

## 7.4 ECONOMIC DIPLOMACY IN THE CONTEXT OF GLOBAL ECONOMIC IMBALANCE

**Hennadii Nadolenko**, Ambassador Extraordinary and Plenipotentiary of Ukraine, the Hennadii Udovenko Diplomatic Academy of Ukraine at the Ministry of Foreign Affairs of Ukraine, Ukraine, Kyiv  
ORCID ID: <https://orcid.org/0000-0001-6342-452X>  
E-mail: Nadolenkoh@yahoo.com

***Abstract.** Economic diplomacy is a term that has acquired a certain significance among both scholars and practitioners relatively recently. Most publications on diplomacy emphasize that until the 1990s, economics was considered only as an "appendix" to the main work of professional diplomats. They focused primarily on politics-related issues, placing other activities ranging from cultural promotion and consular assistance to domestic trade facilitation in the second category. However, in today's globalized world, the economy has become a key issue affecting the international situation and relations between countries. Economic diplomacy has become a natural phenomenon in international relations, the result of the growing role and importance of economic factors in international relations. The article analyzes the traditional interpretation of economic diplomacy and its role in solving economic and political problems. The definition of the concept and tasks of economic diplomacy, the main ways of realizing these tasks, as well as the key problems of modern economic diplomacy of Ukraine are revealed. The author analyzes the effectiveness of economic diplomacy in the context of the global economic system imbalance as a tool for reducing the gap between countries and ensuring a more equitable distribution of economic power. The goals set out in the article were achieved through the use of general scientific research methods within the framework of comparative, logical and empirical analysis. Various sources of information were studied and analyzed. The presented theoretical concept can serve both scholars and political leaders as a starting point for analysis, further empirical research and diplomatic strategy building.*

**Keywords:** economic diplomacy; global economic imbalance; sanctions; political crisis; economic crisis.

### Introduction

The dramatic change in the political situation in Europe and the world due to the war unleashed by Russia against Ukraine has become the basis and justification for the introduction of restrictive measures in trade and investment cooperation. The world is once again experiencing a situation where economic and political levers of influence are closely linked and are actually becoming tools for achieving the same goals. This raises the problem of traditional and new interpretations of the concept

of "economic diplomacy" and its role in resolving or aggravating political contradictions in the context of existing global imbalances in the world economy.

In such circumstances, there is an urgent need to recognize economic diplomacy as an important tool of foreign policy. In addition to international trade, its range of interests includes investments, capital flows, financial assistance, bilateral and multilateral economic negotiations, technological exchange, state brand management, and other factors that shape the international image of a country and its position on the global economic stage. Moreover, as the economies of individual countries become more open to the outside world and the international division of labor deepens, the role of economic diplomacy will inevitably grow, replacing traditional, primarily military, methods of resolving interstate conflicts.

The subject of this article is economic diplomacy, interaction between the state and business, and the consequences of economic sanctions in the current political crisis. It analyzes the traditional interpretation of economic diplomacy and its role in solving economic and political problems. The study of these issues is related to the definition of the concept and objectives of economic diplomacy, the main ways of realizing these objectives, as well as the identification of key problems of Ukraine's modern economic diplomacy.

In preparing the research materials, various theoretical approaches of comparative and logical analysis, empirical method for collecting and analyzing data from various sources, as well as case studies were used to analyze in more depth the specifics of economic diplomacy in specific situations and identify trends and features in the activities of countries and other parties.

### **Research Outcomes**

1. **Essence and Definition of Economic Diplomacy.** Throughout world history, economic interests have largely determined the policies of countries toward their neighbors and overseas states and territories. In turn, the conquest of new lands and the establishment of dominance over neighboring states have always been aimed at increasing national wealth and expanding possessions, areas of capital investment, and creating new jobs for citizens of their country. In this context, we are talking about achieving economic interests through the methods of political struggle, and often the use of military force. At the same time, when speaking about the pursuit of economic prosperity through the use of not the most dignified and humane methods, one should clearly trace the interconnection between politics and economics: it is the strong economic position that has traditionally ensured political dominance and the ability to dictate one's terms on world order issues. Since the original and most widespread form of international economic interaction was international trade, it is natural that economic diplomacy was originally a form of trade diplomacy.

