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*Chair of Geopolitical Scenarios and Political Risk*

**The Political Economy of Diplomacy:  
the Internationalization of National Markets under  
the lead of Foreign Affairs Ministries**

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*A Nonna Rosetta.  
Ovunque tu sia, spero tu sia orgogliosa di me.*

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## ABSTRACT

The erosion of the concept of domestic jurisdiction, the establishment of transnational boundary-crossing transactions and the emergence of integrated market economies, have all strongly altered the very nature of diplomatic practices. The gradual *de-governmentalization* and *multilateralization* of Foreign Affairs, triggered by the end of bipolar rivalry, have helped dismantling the dogmatic idea of diplomacy as a mere subsidiary instrument of power politics. Leaving behind the old misleading conceptualization of diplomatic practice as belonging to the exclusive prerogative of political élites, the re-discover and re-evaluation of commercial matters within the operational agenda of international relations, has provided a solid ground for commercial diplomacy to regain its role in the management of Foreign Affairs. In this perspective, Foreign Affairs Ministries have adapted themselves to the wave of change, moving away from their classic gate-keeper image, implying an exclusive control over the domestic-international interface, and have embraced the gradual fragmentation of the policy environment as well as the gradual blurring of political-economic boundaries. Most Foreign Affairs Ministries have, indeed, succeeded in overcoming the valuable exclusivity of their previous status and got themselves engaged into a new coordinative role within a new multifaceted and fluid policy setting. A new focus on business internationalization and export promotion has brought national governments to address most of their efforts and resources to the construction of commercial diplomacy structures, where the economic-political synergy ultimately materialized in the empowerment of Foreign Affairs Ministries vis-à-vis foreign trade policy-making. Most competitive economies in North America and Europe have consciously allocated commercial diplomacy tasks within the operative agendas of Foreign Affairs, setting up three different organizational models where the traditional jurisdiction of the Ministry itself has been more or less extended to include trade-related matters. Firstly, the *unification model*, which Canada perfectly embodies, where the Foreign Ministry has unified the political and economic/commercial spheres of competence through the structural merging of its units with the existing Ministry of Trade. Secondly, the *coordination model*, embraced by the United Kingdom, where both Foreign Affairs and Trade Departments have maintained their own autonomous structures while joining their resources for the establishment of special units entitled with commercial diplomatic tasks. Finally, a more fragmented approach visible in the United States, where the main tasks of commercial diplomacy are delivered by a consistent variety of both private and public agencies (*all-agencies model*), leaving the State Department to play a relatively more marginal role in the shaping of national foreign trade arrangements.

The Canadian experience, more than any other, has proved to be the most appealing source of inspiration for countries willing to enhance their business-assistance functions. In this regard, Italy has recently welcomed the consolidation of a Farnesina-led commercial diplomacy framework, following a more subtle version of the merging approach adopted in Ottawa; while avoiding an actual merger of two existing ministries, as embodied by the Canadian DFAIT, the Italian 2019 Reform has enshrined the official transfer of foreign trade policy and business internationalization tasks to the exclusive jurisdiction of the MAECI, ultimately becoming the undisputed benchmark for the international economic projection of the country.

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## LIST OF ACRONYMS

BTI – British Trade International  
CBA – Commercial & Business Affairs  
CCC – Canadian Commercial Corporation  
CD – Commerce Department (US)  
CDP – Cassa Depositi e Prestiti  
CIPE – Comitato Interministeriale per la Programmazione Economica  
DEA – Department of External Affairs (Canada)  
DFAIT – Department of Foreign Affairs and International Trade (Canada)  
DFID – Department for International Development (UK)  
DITC – Department of International Trade and Commerce (Canada)  
DM – Decreto Ministeriale  
DRIE – Department of Regional Industrial Expansion (Canada)  
DTI – Department of Trade and Industry (UK)  
EB – Bureau of Economic and Business Affairs (US)  
EDC – Export Development Corporation  
EU – European Union  
FCDO – Foreign, Commonwealth and Development Office (UK)  
FCO – Foreign and Commonwealth Office (UK)  
FDI – Foreign Direct Investment  
FVC – Fund for Venture Capital  
GATT – General Agreement on Trade and Tariffs  
GDP – Gross Domestic Product  
IPA – Investment Promotion Agency  
IR – International Relations  
IT – Information Technology  
ITA – International Trade Administration  
MAECI – Ministero degli Affari Esteri e della Cooperazione Internazionale (Italy)  
MAP – Ministero per le Attività Produttive (Italy)  
MEF – Ministero dell’Economia e Finanza (Italy)  
MFA – Ministry of Foreign Affairs  
MIPAAF – Ministero delle Politiche Agricole Alimentari e Forestali (Italy)  
MISE – Ministero per lo Sviluppo Economico (Italy)  
MITI – Ministry for International Trade and Industry (Japan)  
MOD – Ministry of Defense (UK)  
MSERD – Ministry of State for Economic and Regional Development (Canada)

NGO – Non-Governmental Organization  
OECD – Organization for Economic Co-operation and Development  
OMIS – Overseas Market Introduction Service  
OPIC – Overseas Private Investment Corporation  
PPP – Private-Public Partnerships  
RDA – Regional Development Agency  
SACE – Sezione speciale per l’Assicurazione del Credito all’Esportazione  
SIMEST – Società Italiana per le Imprese all’Estero  
SME – Small-Medium Enterprise  
TCI – Team Canada Inc.  
TCS – Trade Commissioner Service  
TEM – Temporary Export Manager  
TNC – Transnational Corporation  
TPCC – Trade Promotion Coordinating Committee  
TPO – Trade Promotion Organization  
UKTI – UK Trade and Investment  
UNCTAD – United Nations Conference on Trade and Development  
UNIDO – United Nations Industrial Development Organization  
UNCED – United Nations Conference on Environment and Development  
USAID – United States Agency for International Development  
USTR – United States Trade Representative  
WHO – World Health Organization  
WTO – World Trade Organization

## Introduction

The recent ministerial reorganization within the Italian governmental machine, which has ultimately led to the transfer of foreign trade competencies to the direct jurisdiction of the Foreign Affairs Office, consistently reducing, if not depriving completely, the authority of the Ministry for Economic Development over its traditional area of expertise, has brought to the emergence of several insights vis-à-vis the role economic/commercial matters have historically played in the wide world of international relations.

In this regard, the reallocation of trade-related responsibilities in the hands of the MAECI and its support team, made of coordinated executive and financial bodies, has surely granted the country a brand new commercial diplomacy framework, where the existing political-economic synergy turned out considerably enhanced.

The scope of this dissertation is to analyze the main dynamics that have brought Italy, and three highly developed countries, Canada, United Kingdom and United States, to engage into the construction and consolidation of a bureaucratic system for the promotion of national businesses and their internationalization biases, with a main focus on the role played by Foreign Affairs departments throughout the entire process. Starting with a full understanding of the origins, the concepts and the controversies of commercial diplomacy, by observing the way diplomats and IR scholars have traditionally perceived the gradual ‘contamination’ of high politics through the influence of non-political issues, it will be presented a detailed overview of the main institutional arrangements that have favored a more open and valued inter-departmental approach to foreign trade policy.

The first chapter will describe the evolutionary path of traditional diplomacy, the way diplomatic practices were historically conceived, and the way scholars used to (mis-)conceptualize the profession, praising its highly elitist nature and its purely political contents. In this regard, it will be analyzed the way commerce has been traditionally understood vis-à-vis Foreign Affairs agendas, and the historic transformational patterns that have brought to the gradual acceptance and enhancement of commercial diplomacy, in terms of both academic reputation and strategy effectiveness. The chapter will also provide a brief overview of the main operational frameworks and the main private-public institutions entitled to the formulation and implementation of trade-related policies, while dedicating the last section to the analysis of how Foreign Affairs Offices have coped with the progressive dismantling of external/domestic divides and the progressive blurring of traditional inter-departmental boundaries.

Stemming from this historic and ideological overview, Chapter two will address a more empirical research over the main organizational models adopted by three developed countries vis-à-vis the re-discovered economic-political synergy of their foreign policy agendas. In each of the three case-studies, it will be highlighted the path national governments have embarked towards the construction of an efficient foreign trade program, and the role Foreign Affairs departments have been playing with regard to export promotion and business internationalization. The first scenario being portrayed is the Canadian one,

providing the example of a radical evolutionary path that has brought a solid and well-rooted diplomatic tradition, embodied by the professional élite of the Ottawa Men, to the centralization of foreign affairs and trade matters under one institutional roof, the Department of Foreign Affairs and International Trade – born from the structural merger of the existing Department for External Affairs with the Department for International Trade. The UK case, instead, will provide the example of a commercial diplomacy arrangement that has been built on the coordinated effort of both Foreign Affairs and Trade Ministries, in managing national foreign trade programs through an *ad hoc* body – the UK Trade and Investment unit – operating on the field as a non-ministerial governmental department; such cooperation, exemplified in the functioning of an external institution, has granted the British Foreign and Commonwealth Office the chance to preserve its traditional structure and autonomy while still playing a significant role in the enhancement of the long-lasting commercial projection of the country on the international scene. Ultimately, a more fragmented approach will be presented on the side of the United States. As American commercial interests have always been considered dependently functional to the enhancement of the country's international status and overall political dominance, revealing a wide prioritization of security issues over the management of non-political matters, the US State Department has played a relatively more marginal role over the formulation of foreign trade policies; in this case, the Congress has given up the construction of a radically integrated commercial diplomacy structure in favor of a multipolar operational framework, where commercial stakes are handled by a wide variety of expertise-based federal (and private) agencies, under the main lead of the Commerce Department.

Ultimately, Chapter three will conclude the study with a detailed analysis of Italian commercial diplomacy arrangements, emerged before and after the introduction of the 2019 ministerial reform. This last section will first provide a general overview of the cooperative institutional framework adopted by the Italian government for the enhancement of the national system of production, in terms of both businesses and products, and delivered by the Ministry for Economic Development in concert with the MAECI – operating within a more circumscribed area of competence – and ICE Agency; it will then present, in a systematic way, the main contents and the main dynamics foreseen by Law No. 104/2019 in regard to the official transfer of foreign trade competencies to the sole jurisdiction of Farnesina. In this regard, it will emerge the portrait of an highly empowered Ministry which has been granted a leading role in the formulation of the commercial position of the country within the international arena, and a further responsibility over the enhancement of the Italian brand - with its economic and cultural heritage - all over the global marketplace. The study will be concluded with a brief overview of Farnesina's first steps in the management of its newly extended agenda and, in particular, the fundamental role it has been playing during the health crisis that has been dramatically disrupting and undermining the way we used to live our lives and run our economies, since the beginning of 2020.

## Chapter I – The evolution of traditional diplomacy

### 1.1 The end of a politics-centered tradition

In 1871, Otto Von Bismarck, first chancellor of the German Empire, used to describe diplomacy as the never-ending negotiation of reciprocal concessions between states. The art of managing international relations was perceived as a complex, time-consuming political game in which national players attempted at finding peaceful solutions to highly thorny conflicts. Charles Martens talked of diplomacy as “having determined principles [...] and a specific and distinct purpose: to govern relations that exist or must exist between various countries”<sup>1</sup>. Through these words, a narrow pragmatic understanding of foreign affairs that addressed the art of negotiations to the fundamental preservation of state institutions, has implicitly emerged. As a matter of fact, foreign policy understood as the natural political interplay between international actors, and diplomacy as the process of dialogue and negotiation aimed at the promotion of bilateral relations and the peaceful settlement of inter-state litigations, have always been considered the very old core of foreign affairs.

Firstly exercised by aristocrats, diplomacy had been strongly monopolized by the emerging bourgeois classes since the early 19<sup>th</sup> century. As a natural consequence of an extremely closed and elitist scenario, diplomats belonging to this highly heterogeneous cast, imposed a more or less unrivalled intellectual hegemony over the ways diplomacy had to be understood and conceptualized. Regarding themselves as the only ‘real’ diplomats entitled to the management of international affairs with other sovereign entities, the new élite enjoyed symbolic and material resources provided by the institutions of the nation state, together with a unique set of responsibilities. They were believed to have a superior knowledge about the art of diplomacy and the practical wisdom needed to establish an emerging literature of International Relations (hereafter IR). Their academic writings, chronicling historic encounters and political achievements, represented the fundamentals of the traditional discourse on diplomacy with its distinctive state-centric bias. Starting in the late 1980s, the long-lasting intellectual hegemony of state-sanctioned diplomats over diplomatic conceptualization began losing ground. The loosening of such a consolidated doctrine, followed by a further expansion and compartmentalization of the academic field on IR, had been progressively brought about by fundamental social and technological transformations in foreign affairs; international relations had grown more inter-connected since the late 1970s and even more rapidly after the end of the Cold War. A more complex international landscape made of new state and non-state actors, transnational extremism, climate change and unregulated migration flows, required new forms of international cooperation, well beyond the capacities of single nation states and their traditional state-led diplomacy. Rapid advances in communication technology and digitalization contributed even more to the intrinsic transformation of international relations, making old-school diplomacy an unnecessary mediator. The

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<sup>1</sup> Martens, C. (1832). *Guide Diplomatique*. Leipsic: F. A. Brockhaus.

emergence of modern mass media and non-state actors together with an increasing acknowledgment of their potentiality, undermined the exclusive application of the concept of diplomacy to politically authorized officials. A new formulation emerged, with traditional diplomacy evolving into a broad *umbrella term*<sup>2</sup> embracing a wide-range of activities undertaken not only by nation states but also businesses, civil society groups, non-governmental organizations and supra-national institutions. In Harold Nicolson's work – *Foreign Affairs* (1961) on the theme 'Diplomacy then and now'<sup>3</sup> – the growing impact of the Cold War with its significant ideological conflict brought to the emergence of a new democratic conceptualization of international relations, the idea of a new, open diplomacy stretching out beyond its elitist roots. Writing shortly after Nicolson, many other scholars approached the study of the diplomatic environment starting from the proliferation of the international community, the decline of Ambassadors' decision-making power together with the widening of their areas of competence through economic and commercial diplomacy, e-diplomacy and multilateral diplomacy. The unexpected transformation of international settings, players and blocs experienced since the late 1960s, brought to life what Barston (2013) calls 'modern diplomacy'<sup>4</sup>. Firstly, the continued expansion of the international community from the post-1945 period to the early 2000s, has played a significant role in shaping modern diplomatic patterns; it contributed to the broadening of multilateral politics, the entry in force of multiple cooperative conventions and new operating agendas and procedures on the side of international institutions. At the same time, an enhanced role played by heads of state and government in general foreign policy issues has ultimately reduced the spotlight over traditional local Ambassadors. Still, while Cabinet Secretariats and private envoys have progressively become fundamental indirect channels of communication and negotiation, contemporary resident Ambassadors have jealously maintained their ceremonial figure and their role as key players in the promotion of state interests. The emergence of post-war multilateral regulatory frameworks also contributed to the involvement in external relations of sectorial Ministries from industry to environment, health and education, as part of a general process of internationalization of new challenging issues related to terrorism, immigration or political refugees. This brought to the inevitable widening of traditional diplomatic agendas and a more urgent need for international cooperation by interior, justice and intelligence bodies. Linked to this development is the proliferation in number and type, of new non-governmental actors, ranging from traditional economic interest groups to transnational religious groups, international foundations and humanitarian NGOs. Generally, these new entities cooperate closely with official administrations, whether integrated into a delegation or through consultations and shared intelligence. Observed in such a revolutionized scenario, however, states manage to preserve their role as central authoritative decision units, especially when it comes to routine, critical and strategic decisions concerning external policy<sup>5</sup>.

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<sup>2</sup> Lohnann, S. (2017). *Understanding Diplomacy in the 21<sup>st</sup> Century*. Working Paper. German Institute for International and Security Affairs.

<sup>3</sup> Nicolson, H. (1961). *Diplomacy Then and Now*. *Foreign Affairs*, 40(1), 39-49.

<sup>4</sup> Barston, R. P. (2013). *Modern Diplomacy*. 4<sup>th</sup> Edition. Routledge – Taylor and Francis Group.

<sup>5</sup> Ibidem.

Another fundamental aspect of contemporary diplomatic processes and methods has been the continued fusion of domestic and foreign policy. The erosion of the concept of domestic jurisdiction, transnational boundary-crossing transactions and the emergence of integrated market economies have all strongly altered the very nature of diplomatic activity. The post-Cold War world originated from the decline of international bipolarism, the opening up of national borders and the ever-growing integration and interdependence bias brought about by the first wave of globalization, have surely contributed to the gradual elimination of space and time barriers with a thin, blurred line defining what is domestic and what is not. Beyond traditional political concerns, such as human rights protection and rule of law issues, policy areas are now widening to international trade regulations, foreign economic relations, international banking governance, among the main ones. In modern times, national security threats are perceived as shaped by external events out of domestic control and manageable only through global mechanisms. From this point of view, classic bilateral diplomacy whose practice mainly aimed at branding states' images and creating empathy for the respective state policies, had very little chances in tackling the challenges of a reshaped world. Because of the high interconnectivity, multilateral diplomacy has proven to better serve the maintenance of international order and thereby bringing stability to the global arena. Multilateral international institutions allow states and other actors to participate equally in the scheme of global governance, projecting their views and receiving diplomatic recognition in return. Multilateralism has proven to be a valid vehicle for articulating concepts of international order and for setting up a general rule-making mechanism applicable to a wide variety of areas, first and foremost for the containment of conflict and conflict resolution. In such circumstances, diplomacy is more likely to be 'democratized'; as globalization processes speed up, power initially shared among several nations becomes better distributed globally, providing international actors with a more active role in the decision-making framework worldwide. In particular, the emergence and consolidation of international conventions and organizations, with strongly cooperative biases have contributed to a more solid process of democratization for the sake of higher justice, as in the most vivid examples of the North Atlantic Treaty Organization and the United Nations. The trend of informality in multilateral conferences with fewer group-sponsored resolutions and fairer implementation procedures has come as the inevitable consequence of the decline of blocs and large groupings in favor of the growing *individuality* of states searching for their own diplomatic space, especially in the context of technical negotiations and *ad hoc* coalitions of interests<sup>6</sup>. However, where historical links, regional organizations and resource possessions maintain deep roots, classic bilateral diplomacy shows its resilience. Modern states still rely on bilateral/regional arrangements in their foreign policies as a way to maintain a sense of control and direct management outside national borders. The protection of shared interests and the development of joint ideas in regional (and sometimes international) *fora* still represent a fundamental aspect of states' external relations, as they address consistent time and resources in setting up extensive political cooperation and networks of formal treaties, especially when it comes to commercial

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<sup>6</sup> Ibidem.

arrangements and regulations over trade access to international markets (particularly by smaller or developing countries). In this regard, international trade has been the core field for the proliferation of diplomatic regionalism since the early 2000s; it brought to the foundation of inter-regional organization links (e.g. ASEAN-MERCOSUR), bilateral-regional organization link-ups (e.g. Brazil-AU) and competitor regional organizations (e.g. East Asia Summit).

When analyzing the main drivers of diplomatic modernization, both in its structures and practices, the role played by the information and communication revolution cannot be disregarded. The trans-boundary effect of international technology, as previously noted, has radically transformed the traditional time-space dichotomy. The total dismantling of all kinds of physical barriers and the birth of a timeless virtual reality have made the national-international separation line almost imperceptible: previously remote crises and conflicts are now brought to global attention, although filtered by international geopolitical preferences and cultural imperatives. Images of civil conflicts, interviews and military operations generally held in far, inaccessible locations, are publicly available real-time for all those equipped with mobile phones or mobile satellite television. The great amount and availability of information gathered and processed everyday by information technology (IT) platforms have surely helped the traditional diplomatic function of assessment with an increased volume of official data, comments and views. Classic diplomacy has always been concerned with the pursuit of ideas and acquisition of influence: shaping an idea of the issue at stake, promoting elements of a solution, eventually countering an opposing proposal and successfully achieving the preferred outcome. Each stage of this traditional diplomatic process is pursued through negotiations, briefing, bilateral exchanges, discussions with NGOs and normalization meetings. With the cyber revolution, these traditional methods have generally remained unaltered but they have been progressively complemented with new ones, mainly with the use of innovative search engines and digital techniques in support of political-military objectives. Most Foreign Ministries and local embassies have been strongly relying on new website arrangements used as records of daily activities and as vehicles for the promotion of public positions taken by states on varied issues. This format has proven consistent with the regular issuing of policy statements, official interviews of permanent representatives and cross-linked data of international and regional organizations. In this regard, international institutions, the UN General Assembly included, have positively welcomed the adoption of social network platforms as interactive facilities supporting standard diplomatic forms of communication. However, the consistent use of social media accounts by diplomatic actors, whether international Secretariat Officials or Foreign Ministries and Ambassadors, have risen questions and doubts in terms of professional neutrality. It might be difficult to assess whether a position taken up on a social media site by an official negotiator is standing as an official, institutionalized view or as merely private opinion. Still, way bigger and more serious concerns arise with the development of the Internet for global communication, namely the need for an international network regulation and for a systemic cyber security framework.

Besides newly globalized settings and technologically innovative tools, modern diplomacy has surely signed the end of the classic political legacy of international relations through a significant widening of its spheres of action. Those areas of interest traditionally perceived as pertaining to national jurisdictions only, like trade, environmental and security policies, have proven to be a fertile soil for international cooperation and diplomatic agendas. As we will see more in more detail later on in this dissertation, when dealing with the evolution of commercial diplomacy, the relationship between trade policy and foreign policy has always been highly controversial. The classic tendency to treat the political and economic aspects of foreign policy as practically and ideologically separated has contributed to a long-lasting marginalization of commercial interests within the external framework of state-led diplomacy. The process of bringing trade and foreign policy into alignment is what better characterizes modern diplomatic tasks. Contemporary Foreign Ministries and diplomatic bodies have been attempting at reconciling divergent directions taken by the two departments and involving national and international actors in building a more cohesive and mutually supportive intra-sectorial relationship. In the post-war international arena, the setting for a global trade diplomacy was made possible by the growing number of multilateral institutions with a direct or indirect responsibility for trade, as in the case of GATT/TWO, UNCTAD and the United Nations Industrial Development Organization (UNIDO). At the same time, new economic powers such as Brazil, Korea and Vietnam have been pursuing strong trade-centered external policies, revolutionizing the global balance of power among the old and new economic portents. As developed and newly developed nations became more and more engaged in international trade transactions and commercial relations, a number of sources of enhanced global instability in the contemporary trade settings paved their way in diplomatic agendas, from regional instability in energy-producing states, environmental factors, food security issues and ongoing trade disputes involving lower- and middle-income states and small states. International trade disputes have triggered worldwide concerns over the stability and preservation of contemporary international relations among countries, pushing the institutions of global governance in setting up a regulatory framework able to assess and contain the negative repercussions of new controversies. The establishment of the GATT , and in particular the WTO system with its dispute settlement apparatus, together with an enhanced effort in building strong bilateral economic agreements, have attempted at preserving the international status quo and the interests of every nation state. These new developments have clearly shown how relevant trade has become as central feature of diplomacy. Instead of being a discrete or distinct area of activity as under traditional diplomacy, the modern diplomat has to deal with new tasks involving the assessment of the relationship between national trade interests and the country's foreign policy, attempts at reconciling eventual conflicts between the two and the enhancement of prospects and possibilities for external trade cooperation and promotion.

Since the mid-1980s, environmental issues have continued to move up the international agenda as well. The global attention and activity over environmental regulation has been brought about and influenced my major disasters; adverse external events with their short-run effect have contributed to the catalyzing of

diplomatic practices and setting the basis for a safety-related environmental diplomacy. The international scientific community has both recognized and developed environmental initiatives and negotiations to counter new environmental problems associated with the ozone layer, the ozone depletion and global warming phenomena among others, raising further questions over the distribution of international responsibility and overall assistance to developing countries. As in the case of trade, environmental affairs have found a favorable ground in the modern multilateral setting of international relations with the active involvement of intergovernmental organizations, UN agencies, international conferences and NGOs taking the lead in the main negotiation processes. In this regard, a fundamental milestone in the multilateral approach to environmental issues took place at the 1992 UN Conference on Environment and Development (UNCED) in Rio de Janeiro. The “Earth Summit”, as it was later remembered, was the largest international gathering held up to that moment, with almost 180 nations participating and 118 at head-of-state level. In that occasion, the global headlines captured by environmental challenges made the overall subject matter too important and too strategic to be left to environmentalists. Representatives of diverse ministries – notably finance, economics, science, tourism, energy and development cooperation – addressed their competences and their stakes to the new environmental themes in the context of increasingly complicated negotiations. In particular, foreign ministries took over the issues emphasizing national security considerations, political relations with other states and the tactics of diplomacy to be adopted on the field, with the overall acknowledgment that environmental concerns could not be dismissed as irrelevant aspects of national policy anymore. With a growing multitude of stakes being reflected over the degrading conditions of the environment, most countries have by now established national councils on eco-friendly development that are aimed at bringing together relevant ministries as well as local governments and citizens’ groups. Internationally, history of environmental negotiations has given proof of the need for a global approach in the face of global dangers, accepting a common responsibility in taking diplomatic action and guaranteeing the well-being of the planet both for today’s generation and for those that will follow.

This brief overview has shown the way in which the concept, the setting and the functioning of traditional diplomacy have been influenced and transformed by a complicated combination of different interrelated factors since the very end of the 20<sup>th</sup> century. The end of the Cold War followed by the end of the bipolar rivalry, the ideologization of international affairs and the military confrontation, have helped dismantling the dogmatic idea of diplomacy as a mere subsidiary instrument of power politics. In its evolutionary path, diplomacy has been influenced and shaped by a progressive decline of national governments in their leading role over international relations. Growing competition from the inside, coming from the private sector, civil society, new media and competition from the outside, coming mainly from non-governmental organizations and supra-national institutions, have set the basis for an overall *de-governmentalization* and *multilateralization* of foreign affairs. The growing interdependence among nation states and the growing cooperation in tackling new global challenges, have instead contributed to the

widening of diplomatic agendas, moving away from their traditional politics-oriented nature. The maintenance of international peace, security and democratization, the promotion and protection of human rights, the prevention of terrorism and transnational crime and the pursue of sustainable development have all been accounted in the *new diplomatic to-do list*. The (re-)discover of economic priorities in the conduct of external relations, more than anything else, has signaled the birth of modern diplomacy. With the increasing competitiveness of the international economy and the dramatic expansion of national markets and transnational transactions, contemporary diplomats had to devote more time and energy than ever before to the creation of a favorable environment for trade and commerce. Last but not least, the transformations provoked by the telecommunications revolution. Both satellite broadcasting and digital networks including the Internet have impacted the most basic diplomatic practices: electronic systems of document distribution, online video-conferences and virtual databases are just few examples.

But despite all the changes in the contemporary international environment, the past experience of diplomacy cannot be completely forgotten. The classic texts on which the traditional diplomatic doctrine has been built will represent as useful readings for a diplomat today as they were a century ago. Beyond the new, hi-tech tools globalization has provided us, the personal factors still play an extremely valuable role. As the seventeenth century French diplomat Francois De Calliers wrote: “The good diplomat must have an observant mind, a gift of application which rejects being diverted by pleasures and frivolous amusements [...].The diplomat must be quick, resourceful, a good listener, courteous and agreeable. Above all, the good negotiator must possess enough self-control to resist the longing to speak before he has thought out what he actually intends to say.” As a whole, modern diplomats have managed in preserving significant traditions of their profession; military thinking and power equilibrium logics are still addressing part of diplomatic behaviors despite the impetus of change. A partial and balanced approach between modernization and the reinvigoration of traditional ideals of diplomacy will surely be the answer to the new geopolitical and economic realities.

### 1.1.1 Commerce in Theories of International Relations: a misleading conceptualization

In his 1987 work *Mediating Estrangement: A Theory for Diplomacy*, James Der Derian argued that “it could well be that diplomacy has suffered from theoretical neglect to the extent that power politics has profited – in theory and in practice. When diplomacy is construed as a continuation of war by other means, as is often the *realpolitik* case, then little intellectual energy needs to be wasted on the illumination of power’s shadow.”<sup>7</sup> Der Derian belonged to the group of post-positivist scholars, particularly active in the late 1980s, that firstly addressed academic concerns and doubts over the well-consolidated, uniform meaning of diplomacy as interactions among sovereign entities. Through their critical observations, a significant change in the conceptualization of diplomacy took over in the academic field, moving progressively away

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<sup>7</sup> Derian, J. (1987). *Mediating Estrangement: A Theory for Diplomacy*. *Review of International Studies*, 13(2), p. 92.

from the traditional state-centric perspective. In particular, the loosening of the intellectual hegemony of state-sponsored diplomats over diplomatic discourses further spurred by fundamental political and technological transformations of international relations, has contributed to the expansion and compartmentalization of both diplomatic ideas and agendas. With globalization forces driving the opening up of domestic borders, the liberalization of national markets and the emergence of global financial systems, the political prioritization of balance of power logics and military concerns declined dramatically vis-à-vis an ever-growing importance of economic prerogatives. Confronted with changing patterns of how statecraft was conducted, old-style diplomats found themselves in the position of yielding new powerful economic instruments. As a matter of fact, with integrated markets becoming the main battlefields for international relations, the old controversial dichotomy between politics and economy - and more specifically, the contention between diplomacy and commerce, was recalled by the criticism of contemporary academic circles in the attempt to overcome all the misconceptions provided by old orthodox studies (Lee, Hudson, 2004).

