade, investment, and labor flows, globalization was arguably more extensive before 1914 than after 1945. In the latter half of the 19<sup>th</sup> century, international trade grew by a factor of 25, while in the post-war period, global trade has grown by a factor of 21. Exports as a share of global GDP were higher in 1900 than in 2000. International capital flows relative to GDP were greater in the 1870-1914 period (averaging 3.3 %) than at any period since then. Even with the rapid increase of capital movements over the last quarter century, capital flows relative to GDP averaged 2.2% in the 1990s. Labor migration was also huge at that time. Over 60 million people emigrated from Europe to the Americas in the 1870-1913 period. The outflow amounted to 21% of Europe's population in 1870. Seen from the perspective of the New World, immigration contributed 40% of total labor force growth over that period (O'Neill, 2004).

Today's competitive international environment resembles in many aspects its predecessor in the second half of the nineteenth century (James, 1999). The traditional mercantilist trade policies then was giving way to *laissez-faire* that enhanced even further the leading role of the UK as the workplace of the world. The liberalization of British trade which directly and indirectly fostered foreign trade in the rest of Europe and a number of important changes in transport technology and costs, the stock of precious metals and the beginning of farm mechanization in the United States, all this contributed to a significant shift for the flow of trade.<sup>99</sup> This shift required a temporary stepped-up effort of the industrialized countries of that time to rearrange their international economic relationship to this situation (Coolsaet, 2001).

A more or less predictable international environment then followed, that lasted till the last quarter of the century, when this comfortable situation rapidly changed. Economic hegemony shifted from the United Kingdom to the United States and other European states acquired or aimed at 'a place under the sun'. The second industrial revolution engendered new financial giants, new trading goods and new manufacturing methods that spread all over the world. This combination partly explains the global expansion (or globalization) of the late nineteenth and early twentieth centuries, described by Palmer and Colton (1995: 603). Incidentally, this sudden acceleration process was accompanied by the

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<sup>99</sup> A protectionist phase from 1816-1846; a liberal (or rather modest protectionist) phase from 1846 until 1861; return to strict protectionism between 1861 until the end of Second World War. See Bairoch, P., *Economics & World History. History, Myths and Paradoxes*. Chicago, University of Chicago Press, 1993, p. 21-22 & 34.



(re)emergence of ideas about the swift disappearance of the State as the leading political organization, of which Norman Angell's *The Great Illusion* (1909) was an eloquent illustration (Coolsaet, 2001). Then, between 1914 and 1918, a horrendous war stopped all of this, sinking globalization. International trade, investment, and migration all collapsed. Moreover, the attempt to resuscitate the world economy after the war's end failed. The global economy effectively disintegrated with the onset of the Great Depression and, after that, with an even bigger world war, in which astonishingly high proportions of production went toward perpetrating destruction (Ferguson, 2005).

The end of the WWI brought a new reality for the world economy which was characterized by fierce economic nationalism and non-recognition of economic diplomacy as a viable means of sustaining in the inter-war competitive international economy. In fact the interwar period was a sort of 'interval in a drama'. The end of the WWII heralded the beginning of a new era and the economic diplomacy that is surrounding us today is just a consequence of the post WWII events and the several decades of cold war which was regulated by two opposing ideas. The 'victory' of the liberal school of thoughts or the capitalists prepared the foundation of today's economic globalization<sup>100</sup>. The post WWII era international economy has been discussed elaborately in the earlier sections and thereby a repetition is cautiously avoided. The following chart indicates the historical evolution as well as continuity of globalization that is discussed above.

Table-3 History of Globalization<sup>101</sup>

<b>1870-1917</b>	Often referred to as the First Era of Globalization; fueled by colonial expansion and industrialization, creating cheaper transportation, faster communication technologies and the integration of markets.
<b>1917-1945</b>	The end of the "First Era", as signaled by the beginning of World War I, the Russian Revolution and the Great Depression, halting the integration of the world's economy through World War II.

<sup>100</sup> The so called victory of the capitalist bloc over the socialist bloc is a debatable issue. Marxist and neo-Marxists argue for the inevitable collapse of world capitalism and thereby this era is just a prelude to that collapse. They also portray the inherent contradictions of capitalism as the cause for this inevitable consequence. For relevant details see Carchedi, Guglielmo. (1991) *Frontiers of Political Economy*. VERSO, London, New York and Yuanping, Qiu, (2003) *The Development of Economic Globalization and Its Dual Character*. Peace, June 2003, Serial No. 67, CPAPD.

<sup>101</sup> See Council Foundations Board Briefing: Globalization, June 2002 (<http://www.cof.org/files/Documents/Governing-Boards/bb5globalization.pdf>). Also a similar classification of the different periods in the development of globalization is available in Kotilainen & Kaitila, (2002: 70).

1945-1989	The Cold War divides the world into spheres of influence, fostering increasingly integrated economies within the spheres, but keeping these markets separate from each other.
1989-Today	The beginning of the "Second Era of Globalization", featuring the technological revolution and the end of the Cold War, integrated economies, greater technology, faster communication resulting in the present era of unprecedented economic growth.

If the historical evolution of economic globalization is analyzed then we can establish very clear linkage between economic globalization and economic diplomacy. According to Prof. Coolsaet (2001) in the international system, economic diplomacy takes prominence when acceleration in globalization (or a suddenly increased degree of interdependence, together with the awareness of it) is accompanied by an absence of agreed rules of conduct. Firms then call upon 'their' governments in order to enhance their own endeavors on the world market. Governments have no choice but to further their companies' interests, otherwise other firms would benefit. This analysis helps to explain why today's economic diplomacy can indeed easily be compared in intensity and in scope with the late nineteenth and early twentieth centuries' commercial diplomacy of all industrial states (Coolsaet , 2001). Trends in global economy demand greater role of the state and economic diplomacy by the state mechanism.

Also the acceleration of globalization at the end of the nineteenth century was indeed accompanied by an absence of regulatory mechanisms and shared rules of conduct. In order to provide for some regulation, companies at the end of the century created trusts, cartels and entered in to price agreements among themselves. At the same time the absence of global rules of conduct made companies turn to their governments for support in their search for new shares in the world markets ( and sometimes for protection of their current market shares). Governments gladly responded since their companies' world expansion provided cash, domestic jobs and wealth (albeit for small elite). One of the means at their disposal was the diplomatic apparatus, which was set towards an increased emphasis on economic diplomacy (Coolsaet, 2001). The recent global financial crisis, economic recession and the visible failure of private sector industry and commerce to uphold their public mandate has widened the scope for greater role of the state. Economic/ commercial diplomacy has a role to play in this scenario.

The Depression era of the 1930s can be viewed as a similar shift from a free trade euphoria that followed the 1925 Locarno treaties and was embodied in the endeavors of the International Economic Conferences organized by the League of Nations. Its collapse and the ensuing return to competing protectionist blocs necessitated a more dynamic economic diplomacy, partly through the first attempts of economic multilateralism, partly by a return to more aggressive trade promotion policies . This bondage between economic diplomacy and economic



globalization did not follow unilateral progress. It in fact was heightened at some point and was in low profile at some time. Sometime war and some times dependable organizational set up was responsible for the shift in emphasis. The post-1945 development in international economics is milestone for the present scenario. This post-war world was largely managed by the Bretton Woods institutions, among other things providing for the first monetary system ever to be devised by governments; by the political leadership of the United States; and; from 1950 onwards, by the creation of a European common market based on reciprocal judicial engagements. This set of institutions and mechanisms made the gradual trade liberalization a controlled and managed development (Coolsaet, 2001).

Economic globalization has increasingly made economic diplomacy a significant factor in foreign policy (Rashid, 2005:3). Economic diplomacy is now pursued rigorously by the industrial and business sectors in the country as well as the financial and the banking sector just to promote their interest in external economy. Even individuals demand more positive economic diplomacy from their respective governments just to ensure their employment opportunities abroad and to secure the necessary flow of external resources for the enrichment of the national economy. The link is now a well established one. The following section deals with the prime as well as relevant features of economic globalization.

### **Features of Economic Globalization:**

**Firstly,** *market economy* has become a global economic system, and a global unified market system has taken shape and is developing. By market economy, it refers to allocation of resources in economic operation mainly directed by market. Since the 1980s, more and more countries abandoned the traditional planned economy or the economic model of inward national protectionism and adopted a model of market economy, which is taken as a channel to integrate the national economy in to the world economy so as to adapt to competition needs arising from development of economic globalization (Qiu, 2003:2). In terms of economic operation, the majority of developing countries remain in transition to market economy, their market mechanism is far from being fully-established and economic legislation and regulations necessary to the integration in the world economy are yet in a nascent state.

**Secondly,** *liberalization and integration of the world economy* have grown qualitatively and a global economic network in which all countries are interdependent and complement each other has taken shape initially. The development of modern science and technology, especially the development of information driven economy connects production, trade and financial activities in the world (Qiu, 2003:3). Economic relations among countries have gradually entered a new stage featured by mutual permeation, horizontal association and following shared interests -



- A) The development of *trade liberalization*. The establishment of the World Trade Organization in 1995 marked a new development level of the international trade liberalization (Qiu, 2003:3). Trade liberalization has also gradually increased, but not at such a spectacular pace as with finance. World exports rose from \$ 61 billion in 1950 to \$315 billion in 1970 and \$3,447 billion in 1990. The share of world exports in world GDP rose from about 6% in 1950 to 12% in 1973 and 16% in 1992. The increased role of trade has been accompanied by the reduction in tariff barriers generally in both developed and developing countries, due partly to autonomous policies and partly to the series of multilateral trade rounds under the GATT. However, high tariffs still persist in developed countries in sectors such as agriculture and textiles and for selected manufactured products, which are areas in where developing countries have a comparative advantage. Moreover, there has been an increased use of non-tariff barriers which have affected the access of developing countries to the markets of developed countries (Khor, 2000:3).
- B) The second one is the expansion of the *internationalized production*. As a firm foundation of international economic relations, the international division of labor has evolved from the vertical division of labor as its dominant aspect, where advanced countries engaged in manufacturing while backward countries provided primary products at the primary stage of economic internationalization, to the horizontal division of labor as its dominant feature, in which various countries participate according to their natural resources and comparative advantages in different industries. Such a new dominant mode of the international division of labor creates a rare historical opportunity for developing countries to develop by leaps and bounds through technical innovation, and gain favorable position in the international division of labor (Qiu, 2003:3).
- C) The development of *financial globalization and liberalization of controls on financial flows and markets* is another feature. The developed countries have taken the lead in freeing financial control, opening stock markets and gradually liberalizing investment and are closely followed by the newly industrialized countries and economies in Latin America and Asia, hence facilitating qualitative changes in the volume, structure and form of the international capital flow. Direct and indirect investment, and loan capital and financial capital have become increasingly active, not only internationalizing production capital of various countries, but also making loan capital and capital in circulation more internationalized, hence remarkably speeding up the integration of global financial markets (Qiu, 2003:3).

The demise of the Bretton Woods system in 1972-1973 opened up an international trade in foreign exchange that has expanded at spectacular rates. The volume traded in the world foreign exchange market grew from

daily average of \$ 15 billion in 1973 to over \$900 billion in 1992 and now far exceeds \$ 1,000 billion. Much of these transactions are speculative in nature, as it is estimated that only a small portion (less than 2%) of the foreign exchange traded is used for trade payments. Due to the interconnectedness of financial markets and systems and the vast amounts of financial flows, there is a general and increasing concern about the fragility and vulnerability of the system, and the risk of breakdown in some critical parts or in the general system itself, as a fault developing in one part of the world or in the system can have widespread repercussions. The concerns about a possible global financial crisis have been heightened by the East Asian financial crisis that began in the second half of 1997 and which spread to Russia, Brazil and other countries, causing the worst financial turmoil and economic recession in the post-World War II period (Khor, 2000:2-3). The risk seems greater in the developing country markets where capital market and financial system is underdeveloped.

**Thirdly**, the main body of the world economy and international economic relations have become plural and *transnational corporations play a key role in economic globalization*. In the past, sovereign states were the main actors in the world economy and international economic relations were mainly conducted among nation-states. However, under conditions of globalization, where states remaining major actors of the world economy, there are also other integrated regional organizations, international economic organizations and transnational corporations. Particularly, the emergence and development of transnational corporations are prominent changes of micro-economic forms in the world market economic system (Qiu, 2003:4). A major feature of globalization is the growing concentration and monopolization of economic resources and power by transnational corporations and by global financial firms and funds. This process has been termed “transnationalization”, in which fewer and fewer transnational corporations are gaining a large and rapidly increasing proportion of world economic resources, production and market shares. Where a multinational company used to dominate the market of a single product, a big transnational company now typically produces or trades in an increasing multitude of products, services and sectors. Through mergers and acquisitions, fewer and fewer of these TNCs now control a larger and larger share of the global market, whether in commodities, manufacturers or services (Khor, 2000:4). The top 200 global corporations accounted for \$3,046 billion of sales in 1982 equivalent to 24% of world GDP (\$12,600 billion) that year. By 1992, their sales had reached \$5,862 billion, and their equivalent value to world GDP (\$ 21,900 billion) had risen to 26.8 % (Clairmont, 1996:39). The number of these MNCs are also a vital indicator. At the beginning of the twenty –first century the number of MNCs stand a little more than 53,000 with over 450,000 foreign affiliates (Kegley and Wittkopf 2003: 173).



**Fourthly**, *economic integration among nation – states* is accelerating and world economic integration is showing two main trends and developing at three levels. Integration as the term suggests, refers to combining all systematic parts into the whole. To integrate the global economy is a long natural process of development, and integration of essential factors starting from parts to the integral whole, and from “unsystematic” to “systematic”. Qiu (2003) mentions that, One of the two main trends is the trend of economic globalization. All countries in the world have participated in the global flow of the essential factors of production and the international allocation of resources to different degrees, propelling development of economic integration process at the world level. The other trend is economic regionalization. To enhance national strength and position in increasingly fierce international competition, various countries make use of geo-advantages and cooperative relations with neighboring countries to establish regional or sub-regional economic organizations, facilitating economic integration at both regional and sub-regional levels (Qiu, 2003:6).

**Fifthly**, there has also been a steady growth in *liberalization of FDI* although again on a smaller scale than in the case of international financial flows. Much of FDI and its increase is due to flows among the advanced countries. However, since the early 1990s, FDI flows to developing countries have risen relatively, averaging 32% of the total in 1991-1995 compared with 17% in 1981-1990. This coincides with the recent liberalization of foreign investment policies in most developing countries. However, much of this FDI has centered in only a few developing countries. Least developed countries (LDCs) in particular are receiving only very small FDI flows, despite having liberalized their policies. Thus, FDI is insignificant as a source of external finance to most developing countries, and is likely to remain so in the next several years (Khor, 2000:3-4).

**Sixthly**, perhaps the most important and unique feature of the current globalization process is the “*globalization*” of *national policies and policy making mechanisms*. National policies (including in economic, social and technological areas) that until recently were under the jurisdiction of States and people within a country have increasingly come under the influence of international agencies and processes or of big private corporations and economic/financial players. This has led to the erosion of national sovereignty and narrowed the ability of governments and people to make choices from options in economic, social and cultural policies (Khor, 2000:4-5).

Most developing countries have seen their independent policy-making capacity eroded and have to adopt policies made by other entities, which may on balance be detrimental to the countries concerned. The developed countries, where the major economic players reside and which also control the processes and policies of international economic agencies, are better able to maintain control over their own national policies as well as determine the policies and practices of international institutions and the global system. However, it is also true that the large corporations have taken over a large part of decision-making even in the



developed countries, at the expense of the power of the State or political and social leaders. Part of the erosion of national policy-making capacity is due to the liberalization of markets and developments in technology. For example, the free flow of capital, the large sums involved, and the unchecked power of big players and speculators, have made it difficult for countries to control the level of their currency and the flows of money in and out of the country. Certain technological developments make it difficult or virtually impossible to formulate policy. For example, the establishment of satellite TV and the availability of small receivers, and the spread of the use of electronic mail and the Internet make it difficult for governments to determine cultural or communications policy, or to control the spread of information and cultural products. Governments now have to implement policies that are in line with the decisions and rules of these international institutions. The key institutions concerned are the World Bank, the International Monetary Fund (IMF) and the WTO (Khor, 2000:5-6).

There are also other influential international organizations, in particular the United Nations and its agencies, treaties and conventions and world conferences. However, in recent years, the UN has lost a lot of its policy and operational influence in economic and social matters, and correspondingly the powers and authority of the World Bank, IMF and GATT/WTO have expanded (Khor, 2000:6).

The Bretton Woods institutions (World Bank and IMF) wield tremendous authority in a majority of developing countries (and countries in transition) that depend on their loans. In particular, countries requiring debt rescheduling have to adopt structural adjustment programmes (SAPs) that are mainly drawn up in the Washington institutions. SAPs cover macroeconomic policies and have recently also covered social policies, corporate laws and governance. The mechanism of making loan disbursement conditional on these policies has been the main instrument driving the policy moves in the indebted developing countries towards liberalization, privatization, deregulation and a withdrawal of the State from economic and social activities. Loan conditionalities have thus been the major mechanism for the global dissemination of the macroeconomic policy package that is favored by governments of the North (Khor, 2000:6).

The Uruguay Round negotiations greatly expanded the powers of the GATT system, and the agreements under the GATT's successor organization, the WTO, have established disciplines in new areas that go beyond the remit of the old GATT, including intellectual property rights, services, agriculture and trade-related investment measures. According to several analyses, the Agreement that emerged out of the Uruguay Round establishing the WTO has been an unequal treaty, and the WTO agreements and system (including the decision-making system) are weighted against the interests of the South. The existing agreements now require domestic legislation and policies of member States to be altered and brought into line with them (Khor, 2000:7).

Non-compliance can result in trade sanctions being taken against a country's exports through the dispute settlement system, thus giving the WTO a strong enforcement mechanism. Thus, national governments have to comply with the disciplines and obligations in the already wide range of issues under WTO purview. Many domestic economic policies of developing countries are therefore being made in the WTO negotiations, rather than in the parliament, bureaucracy or cabinet at the national level (Khor, 2000:7). There are now attempts by Northern governments to expand the jurisdiction of the WTO to yet more areas, including rights to be granted to foreign investors, competition policy, government procurement practices, labor standards and environmental standards. The greater the range of issues to be taken up by the WTO, the more will the space for national policy-making (and development options) in developing countries be whittled away (Khor, 2000:7).

### **Problems of the global South with economic globalization:**

Qiu (2003) argues that, as a historical product of the world economic development, economic globalization has a complicated and multilayer dual character. Some of the more relevant criticisms and contradictions relevant to this thesis are as follows-<sup>102</sup>

#### **I. Theoretical contradictions :**

Qiu (2003) argues that studied from the perspective of productive forces, as a result of a high level development of modern productivity and socialized production, on the basis of an unprecedented expansion of human economic activities in the areas of international production, international commodities and capital flow as well as unprecedented closeness of economic relations of various countries, the economic globalization is an objective historical process moving from internationalization to globalization.

Economic globalization also promotes effective allocation of essential factors of production in the whole world and raises productivity and provides historical opportunities for the development of the world economy and for various countries to achieve development by leaps and bounds. So, historically, economic globalization shows a progressive and inevitable nature. Examined from the perspective of relations of production, economic globalization is also a result of the global expansion of capital and capitalist relations of production are in a dominant and advantageous position. All the developed capitalist countries and their capital groups (transnational corporations and banks) attempt to manipulate, according to their will and rules, the direction, rules and regulations and order for the development of economic globalization so as to maximize their interests from

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<sup>102</sup> For a detailed discussion see Yuanping, Qiu. (2003) 'The Development of Economic Globalization and Its Dual Character', *Peace*, June 2003, Serial No. 67, CPAPD pp. 6-9.



economic globalization to the neglect of or even at the cost of the interests of other countries and the common global interests. Therefore, there co-exist parallel processes of an objective economic globalization and a subjective economic globalization.

This results in a contradiction between the two main processes, i.e. economic globalization and capitalist globalization. A core issue is what kind of order of economic globalization should be established. This dual character affects economic development. The critics of globalization accuse Western countries of hypocrisy, and the critics are right. The Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and so depriving them of desperately needed export income (Stiglitz, 2002:6).

The heart of economic globalization is the theory of Comparative Advantage by David Ricardo<sup>103</sup>. But, this theory is criticized as self-contradictory and an impractical one. Guglielmo Carchedi (1986, 1991) argues for the irrelevance of Ricardo's theory of comparative advantage. The Dutch Marxist argues that, Ricardo's theory i) hides the existence of unequal exchange, and ii) hides the greater advantage which accrues to the dominant capitalists in the imperialist countries from the reproduction of technological "under-development". Carchedi believes that Ricardo's comparative advantages can explain neither international specialization nor international prices and his mistake resides in comparing productivities between branches. In fact there is a segment in history described by A.G. Frank (1972:46) - a fellow countryman of David Ricardo which unveils the truth behind the nomination of England and Portugal as the two actors in the theory of comparative advantage. Frank mentions that, since the destruction of the Spanish Armada by the English in 1588 and the economic colonization and de-industrialization of Portugal by means of a series of commercial treaties which culminated in the Methuen Treaty of 1703, Great Britain had virtually eliminated the Iberian countries from participation in world capitalist development. The

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<sup>103</sup> A country has a comparative advantage in producing a good, relative to another country or the rest of the world, if the relative cost of producing the good, that is, its opportunity cost in terms of other goods forgone, is lower than it is abroad. The law or theory of comparative advantage can be interpreted in either a positive or a normative sense. In its positive sense the law says that countries tend to export goods in which they have a comparative advantage and to import goods in which they have a comparative disadvantage. As real world trade is affected by tariffs, subsidies, and monopoly this is an empirical generalization, not a logical necessity. In its normative sense the theory of comparative advantage says that it is beneficial both for a country and for the world as a whole if trade follows the lines suggested by comparative advantage (Black, 1997:71). Under a system of free trade based on comparative advantage, each economy is operating efficiently; thus the world's resources are being used in an efficient manner, which is seen as a benefit to all humanity. Total world income and human welfare are maximized under these conditions (Hastedt and Knickrehm, 1994:71). Again it must be kept in mind that, the theory of comparative advantage is just another model, which requires 'creative application' on the basis of the characteristics of individual countries.



process was exemplified by the exchange of English textiles—an industrial product—for Portuguese wine—an agricultural product: this trade agreement was made famous by Ricardo, who used it to justify the exploitation of Portugal by England on the basis of a supposed natural law of comparative advantages.

## **II. The fear of extinction and the increasing North- South gap:**

Qiu(2003: 8-9) cautions the proponents of economic globalization that, a dominating law governing the development of economic globalization is the market economic law, namely, the law of survival of the fittest. Under the circumstances that capitalism is in leading position while macro-control is not yet in place, various contradictions arising from economic globalization and the contradictions inherent in capitalism are interwoven, which exert negative impacts on the economic development of various countries and the world as a whole. For example, economic globalization is exacerbating competition and the uneven development of various countries, creating an irrecoverable gap between the rich and the poor, between the North and the South, continuously sharpening the contradictions relating to development and undermining the existing international order; the interdependence among nations and the fact that the world is an integral whole has increased the ripple effect of chaotic factors such as crisis, conflicts, etc.

In this very uneven process, investment resources, growth and modern technology are focused in a few countries (mainly in North America, Europe, Japan and East Asian newly industrializing countries (NICs). A majority of developing countries are excluded from the process, or are participating in it in marginal ways that are often detrimental to their interests; for example, import liberalization may harm their domestic producers and financial liberalization may cause instability (Khor, 2000: 9-10).

Globalization is thus affecting different categories of countries differently. This process can broadly be categorized as follows: growth and expansion in the few leading or fully participating countries; moderate and fluctuating growth in some countries attempting to fit into the globalization/ liberalization framework; and marginalization or deterioration experienced by many countries unable to get out of acute problems such as low commodity prices and debt, unable to cope with problems of liberalization and unable to benefit from export opportunities. The United Nations Development Programme's (UNDP) Human Development Report 1992 estimated that the 20% of the world's population in the developed countries receive 82.7% of total world income, while the 20% of people in the poorest countries receive only 1.4% (UNDP, 1992). In 1989, the average income of the 20% of people living in the richest countries was 60 times higher than that of the 20% living in the poorest countries. This ratio had doubled from 30 times in 1950 (Khor, 2000:10).

The Human Development Report 1996 showed that over the past three decades; only 15 countries have enjoyed high growth, while 89 countries were worse off economically than they were 10 or more years earlier. In 70 developing countries, the present income levels were less than in the 1960s and 1970s. "Economic gains have benefited greatly a few countries, at the expense of many", said the report. Since 1980, 15 countries (mainly Asian) have had growth rates much higher than any seen during industrialization in the West (UNDP, 1996).

UNCTAD's Trade and Development Report, 1997 (TDR.97) shows that since the early 1980s the world economy has been characterized by rising inequality, and North-South income gaps have continued to widen (UNCTAD, 1997:chaps. IV-VI). In 1965 the average per capita income of the G7 leading industrial countries was 20 times that of the world's poorest seven countries has also been accompanied by increasing income inequality within countries (Khor,2000:11).

### **III. Weakness of the South in facing the globalization challenge:**

Most countries of the South have been unable to reap benefits from globalization because of several weaknesses. The South's weaknesses stem from several factors. Developing countries were economically weak to begin with due to the lack of domestic economic capacity and weak social infrastructure following the colonial experience. They were made weaker by low export prices and significant terms-of-trade decline as well as the debt crisis and the burden of debt servicing. The policy conditionalities attached to loan rescheduling packages hampered the recovery of many countries and led to further deterioration in social services. Given the unequal capacities of North and South, the development of technology (especially information and communication technologies) further widened the gap. On top of these unfavorable international factors, many developing countries have also been characterized by dictatorships, abuse of power and economic mismanagement, which undermined the development process. All these factors meant that the South was in a weak position to take on the challenges of globalization, as the conditions for success in liberalization were not present (Khor, 2000:14). Leys (1996) warns that, it is in the nature of an unregulated competitive system that some parts of the world will benefit, and others, unless they acquire the capacity to compete in the market will not. The 'incapacity' of the global South is a major deficiency for overcoming the challenges posed by globalization.

The South's weakness also stems from its lack of bargaining and negotiating strength in international relations. Being heavily indebted and dependent on bilateral aid donors and multilateral loan organizations, developing countries have been drained of their capacity to negotiate (even on the terms of loan conditionalities). The powers of the UN, in which the South is in a more favorable position, have been diminished, whereas the mandate and powers of the institutions under the control of developed countries (the IMF, World Bank and



WTO) have been increased tremendously. The North has leverage in the Bretton Woods institution to serve their needs and to formulate policies which the developing countries have to take on. The South as a whole has not done well in organizing itself to coordinate on substantial policy and negotiating positions, or on strategy in relation to the discussions and negotiations in the WTO and IMF as well as other forums (Khor, 2000:14-15).

The developed countries are well placed to determine the globalization agenda. They are well organized within their own countries, with well-staffed departments dealing with international trade and finance, and with university academics and private and quasi-government think tanks helping to obtain information and map policies and strategies. They also have well organized associations and lobbies associated with their corporations and financial institutions, which have great influence over the government departments. The developed countries also have institutions and mechanisms helping to coordinate their policies and positions, for example the European Commission, the OECD and the G7, and their subsidiary bodies and agencies (Khor, 2000:15). In contrast, the developing countries are not well organized within their own countries. The government departments dealing with the interface with the global economy are understaffed, especially in relation to the rapid developments in globalization and in global negotiations. The academic sector and the few think-tanks which exist are not geared up to obtain and assess information on globalization trends, and less still to formulate policy proposals that governments can make use of. The links between these intellectual sectors, the NGOs and governments are also often weak. The business and financial community is not organized well enough to monitor global trends or to lobby governments on global issues. At the regional level, there is increasing collaboration among the countries through regional groupings. However, cooperation is still not as sophisticated as in the European Union. At the international level, the South is organized through the G-77 and the NAM. These groupings often perform reasonably effectively within the UN framework and at UN meetings and conventions. However, they are not adequately staffed and are unable to keep track adequately of events and developments, or to formulate longer term policies and strategies. At the WTO, IMF and World Bank, the collective strength of developing-country members has yet to be manifested in a strong way (Khor, 2000:15-16).

These internal limitations become more complicated with the presence of external dynamics. Dr. Lister (2002) identifies that, some countries can be categorized as the 'globalisers', those who have agency and actively make the decisions creating globalization, and the 'globalised' who are powerless on lookers or just a mere prop in the play being staged (Ki-Zerbo, 2001). Marxists claim that, a '*global bourgeoisie*' has gained almost an un-challenged status. As Carchedi (2001:165) says that, a world bourgeoisie, in as much as elements of the national bourgeoisies I) share common interests relative to other classes, II) are conscious of these common interests, and III) dispose of instruments (legal, institutional or other wise) for pursuing, and limiting the contradictory nature of



those interests. These bourgeoisies again are related to each other in a hierarchical way, i.e., the bourgeoisies of the imperialist countries are dominant vis-à-vis those of the other countries. It is the formers' interests that are basically catered for by institutions such as the UN, IMF, NATO, the World Bank and the WTO. These institutions play the role of 'mediators' between the interests of different national bourgeoisies (primarily those of the imperialist powers) in order to allow the emergence of common supranational interests and more or less overtly impose those common interests upon other classes or countries. From a Marxist perspective, the World Bank, IMF etc. organizations are simply the means to 'legalize' the dominance of the capitalist Global North.

Chang (2005) has also categorically identified the very expanding jurisdiction of the development partners (World Bank, IMF etc.) in various areas of purely domestic concern. This is part of the expanding network of influence that I argue is not only limiting the ability to implement development but also the ability to develop. Along with this argument there is a school of thought that claims that, WTO as the replacement for GATT has harmed the development and industrialization policies of the developing world (DiCaprio & Gallagher, 2006; DiCaprio & Amsden, 2004; Gallagher, 2007). A further addition in this dilemma is the argument that, globalization has curtailed the authority of the state (both internationally and domestically) specifically in economic affairs (Weiss, 2000). For developing world this has created a sort of further degradation as previously also, they were not 'equal' to the OECD and the global North in terms of a favorable international policy framework. The previously 'visible' limitation of the global South is now often 'invisible' (Weiss, 2000:1).

Irrespective of the various critical aspects of globalization and the debate regarding compelling evidence of strong globalization (Weiss, 1997:12), globalization has encouraged the debate concerning the 'sovereignty' of the state. A major aspect of this debate is concerned with the policy making ability of the state –particularly the developing countries that are often the receiving ends in this globalization 'matrix'. I argue that, globalization has not only challenged the ability of the developing countries to formulate its' own development policy but it has also affected their ability to implement these policies largely and often entirely engineered and driven by external actors.

'Policy space', as a serious concern was rigorously voiced at the UNCTAD XI conference (Khor, 2006) in Sao Paulo in 2004 and eventually it was reflected in paragraph 8 of the Sao Paulo Consensus that reads as follows-

"The increasing interdependence of national economies in a globalizing world and the emergence of rule based regimes for international economic relations have meant that the space for national economic policy, i.e. the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations".

UNCTAD Trade and Development Report 2006 says that, international trade rules and conditionalities attached to aid and loans provided to developing countries should not reach the point of restricting the governments of those countries from doing what is best for their economies. A prime concern for this research proposal is the impact of this 'nurtured' incapacity in the development sector. Robert H. Wade (2003) has also categorically identified the limitations of the development policy options of developing country governments originating from this neo- 'Anglo-American leadership' (patronized by the Global North) in world affairs which are aimed at legitimizing intrusion in the economies and politics of the developing countries. This scenario is likely to have negative effects on the political culture and leadership, bureaucracy, the donor agency and the international financial institution's mandate. This might even lead to undue exercise of authority in the internal affairs of the host country. In the long run this policy dependency has the potential to make underdevelopment a permanent feature due to the decay of the states development capabilities (Weiss,1997:5). Chang (2005) has identified the lack of 'policy space' for economic development as a principal threat for economic development of the developing countries. This is also identified as a decision making vacuum (Wescott, 1999, Polidano, 2001).

Joseph Stiglitz (2002a) outlines that, it is the more narrowly defined economic aspects of globalization that have been the subject of controversy and the international institutions that have written the rules, which mandate or push things like liberalization of capital markets. There is thus a need to reform the decision-making processes in the IMF, World Bank and WTO so as to give developing countries their right to adequate participation; and to review and ; where needed, to change the content of policies and rules so that they reflect the interests of developing countries that form the majority of the membership (Khor,2000:102).

Now, after the discussion highlighting the characteristics or to say the Terms of Reference (TOR) for functioning in economic globalization and the darker side of economic globalization it may seem feasible to stay outside the realm of economic globalization in order to remain safe. And it may particularly seem the right step for the developing countries which simply lack the essential ability to participate in this game. But, in reality an isolationist policy will only lead the concerned countries in to a more miserable situation and to an impossible mission for survival. One has to recognize that, not only the non-government business/finance/corporate sector is involved in this process but, all the international governmental financial and economic organizations are driven by globalization dynamics both structurally and in practice. There is also some by products of economic globalization that, needs the involvement of the state in the globalization paradigm. The removal of economic barriers, which benefited the honest citizen, created opportunities for the criminal too. Crime thus became an international business and had to be added to the agenda of economic diplomacy, whether it concerned drug trafficking, money laundering or, most



recently, the financing of terrorism (Bayne, 2003:88). So, the isolationist state will not have enough breathing space by denying globalization and in this case the development initiatives of the state will definitely be restricted.

But, if we carefully scrutinize the characteristics outlined in the previous sections it can be argued that, there is not all dark for the developing countries. And some of the critiques of economic globalization is also not valid. For example, globalization is not Westernization. The confounding of globalization with Westernization is not only ahistorical, it also distracts attention from the many potential benefits of global integration. Globalization is a historical process that has offered an abundance of opportunities and rewards in the past and continues to do so today. The very existence of potentially large benefits makes the question of fairness in sharing benefits of globalization so critically important (Sen,2002).

Joseph E. Stiglitz portrays three benefits of economic globalization on the economy : the demand for a country's products is no longer constrained to its own markets; a country's investment is no longer constrained to what it can save itself; and country's producers can have access (at a price) to the most advanced technology.<sup>104</sup>

Qiu (2003) sums up the following benefits of economic globalization-

**First**, under the conditions of economic globalization, the scope, depth and effectiveness of resources configuration are expanded and strengthened so it is possible for various countries to play to their relative advantages and realize effective resources allocation and complementarity in the global economic exchanges and interactions.

**Second**, the formation of the global unified market and international production, trade, financial systems have freed enterprises of various countries from being limited by their small national markets, thus, enabling them to acquire economic efficiency of a large scale and further expansion of production through participating in competition for the world market and the international division of labor.

**Third**, extensive international participation and international cooperation help to promote research and development of science and technology, popularize and utilize their results, which is bound to speed up the development of global productivity.

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<sup>104</sup> For details see Stiglitz article titled, 'Development Policies in a World of Globalization', presented at the seminar "New International Trends for Economic Development" on the occasion of the fiftieth anniversary of the Brazilian Economic and Social Development Bank (BNDES), Rio Janeiro, September 12-13, 2002. Also available in the website of the Columbia University where Joseph E. Stiglitz is a professor.



**Fourth**, through opening up to the outside world and engaging in international exchange, introducing foreign capital, advanced technology and management, it is possible for the countries with relative backward economy to make full use of the benefit as late comers and materialize their development by leaps and bounds.

In fact the real issue is the policy approach of the developing countries and the way the opportunities and hazards of globalization are dealt with. Amartya Sen (2002) considers that, the central issue of contention is not globalization itself, nor is it the use of the market as an institution, but the inequity in the overall balance of institutional arrangements—which produces very unequal sharing of benefits of globalization. The question is not just whether the poor, too, gain something from globalization, but whether they get a fair share and a fair opportunity.

## **5.2 Economic Diplomacy for Developing Countries in the context of economic globalization:**

Economic diplomacy in developing countries is at relatively undeveloped stage<sup>105</sup>. Small countries in particular perceive themselves to be at the mercy of the rich and powerful, especially at the multilateral level. Often their only negotiating strategy is to stonewall, delay or plead for special treatment (Mbirimi, 2003:251). However, the post – cold war international affairs has witnessed a major shift in terms of participation and recognition of the significance of economic diplomacy as a means of economic development/ gain. More and more countries are now active in world affairs with their economic diplomacy and this increased activity will certainly in the long run strengthen the position of these countries. The present day realities pose certain characteristics of the developing country economic diplomacy which has its roots in economic globalization and the national context of the developing countries. In this context, the following discussion will help us to judge the potential of economic diplomacy of these countries in the context of economic globalization.

The discussion identifies the state of economic diplomacy in the global South in the context of economic globalization. While discussing this, some general weak aspects and strengths are also discussed.