After the Second World War, for a certain period of time, society was characterized by the realization that military methods of achieving economic and, thus, political domination were futile. New methods, tools, and organizations have

emerged that allow achieving the same goals through so-called soft power. In the context of globalization, these problems have become especially important, and the traditional discussion about the correlation between political and economic instruments, the quality and number of organizations has been supplemented by new questions about the interaction of business and the state in the implementation of economic diplomacy, the presence of primary motivation and initiative, as well as the coordination of institutions and organizations both nationally and internationally [4].

Economic diplomacy has traditionally been one of the fringe areas of international relations research, but at the same time, neither the classical science of diplomacy nor studies of international economic relations in Ukraine have sufficiently examined its role in political crises. It is also worth noting here that despite the widespread use of economic diplomacy tools among a number of advanced countries, only a small number of countries actively use this toolkit to solve political problems or, conversely, as a method of punishing an opponent.

When considering the role and significance of this phenomenon, we should first of all define what we mean by economic diplomacy and what can be considered its instruments. According to the generally accepted interpretation, economic diplomacy is the use of foreign economic instruments to achieve national economic and political goals through international cooperation and interaction with other countries. In the modern world, economic diplomacy is one of the most effective means of realizing national economic interests. Therefore, it can be argued that economic diplomacy involves diplomatic efforts focused on promoting the country's economic interests at the international level [6, c. 7-9].

Economic diplomacy, as well as diplomacy in general, is an integral part of the state's foreign policy and its international activities; it is foreign policy that determines the goals and objectives of economic diplomacy.

Economic diplomacy, by definition, should be related to the country's economic policy. Diplomats working in this field are called upon to monitor and analyze the economic policies of foreign partner countries, as well as their decision-making systems, and to make recommendations to their governments on how to optimally operate in certain foreign markets, strengthening their economic and political positions. As a tool of economic diplomacy, financial resources are most often used to either encourage or restrict economic cooperation in order to achieve a specific foreign policy goal. Sometimes such actions are called economic management of the state. In the modern literature [6, p. 18], four areas of economic diplomacy are distinguished on this issue:

- policy and rulemaking, which includes the development of international and multilateral rules for regulating global economic relations;
- information and analytical, i.e. analysis and forecasting of the situation on international and national markets, including regulatory rules, as well as expla-

nation of the economic benefits of participation in certain international organizations and blocs;

- technical advisory, i.e. providing technical and development assistance;
- financial and credit support with a clear purpose.

Thus, economic diplomacy is a combination of decisionmaking, political advocacy and promotion of national business interests. Modern economic diplomacy is a continuous, multifaceted joint activity of the state and business to implement the national foreign economic policy with the greatest benefits for the country and minimal costs. The main goal of economic diplomacy is to ensure national interests and advantages in the field of foreign economic relations, strengthening the country's competitiveness and economic security in the context of globalization.

Based on the definition of the areas of economic diplomacy, it can be argued that within the national framework, its subjects are all economic ministries, organizations whose activities are aimed at stimulating trade and investment, chambers of commerce, and, of course, the Ministry of Foreign Affairs.

There is a whole arsenal of economic diplomacy tools, which are usually non-price methods of supporting domestic producers. In the context of the global capital market, agreements on the protection and promotion of investments, the avoidance of double taxation, the expansion of financial services, etc. are of particular importance. Outside the country, the subjects of economic diplomacy are embassies, consulates and trade missions, as well as missions to international organizations (WTO, UN economic structures). The main focus is on attracting foreign business, investments, technological cooperation and tourism development.

At the same time, economic diplomacy is implemented in close contact with political, public and other segments of diplomatic work. From this point of view, the state, its partners, representatives of national and foreign businesses, and legislators should work together to address global issues of our time, such as technological development and environmental protection, as well as cooperate in traditional areas of international trade and finance.

It should be noted that in recent years, there have been significant ontological and conceptual shifts in the study of diplomacy. Researchers who relied on traditional approaches emphasize that it is necessary to significantly expand the analysis of international relations beyond the narrow statebased approach to studying political processes and security issues. In the foreign literature, this approach is defined as the use of analytical tools inherent in international political economy and market research, which makes it possible to talk about the importance and influence of economic actors on economic interests and processes in diplomatic practice [3].

At the same time, the work of these authors, as well as some other studies [8], introduces new interesting concepts of diplomacy – catalytic, network, and multilateral. Catalytic diplomacy implies the existence of a large number of state

and non-state actors in diplomatic practice, as well as the role of individual key figures (politicians, businessmen) in promoting national interests. Catalytic diplomacy has been thoroughly studied in the works of the President of the Association of American Scholars J. Stone [7]. Some works consider specific examples of "catalytic" activities of the state aimed at solving specific problems of intensifying ties in the most important direction [2]. Network and multilateral diplomacy is a consequence of the diversification and change in the nature of the diplomatic process, significant "economization" of the diplomatic service and the strengthening of the role of multilateral organizations in shaping national economic diplomacy, which from this point of view is not limited to interstate relations in the international system, but also includes social, economic, cultural and political relations between political and economic actors in formal and informal relations in the international system.