The established canon of diplomatic practices has traditionally perceived the whole range of commercial activities as wasteful departures from the more serious concerns of diplomats. From this point of view, the encroaching of new issues on to the diplomatic agenda was seen as gradually undermining the effectiveness and the respectable stature of 'traditional diplomacy'. The most immediate proof of the high political content of the profession comes from the direct testimony of several diplomats whose personal memoirs have taken account of all the main considerations over the delivered services. A classic example is provided by Nicolas Henderson's diaries, dated back to when he served as the British Ambassador in Warsaw, Paris, Bonn and Washington from 1969 to 1982<sup>8</sup>. Starting with a general consideration of diplomacy as the pure management of a 'whole range of practical everyday matters between states'<sup>9</sup>, Henderson provides several details of the daily tasks performed at the Embassies, their main structures and their numerous staffs. But despite the persistent incidental mention of commercial duties being performed quite regularly - from visits to local industries to the participation in trade fairs - and the historical role played by British trade interests all over Europe - there was no clear reference to this kind of activities as nearly significant or consistent with the diplomatic practice as a whole. Like Henderson, most diplomats writing about their past experiences have preferred focusing on the pure political content of their services abroad; sometimes, when commercial duties were being actually recorded, they were described in highly derogatory terms - as in the case of Henderson referring to commercial activities as fundamentally 'humdrum'. What comes from this common representation of diplomacy is an inaccurate and strongly misleading conceptualization of diplomatic practices within the context of diplomatic studies literature; discussing diplomatic practices without recognizing commercial diplomacy as an integral component of

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<sup>8</sup> Henderson, N. (1995). *Mandarin: Diaries of an Ambassador 1969-1982*. London: Weidenfeld and Nicolson.

<sup>9</sup> *Ibidem*, p.2

diplomatic work or relegating commercial work as a mere degeneration of traditional diplomatic concerns will represent a serious analytical mistake. Relatively few are the cases in which diplomats have positively acknowledged and accepted the blurred line between commercial work and the most traditional practices. An example could be the action taken by the members of the UK Diplomatic Service who blamed the Duncan Report on Overseas Representation (1968-1969) of mistakenly dividing commercial work into distinguished political and economic components, and accusing the Duncan Committee of undervaluing the role of professional diplomats in trade promotion. Diplomatic history itself provides us with empirical evidences of the highly multifaceted nature of diplomacy and the inevitable interrelation of trade and politics experienced way before the transformations of modern society. From the late sixteenth to the early nineteenth century, direct agents of the Levant Company embodied both the roles of royal representatives and commercial officials under the national flag of the British government. With no surprise, these atypical diplomats managed in representing both national and trading influences in a more efficient way than the established General Consular Service used to do. In the same way, ship commanders enrolled in the English East India Company and the Dutch East India Company searching for new markets and new profitable commercial affairs, were also entrusted with all the diplomatic negotiations needed once docked in the New World.

What emerges from the considerations made so far, is the peculiar *present-but-invisible* nature of commercial diplomacy (Lee, Hudson, 2004). Beyond the diplomatic theory made of visible diplomatic practices centered on high political negotiations, there is an invisible mantle of world affairs made of unaccountable diplomatic practices like the building up of international economic relations through the promotion of foreign direct investments and export promotion. A way to understand the present-but-invisible status of commercial diplomacy within the broader context of IR and diplomatic studies, is to examine the historical and rationalist imprint behind most of the orthodox theories of diplomacy. Many historical accounts on the development of diplomacy appoint the Italian city-state system as the first organized diplomatic system of the mid-15<sup>th</sup> century. This system provided the solid basis for the emergence and establishment of the principle of state sovereignty on which traditional diplomacy has always been believed to depend. From state sovereignty, in turn, an international anarchic system emerged, characterized by the separation of the domestic from the international, the private from the public and the economic from the political. In this context, classic realist theories of balance of power and of defensive diplomacy found a solid ground. Small Italian states nourished intense competition among themselves in the acquisition of power authority and, as a consequence, professional diplomatic practices became the instrument for the adjustment of rival ambitions and the building up of balanced interstate relations. Upon these ontological themes, the political idea of diplomacy took hold, with diplomatic mainstream studies focusing almost exclusively on the political dialogues among states. It is only in more recent times that new unconventional arguments have come through and challenged the old historical account, exposing its empirical fallacy and its misleading conceptualization. On the one hand, Adda Bozeman's study on pre-modern international

relations<sup>10</sup> has proposed an innovative understanding of diplomacy that involves cultural exchanges as the main drivers of inter-state, inter-continental and inter-individual relations. From her point of view, culture more than politics has contributed to the evolution of diplomatic systems in this period and beyond. Historically, Bozeman rejects the assumption that Medieval Europe was provided of an organized and effective system of diplomacy that only came to exist after the implantation of the Venetian methods: European diplomacy emerged when the Venetian organization of diplomacy got the chance to be transplanted and adjusted to the specifics of Italian medieval culture. On the other hand, Rosenberg<sup>11</sup> has challenged the mistaken conceptualization of the Italian origins of traditional diplomacy; the Italian city-states emerged in medieval times were not a closed, isolated, politics-centered reality but rather the hub of a large commercial system where the East-West trade routes had been virtually monopolized and diplomatically recognized. In this different scenario, political and economic interests coexisted and supported each other. Enjoying a strategic location right in the middle of exchange flows, European feudalism had the chance to develop and prosper, using military conflict as an instrument to guarantee both political security and private commercial interests. Both theorizations have proved, in a way or the other, the intrinsic weaknesses of consolidated historical accounts, which have inevitably brought to unfounded and misleading understandings of modern diplomacy, in both its nature and its practices. Only a post-rationalist approach based on empirical inferences will guarantee a conceptual framework better suited for the study of commercial diplomacy as a whole. It will require an ontology of diplomacy that does not necessary rotate around sovereign states and anarchy but rather relies on social relations built through cultural, economic and political connections. From this point of view, a *political economy of diplomacy* would represent the perfect approach for understanding diplomatic practices as the product of current aggregates of interests. In this way, it will become easier to assess and understand reforms to diplomatic practice in terms of the interplay between private interests and public political authorities in managing and controlling the market. Such an approach will not only bring advantages to diplomatic studies, but it will enrich our understanding of the international political economy through the recognition of the fundamental role played by modern diplomats in the world economy.

### 1.1.2 Commercial diplomacy: definitions and contents

Within the flattened and increasingly connected global market place, resulted from the higher interdependency of the world's countries, economies and individuals, understanding business phenomena and their international management has become of primary interest for contemporary political actors. Governments and supranational institutions, together with business companies and multinational agglomerates, had to cope with the new challenges coming from the elimination of the old geopolitical and

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<sup>10</sup> Bozeman, A. (1994). *Politics and Culture in International History: From the Ancient Near East to the Opening of the Modern Age*, 2nd edn. (Princeton, NJ: Princeton University Press).

<sup>11</sup> Rosenberg, J. (1992). *The Secret Origins of the State: The Structural Basis of raison d'état*. *Review of International Studies*, 18.

economic boundaries of the world map. In a very short period of time, it became sufficiently clear how both public and private actors could equally benefit from the liberalization of trade and the consequent internationalization of domestic businesses. In this regard, an increasingly important tool adopted in overcoming the few resilient barriers to free trade and supporting the whole internationalization process has been the use of diplomatic relations abroad. As we have seen, the gradual change in the current practice of diplomacy through a re-discovery, re-conceptualization and re-evaluation of commercial activities has provided a solid ground for commercial diplomacy to regain its role in the management of foreign affairs. As Lee and Hudson (2004) have stated, “commercial activities of diplomatic services have been centralized, [...] extended, and business interests have been formally integrated within diplomatic systems”, thereby becoming a proper foreign policy priority for most governments.

The concept of commercial diplomacy is generally interpreted in two ways. On a more broad perspective, some academics have defined commercial diplomacy as being a component of economic diplomacy, which is in turn believed to deal with general economic policy issues such as the negotiation of trade agreements and their implementation (Saner and Yiu, 2003). If on one side, on the macro level, the high degree of complementarity between commercial and economic diplomacy is undeniable, on the other, a narrower observation has convinced many scholars in drawing a well-defined separation line between the two spheres of action. In ‘A Dictionary of Diplomacy’(2001), Berridge and James define commercial diplomacy as:

“The work of diplomatic missions in support of the home country’s business and finance sectors. Distinct from although obviously closely related to economic diplomacy, it is now common for commercial diplomacy to include the promotion of inward and outward investment, as well as trade”.<sup>12</sup>

Following the same path, Mercier’s understanding of commercial diplomacy as

“the art, or the science, of helping a country’ enterprises trade abroad and to convince foreigners of the advantages of investing in the home country. This task is usually pursued through a network of public and private actors that include governmental staff, business leaders, chambers of commerce and associations.”<sup>13</sup>

Finally, Lee defines commercial diplomacy:

“as the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes.”<sup>14</sup>

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<sup>12</sup> Berridge, G. R., James, A. (2001). *A Dictionary of Diplomacy*. Basingstoke: Palgrave, p. 38-39.

<sup>13</sup> Mercier, A. (2007). *Commercial Diplomacy in Advanced Industrial States: Canada, the UK and the US*. Clingendael Discussion Paper in Diplomacy, the Hague, Clingendael Institute.

<sup>14</sup> Lee, D. (2004). *The Growing Influence of Business in U.K. Diplomacy*. *International Studies Perspective*, Vol 30.

For many IR academics, traditional economic diplomats generally take actions to influence the structures and mechanisms of global governance in both economic and trade areas, as exemplified by the works of delegations at standard setting organizations like the WTO. They address most of their resources to the monitoring of economic policies in foreign countries and the provision of professional government advices in how to best influence them. Besides the general effort in harmonizing international economic arrangements and pursuing particular foreign policy objectives, national governments can also take actions in supporting national economic development through the support to domestic enterprises willing to expand overseas and to foreign enterprises interested in investing in the respective country. And here is where the nature of commercial diplomacy becomes more clear and defined; commercial diplomats are those who have been invested with the specific task of supporting the sending state's business and financial sectors in their path towards economic success, with the final aim of achieving overall state national development. Their missions are generally addressed to the promotion of both inward and outward investments and trade, the supplying of sensitive information over export and investment opportunities and the organization and hosting to trade missions from home.

The enhancement and the improvement of national imports and exports constitutes the primary objective in commercial diplomatic agendas. In this regard, the strategic attraction of Foreign Direct Investments (FDIs) for the ultimate stimulation of the home country economic growth, and employment in priority sectors or regions, is where diplomatic efforts are concentrated the most. Other marketing-related activities are mainly made of export promotion campaigns and advertisements in trade fairs, exhibitions and conferences. Some space is also reserved to activities involving cooperation in research and technology and collaborative promotion of significant national services such as tourism, banking and education. Another fundamental aspect in the promotion of domestic commercial interests is the provision of sensitive information for foreign future investors. Despite the overall decline of communications costs and the progressive easiness of access to information at any time and from everywhere in the world, the Foreign Affairs Services and the diplomatic/consular missions still play a considerable role in building up solid and trustworthy relationships between domestic and international business stakeholders. Through its intelligence system, commercial diplomacy provides services linked to information search and business inquiries from both home and host countries. Small and medium-size enterprises (SMEs) generally require basic information on legal issues, changes in regulations or overall political situations, before engaging into high-stakes foreign investments. In this sense, international firms can benefit from support activities including image campaigns for FDI promotion, organized meetings between local ambassadors and business CEOs, arrangements able to protect the sending state's business interests in public hearings or consultations in the host state's legislative process. Commercial diplomats also advice and support national corporations during the negotiations with foreign authorities over contract implementation and problem solving; issues arising

from violations of property rights, tax defaults or profit losses require valuable diplomatic tools and tactics able to find common solutions and avoid external judicial proceedings.

In this net of strategic interconnections, commercial diplomats take direct actions on behalf of the national business community, bearing the responsibility arising from the involvement in public affairs and the dealings with host country governments, parliaments and main public institutions. From this point of view, commercial diplomacy consistently relies on the advocacy of its representatives over the actions to take in order to bring benefit both to national companies and business associations.

The ever-growing government intervention through economic and commercial diplomacy has been highly criticized by international economists. Following some old neoclassical arguments, many experts of business and high finance have accused the improper transfer of public resources to the export industry as potentially distorting the efficient economic outcome. It is not clear, in their opinion, whether the private benefits coming from transferring public resources to commercial activities could actually exceed the general cost of providing the public service. In this perspective, firms should be able to engage in foreign markets on their own account, relying on their own intelligence and their own resources; the aid provided by governments would simply represent the insufficiency and the unsuitability of domestic firms' structures and the mediocrity of their products. Only in cases of severe market failures, public intervention might be accepted both nationally and internationally.

Some others would instead argue the nature of commercial diplomacy in itself, considering the main activities carried out by commercial diplomats as possibly better performed by either private firms or associations free from institutional or personal interests. Nevertheless, the position of commercial diplomats can offer many significant benefits; more than any other private body, commercial diplomats can rely on their institutionalized role and their Embassy's contacts to have better access to economic intelligence, CEOs of large firms, policy-makers, bureaucracies and elites in the host country. As international firms require sensitive marketing information over the adaptability of their products to local consumer preferences and needs, commercial diplomats can better provide a detailed background of the targeted territory, including linguistic, technical, religious and cultural aspects. Furthermore, as part of the broad governmental machine, commercial diplomacy can deliver its activities at relatively lower costs because of the centralizing support provided by the central government. Additionally, commercial diplomats, especially high ranking members such as ambassadors, can benefit from greater mass media visibility and more credibility than private actors when making pledges and taking commitments to foreign investors and foreign institutional authorities.

More recently, critics to commercial diplomacy have challenged the general tendency of local Embassies in monetizing their commercial services in several circumstances. Differently from the past, where most of the commercial-based activities provided by the government were free, contemporary commercial diplomats have preferred to charge for some of their services, sharing the costs burden between the government and the companies asking for export support. While general information and informal

counseling are offered on a free basis, more personalized measures, as in the case of participation to trade shows or special market analyses, might require some form of payment. However, even the provision of charges can be positively assessed. Charging for services may act as an informal filter to select those companies that are truly interested in investing in a target market and it may also improve the quality of the services provided as it would reduce asymmetrical allocations of public funds and avoid preferential treatments on the side of the diplomats themselves.

When small and medium sized companies (SMEs) decide to open up their doors and explore new opportunities of growth and profits beyond their borders, the lack of experience on how to approach particular regions in the wide world economy may constitute a serious obstacle to the overall process of internationalization. As newcomers, these enterprises need commercial diplomacy services to facilitate their introduction and interaction with local business cultures and authorities. In this situation, the task of commercial diplomats will be to lead and manage bilateral exchanges and negotiations, bearing in mind a multitude of factors that will influence them, such as countries' history, political proximity, military alliances and so and so forth. The success of a bilateral trade agreement cannot be achieved through a standard diplomatic formula that can be spread and applied everywhere regardless of local contexts and backgrounds. According to Kostecki and Naray<sup>15</sup>, it is important to distinguish two specific variables in determining the process and the outcome of bilateral commercial negotiations: an exogenous variable referring to the host state and an endogenous variable referring to the home state, both equally contributing to the national service of commercial diplomacy (Kostecki, Naray, 2007). The former includes all the main features of the host country such as market size, business style and governance, the overall level of economic development, mobility, IT tools in business activities and the bilateral relations with the home country. Of all the information provided, the market size is usually the one commercial diplomats focus on the most when assessing future investments patterns. As a matter of fact, target countries with vast and growing markets, as in the case of emerging economies like Brazil, China, India or Russia, are more likely to attract profitable FDIs than countries with infant markets and slow economic growth. As for the endogenous variable, instead, home countries take into account the way in which their economies are perceived in other states. Having a positive, trustworthy image and a solid good reputation will support and facilitate the country's engagement with future economic partners and a higher chance of successful outcomes. This is why commercial diplomats address many resources to long-term state policies aimed at enhancing their country's strengths and opportunities both in the private and public spheres. Especially through 'made-in' advertisements and tourist campaigns, commercial diplomats manage to show all the best their country is able to offer and all the policy reforms successfully implemented to attract foreign businesses. Of course, when negotiating trade patterns in bilateral agreements, commercial diplomats have to choose carefully the

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<sup>15</sup> Kostecki, M., Naray, O. (2007). *Commercial Diplomacy and International Business*. Clingendael Discussion Papers in Diplomacy, N. 107.

instruments they want to employ, bearing in mind the level of development in both exporting and importing countries. Many researches have shown the greater impact commercial diplomacy has had over developing countries in their international economic relations. Firstly, among OECD countries there is a relatively higher level of public knowledge than among developing countries; from this point of view, more diplomatic efforts should be addressed to information gathering in the North-South/South-North relations rather than in North-North relations. Secondly, trade-related institutions are relatively weaker and less developed in developing countries than in the developed ones, making the role played by the government and its public structures in commercial matters more relevant. Thirdly, developing countries generally face minimum transparency and high costs for market researches, having to rely on commercial diplomatic practices to gather valuable data over business patterns, competitiveness and reliability. Finally, because developing countries may encounter several difficulties when entering the world economy, diplomatic missions play the important role of supporting emerging markets in their starting up phase of international trade and investment relationships, with an even greater support provided in solving trade-related problems as in the case of serious market failures.

## 1.2 Structures of Commercial Diplomacy

When it comes to the structures and processes of commercial diplomacy, there is no standard or pre-defined model that all states adopt and implement indistinctively. The structural and operational frameworks through which commercial diplomatic activities are generally carried out tend to vary from one country to the other. In this regard, the most significant structural variation among countries can be observed in the nature of the different agencies entitled with export promotion services. According to Mercier (2007), there are three main factors that strongly contribute to different national export promotion patterns. The first one is the private/public character of each country's operational framework; as we will better see in the second part of this dissertation, some countries may have instituted a form of structure of commercial diplomacy - that is purely governmental while some others may have opted for an entirely private commercial setup. More recently, national governments have started welcoming support from the private sector to integrate it into their own structure, adopting what could be considered as a mixed public-private organizational model. The second factor is the level of government where services are provided. In this case, export promotion services can be delivered through organizations at the central, regional and local level; in most countries, it is the central government that takes over the coordination activities and the overall fulfillment of export promotion. Federal states, instead, are the ones where a regional approach in the management of commercial diplomacy is more likely to happen. Belgium is a good example of a regional-based approach where the local regional authorities of Flanders, Wallonia and Brussels are completely entrusted with export promotion tasks. Finally, Mercier considers the number of departments or ministries that share the management of commercial diplomacy within the governmental machine. Some countries have created one consolidated ministry through the merging of their Ministry of Foreign Affairs with their Ministry of Trade, as in the case

of Canada, Austria, Belgium and Sweden. Some other countries, instead, adopting a more coordinated approach to export promotion, have created a joint body under the lead of both the Ministry of Foreign Affairs and the Ministry of Trade. The UK is the best example in this case. Lastly, few governments, like in the case of the United States, have maintained a degree of centralization of commercial matters in the hands of the Ministry of Trade/Commerce with the support of public/private trade-specific agencies.

The typical structures for the promotion of foreign direct investments (FDIs) are the so-called investment promotion agencies (IPAs). This is a relatively new organization which only started to grow in popularity within the last 20 years as a sign of the rising importance attributed to inward investments. Today almost all countries have provided themselves with national IPAs, with very few exceptions observed. In particular, some developed countries with federal arrangements have opted for the creation of sub-national IPAs, which better address decisions on where to invest within a specific country. As meant to promote regions, provinces or states, IPAs often work as independent organizations with no subsidiary tie with their national counterparts, which in turn can lead to competition between them over the attraction of the same investment if the two levels are not adequately coordinated. Following this path, major cities of developed countries like Montreal or London have taken autonomous action as economic motors of their regions through the creation of their own city-centered IPAs.

As in the case of export promotion, the main structures through which foreign investment attractive policies are shaped and delivered can be either public, private or mixed in their nature (Mercier, 2007). The vast majority of countries tend to choose a governmental structure for the management of their inward investments as they are generally perceived as a different kind of public goods. However, an increasing number of IPAs has prioritized their own independence from the central government, providing themselves with autonomous decision-making bodies and private infrastructures.

For both export promotion and FDI promotion, commercial diplomats adopt strategic approaches when targeting foreign markets and foreign companies. Some governments may target specific market projects and assist specific companies for a limited period of time, while other countries may instead prefer to offer a wider variety of services to be easily adopted and implemented by most or all companies for undetermined periods of time. For FDI promotion, in particular, the strategic approaches are selected according to the core objectives or functions adopted by national IPAs, generally addressed to imagine-building purposes. In any case, the overall targeting activity for both inward and outward flows is generally addressed to the highly innovated sectors of the economy, also known as knowledge-based economy. In these sectors, governments target small and medium-sized enterprises usually lacking the financial resources and the sensitive information needed to expand beyond their comfort zone and become real international exporters. From this point of view, large transnational corporations (TNCs) are thought to be relatively stronger and with greater resources to work without the direct support of IPAs. Most commercial diplomacy services work in offering SMEs more technical and diversified support while well-consolidated, hi-tech

corporations are more interested in how to start and maintain public relations with the host state's authorities and business personalities.

Mercier also analyzes the different programs governments usually adopt to pursue export and investment promotion. Export-related programs generally offer seminars for potential exporters, counseling, export financing or how-to-export practical guides; regarding inward investments' programs, commercial diplomacy strongly relies on investment seminars, advertising, direct mailing or participations in trade shows and exhibitions. In particular, trade shows and missions, are considered the most effective diplomatic practice when there is a consistent involvement of central governments. They take place in targeted overseas locations, where firms can exhibit their products and participants are given the chance to know about a foreign country's culture through a direct contact with local businesses and government representatives. With the recent decline of transportation costs and the gradual involvement of politicians joining export promotion professionals, these fairs have become an exceptional instrument for the internationalization of domestic firms and their complete integration in the global economy.

#### 1.2.1 Private and Public frameworks of CD: Chambers of Commerce and Trade Promotion Organizations

As we have seen in the previous section, the operational frameworks of commercial diplomacy have developed new services and practices being regularly delivered by both public and private structures. The way states enhance their economies, strengthen their commercial ties with the international community and support their domestic businesses, have been increasingly influenced and framed by the actions of a consistent variety of actors specialized in the management of international economic relations. Despite the highly tangled nature of modern international connections and the consequent difficulty in assessing the precise degree of influence provided by all domestic, sub-state and transnational actors, it is now fully acknowledged the special place that non-governmental organizations have when it comes to foreign trade policies.

One of the oldest and most influential non-governmental entities supporting trade and promoting international commercial relations is the Chamber of Commerce and Industry of each country. Besides their traditionally domestic sphere of action, national chambers have progressively grown and become more powerful and visible on the international level; they have joined efforts through transnational advocacy networks and formed proper international organizations with the same purposes but with wider roles, functions and organizational structure, relying on new instruments conceived for regional and global economic extensions. Following patterns similar to those established within states, global associations of chambers have been designed to tackle global issues related to international commercial transactions and businesses' best practices. Organizations such as the International Chamber of Commerce have provided solid support to international economic diplomacy and contributed to the development of areas related to

technology, transport, international investment and taxation, enhancing growing cooperation with global governance institutions such as the G20, the WTO and the United Nations.

The American Association of Chamber of Commerce Executives has defined a Chamber of Commerce as “an organization of *businesses* seeking to further their collective interests while advancing their community, region, state or nation”<sup>16</sup>. More broadly, they have been considered autonomous structures of businesses and individuals aiming at promoting local sectorial interests and commercial projections abroad. Of a purely private nature, most of these organizations have set the conditions for the emergence of national business communities whose stakes are significantly promoted and safeguarded on the national level; ensuring future prosperity via a pro-business climate, these communities are granted a unified voice to be heard by market authorities both on a national and international level.

After the historical economic recession, the high reliability of national companies has contributed to the quick recovery of the Chambers’ main activities, despite the dramatic drop in number of their members throughout the crisis. According to the online platform World Chambers Network, there are currently 12.000 “trusted third parties”, as they are generally defined by international trade experts, operating on national soils. The growing development of foreign trade transactions, new information exchange patterns on economic and legal affairs and the establishment of free movement of labor, products and services, have all played a significant role in the general spread of Chambers’ arrangements in both developed and developing countries. Despite their common nature as non-governmental organizations, the legal framework in which Chambers of Commerce operate, varies depending on each country’s national legislation. Legislative frameworks in Canada, United Kingdom, United States and Easter Europe, for instance, recognize the voluntary nature of membership in national Chambers, while in Asian countries companies officially registered are obliged to become member of one of the county chambers available.

Despite their diversified structures and territorial arrangements, Chambers of Commerce worldwide share some fundamental lines of actions. Positioning themselves in line with commercial diplomacy’s agendas and purposes, Chambers of Commerce constitute a further, privately-handled, reference point for local businesses struggling in developing their portfolio, conquering international markets and settling commercial disputes. They provide information, facilitate communication and economic cooperation with government institutions, draft official economic reports and support small companies with alternative means to settle their commercial controversies.

While Chambers of Commerce have been providing fundamental support and incentives to small business companies looking for a local community to be part of, representing their interests and prerogatives without public interference, Trade Promotion Organizations (TPOs), on the other side, have drawn their growth and success from being part of national governmental frameworks. Although these institutions differ

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<sup>16</sup> *What is a chamber of commerce?* (2009). American Association of Chamber of Commerce Executives. Online Dossier. <https://secure.acce.org/about/chambers-of-commerce/>

considerably throughout the world in their structures and functions, they have been of great interest to international trade promotion authorities and business organizations reviewing their own institutional framework for trade promotion. As public bodies, TPOs can either be part of an existing governmental entity or be ascribed to it with some degrees of autonomy being granted. In the first scenario, the TPO is generally operating as a section of a ministry, in most cases the *Ministry of Trade and Industry* (or its equivalent), or as department, division or directorate within the ministry itself, with relatively more powers and autonomy. In both cases, being an integral part of the ministry provides these institutions with several benefits as for facilitated processes of establishment through ministerial decree and regular fund allocations from the basic ministerial budget. A unit of this type, however, often lacks the operational flexibility desirable for the implementation of substantial trade promotion activities and the freedom to mobilize financial and human resources at will. This is why the establishment of autonomous institutions ascribed to ministries has become the most frequently used approach for TPOs. Under this system, the TPO can remain autonomous, but at the same time, the Ministry can maintain its required control to comply with public administration procedures. The entity draws from the government considerable support, the qualifications and experience of its chief executive officers while preserving a wider room of *manoeuvre* with regard to funding, employment of staff and the implementation of promotional activities.

The range of activities that a national trade promotion organization can deliver is quite broad and diverse; some of them are considered as basic, as they are necessary for any type of promotional effort, while others may be optional. One of the main tasks is to identify current and future products available within the country for sale on the international market. In this case, the TPO's product specialists work to assess the country's export supply situation, mainly through visits to local producers and exporters with the final drafting of products' profiles for potential foreign buyers. Similarly, TPO officers cooperate with the country's commercial representatives abroad for the final draft of company and market profiles, needed to highlight the main characteristics and requirements of target export markets and the major opportunities in them. Through the provision of upgraded data over consumption patterns, import rules and regulations, tariffs, distribution channels and so and so forth, TPOs can build a strong and solid basis for the further management of promotional efforts. Trade information services centralized at the TPO level, often linked and coordinated with external institutions as Chambers of Commerce, are fundamental for the overall support activity offered to small-medium size enterprises, unfamiliar with the international business environment. Of course, promotional activities aimed at supporting export companies and attracting foreign investments represent the operational core of any trade promotion organization. By joining forces with other specialized institutions, first and foremost IPAs, these organizations are able to enhance companies' expertise in foreign trade techniques and guide them step by step in their internationalization process.