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<sup>105</sup> This receiving end location of the developing countries was discussed in the earlier chapters when, the location of the developing world was traced in the discussion of the historical evolution of international economic relations. Mbirimi (2003:252) has identified that, countries like Brazil, India, Singapore and Jamaica – as the countries that have got in place at least the basics. Again these are the handful of developing countries that have the most influence in shaping developing countries' positions in the WTO, UNCTAD and regional bodies to which they belong. In reality only a few developing countries like Brazil, India etc. has enough capability to gain from international economic interaction by deploying economic diplomacy.



## **A) Positive elements/ strengths:**

### New horizon in international economic relations:

Governments ...can no longer claim to manage their economies, because anything they do can be upset by actions outside their borders. Also, they can no longer wholly determine whether their economies achieve less or more, but they can determine right and wrong. They can promote and apply a system of international economic rules which sustains and extends open competition, but will check and penalize abuses and provide safety values (Bayne, 1994:12-13). In this context, the GATT/WTO system offers the weak protection from the strong and acts as a guarantor of domestic trade policy reform undertaken by these governments. But it is self-evident that some of its basic norms mean that the poorest countries have a minor part to play and therefore can expect few immediate benefits- which is how the system is usually judged (Mbirimi, 2003:254).

Developing countries finally recognized they had some power, which they could use to influence decisions in the organization. Industrialized countries on the other hand, realized that they could not continue with the same negotiating methods, characterized by decision making in small groups dominated by them, and then expecting others to fall behind the agreements reached. A by product of the alienation of developing countries at the WTO is the much stronger commitment to special trading arrangements exhibited by these countries. Some of these agreements, especially the Lome Conventions, do not only provide preferential tariff treatment, but also allow duty – free entry of specified quantities of important agricultural products traditionally exported by developing countries, which would otherwise be subject to duty or quota restrictions under the EU's CAP (Common Agricultural Policy) [Mbirimi, 2003:254-5].

### Domestic pressure:

Informatic revolution has influenced public opinion in many parts of the world and relentlessly continues to do so. This has compelled governments to open the door for foreign goods which citizens consider relevant to their preferred living standard. Income generation has been the essence of this changed behaviour of the citizen in the global South. Even societies with strong Marxist passion and socialist traditions have stepped in to the shoes of capitalism. Governments are left with little option other than pursuing relentless economic diplomacy to bridge the gap between mass aspiration and economic reality<sup>106</sup>. Economic diplomacy has huge public support as in case of Bangladesh it is evident from the policy declarations of successive post-1990 ruling regimes.<sup>107</sup>

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<sup>106</sup> This pressure from the electorate is often forces governments to succumb to the forces of capitalism. The speed of this integration bears elements of self-destruction. Also, one needs to bear in mind that, not all integration will be fruitful as national economies differ.

<sup>107</sup> Please refer to the discussions about Bangladesh foreign policy in chapter six.



*Demise of the unilateral role of the state in its economy:*

Yuanping Qiu (2003) argues that, the system of international economic relations, with sovereign states based on territory and national boundaries as the main or even sole actor, has been replaced by a comprehensive system of international economic relations, composed of governments of all countries, transnational corporations and regional and international economic organizations. The diversification and expansion of the main actors will inevitably restrict the function of sovereign states and the exercise of national sovereignty and bring about new conflicts of interest to international economic relations. For these reasons, states are now compelled to gather more strength in global economy and serious regulatory role in domestic economy. But, in both these levels, there is a share of the private and non-government sector. This again is an irresistible opportunity for the practitioners of economic diplomacy. Private sector is increasingly in favor of more active role of the state for securing their share in world economy. Economic globalization has provided the opportunity to integrate the private sector with the public sector efforts which was almost non-existent previously. This allows the state to pursue economic diplomacy with more strength.

*Essential relevance of the developing world:*

Developing world is gradually emerging as a serious consumer for finished industrial products as well as agricultural products of many developed countries. The industrial base of developed world is still largely dependent on raw materials from global South. Economic globalization due to its integrating nature, has established developing world as the 'other partner' in this global economy. The absence of the so called 'second world' (former communist countries led by USSR) has opened new avenues for the global South. There is now more opportunities, variations and versatility in international economic relations.

*MDG-8:*

The eighth objective in the MDG is a clear recognition of the wider scope of economic diplomacy for the development initiatives by the global South and the relevance of the global North in these efforts. MDG-8 indicates to the formation of a global partnership for development. This includes reforming aid and trade relations with the poorest countries allowing them special treatments (UNDP, 2005:39). Hence this recognition and the global efforts to materialize MDGs have widened the scope for the practice of economic diplomacy. In fact development efforts in the global South is thematically and to some extent systematically integrated to MDGs which makes the role of economic diplomacy inevitable- at least from the perspective of development co-operation.



Market economy:

A distinctive feature of economic diplomacy as opposed to political diplomacy is that it is sensitive to market developments. 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 (Bayne & Woolcock, 2003:6). Economic diplomacy is therefore responsive to the realities of the market. The forces active in the market decides the course of economic diplomacy. The scope of the developing world in this context is relatively stronger in comparison to the traditional forces of politics and security. A country may be weak in terms of its position in international politics and military power but, if it is an active and able player in market economy, then it may reap all the benefits of economic diplomacy. Taiwan, Singapore, Australia, Canada, New Zealand, Thailand, Malaysia, South Africa, India and a host of Scandinavian countries are examples of the triumph of economic power spearheaded by economic diplomacy. The scope of trade, investment and foreign employment has increased manifold as discussions in this thesis indicates. This changing nature of global economy is a source of strength for economic diplomacy.

**B) Weak aspects/ Problems:**

Lack of training in economic diplomacy:

Economic diplomacy is about set-piece negotiations such as the Uruguay Round. In consequence, trade policy is rarely viewed from a long term perspective and few developing countries appreciate the ongoing nature of economic diplomacy. This is why many of them do not consciously train their officials in the process of negotiations. In many countries there is no training for the officials to conduct economic diplomacy. Many of the officials responsible for these tasks start their assignment without any academic or professional preparation. Experience and common wisdom drives their tasks instead of appropriate training.

Absence of requisite organizational structures and institutional set-up:

Hardly any of them have in place the requisite organizational structures and institutional set-up. Most of the governments do not have separate or specialized set-up to deal with economic diplomacy. The practice is more of a 'make-shift' type. Institutional deficiency apart from the absence of training, is a major cause for the nascent state of developing country economic diplomacy.

The pessimist psyche:

Marginalization is the inevitable consequence of participating in negotiations in which the rules of the game are determined by the rich countries. The fear of marginalization, particularly among African countries, is heightened by the perception that the world economy is dividing into regional trade blocs. The pursuit of regionalism has therefore become an important plank of developing countries' economic diplomacy (Mbirimi, 2003:252).

While generally speaking, industrialized countries view economic diplomacy and its results in a positive light, developing countries tend to be pessimistic about the ensuing outcomes. To a large extent, these attitudes are a product of experience. Industrialized countries are arguably more accustomed to achieving success through adoption to external influences. Developing countries on the other hand, have had relatively limited successes in their interactions with the outside world. This has bred caution and a 'victim' culture, which has no doubt precluded them from staking out their position in areas where they could gain and from taking full advantage of new technologies and other market developments. In many cases, developing countries do not even bother to define their bottom line (Mbirimi, 2003:253). This pessimist psyche keeps the developing countries away from rigorous negotiation. This encourages the developing world diplomats to be extra cautious and eventually lose the negotiation before the start of the real event.

Unscientific/ non-professional attitude towards economic diplomacy:

Developing countries have often embarked upon major economic discussions without observing some of the most basic rules of the game. These include setting targets, consulting stakeholders, exploring the boundaries of difficult issues so as to define the bottom line, rescheduling the agendas of those they are negotiating with, and identifying possible scenarios of a future world economic system and how their own economy might fit into it (Mbirimi, 2003:253). Developing countries have hardly acknowledged these issues in their economic diplomacy which is also a general characteristic of the developing world bureaucracy.

There are issues related to how developing countries organize and manage their conduct of economic diplomacy. Most of them tend to view economic diplomacy as separate from political diplomacy. Many of the diplomats involved in trade negotiations are in fact from the ministries of Foreign Affairs, with little background in trade or economic matters generally. Few developing countries have an institutional framework for dealing with trade relations. Trade policy, unlike macroeconomic policy, which is usually determined by the IMF, also tends to be treated as separate from other aspects of economic policy (Mbirimi, 2003:255). This reality generates the possibility for contradictory commitments and dual initiatives—mostly in a state of unawareness.



One consequence of this is that countries have sometimes undertaken commitments on trade under an IMF programme, which contradicted commitments they have made at the WTO. But there is perhaps a deeper point to all this, related to how development is generally perceived. As a process or practice, development is to a large extent now viewed in terms of what development agencies and multilateral institutions do to improve the economic prospects of developing countries. In other words, it is arguable whether many developing countries especially Africa, still have a vision of their economic future. They will implement an IMF programme because they do not have an alternative. Similarly, they will accept the EU's proposals on regional partnership agreements because they have no alternative. However, these arrangements are unlikely to take them far if there is no local foundation on which to build. At the very least, developing countries must develop some vision of the future (Mbirimi, 2003:256).

The negotiators must take on board the views of different interest groups and politicians at home and abroad. This means that the negotiators have to demonstrate competencies in a variety of contexts. Though preparations are essential to effectiveness in negotiations. This involves undertaking assessments of one's own position, the positions of other parties and the environment in which the negotiations are being conducted. Information is the crucial ingredient in such assessments. This is major shortcoming in developing countries' current approach to economic diplomacy. While major differences exist between developing and developed countries on several economic issues, instances of ambiguity regarding what developing countries really want could be reduced by gathering relevant facts and figures about the issues under negotiation, so that politicians and the public in developed countries are not left with the impression that what developing countries want is what developed countries cannot give them (Mbirimi, 2003:256). In most cases the reason for unilateral surrender at international negotiations involving the developed countries, is the lack of preparation. The amateurish preparation affects professional capability.

Often the rationale behind the above explanation is pointed at the increasing globalization of the economy that opens up new perspectives for further trade expansion, but at the same time that sharpens the competition in securing countries' shares in world markets and in securing new ones. Another line of argument explains that growing international competition, considered to be the companion of globalization, forces governments to offer increasingly competitive conditions for international companies to invest. In order to secure foreign investments and high-qualified jobs, governments need to enter in to negotiations with transnational companies, presenting themselves-

'if not as supplicants then certainly as suitors seeking a marriage settlement'.<sup>108</sup>

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<sup>108</sup> See Stopford, J., Strange, S., (1991) *Rival states, rival firms. Competition for world market shares*. Cambridge: Cambridge University Press, p.2.



Economic diplomacy driven by 'Darwinism' :

Government officials, entrepreneurs and (most of) the business press do indeed perceive today's international trade environment as a highly competitive one, a sort of a jungle in which only the fittest (the largest, the most innovative, the most productive) will survive. Governments in turn have no choice than to respond to the appeals by the companies on their territory (though no longer necessarily of their own 'nationality') and to offer their services for the mutual benefit of the well-being of their citizens and the health of the companies on their territory (Coolsaet, 2001). Globalization in reality is a Darwinian process. Those who succeed are rewarded; those who fail or make mistakes are punished, whether firms or governments. As the IMF concluded:

"The pressures of globalization .....have served to accentuate the benefits of good policies and the costs of bad policies".<sup>109</sup>

Political scientists have developed the notion of 'Competition State' in order to describe what is said to represent a changed relationship between states and business (Coolsaet, 2001). He also argues that, present day economic diplomacy demands a stepped-up effort that clearly differs in scope and energy from the diplomatic tradition since the end of the Second World War.

Lack of commitment and consistency :

Commitment and consistency of beliefs and behavior are essential components of effective diplomacy. One of the more striking features of trade diplomacy by developing countries is the almost haphazard way in which it is conducted (Mbirimi, 2003:257). Ray S. Cline (1975:8-12) has used a formula to quantitatively measure national power that includes among others the will to pursue national strategy as one of the components. The formula is—

$$Pp = (C+E+M) \times (S+W)$$

**Where**

- Pp= Perceived power
- C= Critical mass
- E= Economic capability
- M= Military capability
- S= Strategic purpose
- W= Will to pursue national strategy

In the next chapter, when the state of economic diplomacy in Bangladesh will be analyzed the matter of 'non-commitment' emerges as a major deficiency. This 'non –commitment' is not the product of any one level of policy makers, rather it is shared among the various levels involved in this process. A noticeable feature

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<sup>109</sup> See IMF (1997), *World Economic Outlook*, May 1997, Washington: International Monetary Fund, P.72f.

of the conduct of economic diplomacy by developing countries is the leading role played by the ministries of foreign affairs (this is less so in financial matters). Ambassadors to what are key economic posts in Brussels and Geneva are often chosen from the Ministry of Foreign Affairs or worse, political appointees with no track record in economic matters. This means that almost all their negotiating authority derives from the rank. Unfortunately a different kind of authority is also required- that which is bestowed on the negotiator by their peers on account of their knowledge of the issues and their negotiating skills. At the WTO, as in other international organizations, this kind of authority opens doors to key informal meetings where important discussions and exchanges of views take place. It is also likely to mean that when the powerful countries feel the need to approach politicians in capitals; this is not done over the heads of the representatives/ ambassadors involved in day to day negotiations (Mbirimi, 2003:257-258).

Lack of networking skills:

Developing countries have to learn and adopt some of the networking skills that NGOs have mustered. As well as taking measures to strengthen their capacity to negotiate. Networking derives as one of the outcomes of relentless professionalism in a given area. As most of the developing world economic diplomacy is at a relatively low level of professionalism, it is quite natural that they would be identified with a low level of networking ability and even at times no networking ability.

Non-utilization of public opinion and influential group:

Developing countries must also consider ways of influencing public opinion and influential groups in those industrial and developing countries which engage in protectionist trade policies. Stakeholder meetings to explore selected multilateral trade issues should become a regular feature of their economic diplomacy (Mbirimi, 2003:258).

There is however, a growing realization that more effective strategies are required if marginalization is to be avoided. A striking example of a change of track was the active participation of developing countries in preparations for the Seattle ministerial meeting of the WTO in late 1999 and their determination not to sign up to agreements they did not like. But the majority of developing countries are still a long way from being effective participants in the multilateral trading system (Mbirimi, 2003:251). Absence of a democratic political culture and poor state of political development detaches the making of public from public opinion.

Widespread absence of Private sector, NGOs and Civil Society:

Foreign policy in most developing countries do not render appropriate acknowledgement of inputs from the private sector, NGOs and Civil Society

organizations. In case of foreign economic policy the 'non-participation' of the private sector (trade and industry bodies, trade unions, MNCs, firms, financial organizations etc.) is very critical issue. This deficiency weakens economic diplomacy. Private sector organizations are the backbone of economy and without a meaningful and systematic participation of these organizations-economic diplomacy remains 'soft' in the context of accountability to the stake holders. The culture of considering foreign policy as a secret politico-security affair to be conducted in a close door scenario needs to be altered according to the present day realities.

### **New Strategies in Economic Diplomacy from the perspective of economic globalization:**

Dollar and Kraay (2002:121) argues that, although globalization can be a powerful force for poverty reduction, its beneficial results are not inevitable. If policy makers hope to tap the full potential for economic integration and sustain its benefits, they must address three critical challenges.

- I. A growing protectionist movement in rich countries that aims to limit integration with poor ones must be stopped in its tracks.
- II. Developing countries need to acquire the kinds of instructions and policies that will allow them to prosper under globalization, both of which may be different from place to place.
- III. More migration, both domestic and international, must be permitted when geography limits the potential for development.

The issue of appropriate policy initiative is of pivotal significance for success in the present day global economy. Economic diplomacy is arguably the most important policy initiative for this job. The demands/impact of globalization are different and thereby require a carefully articulated policy package.

The demands/impact of globalization according to Bayne (2003:93-94) are as follows-

**First** of all, globalization has greatly increased the range and variety of economic diplomacy.

**Second**, 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 labor and environment standards.



**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.

**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. A distinctive feature of economic diplomacy is that private sectors are involved in the decision-making process to influence negotiating position to remain in the global or regional competitive market (Rashid, 2005:2).

This is because firstly market developments are rigorously monitored by private sectors. Secondly, they are in the field and they know where and how to invest, sell, goods and services in the interests of a country. In the case of traditional diplomacy, it is the officials/diplomats who are involved in it and there is no participation or input from the private sector (Rashid, 2005:3).

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 (Bayne, 2003:94).

Sir Nicholas Bayne<sup>110</sup> (2003:94) has summed up the following strategies which he believes governments all over the world have taken into account in the course of the 1990s and early 2000s:

The *first* strategy is the greater involvement of ministers, thus raising the political profile in economic diplomacy which effectively bridges the international and domestic policies and realities.

The *second* strategy is to involve players from outside central government in the decision making process.

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.

The *fourth* strategy is the greater use of international institutions. Governments are more in favor of using regional and international institutions to serve its own purpose.

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<sup>110</sup> Sir Nicholas Bayne was the British High Commissioner to Canada. He teaches graduate level courses on economic diplomacy at the Queens University, Canada and London School of Economics, UK.

**Chapter 6:**  
***Economic Diplomacy  
in Bangladesh Foreign Policy***

## **6. Economic Diplomacy in Bangladesh Foreign Policy:**

The discussion in this chapter is organized in to three segments. First of all there is a brief outline of the principles of Bangladesh foreign policy, secondly the objectives of Bangladesh foreign policy is discussed and then the historical evolution of economic diplomacy in Bangladesh foreign policy is traced by discussing the regime wise foreign policy in Bangladesh. While discussing the regime wise foreign policy the interim as well as transitional regimes are not included due to their insignificant impact on foreign policy.<sup>111</sup>

### **Principles of BFP:**

According to Article 25 of the Bangladesh constitution the fundamental policy goals include:

- Promotion of regional and world peace.
- Security and disarmament.
- The cause of economic and social development.
- The central role of the UN in the cooperative management of the world's problems.

Article 25 of the Bangladesh Constitution (GOB,1986:8-9) states that Bangladesh "shall base its international relations on the principles of respect for national sovereignty and equality, non-interference in the internal affairs of other countries, peaceful settlement of international disputes, and respect for international law and the principles enunciated in the United Nations Charter". The same article states that, Bangladesh will "strive for the renunciation of the use of force in international relations and for general and complete disarmament".

Article 63 (GOB, 1986:24) of the constitution states that, "war shall not be declared and the Republic shall not participate in any war except with the assent of Parliament". By introducing this constitutional restraint it affirmed Bangladesh's peaceful intentions and promoted its image as a peace loving country. The Zia government added a clause to Article 25 (GOB, 1986:9) which read: "The state shall endeavour to consolidate, preserve and strengthen fraternal relations among Muslim countries based on Islamic Solidarity" (Kabir and Hassan, 1989:3-4). The principles of Bangladesh foreign policy indicates a strong motivation for pursuing economic and social development in its external relations. A very precise and clear commitment towards world peace also strengthens the pro-

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<sup>111</sup> There were some interim regimes like the Khandoker Mushtaque Ahmed regime, President Justice Sattar's regime, President Sayem's tenure due to undemocratic take over of power. Also, there is the concept of the caretaker government in Bangladesh since 1990 to facilitate the transition of power from one democratically elected government to the next one. These caretaker governments run the government for ninety days basically and thereby they are not supposed to have any credible impact on foreign policy.



development framework of Bangladesh foreign policy. For the realities and the context of the war of liberation, the principles of Bangladesh Foreign Policy (BFP) from the beginning have revolved around the issue of national development and its scope in international relations.

### **Objectives of BFP:**

The consistent features which have emerged in Bangladesh's foreign policy are: a) national security and territorial integrity; b) good-neighborly relations-conditioned by a geo-political reality seeking closer ties with India, Pakistan, China as well as with the countries of South East Asia; c) promote and maintain fraternal ties with the Muslim countries, including Pakistan, and objective which was conditioned by religious feelings and cultural affinities of the Bangladeshi Muslims; d) seek stability and peace to promote international co-operation so that there is uninterrupted flow of financial assistance considered very vital for Bangladesh's economic development, e) support for a New International Economic Order which will be beneficial for a developing country like Bangladesh (Choudhury, 1992:45).

The foreign policy objectives identified just after the independence of Bangladesh have been pursued by the successive governments without any fundamental alterations. However, priorities in foreign relations were different as ideology of ruling party and regional and international situations were different in different times (Hussain, 2005:1).

The objectives of Bangladesh foreign policy has remained rather unchanged due to several factors—

- a) National power of Bangladesh has never permitted Bangladesh to pursue a foreign policy which could be distinguished among other actors. The geographical realities, economic underdevelopment, political weakness, military capability etc. ingredients of national power have identified Bangladesh as a weak state in international affairs. Bangladesh foreign policy has always remained reflective of these realities.
- b) Bangladesh over the years has established itself as a peaceful country in international relations. Since early 1990s this was reflected in the widespread participation of Bangladeshi soldiers and members of the law enforcing agencies in various UN peace keeping missions.
- c) The 'India factor' and other regional realities have always remained important in Bangladesh foreign policy. In this context, Bangladesh has always spearheaded the idea of regional co-operation through various initiatives like SAARC, SAPTA, BIMESTEC etc.

- d) Active as well as fruitful relationship with fellow Muslim countries has always remained as a major objective of Bangladesh foreign policy.
- e) Economic development and often the quest for economic survival appeared as a static objectives of Bangladesh foreign policy.
- f) Ideological preference in the post- 1975 era has gradually been eroded to some extent. The political regimes did not have any clear reflection of ideological preferences in Bangladesh foreign policy. In the post cold war era, economic survival and progression has clearly dominated it's foreign policy. 'Economic Diplomacy' emerged as a buzz word in the foreign policy matrix.
- g) Foreign policy making in Bangladesh is largely a bureaucratic and to be precise a sort of 'regulatory' process marked by a minimum contribution of the political leadership and parliament.<sup>112</sup> Also, the absence of an effective working relationship between the ruling regime and the parliament remains as a major obstacle in 'filtering' public demand/mass aspiration in BFP. This political limitation may be considered as another reason for the static set of objectives.

The major objectives of the foreign policy of Bangladesh therefore may be summed up as follows:

- Self – preservation;
- Economic Advancement;
- Safeguarding as well as augmenting national power in relation to other states;
- Ideology; and
- National prestige (Halim, 1984:3-4).

#### **Foreign policy formulation in Bangladesh:**

Foreign policy formulation process in Bangladesh like many other areas of public policy is not a scientific one and to describe in a softer note is not systematic as well as pragmatic. Korany (1983) has mentioned some basic handicaps in the analysis of Third World foreign policy especially of the decision making process which are the lack of data and the cult of secrecy practiced by many state authorities. Inadequate documentation and lack of archival facility makes the task of researchers very difficult and often dependent on inferences drawn like journalistic intuitions. BFP is unfortunately marked by these 'basic handicaps'.

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<sup>112</sup> Read Aatur Rahman's, 'Foreign Policy Making in Bangladesh: Institutions and Process', in BIJSS Journal, 6, No. 3, 1985. Rahman writes-"The authoritarian nature of the executive head in Bangladesh did not afford the Parliament an opportunity to exercise any meaningful role in the general conduct of foreign policy. The parliament neither could effectively examine proposed legislation on foreign relations, nor examine or debate any vital document or agreement with foreign countries."

There are two elements of Bangladesh foreign policy- constant elements and variable elements (Haider, 2006). Constant elements are the geopolitical realities that Bangladesh bears. Variable elements include internal and external realities, political leadership, domestic politics, national power etc. The formulation of foreign policy in Bangladesh has always been responsive to these constant and variable elements. These elements have also remained almost static.

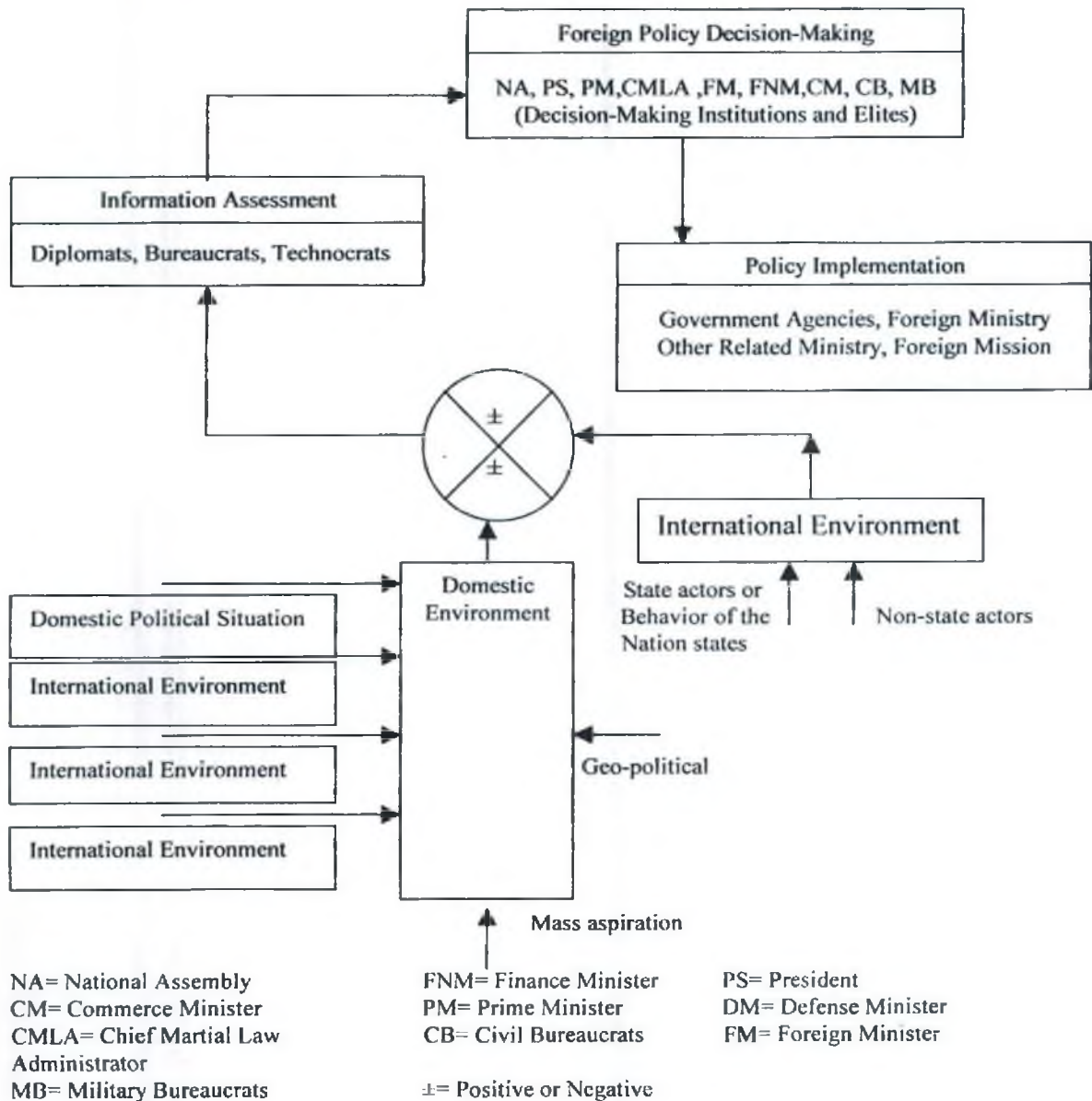
Considering the trend of public policy formulation in Bangladesh and in particular foreign policy the following characteristics may be identified-

- a) The geopolitical and geo-economic realities have always remained a decisive factor in foreign policy formulation. Although some times domestic political values and regime interest has tried to deviate from this reality, but with little success.
- b) Ruling party political leadership has occasionally exercised their 'public office mandate' in foreign policy formulation. Parliament like other areas of public policy has remained 'non-functional' in foreign policy formulation.
- c) Foreign policy formulation as well as implementation is mostly a bureaucratic process. A regulatory approach dominates this process which invariably suffers from the concept of 'trained incapacity' of the bureaucrats. Ministry of Foreign Affairs leads the process as the focal point. Other ministries take the lead when their jurisdiction demands so. Most active ministries in foreign policy and particularly in economic diplomacy are- the Ministry of Finance with its Economic Relations Division, Ministry of Expatriate Welfare & Overseas Employment, Ministry of Labor & Employment, Ministry of Home Affairs, Ministry of Commerce, Ministry of Industries etc.
- d) The centre of foreign policy formulation due to political instability, weak public policy institutions and un-organized private sector has roamed around the various centres of the policy paradigm. The ownership of state power in this country like many other developing countries has witnessed several 'physical shifts'. These shifts are important concerns for foreign policy analysis in Bangladesh.
- e) The role of think tank and academia in foreign policy formulation has never been significant due to the overall lack of emphasis on research in public policy and also due to the unscientific nature of foreign policy formulation. Bangladesh Institute of International & Strategic Studies (BISS), Bangladesh Institute of International Law & International Affairs (BILIA), Centre for Policy Dialogue (CPD), Bangladesh Institute of Development Studies (BIDS) etc. have routinely organized talks, seminars and research with little impact on policy.
- f) There is very insignificant role of intelligence agencies in foreign policy formulation. The issue of providing input for foreign economic policy in the form of financial and economic intelligence remains non-existent in our foreign policy paradigm.



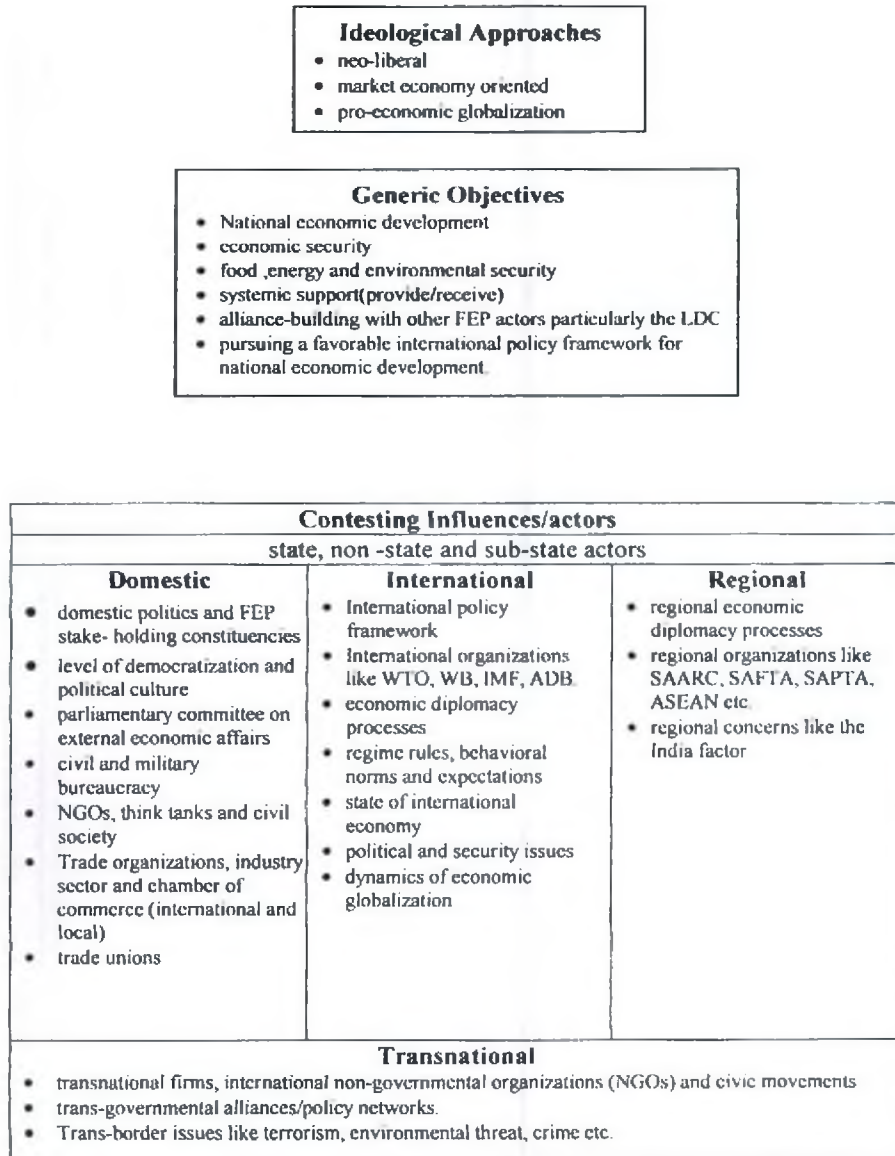
These realities make it very difficult to outline a decision making model for Bangladesh foreign policy. In the case of foreign economic policy as Bangladesh does not have any - makes it more difficult. A model by Haider (2006) provides an outline of Bangladesh foreign policy decision making process and recognizes the routine institutions relevant to decision making.

Figure-4: Foreign Policy Decision-Making Process in Bangladesh



**Source:** Haider, Zaglul (2006), *The Changing Pattern of Bangladesh Foreign Policy: A Comprehensive Study of the Mujib and Zia Regimes*, The University Press Ltd. Dhaka, pp 22.

Figure - 5 – Bangladesh foreign economic policy: probable actors, priorities and concerns



The figure above illustrates a general idea regarding the actors relevant to the foreign economic policy making in Bangladesh. The ideological context and general objectives will facilitate the discussions ahead.

### The context of economic diplomacy in BFP:

A principal objective of the liberation war in 1971- 'aspiration for economic freedom' – in the post independent years emerged as a 'a pattern of dependent development' (Sobhan, 1988:45). The post-independent realities/priorities left little 'policy space' for the new government other than to seek external economic assistance in the form of food, aid, technology etc. for the survival of the new state. As Rehman Sobhan (1988) describes that, foreign aid became the initial source for rehabilitating the ten million refugees displaced by the war and for reconstructing the war –damaged infrastructure of the economy. This external dependence became cumulative as food gap, foreign exchange gap, savings gap and revenue gap all came to be covered by foreign aid. This initiated the institutionalization of a dependent economic development strategy in Bangladesh. However a qualitative difference with the post –independent Mujib era and the subsequent regimes in Bangladesh needs to be acknowledged for a fair discussion. The first government in independent Bangladesh was 'compelled' to seek external assistance as domestic economy, infrastructure and internal resource generation was non-functional. The other regimes failed to escape this paradigm and have embraced a visibly never ending reliance on external assistance. The context of economic diplomacy in Bangladesh is inherent in the war of independence as a fundamental objective of the independence struggle was economic freedom. The post-independent failure of the subsequent regimes in promoting economic freedom also necessarily allows space to economic diplomacy which is capable of emerging as the 'mantra' to escape this legacy of failure in promoting national economic interest and freedom.

As of today, Bangladesh depends heavily on the global economy. The survival of the population and functioning of the economy at present, and the prospects of future development of the country depend on the global economy (Mahmood, 1992:451). Bangladesh requires an active and fruitful external economic relation for several reasons mentioned below-

- a. Foreign aid plays a crucial role in the development and often in other areas of governance. The Annual Development Program is fairly dependent on the inflow of aids and loans.
- b. The role of foreign trade and investment needs no elaboration. Bangladesh heavily relies on external sources for its food and energy security.
- c. Also there is the problem of reliance on a geographically small market for export and import. Bangladesh has not been successful to diversify its export market beyond North America and EU. In case of import the trend remains the same. A significant feature of the external economic relations of Bangladesh is its dependency on a few countries for its export earning, remittance from foreign employment and other foreign resources. This illustrates the vulnerability in external economic relation of Bangladesh (Mahmood, 1992:483).



- d. Natural calamity routinely compels Bangladesh to seek external economic resources/assurances in the form of cash, capital goods, food, infrastructural development etc.

External economic relations and economic diplomacy is most commonly understood as a means towards furthering the country's economic and commercial interests. Thus attracting foreign investment, promoting exports, exploring foreign employment opportunities, securing foreign aid and other forms of external resources and preserving as well as enhancing our existing foreign economic interests, would be considered as priority tasks. Economic diplomacy also encompasses economic and technical assistance received by Bangladesh both bilaterally and from a variety of multilateral sources, the debt problem, investment agreements, and avoidance of double taxation agreements, trade agreements and joint commissions. In the past competing for economic assistance, the terms and conditions of such assistance were matters of paramount importance. Globalization and the new global agenda have prompted a significant shift in priorities. 'Trade not aid' is the slogan of the day. Nonetheless for a country such as Bangladesh foreign economic assistance still plays a very important role in our economic development. The thrust of our economic diplomacy has been to ensure the continuation, and if possible, the enhancement, of such assistance; at times this has meant dealing with irate donors and their complaints.<sup>113</sup>

For developing countries such as Bangladesh, economic diplomacy has also meant playing an active, sometimes leadership role in multilateral agencies and conferences. Bangladesh has been chairman/coordinator of the 49 member group of Least Developed Countries for many years. Bangladesh has been closely involved in the preparation of the various action plans and programmes in support of the LDCs and the subsequent follow up action. In the WTO, the Second Committee of the General Assembly, ECOSOC, UNCTAD, ESCAP, the Group of 77, the NAM, Bangladesh has traditionally played a very active role in either highlighting the problems of the LDCs or the developing countries as a whole.<sup>114</sup>

In order to break away from the vicious trap of poverty, unemployment, low investment and low productivity level, it is necessary to raise investment level in the development of the human resources and infrastructures and, thus, step up the level of production of goods and services. External assistance is, therefore, of crucial importance to the economic and social development of Bangladesh. The unfavorable balance of trade for Bangladesh is another area where economic diplomacy needs to play a strong role. A vital characteristics of Bangladesh foreign trade is the increasing price of necessary imports which is contrary to the depressing prices of exports from Bangladesh. This makes each unit of import increasingly costlier in terms of exports. Until bridging this export-import gap, the

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<sup>113</sup> Ibid.