In this regard, it can be argued that economic diplomacy is an integral part of the work of all executive and legislative authorities, as well as foreign economic operators in all its forms. This concept is associated with both strategic provisions and tactical application of trade, investment and financial policy instruments. According to the author, economic diplomacy covers all types of activities aimed at realizing national competitive advantages in the foreign economic sphere, both in order to expand the world market and strengthen positions in the global market, and to realize geopolitical interests and ambitions.

2. Peculiarities of economic diplomacy in modern conditions. Economic globalization has contributed to the growing importance of economic diplomacy and its role as a significant factor in shaping foreign policy. At the same time, the nature of globalization is constantly changing, affecting the concept of diplomacy in general and economic diplomacy in particular. In the 1980s, globalization was viewed through the prism of the activities of TNCs, which played a significant role in the development of state foreign policy. Active globalization processes have shown that, in addition to its positive impact, the globalization of the world economy also creates new risks. In an interconnected world, the impact of largescale financial and economic crises is increasing, and there is a threat of deepening imbalances in the development of different regions of the world due to unequal starting points and internal potentials.

In this regard, in the 1990s, economic progress and prosperity began to be associated with the expansion and deepening of regional blocs such as the European Union (EU), Mercosur, and the Association of Southeast Asian Nations (ASEAN), and accordingly, the main diplomatic interests were focused on promoting and developing regional cooperation. It should be emphasized that regional trade and integration agreements are the most common tool of economic diplomacy, as they are a quick way to open markets, and economic liberalization, so necessary to promote national interests and attract political allies, is carried out within a regional grouping more quickly due to similarities of interests. At the beginning of the new

millennium, especially in the period after 2010, the trend of interaction at the regional level continued, but the nature of regional associations changed significantly.

First of all, the signing of crossregional agreements and agreements involving countries with different levels of economic development has become more frequent. This was largely facilitated by both the crisis in reaching agreements at the multilateral level within the Doha Round and the desire of countries to expand their political influence. This stage of development is marked by the desire to form large interbloc and crossregional cooperation platforms, such as the Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership, and the development of the ASEAN+6 cooperation concept.

The fact that the new stage of globalization is confirmed by the fact that in recent years, opposing intentions and contradictory trends have become more clearly evident – instead of openness, the role and place of the state in protecting national markets, strengthening regulatory functions to provide preferences to individual (mainly national) producers, and the resurgence of protectionist sentiments, even/especially in the advanced countries of the world, has become noticeable. In 2019, restrictions on foreign direct investment reached their highest level in 20 years [9].

The United States and the European Union have introduced strict scrutiny of foreign acquisitions in response to perceived national and/or economic security risks. In 2018 alone, the number of cases of investment expropriation – either rejected or withdrawn for security reasons – tripled [9]. However, the global economy has become more integrated and unstable, prone to economic crises and deep recessions that can suddenly spread from one country or region of the world to others. Economic liberalization has been accompanied by an increase in systemic shocks that have caused systemic insecurity that is difficult to cover with standard forms of insurance. In the context of globalization, economic crises from one country or region are more likely to affect other economies.

Thus, it can be argued that universality, flexibility and active participation of business are fundamental factors of modern economic diplomacy, which has a wide range of tasks. At the same time, given the transformation of the global economy into an integrated economic system based on everexpanding value chains, it is difficult to distinguish between political and economic diplomacy. The interests of national business as the main source of state revenues and jobs require that the efforts of all government agencies be aimed at comprehensive support and protection of its interests at all levels, as well as at maintaining political stability and eliminating the threat of military conflicts.

First and foremost, economic diplomacy is aimed at expanding contacts with foreign countries and promoting the interests of national businesses in foreign markets. The high level of interdependence of countries in the context of globalization leads to continuous improvement of methods of regulating the impact of external factors and expansion of the competence of global and multilateral insti-

tutions that address key issues of the international business environment. In addition, in this respect, economic diplomacy methods can be divided into two groups: 1) supporting the interests of individual companies or industries and 2) supporting and promoting national interests in general.