About three-fourths of the currently operating TPOs rely on some type of commercial representation service abroad, which considerably increases the effectiveness of the organizations' work in export

promotion and their closeness to commercial diplomatic practices. However, the organizational arrangements for the management of such services tend to vary among different countries. Overseas commercial representatives can be either directly responsible to the TPO concerned or exclusively concentrated in the hands of foreign affairs ministries (or trade ministries). In some cases, despite the involvement of a ministry, communications and work instructions can be handled directly between the TPO and the officers abroad, with the ministry being simply informed about future actions. These organizations are also directly involved in the planning and implementation of international trade fairs and sellers' missions, as a way to complement the direct support they regularly offer to exporters at home. They further expand their promotional agenda with the arrangement of official visits of foreign buyers to local production premises and the promotion of subcontracting activities for export.

Despite their structural and organizational differences and their private/public source of legitimation, both Trade Promotion Organizations and Chambers of Commerce have been a valid instrument of commercial diplomacy. Whether relying on governmental resources under the lead of institutionalized Ministries or relying on private structures sponsored by the business community itself, trade agencies have proven to be crucial actors in the planning and shaping of foreign trade policies. They constitute a fundamental element both Foreign Affairs and Trade Ministries, together with the diplomatic network, can count on when managing international economic relations.

### 1.2.2 The role of Ministries of Foreign Affairs: from 'gate-keepers' to 'coordinators'

The impact of enhanced economic interdependence and new state-societal interactions, together with the gradual dismantling of the boundaries defining different policy issues and arenas, have contributed to the modern internationalization of domestic bureaucracies while challenging the traditional role of Foreign Affairs Ministries (MFAs). A more diffused management of foreign policy matters, determined by the emergence of new non-governmental actors and transnational relationships, have brought to the relative decline of the MFA from what has always been regarded as its golden age status, a centuries-old tradition where it used to guard and defend the boundaries separating the state from its international setting. In the modern framework of integrated economies and global societies, the historic 'gate-keeper' image of these Ministries, literally implying an exclusive control over the domestic-international interface, has proved highly inconsistent and almost ridiculous. Today, there is considerable evidence of the conceptual and structural evolution undertaken by modern Foreign Ministries in the way they used to conduct international relations. Leaving behind their historic monopoly over foreign policy, they reshaped themselves through the gradual fragmentation of the policy environment as well as the gradual engagement in new bureaucratic bargaining processes with other government agencies, with the final aim of carving out for themselves a role in various areas of international policymaking.

The gatekeeper conceptualization has proven positively applicable by those approaching international relations from an old state-centric/realist standpoint, where it comfortably fits the core assumptions about the nature of inter-state relations. This kind of perspective has enhanced the attention to one feature of the Ministry, its symbolic qualities as representative of the state and as sole legitimate guardian of the key institution of the state system, namely the diplomatic network. Moving to the 'real world' of policymaking, featured by pluralism and highly integrated competencies, Foreign Ministries found their gatekeeping duty strongly anachronistic. With the gradual blurring of the domestic-international divide, and the consequent widening of the ministries' agendas, new policy processes emerged with growing intra-bureaucratic interactions requiring new coordinating functions. Foreign Affairs Ministries succeeded in overcoming the dogmatic exclusivity of their previous status and got themselves engaged into a new coordinative role within a new multifaceted and fluid policy setting marked by dramatic domestic and international changes.

In the new operational background, several difficulties emerged confronting the foreign policy machinery as it responded to rapidly changing environments. Although different countries have experienced different degrees of change within their own national policy-making structure, most Foreign Ministries have found themselves dealing with the controversial consequences of domestic diffusion and centralization (Hocking, 1999). Diffusion does not only reflect the growing involvement of other government departments in the management of international policy, but the further growing role of non-governmental organizations (NGOs) and a wide range of subnational actors. As we have previously discussed, a globalizing economy improves the relations between governments and businesses, demanding both foreign ministries and their diplomatic network to take the lead over the enhancement of the country's position in the new global market. In the same way, NGOs, particularly in the environmental and human rights fields, claim a voice in the international decision-making framework becoming essential engines for policies' development and implementation. Centralization, on the other hand, can assume multiple dimensions; within the state, it has been observed a notable tendency to address the management of international policy in the hands of special units generally associated with head government offices. In this context, the new dynamic between Foreign Ministry officials and more intrusive State Officials presents another aspect of an increasingly complex domestic environment. Outside the boundaries of the state, in turn, centralization of policymaking arrangements on a regional level, as in the case of the European Union, has provided another dimension to change that has progressively reshaped the traditional management of foreign affairs matters.

As foreign ministries appear to be engaged in activities of which the image of gatekeeping provides only a weak and misleading impression, new questions arise as to what functions they are actually performing. In this regard, the erosion of the boundaries between issues and arenas, typical of the new policy environment within which governments are constrained to operate, has contributed to the overall prioritization of the coordination function as the key activity performed by foreign offices. Coordination has become a primary concern for policymakers as they start to operate in multiple fields, create connections

with a wide variety of governmental and non-governmental actors and try to maintain coherent positions on issues that embrace both domestic and international constituencies. Granting the government the ability to speak with a unified voice on significant policy issues has been helpful in avoiding situations of *dual diplomacy* (Hocking, 1999, p.10) as in the case of pre-war Japan, where the military sidetracked the foreign ministry with ultimately devastating results. The catastrophic experience of the past ended up making Japanese policymakers extremely sensitive to problems of policy inconsistency, exemplified by the many attempts at conciliating foreign affairs prerogatives with powerful actors coming from different departments (in particular the Ministry for International Trade and Industry, MITI).

Relationships with other agencies of government have been fundamental for the evolution of Foreign Ministries' role in the management of international policy. These Ministries became part of a complex governmental machine by sharing coordination functions with other departments whose duties and responsibilities had a more or less significant impact on international relations. From this point of view, the image of conflicting relations between an isolated Foreign Ministry and its bureaucratic competitors – as one of the core features of the gatekeeper doctrine – has clearly lost in credibility. Of course, problems in the daily cooperative management of international policies have not been completely eradicated; they have rather taken the shape of slight tensions between cost-conscious finance departments and the Foreign Ministry, mostly on budget-related decision-making processes. Going back to the Japan case, the old-time picture of conflict between the Japanese Ministry of Foreign Affairs and the MITI has become less and less relevant as globalization forces have brought both departments closely in line in their approach to new instances of foreign economic policy. Also instructive has been the experience of EU members in the growing involvement of their domestic departments in the constant interaction between member states' governments and Brussels. These patterns show how contemporary Foreign Ministries continue to perform critical, but not exclusive, roles in this increasingly polycentric policy environment, being able to establish their own position rather than succumbing to the challenges of other actors.

However, national governments have adopted different structural responses to the domestic problems emerged from a highly fluid policy framework. As we will better observe in the next section, some countries, Canada and Australia in the first line, have opted for a radical transformation of their governmental structures concerned with international matters, namely through the merging of international trade functions (and agencies) with the Foreign Ministry itself. In the Australian case particularly, the long-running tensions between foreign affairs and trade departments have been positively smoothed through the significant development and strengthening of the newly established Department of Foreign Affairs and Trade. Besides the radical decision of merging the Foreign Ministry with the 'domestic' arm of government, different pragmatic responses have been adopted by nation states, tailoring them to the local policy needs. One manifestation of this could be the internal restructuring of Foreign Ministries in their functional patterns or the establishment of ad hoc agencies operating under the joint supervision of sector-specific

government departments. In the EU context, although the project for a European Foreign Service is far from being implemented, there is a significant interchange and cooperation between foreign ministries within the Union that consolidates their role as agents of coordination both between Brussels and member states' capitals and among member states' governments.

Another dimension of the Foreign Ministries' response to the recent waves of change has been to experiment with unconventional forms of diplomatic practices or to elaborate on existing patterns. As we have previously observed, new globalizing forces and the annexed IT revolution have provided both Foreign Ministries and the diplomatic network the opportunity to reconsider their role and activities, new ways to discharge their core functions and to improve how services are delivered. The growing interaction between state and society on foreign affairs has contributed to the changing nature of much diplomatic activity with its significant emphasis on commercial work while requiring Foreign Ministries to restructure themselves and develop innovative strategies outside the context of governmental structures, as in the case of new forms of cooperation with humanitarian and environmental NGOs.

From this brief analysis, one broad conclusion can be assessed: the image of Foreign Ministries suffering from a state of terminal decline due to their closed and unmovable nature, is highly distortive. A long-running misreading of the historical role and evolution of foreign ministries and of the way they approached with other governmental agencies in the management of international affairs, has brought diplomats to consider themselves as entitled with the sole fundamental function of gatekeeping between the domestic and international policy environments. But many evidences have shown this is not the case. The core functions that contemporary Foreign Ministries can provide, often addressed to complex coordination processes, are much more blurred and define their role as a key factor of the processes through which national governments are required to operate in highly fragmented policy frameworks. Instead of focusing on the imperatives of control which implicitly relate to the notion of gatekeeping in its deepest nature, foreign ministries have been responding to new demands of shared activities and shared responsibility, on occasions involving tensions with other key governmental departments. This modern form of action – appropriately defined a *trans-boundary facilitation* (Hocking, 1999, p. 14) – has proven useful in showing the highly flexible nature of foreign ministries' organizations; they have been continually evolving, redefining and reinventing themselves, adapting to a situation in which post-modern states no longer recognize the century-old separation of foreign and domestic affairs.

## Chapter II – Institutional framing of diplomatic commercial-political synergy

### 2.1 Organizational models for commercial diplomacy

The current economic climate has made commercial diplomacy increasingly intriguing. Not only because it mitigates market protectionism and government interventionism, particularly problematic in emerging markets where most Western businesses wish to expand, but because it functions as a successful accelerator of business internationalization. Commercial diplomatic activities have progressively grown in their value, becoming essential sources of support for international stakeholders. In this scenario, governments worldwide have prompted their diplomatic missions to intensify their business-assistance functions and make commercial diplomacy the very epicenter in the reorganization of their national foreign affairs' systems.

The impact of enhanced economic globalization and regionalization on diplomatic services, with the consequent focus on increasing export promotion and inward investment activities, has become particularly evident in the structure of Foreign Ministries, which have responded to the changes in the domestic and international environment, by re-organizing themselves along the principle of functionality on top of the traditional principle of territoriality. And although countries have decided to adopt different national responses with regards to commercial diplomacy arrangements, some common themes dominate international research agendas. Most of these themes concern a general willingness in altering bureaucratic operational frameworks, the oscillation of commercial competences between ministries, the transfer of these competences to Foreign Affairs Ministries and the turf wars emerging between government departments. As we will better see in the next section, many countries, which have until recently run parallel commercial services outside their overseas embassies, have started visualizing or have already moved towards a model of *integrated diplomacy* with an integrated foreign service in which new economic and commercial matters are absorbed by the Foreign Ministry and its diplomatic network<sup>17</sup>.

Of course, commercial diplomacy has not only posed new challenges to foreign ministries but to diplomatic staffs as well. The business world confronts policy-makers and diplomats with new kinds of issues which transcend the traditional boundaries of diplomacy. It has transformed the role and mission of diplomats by rendering international trade one of their substantive tasks. With diplomatic staff being more and more involved in a widening range of commercial matters, they have become essential figures for business intelligence, partner search, promotion of exports and business advocacy.

In this context, as commercial diplomacy is becoming a key foreign policy priority, national governments have been experimenting innovative strategies in organizing this relatively new diplomatic branch; most competitive economies such as North America, Europe and Asia have consciously allocated commercial diplomacy tasks within the operative agendas of foreign affairs, mainly through structural

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<sup>17</sup> Rana, K. S. (2007). *Economics and Diplomacy*, In *Bilateral Diplomacy*. Chapter 4, pp. 67-78, DiploFoundation, Geneva, Switzerland.

reforms of the ministry itself, as a way to enable the consequent internalization of the new functions. There are about 15 countries that have merged their Foreign Affairs' Ministry with their Ministry of Trade, with Australia and Canada being the most outstanding examples. Countries such as the US, Germany, Finland and Japan have put in place solid structures to promote trade-related matters; the UK, for instance, has created a joint body of the Foreign affairs' Ministry and the Ministry of Trade in order to enhance and better coordinate export promotion activities (Rana, 2007).

In addition to these structural transformations, governments have also been diversifying basic diplomatic trainings; they have seen an ever-growing importance of economics and commerce knowledge as the inevitable consequence of the expansion of diplomats' operational agendas. Modern diplomatic academies have made training on trade-related matters compulsory to their traditional curricula, and have nourished the idea that a well-consolidated preparation on international economic dynamics has become the *sine qua non* for a successful diplomatic performance. However, the new practices with their focus on intense commerce prioritization have not been welcomed by all diplomatic circles. Members of the senior diplomatic generation, still anchored to old-style understanding of diplomacy, are looking at the penetration of commerce-centered developments as an unacceptable threat to the very nature of the profession. In the UK, in some Foreign and Commonwealth Office (FCO) quarters, diplomats have shown their frustration and disappointment more visibly, feeling as their role had been reduced to 'selling socks for Britain' – meaning the mere promotion of small business interests rather than negotiating consistent business deals or political affairs – with the diplomatic profession being degraded to 'a profession in peril' (Lee, 2004).

Following these developments calling for more commercial diplomacy, governments' responses with regard to their organizational framework, are particularly varied. We can distinguish three main models in the organization of commercial diplomacy. Firstly, the *unification model* which relies on an strong integrationist approach; in this model, which Canada perfectly embodies, the Foreign Ministry has unified the political and economic/commercial spheres of competence through the merging of its units with the Ministry of Trade, with the addition of a separate commercial/export promotion agency to the traditional diplomatic service and an enhanced unifying role of the head of mission. Secondly, there is the *coordination model*. In this case, both Foreign Affairs and Trade departments have maintained their own autonomous structures while joining their resources for the establishment of special units entitled with commercial diplomatic tasks. The British government, which has adopted this particular strategy, has indeed worked for the foundation of two ad hoc units in the FCO, jointly with the Department of Trade and Industry, for the management of foreign trade and investment promotion. Finally, a more fragmented approach visible in the United States, where the main tasks of commercial diplomacy are delivered by a consistent variety of both private and public agencies (*all-agencies model*).

As we will see in the next paragraphs, each country has adopted a particular organizational pattern for the management and provision of commercial diplomatic tasks, according to the national historic,

political and bureaucratic tradition they have been built on. In each domestic framework, governments have shaped and developed a particular economic-political synergy which has been ultimately embodied in particular interplays between Foreign Affairs and Trade departments. Leaving behind an old institutional arrangement where national ministries were concerned with and responding to their own area of competence exclusively, with no room for cross-fertilization within the governmental machine, a new understanding of international affairs has emerged, with the progressive dismantling of traditional boundaries. Each government ministry has come to realize that its legitimate area of competence is increasingly encroached upon neighboring ministries, as well as non-governmental actors (Moses, Knutsen, 2001). From this point of view, the shrinking significance of geography and the increased ease of communication, have significantly facilitated international exchanges among all the 'non-foreign' ministries. This is the reason why almost half of the existing Foreign Affairs' departments overlap in content with the competencies of other governmental units, particularly when it comes to international trade-related matters.

## 2.2 The Unification Model: Canada

The Canadian experience in terms of institutional change and foreign policy implementation presents a very interesting case study. Over the last three decades, the Canadian Foreign Ministry, the Department of Foreign Affairs and International Trade (DFAIT), has gone through a series of reorganizations in the constant attempt to reinvent itself. Struggling with the resilience of old behavioral habits within diplomatic circles, most notably an intense concern over traditional diplomatic skills and professional reputation, the Canadian pattern of internal reform has been one of the most radical and most incisive among the different dynamics of change worldwide. From an external perspective, the overall transformations must be understood in the context of the multiple global forces which contributed to the fragmentation and the increasingly complex nature of foreign policy management through the entire time span from the 1970s onwards. Similarly to most other developed countries, Canada found itself tackling the increased volatility brought about by a widened international environment, where the traditional diplomatic agenda, centered on security issues, was challenged by the emergence of new economic and social stakes. Within the context of striking globalization and interdependence, these pressures have become crucial factors influencing the nature of the adjustment process, also considering Canada's intrinsic combination of vulnerability to the international structure and its willingness/ability to follow transformational biases. Relying on a sufficiently open economy, a bicultural/multicultural society and wide territorial distances, Canada has always been a highly exposed receptor of change.

If on one side, the effects of external factors have played a fundamental role in shaping the country's reorganizational patterns, domestic circumstances, on the other, cannot be disregarded when considering such an adaptive process. In this context, it is particularly important to assess the way in which the issue of bureaucratic decline has been responded to by national diplomatic actors. Through the so-called Pearson or 'golden era' of Canadian diplomacy in the immediate post-1945 period, Canada has served as the perfect

model of centralized authority in the domain of Foreign Affairs with the Department of External Affairs (DEA) detaining an almost absolute monopoly position. In this regard, very few sources of competition were allowed on either a state/societal or an inter-departmental level. A more significant dispersal of influence has only been observed in more recent years, not only through a marked expansion of the Canadian foreign policy community, but also through a comprehensive contestation of the traditional overreaching position of the Foreign Ministry and its attempts at hanging onto its privileged role as the core actor in foreign policymaking.

Historically, three main stages can be highlighted through the overall pattern of organizational reform<sup>18</sup>. The first stage, which largely overlaps with the period of Trudeau government (1967-79, 1980-4), was characterized by a process of horizontal adjustment. During this period, the operational framework institutionalized by the DEA was being soundly criticized for its being out of date and almost irrelevant. In addition, a progressive rise of a number of rivals within the government structure, both at the federal and provincial level, contributed even more to the general sense of 'decline'. As a way to counter this set of challenges, the DEA attempted at regaining its position through task expansion; the department tried to expand and upgrade its own level of expertise while broadening its responsibilities into new fields of action and moving towards new patterns of integration and coordination. The second stage, corresponding to the Mulroney government in office (1984-93), paved the way to vertical integration. The Canadian Foreign Ministry found itself dealing with a new form of political competition coming from societal groups and non-governmental organizations; enjoying a greater credibility drawn from a speculative crisis of government and a general concern with 'offloading' responsibilities away from the state, these new actors became a real threat to the traditional managers of the country's foreign policy. Finally, the third phase, under the lead of the Chrétien government (1993-2003), has brought the question of task definition back on the table. During this period, the Canadian Foreign Ministry attempted at demonstrating its ability in correcting many of its established organizational weaknesses, among which a set of internal differences found within the ministry itself and a top heavy organizational structure.

Through every wave of change, more or less radical, Canada has been able to create a successful public organization for the management and delivery of commercial diplomatic tasks. In particular, it has been one of the relatively few countries in the world choosing to *unify* its ministry of foreign affairs and its ministry of foreign trade within a same institutional unit. In 1982, the national government opted for the amalgamation of the Trade Commissioner Service (TCS) with the Department of External Affairs, establishing what took the name of Department of Foreign Affairs and International Trade (DFAIT). The official reason provided for such a radical move was the overall understanding of foreign policy as to serve

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<sup>18</sup> Cooper, A.F. *Canada Trying to Get it Right: the Foreign Ministry and Organizational Change*. In Hocking, B. (1999). *Foreign Ministries: Change and Adaptation*. Studies in Diplomacy. Palgrave Macmillan, London.

broader national interests, and in particular, given an increasingly interconnected world, the general realization of how detrimental it would have been for those interests to keep trade development within the sole area of competence of domestic departments (Potter, 2004, p. 56). From that moment onwards, foreign policy would have included the whole range of Canadian interests overseas – economic, trade, immigration, aid, cultural – concentrated under one single bureaucratic roof. However, according to Mercier<sup>19</sup>, the real justification for the Canadian ambitious project for commercial diplomacy could be better drawn from the country's relatively weak political power in pursuing strong foreign policy. In 2001, former Prime Minister Jean Chrétien led a second Team Canada mission to China with the main aim of showing how important trade was for Canadian interests and in particular, how valuable were the commercial relations between the two countries. Still, when answering to why Canada decided to pursue such strong economic ties with a country whose human rights records were particularly poor, Mr. Chrétien bluntly expressed his view – that a country of merely 30 million inhabitants such as Canada could not really influence China, with its population of over 1 billion, through political pressure.

In any case, the past two decades have shown the progressive diffusion of Canadian international business activities both across the federal authorities and between the federal and provincial governments. And although the responsibility for export market promotion still relies on the DFAIT, nominally, a growing number of federal government departments and government-funded agencies have become engaged in the delivery of programs and services for export development. Following this path, Canada's foreign policy has ended up assuming a more niche- and mission-oriented nature, focusing less on promoting a reputation as a 'global boy scout' and more on what Cooper (in Hocking, 1999) has called the 'main game' of economic competitiveness and secured market access.

### 2.2.1 The Postwar DEA and the 'Ottawa Men'

Since the immediate post-World War II period, the old Department of External Affairs (DEA) has been able, through the occurrence of a number of interlocking factors, to secure itself a tight control over national foreign policy. The senior officials, or 'wise men' as they were usually referred to, from External Affairs, brought together by a uniform background and a common sense of purpose, formed a well-consolidated cohort eager to take the lead over Canadian public opinion and the new international affairs' obligations. This group of state officials could benefit from a significantly high level of autonomy, further strengthened by an overall historic consensus about how and through which policies the Canadian national interest had to be promoted. Such consensus was associated, in turn, to the deep-rooted centrality of geo-security issues; back in time, war and peace matters represented the very first priority to most DEA officials, becoming increasingly relevant for the Canadian public as well.

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<sup>19</sup> Mercier, A. (2007). *Commercial Diplomacy in Advanced Industrial States: Canada, the UK, and the US*. Discussion Papers in Diplomacy. Netherlands Institute of International Relations 'Clingendael', p. 12.

Between the time Mackenzie King left the political stage and the time Pierre Trudeau took over, the Canadian policy environment shifted under the indirect sphere of influence of the so-called *Ottawa Men*, a powerful group of official mandarins who dominated the political scene of the Canadian state and who contributed, through their civil service, to the consolidation of a strong bureaucratic infrastructure able to guarantee the safeguard of national interests. As a coherent group of professionals united by their work commitment and their personal connections, operating as an informal collegial system enjoying considerable autonomy from the authority of existing bureaucratic hierarchies, these men were praised for their policy-related knowledge and constantly involved in the decision-making processes at the ministerial level. Generally coming from Canadian middle class backgrounds but largely educated at the graduate level in British and American elite universities, these young servants built their way up to the highest spheres of national governance, on the basis of both valuable personal qualities including resilience, independence of mind and loyalty to ministers, and outstanding technical attributes. They were pervaded by a strong nationalist sentiment which further motivated them in serving their country and their people at any possible cost. Once assembled in Ottawa in the early 1940s under the aegis of O.D. Skelton - the Undersecretary of State for External Affairs who founded Canada's career civil service - these élites worked as prime actors in the shaping of new policies and new programs to be adopted in the main government areas, from foreign affairs to finance and the national banking system. At the Bank of Canada, Louis Rasminsky became an architect of the new monetary system, tangling along the way with the legendary John Maynard Keynes. On the economic front, Bob Bryce, as deputy at Finance and cabinet secretary, presided over the laissez-faire experience in Canadian economic policy. At External Affairs, instead, senior officials Norman Robertson and Lester Pearson, to cite a few, played an essential role in debating the merits of neutrality and isolation as the war loomed in Europe and the consequent post-war order assessment<sup>20</sup>. As the Second World War imposed greater demands on international governments, Canada had to increase its international role as a sovereign state and acknowledged the need for a more sophisticated and complex bureaucratic system. Although some persistent differences of view did emerge among this foreign policy élite, their ability to work as an effective team and to tackle international challenges on the side of government authorities, has proved how valuable common patterns of intellectual/policy socialization and 'on the job' experience were for the management of international relations.

Relying on such a well-consolidated operational structure, the DEA managed to react decisively in times of international crises. Particularly after the end of World War II, Canadian diplomacy proved to be able to counter major controversies with enormous spillover implications on intra-bloc relations, through the strategic use of communication skills and negotiation, as in the case of the Suez Canal crisis. But very soon,

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<sup>20</sup> Samier, E.A. (2007). *Canadian Federal Mandarin Memoirs: On the Formation of the Public Service Ethos*. *Zeitschrift für Kanada-Studien*, 103-119.

the intrinsic weaknesses of the Department *modus operandi* started to emerge, leaving the space for intense waves of criticism. To begin with, the DEA strongly relied on skills of diplomatic improvisation, which prioritized operational agility over the commitment to defined guidelines. The Department's long-praised ability to cope with external situations in an extremely flexible way, by getting 'into the middle of a mess by some kind of intuition', as Pearson himself used to put it, nourished a few concerns over the effectiveness and the successful fulfillment of diplomatic missions.

A second issue related to the DEA's narrow composition. As we have seen, relying on a strong elitist tradition, based on a visible English-driven unilingual exclusiveness, the Department used to accept within its ranks, only the most talented and like-minded individuals coming from common backgrounds. In this regard, as bilingualism and biculturalism started becoming sensitive topics in the Canadian political discourse, the DEA found itself swept away by requests for a general reformulation of recruitment factors, including multiculturalism, gender representation and other forms of social diversity. This negative perspective can be better understood as a part of a wider intellectual backlash against the profession of diplomacy experienced during the 1960s and 1970s. After the failure in resolving the Vietnam crisis, a wide variety of academics and media academics began to lose faith in the positive outcomes of diplomatic practice, considering it morally and practically bankrupt (Hocking, 1999). Moreover, with the surge of technological/communications change, the same established diplomatic practices were viewed as being increasingly out of touch. A very prominent voice that led the critical charge against contemporary diplomacy, was a University of Toronto professor of international relations, James Eayrs. He questioned the old traditional dogma about the function of diplomacy as an institution, while degrading it as dominated by 'moral turpitude', 'inefficiency' and 'deliquescence' ('melting into nothingness, fading away into limbo')<sup>21</sup>, in a rapidly evolving global environment. Prime Minister Trudeau shared this critical outlook as well. As an advocate of rational management, of extended bilingualism and multiculturalism, and of participatory democracy, he used to show very little sympathy towards the DEA old model. But the Department did not only had to face the intellectual critiques coming from the academic and bureaucratic world; a more tangible challenge to the established mode of operation came in the form of the intrusion of a wide variety of competing actors at the governmental level, contributing to the gradual fragmentation of the decision-making process. In this context, the most pervasive and concerning threat was probably presented by Canadian provinces and their autonomy stakes. After the end of the Quiet Revolution and the growing manifestation of Quebecois nationalism, Ottawa and Quebec became the core of uninterrupted struggles over legitimacy and power. As their competitive dynamics became more and more intense, especially over the management of legislative tasks, 'domestic' issues soon spilled over the 'international' arena, with Quebec asking for an autonomous decision-making on international relations and, in particular, the power to negotiate and sign treaties within the limits of its constitutional rights. In this regard, the Quebec issue can be better understood in the context of a more generalized provincial challenge. Canada has always had to cope

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<sup>21</sup> Eayrs, J. (1971). *Diplomacy and its Discontents*. University of Toronto Press.

with fundamental differences existing between the federal government and a number of other provinces (Alberta, in particular) over decision-making and the conduct of foreign economic policy. This deepening sense of rivalry led to a good deal of frustration and tension at the inter-governmental level, pushing national political actors in discussing the constitutional limitations on provincial activity on a routine basis. The issues under debate on the broader inter-governmental level, though, did not concern prerogatives of international independence or international personality on the side of the provinces. Rather than being concerned with the classic symbols of statehood, they centered on practical questions concerning effectiveness and equity and a fairer regional distribution of benefits.

It was under the cumulative effect of these various challenges that the DEA was forced to undergo an extensive period of renewal, in the attempt to turn these issues into opportunities to upgrade its skills and expand its interests in a horizontal direction. Leaving behind much of its typical mode of operation and relying on a new scientific management theory, the Department, through the 1970s and early 1980s, addressed all its efforts to the construction of a coherent context for Canadian foreign policy. While the DEA old guard began to lash out at this extremely unconventional technocratic model – with its wide bureaucratic apparatus, its organizational charts, its daily consultations and its mania for cost-benefits evaluations – the administrative transformation gave the DEA the opportunity to regain both its lost status and its authority. The very core of this strategy became the extension of the Department's coordinating and monitoring capacity vis-à-vis international trade, aimed at a general re-definition and re-exertion of its traditional 'lead' position over foreign policy. Practically, the consolidation of the trade issue-area under the authority of the DEA took shape in an on-going process of reorganization of the governmental structures, which culminated during the 1982 Trudeau's office, with the merging of the *Trade Commissioner Service* and the trade promotion units of the Department of Industry, Trade and Commerce with the External Affairs sector. This amalgamation of the old DEA into an innovated structure was meant to prioritize trade objectives within the management of Canadian international relations, emphasize the growing importance of international marketing of resources and services, and strengthen the country's ability to adapt to changing global economic conditions, allowing the Department to integrate more effectively into the broader economic process in Ottawa. While the Department of Industry, Trade and Commerce had long had a presence in overseas posts, playing a significant role in the decision-making processes, the degree of visibility accorded to the trade side of the DEA and its relative influence was still particularly overshadowed. This is why, through an integrated foreign service, the extended cohort of state officials had been given the chance to make foreign policy and trade policy one and the same.