<sup>114</sup> Ibid

flow of external resources necessary to bridge this gap will remain an important concern of Bangladesh foreign policy (Huq, 1993:203).

The focus of the debate in regard to the external economic relations of Bangladesh today is not whether we need external resources or not. The concern is a quantitative as well a qualitative one. The quantitative concern is the amount of external resources we need which has a simple answer. The second one is to judge what to allow and what not on the basis of our national power and interest. As Rehman Sobhan (1993) points out that, the critical issue for a democratic Bangladesh thus remains whether we can really assert our own authority in our relations with donors, where we can risk saying no to projects and policy advice if they remain contrary to our national interests and priorities. To face up to the donors carries some risk of aid being cut off, reduced or delayed by an offended donor. To this end a government which takes such a risk must be sure of its democratic support base at home and its diplomatic skills in dealing with different donors. A well prepared and honestly motivated government can command respect and also take advantage of differences of perspectives amongst the aid community and even within a particular donor country (Sobhan, 1993:260-261).

## **The Evolution of Bangladesh Economic Diplomacy:**

Economic diplomacy is a relatively late inclusion in Bangladesh foreign policy. To be precise this is only a formal recognition of the principal means of materializing its foreign economic policy which revolves around the issue of securing foreign aid, market for the export goods, investment for the economy and job market for its huge labor force. The policy declarations of economic diplomacy in Bangladesh can be traced only in the 1990s when an official recognition of the necessity of economic diplomacy was proclaimed by the political leadership of the consecutive governments. This discussion however starts with a brief discussion of the pre- 1971 era Bangladesh (the then East Pakistan) as that period has some characteristics which are still evident. The post – 1971 period is divided according to the various regimes that have governed Bangladesh. This chapter as a process of evaluating Bangladesh foreign economic policy also incorporates brief discussion regarding the relationship that Bangladesh has with regional and international agencies.

### **A) Pre-independence legacies (1947-71):**

Bangladesh after the withdrawal of British Raj emerged as part of Pakistan (East Pakistan). It is important to identify some of the characteristics of the external economic relations of pre-1971 Pakistan to facilitate the discussion of the post-1971 Bangladesh. Pakistan emerged as a heavily aid dependent country with the USA due to Cold War strategic alliance. Naturally as a Muslim country Pakistan enjoyed fruitful economic relations with the Muslim world. This dependency on Western Europe, the USA and the Muslim world is still continuing in Bangladesh.



Only couple of years in the Post -1971 era Bangladesh deviated from this tendency and leaned on the Soviet bloc. Bangladesh also in the post cold war period has not been able to promote fruitful relations with African, Latin American and many Asian countries.

Post- British era in reality was the period which due to 'internal colonialism' led by the West Pakistan 'rulers' prepared Bangladesh as an agricultural exporter and with no heavy industrial base.<sup>115</sup> In the pre-liberation era Bangladesh (the then East Pakistan) was part of an important strategic area where cold war rivals concentrated to pour with foreign aid as part of their economic persuasion tactic to strengthen respective ideological camps<sup>116</sup>. Pakistan in those days was a prominent Muslim country enjoying the cold war era ideological perks in the form of foreign aid, grant and generous military assistance from the USA. In fact Pakistan was too dear an ally to be allowed to suffer any geographical or geopolitical loss. This reality was reflected in the US attitude towards the war of independence in Bangladesh. The testimony to this special relationship is clearly evident from the speech of President Truman on July 17, 1947, referring to Pakistan as follows-

"Pakistan with a population of seventy million persons, will be the largest Muslim country in the world and will occupy one of the most important strategic areas in the world."<sup>117</sup>

But, the overall economy of Pakistan was not at bay with huge dependency of foreign aid. Bangladesh emerged as an independent state at a time when the external dependency of the then Pakistan was mounting. At the time of independence, project aid worth US \$ 647 million was identified as being visibly located in Bangladesh. The contribution of socialist countries was only 5% and the rest came from non-socialist countries (Sobhan, 1982: 120). The foreign policy of Pakistan was heavily 'tilted' towards the West and domestic policies were directed towards the growth of the capitalistic development. The external relations and internal policies of the rulers of that time enhanced their credibility to the western donors and as a result, 81% of total aid inflow into Pakistan was contributed by DCCs. Thus Bangladesh not only inherited aid dependency but also inherited a concentration of the sources of aid. And since aid is linked with

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<sup>115</sup> This is a unique part of history for Bangladesh as the so called 'freedom' from the British colonial rulers produced a new type of colonialism which is often termed as 'internal colonialism'. The rulers were West Pakistani elites and they attempted more damage to Bangladesh in three decades than the British could do in two centuries. All the resources were transferred to West Pakistan which included revenue earnings as well as, foreign resources. This systematic economic extraction left Bangladesh at the time of independence as one of the weakest nations in the world. The only visible economic hope for independent Bangladesh was its huge agricultural work force and their expertise.

<sup>116</sup> For details read Khan, Naheed Zia. (1995) Foreign Policy Motives of U.S. Aid to Pakistan: The Cold War Years. *South Asian Studies*, Vol-12, No-2, July-1996.

<sup>117</sup> See Hussain, Noor A. (1985) Pakistan –U.S. Security Relations: Arms Sales, Bases, and Nuclear Issues. Published in Leo E. Rose and Noor A. Hussain (ed.), *United States-Pakistan Relations*, University of California, Berkeley.



trade, this one –sided legacy was compounded by inherited trading links with the DCCs (Bayes, 1989:170).

The magnitude of foreign private investment in erstwhile East Pakistan was insignificant. According to an earlier study, at liberation, of the fixed assets in the industry sector, foreign investment constituted only 1%. This low share is partly explained by the relative size, dynamics and the diversity of the West Pakistan economy compared to East Pakistan which contributed towards more investment in West Pakistan (Sobhan, 1981). As mentioned earlier West Pakistan was systematically poured with resources to develop an economic infrastructure and East Pakistan continued to be the supplier of industrial raw materials at a cheaper price to allow the West Pakistani ruling elites dominated by feudal aristocracy and business houses to have maximum profit. In fact economic disparity of East and West Pakistan was building the context of liberation movement. The political movement in the mid 60s known as 'Six Point Movement' led by the Father of the Nation Bangabandhu Sheikh Mujibur Rahman had two points which directly indicated to the economic aspirations and realities of East Pakistan.<sup>118</sup>

Bangladesh inherited its present economic structure from Pakistan, and the latter from British India. In 1947 when the British India was partitioned into India and Pakistan, Bangladesh was essentially a supplier of raw material to the rest of India and importer of manufactured goods (Ahmed, 1989: 116). These historical circumstances provided the basic dynamism of Bangladesh's subsequent economic development and foreign trade relationships with the rest of the world. Till today Bangladesh has not been able to build significant relationship beyond North America, Western Europe and the Muslim world (basically the Middle East). Few countries like Japan and Australia are exceptions in this regard. Till today a consistent element in BFP is its commitment towards the Muslim world (Islamic Ummah).<sup>119</sup> Bangladesh is not an industrial country yet, even not in the agri-industry sector where its natural advantage stands. This state of industry resembles the pre- 1971 era. The infrastructure relevant to foreign affairs has not deviated much in post-independent Bangladesh. It may be argued that, the pre-1971 legacies are still existing (unqualified) - if not fully functional or visible in our foreign relations.

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<sup>118</sup> Point three demanded separate currencies or separate fiscal policies to prevent the transfer of capital from East to West Pakistan. The fifth point was about the right of the provincial government to have trade agreements with foreign countries and full control of the revenue generated from foreign trade (foreign exchange earnings). Read Rashid (2005a) *Bangladesh Foreign Policy: Realities, Priorities and Challenges*. Dhaka: Academic Press and Publishers Library.

<sup>119</sup> The concept of Islamic Ummah is almost a non-existing one in the practice of IR and may be criticized as a sort of psychological comfort at times of crisis in the Muslim world. Bangladesh has also not been able to develop its economic relations with the Islamic world (Middle East) beyond the employment of its skilled and unskilled labor force. Other areas like trade, aid, investment remains insignificant if compared to the 'non-Islamic' part of the global economy.

## **B) Post-independent Mujib Era (1972-75):**

One of the major causes for the declaration of independence of Bangladesh in 1971 was economic emancipation (Halim, 1984:5). The nine month war of independence, besides taking a heavy toll of life and property, left the country on the verge of economic collapse and disintegration of the entire community-life. The survival of the vast masses of people was at stake. On the other hand the long colonial exploitation of the country had left behind an inheritance of a backward economy based on archaic technology and its inevitable concomitants of mass-poverty, mass unemployment, widespread illiteracy.

Among the foreign policy concerns of Bangladesh, the national security interests were naturally paramount. Integral to the concept of security was its economic content which warranted a special thrust in bilateral and multilateral cooperation with a view to accelerating the process of national development through a rapid flow of external resources, an increasing and greater access to the world stock of knowledge and technology and a fair share in international trade (Huq, 1993:202). The post-independent government also focused on the development of South Asian regionalism, particularly regional economic co-operation. Sheikh Mujib during his first official visit to India as Prime Minister at a public meeting held in Calcutta on February 6, 1972 had unfolded his vision of a regional co-operation by stating "Let us bring to an end once and for all the sterile policy of confrontation between neighbors. Let us not fritter away our national resources but use them to lift the standard of living of our people". He further added "We would not be un-wanting with all concerned for creating an era of peace in South Asia where we could live side by side as good neighbors and pursue constructive policies for the benefit of our people".<sup>120</sup>

In the case of Bangladesh the special urgency and the magnitude of the need for external resources is placed in perspective when viewed against the two formidable challenges that confronted the new state of Bangladesh at independence : i) the enormous task of reconstruction and rehabilitation of the war-ravaged country, and ii) the acceleration of pace of economic development of the country, impoverished by long colonial exploitation and reduced to the status of one of the least developed countries of the world (Huq, 1993:202).<sup>121</sup> At liberation in December 1971, Bangladesh inherited an economy where external dependency on food had increased, its external resource gap had widened, and the number and proportion of landless peasants had increased. Along with the incidence of rural poverty, its exports were stagnating and indeed facing a decline in the world market, and its rate of domestic resource generation was contracting. Its limited capacity for self reliant growth had thus been substantially eroded. The traumatic legacy of the liberation war with its massive visitation of

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<sup>120</sup> Bangladesh Observer Feb 7, 1972, Dhaka, Bangladesh.

<sup>121</sup> Also see Halim, M.A. (1984) Foreign Policy of Bangladesh: Framework of Analysis. In Emajuddin Ahamed (ed.), *Foreign Policy of Bangladesh: A Small State's Imperatives*, Dhaka: The University Press Ltd.



death, dislocation of millions of people, damage to the infrastructure of the economy and, last but not least, the major social dislocations caused by the withdrawal of the Pakistani bourgeoisie, posed a crisis of survival for the infant nation state (Sobhan,1988:45). In fact the total cost of re-building the damaged economy estimated by the Bangladesh government was approximately three billion US dollars, about eight times the total annual revenue of East Pakistan in 1969-70. The country had no foreign exchange at the time of its independence because it had not received its share from Pakistan (Tajuddin, 1998:89).

The gigantic task of economic reconstruction needed external economic assistance. In his first press conference as Prime Minister, Sheikh Mujib, appealed to all countries and international humanitarian organizations for assistance.<sup>122</sup> Bangladesh made repeated requests for commodity assistance to the USSR on the political ground that this would contribute towards reducing its dependence on the DCCs. When Prime Minister Sheikh Mujibur Rahman made his first state visit outside the subcontinent to the USSR in February 1972, he carried a big shopping list for commodity assistance. But this was met by only a small grant to procure certain commodities provided by the USSR. Professor Rehman Sobhan (1982:126-127) identified the problems of building links with socialist bloc countries and the incapacity of the USSR to commit any significant volume of food or commodity aid to Bangladesh.

Dhaka at that time needed massive external assistance which in reality only the United States was in a position to pledge. The relationship between Dhaka and Washington was far from satisfactory; inspite of latter's recognition to Bangladesh on 4 February 1972, and pledge for economic assistance. Economic imperatives had compelled Mujib to turn to the West and express his willingness to accept American aid. Most observers believed that he dropped his pro-Indian/pro-Soviet Finance Minister Tajuddin in order to appease the US. The leader of the socialist faction in the government, Tajuddin Ahmed was made to resign on 26 October just prior to US Secretary of State Henry Kissinger's Dhaka visit. The first regular meeting of the Bangladesh Aid Consortium was held in Paris after the resignation of Tajuddin Ahmed. The new Finance Minister represented Bangladesh.<sup>123</sup> The replacement of Foreign Minister Abdus Samad Azad, known to be a staunch supporter of both India and USSR, by pro-American Dr. Kamal Hossain, was believed to have been executed for the same considerations.<sup>124</sup> Similarly, Mujib's attempts to diversify Dhaka's foreign policy options by establishing relations with the US and links with the Islamic World, Pakistan and China ran counter to his alliance links with India and the erstwhile USSR, although they may well have been consistent with Dhaka's promised policy of

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<sup>122</sup> Times of India (New Delhi), 15 January 1972.

<sup>123</sup> Read Tajuddin, Mohammad. (1998) Diplomacy of Bangladesh in the Formative Phase. *BISS Journal*, Volume 19, No. 1, January 1998, pp 68-97.

<sup>124</sup> The Bangladesh Observer (April, 5, 1972) cited in Khan, Zillur Rahman. (1974) Bangladesh and Multipolar Politics in Asia. *International Relations*, Vol. IV.No. 5, May 1974.



non-alignment, good neighborly relations and developing traditional ties with the Muslim countries. Thus the diversification of foreign relations was reflected in diversification of aid flow into the country. Bangladesh received external assistance from five groups of the world: (a) DCCs; (b) international institutions like UN, UNICEF, WFP, IFAD etc; (C) socialist bloc countries and India; (d) member countries of the OPEC; and (e) others. Bangladesh during 1971-1981, received US\$ 10885.6 million in aid (food, commodity and project) (Sobhan, 1982:122-123).

At the very outset, the Mujib regime was faced with a formidable challenge in both internal policies and external relations. The regime was a 'soft' one in the sense that ideologically opposing forces were acting and reacting. The inclusion of socialism and secularism in the constitution marked a substantial departure from the previous state of affairs and notwithstanding the class character of the ruling party, those policies were forced upon by the dominant left wingers both within and outside the party. In the international arena the equation was more dictated by the role of the country (with which relation was sought) during the war of liberation. This political imperative led the Mujib regime to build warm relations with India and the socialist bloc (excluding China). The relations with the US, China and some Muslim countries came under serious strains due to their pro-Pakistan role during the war of liberation (Bayes, 1989:170). Referring to the role of 'Islamic' countries during the liberation struggle, Bangladesh Foreign Minister Abdus Samad Azad had observed:

'None of the Muslim countries had been able to show even the least amount of sympathy not to speak of fellow feeling during the nine-months when the military junta in Islamabad had ordered it's army to crush and subjugate the 75 million unarmed people of Bangladesh.'<sup>125</sup>

Prime Minister Sheikh Mujib reportedly blasted the myth of 'Islamic' world's concern for Islam (Narain, 1987:169) when he said-

'That Arab world did nothing about my people who are also followers of Islam, by permitting Pakistani cruelty'.<sup>126</sup>

The economic imperatives were, however, quite different from the political one. In the immediate aftermath of liberation war, the paramount need of the hour was to avert famine, rehabilitate the refugees and reconstruct the war ravaged economy. These tasks required massive amount of foreign aid. The short run priority needs of the newly born state were such that the conventional lending pattern of USSR and Eastern European countries failed to satisfy. Food aid was virtually absent from their assistance packages. Thus the warm relations with those countries conformed to political imperatives but not economic imperatives. On the other hand, western aid package conformed to its economic imperatives

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<sup>125</sup> Times of India, 14 February, 1972.

<sup>126</sup> Times of India, 28 March, 1972.

but the western aid was viewed with suspicion by the ruling party and its allies due to their role during the liberation war. The Arab world, especially Saudi Arabia, remained hostile to the new regime for the ideological affiliation as well as principle of the ruling regime. Partly also the adverse campaign by Pakistan was responsible for this diplomatic trap (Bayes, 1989:171-2). The non-recognition of some Arab countries and the cold relations with those countries worried the regime because OPEC was a major source of aid. Mujib, therefore, embarked on a diplomatic endeavour to establish friendly relations with these countries. A vigorous diplomatic effort by Bangladesh sparked off to enlist friendship with the Muslim world (Bayes, 1989:172). These diplomatic moves with the US and Arab countries created positive response from these countries as far as aid was concerned. The diversification of foreign relations was reflected in the diversification of aid inflow in to the country. During the Mujib era, DCCs emerged as the dominant donor contributing 43% of total aid commitment to Bangladesh followed by 31% by the international organizations. The share of the socialist bloc and India together stood at 21% as compared to only 5% during Pakistan time. The OPEC's share stood at 5%. Although DCC's share was the dominant one, putting IDA and EEC with DCCs, the share of DCC bloc stood at 57% as compared to 95% of all aid transfers to Bangladesh on the eve of liberation (Sobhan, 1982:123). Within three years Bangladesh had received more aid than it had received in its twenty five years of existence as East Pakistan (Hartman & Boyce, 1983: 268).

The response of foreign private investors during the Mujib regime was adequate to meet the demand of the newly independent country. During 1973/74 to 1974/75, foreign private investment as percentage of the total investment was only 0.04 % and 0.02% respectively. Subsequently the policy was revised but investors still held back. The commitment of the regime to socialism and large scale nationalization after liberation acted as a strong deterrent to increased investment (Bayes, 1989:181). Prime Minister Sheikh Mujib left for Japan on October 17, 1973. Among other topics, the Jamuna bridge figured prominently as well as economic assistance in other fields. During Mujib's visit to Japan, the Japanese Prime Minister promised to send a very powerful economic team to Bangladesh within the next few months to assess the needs of Bangladesh. Thus, the solid foundation of Japan-Bangladesh Economic Co-operation as we see today was established during Prime Minister Sheikh Mujib's visit to Japan in October 1973 (Ahmed, 1994:98).

Volume of export remained low during this regime as there was a protectionist trade regime in the global economy. Also Bangladesh was following an import substituting industrialization policy at that time which was not conducive to the expansion of trade relations with other countries. Reliance on traditional export items like jute, tea did not permit the volume of trade to expand. Remittance for obvious reasons was low as it was a new country and Bangladesh only started to emerge as a labor surplus country.



If the foreign economic relations of Mujib era is analyzed then several prominent features emerge—

- a) There was for obvious reasons strong policy recognition for the need of external economic relations to facilitate economic development and survival of the newly independent country.
- b) Mujib government although identified with ideological affiliation, interacted very diplomatically as well as rationally in terms of upholding national economic interest in Bangladesh foreign economic relations. This is evident from the non-aligned approach of BFP and simultaneous shift toward the USA and its allies in the West and the Muslim world when the Socialist bloc led by the U.S.S.R. failed to meet the high demand of foreign assistance that included massive food aid.
- c) Sheikh Mujib left the mark of his pragmatism in statecraft by shuffling his cabinet to facilitate foreign economic relations as was seen in the case of the removal of his pro-Soviet finance and foreign ministers. These tactical moves facilitated flow of external resources for Bangladesh. Also, the issue that Sheikh Mujib will lead a delegation at the OIC summit at Lahore, Pakistan was a diplomatic surprise which won the hearts of the Muslim countries and membership of OIC for Bangladesh.
- d) During this period Bangladesh attracted huge foreign aid mainly on humanitarian ground, but the credit also should be given to the various tactical shifts in BFP that arranged the most diversified group of donors possible in those intense cold war years. In terms of foreign trade and investment, performance was not very satisfactory. But, in this case one should consider the infrastructural limits of a war ravaged country as the prime cause of failure. Also, the flow of foreign capital at that time was very limited and not in any way comparable to the present day foreign investment or flow of financial resources due to reasons inside and outside Bangladesh.
- e) There was a very strong urge for non-alignment in BFP for practical reason as well as ideological ground. Sheikh Mujibur Rahman, after being released from Pakistani captivity, in his maiden news conference in London declared, "We are a small country. We want friendship with all and malice towards none."<sup>127</sup> The policy of non-alignment was therefore, essential for a country like Bangladesh. It allowed Bangladesh's access to

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<sup>127</sup> Sheikh Mujib was quoted by The New York Times (January 10, 1972). "Friendship with all and malice towards none"- as a foreign policy dictum was actually first used by Hussain Shaheed Suhrawardy, when he was the Prime Minister of Pakistan. Suhrawardy, a staunch pro-western, was credited for having laid the solid foundation of friendly relations between China and Pakistan, and in that context coined the above words (Ahmed, 1994:200).



development assistance from any country which would offer such assistance. Sheikh Mujibur Rahman in his news conference in London on 10 January 1972 declared that Dhaka would accept economic assistance from any source, including the U.S. if there were no political strings attached. The policy of non-alignment was expected to enable Dhaka to have some flexibilities in its development-oriented foreign relations (Choudhury, 1992:47). Dr. Kamal Hossain, the then Foreign Minister, reiterated Bangladesh's faith in non-aligned foreign policy in his speech delivered at the UN General Assembly on 17 September 1974. To quote him:

"Bangladesh has consistently pursued an independent non-aligned foreign policy promoting friendship with all countries of the world on the basis of mutual respect for sovereignty, equality, territorial integrity and non-interference in the internal affairs of other states"<sup>128</sup>.

- f) One very positive aspect of the then Bangladesh foreign economic policy was the recognition for the need of a multilateral development environment and a change in the international economic order. Conceptual basis for Bangladesh's policy towards multilateral co-operation for development was elucidated very effectively within a week of Bangladesh's entry in to the United Nations on 17 September 1974 (K. Chowdhury, 1989). Bangladesh foreign minister said that-

"No greater challenge has been faced by the United Nations than that of marshalling the forces of reason to bring about a just international economic order. This order must not only ensure sovereignty of each state over its natural resources but should also seek to establish a framework of international co-operation based upon recognition of the overriding common interest of the countries of the world in a stable and just economic system. This is the moment when we reaffirm in unequivocal terms that there is an international responsibility to ensure that everyone everywhere should enjoy the economic, social and cultural rights indispensable for his dignity and the free development of his personality as guaranteed to him by the Universal Declaration of Human Rights".<sup>129</sup>

In the year 1975, when the General Assembly convened its Seventh Special Session to adopt a comprehensive set of measures for development and international economic co-operation, regarding the Declaration and Programme of Action of the establishment of the New International Economic Order (NIEO), Bangladesh told the Assembly on 9 September that –

"It is our firm belief that the United Nations should play a pivotal role in bringing about and overseeing the functioning of the NIEO... The NIEO, in our view must contain certain essential elements. It must be so designed as to be responsive to the requirements of growth of the developing countries. It

<sup>128</sup> Speech delivered by Foreign Minister Kamal Hossain at the UN General Assembly on the occasion of the entry of Bangladesh into the United Nations (September, 17, 1974).

<sup>129</sup> U. N. General Assembly (29<sup>th</sup> regular session) Verbatim Records, 1974.

must take into account the fact that, in the past, the efforts of the developing countries to achieve self-reliance have been frustrated, inter alia, through a steady deterioration in the terms of trade and fluctuations in their export earnings. It must ensure that the quantum of transfer of resources from the rich to the poor countries must be adequate to generate cumulative growth. The quality of aid must meet the particular requirements of the developing countries<sup>130</sup>.

- g) One can easily trace the presence of revolutionary rhetoric in the foreign economic policy that Mujib government pursued. The vocal role for a NIEO in the hottest years of cold war rivalry indicates the passion of this government for a just international economic order to ensure economic development of countries like Bangladesh. This is significant also from the perspective that, it was the first government in independent Bangladesh.

### **C) The Post-1975 Zia Era:**

The post-liberation government of Bangladesh was heavily inclined to the Soviet Union, India, and Yugoslavia for some obvious reasons. With the change of regime in 1975 there had been a shift of emphasis to the U.S.A, PRC and the Middle East. Accordingly, the economic relations revolved (Chowdhury, 2004: 16). Soon after the abrupt changes of government in August 1975 Khondaker Mushtaque came to power. The August 1975 coup toppled the Mujib government and installed an apparently rightist government of Mushtaque (Anwar Hussain, 1988:125). Saudi Arabia and China extended recognition to Bangladesh. Since Mushtaq was well-known for his pro-American attitude, his arrival as head of the state pleased those who wanted a shift from Indo-Soviet axis. After a short spell of Mushtaque's rule, Ziaur Rahman emerged as head of state.

With the rise of Zia in power, the emphasis was given on diversifying the availability of external resources to Bangladesh. This goal, as the then Foreign Minister proclaimed, "... presented a challenge in diplomacy which profoundly influenced the sculpting of the foreign policy, in particular, in expanding and diversifying the external relations of Bangladesh. President Ziaur Rahman and I perceived early enough that the success of 'economic diplomacy' depended preeminently on the strength of bilateral and multilateral political relations and in the case of a weak state like Bangladesh on concerting with other nations in mobilizing international support to the flow of larger resources to the less developed countries" (Huq,1993:204). Prof. Shamsul Huq<sup>131</sup>, Minister for Foreign Affairs described the foreign policy under Zia as – "The corner stone of Bangladesh Foreign Policy lies in three basic objectives:

- I. Consolidation of our hard won independence and national spirit.
- II. Safeguarding our sovereignty and territorial integrity.

<sup>130</sup> U. N. General Assembly (7<sup>th</sup> special session) Verbatim Records, 1975.

<sup>131</sup> Address by Professor Mohammad Shamsul Huq, Minister for Foreign Affairs of Bangladesh at the Jatiyo Mahila Sangstha on 12 January, 1979.



- III. Securing the much needed international co-operation in the task of national reconstruction and development" (Ahmed, 1994:207)."

The third objective clearly recognizes government's policy emphasis for external economic relations. During this government's tenure, foreign policy witnessed certain shifts which were aimed at achieving external resources for economic reconstruction and development. During Zia's regime relationship between the USA and Bangladesh improved in a remarkable way. The economic co-operation thus gave way to further political considerations and both the countries started taking similar stands on international events which are of major consequences to the west and the USA. Dhaka's relationship with China grew rather rapidly during this period. The formal establishment of relations began with Beijing's recognition of Bangladesh in September 1975 and it was followed by trade links and economic co-operation in many areas. Relationship with Pakistan and the Muslim countries improved dramatically.

Zia was moving cautiously towards Islamic polity. The constitution was given a definite Islamic orientation and secularism was replaced by Islam (Anwar Hussain, 1988:125). The issue of economic interest with the Islamic world was very categorically declared by Bangladesh at the tenth Islamic Foreign Minister's Conference (May, 1979) when it proposed-

- a. An exchange of capital and human resources.
- b. Proper harnessing of manpower resources for productive use.
- c. Concerted effort to achieve autarky in the basic necessitates of life and strategic materials.
- d. Formation of an Islamic Economic Community (Anwar Hussain 1988:144).

Although Ziaur Rahman viewed the US and other western countries as principal donors, he was also aspirant to get more aid from OPEC and other countries in the socialist bloc. It would appear that the revival of socialist bloc leading to Bangladesh after 1978 owed in part to a conscious diplomatic move by Bangladesh to revive political ties at least with a view to tapping all sources of aid to finance the Second Five Year Plan (Sobhan, 1982).

Unlike the Awami League, a party with ideologically opposing forces inside, Zia headed a party consisting of homogeneous right wingers who dominated the policy issues at that time. Ziaur Rahman could well visualize that in a country of endemic poverty and with a backward economy, foreign aid was the panacea and the relations with principal donors must be improved. In external affairs, warm relations with India and the socialist bloc came to a freeze for a while. Unlike his predecessor Sheikh Mujibur Rahman, who had criticized American policy, Zia was careful in not irking Washington too much. Relationship with Peking improved considerably so much so that China began its aid commitment



to Bangladesh during the Zia regime (Bayes, 1989:172). In 1976 Pakistan established full diplomatic relations with Bangladesh and in the same year in April Bangladesh and Nepal signed a four-point agreement on technical co-operation, trade, transit and civil aviation. Both these moves negatively affected the Indo-Bangladesh economic relations and Bangladesh's progress in regional economics.

Contrary to his predecessor Shiekh Mujib, Ziaur Rahman initiated a number of policy changes in the economy. His domestic economic policies were geared to expand the role of the private sector. These policies increased the credibility of the Zia regime in the eyes of the western donors. The aid inflow increased manifold during the Zia regime. The average annual commitment of aid was US \$ 1218 million as compared to US \$ 828 million during the Mujib regime. With respect to actual disbursement of aid, it was US \$ 928 million during the Zia regime as against US \$ 54 during the preceding regime. The proportion of aid disbursement to commitment was 76% and 66% respectively during the two regimes (Bayes, 1989:177).

After August 1975, there seems to have been a three year freeze in aid relation between Bangladesh and the European socialist bloc. This situation improved after 1978 as most of the socialist countries including the USSR made its first big aid commitment after 1975. The share of the socialist bloc and India to the total aid commitment stood at about 4 and 5 percent respectively during the two phases of the Zia regime (Bayes, 1989:178).

As a result of the change of government in August 1975, like other changes in policies, a significant shift in the government's economic policies towards private foreign investment was initiated in December 1975. The response of foreign private investors during the Mujib regime was very poor. During 1973/74 to 1974/75, foreign private investment as percentage of the total investment was only 0.04 % and 0.02% respectively. Subsequently the policy was revised but investors still held back. The commitment of the regime to socialism and large scale nationalization after liberation acted as a strong deterrent to increased investment (Bayes, 1989:182). During the Zia regime, a significant shift in the government's economic policies towards private foreign investment was initiated in December 1975. Among the changes worth mentioning are : rise of the investment ceiling to Tk.100million, measures to expand the role of the private sector investment permitted in ten sectors previously reserved for public sector etc. As a result of these policy changes the percentage rose sharply to 3.86 in 1975/76; but the enthusiasm was lost in subsequent years and from 1976/77 to 1982/83, the proportion, on average remained at 0.64. Zia regime initiated the real shift from import substituting industrial and protectionist trade policies towards export oriented industrial policy. This shift of policy was also a positive element for the expansion of external economic relations.

In carrying forward her foreign policy objective of diversification, Bangladesh missions abroad, foreign missions in Bangladesh, and the international forums like the UN systems, the NAM, the G-77, the OIC, and the Commonwealth, were used for strengthening relations with the resource-rich countries like the DAC and OPEC countries and the multilateral institutions like the World Bank, the IMF, the UNDP, UNICEF and other bodies within the UN system. Special attention was paid to relations with Japan. As a result of the 'economic diplomacy' adopted in post-1975 period, the total quantum of aid in grants and loans increased from US \$ 7,164.082 million during the first five years after independence (1971/72 to 1975/76) to US \$ 15873.262, that is, more than twofold during the next five years (1976/77 to 1980-81) (Huq, 1993:204-207).

A major feature of the Ziaur Rahman regime was the proposal that he forwarded to the South Asian leadership for a regional forum which later on emerged as SAARC with major areas for the exercise of economic diplomacy in the form of SAPTA and SAFTA.<sup>132</sup>

Several prominent features may be identified from the Ziaur Rahman regime—

- a) There was continuity in the content of foreign economic policy as the emphasis on foreign aid and external economic resources remained unchanged.
- b) Ziaur Rahman brought some major changes in the domestic economic policy which enhanced the role of the private sector and welcomed foreign private investment.
- c) There was a clear ideological tilt in favor of the USA and its allies in BFP. The relationship with the Islamic countries flourished to a special height. The opening of labor market (skilled and unskilled) in the Middle Eastern Muslim countries started during Zia regime.
- d) China and Japan emerged as major allies in Bangladesh external economic relations with their generous approach to the development requisites of Bangladesh. China in fact turned to a major source of military assistance. Japan-Bangladesh relations entered a new phase, particularly after the successful handling of the Japanese aero plane hijacking in Dhaka airport.<sup>133</sup>

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<sup>132</sup> President Zia initiated a formal dialogue on SAARC. Just before he was assassinated the first Foreign Secretaries meeting of the SAARC countries took place at Colombo from April 21 to 23, 1981 (Ahmed, 1994:207).

<sup>133</sup> Japan Airlines Flight 472 was hijacked by the Japanese Red Army on September 28, 1977. The Douglas DC-8, en route from Paris to Haneda Airport in Tokyo with 156 people on board, stopped in Mumbai, India. Shortly after taking off from Mumbai, five armed JRA members hijacked the aircraft and ordered it flown to Dhaka, Bangladesh. At Dhaka, the hijackers took the passengers and crew hostage, demanding \$ 6 million and the release of 9 JRA members. On October 1, Japan accepted the demands of the hijackers. A chartered JAL flight carried the



- e) Ziaur Rahman should be remembered for his pivotal role in the creation of SAARC as well as South Asian economic regionalism.
- f) This regime successfully expanded the external economic network of Bangladesh. In comparison to the previous regime, there was a balance of approach by this government if its relationship to the cold war era rival power blocs is considered. Foreign aid, investment and flow of remittance improved compared to the war ravaged post-independent Mujib era. Foreign trade witnessed a gradual improvement with no remarkable achievement.

#### **D) The Ershad Regime (1982-90):**

The shift in the foreign policy that began under President Zia, had been continued by the Ershad regime. Keeping in mind the developmental requirements of Bangladesh, Ershad sought to further build up Dhaka's friendly relations with Washington, Beijing and the Muslim countries. Ershad's coming to power on 24 March 1982 by ousting the newly elected government of Sattar marked a shift towards Islamic orientation of Bangladesh. In two of his initial speeches Ershad made it clear that Islam would be the only basis of state policy (Anwar Hussain, 1988: 125). Relationship with India, though continued to be bedeviled by a host of outstanding issues, yet had improved a little. The Bangladesh-USSR relationship, which was fractured and plummeted to a bottom low in 1984 after Dhaka's ouster of Soviet diplomats in December 1983, had also improved. The rapprochement, which was underway since Soviet leader Gorbachev's coming to power, has been successful. New barter trade agreements and credit accords signed in 1985 relaxed the strained relationship. It was further improved with the visit of the Soviet Deputy Foreign Minister in August 1985 and Dhaka's permission to reopen the USSR cultural centre in Dhaka which was closed since 1983. In order to enhance economic co-operation, finally in December 1985, SAARC was officially launched<sup>134</sup>. During Ershad's period the most notable development was the launching of SAARC, initiated by Zia which followed its logical course and was formalized in the first SAARC Summit in December, 1985 (Ahmed, 1994:207).

The average annual aid commitment during Ershad regime (unto 1987-88) stood at US\$ 1776 million as compared to US\$ 1333 million during the Zia regime and US\$ 828 million during the Mujib regime. During the Ershad regime there was a

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money and 6 of the 9 imprisoned JRA members to Dhaka, where the exchange took place on October 2. The hostage crisis finally concluded in Algeria ([http://en.wikipedia.org/wiki/Japan\\_Airlines\\_Flight\\_472](http://en.wikipedia.org/wiki/Japan_Airlines_Flight_472)).

<sup>134</sup> The original process of establishing SAARC goes far back to the Mujib era when he reportedly had expressed such an interest on his way back to Dhaka from London in 1972 (after being imprisoned in Pakistan during the war of liberation). President Ziaur Rahman later on very strongly pursued the establishment of SAARC.



further gradual liberalization of government's attitude towards foreign investment. As a result, the percentage of foreign private investment in the total investment rose to 2% (Bayes, 1989: 180-182).

The government of H.M. Ershad continued to uphold the policies and principles, both domestic and external, set out by the previous regime. The shift in the foreign policy that began under Zia had been continued by the Ershad regime. Keeping in mind the developmental requirements of Bangladesh, Ershad sought to further build up Dhaka's friendly relations with Washington, Beijing and the Muslim countries (Choudhury, 1992:53). In 1986 Bangladesh and Germany signed an investment promotion and protection agreement which later on facilitated German investment in Bangladesh and bilateral economic relations among the two.

In a statement before the parliament in July, 1987, the Foreign Minister of Bangladesh mentioned that the principal objective of Bangladesh's foreign policy is to protect and promote the interests of Bangladesh in the outside world, to develop close and co-operative relations with other countries and international organizations, based on mutual interest in accelerating the socio-economic development process in Bangladesh, to explore new areas of co-operation, particularly in the economic and commercial areas, with nations of the world, to strengthen such relations, and to ensure establishment of justice and equity in international relations<sup>135</sup>.