Of course, such a division is rather arbitrary, as both groups of instruments are closely interrelated, but in different situations, micro- or macro-level interests may prevail and in some cases contradict each other. This fact can be confirmed by measures taken in crisis situations or in the interests of economic security or pressure on counterpart countries. The use of economic diplomacy tools in political crises is not a new problem and has a certain history. One of the most striking historical examples is the US financial policy towards the British pound sterling during the Suez Crisis of 1956-1957. In the following years, the US repeatedly resorted to the use of economic pressure instruments (Cuba, Iran, Iraq, Belarus). As for the EU countries, they tend to use sanctions as an instrument of economic diplomacy to a lesser extent and do so at the initiative of the United States as their largest economic and political partner.

The most illustrative example of the use of economic leverage is the unprecedented number of sanctions imposed by the US and the EU against Russia in connection with the latter's war against Ukraine. Today, Russia is the most sanctioned country in the world. According to the Atlantic Council, almost 11,500 sanctions have been imposed on it so far. 78% of all sanctions are directed against individuals and about 21% against legal entities [5].

A characteristic feature of modern economic diplomacy is that in most developed countries, national business is involved in the decision-making process regarding the feasibility of using certain instruments. Private sector positions can and should influence a country's negotiating position and position in global and/or regional markets. This is due, on the one hand, to the fact that the market is a sphere of competition, mainly between private sector organizations, and only they have the best knowledge of where and how to invest and sell goods and services in the interests of the country's welfare. On the other hand, as recent developments and the sanctions imposed on Russia by the US and the EU show, in the event of restrictive measures, it is companies that are the first to experience the full range of negative consequences.

Summarizing the brief analysis of the main ways to solve the problems of economic diplomacy, it can be argued that there are two types of economic diplomacy: 1) restrictive, aimed at achieving political goals through sanctions, most often at the expense of economic welfare, and 2) stimulating, aimed at expanding business opportunities and creating more favorable conditions, as well as developing the national economy as a whole or its individual sectors. Of course, the first one, as mentioned above, is also aimed at strengthening the positions of its economic entities and winning new strategically important markets in the long run. In terms of political crises, a restrictive strategy can be both a cause and a consequence

of a crisis. Stimulating economic diplomacy is usually characteristic of political stability and has both long-term and medium-term effects.

3. **Modern Ways of Realizing the Tasks of Economic Diplomacy and Problems of Ukraine's Participation in International Economic Cooperation.** In the current environment, economic diplomacy remains in line with Ukraine's foreign policy and is formalized in state strategic documents (National Security Strategy of Ukraine, Economic Security Strategy of Ukraine, Foreign Policy Strategy of Ukraine, National Economic Strategy, Export Strategy, etc.) Deeper economic integration with the EU is being pursued through strengthening trade and economic opportunities under the Association Agreement by updating its individual provisions, as well as through active synchronization of Ukrainian legislation with EU legislation, especially after Ukraine officially acquires the status of a candidate for EU membership in June 2022. The interest in enhancing trade, economic and investment cooperation is also evident in the activities of the country's political actors. In 2021, the trade turnover increased compared to 2020 and amounted to USD 141.54 billion, of which exports amounted to USD 68.24 billion and imports to USD 73.3 billion. Due to Russia's war against Ukraine, in 2022, trade turnover decreased compared to 2021 and amounted to USD 99.7 billion, of which exports amounted to USD 44.2 billion and imports to USD 55.5 billion.

The previous positive dynamics of Ukrainian exports was driven by rising demand and prices on global markets for raw materials, metals, and agricultural products. Economic diplomacy helped more than 200 Ukrainian companies enter new foreign markets. The further negative dynamics of Ukrainian exports is related to the military operations in the country.

The study of the current situation in Europe and the world and the role of economic diplomacy, mainly in overcoming crises, clearly shows that a significant expansion of this concept and the direct functions of economic diplomacy is needed.

It is worth noting that one of the projects for the development of economic diplomacy is its public level, which is due to the growing attention of society to foreign policy. For example, in 2021, the New Europe Center conducted a survey as part of the USAID/ENGAGE activity, which is funded by the United States Agency for International Development (USAID) and implemented by Pact in Ukraine.

When asked whether Ukraine's foreign policy should be guided by pragmatic interests or based on a value-based approach to the development of democracy, human rights and the rule of law, the answers were distributed as follows: 41.4% – a balance between these two approaches should be sought; 33.6% – the protection of democracy, human rights and international law should always be a priority; 19.3% – exclusively pragmatic interests – building relations with those countries with which it is most profitable to cooperate; 5.8% – difficult to answer, refused [1, p. 15]. This suggests that economic diplomacy includes an element of transparency. In this regard, international actors, business and civil society are interested in promoting new areas of economic diplomacy.