If on the one hand, the benefits of this turn of events were quite visible, both in providing the Department with greater resources and greater authority in inter-bureaucratic terms and in enhancing it with the ability to deal with issues largely looming on the international agenda. On the other hand, though, additional complexities emerged; as it contributed to the improvement of the DEA's organizational capacity, the new wave of trade-oriented officials completely overturned the established ways of doing things. The

resultant tensions were mainly based on status and professional legacy, as trade specialists not only started holding more power in the golden towers of Ottawa, but they also started holding high-profile ambassadorial posts abroad.

Following the same path, the pressures emanating from the Quebec question triggered a series of organizational responses, the most important of which came with the establishment of the Federal-Provincial Coordination Division, meant as a rapid channel of communication between Ottawa and the Provinces and, in particular, as a transmitter of information from the DEA headquarters to the provincial capitals. With its coordinative nature, the Division (later changed to the Federal-Provincial Relations and Francophone Affairs Bureau) was meant to monitor provincial activities and to advocate regional interests within the national political process. In terms of cultural composition, the introduction of talented francophone officials into the DEA ranks during the early 1970s, contributed to a more positive image-building for the Canadian foreign service as a whole. Opening the doors for a more inclusive process of recruitment, also facilitated the shift towards more issue-specific questions in the global agenda; previously neglected areas, as in the case of cultural diplomacy, began to receive a higher prioritization. From this point of view, the wider provincial challenge did much to reinforce the overall transformation of the Foreign Ministry and its gradual shift towards trade-related functions and more client-oriented approaches.

### 2.2.2 Moving towards centralization: the Department of Foreign Affairs and International Trade

When the Trudeau Liberals took over the government office in 1980, an extremely precise and clear line of action was designed. The main priority was to overcome the disorganization, the dissipation of energy and the frustrations experienced in the previous decade. A significant irritation had grown among the cabinet ranks in relation to the inadequateness of the government's available instruments in addressing the political will of the country. Illustrative of the renewed determination of the Liberal government in implementing its political projects was the observation of party-member Marc Lalonde in 1980 that:

“for the last few years we appeared to be running around in circles administering but with no clear sense of direction. So, frankly, we told ourselves that if we were ever elected again we weren't going to be defeated because of fudgy leadership or because we haven't indicated where we wanted to take the country. We'd rather be defeated for having done something than for having done nothing.”<sup>22</sup>

Part of the renewed agenda was to improve regional and industrial development, in the broader context of an improved trade and export environment. Following this plan, a number of institutional and procedural changes were upheld by the new generation of policy-makers: the creation of the Ministry of

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<sup>22</sup> Lalonde, M. (1980), cited in Ernie Keenes, *Rearranging the deck chairs: A political economy approach to foreign policy management in Canada*. Canadian Public Administration, No. 3 (Autumn), 1992, p. 383.

State for Economic and Regional Development (MSERD), the creation of a new Department of Regional Industrial Expansion (DRIE), and most importantly, the designation of the Department of External Affairs as a central agency upgraded with new powers and competencies drawn from the authority over the Export Development Corporation, the Trade Commissioner Service, the Program for Export Market Development and the Export Permits Act, all previously belonging to the jurisdiction of the Department of Industry, Trade and Commerce<sup>23</sup>. In this functional framework, the DEA, now Department of Foreign Affairs and International Trade<sup>24</sup>, revised its organizational chart by adding two Ministries, one for the ‘political’ spectrum of foreign policy and one for trade policy, each with an Official Deputy (Deputy Minister of Foreign Affairs and Deputy Minister for International Trade, respectively) reporting to the Undersecretary. The Minister of International Trade held responsibility for the Department’s international trade and export development activities while also being delegated responsibility for the Export Development Corporation (EDC) and the Canadian Commercial Corporation (CCC). The Minister of Foreign Affairs, on the other hand, provided support for the Secretaries of State for international relations over international social, cultural and humanitarian affairs.

In the former Department of Industry, Trade and Commerce, trade policy and trade promotion activities were delivered by units whose main concern was with one sector of the economy, the manufacturing. If on the one hand, this approach did not undermine the scope of the policy-making and promotion activities completely, it did not reflect, on the other, the growing reality of Canadian trading system, which had been long dealing with goods and services in sectors other than the secondary one, namely, sectors intrinsically connected with other departments of government. Even more, this organizational framework did not recognize the significant changes taking place in the international trading environment. It became clear how trading relations with both developing countries and countries with centrally planned economies, had to be managed and addressed through negotiations at the governmental level, and how important it was for trade promotion activities to take account of the existing national and international arrangements over environmental protection, communications, transports, energy, human rights and so and so forth. From this point of view, an aggressive export promotion generally required, in addition to good salesmanship and a consolidated knowledge of the operating market forces, a particular sensitivity to a wide variety of national and international policy constraints. These considerations became decisive in favoring an organizational reconstruction that would put trade policy closer to the broad sweep of foreign policy formulation. However, the functional and structural changes needed for such amalgamation to happen, were firstly perceived as reducing the External Department as a mere ‘unhappy shop’ (Keenes, 199, p. 383). Trade officials, and most of their clients in the private sector, started nourishing concerns over commercial opportunities being sacrificed at the altar of the department’s traditional foreign policy agenda,

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<sup>23</sup> The change was reflected in the *Department of External Affairs Act* passed in 1983 which formalized the establishment of the Department of Foreign Affairs and International Trade.

<sup>24</sup> In 2013 the folding of the *Canadian International Development Agency* into the DFAIT brought to the creation of the *Department of Foreign Affairs, Trade and Development*. Currently, despite its legal name, the Department’s public designation under the *Federal Identity Program* is *Global Affairs Canada*.

suffering the negative consequences of trade politicization, while diplomats, on the other hand, began to fear the idea of losing their elitist privileges and becoming mere sales representatives.

The institutional manifestation of the new ‘main game’ of economic competitiveness and the growing criticism over the international business development system, emerged with the creation in 1997 of a trade promotion agency, Team Canada Inc. (TCI), whose purpose was to guarantee a further integration of trade promotion functions across different government departments (Potter, 2004). In a very short period of time, it evolved into an essential agency representing around twenty government departments and units and led by a five-person executive committee including the Deputy Ministers for International Trade, Industry Canada, Agriculture and Agri-food, Natural Resources and Heritage Canada.

The agency originated from the highly publicized Team Canada and Canada Trade missions inaugurated by the Liberal government in 1994. These high-visibility missions allowed the Canadian Prime Minister to lead a national delegation consisting of his Minister for International Trade, provincial premiers, local government leaders and, of course, representatives of the Canadian business community; they soon became a key component of Canada’s international business development programs, branding the country to the world by highlighting its political, economic, cultural and educational links abroad.

Providing a continuum of services both inside and outside Canada’s national borders, the TCI managed to deliver valuable export assistance to the local small and medium-size enterprises – confirming their role as key targets of government trade promotion activities – and to engage in a cooperative relation with other public partners in the country. In his regard, the core institution of the Canadian international business development network, the Trade Commissioner Service, whose main function was based on providing “border out” services, such as gathering business intelligence, assisting in partnering and matchmaking for companies about to expand abroad ad so and so forth, had to rely on domestic partners, namely other federal departments and agencies, to provide “border in” services and make Canadian companies export-ready (Potter, 2004, p. 57).

In a nutshell, the DFAIT sought to link together the elements of this continuum as an integrated service, both on a federal and provincial level, with the regional trade networks representing local business stakes. The building up of this new trade-oriented system has shown the importance of Canada’s ‘brand image’ as it became a top concern for national policymakers. For a very long time, Canada had been perceived by potential foreign investors as a traditional resource-based economy, an image that could not keep up with the waves of innovation and dynamism experienced globally. Even more concerning were the statistics showing the country’s share of global FDI stock dropping dramatically from 6% in 1990 to 3.1% in 2000. These data contributed to the enhancement of trade promotion efforts with Investment Partnerships Canada helping reversing the negative trend by forging new partnerships with other levels of government, mainly through the TCI itself, and undertaking pilot projects to gain a more solid understanding of foreign investors attitudes towards the country.

### 2.2.3 The new 'trade-driven' foreign policy agenda

The construction of the DFAIT and its evolutionary path from a traditional foreign ministry to a highly multifaceted department, has been the X factor for the ascendance of a more assertive free-trade-oriented foreign economic policy, further propelled, since the Canada-US Free Trade Agreement in 1989, by a wide range of bilateral and trilateral trade agreements (e.g. the North American Free Trade Agreement). Recalling Doern and Kirton's words: "Economic policy has always been a part of foreign policy, but there can be no doubt that the trade functions acquired by DFAIT [...] in 1982-83 have, in the face of growing internationalization and globalization, greatly increased its importance."<sup>25</sup>

By 1997, Ottawa agreed to a fundamental rethinking of its approach in supporting the international business development. Two years later, in what was remembered as the "New Approach", a wide number of innovative strategic directions were established to guide future trade-related policies. Leaving behind an extremely general and loosely coordinated mode of operation, Canadian policymakers decided to shift their focus on innovation sectors and knowledge-based economy (cultural sector, information, biotechnologies), with an even more accentuated emphasis on assisting SMEs, targeting high-growth markets and supporting those groups within Canadian society who had been generally marginalized as exporters (e.g. Aboriginal Canadians). It was also recognized a gradual autonomy for Canadian exports, continuing with little reliance on government-sponsored trade programs. In the same vein, it became clear how the export of basic commodities (still a consistent portion of Canada's overall export mix) required less and less public assistance for them to be traded on international markets.

But more importantly, the New Approach constituted a major cultural change in how the TCS used to deliver its services to national businesses. The TCS stopped being a mere event-driven agency operating with extremely complex logistics, and allowed trade commissioners to concentrate on being "relationship-builders" and "knowledge brokers" (Potter, 2004, p. 58). For the first time, trade promotion programs started providing more detailed information over the services requested by proper "clients", namely those companies who had already planned and researched their foreign target markets. These companies became able to take advantage of a series of well-defined services, among which market prospects, key contact search, local company information, face-to-face briefings and problem-solving. As many comprehensive surveys have shown, the majority of Canadian exporters felt highly satisfied by the newly-adopted approach. Such a positive feedback allowed the TCS to address all its efforts and resources to "border out" services and worldwide standards to make sure that Canadian businesses and client partners receive a more focused and high-quality assistance.

Within the new trade policy agenda, international trade missions continued to represent a fundamental tool for Canadian commercial diplomacy. As mentioned before, there are two main trade

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<sup>25</sup> Doern, G.B., Kirton, J. (1996). "Foreign Policy". In *Border Crossings: The Internationalization of Canadian Public Policy*. Toronto: Oxford University Press, pp. 242-243.

missions being conducted at the federal level, namely Team Canada Missions and Canada Trade Missions. The Team Canada Missions, which were particularly popular between 1994 and 2004 during the office of Prime Minister Jean Chrétien, gathered together the federal and provincial prime ministers with identified business personalities to lead high-visibility visits abroad. Canada Trade Missions, on the other hand, mainly differ in that they are generally led by the International Trade Minister jointly with trade ministers at the provincial level. In particular, Team Canada Missions have proved to be relatively more discontinued; they had become political ‘events’ designed to guarantee exposure and publicity for Prime Minister Chrétien, mainly for domestic political consumption (Mercier, 2007, p. 14). This is why, subsequent Prime Ministers have decided not to continue the practice, which seems to confirm how personality strongly influences the way diplomacy is understood and conducted.

Although separate political actors, Canadian provinces are also able to conduct trade missions on their own, as in the case of the mission of the province of Quebec to India in January 2006 or the mission of the province of Ontario to China in November 2005. Of course, these missions do not have the same scale of those conducted by federal entities, but they have proved very successful in providing smaller and more local companies with the opportunity to establish foreign business connections, while clearly showing the importance of regional representations in commercial diplomatic practices.

From a public point of view, trade missions continue to elicit both praise and criticism. The criticism mainly stems from a common perception of these missions, especially when they target countries with poor human rights records, as to symbolize and enhance Ottawa’s trade-centered foreign policy agenda at the expense of the so-called third pillar of Canada’s foreign policy, namely, the promotion of the values of respect for the rule of law and tolerance (Mercier, 2007, p. 59). On the other hand, these same missions have been fundamental in raising a positive image of the country in highly competitive foreign markets, where Canada managed to build the reputation of a knowledge economy (with the world’s fifth largest aerospace industry, for example), and leave behind the stereotypes of a mere land of trees, water and rich farmlands.

From a general point of view, Canada’s commercial diplomacy is facing the same challenges being experienced by the commercial diplomacies of its main competitors, with just one main difference of degree. Because of a high level of dependence on the international economy and its dynamics, Canada has more to win or lose; it has to deal with the paradox of having an export-dependent economy but without a solid and diverse base of exporters, in which SMEs represent the engine of growth. In this regard, the challenge facing the government through its leading trade agency, the TCI, will be to encourage more national SMEs in penetrating foreign markets and becoming permanent exporters able to enhance the country’s international business development system.

The creation of the TCI itself and the drive to develop a “New Approach” have reflected the strict rejection of the status quo and the degree to which the Canadian business community has started to operate in a global economy. Despite the current calls for greater selectivity in services, better coordination of efforts

and increased accountability, the country's trade-driven arrangement has proven sufficiently capable of managing an extremely complex and constantly changing international economic environment, both at home and abroad.

As Potter has wisely confirmed, "it is this confluence of factors that spells a renaissance for Canada's commercial diplomacy."<sup>26</sup>

### 2.3 The Coordination Model: United Kingdom

The United Kingdom's path towards the consolidation of a modern commercial diplomacy has followed a similar direction to the one observed in the Canadian case. Since coming to power in 1997, the Labour government has addressed most of its efforts to an overall renovation of the national diplomatic system, aiming at the centralization of commercial diplomatic tasks, the extension of diplomats' commercial activities and the formal integration of business interests within the domestic foreign policy framework. As for the Foreign Ministries of most developed countries undergoing functional and structural transformations, the Foreign and Commonwealth Office (FCO) quarters had to deal with the consequences of introducing new practices into a carefully preserved diplomatic environment. Despite the revealing of legitimate professional concerns on the part of diplomats, the Labour government had made no secret of its willingness to develop closer relations with the national business community, having already moved the first steps towards public-private initiatives in a number of policy-areas including education, health and transports. The words of former Minister of State John Battle stating that "business is the Foreign Office's number one priority customer"<sup>27</sup>, are a further proof of the highly optimistic attitude the British government adopted vis-à-vis the institutional restructuring of its diplomacy. In particular, these transformations have brought to the prioritization of export promotion and inward investment activities being managed by a newly-created central governmental body. Differently from the more radical approach adopted by Canadian policymakers in supporting the merger of trade-related units of the DITC within the operational framework of the External Affairs, meaning through the structural unification of existing departments, the UK has opted for the establishment of an *ad hoc* institution, initially known as British Trade International (BTI), in which international trade and foreign affairs representatives joined their forces and coordinated their efforts for commercial diplomatic purposes. In this context, public officials from the FCO, overseas missions and other government departments, first and foremost, the Department of Trade and Industry (DTI), had been given the chance to cooperate in the shaping and implementation of international trade policies without altering the well-consolidated bureaucratic machine.

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<sup>26</sup> Potter, H. E. (2004). *Branding Canada: The Renaissance of Canada's Commercial Diplomacy*. International Studies Perspectives, 5, 55-60, University of Ottawa, p. 60.

<sup>27</sup> Speech to the Confederation British Industry, 15 March, 2000, cited in Lee, D., *The Growing Influence of Business in U.K. Diplomacy*. International Studies Perspectives, February 2004, Vol. 5, No. 1, p. 50.

Launching the BTI in June 1999, then Minister of State Geoff Hoon called for a new strategic direction for the consolidation of a successful business environment whose main pillars were to be high-level professional expertise and export promotion development. In creating an external body operating as an official forum for the representation of private interests, the government intended to make business ideas, knowledge and skills the determining factors for both the practice and purpose of the new commercial diplomacy. The BTI has been able to develop long-term trade strategies and direct performance review of all export promotion activities while assisting smaller and inexperienced companies to take a chance in new and existing markets.

But the enhanced position of business in the UK has also contributed to the transformation of classic diplomatic practices through the introduction of a wide range of new training programs and two-way secondment<sup>28</sup> schemes (Lee, 2004, p.53). Embodying the fusion of public and private identity in diplomacy, British diplomats have started to be trained in business skills and placed temporarily in different business settings. If diplomats were to take a more direct and active role in export promotion efforts, and in so doing become major actors in the global economy, a specialist training was visibly required. Rather than subcontracting out to the private sector such as lobbyists and market research agencies, the UK government has developed schemes by which business subcontracts ‘in’ on short-term secondments in Embassies, High Commissions and Consulates, facilitating what has been defined a *cross-fertilization* of skills between business executives and diplomats. For example, the FCO’s Short Term Business Attachment Scheme used to place business executives in overseas missions for a period of three to six months to provide export support and advice to diplomats in service; in 1999, a Rolls Royce executive was sent on a three-month secondment to Australia to review the engineering, technical and manufacturing capability of firms located on the territory. In the same way, David Scammel, marketing manager of Quantel, was seconded to the British Consulate in Los Angeles for six months, after which he stated: “My presence and ideas helped the Consulate become more conscious of the key business issues. In turn, I came away respectful of what government is doing.”<sup>29</sup>

Within this restructured system, the development of a new FCO-DTI unit at the center of government, the formal inclusion of business representatives and thus business interests in this new body and in overseas missions through placement schemes, and the marriage of long separated public and private spheres of action, have all contributed to the consolidation of a successful commercial diplomacy in the United Kingdom.

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<sup>28</sup> ‘Secondment’ refers to the diffused British management practice of temporarily postings in an entirely new work setting in order to acquire new skills.

<sup>29</sup> FCO, *Annual Report*, 1999, p.18

### 2.3.1 The traditional role of the Foreign and Commonwealth Office (FCO)

The place of Britain within the international system has been in a constant state of flux for most of the twentieth century. As in the case of Canada, the Foreign Commonwealth Office, strategically placed at the very core of the management of Britain's external relations, has been challenged on occasions by other departments, to adapt itself constantly in a way to maintain its historical position. Despite the contradictory pressures of changing demands and diminishing resources, the FCO has been able to 'punch above its weight' in the international arena, resisting 'external' attempts to reform it while demonstrating an effective willingness to make the necessary internal adaptations.

The current structure and role of the FCO reflects this cumulative adjustment to change over a considerable period of time, starting with the greatest transformations affecting the international environment – the collapse of Communism in Europe, the end of the Cold War international system and the dismantling of the Soviet Union and Yugoslavia – as well as a major domestic change – the election of the first Labor government in May 1997, after almost 18 years of unaltered Conservative administrations.

In addition to the general problem of managing the consequences of Britain's perceived decline in the international pecking order, one of the biggest external challenges the Office had to cope with, emerged from the need to adjust both the procedures and nature of British foreign policy to the increasingly important role played by the European Union (EU). As membership in the EU strongly emphasized the blurring of the boundaries between domestic and foreign policy, a considerable amount of new EU-based matters started being internalized by the British governmental machine, mainly through the action of officials from the Home Civil Service working in domestic ministries such as the Department of Trade and Industry (DTI). If all dealings with foreign governments used to be concentrated in the sole hands of the FCO and Britain's Embassies abroad, they soon became a shared competence between domestic ministries and their opposite numbers in the other EU member states and supranational institutions, raising a number of issues of both coordination and supervision that have undermined the FCO's dominant role in the identification and pursuit of British interests overseas. In this regard, a growing Euro-skepticism took over during Mrs. Thatcher's period in office, with the FCO being subjected to continuous criticism by a dominant Prime Minister who became increasingly interested – as most long-serving Prime Ministers used to do – in playing a major role in the management of foreign affairs. Mrs. Thatcher's frustration and dissatisfaction over the EU and, in particular, over the pro-European leanings of the FCO, brought her administration to contemplate, but in fact never to implement practically, the idea of building up Downing Street's foreign policy capabilities as a way to counter the traditional central role of the FCO. As part of this ambitious project, the Prime Minister appointed an ex-FCO official, Charles Powell, as Private Secretary for Overseas Affairs, with the main task of assisting her during her occasional forays against the FCO, and a succession of former Ambassadors entitled with fundamental advisory functions. All these well-designed plans, unfortunately, ended with the

ultimate resignation of Mrs. Thatcher herself, as neither John Major nor Tony Blair have ever shown similar inclination to side-step the Foreign Secretary or the FCO as a whole.

At the same time, the general expansion in the number of actors engaging in the international system posed some serious doubts over the Office's determination to preserve Britain's global power status by retaining a global representation. The emergence of new states following the breaking-up of old federations, has proved more testing and the FCO itself struggled in keeping up with its major European rivals in terms of both diplomatic posts and UK-based staff serving overseas.

Within the traditional FCO structure, serious coordination problems raised with the proliferation of functional and multilateral commands cutting across the Office's typical geographical divisions (Hocking, 2000, p. 213). As an example, for a very long time, relations with individual West European countries and the management of diplomatic posts on their soils were handled by specific geographical departments grouped together in a Western Europe Command. However, as European integration started to kick in, bilateral relations with most EU member states became dominated by EU and NATO issues which, in turn, were handled by the separate EU and International Security Commands respectively. To further complicate matters, more governmental Departments became heavily involved, especially the DTI and the MOD (Ministry of Defense). Across Whitehall the coordination of British foreign policy eluded the exclusive control of the FCO, even more when Home Departments started developing their own international and European sections. Still, the FCO has managed in maintaining its major role as institutional coordinator despite the acknowledgment of being a mere 'interested' department among many others when it came to national interests. The changes in the substance of foreign policy and the gradual fading of boundaries between international and domestic domains have forced the FCO to work much more closely with other governmental units, both within Britain and abroad, and to reorganize itself in front of the demands of multilateral as well as bilateral diplomatic negotiations. Differently from the cohesive and highly integrated approach adopted by the restructured Canadian DFAIT, the FCO has sought to manage the interface with other government departments without 'contaminating' its institutions or leading functions. If on the one hand, the Office has instructed its units in constantly engaging in dynamic dialogues and consultations with those domestic ministries sharing competencies over issue-specific matters and vice-versa, it succeeded in guaranteeing its position, if not of supremacy, then at least of 'primus inter pares' in the overall direction of British foreign policy (Hocking, 0000, p.217). As a matter of fact, considerable efforts have been made on the side of the FCO to adopt an increasingly flexible and dynamic role vis-à-vis the government machine while continuing to argue the case for its separate identity, which has been ultimately endorsed by the 1994 White Paper on the Civil Service which stated that 'The Diplomatic Service is a separate branch of the public service with its own particular needs and structure.'<sup>30</sup>

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<sup>30</sup> *The Civil Service: Continuity and Change*, Command 2627 (London: HMSO, 194).

The growing complexity of the foreign affairs agenda has pushed the FCO in developing more and more functional competencies and seeking to build new domestic constituencies or linkages with non-governmental actors, and in particular, addressing the Labor government's emphasis over closer relations with British businesses. As reported by Hocking (0000) in his section on the United Kingdom, former Minister of State at the FCO, Derek Fatchett, announced, in a speech to the Institute of Export's partnership 2000 Conference, that 'New Labour is determined to bring a more business-like approach to Government and to the Foreign Office'; he continued stating that 'The Foreign Office has got the message. Gone are the days when it might be said to stand aloof from trade promotion. Today trade promotion is our largest single activity accounting for 25 percent of our resources and 34 percent of our staff overseas.'<sup>31</sup>Through the establishment of an *ad hoc* non-ministerial government department, later known as UK Trade and Investment (UKTI), the FCO has joined its efforts with the DTI in the planning and shaping of a new commercial diplomacy framework. Despite some early reluctance from the Foreign Office in involving outsiders in its policy network, it has took advantage from the new opportunities for interchange with non-diplomats and introduced, as we have seen, a series of short term attachments to overseas posts for business people working on target projects and promotion activities, also opening up a number of valuable positions in Commercial Sections in Embassies for private sectors candidates on secondment.

The FCO has always had a core role in the management of Britain's external affairs. As for most developed countries spanning the globalization wave, the United Kingdom had to cope with the increasingly changing nature of international relations: the shifting agenda, the changing basis of power and influence, the growth of interdependence and the emergence of a multilateral framework capable of regulating such interdependence. Faced with the contradictory pressures of new demands and lower resources, the FCO managed in developing efficient strategies to respond to both internal and external transformations. These responses took the shape of 'fine tuning' rather than radical reform, as a way to enable the Office and the Diplomatic Service to retain their central position in the planning and implementation of British foreign policy. This approach has been generally explained by the fact that British influence in the world has continued to decline during the twentieth century (most spectacularly after 1945) although the membership in the European Union has halted that absolute oblivion, by enabling Britain to benefit from its collective power. In this context, Britain has clearly aspired to maintain the foreign policy of a world power, showing how the decline of the country's relative position in the international system could not be matched by a similar decline in the influence and importance of the FCO within the British architecture.

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<sup>31</sup> Hocking, B. (1999). *Foreign Ministries: Change and Adaptation*. P. 221.

### 2.3.2 A Business-led diplomacy: the UKTI Joint Body

The UK economy has been largely static since the breaking out of the financial crisis of 2008 and 2009, with a significantly weak growth rate from 2009 to 2012. In March 2011, the British government released *The Plan for Growth*<sup>32</sup> White Paper, setting out an ambitious strategy to encourage national economic development. Aiming at achieving sustainable and balanced growth, the British government identified export promotion activities as the very core of the national recovery plan. Besides the creation of a more competitive tax system within the G20 and the creation of the most educated and flexible workforce in Europe, the Plan was significantly addressed to the creation of a positive economic environment capable of making the UK one of the best places to start, finance and grow a business. At the same time, it became fundamental for the post-crisis British economy to canalize its resources towards more competitive world markets – securing new business overseas, especially in the high growth and emerging markets of the global south and east – and to attract mobile international investments to bring prosperity and jobs to the country. From that moment, succeeding in international markets became central to the overall rebuilding of the British economy at home, under the main leadership of the UK Trade and Investment unit.

As a result of the functional rethinking of the British Foreign Affairs' coordinative role and the growing importance of commercial interactions worldwide, the UK started to build its own commercial diplomacy within the operational framework of the British Trade International (BTI). This non-ministerial governmental agency, which brought together the FCO and the Department of Trade and Industry, was later renamed UK Trade and Investment (UKTI) in 2003. The body assumed the task of coordinating all the export and investment promotion efforts of the country while centralizing the new commercial diplomatic practices within the government organization. Differently from the Canadian and US cases, both export promotion and inward investments are included in the UKTI mandate, as the British business community considers inward investment significantly important for enhanced competition and better technology acquisitions. As the UK has proved to be the country that applies the least restrictions on FDIs among the OECD group, the need for a large, complex department responsible for the screening and managing of inward investment became visibly inconsistent, and might explain why both investment and export activities could realistically be dealt with by only one governmental agency (Mercier, 2007, p.17). Of course, despite its undeniable centrality and accountability, the UKTI used to operate within a complex network of agencies dealing with commercial diplomacy; it worked in partnership with 'the nine English Regional Development Agencies (RDA), the devolved administrations of Northern Ireland, Scotland and Wales, other government departments, as well as other national bodies including VisitBritain and the British Council.'<sup>33</sup> With a well-consolidate basis of specialist advisers throughout the UK and in British Embassies and other diplomatic posts across the globe, the agency has been able to build the capacity of national exporters, both new and

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<sup>32</sup> HM Treasury and Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.

<sup>33</sup> UK Trade and Investment, *Prosperity in a Changing World*, London: UK Trade & Investment, 2006b, p.12.

experienced, by offering strategic, impartial advices and researches, political support in overseas markets, introductions to key contacts and assistance with promotional activities.

In this context, the renewed focus of the FCO on commercial diplomacy has become an important enabler in placing prosperity and growth among the priorities of national foreign policy. The overall commercial effort provided by the FCO had first found its consecration in the 2011 *Charter for Business* – a set of long-term commitments, based on feedback from the business community, that the Office was willing to deliver.