The following salient feature can be drawn from the Ershad regime –

- a) This regime led by President Ershad was a continuation of the policies undertaken by his predecessor President Ziaur Rahman. There was no creative approach or new elements in the external economic affairs as a whole.
- b) In terms of foreign economic policy Ershad government continued to seek foreign aid, investment and trade. The increasing export of manpower to the Middle East was a notable achievement of this regime.
- c) Even though there was increase in foreign trade, there was no significant improvement in foreign investment. These trends indicate that, Ershad regime could not portray Bangladesh as a credible place for foreign investment.
- d) In comparison to the two previous regimes (the Mujib and Ziaur Rahman era) Ershad inherited a much stable and workable state machinery at his disposal that he failed to utilize due to the inherent

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<sup>135</sup> Bangladesh Jatiyo Sangshad (National Parliament) Proceedings, 1987 volume.

limitation of the military base of this regime. Foreign affairs was not an exception in this paradigm.

- e) Ershad regime can be criticized for its failure to have any credible impact on Bangladesh foreign policy during its long tenure. Foreign policy was guided by the principle of 'narrow regime interest' and not national interest. So, the survival of the regime remained the prime concern for the state craft. Demanding areas like economic aspects of foreign policy were not awarded due attention.
- f) The constructive role that, Bangladesh played during 1982-83 as the chairman of "Group of 77" (which is an informal association of developing nations) was a praise worthy aspect of this regime. This is important from the perspective of the struggle of developing nations for a fair global economy.
- g) Although public opinion is not historically a serious concern for BFP, during this regime this trend was institutionalized. Public opinion and demand for greater involvement in international economy is an important pre-requisite for a successful foreign economic policy.

### **E) The Khaleda Zia Regime (1991-96)<sup>136</sup>:**

This regime led by Begum Khaleda Zia was the first post cold war regime in Bangladesh as well as the first democratically elected government with a cabinet form of governance. The post cold war dynamics and the emerging forces of globalization forced the government to re-think its foreign policy priorities. In the wave of liberalization, globalization and privatization Bangladesh also moved towards enhancing trade and investment for the economic development of the country. These developments added extensive economic content to the foreign policy of Bangladesh (Bhardwaj, 2003:273). Also an inner dynamic of the government was its democratic nature which prompted it to respond to the quest for better life by its citizens. So, economic diplomacy emerged as a natural option. Another dominant feature in this matrix was the increasing activities of WTO and the mushroom growth of regional economic organizations. Considering the need for change to give boost to economic diplomacy, the then BNP government in 1994 set up a special committee headed by Mr. Manzur Morshed Khan, special envoy to the Prime Minister Khaleda Zia.

The recommendations of the Committee<sup>137</sup> headed by Morshed Khan who was also then a member of Parliamentary Standing Committee on foreign affairs was

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<sup>136</sup> This is the first phase of Prime Minister Khaleda Zia's regime who was elected again in the year 2001. This regime is a significant part of Bangladesh history as it ended the decade long military dictatorship of Lt. General Ershad and the beginning of democratic governance with very visible implications on public policies including foreign policy.



prepared in seven months time. Prepared in two volumes, the report contained more than 50 recommendations and several observations. This report highlighted the importance of economic diplomacy and put forward a set of recommendations which would enable the Foreign Ministry to carry out its responsibilities in this area more effectively.<sup>138</sup>

The 'Report of Special Committee on Foreign Affairs' (1995, Vol.-I:90) categorically mentions that,

"The Committee concluded that in the changed global scenario there is a shift away from the conventional view of diplomacy dealing with mainly security and political work to economic diplomacy where emphasis would be on economic, social and environmental work."<sup>139</sup>

This regime at the beginning received a very generous gesture of good will by France when in 1991 France cancelled Bangladesh's public debt worth FRF 598 million<sup>140</sup>. In terms of maintaining relations with foreign countries the special emphasis on the USA and the West European countries for the reason of foreign aid and trade continued. The concept of Islamic Ummah got a new boost due to the policy emphasis of the ruling regime. There was a continuation of the 'special relationship' with the Muslim world. Relationship with India did not improve and thereby the opportunity for a fruitful regional trading arrangement was never in existence. Relations with China witnessed cognizable improvement. Japan continued to grow as a major development partner. There was a bilateral double taxation accord since 1993 with Germany who over the years has emerged as a very important economic ally.

The following conclusions can be drawn from the first tenure of Begum Khaleda Zia-

- a) Economic diplomacy was officially recognized as the principal objective of Bangladesh foreign policy.
- b) The government of the day felt the need to form a high level committee to evaluate BFP, it is clear that there was huge

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<sup>137</sup> The Committee members picked up for their wide expertise, interviewed more than 150 experts in foreign policy and other areas.

<sup>138</sup> See Sobhan, Farooq. *Focus on Economic Diplomacy: the priority tasks* available at the <http://www.bei-bd.org/docs/fsi.pdf>. Farooq Sobhan is a former Foreign Secretary and Executive Chairman of the Board of Investment in Bangladesh. At present he is the President of Bangladesh Enterprise Institute.

<sup>139</sup> On 3<sup>rd</sup> November, 1994 a committee was formed to evaluate and recommend on the task of the Ministry of Foreign Affairs. Mr. M. Morshed Khan led the committee and this committee was later known as 'Morshed Committee'. The committee submitted its reports in July, 1995. Till today most of the recommendations of that committee remains unattended even though some six years later the chair of that committee himself had the opportunity to serve as the Foreign Minister for four and half years. A major emphasis of the report was economic diplomacy.

<sup>140</sup> See the article titled 'Foreign relations of Bangladesh' at Wikipedia, the free encyclopedia ([http://en.wikipedia.org/wiki/Foreign\\_relations\\_of\\_Bangladesh](http://en.wikipedia.org/wiki/Foreign_relations_of_Bangladesh) accessed on 05.02.09)



emphasis on building an effective foreign policy spear headed by economic diplomacy.

- c) One may argue that, this regime initiated the beginning of the post cold war era BFP and tried to accommodate some prominent feature of the new international order. Economic diplomacy, economic regionalism, emphasis on foreign trade etc. came up as serious concerns in BFP.
- d) This government failed to reap economic benefit from a host of Central Asian Muslim countries who emerged immediately after the disintegration of USSR and needed all sorts of assistance. The government failed to build fruitful economic relations with the newly emerged countries in the form of trade relations. This may be identified as the loss of a 'historical opportunity'.
- e) Export from Bangladesh experienced an incremental trend during this regime, primarily with the growth of the RMG sector. Remittance earning also increased as the external job market for Bangladeshis expanded.

#### **F) The Sheikh Hasina Regime (1996-2001):**

The government headed by Prime Minister Sheikh Hasina recognized as well as realized the potential role of diplomacy in facing economic challenges. On 24 June, 1996, in her first encounter with the Dhaka based heads of diplomatic missions and international agencies as Prime Minister, Sheikh Hasina said that the essence of the country's foreign policy would be economic diplomacy. She also added that, every effort would be made to boost exports, explore employment opportunities for Bangladeshi nationals abroad, to make Bangladesh specially attractive to foreign investors and to enhance the image of the country abroad<sup>141</sup>. The Awami League government initially had four principal foreign policy tasks: boosting of its prevailing poor image abroad, vigorously pursuing economic diplomacy in order to promote Bangladesh's economic interests, maintaining and strengthening ties with the countries of the Muslim world, particularly with the oil-rich Gulf states and significantly improving relations with neighbors, particularly India.<sup>142</sup>

The policy statements of the Prime Minister, Foreign Minister and officials of the Ministry of Foreign Affairs made it clear that, the government attaches highest priority to enhancing economic interest and development of the country. Economic diplomacy of the AL regime as declared by the government was pursued through five strands<sup>143</sup>--

<sup>141</sup> *Bangladesh Foreign Policy Survey*, Vol-2, No. 2, April-June 1996, P. 1-2, BISS, Dhaka.

<sup>142</sup> *Bangladesh Foreign Policy Survey*, Vol-2, No. 3, July-September, 1996, P. 1, BISS, Dhaka

<sup>143</sup> *Ibid.*

- a) The government was undertaking certain domestic measures with a view to reforming the economy in line with the global trend, attracting foreign investment and boosting export.
- b) The Prime Minister, her cabinet and Foreign Secretary visited countries like the United States, Japan, China, France, Korea, Vietnam, Malaysia and Hongkong. Their basic objectives were to promote economic and trade co-operation and convince the prospective public and private sector investors to come and invest in Bangladesh by informing them about the economic opportunities in Bangladesh.
- c) The third strand is to maintain the quantum of foreign aid from donor countries and donor agencies.
- d) The fourth is to remove challenges to the country's economic interests abroad.
- e) The fifth strand is to hold seminars, conferences, workshop and symposia both at home and abroad on investment opportunities in Bangladesh and organize export fairs.

Prime Minister Sheikh Hasina gave priority for attracting foreign direct investment into Bangladesh. Former Foreign Secretary Farooq Sobhan<sup>144</sup> summarized the efforts of PM Sheikh Hasina as follows-

"She has personally spearheaded the drive for foreign direct investment through her various visits abroad. During her visits abroad, her direct participation in discussions with the leading businessmen of international repute and the Chief Executives of Industrial multinational yielded very fruitful results. During her visits abroad, Prime Minister Hasina also made a fervent appeal to the overseas Bangladeshi communities to invest in Bangladesh and become development partners in the progress of the country."<sup>145</sup>

Foreign minister Abdus Samad Azad emphasized the obvious again: 'the foreign ministry and its missions abroad must vigorously take a role complementary to domestic economic development efforts'<sup>146</sup>. The government's emphasis on economic diplomacy has found an effective platform in their efforts to form two new economic blocks. One of them is D-8, an organization of eight Islamic countries which promises to spur economic activity in the form of rural development, science and technology, banking, agriculture, humanitarian development, energy etc. The second one is BIMS-TEC which groups together Bangladesh, India, Myanmar, Sri Lanka and Thailand. The government of Prime Minister Sheikh Hasina (1996-2001) has joined with Bhutan, India and Nepal to promote co-operation on some specific infrastructure projects on geographical contiguity. At the initiative of Prime Minister Hasina the first Tripartite Summit was

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<sup>144</sup> Farooq Sobhan is a former Foreign Secretary and Executive Chairman of the Board of Investment in Bangladesh. At present he is the President of Bangladesh Enterprise Institute.

<sup>145</sup> See 'Sheikh Hasina: Her Initiatives for Attracting Foreign Investment' by Farooq Sobhan (available at <http://www.un.int/bangladesh/ga/st/others/boi-article.htm>).

<sup>146</sup> See the Editorial, 'Economic diplomacy still a cacophony: A recipe for action suggested' in The Daily Star, Dhaka, Bangladesh 01/11 / 2002.

held in Dhaka in January, 1998. The Summit was attended by the Prime Ministers of India and Pakistan along with some leading businessmen from both these countries. The Summit provided a major impetus to trade and investment in the subcontinent.<sup>147</sup>

Prime Minister Sheikh Hasina during her inaugural speech at the UN General Assembly (51<sup>st</sup> session, 23-31 October, 1996) placed a 12 point agenda. Prominent aspect of the speech was the role of the UN and international community for poverty alleviation and the issue of a just international economic order.<sup>148</sup>

Several prominent features of this regime's external economic relations may be summarized as follows-

- a) Prime Minister Sheikh Hasina's government continued the emphasis of the previous government in pursuing foreign economic policy to meet the development challenges at home.
- b) This government integrated Bangladesh to two new economic blocs- D-8 and BIMS-TEC. Although, the outcome of this integration has remained largely an 'ornamental' one, the intention of the regime remains clear—fruitful regional economic relations.
- c) Two related events both involving India happened during this era. One was the signing of the treaty for sharing the waters in the Ganges which is the life line for a vast geographical territory in India and Bangladesh. Also the insurgency movement in the Chittagong Hill Tracts stopped due to a peace treaty between the insurgents and the government. These two landmark success of 'neighbor hood foreign policy' definitely had a positive impact on the economic development of Bangladesh.
- d) As evident from the data that, export continued the steady growth that started in the post cold war years. Foreign aid in the form of grant decreased in comparison to the available loans -essentially a post- cold war syndrome in external economics. Foreign investment saw sharp rise and it continued to increase during this regime.

### **G) Prime Minister Khaleda Zia's Second Tenure (2001-2006):**

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<sup>147</sup> See '*Sheikh Hasina: Her Initiatives for Attracting Foreign Investment*' by Farooq Sobhan (available at <http://www.un.int/bangladesh/ga/st/others/boi-article.htm>).

<sup>148</sup> *Bangladesh Foreign Policy Survey*, Vol-2, No. 4, October- December, 1996, P. 6, BISS, Dhaka.



On October, 14, 2001 Foreign Minister Prof. AQM Badruddoza Chowdhury outlined that the BNP government's foreign policy will primarily concentrate on achieving economic freedom through increased focus on economic diplomacy. In his own words-

"Bangladesh's diplomacy will be fully directed towards winning economic freedom. That could only be achieved by gearing our foreign policy apparatus".

He also said that the government would attempt at greater co-ordination between related ministries like industry, commerce, manpower, labor and tourism so that a unified thrust could be made "to mobilize and market the resources and derive the maximum economic benefit". The three priorities outlined by the Foreign Minister for maximizing economic diplomacy are – to attract foreign investment, to co-ordinate with other ministries to increase exports and to maximize the resource utilization of the manpower working abroad.<sup>149</sup> The then State Minister for Foreign Affairs Reaz Rahman described economic diplomacy as one of the basic elements of Bangladesh foreign policy.<sup>150</sup>

Also, there was a clear recognition of the realities that Bangladesh would face in terms of globalization. If the speech of the second Foreign Minister of this regime is analyzed then the two contrasting sides of globalization is clearly evident. Bangladesh Foreign Minister Mr. M. Morshed Khan at the inaugural session of a seminar said <sup>151</sup>--

"We firmly believe that globalization has a major role to play and opportunity to offer to us in terms of increasing trade opportunities and prospect for flow of capital into Bangladesh. As the recent economic trends have confirmed increasing globalization has led to greater specialization, greater mobility of capital and technical know-how as well as significant increase in global trade flow. Production processes have also undergone radical transformation and these are not confined to one country or one area."

He continued saying that,

"One major feature of recent trends in international trade has been that the benefits from globalization have not been shared evenly. While some countries have benefited from it most others have found it extremely difficult to fully benefit from the increasing flow of two way trade due to globalization. It is disconcerting that, in the process of increasing globalization, the interest

<sup>149</sup> See *The Daily Star*, Dhaka, Bangladesh Volume 3, Number 755, Monday, October 15, 2001. This was the inaugural press briefing by the new Foreign Minister after the BNP formed the government.

<sup>150</sup> This was part of his speech at the concluding session of a workshop titled, '*Diplomatic Negotiations and Economic Diplomacy of Bangladesh*' at the BIIS, Dhaka. See also the news published by *The Independent*, 02/08/02, Dhaka, Bangladesh.

<sup>151</sup> Statement by Mr. M. Morshed Khan, M.P., Hon'ble Foreign Minister of Bangladesh in the inaugural session of the seminar on 'Globalization: Threat or Promise for Bangladesh?' organized by the Institute of Chartered Accountants of Bangladesh, Dhaka, 30 March, 2002. (available at <http://www.mofa.gov.bd/statements/fm5.htm> ).

of the Least Developed Countries has largely been by-passed. Thus, while in most of these countries conscious efforts are being made to open up their national markets, their access to global markets remains problematic due to a variety of reasons."

Also due to his business experience and as the Chair of the Morshed Committee on Foreign Affairs, Bangladesh Foreign Minister Mr. M. Morshed Khan could pin point the key focus for economic diplomacy. In an address<sup>152</sup> he said that, Bangladesh is energizing economic diplomacy and seeking a competitive edge in the current globalised world in five other key areas—access to new markets and enhancing export to the old ones, investment, manpower export, development assistance, and information and communication technology.

The second tenure of Khaleda Zia gave Southeast and East Asia special consideration in its foreign relations. The economic significance of this area, geographical proximity as well as geo-political and geo-economic realities promoted this policy which was termed as 'Look East Policy'. Beginning in December 2002 Bangladesh foreign relations have taken a new turn with bilateral visits at the highest political level between Bangladesh, Thailand, China, Myanmar, Singapore (Hussain, 2005:1). Prospect for economic gain has been the official rationale for this move, but analysts believe that the lack of economic benefit from SAARC was one of the driving forces behind this policy move. But, the timing of this policy move was at the fag end of the regime which restricted the maturity of this vision.

A significant agreement with German Development Cooperation (GTZ) was adopted in May 2004. GTZ has contributed to the enhanced competitiveness of the private sector and in particular the RMG (Ready Made Garments) sector which is the heart of Bangladesh's export. In 2005, Bangladesh signed the APTA (Asia Pacific Trade Agreement) which aims to reduce trade gaps between Bangladesh and other nations such as China, South Korea and India. Duty free access to Bangladeshi products was another aim of this agreement. In a contrast on May 14, 2006 in the Bali conference of D-8 countries Bangladesh emerged as the only country not to sign a preferential trade agreement.

On August 4, 2006 Bangladesh signed trade agreement with Cambodia in Phnom Penh. This trade agreement was aimed at further expanding and strengthening bilateral trade relations. Also, in 2006 Bangladesh and Iran signed a preferential trade accord to remove non-tariff barriers with the hope to reach a free trade agreement.

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<sup>152</sup> Statement by Mr. M. Morshed Khan, M.P., Hon'ble Foreign Minister of Bangladesh at the certificate awarding ceremony of the course on "Diplomacy, International Relations and Foreign Policy" organised by the Bangladesh Enterprise Institute (BEI) on July 05, 2005. Related news at the The Daily Star, Vol. 5, Num 394, Wed. July 06, 2005, Dhaka, Bangladesh (<http://www.thedailystar.net/2005/07/06/d50706012114.htm>)



During this regime; there was no significant deviation in the practice of economic diplomacy in this era. On July 06, 2005 the chairman of the Parliamentary Standing Committee on the Ministry of Foreign Affairs was quoted to have said that—

“Economic diplomacy is the most vital aspect for foreign policy... but it is unfortunate that the performance of the Foreign Ministry in economic diplomacy is not satisfactory”.<sup>153</sup>

Some salient aspects of this regime are as follows-

- a) Even though the expectation was very high with the appointment of Mr. Morshed Khan as the Foreign Minister and a career diplomat Mr. Reaz Rahman as the State Minister, no visible professional progress could be identified. Economic diplomacy continued to remain as a ‘tiger’ on paper.
- b) The ‘Look East Policy’ as a new prescription in BFP was just another softly designed mantra for economic diplomacy and with the end of this regime it is likely not to be pursued. But, it needs to be recognized that, it is one of the few policy directives that, Bangladesh has openly declared and committed to some extent.
- c) Trade relations with China reached a record level in 2006 with \$ 3.2 billion under the auspices of APTA.
- d) During this regime, the ‘visibility’ of fanatic Islam as an active segment of the political process in Bangladesh posed a threat to its image in international affairs. International print and electronic media widely publicized this aspect of Bangladesh politics. In the post 9/11 world order, a situation like this was particularly embarrassing as well as difficult for the ruling regime which other wise is identified with the spirit of global capitalism.
- e) Irrespective of domestic problems, this regime experienced impressive economic growth. The average GDP growth rate was 6.0% plus which is the highest rate for a regime in Bangladesh till FY 2006-7. External economic resources primarily in the form of export and remittance played a significant role in this growth. Flow of remittance from expatriate workers was very encouraging during this regime.

For a credible discussion of the external economic relations of Bangladesh, the regime based discussion of Bangladesh foreign policy needs to be complemented with Bangladesh involvement in various international and regional

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<sup>153</sup> See ‘JS body blasted poor economic diplomacy’, *The New Nation*, July 07, 2005, Dhaka, Bangladesh. This was a report by the staff reporter of that newspaper. The then chairman of the Parliamentary Standing Committee on the Ministry of Foreign Affairs was ruling party (BNP) MP Barrister Ziaur Rahman Khan.



organization. Economic development initiatives in Bangladesh is heavily dependent on international financial organizations like World Bank, IMF, ADB, IDB, UNDP etc. This dependency over the years has expanded from financial to the policy level also. Economic policy in Bangladesh like many developing countries do consider the advice and policy guidelines of these international organizations with utmost sincerity and often 'questionable allegiance'<sup>154</sup>.

At the regional level Bangladesh is involved with SAARC, BIMSTEC<sup>155</sup> and lately ASEAN. South Asian Regional Co-operation (SARC) got off the ground on 2 August, 1983 with an Integrated Programme of Action (IPA) in a conference of the foreign ministers of seven South Asian nations.<sup>156</sup> SARC was re-named as South Asian Association for Regional Co-operation (SAARC) by the Dhaka summit on 8 December 1985 (Ahamed, 1989:58). In the year 2005 during the 13<sup>th</sup> Summit, Afghanistan was included as the 8<sup>th</sup> member of SAARC. The EU, USA, China, Japan, South Korea, Iran has observer status in SAARC.<sup>157</sup> But, none of these regional affiliations have produced any significant out come for Bangladesh in regard to the contribution to the national economy. SAFTA and SAPTA which are offshoots of SAARC- are still not active in a credible way. The content of South Asia in terms of the members concerned and their respective national power has remained a fundamental obstacle to the growth of regional co-operation. India as a regional power has failed to create confidence among its smaller neighbors. And also neighbors like Bangladesh, Pakistan, Sri Lanka has failed to evolve a strategy to maintain a fruitful relation with India. The political culture in these three South Asian countries do have a credible element of anti-Indian emotion. In this regard it needs to be mentioned that, India actively intervened in the liberation war of Bangladesh. But over the years, Bangladesh-India relations has witnessed many ups and downs. There is an alarming rate of trade imbalance with India and due to geographical limits the illegal intrusion of commercial commodities to Bangladesh is also huge. Also, Bangladesh has failed to reap any significant benefit from the regional economy. This is one of the major areas of failure in our economic diplomacy. Trade relations among South Asian countries is not an encouraging one. But, it has enormous potential to develop. A careful look at the strengths and weakness of the South Asian economies will reveal that, many major problems like food and energy security can be successfully met with regional co-operation. The performance of South Asia as a region in terms of regional economic relations is not encouraging even though it is blessed with all the ingredients for a fruitful regional economy. The

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<sup>154</sup> From the perspective of national interest of Bangladesh.

<sup>155</sup> Regional economic co-operation arrangement among five Indian ocean rim countries, viz Bangladesh, India, Myanmar, Sri Lanka and Thailand is known as BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation).

<sup>156</sup> Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan & Sri Lanka are the original members of SARC.

<sup>157</sup> For an elaborate discussion on the implications of the expansion of SAARC in terms of membership and observer status, read Razia Sultana (2007), 'Expansion of SAARC: Implications for South Asia', *BISS Journal*, Vol. 28, No. 2, April 2007: 140-162.

following table illustrates a comparison among various regional trade organizations.

*Table -4: Trade Complementarity Index of Major Trading Blocs*

<i>Trading Blocs</i>	<i>Trade Complementarity Index (TCI)</i>
South Asian Free Trade Area (SAFTA)	1.3
North American Free Trade Area (NAFTA)	56.3
European Union (EU)	53.4
Andean Pact	7.4
Mercosur	28.6
Canada –USA FTA	64.3
Latin American Free Trade Area (LAFTA)	22.3

**Source:** Pitigala, Nihal, (2005), 'What Does Regional Trade in South Asia Reveal about Future Trade Integration? Some Empirical Evidence', World Bank Policy Research Working Paper 3497, February 2005, p. 28.

Economic diplomacy or commercial diplomacy initiated by the private sector in Bangladesh needs to be recognized, although like the private sector their efforts are not organized. The efforts of various trade and commerce associations like the BGMEA, FBCCI, DCCI and foreign chamber of commerce and industries active in Bangladesh like AmCham, ICC etc. are noteworthy. As the primary focus of this thesis is foreign economic policy led by the government, there is no attempt to elaborate the discussion on these efforts.

The discussions above allows to high light following trends in Bangladesh external economic relations-

- a. Due to development realities in Bangladesh, all the regimes were compelled to pursue economic relations with the outside world. These efforts and regime wise commitment is marked by variations as it was discussed in the previous section.
- b. Bangladesh's bilateral economic relations has remained more effective in comparison to regional and multilateral relations. Failure to promote an effective regional economic relations can be identified as a major weakness of it's economic diplomacy.
- c. Bangladesh has not attained as well initiated a credible approach towards professional economic diplomacy. Also, there is the absence of a guideline in regard to foreign economic policy. Various regimes have only declared commitments in case of economic diplomacy with no significant efforts towards institutional and professional development in economic diplomacy.
- d. Continuity of efforts and policy seems non-existent in Bangladesh foreign policy which economic diplomacy could not escape.
- e. Economic diplomacy and foreign economic policy are highly demanding areas in external relations. It is evident that, Bangladesh needs the basic

arrangements in place before it heads towards attaining the status of a credible actor.

- f. Private sector although has played pivotal role in most areas of external economic relations, no regime can claim that they have ensured meaningful partnership and participation of the private sector in attaining objectives of external economic relations.
- g. Participation of political leadership and parliament has not been at the required level in various issues in foreign policy. Economic diplomacy is no exception in this regard.
- h. The increasing trend in the statistics of Bangladesh external economic relations (export, investment, remittance etc.) like many government data excludes the opportunity cost and the issue of maximum utilization of a given situation. All the regimes in Bangladesh have their statistical claims of positive achievements and increase in the figures. However, the ground reality retains Bangladesh as one of the poorest countries in the world with forecasts from credible sources that, the situation will not lead Bangladesh in the rank of a middle income country till 2020 even if there is an all out positive trend in the economy<sup>158</sup>.
- i. Bangladesh economy seems more vulnerable to the external economic forces in comparison to other similar countries. Economic globalization has only enabled us a conceptual clarity and attached a firm recognition of the trend in Bangladesh. All these indicate that, relevance of foreign economic policy to national economic development is likely to increase.

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<sup>158</sup> See Bhattacharya and Deb (2006) for the projection of economic growth of Bangladesh till 2020. The study claims that, Bangladesh is destined to remain in the row of LDC till 2020.



**Chapter 7:**

***An evaluation of the relevant data  
regarding the implications of  
external economic resources  
in Bangladesh***

## 7. An evaluation of the relevant data regarding the implications of external economic resources in Bangladesh:

After the discussions in the previous chapter regarding Bangladesh economic diplomacy from a historical perspective, this chapter will concentrate on the statistical evaluation of the state of economic diplomacy and the impact of external resources on its economic development.<sup>159</sup> In this process firstly, the relevant and available data would be analyzed to understand the performance of Bangladesh in securing external economic resources. Later on in this chapter, an econometric data analysis is undertaken to assess the impact of external resources on the economic development of Bangladesh<sup>160</sup>.

### 7.1 ) Analysis of the flow and trend of external resources:

#### 7.1.1) Foreign trade:

*Table-5: Bangladesh Export Performance*

Financial Year	Export (in million US\$)	Financial Year	Export (in million US\$)
1972-73	348.42	1989-90	1523.71
1973-74	371.76	1990-91	1717.55
1974-75	382.68	1991-92	1993.92
1975-76	380.47	1992-93	2382.89
1976-77	417.01	1993-94	2533.9
1977-78	493.74	1994-95	3472.57
1978-79	618.82	1995-96	3882.42
1979-80	749.44	1996-97	4418.28
1980-81	709.85	1997-98	5161.2
1981-82	625.89	1998-99	5312.86
1982-83	686.6	1999-00	5752.86
1983-84	810.99	2000-01	6467.3
1984-85	934.43	2001-02	5986.09
1985-86	819.21	2002-03	6548.44
1986-87	1073.77	2003-04	7602.99
1987-88	1231.2	2004-05	8654.52
1988-89	1291.56	2005-06	10526.16
		2006-07	12177.86

**Source:** Bangladesh Export Statistics (2005-06), Export Promotion Bureau, Govt. of Bangladesh.

<sup>159</sup> A study on the impact of external economic resources on the economy of Bangladesh by Bhattacharya and Deb (2006) has projected the significance of external resources for the GDP growth of Bangladesh. Integration to the global economy has been identified as a key to ensure growth. They have argued and projected statistically that, the future growth of Bangladesh depends on: a) expanding export, b) sustaining remittances and c) triggering FDI.

<sup>160</sup> Economic development in this case is analyzed from the context of GDP as explained at the beginning of the thesis.

Table-6: Export Growth and Composition (2004-2007)

Commodity classification	Total Export (Million US\$)			% of Total Export			Growth rate (%)		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
<b>Primary Commodity</b>	<b>648.29</b>	<b>772.7</b>	<b>832.27</b>	<b>7.49</b>	<b>7.34</b>	<b>6.83</b>	<b>17.15</b>	<b>19.19</b>	<b>7.72</b>
Frozen food	420.74	459.11	515.32	4.86	4.36	4.23	7.8	9.12	12.24
Tea	15.84	11.89	6.94	0.18	0.11	0.06	0.25	-24.94	-41.63
Agricultural products	82.47	105.4	87.82	0.95	1	0.72	100.66	27.8	-7.04
Raw jute	96.19	148.27	147.15	1.11	1.41	1.21	20.69	54.14	-0.76
Others	33.05	48.03	75.04	0.38	0.46	0.62	24.72	45.33	27.51
<b>Industrial goods</b>	<b>8006.23</b>	<b>9753.46</b>	<b>11345.46</b>	<b>92.51</b>	<b>92.66</b>	<b>93.17</b>	<b>13.57</b>	<b>21.82</b>	<b>16.32</b>
Woven garments	3598.2	4083.32	4657.63	41.58	38.8	38.25	1.7	13.5	14.05
Knitwear	2819.47	3816.98	4553.6	32.58	36.26	37.39	31.26	35.28	19.3
leather	220.93	257.27	266.08	2.55	2.44	2.18	4.51	16.45	3.42
Jute Goods	307.48	361.03	320.78	3.55	3.43	2.63	24.74	17.43	-11.15
Fertilizer & chemical products	197.18	205.58	215.24	2.28	1.95	1.77	62.29	4.26	3.31
Foot wear	87.55	95.44	135.94	1.01	0.91	1.12	28.18	9.01	42.44
Ceramic products	28.75	27.55	29.95	0.33	0.26	0.25	19.29	-4.17	8.71
Engineering products	85.02	111.02	236.91	0.98	1.05	1.95	102.91	30.58	18.95
Petroleum by products	35.08	88	83.9	0.41	0.84	0.69	-5.19	152.08	-5.12
Handicrafts	5.12	4.3	8.16	0.06	0.04	0.07	21.9	-1602	89.77
Others	621.45	702.04	837.4	7.18	6.67	6.88	2.08	-12.96	37
<b>Total</b>	<b>8654.52</b>	<b>10526.16</b>	<b>12177.86</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>13.83</b>	<b>21.63</b>	<b>15.69</b>

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

The data regarding the export performance of Bangladesh illustrates several features-

- High dependency on the garments and knitwear products in terms of export earnings.
- An unimpressive performance of the agricultural sector – considering the agricultural base of the economy and society.
- A steady growth in the amount of total export since 1972 (refer to table -5).
- The post cold war era export performance of Bangladesh seems far better than the previous two decades (1972-1990). The impact of the garments industry has been the single most decisive factor in the export performance of Bangladesh. But the long term viability of garments export is not guaranteed (Rahman Khan, 2000:260). Some other export items like leather, sea-food etc, has proved to be sources of inspiration for Bangladesh economy.



- e) Dependency on few items for export earnings and as a matter of fact on few markets remain as a major concern for economic diplomacy (refer to table -6 &7).

*Table-7: Bangladesh Export to Major Countries (2000-07)*

(In million US\$)

Fiscal year	USA	Germany	UK	France	Belgium	Italy	Netherlands	Canada	Japan	Others	Total
2000-01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1105.99	6471.30
2001-02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.17	5986.09
2002-03	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1271.21	6548.40
2003-04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.89	7603.00
2004-05	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.43	1875.12	8654.52
2005-06	3039.77	1763.38	1053.74	678.94	359.33	427.89	327.20	406.97	138.45	2330.49	10526.16
2006-07 (p)	3441.02	1955.38	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.86

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance and Export Promotion Bureau Govt. of Bangladesh.

*Table-8: Bangladesh Import Performance*

Year	Import (in million Tk.)	Year	Import (in million Tk.)
1972-73	3788	1989-90	113305
1973-74	7820	1990-91	111877
1974-75	10842	1991-92	132756
1975-76	14703	1992-93	138198
1976-77	13993	1993-94	137540
1977-78	18216	1994-95	218564
1978-79	22073	1995-96	254646
1979-80	30525	1996-97	290187
1980-81	37288	1997-98	318916
1981-82	38729	1998-99	341017
1982-83	45265	1999-00	372022
1983-84	50874	2000-01	436949
1984-85	68263	2001-02	518443
1985-86	62930	2002-03	506200
1986-87	68496	2003-04	630363
1987-88	91588	2004-05	769954
1988-89	95075		

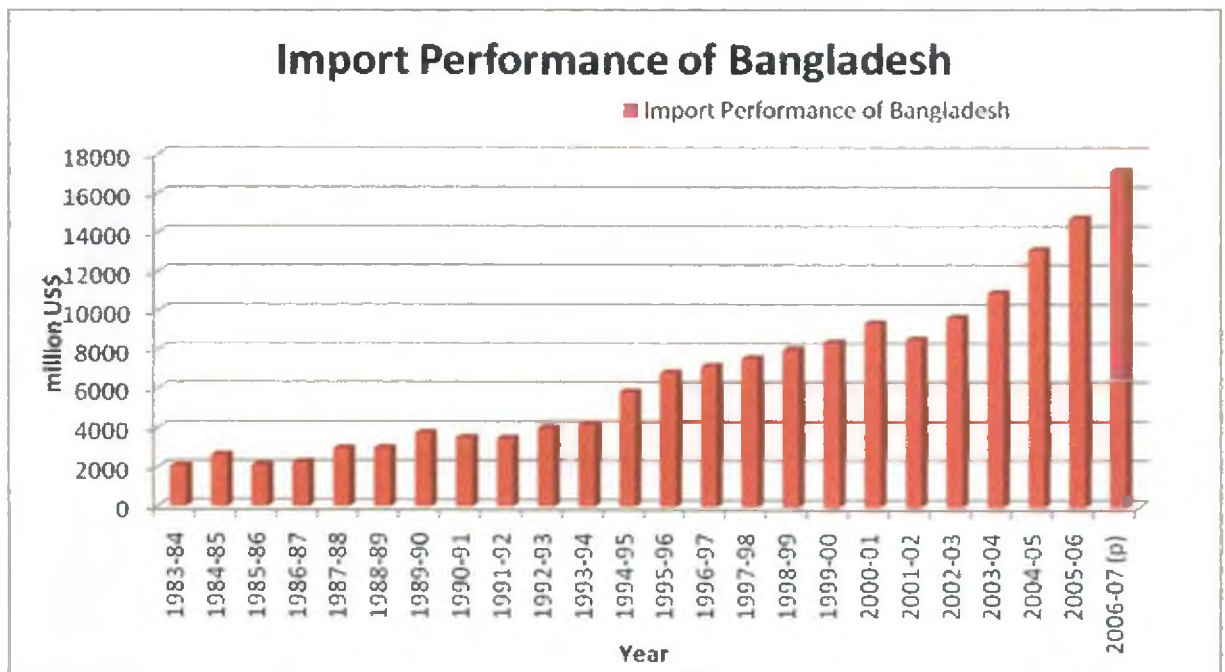
**Source:** Statistical Year Book of Bangladesh (1979-2006), Bangladesh Bureau of Statistics, Govt. of Bangladesh.

*Table -9: Import Performance of Bangladesh (1984-2007)*

Year	Million US\$	Year	Million US\$
1983-84	2073.08	1995-96	6827.00
1984-85	2640.73	1996-97	7150.00
1985-86	2120.27	1997-98	7545.00
1986-87	2259.85	1998-99	8006.00
1987-88	2961.14	1999-00	8403.00
1988-89	2997.32	2000-01	9363.00
1989-90	3758.70	2001-02	8540.00
1990-91	3510.55	2002-03	9658.00
1991-92	3465.64	2003-04	10903.00
1992-93	3986.00	2004-05	13147.00
1993-94	4191.00	2005-06	14746.00
1994-95	5834.00	2006-07 (p)	17157.00

**Source:** Bangladesh Export Statistics 2003-2004, Export Promotion Bureau, Govt. of Bangladesh, and Bangladesh Bank.

*Chart-1: Import Performance of Bangladesh (1984-2007) in Million US\$*



**Source:** Bangladesh Export Statistics 2003-2004, Export Promotion Bureau, Govt. of Bangladesh, and Bangladesh Bank.

Table-10: Bangladesh Import Growth and Composition

(in million US \$)

Commodity	2002-03	2003-04	2004-05	2005-06	2006-07
a) Principal primary commodities	1133	1339	1676	1854	2069
Rice	211	144	262	117	180
Wheat	198	287	312	301	401
Oilseeds	64	73	86	90	106
Crude petroleum	267	252	350	604	524
Cotton	393	583	666	742	858
b) Principal industrial goods	1548	1910	2662	3001	3569
Edible oil	364	471	440	473	583
Petroleum products	620	770	1252	1400	1709
Fertilizer	109	150	332	342	357
Clinker	144	139	170	210	240
Staple Fibre	41	57	75	76	97
Yarn	270	323	393	201	582
c) Capital machinery	568	786	1211	1458	1929
d) Other commodities	6409	6868	7598	8434	9590
<b>Grand Total</b>	<b>9658</b>	<b>10903</b>	<b>13147</b>	<b>14746</b>	<b>17157</b>
<b>%change</b>	<b>13.1</b>	<b>12.9</b>	<b>20.6</b>	<b>12.2</b>	<b>16.4</b>

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

Table-11: Bangladesh Import from Major Countries (2001-2007)

(in million US \$)

Countries	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
China	709	878	938	1198	1642	2079	2571
India	1184	1019	1358	1602	2030	1868	2268
Singapore	824	871	1000	911	888	849	1035
Japan	846	655	605	552	559	651	690
Hongkong	478	441	433	433	565	626	747
Taiwan	412	312	328	377	439	473	473
South Korea	411	346	333	420	426	489	553
USA	248	261	223	226	329	345	380
Malaysia	148	145	169	255	276	332	334
Others	4075	3612	4271	4929	5993	7034	8106
<b>Total</b>	<b>9335</b>	<b>8540</b>	<b>9658</b>	<b>10903</b>	<b>13147</b>	<b>14746</b>	<b>17157</b>

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.