In order to protect Ukraine's national economic interests in foreign markets, overcome negative trends in commodity exports, maintain positions in already developed foreign markets, identify opportunities for expanding exports to new areas, and concentrate Ukraine's main national interests in relation to the EU, it is advisable to:

- first, to develop a set of measures to achieve a greater balance of foreign trade with a reduction of its negative balance;
- second, to introduce into the practice of economic diplomacy institutions the constant monitoring of average export price indices and indices of physical volumes of Ukrainian commodity exports in order to prevent the transfer of financial results from Ukrainian exporters to foreign importers and financial losses of the Ukrainian economy;
- third, to draw the attention of Ukrainian scholars and practitioners in the field of foreign economic activity and economic diplomacy institutions to expand and intensify Ukraine's participation in international cooperation, taking into account European experience and existing requirements for building effective models.

Conclusions. Summarizing the results of this study, the following key points should be emphasized.

1. In today's global world, economic diplomacy is gaining a wider interpretation and spread, both in terms of creating new trade and investment flows and promoting political interests and ambitions.
2. To promote its interests, the state uses the interests of all market players and all institutions available in the country.
3. Modern economic diplomacy involves the use of a wide arsenal of foreign economic, investment, and financial policy tools; in some cases, economic pressure tools are used to exert pressure and achieve political goals.
4. Obviously, the process of Ukraine's integration into global economic relations is not moving as dynamically as it should due to the military conflict. However, there are many ways and opportunities to develop economic ties, deepen trade and investment cooperation, and form regional blocs to implement economic diplomacy in its creative sense, which Ukraine can use even in its current situation.
5. At the same time, economic cooperation with foreign countries should not become an instrument and a "hostage" to political ambitions and goals, but should serve as a solid basis for political dialogue. The search for and development of new markets should be a goal and a logical continuation of the course of active participation in the system of global economic relations, not a tool to counteract the collapsing system.

## REFERENCES

1. Dyplomatija – 2022. Zovnishnjopolitychni ochikuvannja ukraj-insjkoško suspiljstva [Diplomacy – 2022. Foreign policy expectations of Ukrainian society]. Retrieved from: <http://neweurope.org.ua/analytics/dyplomatiya-2022-zovnishnjopolitychni-ochikuvannja-ukrajinskogo-suspilstva/>.
2. Heilmann, S. (2014) Niche Diplomacy at Work: Germany's Catalytic Role in European-Chinese Relations. *China Monitor*, October 21, pp. 1–7. Retrieved from: <https://www.merics.org/sites/default/files/2020-05/China%20Monitoro%2021.pdf>.
3. Lee, D., & Hocking, B. (2010). *Economic Diplomacy*. Ed. by R. A. Denemark & R. Marlin-Bennett, *The International Studies Encyclopedia* (pp. 1216–1227). Chichester: Wiley-Blackwell.
4. Lee, D., & Hudson, D. (2004). The old and new significance of political economy in diplomacy. *Review of International Studies*, Vol. 30, no. 3, pp. 343–360. Retrieved from: <https://doi.org/10.1017/s0260210504006102>.
5. Russia Sanctions Database. Atlantic Council. Retrieved from: <https://www.atlanticcouncil.org/blogs/econographics/russia-sanctions-database/>.
6. Sharov, O. (2019). *Ekonomichna dyplomatija: osnovy, problemy ta perspektyvy* [Economic Diplomacy: Fundamentals, Problems and Prospects]. Kyiv: Nacional'nyj instytut stratehichnykh doslidzhenj. (in Ukrainian)
7. Stone, J. J. (2010). *Catalytic diplomacy: Russia, China, North Korea and Iran*. Carlsbad, Calif: BookSurge Publishing.
8. Van Bergeijk, P. A. G., Okano-Heijmand, M., & Melissen, J. (2011). Economic Diplomacy: Economic and Political Perspectives. *Brill's Journal. The Hague Journal of Diplomacy*, Vol. 6, no. 1–2, pp. 1–218.
9. *World Investment Report 2019 (UNCTAD/WIR/2019)*. (2019). New York: United Nations Publications. Retrieved from: [https://unctad.org/system/files/official-document/wir2019\\_en.pdf](https://unctad.org/system/files/official-document/wir2019_en.pdf)