In this context, the UK's overseas diplomatic network has always constituted the heart of the overall governmental effort. Among the high-level priorities for the FCO, the Charter outlined: supporting UK commercial and economic interests through multilateral and bilateral relationships, lobbying by ministries and officials, briefing businesses, influencing international economic policy, trade and investment policy, putting UK businesses in touch with the right people and equipping its staff with the necessary skills to support UK business and investment.<sup>34</sup> This strategy was soon complemented by the UKTI's intervention in the management of British commercial diplomacy. Releasing its official trade-centered guide, *Britain open for business* (2011), the agency paved the way for a an even more coordinated plan of action at the governmental level, aligning its resources with the FCO and the diplomatic posts abroad. While maintaining their full commitment to the general principles defined under the Charter for Business, overseas posts started to develop different approaches on how to increase exports, championing and enhancing the resilience of the UK economy. For example, in 2012 the Embassy in Manila worked very closely with British drinks manufacturers to help end discrimination against the importation of spirits into the Philippines, making UK spirit more competitive vis-à-vis local brands. In the same way, the FCO funding has helped more than 30 UK firms providing a total of £120 million in sports contracts in Brazil as it prepared to host the Football World Cup and the 2016 Olympic and Paralympic Games.

Both the UKTI and the FCO have always tried to work together in a systematic manner, both centrally and at posts. With the establishment of joint boards (also attended by the DTI), the cooperative nature of the FCO-UKTI arrangement and the overall contribution to growth on the side of both units became particularly visible. But although the FCO and the UKTI have been trying to harmonize their efforts by working together, they have ended up adopting different criteria for prioritizing target countries, which reflected their different objectives. If on the one side, the UKTI used to focus exclusively on economic conditions, the Office's decision-making, on the other, was informed by economic considerations in addition to a wider set of issues, such as political analysis and security priorities.

Another fundamental aspect of the FCO-UKTI's commercial diplomacy infrastructure is the inclusion of established business-led bodies, in particular, British Chambers of Commerce operating

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<sup>34</sup> *Supporting UK exporters overseas*. Report by the Comptroller and Auditor General, National Audit Office. Foreign & Commonwealth Office and UK Trade and Investment. Session 2013-2014, October 2013, p. 22.

overseas. In 2014, under the ambitious initiative of Prime Minister David Cameron, the “Overseas Business Networks Initiative” was introduced; an international campaign to boost UK exports by creating solid links with Chambers of Commerce overseas and harnessing their local expertise and practical contribution to support British companies in their internationalizing efforts. The initiative became part of the government’s aim to transform the national economy by doubling annual exports to £1 trillion by 2020 and increasing the number of UK exporters by 100,000. Business centers at the British Chambers worldwide, working closely with the International Chamber and the UKTI, helped identifying opportunities in their locations for UK businesses, providing practical support when approaching high-growth and hard-to-enter markets, including Malaysia, Thailand, Brazil, Indonesia and India. Because of distance and unfamiliarity, high-growth and emerging economies have been posing significant challenges to UK businesses of all sizes. Because of diversity of culture, coupled with issues over intellectual property and local business practices, British exporters might experience lack of confidence and reluctance to explore opportunities beyond developed markets. In this regard, the UKTI inaugurated a bolder and more ambitious approach towards newly profitable economies, offering strategic advises and detailed reports. In particular, one of the most important ways in which the agency has managed to help UK businesses breaking into new markets is through the ‘Overseas Market Introduction Service (OMIS). The OMIS constituted a flexible package of support offered to both first time and experienced exporters; overseas staff provided local language skills, detailed market profiles and extensive political and commercial contacts for British SMEs looking for opportunities. Positioning itself within the best practices of commercial diplomacy, the OMIS, in addition to the broader support of the overseas network, extended its service to UK companies seeking opportunities for outward investments or looking to develop overseas partnerships in order to better realize their potential.

Shortly after Theresa May took office as Prime Minister on July 13<sup>th</sup> 2016, following the United Kingdom’s vote to leave the European Union, foreign trade matters shifted under the jurisdiction of the newly established Department for International Trade (DIT). Taking on the responsibilities of the UKTI, the DTI assumed the main tasks of developing, coordinating and delivering a new trade policy for the UK, including preparing for and then negotiating free trade agreements and market access deals with non-EU countries. After the official exit from the Union, the UK has had to revise its main international strategies, its role as an autonomous actor in the global scenario and its position within the new trade dynamics with former EU co-members. Besides the ongoing negotiations over the role the UK would assume vis-à-vis the Single Market, swinging between a full market access following the Norway’s model and a standard free trade agreement following the Canadian one, the British internal structures have been going through some levels of reorganization as well, reflecting the changes of the post-Brexit economy. Very recently, on 16 June 2020, Prime Minister Boris Johnson announced plans to merge the Department for International Development (DFID) with the Foreign Office, creating what himself defined a “super-department” potentially responsible for around 80 percent of total UK aid spending. In a time when the UK is seeking to

forge a place on the international stage independent from the EU, a reform of its development cooperation programs has seemed to be the first step towards a more integrated national diplomacy. The British Prime Minister has explicitly stated the need for aid to be spent in the national interest and the inevitable reorientation of aid spending towards the priorities of the FCO rather than those of the DFID, while still keeping faith to the overall objective of poverty reduction and promotion of economic and welfare development. Despite several critiques emerged within the Parliament ranks and some attempts in maintaining the two departments separate, the planned joint body – to be known as the Foreign, Commonwealth and Development Office (FCDO) – will be officially set up in September 2020 and led by the current Foreign Secretary, Dominic Raab, with decisions on aid spending overseen by the National Security Council.

Just a day after Prime Minister Johnson announced the above-mentioned merger, Senior Whitehall officials informed the Financial Times of the future inclusion of the Department of International Trade in further changes to the governmental structure in the coming years. Currently, the DIT is working on key post-Brexit deals, addressing the ongoing trade negotiations with UE, US, Australia, New Zealand and Japan. But although the DIT will remain a standalone department as deals are being finalized, there is a general expectation for its eventual folding into the newly expanded FCDO, with some elements transferred to the Department for Business.<sup>35</sup> Government insiders have revealed the prior intention of the enlarged FCDO to coordinate more closely with the trade department before the formalization of the expected merger; a stronger voice from development and diplomacy would be added to national trade policy, inaugurating a “unified approach” between all parts of government that do work internationally. As no official declarations have been made on the side of Downing Street, both the diplomatic network and trade specialists will have to wait before being able to engage in such a significant transformation and follow the steps of their Canadian counterparts in the building up of a highly integrated and centralized commercial diplomacy framework.

## 2.4 The Agency Model: United States

Due to its great economic size and weight in the global economy, commercial diplomacy has always been essential to United States’ interests, as proved by the existence of an *ad hoc* “Bill of Rights for U.S. Business” promulgated in 1989. However, differently from the previously observed cases, the interaction between foreign policy and trade matters has traditionally been quite difficult to assess and reconcile within the American scenario. Although security and prosperity have been always considered as the two greatest goals of American foreign policy since early times, security matters are still believed to detain a preferential role in the American external agenda vis-à-vis commercial interests (Mercier, 2007, p.20-21).

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<sup>35</sup> Payne, S., Parker, G., Hughes, L. *UK’s Department for International Trade Tipped to Merge with FCO*. Financial Times Online, London, June 17, 2020. Accessed on 11 August 2020 from <https://www.ft.com/content/2f20420c-0666-4c20-aea2-d45f43ddca9d>

Bearing this in mind, it will be easier to analyze and understand the particularly dynamic structures of US commercial diplomacy, the interplay between multiple different actors and the leading role of the country in the settlement of the new international trade environment.

At the nexus of foreign and domestic policy, American trade strategies have traditionally comprised a distinct set of issues that shaped US participation in the global economy and its relations with international trading partners, while consistently affecting specific sectors, firms, workers and the overall standard of living of Americans. Historically, American trade policy has focused on supporting economic growth and jobs creation through a more open and rule-based trade, negotiating and enforcing reciprocal trade agreements and offering relief to specific segments of the US economy undermined by import competition and unfair foreign trade practices.

Cross-cutting in nature, US commercial diplomacy has many ‘voices’ and has proved quite controversial in several occasions. The Constitution gives the Congress primacy over trade policy, specifically the power to levy tariffs and regulate foreign commerce. By contrast, the President is lacking any particular authority over trade matters, while detaining power over the management of foreign affairs; the role of the executive branch in trade only stems from the President’s entitlement to negotiate international treaties and legislative grants of authority to adjust tariff rates and implement trade programs. In this institutional context, the primary holder of commercial diplomacy functions is a thick network of 19 governmental agencies operating under various statutory and administrative authorities. Despite a more pronounced role played by the Department of Commerce in managing national trade-matters, the leading agency varies depending on the type of transactions; the Department of Agriculture is meant to deal with agricultural products issues, while the Department of Defense and State Department will control transactions involving weapons and military technologies. To avoid coordination and friction problems deriving from a highly decentralized model, the Office of the US Trade Representative (USTR) plays a fundamental role in obtaining input from both public and private stakeholders and balancing diverse interests to reach a unified US government voice on trade matters.

After the dramatic economic downturn of the mid-1970s, the international community with the US first in line, experienced the chronic fallouts of trade and fiscal deficits and the shock of OPEC-led oil price increases. To allay fears of the US losing its historic economic edge, in 1979 the Carter administration presented the Congress with a detailed plan to reorganize federal international trade programs. As a result of the reorganization, all responsibilities and main tasks related to commercial diplomacy were transferred out of the State and Treasury Departments, with the official designation of the Commerce Department as the central agency responsible for providing trade representation at Embassies in the most strategic markets overseas. In addition, the plan brought the State Department to lose all its trade negotiation responsibilities to the Special Trade Representative in the President’s Executive Office, which was eventually transformed into the current Office of the US Trade Representative. It was only after the introduction of the U.S. &

Foreign Commercial Service<sup>36</sup> in 1982, as the trade promotion arm of the Commerce Department, that the overall restructuring process was considered completed. During the 1980s, federal programs started to focus on comprehensive strategies to gain access to foreign markets and more detailed advocacy guidelines were released to all American Ambassadors providing high-level support to US businesses. Under the leadership of President Clinton and his entire Cabinet, a further push was addressed to the inclusion of US companies in giant projects in Asia and Latin America, giving proof of the tight interconnection of American foreign policy with its once subordinated commercial goals. However, with the Asian financial crisis, problems of nuclear diplomacy and geopolitical shift in China and Russia, all kicking in right at the end of the Clinton administration's second term, American commercial diplomacy interests began to fade away, losing their irresistible charm and giving traditional foreign policy the chance to reassert itself. According to former US diplomat and Department of Commerce official, Charles A. Ford<sup>37</sup>, the main reason for the lack of a comprehensive attitude towards commercial diplomacy that fully explained its foreign policy role was the failure of the 1979-1980 organizational reform to create a centralized and unified leadership in the area. What the reforms actually created was, in fact, 'a dynamic that produced an increasingly balkanized program mix spread out among the 19 federal agencies charged with trade promotion activities.'<sup>38</sup> Thus, despite the establishment of an interagency mechanism, the Trade Promotion Coordinating Committee (TPCC) chaired by the Secretary of Commerce, to coordinate agencies' efforts, no strategic vision or overarching approach has ever been guaranteed. In this regard, reorganization proposals should have been advanced to produce both a strong central mission statement and a mechanism to deliver effective implementation in a highly fragmented operational environment.

#### 2.4.1 A fragmented model: *All-Agencies* approach to Commercial Diplomacy

More than a dozen federal agencies, commissions and international courts have jurisdiction over some aspect of American international trade. Many of these agencies work closely with the USTR while others operate in separate arenas, for example, the agencies that provide 'how to' advices and financial support to US exporters. Several government agencies are dedicated to the collection of detailed trade-related data used by both the private and public sector; others deal with enforcement of international trade laws and the distribution of US aid to developing countries. Generally, the operational framework of American agency-led commercial diplomacy can be properly structured on macro and micro levels. The macro level involves the negotiation of principles and rules that guide trade-related investments and partnerships without references to specific companies, deals or projects. Lead agencies that work on the macro component are the USTR, the Agriculture and Treasury Departments, the US Agency for International Development (USAID) and the State Department's economic officers, whose role will be better

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<sup>36</sup> Today known as United States Commercial Service.

<sup>37</sup> Ford, C. (2005). *Commercial Diplomacy: The Next Wave*. Foreign Service Journal, p. 24-25.

<sup>38</sup> *Ibidem*.

analyzed in the next section. At this level, the US Trade Representative constitutes the very core of American foreign trade policy administration, operating as the President's principal trade advisor, the chief US trade negotiator and most importantly, the head of the interagency trade policy coordinating process. As a Cabinet-level official in the Executive Office, the USTR is historically a "creature of the Congress"; through the establishment of the unit, the Congress sought an "honest broker" to balance competing interests between national domestic and foreign policy, among the wide range of commerce-related agencies and the many domestic stakeholders. Right beside the USTR Office work the US Treasury Department, leading negotiations on currency provisions and financial services, and the US Agriculture Department, focused on the promotion and regulation of agricultural trade, weighing in on agriculture issues in US trade negotiations. Finally, the USAID, charged with distributing American aid throughout the world, works in supporting developing and least developed countries towards a facilitated access to trade by promoting investment and building brand new trade infrastructures.

The micro, or transactional, component of the program, on the other hand, provides for the appropriate governmental support to American business' interests in the context of sales and contracts and for the enforcement and compliance of specific trade deals and company projects. Here the Commerce Department and the main finance-specific agencies, among which the Export-Import Bank, the Overseas Private Investment Corporation, the Trade and Development Agency and the Small Business Administration, play a more significant role. The Commerce Department presents the most complex internal organization as it gathers within its main structure a large staff and several offices completely devoted to trade matters. Among its numerous sub-units, the International Trade Administration (ITA) contributes the most in assisting the US business community, particularly through market research, companies connections, antidumping measures and so and so forth. Similarly, the US Commercial Service, directly annexed to the ITA, has proved fundamental in its task of promoting US exports abroad; acting much like a Chamber of Commerce, this service is considered a landmark for national SMEs seeking for preferential market access and government-sponsored economic protection. Considering the increasingly relevant role the Commerce Department has been playing in the bigger picture of American foreign policy, the Bureau of Industry and Security, ultimately, has proved crucial in regulating the export of sensitive goods and technologies and investigating whether suspicious imports might harm or threaten to harm national security.

The financial section of the US commercial diplomacy framework, on the other side, revolves around well-established banking agencies regulating and monitoring the delicate transactional phases of international trade. The Export-Import Bank, on top of the list, is the independent federal agency that enhances businesses' competitiveness in the global marketplace while providing them with the optimal financial guarantees (it guarantees the repayment of loans, it makes loans to foreign purchasers of US goods and services, and provides credit insurance against non-payment by foreign buyers in case of political or commercial risks). The Bank's aim is to promote national products and services at no cost to US taxpayers, protecting 'made in the USA' goods against foreign competition and encouraging the creation of American

jobs. Another form of financial assistance is currently offered by the Overseas Private Investment Corporation (OPIC) to US businesses willing to invest in new and emerging markets. It boosts private investments flows through project financing and political risk insurances of up to \$400 million and the unlimited support of non-governmental organizations and multilateral institutions. In the same vein, the US Trade and Development Agency and the Small Business Administration provide development assistance to small enterprises engaging in internationalization processes. They address their resources to various forms of technical support, feasibility studies, training sessions, orientation visits and business workshops that guarantee the development of a modern infrastructure and a fair and open trading environment.

Stemming from this extremely fragmented scenario, the American trade debate has ended up raising a number of particularly thorny issues, including: how much authority should the Congress grant to the Executive Office over trade policy; if the current functions and roles embraced by the agency-system are able to advance US trade policy in a well-coordinated way and if the current architecture reflects and balances the multitude of views in trade matters into one US 'voice'. In the attempt to overcome this apparent deadlock of American commercial diplomacy, Charles Ford provides a two-choices scenario unfolding in front of the national political administration. On the one side, he envisages a continuation of the status quo, with the belief that commercial diplomacy is meant to remain a secondary program in the overall foreign policy mix, 'best left to operate in its current fragmented state.'<sup>39</sup> In this case, maintaining the status quo would translate into the conceptual degradation of commercial diplomacy to the narrow export promotion mission with a severely diminished and increasingly inconsistent program. However, another way forward can be projected; adopting an approach that would step back and consider the actual merits of a commercial diplomacy platform defined in terms of national self-interest, national stakes in a liberalized global economy and a market-based strategy for global development. Practically, a stronger leadership from the White House and the Congress would be required to achieve these objectives. The White House would carry out the responsibility for the formulation of a strategic plan and the corresponding proposal for the reprioritization and reallocation of resources, while the Congress would use its structure to monitor and filter into a unified program the tasks delivered by the existing trade agencies. Taking a further step, Ford idealizes the creation of a joint executive office staffed by both the Commerce and State Departments, in the overall attempt to develop the commercial diplomacy initiative and better direct its implementation. This plan, slightly recalling the British approach built on the UKTI joint body, would positively serve the objective of eliminating 'bureaucratic stovepipes' and promoting the sharing of information across loosely coordinated federal agencies.

In the past, a decentralized approach to advocacy of the US brand was mostly accepted and considered adequate given the overall competitive position of the country and the awareness on the side of

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<sup>39</sup> Ford, C. (2005). *Commercial Diplomacy: The Next Wave*. Foreign Service Journal, p. 28.

the world's consumers of the prestige and high quality of US products, services, education and touristic destinations. The situation started to change following the chronic lower growth rates around the globe, the improved quality and brand recognition of international competitors, and the breakdown of the consensus over the accepted 'rules of the game'. The rigidity of an entirely public structure of commercial diplomacy, in particular, contributed to the inability of American policymakers to quickly adapt their approach to the changes of the international economic environment. In this regard, the more recent introduction of private-public partnerships (PPPs) on the side of federal agencies willing to collaborate with private partners, has granted the commercial diplomacy machine a higher degree of flexibility and a better opportunity to leverage resources and advance goals of mutual interests. Both governmental agencies and diplomatic posts overseas have shown their commitment in the formulation of a more robust national engagement on export and investment promotion. For agricultural exports, the US Department of Agriculture has been a leader in utilizing PPPs to leverage public and private resources to secure market share in the global marketplace. With the solid collaboration of the US Agricultural Export Development Council, a nonprofit private sector trade association, the Department has been given the chance to enhance its export promotion efforts following the professional advices of farmer cooperatives and state regional groups from all over the country. Similarly, the US Trade and Development Agency, working closely with the Chinese Embassy, inaugurated the USTDA China Aviation Cooperation Program, aiming at the formulation of more inclusive and innovative solutions to regulations, standard-settings and safety rules in the aviation and aerospace sector in both countries. Engaging with this successful partnership, the USTDA has been able to provide a platform for aviation officials addressing safety and security priorities in high-growth markets, while also supporting the expansion of airport infrastructures and the emergence of general and business aviation programs in these markets. It has become fundamental for both ambassadors and country teams overseas, on the front line of commercial opportunities and challenges, to engage continuously, and with verve, with the US private sector and US state agencies, while taking advantage from the support, tools and backup of the top leadership of the American government. In this context, a more fluid and well-coordinated approach to commercial diplomacy stakes, has proved significantly successful in helping the American business community drawing the best growth opportunities out of its increasingly balkanized environment.

#### 2.4.2 The role of US State Department on Business Promotion

Traditionally, the US State Department, responsible for carrying out American foreign policy and international relations, held among its official duties the authority for the negotiation of all trade agreements signed with international partners. In 1962, however, the creation of the Office of the United States Trade Representative gave proof of the Congress's willingness to separate the commercial interests from the national foreign policy goals. Although the State Department still retains a role in trade policy and promotion activities to the present day, primarily through its well-established Bureau of Economic and

Business Affairs, which promotes US business interests overseas, significant tensions exist between the traditional security-centered world of external affairs and the modern commercial boosterism, experienced in favor of American economic prosperity since the end of the second World War.

Since the immediate aftermath of WWII, the US government entered into trade negotiations based upon the belief that open markets were more likely to foster democracy, which in turn would have better supported and guaranteed the maintenance of world peace. This grand credo – that increased trade directly enhances the prospects for peace – has contributed to the definition of American trade policy as a fundamental bedrock for foreign policy agendas. From an international perspective, no other country’s leaders ordinarily championed with greater conviction the idea that collective well-being and security would be enhanced by lowering barriers to commerce and investment among nations. In the case of the United States, the undisputed leadership over economic relations worldwide and the role played in the establishment and consolidation of a stable multilateral trade environment, have been both addressed to the overarching policy objective of granting the country national welfare, political stability and overall protection from external threats. As a matter of fact, American commercial interests have always been considered as dependently functional to the enhancement of the country’s international status and overall political dominance. This mostly explains the unwillingness of the American governmental machine to engage in the construction of more radically integrated commercial diplomacy structures - as in the case of Canada and UK - and the preference for a well-defined separation of competencies between trade and foreign affairs. As we have previously seen, the US government has addressed most of its resources and efforts to the consolidation of a multipolar operational framework where commercial stakes are handled and managed by a wide variety of expertise-based federal (and private) units, with the Department of Commerce taking the lead; the International Trade Reorganization Plan No.3 of 1979, the Foreign Service Act of 1980 and the 1988 Trade and Competitiveness Act, all emphasized the importance of trade promotion and designated the Commerce Department (CD) and its annexed Foreign Commercial Service as the dominant federal trade promotion entities. In this context, the State Department found itself relatively marginalized in the formulation and implementation of trade-related programs. The main contribution the Department managed to provide in the commercial diplomacy environment came from the growing collaboration with the CD and the network of trade-promotion agencies in the standardization, formalization and strengthened support to US business outreach abroad. Such commitment had been ultimately institutionalized through the Department’s Bureau of Economic and Business Affairs (EB), established with the public mission of promoting economic security and prosperity at home and overseas. Under the transformational impetus of Secretaries Clinton and Kerry, the 2010 Quadrennial Diplomacy and Development Review required the State Department to “elevate economic diplomacy as an essential element of US foreign policy.”<sup>40</sup>In this

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<sup>40</sup> *Inspection of the Bureau of Economic and Business Affairs*. United States Department of State and the Broadcasting Board of Governors, Office of Inspector General. February 2014. Accessed from <https://web.archive.org/web/20180601025713/https://oig.state.gov/system/files/222651.pdf>

regard, the EB Secretary was instructed to “provide sustained and focused engagement both across the interagency and globally on critical issues in which economics and diplomacy intersect.”<sup>41</sup> Reflecting the highly complex nature of the existing governmental structures in the US, the EB is currently relying on a layered organizational arrangement made of seven sector-specific areas, among which the Commercial & Business Affairs (CBA) best serves the commercial diplomacy initiative. The CBA Office can be legitimately defined as the office that better embodies the main purposes of business empowerment abroad. With a great support drawn from US Embassies around the world, the office ensures US private sector concerns are integrated into the national foreign and economic policy, promoting a vibrant ecosystem for entrepreneurship and innovation. It coordinates State Department advocacy on behalf of the American business community, providing companies with assistance in opening markets, leveling the playing field, protecting intellectual property rights and resolving trade and investment disputes.

Under the umbrella of an *all-agencies* approach, the State Department and its Bureau have made a commendable and concerted effort in becoming an essential component in the overall process of internationalization of the domestic economy. Despite a more limited room of maneuver on the side of the State Department’s foreign trade competence – especially if compared to the more inclusive and integrated approach adopted by Foreign Ministries in Canada and United Kingdom – the US has proved to be an interesting example of the economic-diplomatic synergy experienced by developed countries since the end of the previous century. Despite the highly fragmented structure of its diplomatic services and the challenges emerging from the inability to formulate a more unified trade-related voice, the US has fairly embraced the transformations brought about by the globalization wave on how to shape and manage international commercial transactions.

Independently from the structural approach adopted to pursue foreign trade programs, the value added of commercial diplomacy has been widely acknowledged and praised by international governments and has thus become the leading axis in the pursuit of their national foreign objectives. Developed and developing countries alike, have been mobilizing their diplomatic systems in ways that reflect the growing importance of commerce for their national economies; each international actor is now provided with the necessary tools for the implementation of a functional commercial diplomacy that best embodies its political, historical and economic background. At this stage, it is difficult to foresee how commercial diplomacy will evolve in the future; for policy-makers there is not clear answer to the question of which structures and approaches are best. What is certain is that commercial diplomacy is very unlikely to disappear. No country can currently afford not to engage in the practice, as proved by the fact that all the three countries observed here seem broadly content and satisfied by the structures and processes they have consciously put in place.

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<sup>41</sup> Ibidem.

## Chapter III - The Italian case: Farnesina's *Made in Italy*

### 3.1 Cooperative internationalization: MISE, MAECI and ICE Agency

After the detailed analysis conducted on the way three highly developed countries have adapted themselves to the changing economic environment, this chapter will deal with the current transformational momentum experienced by Italian governmental institutions, recently engaged into the construction of a brand new commercial diplomacy framework. Bearing in mind the dynamics and processes that have brought to the empowerment of Foreign Affairs Ministries worldwide, and particularly in the Canadian case, whose example has been of primary importance for the ongoing structural transformations, Italy is now experimenting the effects of a new approach to international trade and business enhancement. Moving from a relatively marginal role in the bigger picture of foreign trade policy-making, traditionally under the directives of the Ministry of Economic Development (Ministero dello Sviluppo Economico, 'MISE' hereafter), the Italian External Affairs office, the Ministry of Foreign Affairs and International Cooperation (Ministero degli Affari Esteri e della Cooperazione Internazionale, 'MAECI' hereafter), has been granted a more authoritative status in shaping the global economic position of the country and in providing its diplomatic network with greater responsibilities for the support to national businesses abroad. From this point of view, the 2019 reform on the reorganization of governmental trade-related competencies has greatly contributed to the reassessment of the role economic affairs have long played in the international projections of the country vis-à-vis traditional high politics. Through the reallocation of foreign trade and business promotion tasks within the jurisdiction of the MAECI, Italy is finally rivaling its international partners in the shaping of a modern commercial diplomacy, where a solid political and economic synergy is being boosted both practically and conceptually. Following this pattern, Italian diplomats have positively engaged into the modernization process of their network, becoming widely active in their overseas posts as managers of the greatest corporation, the 'Country-System'.

The emergence of a proper Italian economic diplomacy - understood as the set of activities addressed to the support for national enterprises approaching foreign markets and attracting foreign investments – has only become visible in the last decade, in the form of strong economic revival vis-à-vis the 2008 financial crisis. From 2008 to 2018, Italian exports have produced a significant countercyclical effect, accounting for almost the 17% of total growth, and turning into outstanding drivers of development, innovation and employment<sup>42</sup>. In an open, traditionally manufacturing and market-oriented economy, as in the case of Italy, the contribution that the export of goods and services usually provides to the national GDP is quite remarkable; in 2018 it constituted the 32% of total GDP while registering, in the first nine months of 2019,

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<sup>42</sup> Data from *Dove Va l'Economia Italiana e gli Scenari Geoeconomici*. Primavera 2019. Centro Studi CONFINDUSTRIA. Online Dossier Available from [https://www.confindustria.it/wcm/connect/fb856111-5b81-4ae0-a726-700e0e412a86/Scenari+geoeconomici\\_27marzo2019\\_.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-fb856111-5b81-4ae0-a726-700e0e412a86-mDavokq](https://www.confindustria.it/wcm/connect/fb856111-5b81-4ae0-a726-700e0e412a86/Scenari+geoeconomici_27marzo2019_.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-fb856111-5b81-4ae0-a726-700e0e412a86-mDavokq)

an overall increase of 2.5%, reaching almost €352 billion<sup>43</sup>. What also contributed to the enhancement of a modern commercial diplomacy arrangement, is the role SMEs have traditionally played within the productive pattern of the country. Among European nations, Italy has registered the highest number of SMEs - 4.4 million representing almost the 99.4% of the total national system of production - currently operating. They also constitute the 99.5% of national enterprises exporting abroad and making the 66.8% of the total amount of sales outside national borders<sup>44</sup>. Italian SMEs have managed to adapt themselves to the changing international economic environment, adopting more quality-based and innovative strategies of production against the mere pursuit of increased price competitiveness. Still, despite a positive first reaction to the new challenges of globalization and the spread of a positive image of Italian entrepreneurship worldwide, companies have been lacking more practical tools and strategic connections to better tackle international economies. In this regard, the role played by Embassies and Consulates in lobbying with local authorities, granting the participation of national businesses to international tenders, facilitating market access through tariff reductions and resolving trade-related disputes, has been of immeasurable value in the promotion of the Made in Italy excellence all over the global marketplace.