*Table-12: Import, Export as % of GDP and Trade Balance*

Year	Import	Export	Trade Balance
1995-96	16.9	9.5	-7.3
1996-97	16.9	10.4	-6.5
1997-98	17.1	11.7	-5.4
1998-99	17.5	11.6	-5.9
1999-00	17.8	12.2	-5.6
2000-01	19.9	13.7	-6.1
2001-02	18	12.6	-5.4
2002-03	18.6	12.6	-4.3
2003-04	19.3	13.5	-4.1
2004-05	21.8	14.4	-7.5
2005-06	21.5	16.8	-4.6
2006-07	22.9	18	-4.9

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

The following characteristics may be identified from the import related data mentioned above-

- a) Bangladesh has an increasing tendency in the import of food grains and petroleum products. This necessitates Bangladesh economic diplomacy to be careful about the food and energy security as well as ensuring the two life lines of production system.
- b) Like the export market, Bangladesh is also relying on several countries for its import. The issue of diversification is relevant here also.
- c) Table -12 indicates that, trade balance is not in favor of Bangladesh.

### **7.1.2) Foreign aid and borrowing:**

The following data (table-13) illustrates the steady dependency of Bangladesh in terms of foreign assistance and loan. Since 1971-72 Bangladesh has not recovered from foreign aid dependency. Bangladesh needs to concentrate on unconditional grants and deviation from loans which are costly in nature. A rigorous and precise assessment of foreign aid and borrowing is required to make this particular aspect of external economic relations favorable to Bangladesh and ultimately beneficial to the economic development of Bangladesh.

*Table-13: Commitment & Disbursement of Foreign Economic Assistance*

FY	Commitment			Disbursement		
	Grant	Loans	Total	Grant	Loans	Total
1971-72	513	98	611	245	26	271
1972-73	483	395	878	486	65	551
1973-74	107	448	555	218	243	461

1974-75	345	921	1266	375	526	901
1975-76	380	578	958	234	567	801
1976-77	400	326	726	256	279	535
1977-78	433	714	1147	393	441	834
1978-79	936	824	1760	502	528	1030
1979-80	485	668	1153	650	573	1223
1980-81	550	1009	1559	593	553	1146
1981-82	805	1117	1922	654	586	1240
1982-83	837	685	1522	587	590	1177
1983-84	859	836	1695	733	535	1268
1984-85	875	1105	1980	703	566	1269
1985-86	874	787	1661	546	760	1306
1986-87	894	709	1603	661	934	1595
1987-88	881	648	1529	823	817	1640
1988-89	661	1212	1873	673	995	1668
1989-90	885	1290	2175	766	1044	1810
1990-91	485	885	1370	831	901	1732
1991-92	1140	775	1915	817	794	1611
1992-93	734	540	1274	818	857	1675
1993-94	464	1946	2410	710	849	1559
1994-95	861	751	1612	890	849	1739
1995-96	864	416	1280	677	766	1443
1996-97	842	819	1661	736	745	1481
1997-98	585	1206	1791	503	748	1251
1998-99	862	1787	2649	669	867	1536
1999-00	619	856	1475	726	862	1588
2000-01	938	1115	2053	504	865	1369
2001-02	402	477	879	479	963	1442
2002-03	870	1309	2179	510	1075	1585
2003-04	887	1036	1923	338	695	1033
2004-05	345	1207	1552	234	1244	1488
2005-06	628	1159	1787	501	1067	1568
2006-07	728	1528	2256	590	1040	1631

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

A major weakness of our foreign aid scenario is the difference between commitment and disbursement of aid. Commitment has always remained significantly higher than disbursement. This indicates the weakness of Bangladesh external economic affairs. It seems that, government does not have a credible assessment in its foreign aid planning. This inefficiency contributes to the gap between commitment and disbursement of foreign aid. The other relevant issue is the dismal record of the government of Bangladesh in regard to the implementation of Annual Development Plan where a huge portion of development budget remains unutilized. The difference between commitment and disbursement of foreign aid and the inability of the government to utilize foreign aid even at the implementation level indicates a huge problem in the

planning and implementation of development program in Bangladesh. This signifies that, the level of professionalism in the economic decision making needs to be improved before pursuing economic diplomacy. If not then, the consequence can be economically awesome.

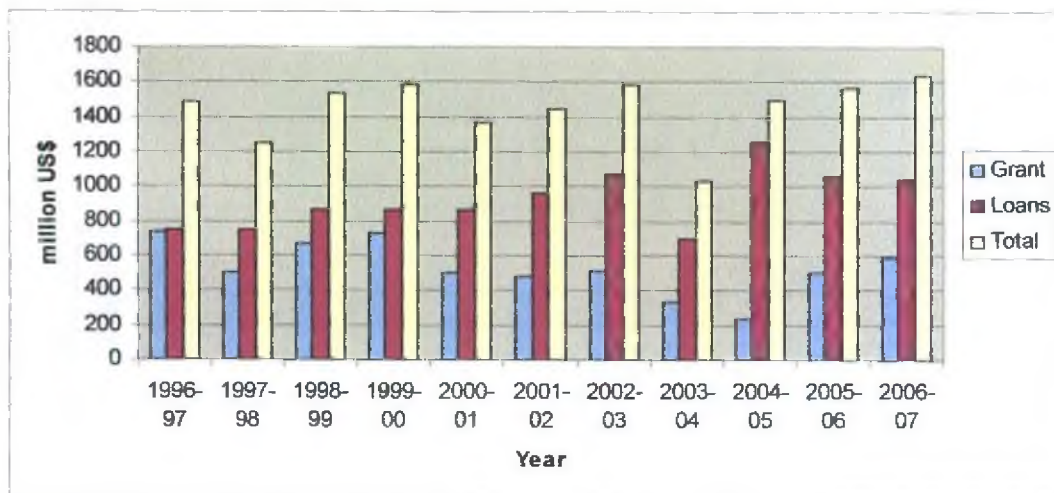
*Table-14: Govt. borrowing from foreign sources*

(in million US\$)

Financial year	Disbursement of loan and grants			Principal and interest			Net foreign aid flow	
	Grant	Loans	Sub total	Interest	Principal	Sub total	After principal payment	After principal & interest payment
1	2	3	4=2+3	5	6	7=5+6	8=4-6	9=4-7
1996-97	736	748	1481	147	316	463	1165	1018
1997-98	503	748	1251	137	307	444	944	807
1998-99	669	867	1536	166	373	539	1163	997
1999-00	726	862	1588	172	447	619	1141	969
2000-01	504	865	1369	159	438	597	931	772
2001-02	479	963	1442	151	435	586	1007	856
2002-03	510	1075	1585	156	452	608	1133	977
2003-04	338	695	1033	165	423	588	610	445
2004-05	234	1257	1491	185	434	619	1057	872
2005-06	501	1067	1568	176	502	678	1066	890
2006-07	590	1041	1631	181	529	710	1102	921

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

*Chart-2: Govt. borrowing from foreign sources*



**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh



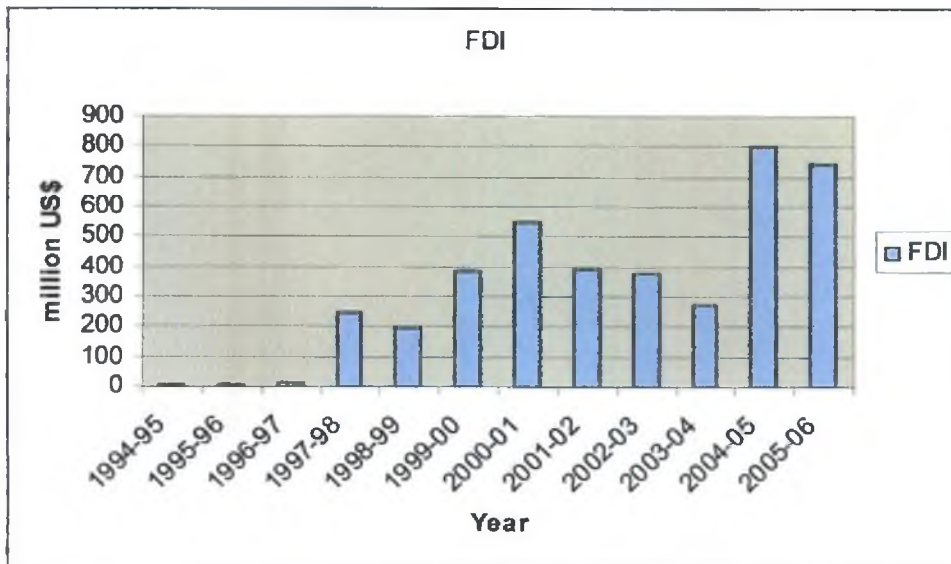
**7.1.3) Foreign investment:**

*Table-15: Trend in FDI in Bangladesh since 1995*

Year	FDI (in million US\$)
1994-95	6
1995-96	7
1996-97	16
1997-98	249
1998-99	198
1999-00	383
2000-01	550.0
2001-02	391.0
2002-03	376.0
2003-04	276.0
2004-05	800.0
2005-06	743.0

**Source:** Annual Report (1994-95 to 2006-07), Bangladesh Bank, Govt. of Bangladesh.

*Chart-3: Trend in FDI since 1995*



**Source:** Annual Report (1994-95 to 2006-07), Bangladesh Bank, Govt. of Bangladesh.

A study by Kabir (2007:101-119) concludes by studying data from 1972-2005 that, although foreign investment exerts influence on Bangladesh's domestic output, but it did not cause any GDP growth. But, the non-existence of this 'no casual' relationship did not allow the author to deny the scope of foreign

investment to contribute positively in the economic growth of Bangladesh (refer to table- 16). The real concern is to attract the right type of FDI for Bangladesh. For a growth rate of 6-7% overall investment rate must be raised to at least 20% of the GDP (Jasimuddin, 1996:133).

*Table-16: Trend of GDP and FDI inflow in Bangladesh*

In US\$

Year	GDP	Net FDI Inflow	Net FDI as % of GDP
1972	6288200000	100000	0.002
1973	8067000000	2300000	0.029
1974	12459000000	2200000	0.018
1975	19396000000	0	0.000
1976	10083000000	5400000	0.054
1977	9632500000	7000000	0.073
1978	13299000000	7700000	0.058
1979	15586000000	-8000000	-0.051
1980	18115000000	8500000	0.047
1981	19763000000	5400000	0.027
1982	18087000000	7000000	0.039
1983	17156000000	4000000	0.002
1984	19670000000	-6000000	-0.003
1985	21613000000	0	0.000
1986	21160000000	2400000	0.011
1987	23781000000	3200000	0.013
1988	25639000000	1800000	0.007
1989	26825000000	2000000	0.001
1990	30129000000	3000000	0.010
1991	30957000000	1000000	0.003
1992	31709000000	4000000	0.013
1993	33167000000	14000000	0.042
1994	33769000000	11000000	0.033
1995	37940000000	2000000	0.005
1996	40666000000	14000000	0.034
1997	42319000000	139000000	0.328
1998	44092000000	190000000	0.431
1999	45694000000	180000000	0.394
2000	47097000000	280000000	0.595
2001	46953000000	79000000	0.168
2002	47513000000	52000000	0.109
2003	51824000000	268000000	0.517
2004	56676000000	449000000	0.792
2005	60034000000	802490000	1.337

**Source:** World Bank (2006, 2007). World Development Indicators, World Bank, Indicators, World Bank, Washington, DC (CD-ROM). This is table is part of the study by Mahfuz Kabir (2007), 'Is FDI Growth Enhancing in Bangladesh?', BISS Journal, Vol. 28, No. 2, April 2007: 101-119.

Table-17: FDI inflow in Bangladesh during 2006: Distribution by Sectors

(in million us\$)

FDI sectors	2005			2006			%
	Jan-Jun	Jul-Dec	Total	Jan-Jun	Jul-Dec	Total	
Agriculture & Fishing	1.6	0.1	1.7	0.7	0.6	1.3	0.16
Power, Gas & Petroleum	113.1	95.2	208.3	114.1	94.1	208.2	26.3
Power	12.7	14.5	27.2	13	8.2	21.2	2.68
Gas & Petroleum	100.4	80.7	181.1	101.2	86	187.2	23.6
Manufacturing	137.7	81.6	219.3	39.4	65.5	104.9	13.2
Textile & Wearing	52	44.5	96.5	29	41.1	70.1	8.85
Cement	29.6	15.7	45.3		2.6	2.6	0.33
Trade & Commerce	59.9	70.6	130.5	71.6	58.6	130.2	16.4
Banking	56.4	61.4	117.8	68.6	49.1	117.7	14.9
Transport Shortage & Communication	165.3	114.6	279.9	154.5	192.5	347	43.8
Telecommunication	165.3	113.5	278.8	154.5	192	346.5	43.7
Other Services	2	1	3	0.1	0.1	0.2	0.03
Total	481.8	363.5	845.3	381.1	411.4	792.5	100

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

Foreign investment in Bangladesh is not a very promising aspect of its external economy. Mostly for domestic limitations Bangladesh has remained as a 'foreign investment shy' country. The tasks of various relevant ministries, Board of Investment and MOFA are not well coordinated. The institutional aspects related to the facilitation of foreign investment and ultimately the 'preservation' of foreign investment is still very much underdeveloped. The spread and content of foreign investment needs to be regulated from the perspective of the economic interest of Bangladesh.

A fundamental limitation of foreign investment in Bangladesh is its lack of credibility as a safe country to invest in. Local investors and NRBs are not encouraged to invest in Bangladesh due to domestic realities. The internal issues need to be settled alongside the externalities relevant to foreign investment.

Table-18 shows the number of projects registered with the BOI from 1991 to Fiscal Year (FY) 2006-07. As primary commitments they are not significant. The number of projects registered and the amount of monetary involvement is not significant considering the population wise market of Bangladesh. Table -16 indicates the lack of interest of investors to invest in labor intensive projects and in the agricultural sector which credits to the negotiation inability of people in charge of attracting foreign investment.



**Table-18: Year wise details of Foreign & Joint Venture Investment Projects registered with BOI<sup>161</sup>**

Year	Number of projects	Creore BDTaka
1991-92	25	294
1992-93	28	211
1993-94	100	3,217
1994-95	145	2,920
1995-96	127	6,261
1996-97	138	4,515
1997-98	140	15,308
1998-99	161	9,243
1999-00	135	10,594
2000-01	80	6,993
2001-02	89	1,734
2002-03	104	2,067
2003-04	130	2,644
2004-05	120	5,298
2005-06	135	24,986
2006-07	191	11,925
<b>Total</b>	<b>1,848</b>	<b>108,210</b>

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

#### 7.1.4) Remittance from foreign employment:

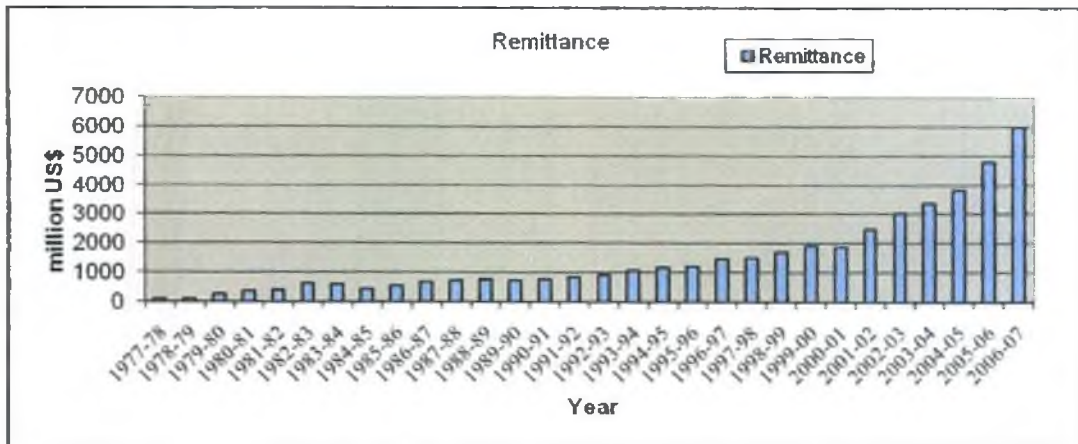
*Table-19: Remittance by foreign employment*

Year	Remittance (million US\$)	Year	Remittance (million US\$)
1977-78	101.98	1992-93	944
1978-79	124.04	1993-94	1088.8
1979-80	248.84	1994-95	1197.63
1980-81	378.74	1995-96	1217.06
1981-82	412.38	1996-97	1475.4
1982-83	617.28	1997-98	1525.42
1983-84	596.4	1998-99	1705.74
1984-85	439.1	1999-00	1949.32
1985-86	555.1	2000-01	1882.1
1986-87	696.4	2001-02	2501.1
1987-88	737	2002-03	3062.0
1988-89	771	2003-04	3372.0
1989-90	760.53	2004-05	3848.3
1990-91	764	2005-06	4801.9
1991-92	848	2006-07	5978.5

**Source:** Annual Report (1981-82 to 2006-07), Bangladesh Bank, Govt. of Bangladesh.

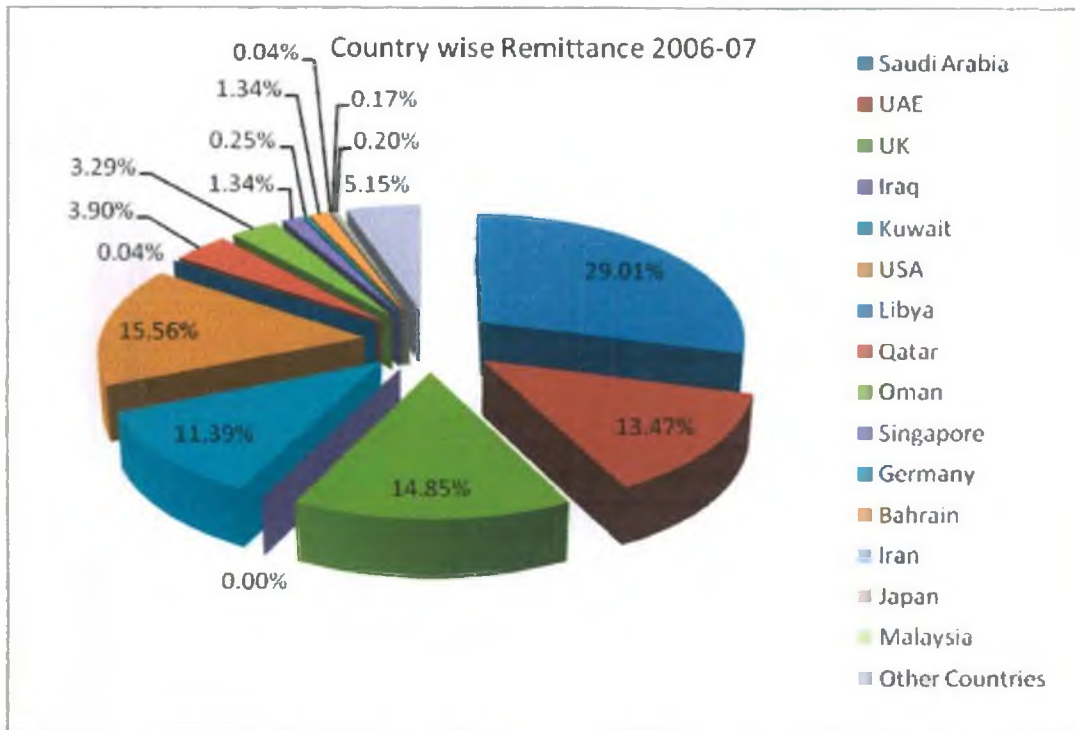
<sup>161</sup> Board of Investment is mandated to facilitate foreign and local investment proposals. Usually, investment project proposals are submitted to BOI immediately after the legal formation of the company. Registration is the primary formal commitment for an investment which is executed after conducting project feasibility study. Registration is not a final commitment.

*Chart-4: Remittance by foreign employment*



**Source:** Annual Report (1981-82 to 2006-07), Bangladesh Bank, Govt. of Bangladesh.

*Chart-5: Country wise Remittance 2006-07*



**Source:** Economic Trends (February 2008), Statistics Department, Bangladesh Bank, Govt. of Bangladesh.

*Table-20: Number of expatriates classified by skill (1996-2000)*

Year	1996	1997	1998	1999	2000
Professionals	3188	3797	9574	8045	10669
Skilled	64301	65211	74718	98449	99606
Semi-skilled	34689	193558	51590	44947	26461
Unskilled	109536	118511	131785	116741	85950
Total	211714	381077	27667	268182	222686

**Source:** Statistical Pocket Book, Bangladesh Bureau of Statistics, 2007, Govt. of Bangladesh.

*Table-21: Recruiting media<sup>162</sup> of the migrating workers from Bangladesh*

Year	BMET	BOESL	Recruiting Agent	Individual	Total
1976	5279	0	284	524	6087
1977	5729	0	1171	8825	15725
1978	6160	0	1994	14655	22809
1979	6957	0	2966	14572	24495
1980	5715	0	7773	16585	30073
1981	6074	0	22218	27495	55787
1982	4483	0	24939	33340	62762
1983	730	0	26320	32170	59220
1984	0	157	32460	24097	56714
1985	0	1221	39397	37076	77694
1986	0	1895	27859	38904	68658
1987	0	340	33818	39859	74017
1988	0	476	34117	33528	68121
1989	0	707	36508	64509	101724
1990	0	435	40258	63121	103814
1991	0	140	64889	82102	147131
1992	47	541	59746	127790	188124
1993	503	559	129479	113967	244508
1994	236	178	95361	90551	186326
1995	73	627	74921	111922	187543
1996	0	398	118670	92646	211714
1997	15	335	85793	144934	231077
1998	0	419	85300	181948	267667
1999	0	309	110669	157204	268182
2000	1	524	91475	130686	222686
2001		149	76669	112147	188965
2002	0	226	84401	140629	225256
2003	0	456	82507	171227	254190
2004	0	306	85458	187194	272958

<sup>162</sup> BMET is the Bureau of Manpower, Employment and Training (established in 1976) and BOESL (established in 1984) is Bangladesh Overseas Employment Services Ltd. BOESL and BMET are under the control of the Ministry of Expatriate's Welfare and Overseas Employment. They are mandated to arrange training and recruitment of Bangladeshi workers willing to work overseas. Recruiting agents are private agencies and individual means employment or recruitment by personal effort where there is no private or public sector involvement.



2005		645	81608	170449	252702
2006		977	104949	275590	381516
2007		619	362531	469459	832609
2008	773	2172	207018	665092	875055
<b>Total</b>	<b>42775</b>	<b>14811</b>	<b>2333526</b>	<b>3874797</b>	<b>6265909</b>

**Source :** Overseas Employment 1976-2008, Ministry of Expatriate's Welfare and Overseas Employment (MOEWOE), 2009 & Bureau of Manpower, Employment and Training (BMET) [<http://www.bmet.org.bd/report.html>]

Mainul Islam (1988:116) after studying export-import data of Bangladesh from the period of 1973-74 to 1980-81 has opined that, in the view of the ever widening gap between import bills and export earnings and the resulting serious balance of payments problem, foreign exchange earned by the migrants has come to play a decisive role in alleviating serious shortage in foreign exchange earning. The post -1981 data (refer to table-23 & 25) continues to align with the views of Mainul Islam. In fact the income from foreign employment of Bangladeshi nationals has over the years emerged as the 'life line' for foreign currency reserve and the survival of millions in Bangladesh. Although government's role in this sector like many other national concerns is quite inadequate (refer to table-21) and unplanned, the hard working ability of Bangladeshis has allowed them to search fortune and eventually secure it in every corner of the world. Government efforts need to be more articulated to safeguard the interests of expatriate workers and to expand the wage earning network. A serious concern is the issue of dependency on several countries as the source of employment and the number of unskilled workers (refer to chart- 5 & table-20).

#### 7.1.5) Other economic indicators related to external affairs:

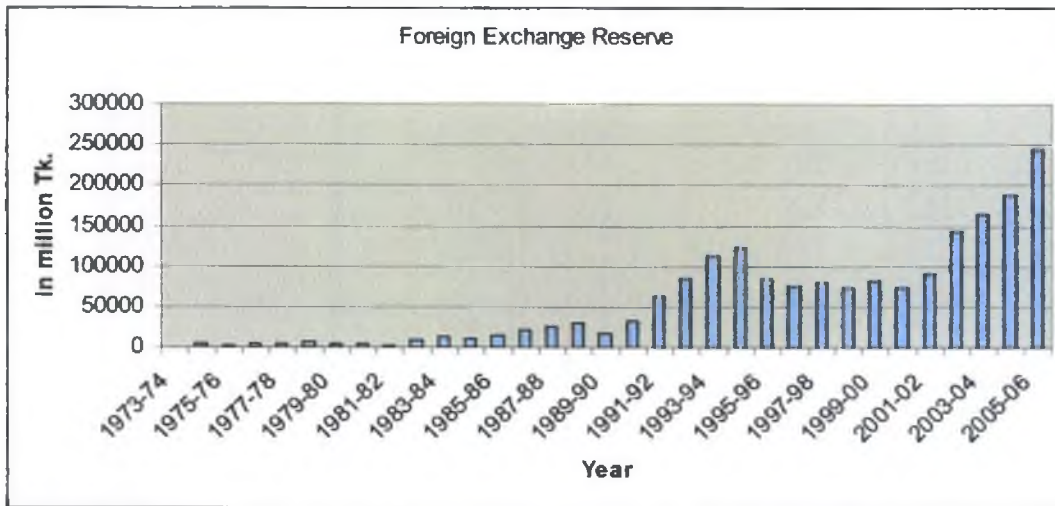
*Table-22: Foreign Exchange Reserve*

Year	Foreign Exchange Reserve (in million Tk.)	Year	Foreign Exchange Reserve (in million Tk.)
1973-74	874	1990-91	31478
1974-75	3508	1991-92	62632
1975-76	3189	1992-93	84416
1976-77	4562	1993-94	111286
1977-78	4048	1994-95	123073
1978-79	5940	1995-96	84906
1979-80	4053	1996-97	74857
1980-81	4523	1997-98	80266
1981-82	2698	1998-99	73650
1982-83	8765	1999-00	81466
1983-84	13595	2000-01	73831
1984-85	11068	2001-02	90859
1985-86	14408	2002-03	141753
1986-87	22164	2003-04	163241

1987-88	26963	2004-05	186769
1988-89	29454	2005-06	242914
1989-90	18161		

**Source:** Statistical Year Book of Bangladesh (1979-2006), Bangladesh Bureau of Statistics, Govt. of Bangladesh.

*Chart-6: Foreign Exchange Reserve*



**Source:** Statistical Year Book of Bangladesh (1979-2006), Bangladesh Bureau of Statistics, Govt. of Bangladesh.

*Table 23: Foreign Exchange Reserve*

Year	Million US\$	Year	Million US\$
1981-82	121	1994-95	3070
1982-83	358	1995-96	2039
1983-84	540	1996-97	1719
1984-85	395	1997-98	1739
1985-86	476	1998-99	1523
1986-87	715	1999-00	1602
1987-88	856	2000-01	1307
1988-89	913	2001-02	1583
1989-90	520	2002-03	2470
1990-91	880	2003-04	2705
1991-92	1608	2004-05	2930
1992-93	2121	2005-06	3484
1993-94	2765	2006-07	5077

**Source:** Annual Report (1981-82 to 2006-07), Bangladesh Bank, Govt. of Bangladesh.

Table-24: Macroeconomic Indicators of external economy

Particulars	(as % of GDP)											
	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Net foreign finance	2.8	2.8	2.3	2.5	2.5	2	2.1	2.3	2.4	2.4	1.9	1.6
Grants	1.7	1.7	1.3	1.3	1.5	1.1	1	0.8	0.8	0.7	0.6	0.5
Loans	1.9	1.8	1.7	1.9	1.8	1.8	2	2.5	2.5	2.4	2.2	1.9
Repayment	-0.8	-0.7	-0.7	-0.7	-0.8	-0.9	-0.9	-1	-0.9	-0.7	-0.8	-0.8
Import	16.9	16.9	17.1	17.5	17.8	19.9	18	18.6	19.3	21.8	21.5	22.9
Export	9.5	10.4	11.7	11.6	12.2	13.7	12.6	12.6	13.5	14.4	16.8	18
Trade Balance	-7.3	-6.5	-5.4	-5.9	-5.6	-6.1	-5.4	-4.3	-4.1	-7.5	-4.6	-4.9
Net foreign assets	4	3.6	3.4	2.9	3.6	3	3.5	3.7	4.9	5	5.2	6.9

Source: Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

Table-25: Foreign debt Service payment

Fiscal Year	Medium and Long Term Debt Service Payments			Export Earnings	Total Foreign Exchange Earnings (commodity export earnings + workers remittance + invisible receipts)	DS Payment as % of Total Export Earnings	DS Payment as % of Total Foreign Exchange Earnings
	Interest	Principal	Total				
	1	2	3				
1973-74	9	9	18	372	419	4.7	4.2
1974-75	13	58	71	389	490	18.5	14.4
1975-76	20	36	56	381	474	14.6	11.7
1976-77	28	22	50	417	548	11.2	9.1
1977-78	31	34	65	494	704	13.2	9.2
1978-79	39	50	89	619	898	14.4	9.9
1979-80	42	66	108	726	1228	14.6	8.8
1980-81	41	44	85	710	1364	12	6.3
1981-82	47	45	92	626	1285	14.6	7.1
1982-83	51	85	136	687	1533	19.8	8.9
1983-84	58	71	129	811	1686	15.8	7.6
1984-85	64	106	170	934	1661	18.2	10.2
1985-86	73	111	184	819	1634	22.4	11.2
1986-87	81	152	233	1074	2032	21.7	11.3
1987-88	123	166	289	1231	2278	24.4	12.6
1988-89	123	170	293	1292	2453	22.8	11.7
1989-90	116	186	302	1524	2731	19.8	10.9
1990-91	120	197	317	1718	2942	19.4	11
1991-92	127	210	337	2994	3406	16.9	9.8
1992-93	135	239	374	2383	3944	15.7	9.5



1993-94	139	263	405	2534	4293	17.2	10.4
1994-95	154	314	468	3473	5490	13.5	8.5
1995-96	152	316	468	3882	5908	12.1	7.9
1996-97	147	316	463	4427	6647	10.5	7
1997-98	137	307	444	5172	7495	8.6	5.9
1998-99	166	373	539	5324	7737	10.1	7
1999-00	172	447	619	5762	8560	10.7	7.2
2000-01	159	438	597	6476	9117	9.2	6.5
2001-02	151	435	586	5986	9295	9.8	6.3
2002-03	156	452	608	6548	10497	9.3	5.8
2003-04	165	423	588	7603	11899	7.7	4.9
2004-05	185	434	619	8655	13680	7.2	4.5
2005-06	176	502	678	10526	16624	6.4	4.1
2006-07	182	540	722	12178	19641	5.9	3.7

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

### 7.1.6) Allocation of economic diplomacy related ministries in the revenue budget:

*Table-26: Revenue Budget of selected ministries (Non-development Expenditure)*

Ministry/ Division	(In core taka)										
	1997-98	1998-99	1999-00	2000-01	2000-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Economic Relations Division	29	18	20	21	24	27	23	19	23	53	52
Ministry of Foreign Affairs	134	156	168	174	174	184	194	242	257	253	250
Ministry of Commerce	35	32	25	24	24	27	33	37	43	45	46
Ministry of Expatriate Welfare & Overseas Employment	0	0	0	0	11	29	28	29	30	35	37

**Source:** Bangladesh Economic Review 2007, Economic Adviser's Wing, Finance Division, Ministry of Finance, Govt. of Bangladesh.

The trend in allocating non-development revenue budget in various ministries related to economic diplomacy portrays several points to ponder. Except the Ministry of Foreign Affairs, the other stakeholders' yearly budget has remained more or less the same. MOFA has experienced a steady and significant growth since 1997-98 in the allocation of revenue budget. This indicates the expanding role of MOFA. But, the yearly budget of Ministry of Expatriate Welfare & Overseas Employment, Economic Relations Division seems quite static in comparison to MOFA. This trend in budgetary allocation signifies the point that, economic diplomacy is still not a serious business in Bangladesh as it is evident

from the static budgetary allocation of very relevant ministries like ERD and Ministry of Labor & Expatriate Welfare. Usually the issue of organizational expansion and mandate is reflected in the allocation of revenue budget. The above inference is based on this principle. On the other hand, MOFA even though was blessed with an increasing budgetary allocation their performance has continued to be identified with credible dissatisfaction both at the political, consular and economic frontiers.

An important area where a qualitative evaluation regarding the success of our economic diplomacy can be initiated is the extent of influence that Bangladesh has secured in international policy framework relevant to its economic development. The issue of integration of macro-economic policies to the global economy is another area where a very active economic diplomacy is required. Bangladesh has always remained active regarding the interest of developing countries in various economic forums. But, this effort requires a well orchestrated approach as well as professionalism. Private sector like the garment industry has often taken the leadership in cases where Bangladesh needs to safeguard national interest or requires a slight policy deviation or keep intact a segment of international policy framework.

The issue of resisting undue macro-economic policy integration and the pressure of international financial organizations like IMF, WB, ADB is a huge challenge for countries like Bangladesh. In many cases developing countries have lost their 'policy sovereignty' and 'policy space'. Economic diplomacy if succeeds in reducing the debt burden and unfavorable elements in external economic affairs (refer to table- 24 & 25) of the country by utilizing other avenues of external economy (like trade, investment, remittance etc.), then there may be a way out of this reality. Other wise, the lending institutions will continue 'monitoring' the macro-economies of debtors for their own interest. Bangladesh with its heavy dependency of foreign resources is not the best of candidates to secure success in confronting the conditionalities of various lending institutions and bilateral donors. Competent economic diplomacy seems to be the only ray of hope in this scenario.

Apart from the general indication of the 'soft' performance of Bangladesh in external economic affairs (in the form of data and analysis of policy) , if the mission wise export performance data is analyzed then there appears reasons not to be satisfied with the ability of the missions and commercial wings abroad in regard to economic diplomacy<sup>163</sup>. The period from July-November, FY 2008-09

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<sup>163</sup> Please refer to the data from Export Promotion Bureau at **Appendix- A to F** of this thesis. This is the export performance indicator of 44 diplomatic missions and 16 commercial wings (except Geneva, Kolkata, and Los Angels) of Bangladesh. The latest data is from July – November of the FY 2008-09 with the complete data of FY 2005-06, 2006-07 & 2007-08. The methodology applied in fixing mission wise target as far as I have understood while talking to EPB officials lacks a basic element- evaluation of the market concerned. There appear questions regarding the credibility of the data from EPB to be used for a technically sound evaluation of performance of the diplomatic missions in regard to economic diplomacy.



is the latest available data regarding the export performance of our diplomatic missions and commercial wings abroad (refer to Appendix E & F). From the statistics of Mission -wise export target and achievement, it appears that out of 44 Missions, 24 Missions achieved their export target and 20 Missions could not achieve the target set for them. It should be mentioned that although 20 Missions could not achieve their export target, but out of them export growth of 11 Missions (Manama, Berlin, Doha, Brussels, Rome, Moscow, Madrid, Beijing, Paris, New Delhi, Amman) was higher than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08). But the export growth of the rest 9 Missions (Jakarta, Yangon, Tripoli, Singapore, Hong Kong, Rabat, Manila, Nairobi, Thimpu) was lower than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08).