Before the actual formulation of the MAECI-MISE reform, the promotion of national interests within the international economic environment was mainly concentrated in the hands of the MISE, co-operating, in turn, with a variety of actors more or less entitled to facilitate the internationalization process of the Italian business community. Working through a well-defined partnership policy, the Ministry managed to guarantee an organic and synergic approach to foreign trade, while determining the general guidelines for the implementation of a significantly sector-based agenda for commercial diplomacy. Among the different public and private entities operating under the guidance of the MISE, the ICE Agency and the MAECI have been playing an essential role towards the evolution of the national trade policy-making. The cooperative action of these three institutions – in concert with a solid network of financial bodies - has helped the governmental machine in addressing both its efforts and resources towards the empowerment of the Country-System, achieving those fundamental steps in the realm of international trade that have ultimately brought to the current competencies reorganization. In this regard, the recent reform is nothing but the ultimate seal of an evolutionary path meant to redefine the traditional mission of Italian diplomacy.

The very cooperative nature of the pre-reform arrangement is particularly visible in the so-called *Cabina di Regia per l'Italia Internazionale*, the interdepartmental forum established in 2011, with the main purpose of defining, in concert with the main exponents of the national industry, the key lines of action and planning of resources needed for the internationalization of the Italian system of production. Co-chaired by

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<sup>43</sup> Ibidem.

<sup>44</sup> Data from *Politiche e Strumenti per l'Internazionalizzazione delle Imprese*. Direzione Generale per le Politiche di Internazionalizzazione e la Promozione degli Scambi, Dipartimento per l'Impresa e l'Internazionalizzazione, Ministero dello Sviluppo Economico. Online Dossier Available from <https://www.mise.gov.it/images/stories/documenti/pubblicazione-mincomes-fondi.pdf>

both MISE and MAECI, the institution sees the active involvement of the Ministries for tourism, economy and finance, agriculture, national banking associations and representative regional bodies<sup>45</sup>. During the meetings, gathered on an annual basis, the main strategic choices are made in the attempt to mobilize the untapped potential of most sensitive domestic enterprises. In particular, great effort is addressed to the identification of the target markets and the policy areas where to operate according to the *Piano Straordinario per il Made in Italy*<sup>46</sup>. Under the exclusive jurisdiction of the MISE and implemented directly by the ICE Agency – the national institute specialized in foreign trade - the Piano Straordinario constitutes one of the most important strategies aimed at supporting and enhancing the Country-System, understood as the economic and cultural synthesis of the nation. Falling within the set of projects financed through the Made in Italy funds, the plan praises the creativity, the design, the competencies and the specialization degree of Italian enterprises, while promoting the national brand in its most complex historic, artistic and traditional dimension. In this regard, the main feature of the projects implemented through promotional funds is their ‘integrated’ and multi-sectorial bias, particularly evocative of the Made in Italy as pure lifestyle, transcending mere material production. In the 2019 plan, the MISE allocated €140 million portioned into 9 macro-sectors<sup>47</sup>: SMEs training, improvement of trade fairs, valorization of products of excellence, support to the penetration of Italian products abroad through *ad hoc* distributional agreements, strategic communication, e-commerce, promotional activities to retain foreign demand, organizational consolidation for start-ups and overall attraction of FDIs. Altogether, the plan successfully allocated €660 million worth resources between 2015 and 2019<sup>48</sup>.

Another remarkable measure adopted during the building process of the Italian commercial diplomacy, is the *Piano di Promozione Integrata “Vivere all’Italiana”*. The plan, launched during the 2016 Conference of Italian Cultural Institutes and elaborated within the MAECI structure<sup>49</sup>, plunged its roots into the acknowledgement of the value added of Italian culture – seen as an increasingly efficient tool of soft power – to the national export promotion activity. The initiative has given a significant contribution in strengthening the tie between culture and commerce, redefining their virtuous synergy based on design, research, cinema, food, art and language. It has also proved the willingness and ability of the Foreign Affairs Office to take the lead in shaping an institutional strategy for the internationalization of the Italian brand

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<sup>45</sup> Under Article 14, paragraph 18-bis of the Decree-Law No. 98/2011 and further amendments, official participants of the Cabina di Regia are: Ministero degli Affari Esteri e della Cooperazione Internazionale, Ministero per lo Sviluppo Estero (co-chairs), Ministero dell’Economia e delle Finanze, Ministero delle Politiche Agricole Alimentari e Forestali, Conferenza delle Regioni e Province Autonome, Unioncamere, Alleanza Cooperativa Italiana, Associazione Bancaria Italiana, Confindustria e Rete Imprese Italia.

<sup>46</sup> To discern from the Piano Promozionale Ordinario which provides short-term returns and cost-sharing on the side of the companies. The Piano Straordinario, in turn, develops medium to long-term results and it is completely sustained by public financing (the MISE).

<sup>47</sup> Data from *Cabina di Regia per l’internazionalizzazione, VIII Riunione* – Ministero degli Affari Esteri e della Cooperazione Internazionale, 20 Dicembre 2019. Online Document Available from

[https://www.esteri.it/mae/resource/doc/2020/04/finale\\_doc\\_conclusivo\\_cabina\\_regia\\_201219.pdf](https://www.esteri.it/mae/resource/doc/2020/04/finale_doc_conclusivo_cabina_regia_201219.pdf)

<sup>48</sup> Ibidem.

<sup>49</sup> In collaboration with the Ministero per i Beni e Attività Culturali, Ministero dell’Istruzione, dell’Università e della Ricerca, RAI, Società Dante Alighieri and other partners for cultural diplomacy.

outside the existing jurisdiction of the MISE. Among its most successful events, are worth recalling the “Settimana della Cucina Italiana nel Mondo”, the “Italian Design Day” and the “Fare Cinema” exhibition. On the side of the MAECI, however, a limited function in fostering national economic diplomacy was already being delivered by a strong and well-consolidated diplomatic network, with over 300 Embassies, General Consulates and Cultural Institutes. The consistent contribution of diplomatic posts overseas to the national GDP growth rate in the last years has proved the great economic value of the business support measures sponsored by Farnesina. In 2015, the overall activity of Italian enterprises, directly or indirectly supported by MAECI, generated over €16 billion worth value added (equal to the 1.1% of national GDP), €6.7 billion worth tax revenue and around 234.000 new jobs<sup>50</sup>.

Last but not least, the introduction of the Italian hub for export and internationalization, the so-called *Polo Unico CDP*, created in 2016 through the integration of the two main finance-insurance societies operating nationally, SACE and SIMEST (both belonging to the Gruppo CDP<sup>51</sup>). The merger of the two societies, which already used to cooperate very closely, was meant to pool their respective competencies in a way to provide national businesses with a ‘one-door’ support system to refer to in each stage of the internationalization process: from the provision of credit insurance, protection of foreign investments, factoring services, tenders security, to the supply of export credits and subsidized loans.

It is in coronation of this highly dynamic architecture that the recent governmental reform places itself. The formalization of Farnesina and its diplomats as the only institutional referent for the business internationalization of the country, emerged on top of an existing economic diplomacy structure that needed a more efficient and incisive push. In the current competitive environment, more than in the past, the traditional model for economic international expansion has proved unable to cope with the new challenges of the global marketplace. For a country like Italy, with a solid manufacturing economy and a valuable legacy of SMEs offering a wide variety of excellent products, in terms of both quality and brand concept (the ‘Italian way of life’), a more centralized role played by Foreign Affairs is meant to increase the potential of the classic strategies for the promotion of the Made in Italy, with a more conscious approach towards the international spillover of the Country-System. If diplomacy is, by definition, the identification, the defense and the promotion of the national interest abroad through pacific means, the advance of the MAECI on the front line of the internationalization process seems fairly justifiable.

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<sup>50</sup> Data from *Diplomazia Economica, una spinta alla crescita che vale oltre l'1% di PIL*. Diplomazia Economica Italiana, 2/17, Anno XI – 30 Marzo. Online Newsletter Available from

[https://www.esteri.it/mae/resource/pubblicazioni/2017/03/newsletter\\_n.2\\_30\\_marzo\\_2017\\_def.pdf](https://www.esteri.it/mae/resource/pubblicazioni/2017/03/newsletter_n.2_30_marzo_2017_def.pdf)

<sup>51</sup> *Gruppo Cassa Depositi e Prestiti S.p.A.* A financial joint stock company operating within the Italian economic system as a State Bank. Its main activities are: credits to local entities and enterprises, stock ownership of medium-sized and large enterprises, and financing of industrial projects particularly relevant for the country’s development.

### 3.2 The *MAECI-MISE Reform*: Foreign Trade under the lead of Foreign Affairs

What the Italian government is currently experiencing is an unprecedented transfer of responsibilities, and thus of power, among its Ministries, to the undisputed advantage of Foreign Affairs. At the dawn of the new year, Farnesina has seen an exponential growth in its political clout as new competencies of high strategic importance became integral part of its jurisdiction. With the entry into force of the Decree Law No. 104 on September 21, 2019 – converted into Law No. 132 on November 18, 2019<sup>52</sup> - the MAECI has become legitimately entitled to the decision-making authority over trade policy and, in particular, over the section for the internationalization of the Italian Country-System. Together with the competencies over the export of products falling within the Convention on the Prohibition of Chemical Weapons and of the so-called “dual use” materials<sup>53</sup>, the Italian Foreign Affairs has consistently enlarged its standard operational agenda at the expenses of the Economic Development department, whose role in the definition of the national foreign trade policy ended up dramatically reduced.

With the purpose of granting the country a more coherent and unified approach in the promotion of national interests abroad – as cited in the preamble of the legislative text – the reform, strongly endorsed by current Foreign Affairs Minister Luigi Di Maio, emerged as the Italian response to the transformational thrust experienced by the global community, and as the need for an overall reformulation of the role Foreign Affairs used to play vis-à-vis the economic spectrum of international relations. Resuming a project that had been stored for years, since its early proposal by the Berlusconi’s administration, the Italian government has earned its own place among those medium and large-sized economies which had already embraced a full reorganizational momentum in their bureaucratic structures. As we will see in the next brief description of the reform, Italy has opted for a more subtle version of the Canadian restructuring approach; while avoiding an actual merger of two existing ministries, as in the case of the DFAIT, the 2019 reform has managed to unify under one institutional roof the decisional and operational core of Italian foreign trade policy. Through the transfer of competencies directly into the hands of Foreign Affairs, the government has preserved its bureaucratic arrangement, with the MISE being fully legitimated to operate within its residual jurisdiction.

Article 2, paragraph 1 of the aforementioned legislative text, enshrines the shifting and merging of the foreign trade-related functions of the MISE with the existing jurisdiction of the MAECI, which is, in turn, absorbing within its structures all the human, instrumental and financial resources previously belonging to the repealed ‘Direzione Generale per il Commercio Internazionale’ (MISE). As from January 1 2020, the seven non-general organic managerial posts operating under the MISE are officially transferred to the MAECI, with the consequent creation of seven non-general managerial offices within the same administration. In addition, within the MAECI, a general vice-director office and three managerial posts for diplomatic personnel on duty are established (paragraph 2). As an effect of the reorganization, the organic

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<sup>52</sup> Law No. 132/2019 on the Ministries’ reorganization published on Gazzetta Ufficiale. Available from <https://www.gazzettaufficiale.it/eli/id/2019/09/21/19G00112/sg>

<sup>53</sup> Materials with a both civilian and military function.

staff of the Foreign Affairs Office is being visibly incremented with the corresponding staff reduction on the side of the MISE. In this regard, the text foresees the identification of additional one hundred units of non-managerial personnel and seven units of non-general managerial personnel to be assigned to the Foreign Trade policy department and Internationalization policy department, respectively. Together with this consistent loss of human capital, the Via Veneto office<sup>54</sup> is seeing an equally consistent transfer of financial resources; around €250 million are being addressed to the balance of the MAECI, with €140 million deployed for the international promoting activity and €75 million for the ICE Agency coordination task. The loss of both financial and human resources on the side of the MISE, follows the lead of the prior deletion of all the competencies over the formulation of trade-related policies (paragraph 4). In this regard, the reform directly intervenes on the functional areas belonging to the Economic Development Ministry in relation to commercial internationalization; it abrogates, indeed, the Decree-Law No. 300/1999, Article 28, letter b)<sup>55</sup> where all the foreign trade competencies of the Ministry were legitimized: definition of trade transactions with third countries, negotiation and management of bilateral and multilateral trade agreements, connections with economic and financial institutions operating internationally, coordination of the activities of the CIPE as for trade policy, support and promotion of business internationalization and foreign investments, safeguard of Italian productions abroad, professional training for sector personnel, and direct supervision of the daily operations of ICE Agency - to cite a few. In particular, paragraph 6 of the reform defines the details over the new role the MAECI is meant to play vis-à-vis the operational framework of the ICE Agency for the promotion of Italian businesses overseas. As one of the most important transformations occurring within the merger, the tasks of guidance and monitoring of the Agency - and its funds - are automatically transferred and exercised by Foreign Affairs – in accordance with and after previous consultation of both MISE and MEF, in regard to their respective matters. While maintaining untouched the traditional competencies of the Agency, in terms of assistance and counseling for national enterprises willing to expand abroad, the reform grants the MAECI the exclusive authority for the identification of the executive rules and the *ad hoc* structures needed to provide individual firms with solid public-private partnerships and facilitated financial access. Through means of official decree, the MAECI is also entitled to the definition of the modalities through which the Agency operates vis-à-vis diplomatic and consular representations abroad, establishing the maximum amount of personnel constituting their organic staff. This newly legitimized power the Foreign Affairs office has earned over the executive core of Italian commercial diplomacy, shows the high degree of economic responsibility the government has been willing to grant to its political branch. In the same vein, the reform foresees the transfer of all the functions related to the management of SIMEST Society, previously handled by the MISE (paragraphs 10 to 12). As we will better see later in the chapter, the MAECI has been entitled with the powers of guidance and control over the financial institution and, in

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<sup>54</sup> Referring to the premises location of the MISE.

<sup>55</sup> Decree-Law No. 300/1999 on Governmental reorganization. Available from <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1999-07-30;300!vig=>

particular, over the management of its two main trade-related funds – Fund No. 295 for non-repayable contributions and Fund No.394 for concessional funding.

While, on the one hand, the MISE is still detaining its competencies as supervisory authority for Chambers of Commerce overseas, on the other, the reform grants the MAECI the authority over the Economic Observatory for the collection, analysis and elaboration of national export/import data. In particular, paragraphs 14 and 15 seal the Ministry's competence over the issuing of licenses for the exportation of materials falling within the Convention on the development, production, storage and use of chemical weapons, and the exportation of double-use products and technologies – with the consequent authorization in applying economic sanctions.

At the end of this remarkable power rebalancing, Farnesina becomes the unique platform for the internationalization of the Italian Country- System. Through a governance rationalization that integrates the MAECI-driven foreign network with the ICE structures, national enterprises can rely on a centralized institutional referent able to take care of their business interests on a vast global scale. From a national perspective, the Foreign Affairs Ministry draws from its newly acquired commercial leverages a more consistent role in the domestic political scenario. The achieved degree of empowerment has brought several exponents of the Italian public opinion to refer to the government office in terms of “Superfarnesina”. Taking account of the pronounced export-oriented nature of the Italian economy, future Foreign Affairs Ministries are deemed to act as crucial interlocutors for all national operators leaning out to international opportunities. From this point of view, Farnesina is seeing concentrated in its hands all the main tools required to deeply affect the overall development and growth of the country. Still, the creation of a Superfarnesina has raised not a few concerns among the political and diplomatic ranks. If on the one hand, Foreign Affairs Minister Di Maio managed to carry out his reorganizational plan quite smoothly, taking advantage from the collaboration of his party co-member and in office Minister for Economic Development Stefano Patuanelli, on the other, he had to cope with the several reservations emerged both within Farnesina and the MISE. The greatest concerns come from both the oldest ranks of the diplomatic network, fearing the dramatic downgrading of their prestigious political service, and the rising generation of future diplomats having to face reduced career prospects as the MAECI ‘newcomers’ are taking over. Similarly, exponents of the Italian political scene are doubtful over the contribution that increased commercial expertise would be actually providing to the existing diplomatic relations. From their point of view, having an autonomous administrative structure able to cope with modern *trade wars*, relying on highly technical strategies and free from any politicized bias, would have better served the interests of the Italian business community. In this regard, the transfer of trade competencies - and of consistent managerial personnel - among different offices at the governmental level, will only contribute to a high degree of expertise dissipation, together with a dramatic loss in negotiating competitiveness. Allegedly, the best solution in the management of the national foreign trade policy was to be found in the pre-reform institutional arrangement. Italian commercial

diplomacy, in this perspective, was better served by the cooperative approach embodied in the 2005 MAE-MAP-ICE Convention, and the establishment of the so-called ‘Sportelli Unici’<sup>56</sup> for national export enterprises. As lively testified by Senator Raffaele Fanfetti<sup>57</sup>, publicly adverse to the implementation of the Di Maio reform since its early formulations, the best integrative arrangement for the promotion of Italian economic diplomacy was to be found in the institutional cooperation between Foreign Affairs, ICE Agency and the former Ministry for Productive Activities (MAP)<sup>58</sup> on the functional and logistic extension of the diplomatic-consular network. The creation of *ad hoc* structures attached to diplomatic posts overseas – Sportelli Unici also known as Sportelli Italia - entitled to the support and promotion of the Italian system of production on a global scale, was the best way to manage the internationalization process in a highly concerted and unitary framework. Following the coherent directions of government Ministries, Chambers of Commerce and ICE teams, these structures were able to deliver assistance, counseling and orientation functions for Italian operators, both at home and abroad. In his reasoning, a well-functioning structure of commercial diplomacy was already in place, and the latest dissolution of the compartment regulating one of the most flourishing sectors of the national economy has represented a dramatic step backwards.

### 3.2.1 ICE Agency administration and Made in Italy promotion

The Agency for the promotion and internationalization of Italian enterprises abroad – the ICE Agency – constitutes the very core of Italian business diplomacy. Emerging from the ashes of the former Istituto Nazionale per il Commercio Estero<sup>59</sup>, the Agency has been long operating as the primary governmental institution for the consolidation and promotion of the national system of production. Before the entry into force of the D.L. No. 104, the body used to exercise its main executive functions under the direct monitoring of the MISE, operating in close collaboration with regions, Chambers of Commerce, national industry, handicraft and agriculture associations, business organizations and all the private and public subjects willing to benefit from its services. Internationally, the Agency has been playing a significant role in providing information, assistance and formation to small and medium-sized enterprises targeting local markets, as it is perfectly integrated within the network of diplomatic and consular missions worldwide.

Within the general framework of promotional activities, the section addressed to the support and enhancement of the *Sistema Italia*, represents the cornerstone of the institution’s agenda. ICE has made a

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<sup>56</sup> Established with Law No. 56/2005 on Internationalization. Available from <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:2005:56>

<sup>57</sup> *Trasferimento Competenze MAECI-MISE / Fanfetti (FI): Non Voteremo Questa Riforma*. Online Article on AISE, Agenzia Internazionale Stampa Estero. Published on November 6th, 2019. Available from <https://www.aise.it/eletti-allestero/trasferimento-competenze-maeci--mise-fanfetti-fi-non-voteremo-questa-riforma/137679/118>

<sup>58</sup> Precursor of current Ministry for Economic Development.

<sup>59</sup> Dissolved by the Decree Law No. 98/2011, Art.14, Paragraphs 17-27. Available from <https://www.gazzettaufficiale.it/gunewsletter/dettaglio.jsp?service=1&datagu=2011-07-06&task=dettaglio&numgu=155&redaz=011G0146&tmstp=1310024972485>

strong commitment in promoting an Italian brand that extends beyond mere export gains, expressing the creativity, planning, skills and specializations of national enterprises. In this context, the Agency has presented itself as the legit benchmark for the implementation of a special promotional campaign in support of the Made in Italy, whose operational programs represent, to this day, the most successful strategy for the overall internationalization effort of the country. Such special programs have been carefully designed based on the evaluation of particular geopolitical priorities, identifying those markets that show a more dynamic trend and more pronounced growth rates in the medium-long term. With the formulation of Law No. 164/2014 (Conversion Law of the Decree Law No. 133/2014<sup>60</sup>), the government formalized the adoption of the *Piano Straordinario per la Promozione del Made in Italy*, specifically meant to expand the number of small-medium-sized enterprises operating on the global marketplace, expand the Italian shares of the world economy, enhance the Italian way of producing, and support initiatives for the attraction of foreign investments. The Plan was established after the introduction of a corresponding government fund – the Made in Italy Fund – operating under the jurisdiction of the MISE, as envisaged in Law No. 350/2003, Art. 4, Paragraph 61<sup>61</sup>. The Fund was intentionally designed to support the promotional campaign for the Made in Italy, mainly through the regulation and preservation of all the goods produced under the Italian brand, and the enhancement of scientific and training activities addressed to the country's internationalization. In this context, ICE Agency has been entitled to the execution of the special planning, financed by the Fund, from the very beginning. Differently from the ordinary promotional activity delivered annually by the Agency, whose initiatives foresee short-term returns for the interested sectors and require a significant degree of cost-sharing on the side of enterprises, the Piano Straordinario has been developed on a highly strategic and systemic approach, projected towards medium to long-term profits and with a predominant, if not exclusive, public financing.

Within the reorganizational pattern envisaged by the recent reform, some important changes have affected the way the Agency was managed by the governmental administration. As previously mentioned, the D.L. 104, Art.2, Paragraph 6, enshrines the transfer from MISE to MAECI of the guiding and monitoring activities over ICE Agency. Such powers are being now exercised by the MAECI directly, in accordance with the MISE and after prior consultation of the MEF, over the matters of respective competence. If on the one hand, the Cabina di Regia– still co-chaired by Foreign Affairs and Economic Development Ministers - remains entrusted with the formulation of the main guidelines for the internationalization effort, on the other, the MAECI is granted additional authority over the identification of the modalities and structures needed for the assistance to single companies, and the proposal for the appointment of the Agency's Consiglio di Amministrazione. In the same vein, through means of ministerial decree, the MAECI is ultimately entitled to

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<sup>60</sup> Decree-Law No. 133/2014 (Decreto-Legge Sblocca Italia), Art.30 on Promozione Straordinaria del Made in Italy e Misure per l'Attrazione degli Investimenti. Available from <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legge:2014-09-12:133!vig=>

<sup>61</sup> Law No. 350/2003, Art. 4, Paragraph 61 on the establishment of a Made in Italy fund. Available from <https://www.camera.it/parlam/leggi/033501.htm>

define the operational patterns of the Agency within the diplomatic network overseas, taking distance from the previous arrangement in which the MAECI-MAP-ICE Convention used to detain the decision-making function.

Intervening on Paragraph 6, Art.4 of the abovementioned Law 350/2003, the reform is also foreseeing the transfer - as from the beginning of the financial year 2020 - of the government Fund for the special promotion of the Made in Italy to the estimates of the MAECI directly (paragraph 8). From this newly acquired authority over the management of the Fund, stems the new competence of the Ministry vis-à-vis the annexed Piano Straordinario, whose operational agenda has been integrated, during the scrutiny in the Senate, with the support activity addressed to SMEs willing to participate in European and international tenders (paragraph 9). Any amendment of the Plan is now subjected to a legislative action of the MAECI, albeit in accordance with the MISE and the Ministry of Agriculture, Food and Forestry for their respective areas of competence.

The extended jurisdiction of Foreign Affairs over the management of the Fund and the Piano Straordinario, within the functional adjustment of the reform, has ultimately revived the role Farnesina used to play in the governmental effort to empower the Italian brand. Becoming increasingly integrated into the decision-making process at the ICE level, in terms of both strategy development and resource allocation, the Ministry has been granted a more authoritative say on how to structure the main lines of action of the promotional campaign. The 2020 Piano Straordinario – officially presented by Foreign Affairs Minister Luigi Di Maio on March 3, 2020 – has constituted a successful test-drive for the MAECI’s new stand as promoter of the Made in Italy. The Plan - that we will better analyze in the final section, due to its innovative contents related to the current pandemic and the strategies adopted to contain its negative externalities – has been properly developed along the ten macro-areas laid down in the D.L. 133/2014, Art.30, paragraph 2, and considered highly strategic for the overall promotional effort:

- a) *ad hoc* informative initiatives over market opportunities abroad for national SMEs;
- b) support to the most relevant Italian trade fairs planned internationally;
- c) valorization of products of excellence, notably agri-food productions, and preservation of quality/origin certifications for both enterprises and goods sold abroad;
- d) support to the penetration of Italian products in targeted markets, particularly through *ad hoc* agreements with supply networks;
- e) production of a distinguishing mark to be used for the promotional initiatives of agri-food products, representatives of the Italian high-quality gastronomic heritage;
- f) implementation of strategic promotional campaigns addressed to the countering of the Italian sounding phenomenon;
- g) support to the deployment of e-commerce tools on the side of national SMEs;

- h) formulation of innovative promotional strategies for the acquisition and retention of the demand for foreign markets;
- i) organizational enhancement of national start-ups through the provision of outright grants in the form of vouchers;
- l) support to promotional initiatives to attract investments in Italy, as well as to guide and assist foreign investors in the country.

The formulation of the 2020 Piano Straordinario and the more recent ‘Patto per l’Export’ – the concerted action of public bodies, regions, trade associations and government administrations for the revitalization of the Made in Italy in the aftermath of the pandemic crisis, whose details will be better explained in the last section of this chapter – have been the hard evidence of the extensive contribution on the part of the MAECI in the structuring of a program for the promotion of the national economy, capable of living up to the achievements made by the MISE over the years of its leadership.

With the newly consolidated cooperation between Farnesina and ICE Agency, together with the coordinated service provided by financial and banking institutions, the country has seen the emergence of a highly integrated network entirely dedicated to the promotion of the Country-System; 127 Embassies, 80 Consulates, 78 ICE Agency Offices, 75 Chambers of Commerce and 10 SACE Offices, are working closer than ever in the shaping and delivering of an efficient commercial diplomacy program, able to satisfy all the needs and prerogatives of the national business community, and make the Italian brand increasingly competitive on the international scene. Right before the entry into force of the D.L. 104/2019, in the formulation of an *integrated promotion campaign* for the Italy-System, the MAECI had managed to gather within one big roof high stakes of economic, cultural and scientific diplomacy, as perfectly shown by the 2018 ‘Vivere all’Italiana’ initiative. In the same vein, the 2019 promotional review - released by the Office for the Business Internationalization within the Directorate General for the Promotion of the Country-System<sup>62</sup> (MAECI) - has been designed with the ultimate goal of drawing the international public’s attention to what Italy has best to offer. Back in time, the Farnesina’s effort was to create a coherent link between its promotional activity and the existing Made in Italy Piano Straordinario under the MISE, so to produce a unitary vision for the enhancement of the country. With the reform officially in place and the competencies rearrangement ultimately set up, the MAECI has finally seen its coordination efforts fairly rewarded. With the direct control over the executive arm of national foreign trade, the Agency, and a newly integrated platform of diplomatic posts overseas, the Foreign Affairs office has all the instruments to drive Italian commercial diplomacy to the next level.

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<sup>62</sup> *La Farnesina e la Rete Diplomatico-Consolare a Sostegno delle Imprese sui Mercati Esteri*. Nicoletti, S. Capo Ufficio Internazionalizzazione delle Imprese, Direzione Generale per la Promozione del Sistema Paese. Roadshow per l’internazionalizzazione, Italia per le Imprese con le PMI verso i Mercati Esteri. La Spezia, 14 novembre 2019. Available from [http://www.roadshow.ice.it/Uploads/Docs/stefano-nicoletti-maeci\\_1192.pdf](http://www.roadshow.ice.it/Uploads/Docs/stefano-nicoletti-maeci_1192.pdf)

### 3.2.2 MAECI for SIMEST

The second most important function granted to the MAECI following the 2019 reform, takes into account the fundamental role played by financial and insurance institutions within the business internationalization scheme. In Italy, two main bodies, SIMEST and SACE, are entitled to the provision of financial support to national enterprises willing to explore development opportunities abroad. SIMEST is a joint stock company belonging to the Cassa Depositi e Prestiti (CDP) group, supporting the growth of Italian companies worldwide since 1991. It assists them throughout the entire process of foreign expansion, from the first evaluation of market opening opportunities, brand promotion, enhancement of local commercial stands, to the ultimate business settlement driven by direct investments and productive expansion. In each of these stages, the client company can rely on three different financing instruments traditionally provided by SIMEST, namely the supply of subsidized loans, export credits and investments in equity capital within both national and international enterprises.