During the same period; from the statistics of Commercial Wing-wise export target and achievement, it appears that out of 16 Commercial Wings, 08 Commercial Wings achieved the export target and 08 Commercial Wings could not achieve the target set for them. It should be mentioned that although 08 Commercial Wings could not achieve their export target, but out of them export growth of 7 Commercial Wings (Moscow, Paris, Berlin, Brussels, Madrid, Beijing, New Delhi) was higher than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08). The growth rate of the rest 01 Commercial Wing (Yangon) was lower than the corresponding period of the previous financial year (JULY-NOVEMBER, 2007-08).

In Fiscal Year (FY) 2007-08 which is the latest available complete performance indicator of our missions abroad (refer to Appendix C & D) it appears that, out of 44 missions, 24 missions achieved their export target and 20 missions could not achieve the target set for them. It should be mentioned that although 20 missions could not achieve their export target, but out of them export growth of 15 missions (Washington, Brussels, Rome, Ottawa, Madrid, Beijing, New Delhi, London, Islamabad, Tehran, Rabat, Brunei, Yangon, Berlin, Nairobi) was higher than the corresponding period of the previous 12 months (July-June, 2006-07). But the export growth of the rest 5 missions (Hanoi, Bangkok, Manila, Thimpu, Cairo) was lower than the corresponding period of the previous 12 months (July-June, 2006-07).

During the same period, it appears that out of 16 commercial wings, 06 commercial wings achieved the export target and 10 commercial wings could not achieve the target set for them. It should be mentioned that although 10 commercial wings could not achieve their export target, but export growth of this 10 commercial wings (Washington, Brussels, Ottawa, Madrid, Beijing, New Delhi, Tehran, Yangon, Berlin, London) was higher than the corresponding period of the previous month (July-June, 2006-07).



The statistics of Mission -wise export target and achievement for FY 2006-07 (refer to Appendix A & B), it appears that out of 44 Missions, 21 Missions achieved their export target and 23 Missions could not achieve the target set for them. It should be mentioned that although 23 Missions could not achieve their export target, but out of them export growth of 12 Missions (Washington, Cairo, Singapore, Islamabad, Riyadh, Doha, Ottawa, Tokyo, Katmandu, Canberra, Berlin and New-Delhi) was higher than the corresponding period of the previous Financial year (July-June 2005-06). But the export growth of the rest 11 Missions (Hong Kong, Dubai, Bangkok, Kuwait, Manama, Manila, Tashkent, Amman, Thimphu, Muscat and Brunei) was lower than the corresponding period of the previous Financial year (July- June, 2005-06).

From the statistics of Commercial Wing-wise export target and achievement (FY 2006-07), it appears that out of 16 Commercial Wings, 9 Commercial Wings achieved the export target and 7 Commercial Wings could not achieve the target set for them. It should be mentioned that although 7 Commercial Wings could not achieve their export target, but out of them export growth of 6 Commercial Wings (Washington, Berlin, New Delhi, Ottawa, Tokyo and Canberra) was higher than the corresponding period of the previous financial year (July-June 2005-06). The growth rate of the rest One Commercial Wing (Dubai) was lower than the corresponding period of the previous financial year (July- June 2005-06). It may be mentioned that, the performance indicators mentioned in **অসসনশধডঃ** A to F of this thesis for other years remains the same (qualitatively) in the sense that, target was not achieved in most cases. Although EPB has in most cases claimed an increase of trade volume compared to the previous years, the real judgement lies in the matter of opportunity cost, lost opportunities, failure in terms of market expansion and a regulatory method of performance indicator.

However, it needs to be recognized that, for practical reasons and the overall state of affairs of our external economic relations, it is still difficult to draw precise inference on the basis of the data mentioned in this section and the discussions of the previous section regarding the impact of economic diplomacy on the issue of economic development in Bangladesh. An honest assessment will be that, Bangladesh recognized the need for economic diplomacy just after the end of the cold war without a professional attitude. Also, like many other countries Bangladesh has pursued economic diplomacy silently (without declaration) since its independence. Since 1990s economic diplomacy was the declared objective of consecutive ruling regimes. But, during the 1991-1996 BNP regime Bangladesh foreign policy priorities in practice more or less remained confined to the conventional domain of political and consular diplomacy. The next AL regime (1996-2001) does not allow us to have any substantial elements in the frontier of economic diplomacy. The second BNP government (2001-2006) also could not get rid of the culture of 'lip service' to economic diplomacy. Bangladesh over the years has failed to pursue economic diplomacy in a professionally credible manner. Irrespective of all the criticism related the economic performance of Bangladesh the truth is that, GDP in the post independent years has achieved a

faster rate of growth. Between 1950 and 1970 it was 3.2% per year (Rahman Khan, 2000: 248). Another significant issue in the analysis of the trend of GDP growth in Bangladesh is that, the growth rate is higher in the post-cold war (post-1991) years compared to pre-1990 years (cold war era). The average growth rate from 1981 to 1990 was 3.74% and it was 4.78% during FY 1991-2000. This is almost 1% higher. The average from FY 2001-02 to 2006-07 is 6.0% plus with a record 6.5% in FY 2006-07.<sup>164</sup> The role of external economic resources is unquestionable in this trend of increasing GDP in Bangladesh economy.

The lack of systematic and professional attitude in Bangladesh economic diplomacy does not allow us to analyze in a scientific method the impact it had on Bangladesh economy. It is technically too early to assess the economic impact of economic diplomacy in Bangladesh as our efforts are not managed and regulated in a systematic way. But, these situations allows little space for any doubts regarding the role of economic diplomacy as a crucial strategy for economic development. Bangladesh as indicated previously remains dependent on external economies for foreign aid requirement for its development programs, foreign investment to build new industries and employment, foreign trade for it's products and source of employment for its citizens. So, it is clear that, economic diplomacy is a very central issue in the development strategy of Bangladesh.

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<sup>164</sup> For a detail analysis of GDP growth rate and impact of external economic resources see Bhattacharya & Deb (2006). This study also has argued as well as projected the future role of external resources in the GDP growth of Bangladesh.

## **7.2 ) Econometric analysis of the impact of external resources on GDP :**

This chapter is an attempt to identify the complementary relationship between GDP growth and external economic resources to add to the claim in this thesis. The debate surrounding GDP growth and foreign aid, remittance, trade liberalization is a continuous one. Most of the studies estimated either only the relationship between GDP growth and trade liberalization or GDP growth and remittance or GDP growth and foreign aid -- either using production function framework or simple linear function. To verify the link between real GDP and external economic resources like foreign aid, FDI, remittance, a simple linear function of the following form can be adopted:

$$Y = a + bFAID + cREM + dTRGDP \dots\dots\dots (a)$$

Where, Y is the log of real GDP, a is to be considered as constant, FAID is log of official development assistance and official aid, REM is the remittance earnings as a percent of GDP, and TRGDP is the trade-GDP ratio- an indicator of trade liberalization. Adding stochastic error term ( $e_{it}$ )<sup>165</sup>, we get the following form of equation:

$$Y = a + bFAID_{it} + cREM_{it} + dTRGDP_{it} + e_{it} \dots\dots\dots (b)$$

In order to assess the impact of trade liberalization on real GDP from different perspective a dummy variable named LIBDUM, is used in the time series estimation, which takes two values: 1 for the post trade liberalization period (1992-2006) and 0 for the pre- trade liberalization period (1976-1991)<sup>166</sup>. Adding this variable in equation (b), our final form of equation stands like the following form:

$$Y = a + bFAID_{it} + cREM_{it} + dTRGDP_{it} + eLIBDUM_{it} + e_{it} \dots\dots\dots (c)$$

It is expected that all the coefficients of the explanatory variables will be positive<sup>167</sup>.

<sup>165</sup> It is a random component of a regression model, or proxy for all the omitted or neglected variables that may affect real GDP but are not (or cannot be) included in the regression model.

<sup>166</sup> As in Bangladesh during the 1990's there has been significant liberalization of trade compared to that in the 1980's and 1970' in Bangladesh indicated by sharp decline in nominal tariff rate, import-weighted average tariff rate, implicit nominal tariff rate and effective rate of protection during the 1990's (Raihan, 2007)

<sup>167</sup> This is because trade liberalization may help the economy by using the abundant factors of production efficiently or through technology transfer. Similarly foreign aid may help to increase real GDP of an economy through transfer of technology and skill. Remittance inflows may also play significant role in economic development through meeting the basic needs at the household level and increasing investment in the economy.



For this econometric study, I have used the time series data (1976-2006) published by Economic trends of Bangladesh Bank and World Development Indicator-2008 CD-ROM and also data available from Economic Relations Division and Ministry of Finance of the Government of Bangladesh. I have used the year 2000 as the base (constant) for GDP calculation, trade (exports plus imports) as percent of GDP, remittance as percent of GDP, net inflow of foreign direct investment (as a % of GDP). Entire exercise is done on the basis of US\$. Controversy remains in the empirical literature as regards to the appropriate variable that is required to address the indicator of trade liberalization. Some researchers have used export-GDP ratio or import penetration ratio or trade-GDP ratio or implicit tariff rate etc. The present paper uses the trade-GDP ratio and trade liberalization dummy as an indicator of trade liberalization. This empirical analysis has been carried out to study:

A) The sign and magnitude of the coefficients of foreign aid, index of trade liberalization and remittance for which the following regression is estimated (using OLS<sup>168</sup>):

$$Y = a + bFAID_{it} + cREM_{it} + dTRGDP_{it} + eLIBDUM_{it} + e_{it} \dots\dots\dots (1)$$

The above equation mainly represents the co integrating relationship<sup>169</sup> between economic growth and its explanatory variables.

B) Co-integration Test and Error-Correction Model:

If the time series variables of Y, FAID, REM and TRGDP have unit roots<sup>170</sup>, then we need to take the first difference<sup>171</sup> of the variables (equation 1) in order to obtain a stationary time series:

$$\Delta Y_{it} = a + b\Delta FAID_{it} + c\Delta REM_{it} + d\Delta TRGDP_{it} + LIBDUM_{it} + e_{it} \dots\dots\dots (2)$$

Equation (2) ignores any reference to the long run aspects of decision-making (if we regress differences on differences, then variables will be spurious). In this procedure if differencing results in a loss of valuable long run information in the data (Maddala,1992), the theory of co integration addresses this issue by

<sup>168</sup> Ordinary least squares (OLS) is a standard linear regression technique that involves fitting a linear equation with the coefficients chosen to minimize the sum of squares of residual errors. It is used to estimate coefficients of a linear model, e.g. coefficients- a,b,c,d and e in the equation (1).

<sup>169</sup> Economically speaking, co integrating relationship means the long run, or equilibrium relationship among the variables (Gujarati, 2005).

<sup>170</sup> When the time series variables are non stationary then it is considered as unit root problems. In the presence of non stationary, one can get a significant relationship among the variables, even though, they are truly unrelated.

<sup>171</sup> First difference of the variables means difference between current year and its previous year's values. e.g.;  $\Delta Y = Y_t - Y_{t-1}$

introducing an error correction (EC) term<sup>172</sup>. The EC term lagged one period (i.e.  $EC_{t-1}$ ) integrates short run dynamics in the long run equation. Following Davidson-Henry-Serba-Yeo (DHSY)<sup>173</sup> approach to modeling we can write the form of general error correction model (ECM):

$$\Delta \ln Y_{it} = a_{it} + \sum b_i \Delta FAID_{t-i} + \sum c_i \Delta REM_{t-i} + \sum d_i \Delta TRGDP_{t-i} + \sum e_i \Delta LIBDUM_{it} + \sum f_i \Delta Y_{t-i} + g_i EC_{t-1} + e_{it} \dots \dots (3)$$

Where  $EC_{t-1}$  = error – correction term lagged one period; &  $\Delta$  represents first difference operator.

In the following exercise firstly a test is conducted to verify unit root (ADF & Phillips-Perron) in order to make data stationary (if it suffers from any problem of non stationary). Once the problem related to non stationary data is solved, a co integration test will be performed in order to see the long run relationship among the variables. There exists more than one methodology in econometrics to test co integration of an equation. In this thesis Engle Granger and Johansen-Juselies test of co integration will be used. Under each of the co-integration tests we will see whether an equation is co-integrated or not. If co-integrated, then we will estimate our long run equation using OLS method. We will also try to estimate the short run dynamics under each of these procedures using OLS.

## **Result Analysis:**

### **7.2.1) Unit root tests of the variables:**

The model in equation (1) represents a static long run relationship. We know that if the model is based on time series data, then there is a possibility that the variables in the model will be non-stationary. In that case application of OLS estimates may lead to spurious-regression<sup>174</sup> and the t and F-tests become non-standard. In order to verify this I performed Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) unit root tests of variables both in the level and their first difference form (table- 27).

<sup>172</sup> EC term is derived from long run equation (1), that is  $EC_{t-1} = Y_{t-1} - a - bFAID_{t-1} - cREM_{t-1} - dTRGDP_{t-1} - eLIBDUM_{t-1}$

<sup>173</sup> Davidson-Henry-Serba-Yeo (DHSY) (1978) is also known as general to specific modeling, which involves inefficient estimation of the early stages but allows the econometrician to test down to a more parsimonious coherent model from higher order lag of the variables.

<sup>174</sup> This means statistically significant relationship among the variables, even though, they are truly unrelated. Regression of one time series variable on one or more time series variable can often produce nonsensical or spurious results. One way to guard against it is to find out if the time series is cointegrated.

Table 27: ADF-PP unit root test for stationary

		ADF-calculated vales		PP(Philips-Perron)-calculated vales		
Variables	Level/First Diff.	Without Trend	With Trend	Without Trend	With Trend	Conclusion
Trade (% of GDP)	Level	1.47	.63	0.020	-3.42	I (1) <sup>175</sup>
	First Diff.	-3.17	-4.23	-4.21	-4.34	I (0)
Remittance	Level	1.28	-.14	1.06	-0.26	I (1)
	First Diff.	-3.52	-3.78	-4.08	-4.31	I (0)
LRGDP	Level	2.84	.571	3.57	0.399	I (1)
	First Diff.	-2.6	-5.50	-4.30	-5.51	I (0)
Foreign aid	Level	-2.26	-2.87	-4.04	-3.64	I (0)
	First Diff.	-3.92	-3.89	-6.52	-6.67	I (0)

**Notes:** 1) Unit root tests were performed using STATA 10.

2) 5% critical values for ADF statistic (Without Trend) = -2.98<sup>175</sup>

3) 5% critical values for ADF statistic (With Trend) = -3.58

4) The null hypothesis is the problem of unit root

Phillip-Perron (PP) test is preferable to ADF test as often economic time series exhibit heteroscedasticity and non-normality in raw data, which ADF tests does not consider. Besides, there seems to be consensus in the co-integration literature that the PP test is preferable to ADF. In table the result of the unit root tests are reported to see the order of the integration of these variables. A time series is integrated of order  $d$  [usually denoted as  $\sim I(d)$ ] with  $d$  is the number of times the series needs to be differenced in order to become stationary. The results obtained from the unit-root tests (as shown in table- 27) show that except the foreign aid, all the variables are integrated of order one in their level form, as critical values are greater than calculated values. It may be noted that the ADF test shows that the variables foreign aid is integrated of order one. However, since the PP test is preferable to ADF, on the basis of PP test I concluded that the variable foreign aid is stationary in the level form. After taking first differences of all the variables, we see that all are stationary.

<sup>175</sup> I (1) means the series is integrated of order one or the variables are non stationary at the level form and I (0) means the variables are integrated of order zero or stationary or do not suffer from unit root problem.

<sup>176</sup> These critical values are used to take decision whether a hypothesis is probably true or not by comparing with calculated vales of the respective test (table-27). Our objective is to make the variable stationary or reject the null hypothesis of unit root problem. The rule of thumb in deciding whether the variables are stationary or not is that, if calculated value of the test statistics is greater than calculated values, then it is considered as a stationary series.



**7.2.2) Tests for co-integration & the long & short run estimation of the equation:**

**Engle and Granger Procedure:**

Engle and Granger (1987) identified a situation if all the variables of a regression are integrated of order one; they can not yield spurious relationship. They will be cointegrated if the linear combination of all series used in the regression is integrated of order zero. Thus, if we posit the long run relationship as:

$$Y = a + bX + e$$

The linear combination is given by:  $e = Y - a - bX$  will also be  $I(1)$ . That is  $e$  will be  $I(1)$ . The exception to this general rule is when the linear combination of two or more series is integrated of lower order. In this case the common stochastic<sup>177</sup> trend will cancel out providing a series which is stationary. Under such circumstances the OLS involving the variables on their levels will produce a valid long run relationship.

Since except foreign aid all the variables are integrated of order one, we can estimate first step of Engle-Granger procedure (as shown in table-30). The coefficients of this long run equation will be the valid long run estimates if the linear combination of this equation is  $I(0)$ . To test whether it is co-integrated or not I take the resort of ADF, PP and Mackinnon<sup>178</sup> (1991) test.

Table-28 : Engle-Granger Co-integration test

Dependent variable : First difference of estimated residuals		
Explanatory variables	From Engle	From Johans
	Coefficient (t-value)	Coefficient (t-value)
Error(-1)	-.45 (-2.23)	-.59 (-2.80)
Derror(-1)	-.05 (-.23)	-0.0028 (-.02)

<sup>177</sup> The word stochastic comes from the Greek word *stokhos* meaning "a bull's eye". Gujarati (2003) compares it with the outcome of throwing darts on a dart board, that is, a process fraught with misses.

<sup>178</sup> The standard practice of testing co integration is the testing of stationary of residuals derived from long run equation employed by ADF test and the critical values used for this test is given by MacKinnon.

**Table-29 : Unit roots of the estimated residuals from the Long run equation:**

Residuals	ADF(z-t)	PP(z-rho)	Mackinnon P-value	Result
From Granger	-2.88	-3.63	.04	Cointegrated <sup>179</sup>
From Johans	-3.63	-3.63	.0052	Cointegrated

H<sub>0</sub> = unit root

- Notes:** 1) Unit root tests were performed using STATA 10.  
 2) 5% critical values for ADF statistic (Without Trend)= -2.98  
 3) 5% critical values for PP statistic (Without Trend)= - 3.58

According to table- 28 & 29, it is concluded that the long run equation is co-integrated. The PP and Mackinnon test supports this conclusion, as calculated values of these statistics are greater than 5 % critical values which mean the test rejects the null hypothesis of the problem of unit root or absence of co-integration. Though the ADF test does not support this conclusion, once again I prefer PP test to ADF to conclude the co-integrating relationship of the estimated residuals of long run equation of Engle-Granger procedure. Besides, the significant Mackinnon p-value reinforces my preference. After all these evidence, equation (1) can be considered as a valid long run equation and the coefficients of this equation are now the valid long run estimates.

**Table 30: Statistical results of the long run equation regression (equation 1)**

Dependent variable: Log of real GDP	
Explanatory variables	Coefficient
Workers remittances received (% of GDP)	0.076***
Trade (% of GDP)	0.016***
Log Official development assistance and official aid	0.241***
Dummy: Trade liberalization-1=1992-2006 & 0=1976-1991	0.277***
Constant	18.348***
note: *** p<0.01, ** p<0.05, * p<0.1	
Name of the Test	Calculated values
Functional Form	1.38
Serial Correlation	8.42
Heteroscedasticity	0.25
Normality	1.32
Adjusted R square= 0.94	
F-statistics=132.00 (.000)	

**Note:** The regressions are based on the period 1976 to 2006. \*\*\* Indicates statistical significance at the 1% level. For diagnostics, Ramsey's (1969) RESET test for functional form, Jarque-Bera test for normality of residuals, White's (1980) test for heteroscedasticity, and Breusch-Godfrey (1978) for serial correlation are performed. The critical values for Chi square(1) and Chi-square(2) at the 95 percent level are 3.84 and 5.99, which are used to test the null hypothesis of no functional form problem, normality of regression residuals, serial correlation and homoscedastic errors. The variance inflating factor (VIF) is

<sup>179</sup>Economically speaking, two variables will be co-integrated if they have a long term, or equilibrium, relationship between them (Gujarati, 2003).

performed to test the presence of multi-co linearity. A high value (usually >10) indicates the presence of multi-co linearity.

It can be seen from table- 30 that, the overall model is highly significant as indicated by high F-statistics<sup>180</sup>. The coefficient on Remittance (% of GDP) turns out to be positive and statistically significant, implying that the remittance earnings do have positive and statistically significant impact on real GDP of Bangladesh economy. On the other hand, the coefficient on trade (% of GDP)-index of trade liberalization is also positive and statistically significant, which indicates that the real GDP changes by 0.016 percentage with 1 percent change in trade-GDP ratio. Though there is a debate among researchers about the effectiveness of foreign aid on real economy, the positive and statistically significant coefficient on official development aid and assistance indicates that a country becomes beneficial because of the inflow of foreign aid. Finally, the positive and statistically significant coefficient on trade liberalization dummy indicates that because of the trade liberalization real GDP increases more than in the absence of trade liberalization. The  $R^2$  value, adjusted for degrees of freedom, of 0.94 indicates that 94% of total variation in the log of real GDP in the sample period has been explained by the variation in remittance, foreign aid trade liberalization index and trade liberalization dummy. The diagnostics result suggests that except the serial correlation, the model is free from all sort of diagnostic problems as the calculated chi-square values are less than critical values<sup>181</sup>. The low value (=4.47) of variance inflating factor (VIF) indicates the no problem of multicollinearity. The problem of serial correlation in the model is not unexpected as it is a times series model. In order to make sure more about the problem of serial correlation, we performed the graphical diagnosis, which indicates the less severe problem of autocorrelation. So for our present model we can ignore it.

#### **Short run Dynamics of Engle-Granger Procedure:**

Since we got a co-integrating relationship among the variables, now we can proceed to estimate the short run Error Correction Model (ECM). An important question that arises in undertaking the dynamic modeling necessary to obtain the appropriate ECM is the approach that should be adopted. This goes into the heart of the debate of the econometric methodology. The choice is usually laid out as one between a specific to general approach and a general to specific approach. Here Hendry's (1979, 1995) general to specific approach has been followed, which involves inefficient estimation of the early stages but allows the econometrician to test down to a more parsimonious data coherent model. This

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<sup>180</sup> The F-statistics is used to test the statistical significance of the overall model. In table-30, we see that the calculated F-value=132 is much higher than critical values. So, the overall model is highly significant.

<sup>181</sup> From the table-30, we see that except the serial correlation test the calculated values of functional form, normality and heteroscedasticity tests are much lower than the critical values (3.84 & 5.99) of chi-square test. Hence we can not reject our null hypothesis of correct functional form, normal distribution and equal variance of the variables.



approach is viewed as less susceptible to the adoption of an incorrect model. Following the DHSY approach and then taking the 5 lags of all variables and eliminating the insignificant one we get the following error correction model (table-31).

*Table-31: Short run dynamics under Engle-Granger procedure*

Granger ECM	
Dependent variable: Log of first difference real GDP	
Explanatory variables	Coefficient
first difference of Workers remittances received (% of GDP) (-3)	0.005*
L4. first difference of Workers remittances received (% of GDP) (-3)	0.009***
L5. first difference of Trade (% of GDP)	0.002***
First difference of Log Official development assistance and official aid	0.003
L6. Log Official development assistance and official aid	0.003
Dummy: Trade liberalization	0.011***
L3. first difference of log real GDP	0.031
L.EC	0.004
_cons	-0.025
LM test: Functional Form=.56	
Normality:	=.58
Serial Correlation: .16	
Heteroscedasticity: .95	
note: *** p<0.01, ** p<0.05, * p<0.1 and L denote lagged by one year.	

In the above estimated ECM model, the positive coefficients of all the explanatory variables suggest that in the short run foreign aid, remittance and trade affect real GDP of the economy positively. Among these, the coefficients on remittance, trade-GDP ratio and trade liberalization dummy do have a significant positive impact on real GDP as all are statistically significant and positive. The estimated coefficient of the error correction term is positive but statistically insignificant indicating that the short run equation fails to restore the long-run equilibrium. Diagnostic test statistics show no evidence of misspecification of functional form, no serial correlation, no normality problem, or any problem of heteroscedasticity as indicated by high p-value (do not reject the null hypothesis).

### **The Johansen Procedure:**

Finally, the Johansen procedure<sup>182</sup> is employed to test for co-integration. Before undertaking co integration tests, let us first specify the relevant order of lags (p)

<sup>182</sup> It is a method of co-integration test and better than the Engle Granger tests. Unlike the Engle Granger test the Johansen procedure can find multiple long run relationship among the variables. For this approach one has to estimate an unrestricted Vector of Auto regression (VAR) form. Johansen and Juselius (1990) have derived two tests for co-integration, namely, the trace test and the maximum eigen value test.

of the Vector Auto regression (VAR<sup>183</sup>) model. Given the annual nature of the data,  $p=1$  seems to be a reasonable choice. On the basis of the above unit-root tests, we apply the Johansen (1988& 1991) and Johansen and Juselies (JJ) (1990, 1992, and 1994) co integration tests. We see that there is only one co-integrating relationship (table- 32) among the variables. And the relationship (table-32), as reported in the lower part of the table, indicates that in the long run foreign aid, trade-GDP ratio, remittance and trade liberalization do have a positive impact on real GDP of the economy. This is similar to the Engle-Granger result.

**Table 32: Johansen and Juselies Maximum Likelihood Co integration tests (VAR=1)**

	Null	Alternative	Calculated	95%critical value	Conclusion
Maximum eigen value test	$r=0$	$r=1$	97.17	29.95	One long-term relationship among the variables <sup>184</sup>
	$r\leq 1$	$r=2$	21.12	23.92	
	$r\leq 2$	$r=3$	13.08	17.68	
Trace test	$r=0$	$r\geq 1$	135.77	55.33	One long-term relationship among the variables
	$r\leq 1$	$r\geq 2$	38.60	39.82	
	$r\leq 2$	$r\geq 3$	17.48	24.08	
Co-integrating vector: Lrgdp    Faid    Trgdp    Remittance    Libdum (-1.00)    (.74)    (.05)    (.03)    (.30)					

**Notes:** i) The test was performed using Microfit 4.0;  
ii) r stands for the no. of co integrating (long-term) vector.

Besides, based on EG co-integrating test (as shown in table-28), we see that computed t- value (-2.80) is much more negative than the EG 1% critical value is -2.59, thus our conclusion is that the residuals from the estimated co-integrating vector as reported in table, which is normalized on LRGDP are  $I(0)$  [ $I(0) < I(1)$ ]; that is, they are stationary. And this conclusion is supported by the significant PP, ADF statistics and significant Mackinnon p-value as reported in table-. Hence equation (1) is a co integrating regression and this regression is not spurious, even though individually, all the variables are non-stationary. So, one can call [equation (1)] the static or long runs functions and interpret its

<sup>183</sup> In the VAR approach each endogenous variable is explained by its lagged, or past values and the lagged values of all other variables in the model. Usually, there are no exogenous variables in the model.

<sup>184</sup> In the table the results of the both maximum eigen value and trace tests are reported. Starting with the null hypothesis of no co integration ( $r=0$ ) among the five variables of Remittance, trade-GDP ratio, foreign aid, liberalization dummy and real GDP, both the maximum eigen value and the trace statistic suggest  $r=1$ , as when alternative hypothesis is  $r=1$ , then the calculated values of both test greater than critical values and the remaining calculated values are smaller than their respective critical values. Therefore, we may reject the null hypothesis of  $r=0$  and can conclude that there is only one co integrating relation among the variables.

parameters as long run parameters. As the model is co-integrated, an error correction model (ECM) can be estimated to determine the dynamic behavior of the estimated coefficients.

### Short run dynamics of Johansen Procedure:

In order to get the short run dynamics, the residuals from the co-integrating relationship was computed. Then the lag of this residual was inserted in the general model and following the DHSY approach we get our ECM error correction model.

*Table-33: Estimated Error-Correction Model from Johans*

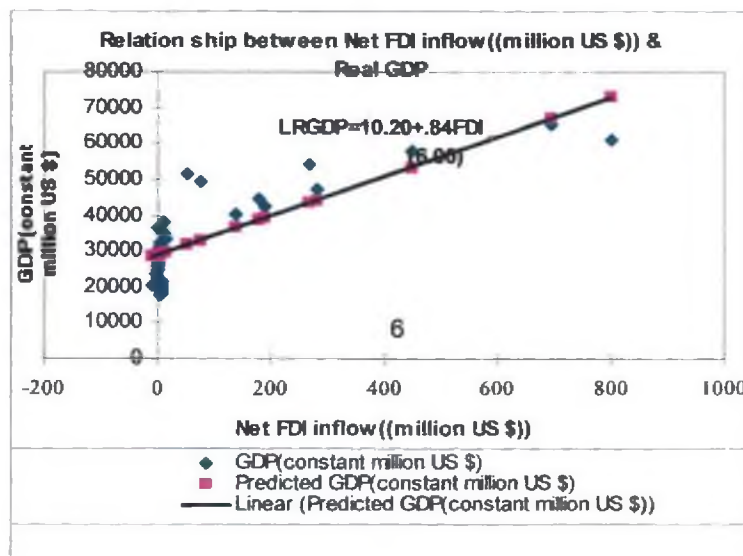
Johanson ECM	
Dependent variable: Log of first difference real GDP	
Explanatory variables	Coefficient
L3. first difference of Workers remittances received (% of GDP)	0.007**
L4. first difference of Workers remittances received (% of GDP)	0.008***
L5. first difference of Trade (% of GDP)	0.002***
First difference of Log Official development assistance and official aid	0.019*
L6. Log Official development assistance and official aid	0.006
Dummy: Trade liberalization	0.012***
L3. first difference of log real GDP	0.120
L.EC	-0.034**
_cons	0.162
LM test: Functional Form=.16	
Normality: .74	
Serial Correlation: .16	
Heteroscedasticity: .59	
note: *** p<0.01, ** p<0.05, * p<0.1	

In the above estimated ECM model (table-33), like the Engle-Granger procedure once again we get the positive coefficients of all the explanatory variables. The coefficients on foreign aid, remittance, trade-GDP ratio and trade liberalization dummy are statistically significant; which means in the short run with some lagged time all the explanatory variables do have a significant positive impact on real GDP in the economy. Unlike the Engle-Granger ECM, the estimated coefficient of the error correction term is not a positive one; rather it is correctly signed with expected negative sign and highly significant. The estimated value of 0.034 of the error correction term indicates that in the short run the system corrects its previous year by 3.4 % disequilibrium by a year. Diagnostic test statistics show no evidence of misspecification of functional form, no serial correlation, no normality problem, or any problem of heteroscedasticity as indicated by high p-value (do not reject the null hypothesis).



### Overview of the relationship between Foreign Direct Investment and real GDP:

The empirical literature on the relationship between inflow of foreign direct investment and GDP growth shows mixed outcome<sup>185</sup>. FDI is an important channel of R&D spillover (including human capital development) from developed to developing countries (Grossman and Helpman, 1991)<sup>186</sup>. The possible channels of gains from FDI inflows to the host country is that it can play important role in increasing growth rate of GDP through the rise in the volume of investment and can help to transfer technology from developed country to less developed country. FDI may introduce new know-how by demonstrating new technologies and training workers who later take employment in local firms. On the other hand, the main arguments against the FDI inflow are that multinational companies (MNCs) introduce production technology inappropriate to the host economy and create balance of payments crisis through repatriation of profits from the host country (Sahoo, 2006). It can create unemployment in the host countries as adoption of new technology can make local people jobless. Sometimes it may crowd out domestic investment. And the net outcome depends on the country specific characteristics such as political environment, corruption etc. The following graph shows the relationship between FDI and real GDP in Bangladesh :



<sup>185</sup> See, for instance, Singer (1950) and Griffin (1970) as mentioned in Sahoo (2006); for both theoretical and empirical evidence about the negative association between FDI and growth. On the other hand, Mortaza and Das (2007) found a positive relationship between Foreign Direct Investment and Economic Growth.

<sup>186</sup> Spillover is defined as the external effects of R&D that a firm invests for enhancing its own productivity to the other firms. Spillovers can occur both with the country and across the country (Sjoholm, 1997).

From the graph we see that there is a positive relationship between real GDP and FDI inflow as implied by linear trend line. The positive coefficient on FDI also supports this outcome. This is because- from 1975/76 to 2005/06, in Bangladesh, the net inflow of FDI (as a % of GDP) has increased from 0.05 to 1.26 percent. In absolute value it has increased by 129 times in 2005-06 as compared to 1975-76. So the impact of FDI in increasing the real GDP of Bangladesh is significant. Perhaps it has helped to create a potential for spillovers of knowledge to the local labor force or helped through technology transfer into our economy.

The purpose of this exercise was to find out the possible impacts of external economic resources like foreign aid, trade, remittance and trade liberalization on the real economy of Bangladesh during the period 1976-2006. The significance of this exercise for this thesis remains valid as the primary objective of this thesis was to analyze the role of economic diplomacy in terms of economic development of Bangladesh. The data analyzed in chapter 7.1 described the generic issues of this relationship. This chapter (7.2) is an advanced analysis of the previous chapter.

This chapter initially mentions functional form of the relationship among the variables and relevant empirical evidences and receptive methodological part of the analysis process. In the analysis it is observed that foreign aid, remittance, trade-GDP ratio and trade liberalization significantly and positively affect the real GDP of Bangladesh economy both in the short run and long run. These empirical results have been established after experimenting all the procedure of time series properties of the variables and following the relevant co-integration technique of time series econometric. The major findings that we get from the analysis are as follows:

- Though there are huge disagreements among researchers about the effectiveness of trade liberalization in the economic development of a country and some experts argue that it may harm growth process through various forms of macroeconomic instability such as terms of trade deterioration and balance of payments crisis, this study finds that the impact of trade liberalization (both trade-GDP ratio and trade liberalization dummy) on real GDP is positive. This happens as trade liberalization facilitates economic growth through efficiency in production by utilizing the abundant factors of production more effectively and absorbing the better technologies from economically advanced countries.
- Like the impact of trade liberalization on real economy of a country, there are still ongoing controversies about aid effectiveness among the researchers and policy makers. Some researchers argue that aid has blown up government bureaucracies, induced bad governments, enhanced the wealth of rich in poor countries etc. Others argue that it is true in some cases aid has failed; but it has helped to reduce poverty and increase real GDP in some countries. The present paper supports the

arguments of latter school. Though the impact is not so big in terms of magnitude, it finds a significant and positive impact of foreign aid on real GDP in Bangladesh economy both in the short run with some lagged time period and in the long run. This is because that probably aid increases worker productivity through investments in health or education and helps through direct transfer of technologies such as the introduction of new seeds and fertilizers in the Green Revolution that has occurred during 70-80's in Bangladesh. Aid may also provide a means for the transfer of technology or knowledge from rich countries to poor countries by paying for capital goods imports or through technical assistance.

- Though there is also considerable debate regarding the contribution of remittances to economic development in developing and less developed countries like Bangladesh and some experts argue that remittance can be harmful for national economic growth as it may increase inflation with huge cash money, creating trade deficit by appreciating the domestic currency, and reducing incentives to work of the home country's people as they are receiving cash money from overseas<sup>187</sup>, the positive and statistically significant coefficients of remittance earnings suggest that remittances help our economy by improving some people's standard of living, providing money for basic needs such as food, clothing, housing, and education, and to some extent, households' investments and savings<sup>188</sup>. And at the macroeconomic level, it often provides a significant source of foreign currency, which is necessary for financing imports and which contributes to the balance of payments.
- From the bivariate relationship between FDI and real GDP, it is found that the impact of FDI on real GDP is positive and statistically significant. This suggests that over the last 30 years the inflow of FDI has kept important role in increasing the real output of Bangladesh economy through technology transfer or improving the skill of our local labor through knowledge transfer.

Although we get positive impact of remittance, trade-liberalization, FDI and foreign aid inflow on the real economy of Bangladesh, it is necessary to include labor force growth and net capital formation in the equation in order to find a more robust result about the relationship among FDI, trade liberalization and economic growth and further research is needed to provide a more accurate and detailed picture of the relationships involved. Also the impact of these variables

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<sup>187</sup> For example, when examining a panel of 113 countries from the early 1970s, Chami *et al.* (2003) found a robust negative correlation between remittances and GDP growth. Remittances are more likely compensatory transfers than a resource for economic development.