SACE, on the other hand, is a joint stock company 100% owned by the CDP group and specialized in the insurance sector. Taking the risks Italian companies are generally exposed to in their international transactions, the body is considerably active in the provision of export credit, credit insurance, investment protection and factoring measures. In 2016, SACE acquired the 76% of SIMEST capital, constituting a unified body for business insurance and financing, the so-called *Polo dell'Export e dell'Internazionalizzazione*. Since the promulgation of the merger, the integrated SACE-SIMEST arrangement has become increasingly active in the formulation of new strategies for the enhancement of a secure and solid internationalization pattern. In this regard, the group introduced the *Push Strategy (2017)* to facilitate the positioning of Italian exporting SMEs in the supply chains of big international corporations. With this innovative proactive approach, SACE-SIMEST takes advantage of over 40 years of experience matured on foreign markets, to select foreign buyers with ambitious investment plans and located in countries with a high potential for Italian exports; the group provides them with favorable medium-to-long term credit facilities at a significantly competitive rate, with the ultimate goal of fostering the purchase of Italian goods and services or simply enhancing existing commercial relations. Several *business matching* events are organized to further facilitate the meeting between demand and supply, bringing together international buyers and the representatives of SMEs willing to acquire new contacts.

On a ministerial level, the SACE-SIMEST group has been traditionally monitored and directed by the MISE, as foreseen by Law No. 100/1990. Under this piece of legislation, the ministerial administration is also to be applied on the management of the institution's Funds, specifically created for the financial support to all export and internationalization activities. The Fund established through Law No. 295/1973 (hereafter "Fund 295") is intended for the concession of subsidized financial measures mainly addressed to both export credits and investments in foreign corporations or enterprises. In the first case, as enshrined in the D.L. 143/1989, capo II, the Fund can be used to provide financial support to the export of goods and services, as

well as for the execution of studies, projects and jobs abroad. In this regard, the SIMEST export credit program directly relying on the Fund, allows Italian exporters to offer their foreign contractors deferred payment conditions for a medium-to-long term and at a fixed interest rate (regulated according to the CIRR – Commercial Interest Reference Rate). The sector that has been benefitting the most from the financial interventions backed by the Fund 295, is the shipbuilding industry, with an overall amount of operations worth around €3.012,3 million in 2015<sup>63</sup>. To be noted is the 2015 intervention for the stabilization of the interest rate of the loan addressed to the construction of a new Lima-Callao subway line, directed by the Metro Lima 2 consortium, which important Italian enterprises - leaders in the high-tech rail transport industry – were part of.

The second front for the provision of financial resources belonging to the Fund 295, is the investment facilitation in foreign corporations, as foreseen by Law No. 100/1990, Art.4. In this case, the Fund guarantees the concession of straight grants to Italian companies in response to previous equity loans vis-à-vis foreign corporations operating outside the European Union. In particular, the intervention covers the 90% of the equity share of the Italian applicant company and up to the 51% of the foreign corporation's capital. As for export credits, the repartition by productive sectors confirms the primacy of the electromechanical/mechanical industry among the sectors that have been benefitting the most from the SIMEST financing service.

Another essential Fund managed by the SACE-SIMEST group – always on behalf of the MISE - and highly integrated into the *internationalization toolkit*, is the one established with Law 394/1991, Art.2, paragraph 1 (hereafter “Fund 394”), for the concession of subsidized loans to Italian SMEs operating on foreign markets. Through the years, the main interventions falling within the financing capacities of the Fund have been often reformed. With the introduction of Law 133/2008, for example, the financial support of the Fund started to operate under a *de minimis* regime – namely, a financial regime promoted by the EU Regulation No. 1407/2013, in which small amounts of state aid can be addressed to small enterprises without the mandatory notification to the European Commission. In particular, the Law defined three interventions directly eligible for the Fund's soft loans: programs for the insertion in foreign markets, pre-feasibility and feasibility studies and studies for technical support programs addressed to investments, and capitalization of exporting SMEs in order to enhance their competitiveness on international markets. This last measure is meant to cope with the problem of spread undercapitalization on the side of Italian SMEs, securing them with the resources – both directly and through a facilitated access to credit – needed to boost their presence on global markets where international competitiveness is more trained. The matter has been newly revised through Law 134/2012, which introduced the provision of the 70% of the resources of the Fund to SMEs per year, and established that the terms, modalities and conditions for the concession of soft loans had to be set by a non-regulatory decree on the side of the MISE – instead of the usual resolutions

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<sup>63</sup> *Relazione sull'attività svolta dalla SIMEST S.p.A. quale gestore dei fondi per il sostegno finanziario all'esportazione e all'internazionalizzazione del sistema produttivo italiano*. Capitolo I. Senato della Repubblica, XVII Legislatura. Doc. XXXV-bis, n.4. Anno 2015. Available from <https://www.senato.it/service/PDF/PDFServer/DF/325125.pdf>

enacted by the CIPE (Comitato Interministeriale per la Programmazione Economica). As a result, in pursuance of this Law, the MISE adopted its first non-regulatory act on December 12 2012 (DM 21.12.2012<sup>64</sup>) amending some of the existing financial tools and introducing new interventions to be later implemented by the executive act of the Comitato Agevolazioni.

With regard to the programs for the insertion in foreign markets, the DM 21.12.2012, Art.4, acknowledges that the legit recipients are all the Italian enterprises having their registered office in Italy. Each application for funding can only concern programs to be delivered in one country of destination - as the previous regulation recognized programs addressed to multiple countries – and the structure, focus of the program, can be constituted by offices, show-rooms, stores or corners.

Article 5, on the other hand, defines the interventions concerning pre-feasibility and feasibility studies in countries outside the EU; all Italian enterprises with registered office in Italy can benefit from the sensitive information drawn from such studies. At the end of the research, the recipients will have to deliver a final report with all the gathered information and indicate their eventual willingness to invest.

Finally, regarding the capitalization of exporting SMEs, Italian enterprises with an export turnover equal to the 35% of total company turnover, are eligible for the support of the Fund (Art. 7 and 8). The financing is legitimately granted within the limit of the 25% of the net worth of the applicant and in respect of the ‘de minimis’ Community regulation – establishing a maximum amount of €300.000,00.

On the basis of a growing focus on the Made in Italy promotion, the intervention of the MISE also expanded the sphere of competence of the Fund over marketing initiatives for the enhancement of the Italian production brand. A new soft loan has been made available for SMEs willing to participate to trade fairs and/or trade exhibitions on non-EU markets (Art.9).

With the entry in force of the 2019 reform, the dominant role the MISE used to play in the overall administration of the SIMEST group and its funds, has been dramatically reduced. As we have previously mentioned, Article 2, paragraph 10 of D.L. 104, enshrines the transfer to the MAECI of the existing relations of the MISE with the SIMEST group and the relative monitoring and administrative functions.

During the Senate examination, six new paragraphs – from 10-*bis* to 10-*septies* – have been added to the original legislative text, with the final aim of providing more details over the MAECI’s new jurisdiction vis-à-vis the funding activity of the group. According to these additional paragraphs, the MAECI is officially entitled to the management of the revolving Fund for Venture Capital operations (FVC), the promulgation of ministerial acts for the definition of the Fund’s *modus operandi* in non-EU countries, and the establishment of new revolving funds to finance venture capital interventions in the attempt to better serve the internationalization process of Italian enterprises.

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<sup>64</sup> Ministerial Decree promulgated by the MISE on December 12 2012 and published on Gazzetta Ufficiale on April 11 2013. Available from [https://www.mise.gov.it/images/stories/normativa/decreto\\_ministero\\_sviluppo\\_economico\\_21\\_12\\_2012.pdf](https://www.mise.gov.it/images/stories/normativa/decreto_ministero_sviluppo_economico_21_12_2012.pdf)

In the same vein, the reform grants the Foreign Affairs office a greater role over the composition of the SIMEST Comitato Agevolazioni – the *ad hoc* collective body responsible for the administration of the funds. According to paragraph 11, two members of the Committee – one of which retains the role of president – are representing the MAECI, while one representative member only is granted to the MISE. The MAECI is further entitled to the definition of the competences and performance of the Committee through the issuance of non-regulatory decrees – in concert with the MEF.

However, the most significant change occurred within the new SIMEST administration, is to be found in the acquired authority of the MAECI over the two main funds. As enshrined by paragraph 11-*bis* – introduced by the Senate, both Fund 295, for the concession of export credit contributions, and Fund 394, for the concession of soft loans, are now falling under the direct management of Foreign Affairs. In particular, following the path towards a greater involvement of the MAECI in the internationalization effort, paragraph 12 assigns to a non-regulatory decree of the MAECI – in accordance with MISE and MEF – the definition of terms and operational modalities over the Fund 394.

The new guiding role played by the MAECI vis-à-vis the SACE-SIMEST institution has surely contributed to the empowerment of the existing internationalization effort delivered by the Export Pole. With Foreign Affairs administering the provision of subsidized loans for the development of the national business community, the financing infrastructure of the country is now benefitting from a more powerful lever of growth towards commercial activities abroad, expanding target destinations and launching new investments for the diversification of market operations.

As we will better see in the next section, the current pandemic crisis has brought the SACE-SIMEST group to play an increasingly significant role in the overall effort to revive the internationalization agenda. Following the lead of the MAECI, highly involved into the recovery plan for the Italian business community, the Export Pole has come forward in providing the necessary financial facilitations for Italian SMEs to maintain their competitiveness and preserve their confidence when approaching the international marketplace. With the “Decreto Rilancio<sup>65</sup>” – adopted in June 2020, and thus, the most recent, to this day, among the several governmental measures introduced to counter the negative externalities of the Covid pandemic - the new MAECI-SIMEST synergy has set the operational framework for the immediate support to all national enterprises, through a whole new arrangement for subsidized loans and increased financial resources. With particular reference to the Fund 394, the latest decree has foreseen a budgetary increase equal to €600 million against the €290 million granted in 2019, allowing SMEs to obtain up to half of non-repayable funding<sup>66</sup>. In the same vein, a huge boost has been addressed to SIMEST seven financing categories: the maximum amount of capitalization financing has doubled from €400.000 to €800.000; the

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<sup>65</sup> Decree-Law May 19 2020, No. 34, converted with amendments through Law No. 77/2020. Available from <https://www.gazzettaufficiale.it/eli/id/2020/05/19/20G00052/sg>

<sup>66</sup> *Finanza Agevolata SIMEST-MAECI: un Pilastro del Patto per l'Export in Il Covid-19 Non Ferma il Made in Italy*. Diplomazia Economica Italiana, 4/20, Anno XI – 06 Agosto 2020, p.9-12. Online Dossier Available from [https://www.esteri.it/mae/resource/pubblicazioni/2020/08/newsletter\\_4-2020.pdf](https://www.esteri.it/mae/resource/pubblicazioni/2020/08/newsletter_4-2020.pdf)

financing resources addressed to the fair sector will be covering up to €150.000 against the previous €100.000, and up to the 100% of exhibition costs; an increase in the maximum financeable amount for trade investment studies – from €150.000 to €200.000 – and for production investment studies – from €300.000 to €350.000; an increase in the maximum financeable amount for the company insertion in foreign markets from €2.5 million to €4 million; a greater extension of the financial eligibility for after-sale technical assistance expenses; the introduction of financing measures for the integration of specialized figures, *Temporary Export Managers*, within the organic staff of national enterprises, and a final boost to the potentialities of digital trade through the provision of financial aid for the creation of e-commerce platforms<sup>67</sup>.

### 3.3 Support for SMEs in times of crisis: the role of Farnesina in the Covid-19 containment policy

The rise of an highly empowered Foreign Affairs office, drawn from a relatively new political-economic synergy enshrined by the 2019 ministerial reform, has been put to the test right at the beginning of its inaugural year. Italy, as for the rest of the world, is going through an unprecedented health crisis erupted with the uncontrolled spread of the Covid Virus since the early months of 2020. In a dramatic momentum of our history, where people from all over the globe are experiencing the sorrows of an unknown and apparently unstoppable pandemic, each aspect of ordinary life has been overturned, with significant backlashes on the existing social and economic orders. In this regard, a high level of uncertainty is being witnessed over the way the Italian economy and, for the sake of this dissertation, the Italian foreign trade agenda, are supposed to overcome this destabilizing transformation.

What the Italian commercial diplomacy structure is currently coping with, is an unexpected series of direct and indirect challenges deserving immediate resolutions: a sensible reduction of market shares vis-à-vis the main international competitors; the spread of discriminatory commercial practices related to the Covid-19 threat – usually in the form of unnecessary requests for health certifications with regard to Italian products; the collapse of foreign demand in the tourism sector; a poor awareness – on the side of a wide range of foreign consumers – of the excellence of Italian supply in highly innovative and highly technological industries; a poor awareness of the existing incentives to internationalization – only the 0,5% of Italian exporting enterprises, almost 800 out of 140.000, has taken advantage of the SIMEST subsidized loans throughout 2019<sup>68</sup>; the lack of an urgent digitalization for all commercial activities – particularly needed to overcome the current access difficulties to international e-commerce platforms; the limited international visibility over the valuable eco-system of Italian start-ups; the block of the national trade fair system, which brought to the postponement or annulment of all the events scheduled for spring 2020; the

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<sup>67</sup> Ibidem.

<sup>68</sup> *Patto per l'Export*. June 8 2020, p. 1. Ministero degli Affari Esteri e della Cooperazione Internazionale. Online document available from [https://www.esteri.it/mae/resource/doc/2020/06/patto\\_per\\_lexport\\_finale.pdf](https://www.esteri.it/mae/resource/doc/2020/06/patto_per_lexport_finale.pdf)

need to complement the traditional fair system with further – even virtual – match-making mechanisms for supply and demand.

In this highly dramatic scenario, the MAECI, at the head of a newly restructured commercial diplomacy machine, has found itself significantly involved into the formulation of the best containment policies to counter the disruptive effects of the pandemic over the internationalization process and the promotion of the Country-System. Drawing from greater jurisdiction and greater responsibilities, Farnesina has seen its authoritative role progressively enriched by the several legislative acts adopted by the Italian government at the very peak of the virus' destructiveness, becoming particularly active in the shaping of strategic measures for the preservation and future promotion of the Made in Italy.

The severe health and socio-economic needs stemming from the pandemic emergency, have brought the Italian Consiglio dei Ministri to formulate and adopt the Decree-Law 18/2020<sup>69</sup> – commonly known as *Decreto Cura-Italia* – containing valuable measures to empower the national health system and to provide economic support to families, workers and enterprises. In particular, Art.72, paragraph 1 of the mentioned D.L., establishes, within the estimates of the MAECI, an *ad hoc* fund – “Fondo per la Promozione Integrata” – with an initial budget of €150 million for the year 2020. The legislation foresees the establishment of the Fund for the implementation of four strategic initiatives: the formulation of a special communication campaign addressed to the promotion of Italian exports and the internationalization of the national economic system in the agri-food sector and all those directly affected by the pandemic (a); the empowerment of the promotional activities for the Country-System, delivered – also through the diplomatic network - by the MAECI and ICE Agency (b); the co-financing of promotional initiatives addressed to foreign markets by different public administrations, mainly through the signing of *ad hoc* conventions. In this case, the cited public administrations are those defined in the Testo Unico on public service (D.L. 165/2000, Art.1, paragraph 2), namely all state administrations including local entities, schools and universities, Chambers of Commerce, industry, craftsmanship and agriculture associations, national, regional and local non-economic entities, administrations and companies belonging to the national health system, ministerial agencies and public bodies (c); non-refundable co-financing up to the 50% of the loans granted by Fund 394 (SIMEST) for exporting enterprises, according to the criteria and modalities defined by acts of the Comitato Agevolazioni (d) – under the limits and conditions foreseen by the current European regulation with regard to ‘de minimis’ state aid. Ultimately, the Fund is allocated among the different initiatives through an official decree of the MAECI, in accordance with the MEF, which is entitled, in turn, to make budgetary variations by means of ministerial decree.

Paragraph 2 of the legislative text, on the other hand, regulates the signing of contracts for supplies, constructions and services, winnable without calls for tender, as formulated in the negotiated procedure

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<sup>69</sup> Decree-Law March 17 2020, No. 18, converted with amendments through Law No. 27/2020. Available from <https://www.gazzettaufficiale.it/eli/id/2020/03/17/20G00034/sg>

provided for in Art. 63, paragraph 6, of the Codice Appalti (D.L. 50/2016). Similarly, it foresees the opportunity for both MAECI and ICE Agency to benefit – with modalities defined by convention and within the limits of the available financial resources – from the national Agency for investment attraction and business development, “Invitalia”.

All these strategic initiatives have been added to and significantly integrated by those envisaged in the *Piano Straordinario per il Made in Italy 2020* presented by Farnesina on March 3 2020. As we have previously noted, the 2020 Special Plan, inaugurating the leadership of the Foreign Affairs office and its closer cooperation with the executive branch, the ICE Agency, has based its operational agenda on the formulation of urgent measures to preserve the Italian brand from the negative externalities of the health crisis. As the main instrument supporting the enhancement of the Made in Italy, the Plan prospects the provision of €316 million standing as promotional funds to ICE Agency and additional €400 million of the SACE-SIMEST revolving Fund 394<sup>70</sup>. The deployment of the budget will be, thus, addressed in support of national enterprises in the form of both credits and promotional activities.

With the Made in Italy under attack, as the major production sectors are being undermined by those phenomena that Foreign Minister Luigi Di Maio has publicly defined “unfair competition”, the Piano Straordinario presents a series of short-to-medium term structural measures meant to facilitate and reinforce Italian SMEs operating in a highly discriminatory environment. The government has been particularly active in facing the international community in response to the unacceptable restrictive measures adopted, both at the European and non-European level, towards Italian citizens, companies and products. In particular, the detention of exportable goods justified by the request of safety guarantee stamps – the so-called “Virus Free” stamps – has been creating serious discomforts to Italian producers. In this regard, diplomatic missions overseas, in cooperation with the WHO, have been taking action to prove the highly unjustifiable nature of such measures, far from having any scientific foundation or compliance with the European legislation.

In this context, the Plan foresees: a special communication campaign to support the Made in Italy all over the world, customized according to the main features of each country and the Italian flagship products sold in each market; free participation for all national enterprises to ICE’s initiatives abroad – up to march 2021. This measure will entail over 200 events, in 50 foreign markets, for a total amount of €15 million worth expenditures being entirely afforded by the Agency; free ICE services, both in Italy and abroad, for all companies with a maximum of 100 employees – starting on April 1 2020; the reinforcement of the presence of Italian products within large-scale retail chains - Grande Distribuzione Organizzata (GDO) – operating in mature markets. In particular, the ICE Agency will be working to enhance agreements with GDOs in the United States, Germany, Japan and Arab countries; an overall effort to boost the presence of Italian enterprises on the global marketplace, especially in response to the many restrictive measures against the free movement of people and goods. For the same reason, the Plan also foresees a great enhancement of the

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<sup>70</sup> *Presentazione del Piano Straordinario 2020 per la Promozione del Made in Italy*. March 3 2020. Online Press Conference Video, 06:36 min. Available from <http://www.radioradicale.it/scheda/599895/presentazione-del-piano-straordinario-2020-per-la-promozione-del-made-in-italy>

participation to virtual trade fairs and virtual trade exhibitions; the introduction of training programs for market influencers. On this front, the ICE Agency will promote training sessions for the hotel industry, agri-food exporters, experts of Italian high-quality productions, and so and so forth; ultimately, a greater effort will be addressed to the struggle against the Made in Italy counterfeit, causing over €100 billion worth damages all over the world<sup>71</sup>. In this regard, the government will implement its block-chain technology on national productions, in a way to provide international consumers with a more solid guarantee over the *Italianness* of their purchases.

Another fundamental manoeuvre led by the Italian government in the attempt to provide the national business community with the best tools to overcome the crisis and pave the way for future recovery, has been enshrined in the D.L. 23/2020<sup>72</sup>- best known as “Decreto Liquidità” . To favor the quick reboot of the Italian system of production, the Decree has made room for significant interventions to support liquidity within the Italian business environment. With a special focus on SMEs, new facilitations and social safety nets have been inaugurated, together with a strong streamlining of bureaucratic procedures for the access to the guarantees provided by the *Fondo di Garanzia PMI* – a fiscal instrument established by the MISE (Law No. 662/1996), with the goal of favoring the access to SMEs’ financial resources through the concession of public guarantees. In this regard, the Fund will be providing national enterprises with the 100% and 90% of facilitated credit access and public guarantees, according to the amount of their bank credits.

Most importantly, for SMEs and larger enterprises, including self-employed persons and freelancers, which have lost their access capability to the Fondo di Garanzia, the legislation foresees the concession – up to December 31 2020 – of guarantees released by SACE on bank credits (and credits released by national financial institutions and entities qualified in lending operations on national soil) for any kind of financing and within a maximum total amount of €200 billion. In the same vein, the SACE institution is granted a fundamental role in enhancing the export and internationalization effort on the side of national companies, through the introduction of a co-insurance system according to which, the obligations stemming from the insurance activity of SACE – for non-market risks – are undertaken by the State for 90% and by the institution itself for the remaining 10%. This new arrangement, which will be officially operative as of January 1 2021, has been specially set up to absorb the growing number of insuring requests that SACE was unable to manage, despite their high value and the high strategic interest they embodied for the national economy. Ultimately, the Decree predicts the creation of a “Comitato per il sostegno finanziario pubblico all’esportazione” co-chaired by MAECI and MEF and with the participation of MISE, MIPAAF and Defense. The main task of the newly established body is to formulate the annual operational plan for the definition of the total amount of insuring activities – divided into geographical areas and macro-sectors – highlighting their overall costs and risks, and subjecting it to preemptive authorization of the MEF.

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<sup>71</sup> Ibidem, 15:27 min.

<sup>72</sup> Decree-Law April 8 2020, No. 23, converted with amendments through Law No. 40/2020. Available from <https://www.gazzettaufficiale.it/eli/id/2020/04/08/20G00043/s>

Both legislative acts, Decreto Cura-Italia and Decreto Liquidità, have shown the great commitment and the great perseverance of the Italian government in restoring the economic heritage of the country and assisting its business community when the pandemic was reaching its most damaging height. The main measures adopted by both decrees, in their highly impactful and pervasive nature, from the introduction of the new Fondo per la Promozione Integrata to the new financial guarantees in support of the internationalization effort, have been complementing those previously implemented by both Farnesina and ICE Agency. Under this perspective, they have been perfectly fitting within the consolidation process of the modern Italian commercial diplomacy, inaugurated in September with the transfer of foreign trade competencies from MISE to MAECI. These same measures have constituted the starting point for the formulation and implementation of a post-Covid-19 economic recovery, specifically aimed at the revitalization of foreign trade policies and a brand new approach to the international promotion of the Made in Italy. In this climate, on April 4 2020, Minister of Foreign Affairs Di Maio launched the initiative *Patto per l'Export* – actually presented on June 8 – to elaborate, in close collaboration with the main Italian economic actors, a unified strategy to tackle the current critical juncture. Following the lead of the MAECI, members of the Cabina di Regia per l'Italia Internazionale, all the main professional associations, and the territories and entities responsible for the promotion of the Italian Country-System, were gathered together to open a multilateral dialogue on how to remold the Ministry's plan of action vis-à-vis the long-term effects of the pandemic on the national economy. Such dialogue – practically delivered through the organization of 12 sectorial panels (“Tavoli Settoriali”), one for each economic category particularly significant to Italian exports, and coordinated by Under-Secretary of State Manlio Di Stefano – has brought to light a varied picture of criticality, made of multiple expectations, differing according to sectors, company size and modus operandi; all of them, however, shared a same demand for coordination, transparency, clarity of purpose and promptness.

The “Patto per l'Export”, signed by the MAECI and other governmental departments<sup>73</sup>, together with the representatives of the Italian business environment, has marked the beginning of a new working method based on three main principles: absolute compliance towards a permanent and unitary channel of communication among the parts; operational coordination, as fairly enshrined in the MAECI coordinative approach to the diplomatic network overseas, the ICE Agency, the SACE-SIMEST group, the Italian bureaucratic system and the international network of Chambers of Commerce; and ultimately, constant and transparent monitoring over the evolution of policies, strategies and programs.

In its more practical aspect, the Pact has seen a general agreement over six main pillars on which to build, in the next several months, solid targeted measures for business recovery:

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<sup>73</sup> Ministero dello Sviluppo Economico, Ministero dell'Economia e delle Finanze, Ministero delle Politiche Agricole, Alimentari e Forestali, Ministero delle Infrastrutture e dei Trasporti, Ministero dell'Università e della Ricerca, Ministero per i Beni e le Attività Culturali e per il Turismo, Ministero dell'Innovazione Tecnologica e della Digitalizzazione.

I. *Communication*. The realization of an intensified promotional campaign for the Made in Italy, focusing on the quality and safety of national productions. Great effort is addressed to the involvement of well-known personalities to draw the attention of both Italian and international audiences.

II. *Integrated Promotion*. Beyond the basic promotional activity for well-consolidated sectors such as design, food, cinema, culture and publishing, the new strategy is more likely to enhance Italian excellence in more innovative industries, with a higher technological content (i.e. aerospace industry, green economy, advanced mechanics and blue economy).

III. *Formation/Information*. It entails the facilitation of access of SMEs to internationalization programs and tools. A special attention will be addressed to the lack of digital culture on the side of enterprises, through the provision of online courses in collaboration with the Italian University environment. New professional figures will be trained – such as *Temporary Export Managers* (TEM) and *Digital Export Managers* – to better support the introduction of Italian businesses into foreign markets. With a highly innovative component, the diplomatic and consular network becomes the “House of Italian enterprises” in the world, structural benchmark to gather information and start a dialogue with local markets and institutions.

IV. *E-commerce*. Digital platforms will play a leading role in the overall growth of global trade. Taking advantage from the digital revolution we are currently experiencing, the traditional trade fair dimension will be integrated with virtual stands and special online promotional events. The existing agreements with Large Retailers will be prioritizing an online-offline approach as well, while SMEs will be granted a facilitated access to e-commerce platforms.

V. *Fair System*. It will be favored the participation of Italian SMEs to international trade fairs and the launch of special trade programs for foreign buyers and VIPs. The whole fair system will be modernized through the organization of virtual B2Bs and promoting the participation of start-ups to all the main scheduled events. New partnerships with European fair systems will be signed. The recovery of the sector will also be pursued through the organization of industry-led “mini-fairs” – in the effort to compensate for the annulment of the main events due to the pandemic.

VI. *Finance*. The Pact will work on the enhancement of public resources addressed to the provision of soft loans and guarantee systems. It will also extend and simplify financial support to young entrepreneurs and start-ups.

Aware of the need to integrate the virtuous cycle between business internationalization and the attraction of quality foreign investments, both MAECI and MEF have systemized the main financial resources which had been made available by the last legislative measures within the recovery plan. The total sum of resources – to be deployed for the execution of the abovementioned strategic pillars – amounts to around €1,4 billion<sup>74</sup>. All the parts are firmly committed to the best possible allocation of such resources,

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<sup>74</sup> Portioned as enshrined in *Patto per l'Export*. June 8 2020, p. 5. Ministero degli Affari Esteri e della Cooperazione Internazionale. Online document available from [https://www.esteri.it/mae/resource/doc/2020/06/patto\\_per\\_lexport\\_finale.pdf](https://www.esteri.it/mae/resource/doc/2020/06/patto_per_lexport_finale.pdf)

guaranteeing the utmost effort in enhancing the impact of the scheduled interventions in terms of productivity, revenue, employment and competitiveness.

These are the foundations on which to construct a solid and successful response to the tragic historic momentum experienced by our society. In the attempt to save our country from the social, economic and cultural detriment brought about by an uncontrollable pandemic, a concerted and highly cooperative approach on the side of government, institutions, businesses and citizens, represents the best path towards a full future recovery. Citing Minister Luigi Di Maio's last words in conclusion of his inaugural speech for the Export Pact presentation,

“Insieme, con il coraggio e la laboriosità delle italiane e degli italiani, con la forza dei nostri valori, la ricchezza delle nostre tradizioni e la spinta all'innovazione, riusciremo ad affermare ancora sui mercati internazionali il successo che il nostro Paese merita.”<sup>75</sup>

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<sup>75</sup> Ibidem, p. 6.

## Conclusion

The role Foreign Ministries have traditionally played in shaping and conducting international relations has significantly changed over time. They consolidated their position within a highly conventional and particularly sectarian environment, dominated by the idea that foreign affairs, especially in their diplomatic nature, were under the exclusive seal of high politics. Having to preserve the traditional separation of boundaries between domestic and external domains, Foreign Ministries have long served a gate-keeping function, meant to protect the management of diplomatic matters from the dangerous contamination of non-political issues. It was only in more recent times, with the emergence of a highly transformed international scenario, made of multilateralism, supra-national institutions, non-state actors, integrated market economies, and new information technology, that classic discourses over the pure political contents of Foreign Affairs began to lose in charm. Re-discovered economic, financial and trade-related matters started to enrich political agendas, pushing both private and public actors to ultimately acknowledge the great benefits drawing from international liberalization and market interdependence. Despite the vibrant criticism emerged among the ranks of old-school diplomats and scholars, incapable of giving up the diplomatic historic privilege they have been jealously preserving, commercial diplomacy brought about a new conceptual and practical approach to international relations, addressed to the gradual dismantling of political-economic boundaries. Foreign Affairs offices and their diplomatic posts overseas, began to adopt a new attitude towards inter-departmental cooperation, allowing the wide range of economic matters influence the way external relations were usually driven.