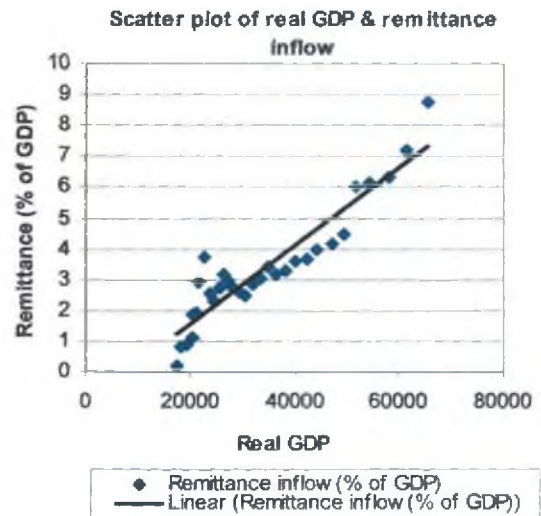
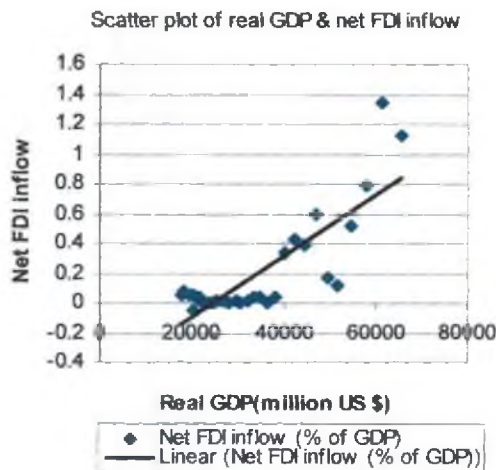
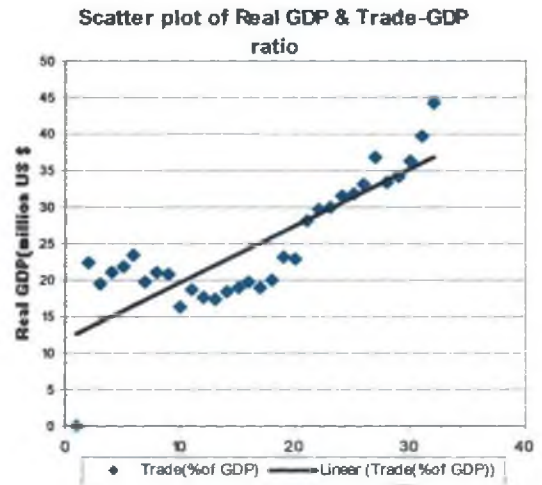
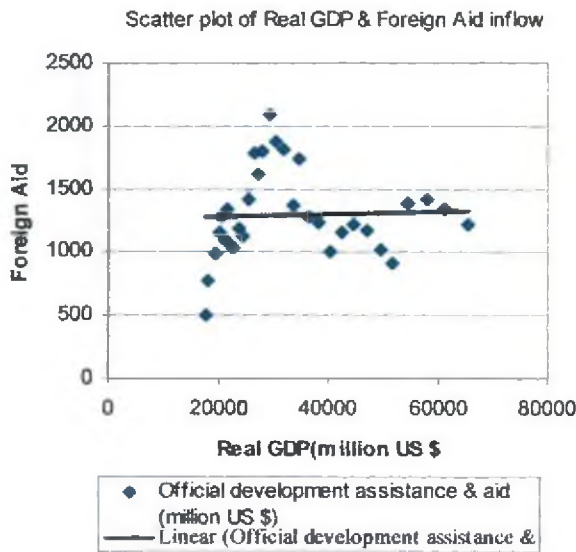
<sup>188</sup> In a study on El Salvador, Cox Edwards and Ureta (2003) find that in rural areas the probability that a child from a household receiving a \$100 remittance per month leaves primary school is 56 percent lower than that of a child from a household without any receipts of remittances. In urban areas, this figure is 24 percent.



at the micro level for example on household welfare or industry specific will produce a minute analysis. The scatter plots in the appendix of chapter 7.2 clearly demonstrates the positive role of external economic resources on Bangladesh economy and demonstrates the potential of economic diplomacy for the economic development of Bangladesh.

### 7.3) Appendix for Chapter 7.2

#### i) Scatter plot of binary relationship :



The each of the above diagram shows the binary relationship between real GDP and external assistance of the country. From the above diagram, it is clear that there is a positive relation between real GDP and each of the external resources. Other than, the real GDP-foreign aid diagram all the diagrams shows clear positive trend curve. The relationship between real GDP and foreign aid exhibits weak but positive relationship. Then one can conclude that external resources of Bangladesh affect its real GDP positively.

## ii) Table on impact of external resources on GDP at a glance (Table- 34):

Year	Net FDI inflow (% of GDP)	Trade(% of GDP)	Remittance inflow(% of GDP)	Aid (% of GDP)	Project aid % of ADP
1975-6	0.054	22.38228	0.188433	4.933572	17.38971
1977	0.073	19.4222	0.820143	8.134674	24.97638
1978	0.058	21.03852	0.864703	7.432162	32.19861
1979	-0.051	21.90706	1.097141	7.459662	32.67275
1980	0.047	23.37723	1.871414	7.103201	32.70943
1981	0.027	19.7696	1.92785	5.561113	33.76952
1982	0.039	21.14862	2.908166	7.394261	36.82902
1983	0.002355	20.8186	3.742175	6.076254	42.03169
1984	-0.00281	16.23624	2.547005	6.033606	46.09582
1985	0	18.78301	2.322651	5.212224	44.73076
1986	0.011515	17.57098	2.722087	6.732252	46.67834
1987	0.013477	17.2732	3.145315	7.516799	55.14672
1988	0.00717	18.32638	2.979864	6.292506	56.8444
1989	0.000924	19.01026	2.825697	6.707974	57.35462
1990	0.01075	19.65268	2.585568	6.94605	63.69083
1991	0.004491	18.88985	2.484055	6.068943	60.06453
1992	0.011738	19.93401	2.876167	5.733506	56.64336
1993	0.042362	23.12158	3.036193	4.127203	52.08078
1994	0.033012	22.86587	3.408486	5.160258	45.41667
1995	0.004998	28.20949	3.168181	3.377829	41.61435
1996	0.033271	29.77754	3.30743	3.019868	42.69168
1997	0.329348	30.01163	3.605963	2.388135	42.08308
1998	0.431054	31.6062	3.642405	2.6265	41.28139
1999	0.393187	31.8524	3.954561	2.658594	35.97379
2000	0.595336	33.20734	4.178624	2.479487	40.90909
2001	0.167246	36.88216	4.483203	2.182457	41.06374
2002	0.110158	33.32301	6.015168	1.912899	42.62338
2003	0.517684	34.24911	6.15929	2.689807	37.18869
2004	0.792052	36.27828	6.323281	2.491907	36.84211
2005	1.336743	39.62709	7.185985	2.225723	29.39024
2005-6	1.126389	44.21832	8.768555	1.975397	33.13953

- Sources:**
1. Economic trend of Bangladesh Bank.
  2. World Development Indicator (WDI)-2008 CD-ROM
  3. Economic Relations Division and Ministry of Finance, GOB



iii) Regression result of the long run equation (refer to table- 30):

Source	SS	df	MS		
Model	4.318405	4	1.07960125	Number of obs= 31	
Residual	0.206724	26	.00795092	F( 4, 26)=135.78	
Total	4.525129	30	.150837631	Prob > F= 0.00	
				R-squared= 0.9543	
				Adj R-squared= 0.9473	
				Root MSE= 0.08917	
Dependent variable: Log of real GDP					
Explanatory variables	Coefficient	Standard error	P>t	95% Confidence Interval	
Workers remittances received (% of GDP)	0.075916	.0193866 3.92	0.001	0.036066	0.115766
Trade (% of GDP)	0.015896	.0060161 2.64	0.014	0.00353	0.028263
Log Official development assistance and official aid	0.240684	.0772318 3.12	0.004	0.081932	0.399437
Dummy: Trade liberalization-1=1992-2006 & 0=1976-1991	0.277135	.0557416 4.97	0	0.162556	0.391713
Constant	18.34755	1.669895 10.99	0	14.91503	21.78007

***Chapter 8:***

***Suggestions for fostering  
economic diplomacy  
by Bangladesh***

## 8. Suggestions for fostering economic diplomacy by Bangladesh:

An article on Bangladesh foreign policy argued that, it appears Bangladesh so far has failed to develop an adequately planned foreign policy and to democratize the process of making the same. Consequently, barring very limited instances foreign policy overtures are, in reality, ad hoc responses to pressing circumstances. If that be so it can be argued that Bangladesh is yet to sculpt a foreign policy and has so far only managed foreign relations.<sup>189</sup> Also increasing influence of external powers and donor agencies in our foreign policy decision making has allowed a credible question regarding the 'sovereign nature' of Bangladesh foreign policy. The issue of an active policy<sup>190</sup>, scientific decision making and sovereign content will emerge as important concerns in the suggestions to activate economic diplomacy for economic development.

The question posed above may be considered as a very 'harsh' criticism of BFP. But, one may not deny this state of affairs when we render a scientific look at the practice as well as the outcome of foreign policy in Bangladesh. As far as the common understanding of policy is concerned, it should be a set of carefully orchestrated strategies and tactics (can also be a single policy) for the attainment of a specific goal or a number of goals. The most important element in this whole process is the process which initiated/materialized/ prepared this policy and the ability of the state to pursue it as an 'owner'. If it is unable to materialize it, does it signify the irrelevance of that policy? Policy should be considered as an active and real one as long as there is a conscious regular attempt to materialize it. The procedure to materialize the policy may be weak or strong and the outcome may be a success or a failure. But, the real issue is to judge the 'efforts' behind it. In this regard one has to recognize that there was no serious effort behind Bangladesh economic diplomacy. It was a very non-organized piece-meal policy approach with very soft commitment. If we go back to the issue of 'acceptance' of Bangladesh foreign policy in the cluster of policies then non-professionalism, lack of a scientific approach in policy formulation, institutional under-development, absence of declared strategic objectives, non-continuity of policies, absence of democratic accountability etc. are the major deficiencies that come up with the issue of lack of initiative. Also, as economic diplomacy is the principal means of materializing foreign economic policy then one may wonder for a visible foreign economic policy. Economic diplomacy in Bangladesh, like many developing countries has remained at the declaratory level and at times only as part of paper work. Bangladesh does not have an identifiable, coherent and consistent set of policies in foreign affairs and foreign economic policy does not possess any light

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<sup>189</sup> Read Dr. Syed Anwar Husain's article titled 'Does Bangladesh have a foreign policy? Article published in the editorial of *The Daily Star*, Dhaka, Bangladesh 08/04 / 2001. Dr. Syed Anwar Husain is a Professor at the Department of History, University of Dhaka, Bangladesh.

<sup>190</sup> Bangladesh foreign policy has been dominated by a reactive nature.



in this wilderness as it is a more sophisticated and professionally demanding area in foreign policy.

There are valid reasons to be pessimistic about the prospect of economic diplomacy in Bangladesh. Political non-commitment, low level of professionalism in the bureaucracy, poor standard of the public service and institutions responsible for facilitating business, poor standard of higher education and technical training, lack of entrepreneurial skills—are the few prominent reasons behind this dismal state of economic diplomacy. Economic diplomacy is not an independent autonomous endeavor of the statecraft -- rather it is highly dependent on other aspects of statecraft. Foreign policy is considered as the mirror of domestic realities. In case of economic diplomacy, this is equally true. The strength of foreign policy originates inside a country. Although economic diplomacy has some serious obstacles, there are certain areas where one can be optimistic. There is a growing recognition among the business and industries sector in Bangladesh regarding the relevance of economic diplomacy for economic development. Successive governments in the post –cold war era has declared economic diplomacy as the most important objective of BFP.

Trade organizations alongside their efforts, want the see government perform it's responsibility. Private sector although lacks in some tertiary areas like skill, stability, ethical commitment—is eager to learn from mistakes and take advantage of the global economy. Ready Made Garments (RMG) sector, export of manpower, diversification and improvement of agricultural products and their export etc. are widely recognized as success stories in our rather unimpressive record of attaining external economic relations. Also, there is an increasing role of NRBs that is capable of meaningfully uplifting Bangladesh economic diplomacy. There is now more research in trade, investment, labor export, foreign aid issues by the NGOs and other private think tanks. These act as a pressure group on the government to guide its policy in to the right direction. The post 1990 regimes in Bangladesh irrespective of their political differences, have always emphasized on the need of economic diplomacy and the relevance of an appropriate foreign policy complimentary to economic development. This may be recognized as a solid base for constructing a workable policy framework and process to materialize that policy—strategically and tactically.

While formulating a way out of this state of economic diplomacy, this thesis attempts on three equally important areas of policy activation<sup>191</sup>. Therefore this policy exercise has three categories of suggestions -

- A. Policy prescriptions in the context of the present international economic order where specific emphasis is on the issue of economic globalization and the prospect of the developing countries,

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<sup>191</sup> I emphasize on the word activation as it to my understanding not only involves policy formulation but also implementation of those policies for the objectives concerned.

- B. Specific areas of suggestion in terms of the various targets of economic diplomacy (the elements of economic development),
- C. Recommendations to institutionalize economic diplomacy in Bangladesh which inevitably refers to the various ministries and the government and non-government institutions responsible for the implementation of economic diplomacy.

**A. Policy prescriptions in the context of the present international economic order where specific emphasis is on the issue of economic globalization and the prospect of the developing countries:**

Egyptian Political Economist Fawzy Mansour (1999) in 1976<sup>192</sup> proposed several policy guidelines for sound international economic relations which will be beneficial to the third world countries. Some of these are as follows-

- I. Trade between third world countries should be direct. Imports from, as well as exports to, third world countries, which pass through the intermediation of a third party, should be prohibited.
- II. A system of generalized preferences should be established between third-world countries. That system should cover transport and insurance as well.
- III. Payments from one third-world country to another should not pass through non-third-world intermediaries.
- IV. Third-world producers' associations which result in the rise of prices should compensate other third-world countries for additional payments involved.
- V. Technology devised in third-world countries should be made available freely, or at especially advantageous terms, to other third-world countries.
- VI. Transnational third- world firms should have preferential treatment in third-world countries. No firm in which non-third-world capital participates can be considered a third-world transnational firm.

Most of Professor Mansour's prescriptions till today remains unattended and in this era of economic globalization where Darwinism is the 'mantra' for survival one may not disagree on the relevance of these reforms for a 'fair' international economic system for developing countries -- the global South.

As Stiglitz (2002a:22) explains that, we have a system that, might be called *global governance without global government*, one in which a few institutions- the World Bank, the IMF, and the WTO- and a few players the finance, commerce and trade ministries, closely linked to certain financial and commercial interest-

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<sup>192</sup> Fawzy Mansour is a Professor Emeritus of Political Economy at Ain Shams University in Cairo, Egypt. Also he served as the Chairman of the Arab Research Council in Cairo. These seven concise policy guidelines were proposed by him in the plenary session of a tri-continental (Asia, Africa and Latin America) conference in Sri Lanka in early 1976.



dominate the scene, but in which many of those affected by their decisions are left almost voiceless. This scenario due to the irresistible power of economic globalization is relevant both inside and outside the territorial limit of the state. Economic diplomacy provides countries like Bangladesh the opportunity to raise voice for the pitfalls in this system and eventually cause a favorable shift. In this context, Stiglitz (2002a) points out that, 'the black lash that has already started will mount and discontent with globalization will grow. If there is no remedy, eventually all the positive achievements and prospects originating from globalization will emerge as 'burden' for economic development.

Now the question that naturally erupts is that of the ability of Bangladesh to pursue these 'monumental' shifts in international economic order with a fair question on its ability to materialize policies in international relations. Bangladesh is not alone in this matrix and the real crux of this matrix is the power of integration of the compatriots. So, there should be a sort of international trade unionism to materialize these objectives. Bangladesh has to play an active role in uniting countries that have similar observations. The number of participants will definitely not be the same with shifting policy concerns as well as varied national interests. The essential relevance of a clash of national interest in international economic relations and particularly among the players of comparable content is to be very delicately accommodated.

The first concentration should be on the issue of securing a fair international trading environment. The issue of withdrawing the huge subsidy on the OECD country agriculture should be a prime focus for all developing countries. Bangladesh as an agricultural country has tremendous potential. In this regard there should be a more active and articulated participation in various international economic organizations and forums. WB, IMF, WTO and the other UN bodies related to economic development should be the jurisdiction of this move. For example the WTO rules are designed in such a fashion that LDCs like Bangladesh are faced with strict trade conditions tied to labor and environmental standards. These conditions have made international trade more difficult. The question may be asked whether WTO rules are determining fair trade, or endorsing an international order to create a permanent divide between the developed and the developing countries that makes fair trade impossible.<sup>193</sup>

As the world economy becomes more globalized and interdependent, foreign owned multinational corporations are increasingly playing a role in the politics of their host countries, often acting to counter nationalist coalitions in both host and home countries. Thus, the globalization of the world economy has led to an internationalization of domestic politics. The line between domestic and foreign

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<sup>193</sup> See Absar, Syeda Sharmin., (2003) 'Economic Diplomacy for Bangladesh : A Prescription for Less Developed Countries in the World Trade Organisation Era', *Journal of South Asian Studies*, Vol. XXVI, no.3, December, 2003, Carfax Publishing, Taylor & Francis Group. Syeda Sharmin Absar at the time of writing this article was affiliated with the Australian National University, p. 349.



policy has been blurred (Spero & Hart,1997:366). Economic globalization requires governments to be more sensitive to the legal business claims of the MNCs. This means that, they should be treated as positive aspects in economic development. But, at the same time governments must act vigorously to make sure that these giant MNCs do not exceed their legal claims in the host countries. Developing countries must act together to resist these anarchies as many of the developing countries are no match to the huge economic and infrastructural power of these MNCs.

Former Bangladesh Foreign Minister Mr. M. Morshed Khan at an interactive dialogue on South –South co-operation proposed the following to address the unequal situation created by globalization<sup>194</sup> —

*First*, developed countries, and more advanced developing countries, should immediately give duty-free access to all products exported from LDCs along with realistic rules of origin.

*Second*, non-tariff barriers (NTBs) to the import of LDC products must be reduced and gradually eliminated.

*Third*, OECD countries, and advanced developing countries should open up their markets to temporary, less skilled service providers (under Mode 4 of the GATS) from the LDCs. The opening up of the OECD labor market alone would yield benefits to sending and receiving countries that would be in the region of US\$ 158-200 billion annually.

*Fourth*, for the developing countries, in particular the LDCs, transfer of technology, especially ICT is of crucial importance. There should be a call for international action in this regard.

The issues raised above are nothing new. These have always been the agendas for the developing countries in the post WWII era and have remained continuously relevant. Bangladesh and for that matter no developing country unilaterally can attain any of these objectives. This is a paradigm which will guide countries like Bangladesh to locate itself in international economic relations and pursue it's national economic interest while remaining active along with other similar actors to materialize a 'level playing field' in international economics. The global decision making practiced through various UN organizations, forums and the non-government aspects of international economics should have a proper representation of the voice of global South. A broad range of economists, officials and experts from developing countries need to be actively involved in this debate (process). As Stiglitz (2002a:252) emphasizes on the developing countries taking charge of their own future (destiny). Bangladesh should secure its place in the

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<sup>194</sup> Statement by Mr. M. Morshed Khan, former Foreign Minister of Bangladesh at the interactive dialogue on "South-South co-operation and the implementation of the outcomes of the First Summit on Doha" 13 June, 2005. (available at <http://www.mofa.gov.bd/statements/fm32.html> ).

global South not as a 'reactive participant' but as an 'active player'<sup>195</sup>. The prime focus of foreign economic policy of Bangladesh should be the positive utilization of international policy framework relevant to its economic development. This will help Bangladesh to benefit from the opportunities offered by economic globalization and resist its black lash (Stigitz, 2002a).

**B. Specific areas of suggestion in terms of the various targets of economic diplomacy (the elements of economic development):**

**Export promotion:** The first obvious task of commercial sections in Missions is to assist business enterprises from the home country in the promotion of exports. This entails sending periodic reports on matters of commercial interest regarding the local market. The monthly commercial report is a basic vehicle covering market developments, introduction of new local regulations that concern products of export interest, the activities of competitors, and anything else that would help exporters, actual and potential (Rana, 2000:104). Bangladesh missions abroad mostly blend this task with their routine political tasks due to inadequate manpower, absence of specialization and organizational set up.

In this regard the Bangladesh missions abroad should monitor the market of the host country/ region and analyze the possibility of export. There should be a monthly professional report and if required there should be special reports. The communication between possible exporters in Bangladesh, business federations, mission concerned and the ministries should be as fast as possible. Missions should undertake every possible marketing strategy to win the host country market. In fact there can not be a black and white suggestion regarding the strategies to materialize it. The market realities should dictate the kind of strategies and tactics relevant for each case while the mandate remains familiar for all missions.

**Promotion of foreign investment:** Foreign investment is like an 'energy drink' in this era of economic globalization which adds pace to economic development of a country. In order to ensure the flow of foreign investment the missions abroad should contact the chamber of commerce and industries of the host countries. Also, the opportunity as well as the reason to invest in Bangladesh should be well projected. In fact missions abroad should divert and guide foreign investment to Bangladesh. The Board of Investment should not only deal with inward investment proposals but should expand it's mandate to the extent of searching foreign investment from other countries and arrange their safe 'accommodation' in the Bangladesh economy. Foreign missions and BOI should maintain constant liaison in this regard.

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<sup>195</sup> Bangladesh has traditionally protested various contradictions in international economy like trade barriers, price control etc after the event has occurred. I refer to this as a 'reactive notion'. Rather, Bangladesh should actively place itself in not allowing these to happen and attempt to prevent these at the earliest possible phase.



**Ensuring the required flow of foreign aid:** Foreign aid is the scarcest aspect of external resources in the post cold-war era. In this context the missions abroad should try to find potential source of aid with a minimum number of conditions. Aid requirement and an idea of the content of the aid should be clarified by the concerned ministries and communicated to the MOFA through ERD. Again the issue of prompt action and re-action is vital here. The concerned ministry or the host ministry for the proposed foreign aid and Economic Relations Division<sup>196</sup> should lead the assessment process. This assessment is very crucial considering the various debates related to the impact of foreign aid and debt burden.

**Containing the Debt burden:** The issue of minimizing debt burden is such an issue where; the developing countries need to act as a trade union. Individual countries may opt to act unilaterally. The reaction time in this case is not tight and the missions basically may pursue the exercise conducted by the relevant ministries like the finance, economic relations division etc. Curtailing debt burden is not a widely recognized objective of foreign economic policy, principally due to the euphoria related to foreign trade and investment. But, if this is not effectively minimized then the other achievements of economic diplomacy may be at stake. Reducing debt burden is also vital for reducing dependency and 'creation of policy space' for the governments in developing countries. Kotilainen & Kaitila (2002:77) argues that, the more indebted a country is, the more dependent it is on the lending institutions and on international financial markets. The lending institutions monitor the macro-economies of the debtors as the outcome affects their ability to repay. This indicates that containing the debt burden and ultimately eradicating it - are important steps in economic growth and also policy sovereignty of Bangladesh.

**International job market:** Bangladesh missions abroad like many other labor surplus countries consider this task as an independent one to be primarily dealt by the labor wing. Considering the work force of Bangladesh and their requirements and growing importance in the national economy, the issue of labor welfare and search for job market needs to be shouldered as a prime objective by the respective missions. In fact this remittance is a major source of foreign currency for Bangladesh. Our efforts should be at maintaining the existing job market and expansion of it at the same time while safeguarding the rights and welfare of our expatriate workers. There can be periodic seminars as well as regular flow of information on the type of work force available in Bangladesh. Global remittance to the developing countries has more than tripled since 1990, reaching \$227.6 billion in 2004, with \$ 161 billion. Already twice the size of foreign aid, remittances are expected to continue growing (World Bank: 2006a). In this context, the functions of the Ministry of Expatriate Welfare and Overseas Employment and Ministry of Labor needs to be organized in a professional manner.

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<sup>196</sup> Economic Relations Division (ERD) is under the Ministry of Finance and Planning. ERD is mandated to deal with financial aid on behalf of the government of Bangladesh.



**Eco-tourism and tourism:** Tourism is another emerging area for ensuring the flow of external resources. Due to the presence of the longest sea beach and the largest mangrove forest in the world, Bangladesh has a great prospect for eco-tourism. The other historical sites like the Buddhist monk houses, sites of ancient civilization, geographical proximity to other major tourist attractions like India and Thailand has all the grounds to facilitate tourism industries in Bangladesh. Foreign missions in collaboration with the concerned ministries should promote this part of economic diplomacy as rigorously as possible. This movement of people across national borders is another mark of integration. International tourist arrivals worldwide for 2005 exceeded 800 million- an all time high-and these tourists also spent considerable amounts of money on their trips. Receipts from international tourists were 6.5 percent of exports in 2004 for middle-income countries and as high as 17 percent for the Middle East and North Africa (World Bank: 2006a).

**Environmental diplomacy:** Bangladesh due to its international rivers as a deltaic country with an open coast has tremendous environmental challenges. The agriculture based economy of Bangladesh is heavily dependent on river waters and rain fall. Bangladesh is also one of the most vulnerable geographical entities for the effect of global warming. Half of Bangladesh is at elevations of less than 05 metres. The Woods Hole Researchers find that in the best case, sea level would rise about 13 centimeters by 2050 and less than 01 percent of the nation's total land area would be lost to advancing seas. In the worst case, 18 percent of the land which currently supports about 15 percent of the nation's people would be lost. In the really worst case, by 2100 waters would cover an area currently supporting 35 percent of the nation's population. The land area that supports nearly one third of the nation's current GNP would vanish in the sea. Global warming could further compound the miseries of Bangladesh if the hypothesized possibility of more frequent storms/cyclones occur (Silver and De Fries, 1991: 98-99). So, one of the most pressing areas of economic diplomacy for Bangladesh should be to ensure the required international support to face the effects of global warming and convince international community about the cause and consequence of this man made catastrophe.

**Human migration and NRBs:** A prominent feature of late 19<sup>th</sup> and early 20<sup>th</sup> century globalization has been huge scale human migration as well as resettlement. The issue of resettlement was actively practiced during the colonial era to ensure the supply of slaves and labor in plantations and industries. As the principles of the population theory of economist Thomas Malthus can not be denied, it will be wise to facilitate migration on an individual scale as well as mass scale to all the possible part of the world<sup>197</sup>. This demographic re-

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<sup>197</sup> In 'An Essay on the Principle of Population', first published in 1798, Malthus made the famous prediction that population would outrun food supply, leading to a decrease in food per person (Case & Fair, 1999: 790). He even went so far as to specifically predict that this must occur by the middle of the 19<sup>th</sup> century, a prediction which failed for the enormous increase in the human

distribution will be helpful to the host countries as well as Bangladesh. Bangladesh foreign economic policy should accommodate this issue of human migration as one of the basic objectives to pursue.

The success story of non-resident Indians (NRIs) and people of Chinese origin all over the world and the huge positive contribution of these non-resident Indians and Chinese communities to their country of origin provides with reasons to be optimistic with Non-resident Bangladeshis (NRBs). The contribution as well further possible contribution already has a 'de-facto' recognition from the government machinery. But, NRBs need to be recognized as an essential part of our development efforts. Missions abroad should have specific arrangements in order to deal with issue of NRBs. Integrating NRBs to the national economic aspirations of Bangladesh will be beneficial to all segments of economic diplomacy as it is likely to have positive impact on trade, investment, flow of remittance, transfer of technology, economic security etc.

**Increased emphasis on regional trade relations:** Bangladesh due to geo-political and geo-economic realities should give more emphasis on maintaining a fruitful regional economic relations. Geographically it should not be restricted to South Asia only. It includes all the parts of Asia which are accessible and where we have an advantage. Food and energy are two vital concerns for Bangladesh economic diplomacy. South and South East Asia is primarily agricultural. Enhanced trade via land can be a very big boost for food security in Bangladesh. Also, Bangladesh should remain very active in pursuing regional co-operation in hydro-electricity production and attaining fossil fuel from Central Asian countries. As long as Bangladesh fails to establish fruitful regional economic relations – overall external economic relations will remain unimpressive and not effective for economic development. In this regard, functionalization of SAPTA and SAFTA are two immediate and vital concerns for Bangladesh.

**Concentrating on the Global South:** As a strategy Bangladesh should effectively consider enhancing its trade with the other developing countries where it will not face the typical obstacles relevant in case of the developed countries. There are many countries in Latin America, Central America, Oceania, Africa, South East Asia, Central Asia where Bangladesh will find a workable comparative advantage to pursue. Although foreign investment and aid is not the most appropriate avenues for Bangladesh to integrate fellow developing countries in its network of economic relations, there remains some scope for serious efforts in this area. There may be commodity aid or food aid to countries in need and Bangladeshi entrepreneurs may look into profitable ventures for investment. At this stage of economic development Bangladesh should actively pursue the issue of launching Bangladeshi MNCs. In this case the fellow developing countries will definitely be important partners. India is a very successful country in this case as it has developed very fruitful relationship with

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ability to produce food. But, the essence of his theory remains unchallenged as we can not produce all the food the world needs in a limited land area and as the total land area is static.



other developing countries. India even though is a major recipient of foreign aid has remarkable aid coverage<sup>198</sup> in other countries as well as investment in non-Indian territories. Several Indian business firms (TATA, BIRLA, BAJAJ, Mittal etc.) by now are comparable to the most influential MNCs of the world. China has expanded its economic co-operation to the African countries as well. China has offered a more feasible aid package with no interference in local politics, unconditional and quicker credit lines, particularly in case of infrastructural development<sup>199</sup>. The 'Look East' policy of the second tenure of Prime Minister Khaleda Zia was a praise worthy initiative. We need to expand in other unexplored areas of the global economy, particularly the developing countries which are growing at an astonishing pace.<sup>200</sup> South- South trade is an area where Bangladesh needs to concentrate a lot. South-South trade is increasing at an annual rate of 10%, more than twice the rate of expansion of world trade in 2003. Especially in Asia South-South trade is moving at full speed (Maag, 2005). The share of exports to developed countries from developing countries declined in the period 1995-2005 from 56 percent to 48 percent, the share of exports to other developing countries in the same period rose from 40 percent to 45 percent. With the volume of exports in 2005 showing a three- fold increase from the level in 1995. This phenomenon of dynamic growth in trade among developing countries (or South- South trade) has been coined as the "new geography of international trade". Interesting feature of this trade is that, industrial products dominate this trade, with 73 percent exports market share and exports value nearly tripled in the period 1995-2005 (UNCTAD, 2008:46).

**Effective utilization of the non-government entities:** Economic diplomacy inevitably involves the private sector as it is the driving force of market economy. In this regard any credible attempt to capitalize the opportunities of economic globalization necessitates an effective private-public sector partnership. Simultaneously; it needs to be recognized that, development of an effective relationship with the non-government entities outside Bangladesh primarily via the Bangladesh missions abroad and ministries concerned is of pivotal significance to its economic growth. Non-government entities do include NGOs,

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<sup>198</sup> Developing countries like India have foreign aid commitments to supplement its national interest. India has an expanded network with the developing as well as LDCs for providing foreign aid. For a detailed study of this topic read, Dewan C. Vohra (1980) *India's Aid Diplomacy in the Third World*, Vikas Publishing House Pvt. Ltd.

<sup>199</sup> China has placed economic agenda as the driving force behind its foreign policy in the 21<sup>st</sup> Century. For a detailed view of Chinese economic diplomacy and involvement in Africa read '*Emerging Post Colonial Solidarities: China's New Economic Diplomacy Towards Sub Saharan Africa*' by Ana Cristina Alves who presented this paper to the 16<sup>th</sup> Biennial Conference of the Asian Studies Association of Australia in Wollongong 26-29 June, 2006. (available at: [http://coomqs.anu.edu.au/special\\_proj/ASAA/biennial-conference/2006/Alves-Ana\\_Christina-ASAA\\_2006.self.](http://coomqs.anu.edu.au/special_proj/ASAA/biennial-conference/2006/Alves-Ana_Christina-ASAA_2006.self.))

<sup>200</sup> For a detailed discussion of the tremendous economic growth of Asian countries and the rise of Asia as the global economic power read '*The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*'(2008) by Professor Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore. Also visit <http://www.mahbubani.net/>.



MNCs, business organizations, industries, civil society and often trans-border public opinion. Historically government in Bangladesh like many other post-colonial countries is not recognized to have a meaningful participation with the institutions in the private sector. In case of economic diplomacy the relationship with the private sector bears the scope of more visible implications compared to other areas of government initiatives.

**C. Recommendations to institutionalize economic diplomacy in Bangladesh which inevitably refers to the various ministries and the government and non-government institutions responsible for the implementation of economic diplomacy:**

**Empowerment and re-organization of MOFA:** Barston (1988:13-14) describes that there are three areas which are important in understanding the role of foreign ministries as part of the overall machinery for conducting external policy—

- ii. internal organizational structure of the foreign ministry,
- iii. the relations between foreign ministries and other ministries,
- iv. the appropriate organizational structure for the formulation and implementation of development strategies. This is particularly important for newer states with development challenges.

Ministry of Foreign Affairs should be given an effective role in the matter of coordination of all external relations including our economic relations, whereas the lead role should remain with the Ministry concerned<sup>201</sup> (GOB, 1995, Vol.-I:94). The success of Bangladesh's economic diplomacy will require the full support and co-operation of all branches of the government. The Ministry of Foreign Affairs and our missions abroad must be equipped to shoulder this responsibility. Above all there must be a well coordinated collective effort which includes the private sector<sup>202</sup>.

On July 06, 2005 the chairman of the Parliamentary Standing Committee on the Ministry of Foreign Affairs underscored the need for coordination among the heads of the missions and other ministry officials so that they can work in a congenial atmosphere. Also one time appointment of economic counselors was discouraged by this committee<sup>203</sup>. The internet edition of the Dawn magazine

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<sup>201</sup> In this case I refer to the Economic Relations Division (ERD) under the Ministry of Finance which is primarily entrusted with the responsibility of economic relations (unfortunately dealing with foreign aid only).

<sup>202</sup> Sobhan, Farooq., 'Focus on Economic Diplomacy: the priority tasks' available at the <http://www.bei-bd.org/docs/fsj.pdf>. Farooq Sobhan is a former Foreign Secretary and Executive Chairman of the Board of Investment in Bangladesh. At present he is the President of Bangladesh Enterprise Institute.

<sup>203</sup> See 'JS body blasted poor economic diplomacy', *The New Nation*, July 07, 2005, Dhaka, Bangladesh. This was a report of the staff reporter of that newspaper. The then chairman of the Parliamentary Standing Committee on the Ministry of Foreign Affairs was ruling party MP Barrister Ziaur Rahman Khan.

quoted an internal report released on 27<sup>th</sup> March, 2005 of the Ministry of Foreign Affairs that identified lack of inter-wing coordination in different Bangladesh missions abroad as an obstacle in the government's efforts to tap Bangladesh's business potential under its 'economic diplomacy'. The report further elaborates that, the officials of none of the wings are accountable to the missions' chiefs. They hardly bother to report to the ambassadors or high commissioners about their activities as they directly report to the respective ministries which assigned them to work.<sup>204</sup> Momen (1989: 128) identifies this lack of co-ordination within the missions as a major obstacle to decision making.

In a major recommendation, the Morshed Khan Committee<sup>205</sup> said that the functions of all personnel working in diplomatic and consular missions abroad to needs to be brought under a single unified command. It proposed that all officers or personnel whether from the cadre service or other ministries should be working under the direct supervision of the ambassador or high commissioner. The existing practice gave scope for the officers posted from different cadre services to work and report directly to their respective ministries, often keeping the head of the mission in the dark or without effective supervisory control. The report also suggested abolition of all wings in missions, noting that, "inter-ministerial bickerings, incidence of insubordination, indiscipline, and wastage of valuable resources due to proliferation of wings have reached a stage where most of our missions have ceased to function as a cohesive factor".<sup>206</sup> The discussion above indicates a lack of team work by our missions abroad and inter-ministerial co-ordination. Also there is no effective collaboration with the private sector.

The organizational set up of MOFA must be restructured in collaboration with the development strategy of Bangladesh and realistic assessment of economic diplomacy requirements. These weaknesses of MOFA must be addressed as a pre-condition to work in the very competitive area of economic diplomacy. Sridharan (2002:71-73) identified three principal diplomatic obstacles for Indian national economic interest abroad:

- I. Officials hold divergent views about the promotion of commercial diplomacy.
- II. Institutional inadequacy is also a handicap that relates to the third problem.
- III. The policy discontinuities of the political executive (coupled with the vested interests of the bureaucracy in some cases) which have to be

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<sup>204</sup> BD's economic diplomacy a failure: report, DAWN the internet edition, March 28, 2005. (<http://www.dawn.com/2005/03/28/int2.htm>)

<sup>205</sup> See GOB, (July, 1995), 'Report of Special Committee on Foreign Affairs' Vol.-I &II, Bangladesh Government Press, Dhaka, Bangladesh

<sup>206</sup> Read 'The case of the missing Morshed Committee report', M. Anwarul Haq, The Daily Star, and Dhaka, Bangladesh, 15/06 / 2002.



constantly rationalized and explained to foreign audiences without making India look ridiculous.

He also identified three institutional inadequacies in Indian economic diplomacy-

- I. the lack of sufficient manpower,
- II. the lack of personnel skilled in economic diplomacy,
- III. lack of resources.

India is one of the success stories in economic diplomacy. Any tertiary student of foreign policy is likely to visualize the state of affairs in this sector in Bangladesh from the above description of Indian economic diplomacy (Sridharan,2002).

There are 44 missions abroad with varied geographical jurisdiction in the sense that, some missions cover more than one country. Basically the structure is more relevant to political and consular relations. Economic diplomacy as discussed earlier is arguably the most demanding area of foreign policy and therefore requires high level of professionalism and infrastructural support. Expansion of the number of economic missions abroad, deployment of adequate professional staffs and adequate infrastructural and logistical support are few areas where there is no scope of compromise if Bangladesh aims at a meaningful and accountable economic diplomacy. The various international financial institutions like ADB, WB, IMF, IDB etc., the Ministry of Foreign Affairs along with other relevant ministries relevant to external economic relations should be offered similar re-organization.