A new focus on business development, export promotion and investment attraction brought developed national governments to address most of their efforts and resources to the construction of functional commercial diplomacy structures, each of which used to represent the economic, political and cultural tradition of the country. In this regard, three different organizational models have been standing out within the institutional framing of diplomatic commercial-political synergy, all giving proof of the gradual empowerment of Foreign Affairs Ministries vis-à-vis foreign trade policy-making. Canada, has embodied the most radical approach to commercial diplomacy, following an evolutionary path that brought its Department of External Affairs to structurally merge with the Trade Commissioner Service operating within the jurisdiction of the Department of Industry, Trade and Commerce. The reorganizational effort made by the Canadian government, whose trade policy and trade promotional activities are now centralized in the hands of one integrated Department, has shown the willingness to build a trade-oriented system, capable of enhancing the brand image of the country and place it on the same level of its most developed competitors. The unitary approach adopted by the DFAIT, thus, helped the nation to move beyond an extremely basic and downplayed resource-based economy and to erect an integrated service able to keep up with the waves of innovation and dynamism experienced globally.

Stemming from a more prestigious international status and a more consolidated heritage on the side of the Foreign Affairs office, the UK has been experiencing a “fine tuning” rather than radical reform when

it comes to institutional reorganization. The establishment of the UK Trade and Investment unit, the *ad hoc* body entitled to the formulation and implementation of British foreign trade, under the concerted supervision of the FCO and the Department of Trade and Industry, has emerged from the need for national policymakers to preserve the foreign policy of a world power and manage the interface with other government departments without ‘contaminating’ national institutions or leading functions. In this perspective, the FCO has been able to take part in the construction of a solid business environment while continuing to argue the case for its separate identity.

The United States, on the other hand, constitutes a further pattern for the formulation of national commercial diplomacy. The great variety of political and non-political actors taking part to the national decision-making process, and the highly multifaceted departmental structure they have been traditionally relying on, have justified the emergence of an agency-led commercial framework, where sector-specific departments take over trade promotion activities under the main lead of the Department of Commerce and the US Trade Representative Office. In this case, the willingness of the Congress to separate commercial interests from national foreign policy goals, has brought the American Foreign Affairs office, the State Department, to play a relatively marginal role in the formulation and implementation of trade-related programs.

The analysis of the main paths embarked by developed countries towards the construction of a solid and functional commercial diplomacy arrangement, has served as empirical background for a better understanding of the more recent transformation experienced by Italian Foreign Affairs, in regard to foreign trade policy and business internationalization; the official transfer of these competencies, traditionally belonging to the Ministry for Economic Development, within the jurisdiction of the MAECI, indeed, signaled the beginning of a new era for Italian commercial diplomacy. With a newly acquired authority over the enhancement of national commercial interests abroad, especially in the form of business internationalization and export promotion, Farnesina has become the undisputed benchmark for the international economic projection of the country. In this case, Italy seems to have embraced a full reorganizational momentum in its bureaucratic structures, following a more subtle version of the Canadian previous approach; while avoiding an actual merger of two existing ministries, as embodied by the DFAIT, the 2019 reform has ended up unifying under one institutional roof the decisional and operational core of the national foreign trade policy. Relying on a solid support team, granting both executive and financial resources, the Italian Foreign Affairs Office has inaugurated the new year with brand new responsibilities for the empowerment and promotion of the Country-System, and a new commitment in preserving Italian economic and cultural heritage in a particularly critical moment for our society. In a sensitive historic juncture, made of insecurity, uncertainty, and strong despair for the spread of the pandemic and its backlashes, the MAECI has been actively participating in the overall governmental effort to guarantee the early recovery of the country, and it is still gathering energies to provide Italian workers, enterprises and industries with all the necessary tools to emerge from this dramatic crisis stronger than before.



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## SUMMARY

Foreign policy understood as the natural political interplay between international actors, and diplomacy as the process of dialogue and negotiation aimed at the peaceful settlement of inter-state litigations, have always been considered the very old core of Foreign Affairs. Since the early 19<sup>th</sup> century, diplomats belonging to an extremely closed and elitist scenario, imposed a more or less unrivalled intellectual hegemony over the ways diplomacy had to be understood and conceptualized. Regarding themselves as the only ‘real’ diplomats entitled to the management of international affairs with other sovereign entities, they enjoyed symbolic and material resources provided by the institutions of the nation state, together with a unique set of responsibilities. They were believed to have a superior knowledge about the art of diplomacy and the practical wisdom needed to establish an emerging literature of International Relations. Their academic writings, chronicling historic encounters and political achievements, represented the fundamentals of the traditional discourse on diplomacy with its distinctive state-centric bias. Starting in the late 1980s, this long-lasting intellectual hegemony of state-sanctioned diplomats over diplomatic conceptualization began losing ground. The blurring of such a consolidated doctrine, followed by a further expansion and compartmentalization of the academic field on IR, had been progressively brought about by fundamental social and technological transformations in Foreign Affairs. A more complex international landscape made of new state and non-state actors, transnational extremism, climate change and unregulated migration flows, required new forms of international cooperation, well beyond the capacities of single nation states and their traditional state-led diplomacy. From this point of view, classic bilateral diplomacy whose practice mainly aimed at branding states’ images and creating empathy for the respective state policies, had very little chances in tackling the challenges of a reshaped world. The end of the bipolar rivalry, the ideologization of international affairs and the military confrontation, have further helped dismantling the dogmatic idea of diplomacy as a mere subsidiary instrument of power politics. In this evolutionary path, growing competition from the inside, coming from the private sector and civil society, and competition from the outside, coming mainly from non-governmental organizations and supra-national institutions, have set the basis for a gradual de-governmentalization and multilateralization of Foreign Affairs.

The (re-)discover of economic priorities in the conduct of external relations, more than anything else, has signaled the birth of a modern diplomacy. With globalization forces driving the opening up of domestic borders and the liberalization of national markets, the political prioritization of balance of power logics and security concerns declined dramatically vis-à-vis an ever-growing importance of economic prerogatives. Confronted with changing patterns of how statecraft was conducted, old-school diplomats found themselves in the position of yielding new powerful economic instruments as integrated markets were becoming the main battlefields for the management of international relations. In this context, the old controversial dichotomy between politics and economy - and more specifically, the contention between diplomacy and commerce, was recalled by the criticism of contemporary academic circles in the attempt to overcome all the

misconceptions provided by old orthodox studies. The established canon of diplomatic practices has traditionally perceived the whole range of commercial activities as wasteful departures from the more serious concerns of diplomats. From this point of view, the encroaching of new issues on to the diplomatic agenda was seen as gradually undermining the effectiveness and the respectable stature of 'traditional diplomacy'.

As exemplified by professional memoirs, most diplomats writing about their past experiences have generally preferred focusing on the pure political content of their services abroad, making room for an inaccurate and strongly misleading conceptualization of diplomatic practices within the context of diplomatic studies; discussing such practices without recognizing commercial diplomacy as an integral component of the profession or relegating commercial work as a mere degeneration of traditional diplomatic concerns, constituted a serious analytical mistake. In this scenario, the *present-but-invisible* nature of commercial diplomacy became particularly clear: beyond the theory made of visible diplomatic tasks centered on high political negotiations, there was an invisible mantle of world affairs made of unaccountable processes like the building up of international economic relations through the promotion of foreign direct investments and export promotion. Leaving behind orthodox concepts of state sovereignty, international anarchy and strict separation between public and private spheres of action, a post-rationalist approach based on empirical inferences has guaranteed a conceptual framework better suited for the study of commercial diplomacy as a whole, ultimately understanding diplomatic practices as the product of pure aggregates of heterogeneous interests.

After the elimination of the old geopolitical and economic boundaries of the world map, it became sufficiently clear how both public and private actors could equally benefit from the liberalization of trade and the consequent internationalization of domestic businesses. In this regard, governments and supranational institutions, together with business companies and multinational agglomerates, started to strongly rely on diplomatic tools and strategies to overcome the few resilient barriers to commercial transactions. In a very short period of time, commercial activities of diplomatic services became significantly extended and business interests formally integrated within overseas representations, thereby becoming a legit foreign policy priority for most national governments. Besides the general effort in harmonizing international economic arrangements and pursuing foreign policy objectives, global policy-makers began to take actions in support to both domestic enterprises willing to expand abroad and foreign enterprises interested in investing within their borders. From this point of view, national SMEs lacking the experience on how to approach the wide world economy and how to draw profit opportunities from it, started to rely on commercial diplomacy services to facilitate their introduction and interaction with local business cultures and authorities. Commercial diplomats became, thus, the undisputed benchmark in supporting business communities in their path towards economic success, providing them with all the necessary tools and structures needed to achieve overall national development. In this regard, the structural and operational frameworks through which commercial diplomatic activities have been generally carried out

tend to vary from one country to the other; the most significant structural variation among countries can be observed in the either private or public nature of the multiple agencies entitled with export/import promotional tasks. In particular, Investment Promotion Agencies and Trade Promotion Organizations, generally operating within the governmental machine, and independent Chambers of Commerce, have emerged as fundamental instruments for the enhancement of foreign trade policies. Whether relying on governmental resources under the lead of institutionalized Ministries or relying on private structures sponsored by the business community itself, these trade-centered agencies have proven to be crucial actors in the planning and shaping of commercial diplomacy programs. They constitute a fundamental element both Foreign Affairs and Trade Ministries, together with the diplomatic network, can count on when managing international economic relations.

The impact of enhanced economic interdependence, together with the gradual dismantling of the boundaries defining different policy issues and arenas, have contributed to the modern internationalization of domestic bureaucracies while challenging the traditional role of Foreign Affairs Ministries. A more diffused management of foreign policy matters, determined by the emergence of new non-governmental actors and transnational relationships, have brought to the relative separation of the Ministry from what has always been regarded as its golden age status, a centuries-old tradition where it used to guard and defend the boundaries separating the state from its international setting. Leaving behind this well-rooted gate-keeping function, Foreign Affairs offices reshaped themselves through the gradual fragmentation of the policy environment as well as the gradual engagement in new bargaining processes with other government agencies, ultimately carving out for themselves a stable role in various areas of international policy-making. They became part of a complex governmental machine by sharing coordination functions with other departments whose duties and responsibilities had a more or less significant impact on international relations. This modern form of action has proven useful in showing the highly flexible nature of Foreign Ministries' organizations; they have been continually evolving, redefining and reinventing themselves, adapting to a situation in which post-modern states no longer recognize the century-old separation of foreign and domestic affairs. As a matter of fact, the impact of enhanced economic globalization, with the consequent focus on increasing export promotion and inward investment activities, has become particularly evident in the structure of Foreign Ministries; they have responded to the changes in the domestic and international environment, by re-organizing themselves along the principle of functionality on top of the traditional principle of territoriality. Most developed countries have decided to adopt particular organizational patterns for the management and provision of commercial diplomatic tasks, according to the national historic, political and bureaucratic tradition they have been built on. In each domestic framework, governments have shaped and developed a particular economic-political synergy which has been ultimately embodied in particular interplays between Foreign Affairs and Trade departments. Moving away from an old institutional arrangement where national ministries were concerned with and responding to their own area of

competence exclusively, with no room for cross-fertilization within the governmental machine, a new understanding of international affairs has emerged, with the progressive dismantling of traditional boundaries. From this point of view, the shrinking significance of geography and the increased ease of communication, have significantly facilitated international exchanges among all the 'non-foreign' ministries. This is the reason why almost half of the existing Foreign Affairs' departments have started to overlap in content with the competencies of other governmental units, particularly when it comes to international trade-related matters.

The Canadian experience in terms of institutional change and foreign policy implementation presents a very interesting case study. Similarly to most other developed countries, Canada found itself tackling the increased volatility brought about by a widened international environment, where the traditional diplomatic agenda, centered on security issues, was challenged by the emergence of new economic and social stakes. Within the context of striking globalization and interdependence, these pressures have become crucial factors influencing the nature of the adjustment process, also considering Canada's intrinsic combination of vulnerability to the international structure and its willingness/ability to follow transformational biases. Relying on a sufficiently open economy, a multicultural society and wide territorial distances, Canada has always been a highly exposed receptor of change. In particular, it has been one of the relatively few countries in the world choosing to unify its Ministry of Foreign Affairs and its Ministry of Foreign Trade within a same institutional unit, the Department of Foreign Affairs and International Trade (DFAIT). Leaving behind a highly controversial operational environment, made of unchallenged diplomatic elitism, weak foreign policy-making, cultural exclusiveness, and federal/provincial rivalry, the Department addressed all its efforts to the construction of a coherent context for Canadian foreign policy, providing itself with the opportunity to regain both its lost status and its authority. In this vein, the extension of the Department's coordinating and monitoring capacity vis-à-vis international trade became the very core of the strategy, practically pursued through the merging of the Trade Commissioner Service and the trade promotion units of the Department of Industry, Trade and Commerce with the External Affairs sector. This amalgamation of the old DEA into an innovated structure was meant to prioritize trade objectives within the management of Canadian international relations, emphasize the growing importance of international marketing of resources and services, and strengthen the country's ability to adapt to changing global economic conditions, ultimately allowing the Department to integrate more effectively into the broader economic process in Ottawa. The building up of a new trade-oriented system, further integrated with the introduction of the trade promotion agency, Team Canada Inc., and provision of more room of maneuver on the side of the policy-making of the provinces, has shown the importance of Canada's 'brand image' as it became a top concern for national administrations. The construction of the DFAIT and its evolutionary path from a traditional Foreign Ministry to a highly multifaceted department, helped the country to reassess its traditional reputation as a mere resource-based economy, an image that could not keep up with the waves of innovation and dynamism experienced globally. Few years after the merger, a wide number of innovative

strategic directions were established to guide future trade-related policies. Leaving behind an extremely general and loosely coordinated mode of operation, the Canadian administration decided to shift its focus on innovation sectors and knowledge-based economy (cultural sector, information, biotechnologies), with an even more accentuated emphasis on assisting SMEs, targeting high-growth markets and supporting those groups within Canadian society who had been generally marginalized as exporters (e.g. Aboriginal Canadians). Despite the current calls for greater selectivity in services, better coordination of efforts and increased accountability, the national trade-driven arrangement has proven sufficiently capable of dismantling the country's stereotype of an untapped land of trees, water and rich farmlands.

On the other side of the globe, a further path towards the consolidation of a modern commercial diplomacy was being embarked by the United Kingdom. As for the Foreign Ministries of most developed countries undergoing functional and structural transformations, the Foreign and Commonwealth Office (FCO) quarters had to deal with the consequences of introducing new practices into a carefully preserved diplomatic environment. But differently from the more radical approach adopted by Canadian policy-makers in supporting the merger of trade-related units of the DITC within the operational framework of the External Affairs, meaning through the structural unification of existing departments, the UK has opted for the establishment of an *ad hoc* institution, initially known as British Trade International (BTI), in which international Trade and Foreign Affairs representatives joined their forces and coordinated their efforts for commercial diplomatic purposes. In this context, public officials from the FCO, overseas missions and other government departments, first and foremost, the Department of Trade and Industry (DTI), had been given the chance to cooperate in the shaping and implementation of international trade policies without altering the well-consolidated bureaucratic machine.

The several concerns emerged from the highly intrusive role played by the European Union, together with the general expansion in the number of actors engaging in the international system, posed some serious doubts over the determination of the Office to preserve Britain's global power status. Similarly, the changes in the substance of foreign policy and the gradual fading of boundaries between international and domestic domains, forced the FCO to work much more closely with other governmental units, both within Britain and abroad, while reorganizing itself in front of the demands of multilateral as well as bilateral diplomatic negotiations. Still, differently from the cohesive and highly integrated approach adopted by the restructured Canadian DFAIT, the FCO has sought to manage the interface with other government departments without 'contaminating' its institutions or leading functions. If on the one hand, the Office has instructed its units in constantly engaging in dynamic dialogues and consultations with those domestic ministries sharing competencies over issue-specific matters and vice-versa, it succeeded in guaranteeing its position, if not of supremacy, then at least of *primus inter pares* in the overall direction of British foreign policy. As a result, the UK started to build its own commercial diplomacy within the operational framework of the British Trade International (BTI) – later renamed UK Trade and Investment (UKTI). The body assumed the task of coordinating all the export and investment promotion efforts of the country while centralizing the new

commercial diplomatic practices within the government organization; with a well-consolidated basis of specialist advisers throughout the UK, and in British Embassies and other diplomatic posts across the globe, the agency has been able to build the capacity of national exporters, both new and experienced, by offering strategic, impartial advices and researches, political support in overseas markets, introductions to key contacts and assistance with promotional activities. In this context, Britain has clearly aspired to maintain the foreign policy of a world power, showing how the decline of the country's relative position in the international system could not be matched by a similar decline in the influence and importance of the FCO within the British architecture.

The example of a more subtle political/economic synergy in the management of commercial diplomacy has been ultimately promoted by the United States. Despite the country's great economic size and weight in the global economy, the interaction between foreign policy and trade matters has traditionally been quite difficult to assess and reconcile within the American scenario. Although security and prosperity have been always considered as the two greatest goals of US foreign policy since early times, security matters are still believed to detain a preferential role in the American external agenda vis-à-vis commercial interests.

As a matter of fact, American commercial interests have always been considered as dependently functional to the enhancement of the country's international status and overall political dominance. This mostly explains the unwillingness of the American governmental machine to engage in the construction of more radically integrated commercial diplomacy structures - as in the case of Canada and UK - and the preference for a well-defined separation of competencies between Trade and Foreign Affairs. The US government has, indeed, addressed most of its resources and efforts to the consolidation of a multipolar operational framework where commercial stakes are handled and managed by a wide variety of expertise-based federal (and private) units, with a particularly dominant role played by the Department of Commerce.

In this context, the State Department, traditionally responsible for carrying out American foreign policy and international relations, has found itself relatively marginalized in the formulation and implementation of trade-related programs. The main contribution the Department has been able to provide within the commercial diplomacy environment has come from the growing collaboration with the Commerce branch itself and the network of trade-promotion agencies in the standardization, formalization and strengthened support to US business outreach abroad.

However, because of the extremely fragmented scenario in which the US business community is supposed to rely on, the American trade debate has ended up raising a number of particularly thorny issues, including: how much authority should the Congress grant to the Executive Office over trade policy; if the current functions and roles embraced by the agency-system are able to advance US trade policy in a well-coordinated way, and if the current architecture reflects and balances the multitude of views in trade matters into one US 'voice'. In the past, a decentralized approach to advocacy of the US brand was mostly accepted and considered adequate given the overall competitive position of the country and the awareness on the side of the world's consumers of the prestige and high quality of US products, services, education and touristic

destinations. The situation started to change following the chronic lower growth rates around the globe, the improved quality and brand recognition of international competitors, and the breakdown of the consensus over the accepted ‘rules of the game’. The rigidity of an entirely public structure of commercial diplomacy, in particular, contributed to the inability of American policy-makers to quickly adapt their approach to the changes of the international economic environment. In this regard, the more recent introduction of private-public partnerships (PPPs) on the side of federal agencies willing to collaborate with private partners, has granted the commercial diplomacy machine a higher degree of flexibility and a better opportunity to leverage resources and advance goals of mutual interests. It has become fundamental for both ambassadors and country teams overseas, on the front line of commercial opportunities and challenges, to engage continuously, and with verve, with the US private sector and US state agencies, while taking advantage from the support, tools and backup of the top leadership of the American government. In this context, a more fluid and well-coordinated approach to commercial diplomacy stakes, has proved significantly successful in helping the American business community drawing the best growth opportunities out of its increasingly balkanized environment.

A more recent effort in building a solid and functional commercial diplomacy arrangement emerged within the structures of the Italian Foreign Affairs office. Bearing in mind the dynamics and processes that have brought to the empowerment of Foreign Affairs Ministries worldwide, and particularly in the Canadian case, whose example has been of primary importance for the ongoing structural transformations, Italy is now experimenting the effects of a new approach to international trade and business enhancement. Moving from a relatively marginal role in the bigger picture of foreign trade policy-making, traditionally under the directives of the Ministry of Economic Development (Ministero dello Sviluppo Economico, ‘MISE’ hereafter), the Italian External Affairs office, the Ministry of Foreign Affairs and International Cooperation (Ministero degli Affari Esteri e della Cooperazione Internazionale, ‘MAECI’ hereafter), has been granted a more authoritative status in shaping the global economic position of the country and in providing its diplomatic network with greater responsibilities for the support to national businesses abroad. With the 2019 reform on the re-organization of the governmental machine – enshrined in the Decree-Law No. 104 – trade-related competencies have been ultimately reallocated within the sole jurisdiction of the MAECI, allowing the country to witness an overall reassessment of the role economic affairs have long played in the management of national foreign policy. Following this pattern, Italian diplomats have positively engaged into the modernization process of their network, becoming widely active in their overseas posts as managers of the greatest corporation, the ‘Country-System’.

The formalization of Farnesina and its diplomats as the only institutional referent for the business internationalization of the country, emerged on top of an existing economic diplomacy structure that needed a more efficient and incisive push. For a country like Italy, with a solid manufacturing economy and a valuable legacy of SMEs offering a wide variety of excellent products, in terms of both quality and brand

concept (the ‘Italian way of life’), a more centralized role played by Foreign Affairs was meant to increase the potential of the classic strategies for the promotion of the Made in Italy, with a more conscious approach towards the international spillover of the Country-System. The previous institutional arrangement in support of the business community had been built on the cooperative approach of the MISE, with Foreign Affairs and ICE Agency playing an essential role towards the evolution of the national trade policy-making. The cooperative action of these three institutions – in concert with a solid network of financial bodies - has helped the governmental machine in addressing both its efforts and resources towards the empowerment of the national industry, achieving those fundamental steps in the realm of international trade that have ultimately brought to the current competencies reorganization; the introduction of the *Cabina di Regia per l’Italia Internazionale*, the *Piano Straordinario per il Made in Italy*, the *Piano di Promozione Integrata “Vivere all’Italiana”*, and the financial *Polo Unico CDP* - among the most important strategies adopted for the economic and cultural internationalization of the country - have successfully served the purpose of constituting a solid template for a further enhanced Italian commercial diplomacy agenda.

With the purpose of granting the country a more coherent and unified approach in the promotion of national interests abroad – as cited in the preamble of the legislative text – the reform, strongly endorsed by current Foreign Affairs Minister Luigi Di Maio, emerged as the Italian response to the transformational thrust experienced by the global community, and as the need for an overall reformulation of the role Foreign Affairs used to play vis-à-vis the economic spectrum of international relations. Resuming a project that had been stored for years, since its early proposal by the Berlusconi’s administration, the Italian government has earned its own place among those medium and large-sized economies which had already embraced a full reorganizational momentum in their bureaucratic structures.

The transfer of human and financial resources, together with a wide extension of foreign affairs responsibilities, especially in relation to the monitoring activity over ICE Agency and the SACE-SIMEST financial group, have brought to a remarkable power rebalancing in favor of what has been commonly defined a “Superfarnesina”. Taking account of the pronounced export-oriented nature of the Italian economy, future Foreign Affairs Ministries are deemed to act as crucial interlocutors for all national operators leaning out to international opportunities. From this point of view, Farnesina is seeing concentrated in its hands all the main tools required to deeply affect the overall development and growth of the country. Through a governance rationalization that integrates the MAECI-driven foreign network with the ICE structures, in particular, national enterprises can now rely on a centralized institutional referent able to take care of their business interests on a vast global scale. Becoming increasingly integrated into the decision-making process at the ICE level, especially in the section addressed to the support and enhancement of the *Sistema Italia*, the Ministry has been granted a more authoritative say on how to structure the main lines of action of the promotional campaign for the Italian brand; the reform has indeed foreseen the extended jurisdiction of the MAECI over the management of the *Piano Straordinario per il Made in Italy* and its annexed Fund, whose operational support represent, to this day, the most successful strategy for the

overall internationalization effort of the country, specifically meant to expand the number of small-medium-sized enterprises operating on the global marketplace, expand the Italian shares of the world economy, enhance the Italian way of producing, and support initiatives for the attraction of foreign investments.

Similarly, the 2019 reform takes into account the role played by the MAECI vis-à-vis the national financial and insurance institutions operating within the business internationalization scheme, namely the SACE-SIMEST joint group. Through the provision of export credits, subsidized loans, insurance plans and so and so forth, the so-called *Polo dell'Export* supports the growth of Italian companies throughout the entire process of foreign expansion, from the first evaluation of market opening opportunities, brand promotion, enhancement of local commercial stands, to the ultimate business settlement driven by direct investments and productive expansion. With the entry in force of the 2019 reform, the dominant role the MISE used to play in the overall administration of the SIMEST group and its Funds, has been dramatically reduced while the Foreign Affairs office has been granted a wider room of maneuver within the funding activity of the Pole. Besides the newly acquired responsibility over the revolving Fund for Venture Capital operations (FVC), the promulgation of ministerial acts for the definition of the Fund's modus operandi in non-EU countries, and the establishment of new revolving funds to finance venture capital interventions, the legislative text has enshrined a new guiding role played by the MAECI over the management of both Fund 295, for the concession of export credit contributions, and Fund 394, for the concession of soft loans.

The new guiding role played by the MAECI vis-à-vis the SACE-SIMEST institution has surely contributed to the empowerment of the existing internationalization effort delivered by the Export Pole. With Foreign Affairs administering the provision of subsidized loans for the development of the national business community, the financing infrastructure of the country is now benefitting from a more powerful lever of growth towards commercial activities abroad, expanding target destinations and launching new investments for the diversification of market operations.

The rise of an highly empowered Foreign Affairs office, drawn from a relatively new political-economic synergy enshrined by the 2019 ministerial reform, has been put to the test right at the beginning of its inaugural year. Italy, as for the rest of the world, is going through an unprecedented health crisis erupted with the uncontrolled spread of the Covid Virus since the early months of 2020. In a dramatic momentum of our history, where people from all over the globe are experiencing the sorrows of an unknown and apparently unstoppable pandemic, each aspect of ordinary life has been overturned, with significant backlashes on the existing social and economic orders. In front of a sensible reduction of market shares vis-à-vis the main international competitors, the spread of discriminatory commercial practices related to the Covid-19 threat, the collapse of foreign demand in the tourism sector, the limited international visibility over the valuable eco-system of Italian start-ups, the block of the national trade fair system, and so and so forth, the MAECI, at the head of the newly restructured commercial diplomacy machine, has found itself

significantly involved into the formulation of the best containment policies to counter the disruptive effects of the pandemic over the internationalization process and the promotion of the Country-System.

Drawing from greater jurisdiction and greater responsibilities, Farnesina has seen its authoritative role progressively enriched by the several legislative acts adopted by the Italian government at the very peak of the virus' destructiveness, becoming particularly active in the shaping of strategic measures for the preservation and future promotion of the Made in Italy. The two main legislative measures adopted since the violent bursting of the health crisis, the *Decreto Cura-Italia* and the *Decreto Liquidità*, have shown the great commitment and the great perseverance of the Italian government in restoring the economic heritage of the country and assisting its business community when the pandemic was reaching its most damaging height. The main measures adopted by both decrees, in their highly impactful and pervasive nature, from the introduction of the new Fondo per la Promozione Integrata to the new financial guarantees in support of the internationalization effort, have been complementing those previously implemented by both Farnesina and ICE Agency. In this regard, the *Piano Straordinario per il Made in Italy 2020* presented by Farnesina on March 3 2020, inaugurating the leadership of the Foreign Affairs office and its closer cooperation with the executive branch, has based its operational agenda on the formulation of urgent measures to preserve the Italian brand from the negative externalities of the current economic downturn. With the Made in Italy under attack, as the major production sectors are being undermined by those phenomena that Foreign Minister Luigi Di Maio has publicly defined "unfair competition", the Piano Straordinario has presented a series of short-to-medium term structural measures specifically meant to facilitate and reinforce Italian SMEs operating in a highly discriminatory environment. In the same vein, these measures have constituted the starting point for the formulation and implementation of a post-Covid-19 economic recovery, specifically aimed at the revitalization of foreign trade policies and a brand new approach to the international promotion of the Made in Italy. The *Patto per l'Export*, in particular, recently signed by the MAECI and other governmental departments, together with the representatives of the Italian business environment, has marked the beginning of a new working method to revive the national industry and set up a solid ground on which to build, in the next several months, efficient targeted measures for business recovery.