**Initiation of a credible Foreign Economic Policy and professionalism in MOFA:** Bangladesh should have a credible foreign economic policy which is based on the domestic and external realities of Bangladesh. Simultaneously this should be a policy that Bangladesh is capable of effectively pursuing. The issue of scientific policy making supported by mass aspiration and political leadership would be of prime concern in this case.

Due to regime interest; professionalism is often compromised in the Ministry of Foreign Affairs mainly in the form of the appointments of non-professionals in various posts of the ministry. Although, it's impact on the external economic relations of Bangladesh should be insignificant if it is primarily a political or consular or any task not relevant to economic issues. But it needs to be recognized that, it is capable of initiating a process which later may effect the overall performance of the Bangladesh foreign policy establishment and to be precise its capacity to effectively pursue complex assignments like economic diplomacy. The appointment of a professionally suitable person is important as the appointee represents the image of Bangladesh which is of immense significance to those who want to establish a fruitful economic relation. The issue of professionally and technically sound persons in the posts bearing economic and commercial or labor market related responsibilities is to be considered in a



neutral manner. Economic diplomacy is an area where there is a constant competition among the best in the profession in the form of fast decision making, negotiation, drafting contract or treaty, economic intelligence gathering and application, speculating economic and financial issues at home and abroad, creating opportunity in international policy framework etc. The very content of economic diplomacy discourages the relevance of nepotism or application of 'unqualified' discretion in terms of appointment and deployment of the bureaucracy responsible for external economic affairs.

**Capacity building of the relevant institutions:** Proper training is essential for officials in economic diplomacy, economic negotiation and in the dealings of the international economic organizations like the WTO, WB, IMF, and regional economic organizations like the ADB, ASEAN etc. Training in the administrative, legal and political setup where one has to pursue economic diplomacy is a must. This might be attained with a sort of regional studies or specialization or even with the help of the solid professionals in the host country or from the private sector. Former Indian Prime Minister Vajpayee in his speech to a batch of Indian Foreign Service probationers made a similar observation when he said that economic diplomacy was taking precedence over other forms of interstate interaction and therefore diplomats should familiarize themselves with commercial and business issues in order to safeguard India's national interest in commerce and trade.<sup>207</sup>

Trade disputes may arise in areas ranging from environment to telecommunications. This requires specialist knowledge or at least access to specialist knowledge in the concerned field. The private sector, industries and business community eager to reap the benefits of global market should be more professional in their attitude. They must also invest in R&D for economic diplomacy. This must be realized with utmost sincerity that the fundamental involvement of the government machinery in economic diplomacy is the development of linkage, providing information, arranging access to the target and ensuring level playing ground for national firms in the target country—the rest of the task is with the private sector. Government may consider organizing workshop for the potential business persons, industrialists and entrepreneurs.

**E-governance in economic diplomacy:** Dissemination of information, web site for each mission with separate page on economic aspects needs to be developed. This is the easiest way to pursue economic diplomacy. All the information regarding various issues in external economic relations should be in the web site so that any one interested can have enough information for a preliminary decision. Also the feed back from the concerned authorities should also be fast and electronically managed as long as there is no real procedural constraint.

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<sup>207</sup> The Hindu, India, 29 Oct. 1998.

**Functions of ERD:** ERD should be mandated with the primary policy exercise for external economic relations that includes not only aid but foreign investment, trade, overseas employment and all other avenues of external economic affairs. In this era of economic globalization and visible complexity in the various issues of economic development, it needs to be recognized that, MOFA alone and for that matter other ministries with their multiple mandates may not be able to do justice to their commitment towards economic diplomacy. As there is already a functional Economic Relations Division, under the Ministry of Finance it will be wise to reap maximum benefit out of this infrastructure with some adjustments in the Rules of Business<sup>208</sup> and the organization of ERD. In this regard, ERD may be entrusted with the following tasks-

- a) ERD should plan all foreign aid requirements on the basis of the aid assessments of the various ministries which it is already mandated with.
- b) It should also assess the foreign investment possibility regionally and country wise. There is the BOI to do this task, but as a central organization to deal with overall external economic affairs, ERD should be involved in the information gathering and analysis so that, it can put together the total picture of economic relations with a particular region or country.
- c) Although trade is the task of Commerce ministry, ERD may suggest trade potential on the basis of the overall economic relations of a particular country or region. Foreign aid and investment relations are very crucial indicators of trade prospect with a country/region.
- d) Another vital area of ERD task might be assessing the prospect of providing aid to other partners. There are many areas where Bangladesh enjoys a comparative advantage and thereby is capable of providing aid, particularly in the form of technical aid. In this regard a sort of Bangladesh International Co-operation Agency (BICA) under ERD may be initiated. Successful examples like Thailand (Thailand International Cooperation Agency, TICA) and South Korean KOICA can be source of encouragement for Bangladesh.
- e) ERD should propose, formulate and evaluate the implementation of the Bangladesh external economic policy. It should prepare the draft laws and other statues and discharge other executive functions in the mentioned fields. This will provide MOFA with the required policy feed back, analysis as well as information required to carry out a successful foreign economic policy. This will also bring an end to the 'piecemeal efforts' in economic relations.

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<sup>208</sup> The various ministries and divisions like ERD are guided by the allocation of business which is called 'Rules of Business'. This is available as a publication by the government press in Bangladesh.



- f) ERD should continue the negotiation and coordination tasks in the implementation of international agreements including relations with the regional economic organizations.
- g) ERD should coordinate relations with international economic and financial institutions as well as with particular states in terms of promoting economic and financial cooperation in collaboration with the Ministry of Foreign Affairs.
- h) Lack of research is a major weakness in the decision making process of Bangladesh foreign policy. Momen (1989:128) has identified the absence of a developed research cell and a policy planning unit in the MOFA as a source of unsound decision making. MOFA with its mandate of political-consular relations and coordinating all external affairs for practical reasons is not the best institution to take a lead in the research and planning issues. In this regard ERD in collaboration with MOFA and other relevant ministries can take the lead role and facilitate credible leadership of MOFA in foreign affairs.
- i) ERD it self should be re-organized as per two issues- sectoral concerns and geographical areas to make it fully functional as per the above recommendations.

There are quite a number of instances where governments have opted for specialized institutions to carry out foreign economic relations. Australia, Canada, Japan etc. countries have very specialized set up to deal with external economic priorities.

The Economic Division within the Indian Ministry of External Affairs during the tenure of Prime Minister Narasimha Rao was re-organized to handle three specific tasks:

- a. the management of bilateral economic relations and the Indian Technical and Economic Cooperation (ITEC) programmes;
- b. the management of multilateral economic relations with international organizations involved in developmental, social, economic and technological issues affecting India; and
- c. the effective and objective-oriented projection abroad of India's economic reforms and the restructuring of the Indian economy to ensure positive responses and inputs from the international community.<sup>209</sup>

The Bilateral Economic Relations Division (BERD) in Ireland<sup>210</sup> promotes Irish economic interests through focused use of all it's resources, including in particular Irelands network of diplomatic and consular missions abroad by:

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<sup>209</sup> See, J.N. Dixit, *My South Bloc Years: Memoirs of a Foreign Secretary* (New Delhi: UBS Publishers, 1997), p.58.

<sup>210</sup> Visit <http://www.dfa.ie/home/index.aspx?id=300> & media=print (official website of Irish BERD).



- a. working closely with state agencies, other government departments and the private sector in identifying new market opportunities and in raising awareness of Ireland as a preferred business partner and as a world class location of inward investment, scientific research and development, education and high technology,
- b. facilitating the development of trade and investment in emerging markets including through implementation of relevant aspects of the Government's Asia Strategy and development of a strategic approach for the Gulf region,
- c. assisting Irish companies in gaining and maintaining access for their goods and services.

**The role of other ministries and the issue of co-ordination:** There is a visible lack of inter-ministerial and inter-sectoral as well as the public –private sector collaboration in economic diplomacy. The following issues may be a good starting point in this regard-

- I. A common strategy and better coordination of activities between government and industry as well as between different government agencies.
- II. Establishment of an inter-ministerial committee on External Economic Relations for better integration and co-ordination of promotional activities.<sup>211</sup> This committee, which could meet once or twice a month, which would include representatives from Commerce Ministry, the different chambers, BOI, BEPZA, EPB, ERD, Finance, Labor and Expatriate Welfare , Industry and MOFA.

**Addition to the mandate of MOFA:** Considering the various recommendations mentioned above the following tasks should also be mandated to MOFA—

- a) Each Bangladesh mission abroad should to incorporate a realistic target for predictable outcomes of economic diplomacy.
- b) The out comes of these predictions should be scrutinized by MOFA and other relevant ministries before preparing the yearly target.
- c) If any foreign mission fails to fulfill its target without any acceptable reason then the mission should be made liable for the failure. Strict professionalism should be the only guiding principle in terms of economic diplomacy. One has to remember that a failure in traditional diplomacy which is basically political and consular may be compensated at some other time or with some other achievements in those sectors. But, a lost opportunity in economic diplomacy is a mathematical loss which is not possible to gain as

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<sup>211</sup> German government established such a committee in December, 1995.

some one's loss will be credited to some one else's account as a success.<sup>212</sup>

- d) A parliamentary committee on Foreign Affairs should be empowered to systematically evaluate the performance and functions of MOFA and in case of economic diplomacy there can be a parliamentary sub-committee on external economic affairs that, may be mandated to deal with the performance of all the ministries related to foreign economic policy and external economic relations. In an emerging democracy like Bangladesh this is a pre-condition for making our foreign policy and the institutions concerned pro-development and capable of performing their public service mandate.

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<sup>212</sup> For example when Bangladesh failed to get recognition from several Muslim countries in the post liberation years, then this was a sort of failure in the diplomatic front. But, this failure was eventually eroded and we now have very cordial relations with those states. So, the loss was recovered in terms of objective. But, in economic diplomacy if country 'X' fails to divert 'M2' amount of foreign investment, then that is a real loss in monetary terms. Some other country for example 'Y'/'Z' may gain 'M2' and in that case for 'X' it will not be possible to regain 'M2'.

***Chapter 9:***  
***Concluding Remarks***



## Concluding Remarks :

One-fifth of humanity lives in countries where many people think nothing of spending \$2 a day on a cappuccino. Another fifth of humanity survive on less than \$1 a day and live in countries where children die for want of a simple anti-mosquito bed net (UNDP, 2005:3). In such a scenario; economic diplomacy encourages economic justice, economic opportunities, possibility of bridging the North-South gap and a definite hope for a better tomorrow. This thesis is an attempt to prove the worthiness of economic diplomacy and assess the situation in Bangladesh from that perspective.

I quote some lines from Noble Laureate Polish poet *Wisława Szymborska's* poem "*The Century's Decline*" to conclude this thesis-

*" Too many things have happened  
that weren't supposed to happen,  
and what was supposed to come about  
has not.....*

*.....  
There was going to be respect  
for helpless people's helplessness,  
trust, that kind of stuff.  
Anyone who planned to enjoy the world  
is now faced  
with a hopeless task.<sup>213</sup>*

A major share of this frustration seems to be originating from the failure of the organizations around us that are mandated to uplift human welfare. As Amartya Sen (2002) argues that, there is an urgent need for reforming institutional arrangements—in addition to national ones—in order to overcome both the errors of mission and those of commission that tend to give the poor across the world such limited opportunity. Economics possessing the power to drive other welfare issues in this matrix is shouldered with the prime responsibility to ensure development. This reality also generates special emphasis on organizations and institutional setups mandated with economic objectives. In Bangladesh economic diplomacy is absolutely crucial and central to all the development efforts of the state. Economic diplomacy in Bangladesh therefore deserves to be recognized and practiced as one of the principal means to ensure economic development.

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<sup>213</sup> Wisława Szymborska, (1993) "*The Century's Decline*" from *View With A grain of Sand*, English translation by Stanislaw Baranczak and Clare Cavanagh, (Hart court Inc: 1995). The Swedish Academy awarded Polish poet Wisława Szymborska the Nobel Prize in literature in 1996.

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***Appendix***

**MISSION-WISE EXPORT TARGET AND PERFORMANCE  
FOR JULY-JUNE 2006-2007**

		(Value in Million US\$)
1.	Export earning for July-June, 2006-07	12177.86
2.	Export earning for July- June, 2005-06	10526.16
3.	Export target for FY 2006-2007	12500.00
<p>Actual export earnings for July- June, 2006-07 is US\$ 12177.86 million as against the target of US\$ 12500.00 million which is 15.69 % higher than the corresponding period of the previous year and - 2.58 % decrease than the target .</p>		

At present there are 44 diplomatic Missions of Bangladesh working abroad. From the statistics of Mission -wise export target and achievement, it appears that out of 44 Missions, 21 Missions achieved their export target and 23 Missions could not achieve the target set for them. In this connection, a summary of the Mission-wise export target and achievement June be seen at the following table.

It should be mentioned that although 23 Missions could not achieve their export target, but out of them export growth of 12 Missions (Washington, Cairo, Singapore, Islamabad, Riyadh, Doha, Ottawa, Tokyo, Katmandu, Canberra, Berlin and New-Delhi) was higher than the corresponding period of the previous Financial year (July-June 2005-06). But the export growth of the rest 11 Missions (Hong Kong, Dubai, Bangkok, Kuwait, Manama, Manila, Tashkent, Amman, Thimphu, Muscat and Brunei) was lower than the corresponding period of the previous Financial year (July- June, 2005-06).

MISSION-WISE EXPORT TARGET AND PERFORMANCE OF  
JULY-JUNE 2006-2007

(Value in Million US\$)

Name of the Mission	Missions which achieved the target for July-June 2006-07 FY				Missions which could not achieve the target for July-June 2006-07 FY						
	Export Target For 2006-07	Actual export earning July-June 2006-07	% Increase over export target	Export performance of the same period of last year 2005-06	% change of export performance July-June 2006-07 over July-June 2005-06	Name of the mission	Export Target For 2006-07	Actual export earning July-June 2006-07	% Decrease over export target	Export performance of the same period of last year 2005-06	% change of export performance July-June 2006-07 over July-June 2005-06
1	2	3	4	5	6	7	8	9	10	11	12
1. London	1250.00	1274.76	+1.98	1134.26	+12.39	1. Washington	3670.00	3517.72	-4.15	3082.72	+14.11
2. Brussels	425.00	467.06	+9.90	384.61	+21.44	2. Hong Kong	160.00	125.35	-21.66	136.98	-8.49
3. The Hague	400.00	493.87	+23.47	352.65	+40.05	3. Cairo	25.00	18.83	-24.68	18.27	+3.07
4. Stockholm	325.00	345.13	+6.19	288.14	+19.78	4. Singapore	133.00	91.55	-31.17	84.72	+8.08
5. Madrid	485.00	527.78	+8.82	405.52	+30.15	5. Islamabad	62.00	61.06	-1.52	57.74	+5.75
6. Tehran	40.00	50.19	+25.48	38.09	+31.77	6. Dubai	53.00	30.33	-42.77	39.30	-22.82
7. Beijing	72.00	93.36	+29.67	64.45	+44.86	7. Bangkok	50.00	22.53	-54.94	42.93	-47.52
8. Ankara	125.00	168.77	+35.02	102.57	+64.54	8. Riyadh	74.00	61.58	-16.78	57.79	+6.56
9. Hanoi	28.00	34.98	+24.93	25.51	+37.12	9. Kuwait	10.00	8.65	-13.50	9.36	-7.59
10. Moscow	25.00	41.24	+64.96	21.75	+89.61	10. Manila	13.00	7.64	-41.23	10.86	-29.65
11. Jakarta	24.00	24.37	+1.54	22.60	+7.83	11. Doha	5.00	4.92	-1.60	4.46	+10.31
12. Pretoria	11.00	14.19	+29.00	9.88	+43.62	12. Manama	4.00	0.66	-83.50	3.56	-81.46
13. Tripoli	2.50	3.94	+57.60	2.10	+87.62	13. Amman	35.00	22.53	-35.63	27.15	-17.02
14. Nairobi	6.00	8.76	+46.00	5.30	+65.28	14. Thimphu	2.00	1.40	-30.00	1.72	-18.60
15. Colombo	15.00	15.09	+0.60	13.11	+15.10	15. Tashkent	3.00	1.24	-58.67	2.53	-50.99
16. Kuala Lumpur	14.00	16.91	+20.79	12.61	+34.10	16. Brunei	0.25	0.05	-80.00	0.31	-83.87
17. Rome	530.00	539.77	+1.84	444.15	+21.53	17. Berlin	2275.00	2016.05	-11.38	1817.39	+10.93
18. Seoul	45.00	79.63	+76.96	42.54	+87.19	18. New Delhi	350.00	289.41	-17.31	242.19	+19.50
19. Rabat	9.00	10.87	+20.78	7.80	+39.36	19. Ottawa	480.00	460.27	-4.11	408.78	+12.60
20. Yangon	6.25	6.31	+0.96	5.16	+22.29	20. Tokyo	155.00	147.45	-4.87	138.45	+6.50
21. Paris	750.00	753.53	+0.47	695.70	+8.31	21. Muscat	1.00	0.69	-31.00	0.90	-23.33
						22. Kathmandu	2.00	0.85	-57.50	0.66	+28.79
						23. Canberra	30.00	29.54	-1.53	27.31	+8.17



### EXPORT PERFORMANCE OF COMMERCIAL WINGS FOR JULY-JUNE 2006-2007

There are 16 Commercial Wings (except Geneva, Kolkata, and Los Angels.) of Bangladesh working abroad. From the statistics of Commercial Wing-wise export target and achievement, it appears that out of 16 Commercial Wings, 9 Commercial Wings achieved the export target and 7 Commercial Wings could not achieve the target set for them.

It should be mentioned that although 7 Commercial Wings could not achieve their export target, but out of them export growth of 6 Commercial Wings (Washington, Berlin, New Delhi, Ottawa, Tokyo and Canberra) was higher than the corresponding period of the previous financial year (July-June 2005-06). The growth rate of the rest One Commercial Wing (Dubai) was lower than the corresponding period of the previous financial year (July- June 2005-06).

(Value in Million US\$)

Missions which achieved the target for FY July- June 2006-07				Missions which could not achieve the target for FY July- June 2006-07							
Name of the Mission	Export Target For 2006-07	Actual export earning July- June 2006-07	% Increase over export target	Export performance of the same period of last year 2005-06	% change of export performance July- June 2006-07 over July- June 2005-06	Name of the mission	Export Target For 2006-07	Actual export earning July- June 2006-07	% Decrease over export target	Export performance of the same period of last year 2005-06	% change of export performance July- June 2006-07 over July- June 2005-06
1	2	4	5	6	7	8	9	11	12	13	14
1. London	1250.00	1274.76	+1.98	1134.26	+12.39	1. Washington	3670.00	3517.72	-4.15	3082.72	+14.11
2. Brussels	425.00	467.06	+9.90	384.61	+21.44	2. Berlin	2275.00	2016.05	-11.38	1817.39	+10.93
3. Madrid	485.00	527.78	+8.82	405.52	+30.15	3. New Delhi	350.00	289.41	-17.31	242.19	+19.50
4. Tehran	40.00	50.19	+25.48	38.09	+31.77	4. Dubai	53.00	30.33	-42.77	39.30	-22.82
5. Beijing	72.00	93.36	+29.67	64.45	+44.86	5. Ottawa	480.00	460.27	-4.11	408.78	+12.60
6. Moscow	25.00	41.24	+64.96	21.75	+89.61	6. Tokyo	155.00	147.45	-4.87	138.45	+6.50
7. Kuelalampur	14.00	16.91	+20.79	12.61	+34.10	7. Canberra	30.00	29.54	-1.53	27.31	+8.17
8. Yangon	6.25	6.31	+0.96	5.16	+22.29						
9. Paris	750.00	753.53	+0.47	695.70	+8.31						
<b>Total :</b>	<b>3067.25</b>	<b>3231.14</b>	<b>+5.34</b>	<b>2762.15</b>	<b>+16.98</b>	<b>Total :</b>	<b>7013.00</b>	<b>6490.77</b>	<b>-7.45</b>	<b>5756.14</b>	<b>+12.76</b>

Appendix-C

**MISSION-WISE EXPORT TARGET AND PERFORMANCE  
FOR JULY-JUNE, 2007-08**

(Value in Million US\$)

1.	Export earning for JULY-JUNE, 2007-08	14110.80
2.	Export earning for JULY-JUNE, 2006-07	12177.86
3.	Export target for FY 2007-2008	14500.00
Actual export earnings for JULY-JUNE, 2007-08 is US\$ 14110.80 million as against the target of US\$ 14500.00 million which is 15.87% higher than the corresponding period of the previous year and 2.68% decrease than the target.		

At present there are 44 diplomatic Missions of Bangladesh working abroad. From the statistics of Mission -wise export target and achievement, it appears that out of 44 Missions, 24 Missions achieved their export target and 20 Missions could not achieve the target set for them. In this connection, a summary of the Mission-wise export target and achievement JULY-JUNE may be seen in the following table.

It should be mentioned that although 20 Missions could not achieve their export target, but out of them export growth of 15 Missions (Washington, Brussels, Rome, Ottawa, Madrid, Beijing, New Delhi, London, Islamabad, Tehran, Rabat, Brunei, Yangon, Berlin, Nairobi) was higher than the corresponding period of the previous 12 months (JULY-JUNE, 2006-07). But the export growth of the rest 5 Missions (Hanoi, Bangkok, Manila, Thimpu, Cairo) was lower than the corresponding period of the previous 12 months (JULY-JUNE, 2006-07).



**MISSION-WISE EXPORT TARGET AND PERFORMANCE OF JULY-JUNE, 2007-08**

(Value in Million US\$)

Missions which achieve the target for JULY-JUNE, 2007-08					Missions which could not achieve the target for JULY-JUNE, 2007-08						
Name of the Mission	Export Target For 2007-08	Actual export earning July-June, 2007-08	% Increase over export target	Export performance of the same period of last year 2006-07	% change of export performance over July-June, 2006-07	Name of the mission	Export Target For 2007-08	Actual export earning July-June, 2007-08	% Increase over export target	Export performance of the same period of last year 2006-07	% change of export performance July-June, 2007-08 over July-June, 2006-07
1	2	3	4	5	6	7	8	9	10	11	12
1. Doha	6.00	10.56	+76.00	4.92	+114.63	1. Washington	4100.00	3697.25	-9.82	3517.72	+5.10
2. Manama	1.00	4.17	+317.00	0.66	+531.82	2. Brussels	570.00	542.38	-4.85	467.06	+16.13
3. Muscat	1.00	1.18	+18.00	0.69	+71.01	3. Rome	660.00	613.68	-7.02	539.77	+13.69
4. Tashkent	1.50	5.16	+244.00	1.24	+316.13	4. Ottawa	550.00	539.38	-1.93	460.27	+17.19
5. Moscow	55.00	81.94	+48.98	41.24	+98.69	5. Madrid	650.00	598.39	-7.94	527.78	+13.38
6. Pretoria	19.00	34.50	+81.58	14.19	+143.13	6. Beijing	120.00	107.98	-10.02	93.36	+15.66
7. Canberra	35.00	46.40	+32.57	29.54	+57.08	7. Hanoi	45.00	18.94	-57.91	34.98	-45.85
8. Riyadh	70.00	87.32	+24.74	61.58	+41.80	8. New Delhi	360.00	358.08	-0.53	289.41	+23.73
9. Ankara	220.00	238.70	+8.50	168.77	+41.44	9. London	1500.00	1469.28	-2.05	1274.76	+15.26
10. Katmandu	1.00	6.71	+571.00	0.85	+689.41	10. Islamabad	90.00	71.01	-21.10	61.06	+16.30
11. Dubai	40.00	45.02	+12.55	30.33	+48.43	11. Bangkok	30.00	16.61	-44.63	22.53	-26.28
12. Kuwait	9.00	11.44	+27.11	8.65	+32.25	12. Tehran	60.00	55.32	-7.80	50.19	+10.22
13. HongKong	140.00	155.13	+10.81	125.35	+23.76	13. Rabat	13.00	12.30	-5.38	10.87	+13.16
14. Tokyo	170.00	172.56	+1.51	147.45	+17.03	14. Manila	10.00	5.27	-47.30	7.64	-31.02
15. Tripoli	5.00	6.72	+34.40	3.94	+70.56	15. Brunei	1.00	0.07	-93.00	0.05	+40.00
16. Paris	860.00	991.13	+15.25	753.53	+31.53	16. Thimphu	1.50	1.35	-10.00	1.40	-3.57
17. Jakarta	27.00	32.80	+21.48	24.37	+34.59	17. Yang on	10.00	9.58	-4.20	6.31	+51.82
18. Colombo	17.00	19.40	+14.12	15.09	+28.56	18. Berlin	2350.00	2272.31	-3.31	2016.05	+12.71
19. Kuala Lumpur	22.00	24.17	+9.86	16.91	+42.93	19. Nairobi	12.00	11.91	-0.75	8.76	+35.96
20. Amman	24.00	30.86	+28.58	22.53	+36.97	20. Cairo	20.00	17.71	-11.45	18.83	-5.95
21. Stockholm	410.00	434.45	+5.96	345.13	+25.88						
22. Singapore	100.00	123.61	+23.61	91.55	+35.02						
23. The Hague	640.00	705.99	+10.31	493.87	+42.95						
24. Seoul	92.00	95.58	+3.89	79.63	+20.03						



## Appendix-D

**EXPORT PERFORMANCE OF COMMERCIAL WINGS FOR JULY-JUNE, 2007-08**

There are 16 Commercial Wings (except Geneva, Kolkata, and Los Angeles.) of Bangladesh working abroad. From the statistics of Commercial Wing-wise export target and achievement, it appears that out of 16 Commercial Wings, 06 Commercial Wings achieved the export target and 10 Commercial Wings could not achieve the target set for them.

It should be mentioned that although 10 Commercial Wings could not achieve their export target, but export growth of this 10 Commercial Wings (Washington, Brussels, Ottawa, Madrid, Beijing, New Delhi, Tehran, Yangon, Berlin, London) was higher than the corresponding period of the previous month (July-JUNE 2006-07).

(Value in Million US\$)

Name of the Mission	Missions which achieve the target for JULY-JUNE, 2007-08				Missions which could not achieve the target for JULY-JUNE, 2007-08				% change of export performance July- June, 2007-08 over July- June, 2006-07	% increase over export target	Export performance of the same period of last year 2006-07	% change of export performance July- June, 2007-08 over July- June, 2006-07
	Export Target For 2007-08	Actual export earning July- June, 2007-08	% increase over export target	Export performance of the same period of last year 2006-07	Name of the mission	Export Target 2007-08	Actual export earning July- June, 2007-08	% increase over export target				
1	2	3	4	5	6	7	8	9	10	11	12	
1. Moscow	55.00	81.94	+48.98	41.24	+98.69	1. Washington	4100.00	3697.25	-9.82	3517.72	+5.10	
2. Canberra	35.00	46.40	+32.57	29.54	+57.08	2. Brussels	570.00	542.38	-4.85	467.06	+16.13	
3. Dubai	40.00	45.02	+12.55	30.33	+48.43	3. Ottawa	550.00	539.38	-1.93	460.27	+17.19	
4. Paris	860.00	991.13	+15.25	753.53	+31.53	4. Madrid	650.00	598.39	-7.94	527.78	+13.38	
5. Kuala Lumpur	22.00	24.17	+9.86	16.91	+42.93	5. Beijing	120.00	107.98	-10.02	93.36	+15.66	
6. Tokyo	170.00	172.56	+1.51	147.45	+17.03	6. New Delhi	360.00	358.08	-0.53	289.41	+23.73	
						7. Yang on	10.00	9.58	-4.20	6.31	+51.82	
						8. Tehran	60.00	55.32	-7.80	50.19	+10.22	
						9. Berlin	2350.00	2272.31	-3.31	2016.05	+12.71	
						10. London	1500.00	1469.28	-2.05	1274.76	+15.26	
Total:	1182	1361.22	+120.72	1019	+295.69	Total:	10270	9649.95	-52.45	8702.91	+181.2	

Appendix-E

**MISSION-WISE EXPORT TARGET AND PERFORMANCE  
FOR JULY-NOVEMBER, 2008-09**

(Value in Million US\$)

1.	Export earning for JULY-NOVEMBER, 2008-09	6551.45
2.	Export earning for JULY-NOVEMBER, 2007-08	5166.63
3.	Export target for FY 2008-2009	16298.43

Actual export earnings for JULY-NOVEMBER, 2008-09 is US\$ 6551.45 mln as against the target of US\$ 6372.69 mln. which is 26.80% higher than the corresponding period of the previous year and 2.81% higher than the target.

At present there are 44 diplomatic Missions of Bangladesh working abroad. From the statistics of Mission -wise export target and achievement, it appears that out of 44 Missions, 24 Missions achieved their export target and 20 Missions could not achieve the target set for them. In this connection, a summary of the Mission-wise export target and achievement JULY-NOVEMBER be seen at following table.

It should be mentioned that although 20 Missions could not achieve their export target, but out of them export growth of 11 Missions (Manama, Berlin, Doha, Brussels, Rome, Moscow, Madrid, Beijing, Paris, New Delhi, Amman) was higher than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08). But the export growth of the rest 9 Missions (Jakarta, Yangon, Tripoli, Singapore, HongKong, Rabat, Manila, Nairobi, Thimpu).was lower than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08).



**MISSION-WISE EXPORT TARGET AND PERFORMANCE OF JULY-NOVEMBER, 2008-09**

(Value in Million US\$)

Missions which achieve the target for JULY-NOVEMBER, 2008-09				Missions which could not achieve the target for JULY-NOVEMBER, 2008-09									
Name of the Mission	Export Target For 2008-09	Strategic Export Target July-Nov. 2008-09	Actual export earning July-Nov. 2008-09	% increase over export target	Export performance of the same period of last year 2007-08	% change of export performance July-Nov. 2008-09 over July-Nov. 2007-08	Name of the mission	Export Target For 2008-09	Strategic Export Target July-Nov. 2008-09	Actual export earning July-Nov. 2008-09	% Increase over export target	Export performance of the same period of last year 2007-08	% change of export performance July-Nov. 2008-09 over July-Nov. 2007-08
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Tehran	58.91	23.03	23.21	+0.76	24.44	-5.03	1. Manama	5.03	1.97	1.30	-33.90	1.27	+2.36
2. Muscat	1.39	0.54	0.55	+1.20	0.60	-8.33	2. Berlin	2621.26	1024.91	987.10	-3.69	870.46	+13.40
3. Tashkent	5.65	2.21	3.97	+79.71	2.35	+68.94	3. Doha	14.10	5.51	4.72	-14.39	4.35	+8.51
4. Pretoria	39.40	15.41	22.79	+47.94	16.24	+40.33	4. Brussels	612.94	239.66	224.49	-6.33	189.71	+18.33
5. Washington	4151.35	1623.18	1807.84	+11.38	1377.72	+31.22	5. Rome	711.95	278.37	264.22	-5.08	193.07	+36.85
6. London	1694.75	662.65	690.05	+4.14	563.72	+22.41	6. Moscow	90.66	35.45	35.34	-0.30	30.70	+15.11
7. The Hague	814.01	318.28	376.06	+18.15	181.42	+107.29	7. Madrid	695.89	272.09	245.07	-9.93	228.58	+7.21
8. Ottawa	618.03	241.65	265.89	+10.03	190.60	+39.50	8. Beijing	122.26	47.80	46.38	-2.98	45.25	+2.50
9. Stockholm	506.60	198.08	923.55	+366.25	161.64	+471.36	9. Jakarta	35.69	13.95	10.81	-22.54	10.98	-1.55
10. Ankara	263.82	103.15	148.40	+43.86	77.21	+92.20	10. Yangon	10.93	4.27	2.81	-34.25	4.07	-30.96
11. Seoul	106.13	41.50	79.19	+90.83	37.57	+110.76	11. Tripoli	7.32	2.86	1.99	-30.47	2.05	-2.93
12. Hanoi	21.12	8.26	9.74	+17.95	6.19	+57.35	12. Paris	1152.97	450.81	429.06	-4.82	364.30	+17.78
13. Tokyo	193.71	75.74	81.82	+8.03	68.29	+19.81	13. Singapore	141.49	55.32	16.42	-70.32	33.28	-50.66
14. Cairo	19.02	7.44	7.88	+5.96	6.93	+13.71	14. HongKong	170.17	66.54	58.50	-12.08	64.99	-9.99
15. Islamabad	81.84	32.00	34.02	+6.31	25.97	+31.00	15. New Delhi	408.58	159.75	144.33	-9.66	117.43	+22.91
16. Canberra	52.72	20.61	23.71	+15.02	17.75	+33.58	16. Rabat	13.61	5.32	2.34	-56.03	3.29	-28.88
17. Bangkok	18.67	7.30	9.94	+36.16	3.45	+188.12	17. Manila	6.06	2.37	0.90	-62.02	2.42	-62.81
18. Riyadh	99.82	39.03	63.87	+63.64	36.32	+75.85	18. Amman	33.08	12.93	11.83	-8.54	10.47	+12.99
19. Colombo	22.01	8.61	10.42	+21.08	6.74	+54.60	19. Nairobi	13.29	5.20	3.63	-30.14	6.62	-45.17
20. Kuala Lumpur	28.34	11.08	13.24	+19.48	8.66	+52.89	20. Thimpu	1.54	0.60	0.16	-73.43	0.45	-64.44
21. Katmandu	7.70	3.01	4.95	+64.41	0.73	+578.06							
22. Brunei	0.07	0.03	0.04	+46.15	-	-							
23. Dubai	53.47	20.91	24.00	+14.80	18.59	+29.10							
24. Kuwait	14.21	5.56	5.85	+5.29	4.92	+18.90							



Appendix-FEXPORT PERFORMANCE OF COMMERCIAL WINGS FOR JULY-NOVEMBER, 2008-09

There are 16 Commercial Wings (except Geneva, Kolkata, and Los Angeles.) of Bangladesh working abroad. From the statistics of Commercial Wing-wise export target and achievement, it appears that out of 16 Commercial Wings, 08 Commercial Wings achieved the export target and 08 Commercial Wings could not achieve the target set for them.

It should be mentioned that although 08 Commercial Wings could not achieve their export target, but out of them export growth of 7 Commercial Wings (Moscow, Paris, Berlin, Brussels, Madrid, Beijing, New Delhi) was higher than the corresponding period of the previous month (JULY-NOVEMBER, 2007-08). The growth rate of the rest 01 Commercial Wing (Yangon) was lower than the corresponding period of the previous financial year (JULY-NOVEMBER, 2007-08).

(Value in Million US\$)

Name of the Mission	Missions which achieve the target for JULY-NOVEMBER, 2008-09				Missions which could not achieve the target for JULY-NOVEMBER, 2008-09				% change of export performance July-Nov. 2008-09 over July-Nov. 2007-08	Export performance of the same period of last year 2007-08	% change of export performance July-Nov. 2008-09 over July-Nov. 2007-08		
	Export Target For 2008-09	Strategic Export Target July-Nov. 2008-09	Actual export earning July-Nov. 2008-09	% Increase over export target	Export performance of the same period of last year 2007-08	% change of export performance July-Nov. 2008-09 over July-Nov. 2007-08	Export Target 2008-09	Strategic Export Target July-Nov. 2008-09				Actual export earning July-Nov. 2008-09	% Increase over export target
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Washington	4151.35	1623.18	1807.84	+11.38	1377.72	+31.22	1. Moscow	90.66	35.45	35.34	-0.30	30.70	+15.11
2. London	1694.75	662.65	690.05	+4.14	563.72	+22.41	2. Paris	1152.97	450.81	429.06	-4.82	364.30	+17.78
3. Ottawa	618.03	241.65	265.89	+10.03	190.60	+39.50	3. Berlin	2621.26	1024.91	987.10	-3.69	870.46	+13.40
4. Tehran	58.91	23.03	23.21	+0.76	24.44	-5.03	4. Brussels	612.94	239.66	224.49	-6.33	189.71	+18.33
5. Tokyo	193.71	75.74	81.82	+8.03	68.29	+19.81	5. Madrid	695.89	272.09	245.07	-9.93	228.58	+7.21
6. Kuala Lumpur	28.34	11.08	13.24	+19.48	8.66	+52.89	6. Beijing	122.26	47.80	46.38	-2.98	45.25	+2.50
7. Dubai	53.47	20.91	24.00	+14.80	18.59	+29.10	7. Yangon	10.93	4.27	2.81	-34.25	4.07	-30.96
8. Canberra	52.72	20.61	23.71	+15.02	17.75	+33.58	8. New Delhi	408.58	159.75	144.33	-9.66	117.43	+22.91
Total :	6851.28	2678.85	2929.76	83.64	2269.77	223.48	Total :	5715.49	2234.74	2114.58	-71.96	1850.5	66.28